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CSR, Firm performance, and the moderating role of capital structure: Empirical evidence from Africa

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Abstract

This study used capital structure as a mediating variable to examine the nexus between Corporate Social Responsibility (CSR) and firm financial performance in Africa. The researcher used Bloomberg and Standard and Poor's Environmental Social and Governance (ESG) disclosure scores. The researcher used the Bloomberg database to extract the financial data; both accounting-based measurements (ROA) and market-based measures (Tobin's Q) were used to measure the firm financial performance. The cross-dataset collected was analyzed using multiple linear regression (OLS) with a sample of one year covering all firms listed in Africa, including financial and non-financial firms. The results reveal that the relationship between CSR and firm performance is positive. Still, the association is insignificant, and capital structure is not a moderating variable influencing CSR and firm financial performance. An interesting revolution was observed when ESG disclosure scores was grouped into Environmental, Social, and Governance sub-components; the researcher found a positive relationship between environmental scores and firm performance, while the reverse was observed on social disclosure scores, and a negative but insignificant nexus was observed between governance disclosure scores and firm performance.

Although the relationship between CSR and firm performance is insignificant, the empirical findings imply that investment in CSR may not pay off immediately by improving performance because of the infant stage of CSR and the common social, political-economic issues in Africa. Therefore, the researcher recommends African governments to design policies to ensure that CSR policy are implemented, monitor, and integrate to national development to meet its intended purpose. In addition, the researcher recommends a consistent and strategic investment in CSR for a considerable period to enhance firm performance and maximized shareholder wealth creation, and listed firms in Africa should direct their CSR investment activities towards the environment rather than social activities.

Chapter One

Introduction

Whether CSR improves or deteriorates firm economic values and shareholder return has become a critical and controversial topic in the contemporary modern era among firms' management, practitioners, academics, and scholars. Thus, the evolution of CSR can be traced back to the 20th Century. Still, CSR gained attention in academia and the public in the 1950s when Bowen published his landmark book on the *social responsibilities of businessmen* in 1953. He is regarded as the father of CSR and is argued to be the mark of birth and starting point of the modern period of literature on CSR (Carroll, 1999). However, as the concept of CSR continues to grow and evolve, other terms, such as Corporate Citizenship, Stakeholder Management, Corporate Responsibility, and Sustainability, along with others, were employed. Because of the multi-disciplinary nature of CSR, the convergence and universal definition of CSR becomes challenging.

That being pointed out, CSR is in its early stage in Africa; this is because of typical challenges faced by almost all African countries concerning socio-economic developmental issues such as weak governance, poverty, lack of transparency, poor physical and human capital, the classical mindset of investors and low level of awareness among corporate managers (Agyemang & Ansong, 2017) and CSR is often regarded as an agenda of the north imposed on countries on the south thereby having a tremendous effect on the drivers as well as the role of CSR for firms operating in Africa (Klins, 2010). CSR also connotes different things to firms operating in different parts of Africa. Some people view CSR activities as a means to support government efforts to enhance the socio-economic developmental agenda, while to others is a way for the state to desert or lessen her social obligations.

South Africa and Nigeria have dominated the research on CSR in Africa, and it is a prevalent topic among mining, oil, and gas companies in Southern Africa (Visser, 2006). CSR in Africa is usually associated with charitable donations, religion, and cultural beliefs (Inekwe, 2021), which mainly focus on Health Care and education, while low priority is given to the environment, workplace issues, product quality, and health and safety (Visser & Tolhurst, 2017) which makes CSR seldomly related to the firm's core business. (Visser, 2006) proposes a CSR pyramid for Africa by modifying the four-dimensional CSR pyramid of (Carrol, 1991), placing the most intensity and priority on the economic dimension while philanthropic responsibility is given the second largest, followed by legal and ethical obligations.

The role of business in the community has led to environmental degradation and health concern such as environmental pollution, global warming, child labor, gender inequality, global crisis, and financial scandals, which triggers the government, shareholders, non-government organizations, religious, social activists, and other critical stakeholders to demand and pay close attention to firm environmental performance continuously. Generally, corporate financial performance (FP) is organization-oriented, whereas CSR is a societal concept and ideology (Agyemang & Ansong, 2017). These two orientations and ideas have led firm management, researchers, practitioners, and academia to find out whether it pays off for firms to act socially responsibly. There have been countless studies on the nexus between CSR and financial performance. Whether CSR pays off by enhancing the company's financial success is still debatable. Prior studies (Z. Wang & Sarkis, 2017; Aupperle et al., 1985, and Orlitzky et al., 2003) demonstrated various findings, some of which revealed a positive relationship. In contrast, others showed negative, neutral, and curvilinear relationships, leading to the imprecise and lack of universal consensus on whether CSR and firm performance are related. Ideological bias, limitations on sample size and control variables,

stakeholder misalignment, neglect, and different assessment of moderation and mediation variables lead to inconclusive findings of the nexus.

Many scholars agree that CSR does not directly contribute to FP because the rewards of CSR are contingent. According to (Agyemang & Ansong, 2017), conflicting results concerning the nexus between CSR and corporate financial performance could be due to the omission of mediating roles of some variables, which might indirectly influence the relationship between CSR and performance. The study of (Saeidi et al., 2015; Mishra & Modi, 2013, and Ben Saad & Belkacem, 2022) claimed that CSR influences firm financial performance through certain mediating factors such as customer satisfaction, firm reputation, competitive advantage, capital structure which translates to improve in shareholder’s value and firm financial performance thereby supporting stakeholder’s management of Freeman theory.

However, the extensive theoretical and empirical studies on CSR and firm performance primarily focus on developed countries. To the researcher’s knowledge, there is extant literature in developing countries such as Africa. Given the above concern, the study examines the relationship between CSR and firm performance for listed firms in Africa, thereby filling the geographical gap by concentrating on emerging markets (Africa).

The broad objective of the study is to investigate the impact of CSR performance on the firm financial performance of listed firms in Africa. The specific objective of the study is to examine the influence of moderating variable (capital structure) on the nexus of CSR on financial performance in Africa. This helps the research determine whether CSR can impact firm performance and if a company's capital structure can influence the nexus.

The study demonstrated a positive but insignificant relationship between CSR and firm performance, and capital structure was not found to serve as a mediator variable and does not influence the nexus. When the individual ESG was analyzed, environmental score showed a substantial positive nexus with the firm performance; the opposite holds for social scores, and a negative insignificant relationship was observed between governance score and firm performance. The findings show that CSR funding towards environmental activities enhances the firm value and profitability, while engagement in social activities is likely to reduce firm performance.

The research findings would be necessary for African governments to design policies to enhance economic development through better CSR implementation by providing insight to the government on ensuring that CSR policies are implemented and integrated with national development to meet its intended purpose.

The research findings would enhance management knowledge of which CSR practices lead to better firm performance, thereby implementing a business strategic tool to invest in CSR activities that will improve their performance and be sustainable in the long run.

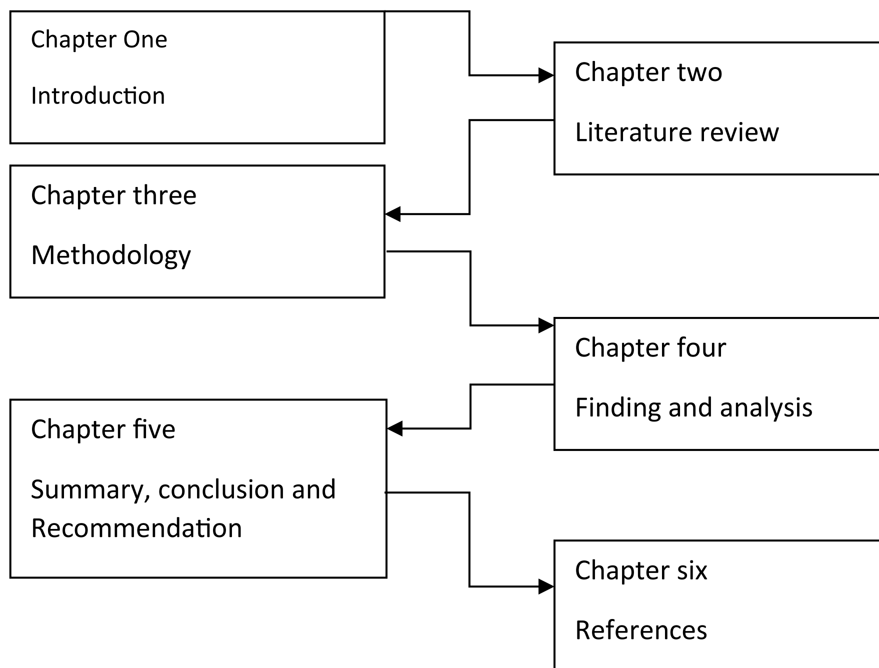
The study findings will benefit stakeholders, particularly investors, and bondholders, by helping them choose better financing and investment decisions by assisting them in selecting businesses whose CSR performance increases profits and wealth creation.

This knowledge would be helpful to academia and researchers as it is amongst the few master's theses that contribute to the extant empirical literature that studies CSR performance in Africa by employing cross-sectional data from listed firms in Africa in both the financial and non-financial sectors.

Also, the study findings and recommendations could be used for future research on a related topic.

Following the introductory section, the remainder of the thesis is structured as follows: Chapter Two provides a definition and presents theories of CSR; Chapter Three reviews of literature that focus on the association of firm performance and CSR performance, also taking into account capital structure and other mediator variables; chapter four presents the methodology that focuses on the empirical model specification and estimation method, while Chapter Five provides an analysis of empirical results and discussion and; the final chapter outline concluding remark and offers policy recommendation and conclusion.

Figure 1: Thesis Structure



Chapter Two

2.1 Definition of CSR

Due to the term's varying ideas and definitions, there has yet to be an agreed-upon definition of corporate social responsibility (hereafter CSR) in either the business or academic worlds. CSR is a broad term that can signify different things to different people depending on the firm's context, norms, culture, and location. It is complex and challenging to have a unified definition or idea of CSR due to the uncertainty about how CSR should be defined and because the existing definitions focus on fields, interests, or aspects of CSR and because of the field-specific definitions of CSR (Van Marrewijk, 2003) argue that it is impossible for one solution fits all definition of CSR. Bowen provided the first and foremost formal definition of CSR in his seminal book on the social responsibilities of businessmen. According to Bowen (2013), businessmen have to pursue policies, make decisions, or act in ways that are also beneficial and in line with the values of society. Bowen was revered as the founder of corporate social responsibility and its modern issues. His definition of CSR contradicts Friedman's, which views CSR as costly and a burden that firms engaging in CSR decrease their profitability level and shareholder wealth creation, eventually rendering them a competitive disadvantage to the firm (Friedman, 1970). Bowen's book shifts the focus of CSR from a company's and manager's traditional responsibility from profit maximization and value creation for firm shareholders to include other (critical) stakeholders who significantly impact the business operations and performance. He went on to say businesses that use CSR as a critical tool for achieving social justice and financial gains by generating welfare that goes beyond the scope of the law and financial considerations (Bowen et al., 2013), meaning firms should engage in CSR to generate recognition by going above law and profit maximization.

Bowen's viewpoint of CSR was backed at the time by renounced academic scholars like William Fredrick and Keith Davis, among others. Davis (1960) define CSR as the actions and decisions of businessmen which are taken to some extent above and beyond the direct economic and or technical interest of the company. Davis (1973) claims that business exists because it performs valuable services for society, and society gives the legitimacy to operate. It can be amended or revoked if the business fails to meet society's expectations. Nevertheless, another famous expert on societal responsibility, CSR defined by William Frederick, as businesses working to meet public expectations and advance socioeconomic well-being in ways that go beyond stockholder interests (Frederick, 1960). He views CSR as an activity that goes over stockholder interest; his CSR definition concurs with (Davis, 1960). Frederick (1994) suggested that the reorientation change from corporate responsibility to corporate responsiveness is profound. Contrast the terms in the author's article CSR1 (social responsibility) to CSR2 (social responsiveness); he stresses that CSR1 is dependent considerably upon the management social conscience of the firm while CSR2 looks at the institutionalized firm's policy for the successful implementation because CSR2 is referring to the capacity of the firm to respond to social pressure, due to its practical implications for increasing firms' responsiveness to their surroundings. As a result, the definition of CSR keeps evolving and continues growing. Potential convergence is complicated by the need for comparability brought on by the disparities in terminology, level of detail, field-specific, and type of focus among the standards setters, mainly caused by the various current reporting guidelines. However, as the concept of CSR evolved and continues to grow, other terms were employed to refer to the Role of Business in Society, including Stakeholder Management, Corporate Citizenship, Corporate Responsibility, Business and Management, Sustainable Development, Sustainability, Corporate Accountability, and the responsible use of power. Archie B. Carroll, one

of the most well-known and frequently cited author in contemporary CSR issues, raised concerns about the various definitional misunderstandings of CSR, which prompted the creation of the CSR pyramid to handle the variety of obligations businesses have to the community. According to him, CSR refers to a company's social responsibility that "addresses and embodies the economic, legal, ethical, and discretionary categories of firm performance" (Carroll, 1979, p.500). His pyramid classifies a company's societal responsibilities into four categories that are not mutually exclusive.

Elkington (2013) introduced the concept of the triple bottom line (TBL); his postulate took the idea of CSR to a new level and development. The TBL goes beyond the traditional metrics and measurement of enhancing business and shareholder values. He bases TBL on the notion that companies should focus on social and environmental concerns just as much as on financial ones. His paradigm holds that businesses can increase their profits by incorporating social and ecological variables because doing so significantly enhances their performance in all three interrelated areas of profit, people (social), and the planet (environment); he deliberated the importance of focusing on profit as well as people and environment for wealth creation.

Based on a review of CSR definitions (Dahlsrud, 2008) found that CSR is often grouped into five categories: environmental, social, economic, voluntariness, and stakeholder. Furthermore, he found that the environmental dimension of CSR received a significantly lower scholarly attention and dimension ratio than the other categories in his analysis of 37 definitions of CSR from 1980 to 2003. The most cited and commonly used definition of CSR, according to Dahlsrud (2008), is the Commission of the European Communities (2001) because their CSR definition encompasses a broad number of facets which include stakeholder, voluntariness, social, environmental, and economic aspects. CSR is a strategy where businesses voluntarily and actively integrate social and

environmental activities in their daily operational performances and interactions with the firm's relevant stakeholders (Commission of the European Communities, 2001)

Dahlsrud (2008) viewed CSR as a social construction and multi-disciplinary field, rendering it difficult, exhaustive, and time-consuming to define CSR objectively. As a result, scholars seeking a generally acceptable definition of CSR will generate minimal or no significant contribution to the quest and attempt for a unified and universally recognized definition of CSR.

According to Carrol (1999), the term CSR evolved and grew to serve as a foundation for developing several other related concepts and theories, encompassing Stakeholder Theory, Business Ethics Theory, and Institutional Theory, within the 1950s and 1990s. Carroll developed the CSR pyramid after examining and analyzing the stages of CSR most renounced historical definitions and ideas, which is a conceptual framework and sometimes regarded as a theory to explain why corporations should be socially responsible by incorporating a variety of CSR definitions into his model. Carrol (1991), philanthropic, legal, ethical, and financial dimensions are not mutually exclusive. He built the pyramid by demonstrating that the above measurements of social responsibilities that constitute CSR should be used in tandem and are not mutually exclusive.

Carroll's pyramid has shed light on the CSR concept at different analytical levels. However, many academics have regarded it as overly simplistic (Crane & Matten, 2004), highlighting a flaw in the model's failure to adequately address the situation where two or more obligations in the pyramid collide. Similarly, (Frynas & Yamahaki, 2016) stated that prior literature reviews on CSR contributed immensely to how firms and practitioners should be applied in their operations and activities because of diverse concepts. Most of the CSR concepts and theories need fixing. CSR multi-disciplinary field contributed to the lack of CSR-observed uniformities of social change,

social behavior, and social organization as compared to other theoretical views (Frynas & Yamahaki, 2016 and Garriga & Mele 2004)); argued that Carroll's pyramid and corporate citizenship have flaws and therefore are not regarded or qualify as theories of CSR.

Because of the field-specific CSR definition and theory, the desirability of having a standard, generally accepted theory is challenging and has been the topic of intense debate since the evolution of CSR (Frynas & Yamahaki, 2016). A good example is the research finding of Mellahi et al. (2016), which revealed that 72.5% of their study-reviewed papers held a single theoretical viewpoint (155 out of 214 journals) as a result of the diversity of theories because of the field-specific CSR concepts and approaches, coming up with the best theories for CSR stays a challenging and complex task, (Secchi, 2007).

However, according to Mellahi et al. (2016), there are a growing number of research examining and analyzing the use of multiple CSR theories, which aid in understanding the relationships between various factors or variables, such as the association between CSR disclosure and firm financial performance, the link between CSR and corporate political performance (CPA), and among others. Thus, integrating CSR theories and concepts into internal and external drivers of CSR has become essential.

Frynas & Yamahaki (2016) on peer-reviewed academic papers published between 1990 and 2014 was based on a survey and content analysis of 462. The research found that theories related to external drivers, such as stakeholder theory, (ST) institutional theory (INST), resource dependence theory (RDT), and theories on internal activities, such as Resource Based Review(RBV) and Agency Theory (AT) dominate the current mainstream of CSR theorizing. The external drivers are mainly explained by Institutional theory, stakeholder theory, and RDT, while RBV and Agency

Theory explain the internal drivers, which aligns with the study of (Mellahi et al., 2016) on their integrating framework.

In this manner, (Garriga & Melé, 2004) categorize the leading four-dimensional theory related to CSR into internal and external drivers of CSR. The internal drivers, also regarded as instrumental or managerial theory, consist of Agency Theory and Resource-based view. In contrast, external drivers or approaches include viewpoints categorized as relational, political, and integrative, which incorporate Stakeholder Theory, Institutional Theory, and Resource-dependence Theory. These external theories of CSR best explain these drivers or factors that served as a predictor, mediators, and moderate CSR performances and activities.

Furthermore, the findings (Frynas & Yamahaki, 2016) identified theories most commonly acknowledged in CSR by various journals and researchers into internal and external theories. The survey reveals related theories that the dominant external theory in CSR is the Stakeholder Theory, Resource Dependence Theory (RDT), and Institutional theory. In contrast, instrumental theories, Resource Based View (RBV), and Agency Theory are frequently utilized drivers of internal theories of CSR. Similarly, Mellahi et al., (2016) emphasis the use of multi- theoretical framework is necessary for the extensive understanding of the nexus between variables. They support the complementarity of the above theories rather than conflicting between them. This is backed and supported by the extensive literature-reviewed articles on theories of CSR by several authors (Garriga & Melé, 2004 and Frynas & Yamahaki, 2016).

2.2 Theories of Corporate Social Performance

In order to help establish the connection between CSR (CSR) and firm performance (FF), this research work examined and reviewed literature based on the three major CSR theories that are widely utilized and acknowledged by various CSR scholars and practitioners, namely Stakeholder Theory, Institutional Theory (external drivers), and Agency Theory (internal drivers).

2.2a Stakeholder Theory

Even though the concept of stakeholder theory was first introduced by Ansof (1965), it gained popularity and recognition after Freeman published *Strategic Management: A Stakeholder Strategy* in his well-known book. His famous book is also cited or referred to by various CSR scholars and practitioners. Freeman developed his stakeholder strategy concept from the popular Corporate social responsibility (CSR), which is said to lack a precise, universally acceptable definition that many scholars and practitioners have criticized and debunked as being nebulous, vague, and ambiguous due to its central attention on the social aspect, which also means differently to people, various institutions, and jurisdictions. According to (Freeman, 1984), a company's value is maximized and enhanced when all stakeholders (both internal and external or critical stakeholders) are recognized and considered. This statement is backed by the research findings of Barnett and Salomon (2006), that corporate funds that are screened based on societal relationships have a more robust and positive financial return which ultimately increases owner's earnings; in other words, because of the increase external pressure of firms, managers, and firms would be successful when they work to achieve and accomplished both it's economic (through profit maximization) and non-economic goals (its stakeholders). Freeman (1984) defines a stakeholder as an Individual or group that can influence or be influenced by a firm's operational activities or goals. Firms should pay close attention to its stakeholders because they play an essential role in the firm's success and development. Freeman argued that the traditional nexus with firm's stakeholders, such as customers, owners, employees, and suppliers, should be extended to include government, foreign competitors, environmentalists, consumer advocates, special interest groups, media, and others.

Donaldson & Preston (1995) considered stakeholder theory as managerial. They emphasize and illiterate stakeholder as a managerial role because it is the firm's management's responsibility and

duty to choose projects and investments and deploy firm resources in a way that is beneficial to the company's critical stakeholders. They opposed and rejected Adam Smith's input-output model, which only classified workers and suppliers as input contributors and expected them only to receive standard compensation. They believed that a firm's stakeholders should receive benefits instead and that priority or preference should not be given to any one group of interest over another. In addition, to the research work of (Donaldson & Preston, 1995), the stakeholder theory is divided into three methods: descriptive, instrumental, and normative. Descriptive stakeholder refers to the outer or the external layer of view; it simply describes how a company interacts and integrates with its stakeholders and how the management promotes and incorporates their collective interests. The instrumental approach demonstrates stakeholder management strategies and firm corporate performance (i.e., if a firm practices stakeholder management, it will experience specific outcomes). In contrast, the normative approach attempts to direct investor-owned corporations following some underlying moral or philosophical principles.

Clarkson (1995) defines a stakeholder as a person or group who owns or is interested in a firm's operational engagements. He further classified stakeholders into two categories, namely primary and secondary stakeholders. Examples of firm primary stakeholders include Investors, employees, customers, suppliers, the community, and the government because their involvement and participation are crucial and necessary for a company's performance and growth. On the other hand, secondary stakeholders are those who impact or are impacted by a company's operations and activities but are not involved in the firm's day-to-day business transactions; examples are the media and special interest groups.

Each of these groups of stakeholders plays a crucial role in the firm's survival and long-term growth, so management must become skilled and equipped to interact with stakeholders and

incorporate them in firm decision-making. This underlines the preferentiality and superiority of strategic management over strategic planning (Freeman, 1984) and states that strategic management assists a firm's management in better comprehending any crucial changes to the firm's internal and external environments. Because of the social contract they have established, society's expectations keep rising; society expects the company to function following the standards and principles necessary for the firm survival and profitability. This expectation is what gives the term stakeholder its legitimacy.

Understanding your stakeholders is crucial to analyzing the relationship between its stakeholders and handling the relationship between the firm when faced with pressure in the external environment (Freeman, 1984).

To consider the power of different stakeholders, Freeman later changed Michael Porter's generic strategy of the five forces of industry structure and analysis firm use to shape the competitive strategy to six forces. This changed Porter's (1980) industrial structure to a stakeholder structure. According to (Freeman, 1984), a firm's financial performance is improved and enhanced when it has a positive and robust relationship with the critical stakeholders; however, this requires that the interests of all stakeholders be integrated with firm decision-making to facilitate value creation. The research (Barnett, 2007) claims that a positive relationship with stakeholders could serve as and become an intangible asset to the firm, consequently improving the firm financial performance at some point.

According to the stakeholder theory advocate, stakeholder theory can improve company performance and value creation, build a good image, and win the trust of its stakeholders. Stakeholder theory claims a positive association between CSR and firm performance and shareholder value; their association is strongly correlated.

Scholars that reviewed and studied the connection between CSR and firm performance and shareholder value with a positive correlation are Orlitzky et al. (2003). Their study reveals that CSP and FP have a positive relationship across industries.

2.2b Agency Theory

Agency theory views CSR as a cost to the firm that negatively affects the firm's value creation and profit maximization. Jensen & Merkling (1976), in their well-known paper, the definition of agency theory as a contractual relationship between one or more principals (stockholders) who employ someone, the agent (management), to perform and execute some services on their behalf, which results in the separation of ownership and control.

The advocates of agency theory argued that CSR could further the gap between firm owners (i.e., further distance management from its shareholders) when the firm's manager utilizes and allocates shareholders' funds and resources in CSR activities because CSR is viewed as a cost to the capital investors provide. As a result, in this context, to narrow the gap, managers should only be responsible for enhancing the value of their shareholders and the firm's profitability. In his book Freedom and Capitalization, the renounced antagonist and the key contender of CSR and Stakeholder Theory (Friedman, 1962) viewed CSR as a strategic instrument firms use to improve their financial return and wealth-seeking. He argued that the primary and number one responsibility of a firm's management is to use its competence and strategic tools to maximize profit for the shareholders while considering the ethical and legal climate. Friedman (1962) argued that as long as firms pay tax in the form of corporation tax, there is no justification or fairness for allowing managers to deploy shareholder funds to social cause unless investment in such initiative maximizes shareholder wealth and enhances performance. If this is not the case, management should not allow such an investment, thereby rejecting such a proposition. Since the firm pays taxes, the government should be responsible for social and environmental issues. The proponent

of the theory above regards offering or making donations to charitable organizations or events to be an inappropriate and irrelevant use of shareholder's funds (Friedman, 1962), arguing that any management involved in CSR initiatives has a hidden motive, thereby acting in their own best interests rather than those of the shareholders, the supplier of resources. On the other hand, using firms' resources for social issues unrelated to primary stakeholders may harm shareholders (Hillman & Keim, 2001). The advocates of agency and shareholders theory claim that firm establishment, implementation, and execution of CSR are regarded as costly, and its advocates believe that this outweighs the benefit of CSR in terms of how CSR influences a firm's performance.

A research hypothesis by Campbell (2007) reveals that firms with poor financial performance are less apt to engage in CSR activities. His research hypothesis supports the above theory that a negative relationship exists between CSR and a company's financial success and stock price.

The study (Hillman & Keim, 2001) also discover a negative relationship between CSR and firm performance, arguing that using corporate resources for social issues unrelated to main stakeholders may not create value for shareholders; similarly, (Barnett & Salomon, 2006) find that the financial costs of increasing equal employment opportunity and diversity, as well as environmental which go beyond what is mandated and require by law, may outweigh their financial benefits, consequently reducing firm's profitability.

As a result, proponents of this theory see a negative relationship between CSR and firm performance.

2.2c Institutional theory

Various researchers and practitioners have attempted to establish a link between corporate social responsibility and firm performance, but their research findings have conflicted. This might be because the impact of CSR activities on a firm financial performance (Nasir, Hassan & Khan,

2023) depends not only on social and economic factors but also on institutional factors; institutional variables should be incorporated when examining the relationship between CSR and FP. Many authors cite the isomorphism theory developed by well-known institutional theorists Meyer & Rowan (1977), who claimed that firm behaviors are uniform (i.e., homogenous) with one another. Solid-state regulations and public opinion enforce contemporary firms' policies, which obtain legitimacy through strong national laws, regulations, and independent entities. Scott, (2005) defines *institutional theory* as rules and norms that serve as authoritative guidelines and frameworks for social conduct. As a result, these institutional variables are backed by authoritative agents or government laws.

Theoretically, firms' characteristics should be changed to be able to navigate and accompany the external pressure by making them more comparable to environmental characteristics as firms develop (DiMaggio & Powell, 1983), further developed the theoretical framework of Meyer and Rowan, (1977). They underscore three methods for performing institutional isomorphic, namely Coercive. Coercive isomorphism occurs when a firm faces external pressure from other parties, such as social pressure groups and government regulations, which the firm regards as its critical stakeholder. This pressure from outside the firm will lead to conformity between and among firms operating in the same sector or industry, among other things. Due to the uncertainty surrounding the firm, mimetic isomorphism occurs; in this regard, firms will imitate one another to lower the level of uncertainty and strengthen their competitive advantage. According to Unerman & Bennett (2004), if a firm failed at a minimum to follow innovative activities or practices implemented by other firms, thus, any firm would risk losing legitimacy in relation to other firms in the same sector or industry. Ultimately, normative isomorphism occurs when the organizational change results

from professionalization because the firm would receive recognition from those professional bodies or standard setters (DiMaggio & Powell, 1983).

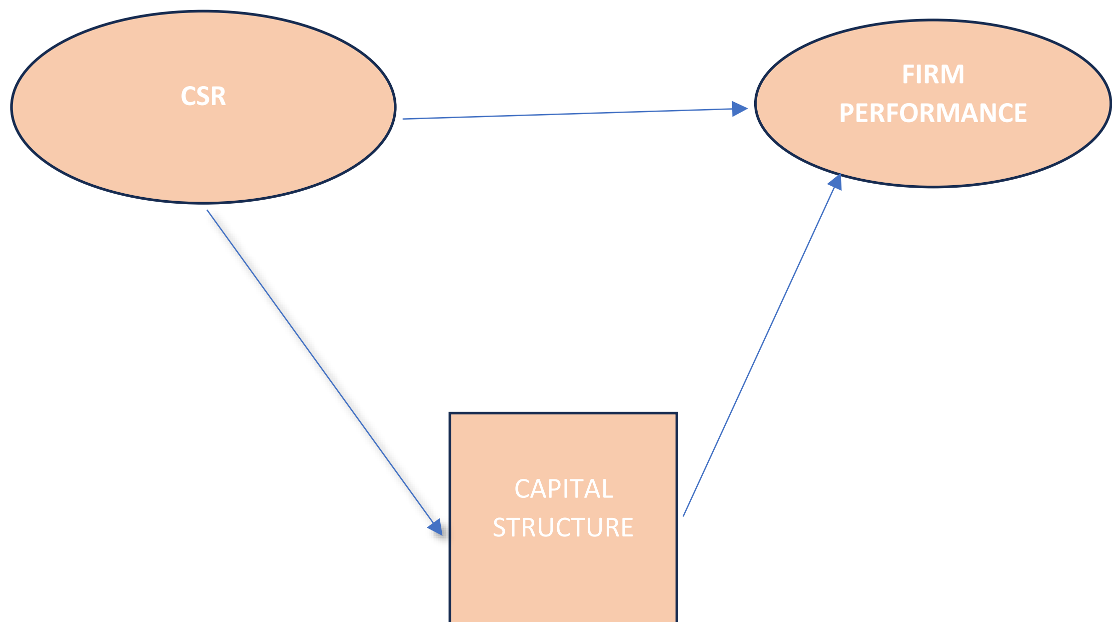
If institutional factors such as strong and solid government regulation, industrial self- regulation, strong independent organizations act as a mediator between economic and CSR (Campbell 2007) claims that firms are likely to behave in socially responsible ways the more they encounter the above mediators that monitor the firm activities and encourages its socially responsible behavior. In contrast to developed countries where these institutional factors are institutionalized, the degree of enforcement of the institutional factors (social pressure, government regulations, and laws) varies in each jurisdiction in developing countries due to a need for more vigorous enforcement and execution. According to the findings of (Golrida Karyawati P et al., 2020), the relationship between CSR and firm performance is ambiguous and complex, requiring institutional factors to mediate the nexus and generate a favorable result.

Chapter Three

3.1 Introduction

This chapter focuses on the prior studies investigating the association: a. corporate social responsibility (CSR) and firm financial performance (FP); b. CSR and firm capital structure; c. CSR and FP consider the sparse studies that use capital structure and other factors as a mediator to influence the nexus.

Figure 3.1a: The Conceptual Framework of the Study



3.2 The relationship between CSR and Firm financial performance (FFP)

The global financial crises, scandals, and social and environmental issues cause continuous demand and pressure from stakeholders for firms to act socially responsible and be good corporate citizens by engaging in CSR activities. Shareholders and societal demands have changed since the evolution of CSR, and according to (Van Beurden & Gössling, 2008) good ethics means good business. Stakeholders, particularly consumers, and customers, are becoming more health

conscious, and their desire for healthy and environmentally friendly products continues to grow significantly.

However, shareholders have attempted to pay more attention to a broader range of stakeholders alongside their traditional goal of valuing firms based on their ability to create profit and wealth creation. Barnett & Salomon (2006) and numerous scholars have attempted to determine whether firms can pursue profit and engage in their CSR activities simultaneously. Whether implementing a CSR strategy is crucial for predicting a firm's sustainable growth has led to many studies that have tried to assess the influence of CSR activities on a firm's financial performance and shareholder wealth creation. Despite these efforts, consensus has yet to be established between the associations, which led to different viewpoints giving rise to diverse opinions. However, the two famous CSR experts may be seen and cited when investigating the nexus. Friedman (1970), the creator of Capitalism and Freedom, an advocate of shareholder value theory and the leading critic of business social activities (CSR), and Freeman (1984), the founder of stakeholder theory and the leading critique of Friedman, the neoclassical economist that argues CSR is inconsistent with increases in owners' wealth and firm profitability.

According to Friedman (1962, 1970), CSR destroys shareholders' value creation and decreases profit, leading to a competitive disadvantage. He underscores that the only duty of the manager of a firm is to enhance profit and maximize shareholder value (Friedman, 1962), therefore argued that CSR as a strategic tool for wealth creation and social investment that enhances shareholder value should be considered otherwise it should be rejected, shareholder value theory was debunked by (Freeman, 1984) a critics of shareholder theory and the founder of stakeholder theory claim that CSR activities (i.e., when manager considers the critical stakeholders) would improve firm's sales, profit and reputational image and positively impact shareholders value and firm performances. The

study findings of the association between CSR and performance were found to be either positive, negative, non-significant, or even mixed (curvilinear) relationship, thus, rendering the research findings concerning CSR and financial performance inconclusive and making it hard to determine whether CSR is correlated with financial performance. According to the meta-analysis of (Margolis & Walsh, 2003, and Orlitzky et al. 2003), more prior studies demonstrate a positive relationship between CSR and firm performance than those showing a negative one. However, the different viewpoints are shown below.

3.2.1 Prior studies that shows unfavorable nexus between CSR and firm performance.

3.2.1 Prior studies that show a unfavorable nexus between CSR and firm performance in developed countries.

Friedman and supporters of the shareholder approach argued that CSR reduces earnings, thereby, Destroying stockholder value. They negatively depict the nexus between CSR and F.P. (Hillman & Keim, 2001); the association between shareholder value, social issue participation, and stakeholder management in S&P 500 from 1994 to 1996 was empirically examined. The results reveal that using shareholder resources for social issues and problems adversely impacts a manager's duty to enhance shareholder wealth while managing the firm primary stakeholder (i.e., suppliers, customers, employees, and community), indicating a positive impact on shareholder wealth creation. They argued that a firm using shareholder's capital for social concerns unrelated to primary stakeholders may negatively affect its ability to maximize shareholder wealth. This is congruent with the research findings of (Barnett & Salomon, 2006), which established that CSR issues related to labor relations and environmental screening adversely affect firm financial performance.

(Barnea & Rubin, 2010) study findings investigating the relationship between firms' CSR ratings and the ownership and capital structure of the largest U.S. firms, including social responsibility (S.R.) and social irresponsibility firms (S.I.), revealed that firm policy concerning CSR could create conflict between different shareholders. They argued that managers (insiders) might seek to over-invest in CSR for their private motive, harming firm wealth creation. Nevertheless, the finding reveals that the negative impact of CSR on performance can be mitigated when an insider holds a large portion of shares and when a firm undertakes debt financing (i.e., leverage).

In line with the research findings of (Hillman & Keim, 2001), an analysis of the association between corporate social performance (CSP) and financial performance was carried out by (Brammer & Millington, 2008) on listed firms in The U.K. from 1990 to 1999. The research identifies three groups of firms, namely: firms with low CSP signifies firms with lower corporate charitable donations; firms with abnormal and unusually high CSP refers to firms that exhibit higher charitable giving; and those firms with optimal or standard CSP. The findings show that firms that make unusually higher or less (lower) charitable giving than prescribed or predicted realized a more substantial and higher financial return than firms with optimal CSR. They argued that firms that invest in high unexpected CSPs differentiate themselves from their competitors, and firms with unusually low CSPs conserve resources by investing them in viable projects or distributing them as dividends that might have otherwise donated to charity. In contrast, the regular CSP firms are referred to as 'stuck in the middle,' meaning neither their social nor financial returns are exceptional because they cannot differentiate themselves or conserve the firm's resources.

Although the review of the literature of (Aupperle et al., 1985) indicates whether firms made a provision for adjusted risk, the findings demonstrate no statistically significant association between corporate social responsibility and profitability in the short and long run. Therefore,

environmentally conscious firms that employ social forecasting are no different from firms that do not, regarding profitability, and the findings reveal an inverse between economic and ethical, legal and discretionary issues, suggesting that the more profit-oriented a firm is, the less emphasis it places on the non-economic components. This is consistent with (de Campos-Rasera et al., 2021) study findings, which show that firms with higher CSR engagement harm operating cash, ROA, and ROE.

3.2.1b Prior studies that show a unfavorable nexus between CSR and firm performance in developing and emerging countries

The study Mansaray et al. (2017) evaluate both the short and long-term impact of CSR disclosure (CSRdisc) on the financial performance of firms in South Africa, Kenya, Nigeria, Morocco, Egypt, and Mauritius by grouping into six industries namely: the sales and manufacturing, health and pharmacy and other industries, mining, investment, and transport industries. Their empirical findings showed a negative relationship between CSR disclosure and financial performance, meaning CSR negatively affects firms' financial performance except the sales and manufacturing, health and pharmacy, and other industries in the short-term using ROA. While the long run shows a positive nexus between CSR disclosure and firm financial performance in Africa, most firms show no significant association. The study of Mansaray et al. (2017) claimed that CSR cost outweighs its benefits and that firms implementing CSR incur direct and extra costs to firms due to its ability to deplete the firm's economic benefits and wealth creation.

Similarly, (Crisóstomo et al., 2011) examined the relationship between CSR and firm performance, considering the firm value and financial accounting performance in Brazil's non-financial listed firms from 2001 to 2006. The study uses three aspects of CSR, namely employee relations, external social action, and environmental activities on firms' ROA and ROE. The empirical findings demonstrate that CSR activities have a significant negative correlation with firm value and, in turn,

appear to be strongly influenced by social activities such as employees and environmental concerns while showing no relation with financial accounting performance. The study claims the negative association results from stakeholders' unawareness of the importance of a firm's CSR engagements when making consumption and investment decisions.

Table 3.2.1: Prior studies that shows a unfavorable nexus between CSR and firm performance.

Scholar	Sample and Jurisdiction	Methodology	CSR variable used	Firm Performance variable used	Nexus	Journal
Barnea and Rubin (2010)	The Largest 3000 U.S Coporations	Regression model	KLD, proxy statements, 13F schedules, CRSP, Com-pustat, and Execucom	ownership insider, institutional ownership, Public Pension and Capital Structure (leverage)	negative	Journal of Business ethics
Crisóstomo et al (2011)	78 listed firms in Brazil from 2001-2006	Regression Analysis	IBase's information (model)	ROA &ROE	negative	Social Responsibility Journal
Hillman and Kelm (2001)	S&P 500 firms listed in U.S	Least square Regression	KLD index	Market Value Added-MVA	negative	Strategic Management Journal
Brammer and Millington (2008)	537 firms quoted in London Stock Exchange	Panel Data (Regression)Analysis	Charitable Giving	Risk adjusted measurement	negative	Strategic Management Journal
Mansaray et al (2017)	158 listed firms in Africa (2005-2015	Multiple Linear Regression Analysis	CSRDisc	ROA &ROE	negative	International Journal of Economics and Financial

3.2.2 Prior studies that show a favorable nexus between CSR and firm performance.

3.2.2a Prior studies that show a favorable nexus between CSR and firm performance in developed countries.

The paper of (Orlitzky et al., 2003) presented a meta-analysis by reviewing the primary quantitative studies of the nexus between corporate social and financial performance, empirical data of 30 years. The research findings confirm that CSR strongly impacts firm financial performance across industries and various study settings. This meta-analysis disapproves of the (Friedman 1970) shareholder-centric approach, stating that shareholders are part and parcel of legitimate stakeholders and that financial and non-financial activities are relevant to improve wealth creation and profitability of the firm. Their research findings also support the hypothesis that a firm reputation is an essential mediator of the variables because a firm that consistently and continuously discloses its CSR engagement improve stakeholder relation by attracting investors and customer loyalty and facilitating access to the capital market.

In this spirit, (Van Beurden & Gössling, 2008) conducted a meta-analysis by reviewing the contrasting literature on the nexus between CSR and performance by comparing studies that found a favorable, unfavorable, or no association between CSP and CFP in an attempt to establish a consistent pattern of the relation. The findings demonstrate a clear positive association between corporate social and financial performance because the majority of their reviews show a positive correlation (68%), claiming that size, R&D, Industry, and Risk appeared to be important variables that influence the relationship between CSP and CFP; hence it is fundamental to control such variables. The 6% (2 pieces of literature) depict a negative relationship between CSR and firm performance, referring to Friedman's postulate as an out-of-date premise to validate the (Orlitzky et al., 2003) conclusion. They further claim that because of a lack of consistency regarding

methodology, 26% show no significant relations; in reality, they should have found a positive nexus.

Similarly, (Barnett & Salomon, 2006) investigated the financial and social link within mutual funds that practice socially responsible investing (SRI) using a least square method to analyze 61 U.S SRI funds from 1972 to 2000. It appears that social screening narrows firms' investment choices. Thus, research findings revealed that as the number of social screenings increases, the firm financial and shareholder returns decrease at first but then start to improve and enhance financial returns as the number of social screenings reaches the optimal level. They claimed that financial rewards or returns of some social screens may not be harvested until sometime in the future, which is in line with (Brammer & Millington, 2008), that argued that it takes time for high CSR to start realizing higher financial returns and the consistent application of CSR activity is necessary to pay off in financial performance ultimately. The curvilinear association of (Barnett & Salomon, 2006) suggests that the two opposing viewpoints of Friedman and Freeman may be complementary. Their findings suggest that fund managers consider the effects of the firm's chosen screening strategy on the performance of the funds.

The impact of corporate sustainability reporting (CSP) on firm value considering a total sample of 111 listed non-financial firms from four Asian countries (Japan, South Korea, India, and Indonesia) for a period of six years (2009-2014), was analyzed by (Laskar, 2018). The regression results reveal a significant favorable influence of CSP on market-to-book value for all four Asian countries. However, the extent of reporting is highest in Japan and lowest in Indonesia, and the relative impact of CSP on firm value is found to be more profound in developed countries as opposed to developing countries in Asia.

Similarly, (Ducassy, 2013) studies the nexus between CSR and financial performance by investigating whether or not corporate social performance pays off in times of crisis in French listed firms. The results findings show a strong relationship between CSR and firm financial performance, that CSR acts as an insurance-liked protection (buffer effect) in times of crisis, and firms engaging in a good level of CSR activities suffer less and therefore outperform by having a competitive edge over the firm with minimal CSR engagements but as times passes the relationship between CSR and firm performance become insignificant in the long-run. The research supported Freeman's (1984) postulate that a good level of social performance constitutes a competitive edge for firms. This is also congruent with the study (Sheikh, 2019) CSR increases firms' value when competition is high, similarly, (El Ghoul et al., 2011) found out investment used to improve employee relations, environmental policies, and product strategies contributes greatly lower cost of equity for firms, therefore enhancing the value of the firm for shareholders.

3.2.b Prior studies show a favorable nexus between CSR and firm financial performance in developing countries and emerging economics.

The systematic reviews of articles on the effect of sustainability reporting (SR) on firm performance in developing climes were investigated (Aifuwa, 2020). The study conducts systematic literature reviews and finds that studies in developing countries use the GRI framework for sustainability reporting and ROA as a proxy to measure firm performance. The findings indicate that a large number of studies submitted a positive association between firm's value and sustainability reporting, and it also finds that more studies have been carried out in developing countries than developed countries from 2014 to 2019; however, the environment and social disclosure were low among firms in developing climes, particularly Nigeria, this might be due to the voluntary nature of the report and most of. Overall, empirical literature revealed that SR positively affects firms' performance.

Orah et al., (2021), examined the impact between firm characteristics and CSR disclosure of listed companies in Sub Sahara African Countries. Using secondary data, the study consists of listed manufacturing firms in the Nigerian Stock Exchange, Johannesburg Stock Exchange, and Nairobi Securities Exchange over ten years (2005-2015). E-View software was used to interpret and analyze the data collected using Pearson Correlation Matrix. Findings found that, except for Kenya, there is a positive relationship between profitability and firm CSR disclosure; overall, the study found that profitability positively influences the CSRD of listed companies in Sub- Sahara Africa.

(Gantyowati & Agustine, 2017), assessed the impact of a firm's profitability, size, leverage, and liquidity (firm characteristics) on CSR disclosure using listed manufacturing firms in the Indonesia stock exchange (172 firms) and the Malaysian stock exchange (61 firms). The empirical results demonstrate that firm size and profitability positively and strongly correlate with CSR disclosure, while leverage shows no significant effect. On the other hand, CSR disclosure positively influences Indonesian firms' liquidity, whereas a negative effect of CSR on the liquidity of Malaysian firms exists.

Using Egypt, Morocco, Mauritius, Nigeria, and South Africa (Inekwe et al., 2021), examine the effect of public governance and economic growth on corporate social responsibility (CSR) performance from 2012 to 2017. A multivariate regression model was used in testing the research questions. The findings suggest that both good governance and economic growth are significantly related. These research findings are in support of propositions 1& 2 (Campbell, 2007) that firms are unlikely to include CSR activities in their operations when they are operating in an unhealthy economic environment. Also, firms are likely to act responsibly when there is good and effective public governance for well-enforced state regulations about firms' CSR engagements.

(Elshabasy, 2018), assessed the impact of corporate characteristics on environmental information disclosure of the listed firms in developing countries. Secondary data was used to investigate the impacts of firm age, firm size, firm leverage, and firm profitability on environmental disclosures of the active non-financial listed firms in the Egyptian stock exchange (EGX) from 2007-2011. The study reveals that firm age and profitability have a strong positive relationship with environmental disclosure, while leverage and firm size depict an insignificant relationship. The empirical findings (Abugre & Anlesinya, 2019) demonstrate that CSR activities can powerfully and positively influence firm value in multi-national subsidiaries in Ghana.

Table 3.1.2: Prior studies that shows a favorable nexus between CSR and firm performance

Scholar	Sample and Jurisdiction	Methodology	CSR variable used	Firm Performance variable used	Nexus between and among variables	Journal
Barnett and Salomon (2006),	61 U.S SRI funds	Least square Regression	social screening strategies on social investment forum	Risk-adjusted performance (RAP)	Positive	Strategic Management
Ducassy (2013)	44 listed French firms	OLS regression	French Corporate Information Center and CFIE ratings	Information ratio	Positive	Corporate Social Responsibility and Environmental Management
Orah et al (2021)	50 Sub Sahara Africa listed firms	Pearson Correlation Matrix	CSR disclosure index	Net Profit Margin, Leverage	Positive	Journal Of Accounting, Business and Social Sciences

Elshabasy (2018)	45 listed egyptian firms	Multiple regression Model	index of Environmental disclosure suggested by (Carreira et al., 2014) and (Juhmani, 2014)	firm size, age, Profitability and Leverage	Positive	Journal of Business and Retail Management Research (JBRMR)
Gantyowati & Kendra (2017)	233 listed firms in Indonesia and Malaysian stock exchange	Regression analysis	CSR disclosure from ISO 2600	ROA, total assets, Leverage	Positive	Integrative & Business Economic
(Abugre & Anlesinya, 2019)	all registered MNCs in Ghana	Multiple regression Analysis	CSR was measured with a 29-item scale by Maignan and Ferrell (2001)	ROE, ROA, ROI, sales growth, and market share	Positive	Journal of African Business
(Laskar, 2018)	111 listed firms in Japan, Indonesia, South Korea and India	Regression analysis	Market to Book Ratio	content analysis GRI (G3) reporting framework	positive	Journal Of Asia Business Studies
(Moustafa Soliman et al (2012)	50 listed firms in Egypt	regression model	CSR disclosure index	ROA, managerial, foreign and institutional ownership	positive	International Journal of Social Science

3.2.3 Prior Studies that show No significant nexus between CSR and firm performance

Aras et al., (2010) explored the relationship between CSR and firm performance in emerging markets from 2005 to 2007 listed firms in of Istanbul Stock Exchange (ISE). A regression method was used to test the research hypothesis. The study confirmed a strong relationship between firm size and CSR. However, the authors could not demonstrate any significant association between profitability and CSR, and the hypothesis that improved CSR leads to better firm financial performance was rejected, also showing a neutral relationship. The results suggest that CSR activities do not sufficiently influence or relate to firm performance (profitability) listed firms in developing countries.

Reverte, (2009) analyzed the determinants of CSR disclosure rating by Spanish-listed firms. Their results show that firms with higher CSR firm ratings present significantly more prominent size and increased media attention, and they function in more environmentally sensitive sectors and possess a more significant number of international stocks than firms with lower CSR ratings. The study also observed that neither profitability nor leverage seems to explain the discrepancies in CSR disclosure practices among listed firms in Spain. This research aligns with (Han et al., 2016), who empirically studied the relationship between CSR and firm performance in Korea; their findings did not find any significant evidence of a nexus between the social responsibility performance score and FP in Korean-listed firms.

(Chetty et al., 2015) carried out a study on the impact of CSR on firm performance in South African listed firms by assessing the short-term shareholder wealth returns CSR announcement of firms' entry and exit from the Johannesburg Securities Exchange Socially Responsible Investment Index (JSE SRI) and investigating if there is a difference between firms that enter and exit from JSE SRI in the long run. The regression results in both the short and long run provide a mixed observation in the association between CSR and firm performance and show no significant share

movements realized by socially responsible investors when firms enter the index except for 2004 and 2012. They deduced from the findings that CSR engagements have no significant difference in the financial performance of listed firms in South Africa. This is consistent with the empirical research of (Ching et al., 2017) which studied the quality of sustainability reports and corporate financial performance from Brazilian listed firms from 2008 to 2014. Their findings exhibit no clear consensus on whether firms' financial performance listed in Brazil's sustainability index leads to their sustainability performance. Their result findings concluded that there is no relationship between accounting and market-based variables and sustainability reporting.

Table 2.2: Prior studies that shows no significant nexus between CSR and firm performance.

Scholar	Sample and Juridistion	Methodology	CSR variable used	Firm Performance variable used	Relationship	Journal
Aras et al., 2010)	Firms listed on the Istanbul Stock Exchange (ISE) 100	Regression Analysis	Content analysis by Bowman and Haire (1975)	ROE, ROA and ROS	no significant	International Journal of Productivity and Performance Management
Sukanya Chetty, et al 2014	listed firms in Johannesburg Securities Exchange Socially Responsible Investment Index	regression Analysis	The JSE SRI Index	ROA, ROE, EPS	no significant	CONTEMPORARY ECONOMICS
Carmelo Reverte, 2009	Spanish firms listed on the Madrid Stock Exchange and included in the IBEX35 index.	regression Analysis	CSR Rating	ROA and Media Exposure (Spanish business newspapers ('Expansion' and 'Actualidad Econo´mica')	no significant	Journal of Business Ethics

Han et al., 2016	Korea Stock Market (KOSPI) listed firms in the period of	regression Analysis	ESG scores	Return on Equity (ROE), Market-to-Book Ratio (MBR) and Stock Return	no significant	Asian Journal of Sustainability and Social Responsibility
(Ching et al., 2017)	Listed firms in Brazil from 2008 to 2014	regression Analysis	Corporate Sustainability Index (ISE)	ROA, ROE, net margin %, and operational cash flow, and price earning P/E, Tobin Q represented by price/book value, and market capitalization	no significant	Open Sage

3.2.7 The Relationship between CSR and Capital Structure

Investment in tangible assets is fundamental for a firm to grow and profitably. Capital structure decision is a crucial step for firm planning and investing activities. The Modigliani—Miller (MM) theorem, agency cost theory, pecking order theory, and static trade-off theory are critical theories of capital structure and are mainly used when a firm is faced with financial choices. According to (Sheikh, 2019), few scholars have explored the link between CSR and firm value through financing decisions. Capital structure is a function of a firm's financial performance because to be profitable; firms need to invest in tangible assets, which are necessary to enhance firm performance and shareholder value. According to the pecking order theory developed by (Myers & Majluf, 1984), firms prioritize internal financing over debt, equity financing, and debt over equity because of information asymmetry. Stakeholders, including financial markets, investment funds, individual investors, borrowers, and other stakeholders, are more inclined to invest and lend to firms that engage in CSR activities than those that do not. Firms that participate in and disclose their CSR activities may benefit from easy access to capital by attracting creditors and low cost of capital

due to improved informational transparency, which reduces agency costs and improves managers' and investors'(i.e., capital providers) relationships. Thus, CSR can impact firm financial choices, influencing firm performance and shareholder wealth creation. However, two opposing viewpoints exist on how debt level influences the firm capital structure decision. Some scholars believe that CSR influences capital structure by increasing debt ratio (i.e., leverage level), while others oppose that CSR influences capital structure by decreasing the debt level and increasing equity based. Therefore, the different viewpoints are shown below.

3.2.7a Prior Studies that shows Strong CSR performance increase firm debt level

Yang et al. (2018) empirically examined how CSR influences capital structure (book leverage) by looking at the impact of CSR on information asymmetry between firms and creditors of Chinese listed firms from 2008 to 2013. The study further investigates the impact of CSR on these three variables: the level of leverage, the speed of capital structure, and the term structure of capital structure in Chinese firms. The results show that firms with CSR strategy in their decision-making and operational activities registered higher leverage levels by having preferential treatment from banks and capital markets than firms with little or no CSR engagements. The findings reveal that credit providers are willing to accept by caring less about CSR firms that deviate from their capital structure (target leverage) because of CSR reports that improve information reliability and transparency. Firms with CSR disclosure maintain and benefit from long-term leverage because CSR can provide long-term forecasts to capital providers (Yang et al., 2018). Overall, CSR influences the firm capital structure and provides higher leverage to firms which is in support of (Jiraporn et al., 2014) that high CSR has a favorable credit rating, lower the cost of borrowing, and increases access to capital markets.

Similarly, (Goss & Roberts, 2011) study the link between CSR and the cost of bank loans (bank debt) using a loan sample 3996 in U.S. firms. The findings show a mixed reaction to firms that

voluntarily invest in CSR. Firms that proactively engage in CSR investment (measured as strengths) and consider high-quality borrowers due to engaging in higher CSR activities (i.e., voluntary CSR investment) face a lower cost of borrowing because banks view such firms as insurance (risk mitigation) and a secondary factor determinant of spread that lower the risk level and grant them longer loan maturity which is absent in firms that divert shareholders fund to overinvest in discretionary CSR projects. At the same time, firms with low or negative CSR engagement (CSR concerns) face a higher cost of borrowing, with leads to higher spread demand by lenders and shorter loan maturity because such low CSR firms are perceived too risky by lenders. Therefore, firms with CSR strength benefit from the lower cost of borrowing and longer loan contract terms.

Using 267 U.S. firms (Sharfman & Fernando, 2008) assess whether environmental risk management is connected to lower-cost capital. The data were analyzed using the regression technique, and the study findings show a positive and significant relationship between environmental risk management and the cost of debt, alongside demonstrating additional advantages from the nexus. The empirical findings prove that firms that improve their environmental risk exposure and profile also benefit in the following ways:

1. It enables firms to expand their leverage level, consequently increasing the firm perspective of tax benefits of debt financing, ultimately encouraging firms to choose debt financing over equity financing.
2. It Reduces firm’s cost of equity by lowering its systematic risk through lower equity beta.
3. It increases the dispersion of individual share ownership while reducing institutional ownership.

Overall, the research findings suggest that firms that develop a strategy to enhance its risk management in the form of improved environmental performance register a reduction in their weighted average cost of capital (WACC) through lower cost of debt and equity financing, thus, allowing firms to carry higher debt overall improving the firm financial performance.

3.2.3b Prior Studies that Shows Strong CSR performance Lower firm debt level

Ho et al. (2022) the nexus between CSR and firm capital structure was examined, including a sample of common stock listed in the Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange, 2010-2018. The authors discover a negative relationship between firm leverage and CSR because substantial CSR activities lower a firm's risk profile, decreasing the firm's leverage level. The finding further demonstrated that improving information transparency and reliability reduces firm risk profile (i.e., decreases firm leverage) and will eventually increase investor attention and stock liquidity.

An analysis of 1642 publicly traded companies of the world's ten largest economies (USA, China, Japan, Germany, India, UK, France, Italy, Brazil, and Canada) was conducted by (de Campos-Rasera et al., 2021) to examine the effect of capital structure on CSR. Using a dynamic panel estimator and ESG scores from the Eikon platform (Thomson Reuters database) as a proxy, the results showed a negative relationship between CSR performance and firm debt level. In contrast, capital structure and owners' equity correlate positively and significantly. The finding is consistent with the research findings of (Ho et al., 2022), reducing information asymmetry and risk profile due to CSR practices enhances stakeholder reliability and, consequently, growth in equity investment.

El Ghoul et al. (2011) assess the impact of CSR on the cost of equity for using large US firms from 1992 to 2007. Their empirical results demonstrated that firms with higher CSR practices (scores)

have a significantly low cost of equity. In contrast, firms with low CSR scores (sin industries) increase the firm cost of equity. This is because high CSR firms tend to attract more socially responsible investors, thereby broadening their investor base and benefiting from low-risk premiums for investors' stock ownerships, lowering the firm cost of capital. The study of (Mishra & Modi, 2013) confirm that positive CSR decreases the idiosyncratic risk, while negative CSR increases the idiosyncratic risk level because investors pay attention to the firm's leverage level before investing, even if the firm has high CSR engagement.

Table 3.2.3:Prior studies that show the nexus between CSR and Capital Structure

Scholar	Sample and Jurisdiction	Methodology	CSR variable used	Capital Structure	Nexus	Journal
Yang et al (2018)	Chinese listed firms	differences-in-differences approach	Content analysis using CSMAR	Book and Market Leverage	positive	Asia-Pacific Journal of Accounting & Economics
Goss & Roberts (2011)	1265 non-financial listed firms in US	regression	KLD data(strength and concern items)	log-Spread from LIBOR	positive	Journal of Banking & Finance
(Sharfman & Fernando, 2008)	267 firms from S&P 500	regression	KLD data	(WACC & cost of borrowing from Bloomberg) and CAMP	positive	Strategic Management Journal
(Ho et al., 2022)	Chinese listed firms	ordinary least square regression	Hexun.com and Rankins CSR Ratings (RKS)	leverage(book &market)	negative	kybernetes journal
(de Campos-Rasera et al., 2021)	1642 traded firms on the largest GDP countries	GMM 2SLS estimator	ESG performance index on the Eikon platform (Thomson Reuters database)	Debt financing, equity financing	mixed	Journal of Accounting and Organizations
(El Ghoul et al., 2011)	2809 firms in USA	regression	KLD STATS	cost of equity	positive	Journal of Banking & Finance

3.2.4 Prior Studies that show The Relationship Between CSR And Firm Performance: Moderating and Mediating Role

Due to the imprecise conclusion provided by the earlier empirical research findings of the relationship between CSR and F.P., many scholars agree that CSR does not directly contribute to F.P. because the rewards of CSR are contingent. According to (Barnett, 2007), CSR does not directly contribute to CFP but influences CFP through its impact on stakeholder relations. (Van Beurden & Gössling, 2008) Claimed that the multi-disciplinary of CSR, absence of sound methods (inconsistent methodology), constraint on the number of samples and other control variables and composition contribute to imprecise conclusions. According to the research findings of (Orlitzky et al., 2003), stakeholder misalignment and errors in sampling and measurement of variables and usage of accounting-based or market-based measurement of financial performance create diverse results.

Q. Wang et al. (2016) conducted a meta-analysis based on 119 effect sizes from 42 empirical studies of the association between CSR and F.P. with the moderating effects of contextual factors and exploring the direction of causation. Their research findings support the claim that CSR enhances the firm's value and that the subsequent financial performance is positively related to the prior CSR. The empirical findings indicate that the survey produces the most substantial effect among the other four CSR measurement strategies (i.e., reputation rating, content analysis, social auditing, and proxy variable). In contrast, the various operational measurement strategies of CSR reveal that the link between CSR and perceptual measurement is higher and more significant than accounting and market based. The findings also demonstrate that the assessment of CSR and FFP variables may result in the heterogeneity of the nexus. This finding is consistent with the research findings of (Wang & Sarkis, 2017 and Aupperle et al. 1985) that varying data source and various

assessments of moderation and mediation factors, omission of adjusted and unadjusted risk, and ideological bias leads to heterogeneity of the CSR and CFP nexus.

Consequently, prior studies on the various contingency variables (moderator and mediator variables) are discussed below.

Vishwanathan et al. (2020) analyze and test four key mediator variables (firm reputation, stakeholder reciprocation, firm risk, and innovation capacity) on how CSR engagements affect CFP using meta-analytic structural equation modeling on effect size data from 344 primary studies from 1978 to 2016. Their meta-analysis found that the above variables do not fully mediate the relationship between CSR and CFP; they only explain 20% percent of the association, suggesting future empirical studies. Using Taiwan small-medium enterprises with 179 survey questionnaires which include community, employees, and buyers (Lai et al., 2010), find out the impact of Corporate Social Responsibility on Brand Performance using brand equity and firm’s image as Mediating variables. Their Empirical results showed that industrial brand equity and the firm's image (reputation) as mediators only have a partial impact on the association between CSR and brand performance, which is in line with (de Campos-Rasera et al., 2021) findings that CSR practice affects a firm's reputation, eventually reflects in increased in performance in the long run. Saeidi et al. (2015), investigate firm reputation, customer satisfaction, and sustainable competitive advantage as potential mediators in the relationship between CSR and firm performance using Iranian manufacturing and customer product firms. The study findings reveal that the above variables fully mediate the nexus between CSR and firm financial performance. The study found that the positive effect of CSR on firm wealth creation and increase in financial return results from the substantial positive impacts CSR has on competitive advantage, customer satisfaction, and reputation. They suggest that CSR indirectly influences and increases a firm's financial

performance through improvement and enhancement of the firm's image, which translates to high sales and profit and a higher level of customer satisfaction (i.e., customer retention and loyalty) which ultimately lead to sustainable competitive advantage to firms that engage in CSR activities.

Thompson et al. (2022) examined the moderating effects of assurance and type of assurer to ascertain the nexus of sustainability reporting on firm value using actively listed firms Johannesburg Stock Exchange (JSE) in South Africa from 2015-2019. The findings show a robust positive association between CSR reporting and firm financial performance, which signifies that firms with high CSR engagement and consistently engaging in CSR activities benefit from an increase in the firm financial returns due improve in reputation and competitive advantage. The findings also observed a positive and robust moderating effect of sustainability (CSR) assurance reports on the association between sustainability reporting and firm performance. CSR assurance report indicates to the stakeholders and capital market the reliability of CSR disclosure, therefore reducing information asymmetry between the internal management and stakeholders of the firm. These findings, however, did not observe any significant relationship between the type of assurer (Big 4 or traditional audit firms) and firm performance (Thompson et al., 2022) claimed that JSE does not value assurance provided by Big 4 audit firms over traditional ones due to the continuous increase in traditional or specialist audit firms.

The research of (Wang & Sarkis, 2017) investigates the mediating effect of social and environmental outcomes (i.e., CSR outcomes) on the association between CSR governance and the financial performance of the highest 500 green firms in the U.S. from 2009 to 2013. The independent variables (CSR Governance and CSR outcomes) were extracted from Bloomberg (ESG) database, while the firm financial performance of the firms' data was collected from the

COMPUSTAT database. The research findings show that environmental and social outcomes (CSR outcomes) fully mediated the nexus between CSR governance and firm financial return. Their findings imply that solid implementation of CSR governance translates into good CSR outcomes that eventually positively influence firm financial performance.

The study (Sheikh, 2019) examines the moderating impact of product market competition on the nexus between CSR and firm leverage using panel data of 2009 companies from 1996 to 2015. The results show that product market competition adversely influences the nexus between CSR and firm leverage when market competition is high because a firm tends to capitalize on CSR activities to benefit from a lower cost of equity while reducing firm debt level, except for CEO duality, the results exhibit negative association between CEO's age, R&D, and firm-specific wealth and firms leverage. The empirical results demonstrate that CSR has little or no impact when competition is low and a negative impact when competition is high; therefore, the empirical findings show that the community, diversity, labor relations, and environmental factors drive the impact of CSR.

Mishra & Modi (2013) analyze the moderating role of financial leverage on the relationship between positive and negative CSR practices and with idiosyncratic risk of listed firms in the USA from 2000 to 2009; the analyses confirm CSR has a strong and positive correlation with idiosyncratic risk. A lower risk- reduction was observed with positive (strength) CSR firms, whereas concerned (negative) CSR firms increased the risk level. According to their empirical findings, positive CSR firms with lower- debt profit more from lower idiosyncratic risk than positive CSR with higher leverage because the stock market appreciates and values socially responsible firms only if they have sound financial health. However, the findings demonstrate that financial leverage does not impact the relationship between idiosyncratic risk and negative CSR.

The link between CSR and the business value of multi-national corporations (MNCs) in Sub-Saharan Africa was examined by Abugre & Anlesinya (2019), considering the indirect influence of human capital and reputational business value. Using regression analysis, the findings demonstrate that reputational business and human capital value indirectly, firmly, and positively influence the relationship between CSR and firm value in multi-national subsidiaries. Firms that improve their CSR (i.e., embark on positive CSR) gain reputational value from their stakeholders by attracting and retaining customers and investors, which increases the firm's overall value. In addition, CSR strength significantly enhances human capital by showing commitment to social actions that could stimulate innovation, higher efficiencies, and superior business value. The study shows that CSR significantly creates economic, reputational value, and human capital values for foreign businesses in Africa.

The influence of CSR on firm performance using capital structure as an intervening role in French-listed firms from 2006 to 2017 was conducted by (Ben Saad & Belkacem 2022). The findings exhibit that the relationship between CSR and financial performance is mediated through the capital structure channel (Ben Saad & Belkacem 2022).

Agyemang & Ansong (2017) examined the influence of corporate social responsibility on the financial performance of small and medium-sized enterprises (SMEs) in Ghana by focusing on access to capital and firm reputation as mediating variables. The analysis confirms that SMEs that are highly practicing CSR activities are positively correlated to a good reputation, which eventually has a significant positive impact on the performance of Ghanaian SMEs (Agyemang & Ansong 2017). Consistent firm CSR engagement creates intangible assets in the form of goodwill to firms that practice it. However, results did not show a significant relationship between CSR performances and access to capital, implying that better CSR performance might not necessarily

lead to lower constraints in access to capital due to the traditional perspective of investors or capital providers viewing SMEs as a risky investment as opposed to a more prominent firm. The findings highlight that SMEs with good CSR practices can lower firms' capital constraints, resulting in improved financial performance (Agyemang & Ansong, 2017).

Financial performance and quality of sustainability disclosure with revenue growth as a moderating variable were examined (Utami, 2015) using manufacturing firms listed in the Indonesian stock exchange from 2011 to 2013. Multiple regression matrices were employed to study the influence of profitability, leverage, and quality sustainability disclosure based on the Global Reporting Initiative. The findings indicate that the quality of sustainability disclosure does not have a significant and robust influence on firm value; on the flip side, profitability and leverage demonstrate a strong positive influence on firm value, and sales growth is found to play a solid mediating role of the relationship between quality of sustainability reporting and firm value.

Moustafa Soliman et al. (2012) investigate the ownership structure and CSR of a listed firm in Egypt from 2007 to 2009. Using the regression model, the research finds a positive relationship between CSR rating and ownership by institutions and foreign investors; on the other hand, the findings exhibit a negative relationship between CSR rating and shareholding by top managers, thus, signifying that different ownership structures have differential impacts on the firm's CSR engagement. Taking into account the mediating Role of Information Asymmetry (Khan et al., 2022) examined the impact of Corporate Social Responsibility on Firm Performance from 2006 to 2017 in Pakistan-listed firms. The empirical findings demonstrate a strong positive nexus between CSR and firm value, and the relationship is partially mediated by information asymmetry (I.A.). The study claimed that investment in CSR projects potentially reduces information asymmetry (I.A.), which ultimately translates into improved firm performance (F.P.). Hence, engagement in

CSR-related activities makes the information environment more transparent, thereby reducing information asymmetry among various stakeholders, which will help increase firm performance.

Table 3.3.4: Prior studies that show the mediatory and mediatory role on CSR and firm performance

Scholar	Sample and Jurisdiction	Methodology	CSR variable used	The firm Performance variable used	Mediatory/intermediatory Factors	Nexus between and among variables	Journal
(Saeidi et al., 2015)	205 Iranian manufacturing and customer product firms	Survey Approach	CSR dimension in Maignan and Ferrell (2000)	ROI, ROS, ROE, ROA, sales growth, mkt share growth and net profit	Firm Reputation, customer satisfaction, and competitive advantage	positive	Journal of Business Research
Godfrey et al. (2009)	96 firms from S&P 500 from 1993-2003	regression analysis	KLdD index	Cumulative abnormal returns	Stakeholder related CSR (Technical vs Institutional)	positive	Strategic Management Journal
(Thompson et al., 2022)	92 listed firm in South Africa Stock Exchange	Panel Data Analysis	CSR measurement in CSRHUB	Tobin's Q	Assurance and types of assurer	positive	Sustainability Accounting, Management and Policy Journal
Van der Laan et al. (2008)	724 firms from S&P 500 1972-2002	regression analysis	KLdD index	ROA, EPS	Interaction with different stakeholder groups(csr outcome)	Asymmetric	Journal of Business Ethics
(Z. Wang & Sarkis, 2017)	Top 500 US Green Company	four-step Baron and	ESG in Bloomberg	Tobin's Q and ROA	CSR outcomes	positive	Journal of Cleaner Production

		Kenny approach	database Environment, Social and Governance (ESG) database				
Gilley et al. (2000)	71 firms published in wall street journal from 1983-1996	regression analysis	Wall street journal printed index	Cumulative abnormal returns	Greening initiative: product or process driven	no effect	Journal of Management
(Sheikh, 2019)	2009 firms	regression analysis	CSR performance in MSCI	leverage (book & market)	Product Market competition (Herfindahl index)	Negative	Research in International Business and Finance
(Mishra & Modi, 2013)	192 Publicly owned firms in USA	three-stage-least-squares (3SLS)	CSR rating from KLD database	idiosyncratic risk (stock response model from CRSP)	leverage (long term debt/to market value of its common stock)	Mixed	Journal of business ethics
Russo and Fouts (1997)	243 firms, USA	regression analysis	Franklin Research and Development Corporation (FRDC) rating	ROA	Industry Growth	positive	Academy of Management Journal
(Abugre & Anlesinya, 2019)	all registered MNCs in Ghana	Multiple regression Analysis	CSR was measured with a 29-item scale by Maignan and Ferrell (2001)	ROE, ROA, ROI, sales growth, and market share	Human Capital value & reputational value	positive	Journal of African Business
(Ben Saad &	French listed firms 2006-2017	a difference-in-	Environmental, social, and	ROA, ROE, Tobin's Q	Capital Structure (book	positive	Laboratory Research for

Belkacem, 2022)		differences approach	governance (ESG) data provided by Thomson Reuters		leverage ratio)		Economy, Management and Quantitative Finance (LaREMFiQ)
(Barnea and Rubin, 2010)	3000 U.S Coporations	Probit regression model	KLD, proxy statements , 13F schedules, CRSP, Com-pustat, and Execucom	the percent of common stock held by insider and a dummy variable that equals to 1 if combined insider ownerhship is over 25% of common stock, (ownership indsider measurement and institutional ownership was measured by calculating as a percent of the total number of shares outstanding and Institutional HHI, which is the	insider's ownership ,capital structure (leverage)	positive	Journal of Business ethics

				Herfindahl - Hirschman Index (HHI), Public pension was measure by the aggregate percentage ownership of large public pension fund while capital structure (leverage) was measured using book value of both short and long-term debt divided by the book value of assets			
Surroca et al. (2010)	599 firms on 28 based in Europe, North America, and Australia	regression analysis	Sustainalytics platform ratings	Tobin's Q	Intangible resources such as Innovation, Human capital Reputation, Culture	no effect	Strategic Management Journal
(Agyemang & Ansong, 2017)	423 SMEs in Ghana	Partial least square method	Questionaire based	profit & sales growth and leverage	Acess to Capital and firm Reputation	Mixed	Journal of Global Responsibility

Wiwik Utami, 2015	manufacturing industries listed in Indonesian Stock Exchange	multiple regression	Disclosure Index based on GRI (2013)	ROA, debt/equity ratio	Revenue growth	positive	Mediterranean Journal of Social Sciences
(Khan et al., 2022)	Non-financial listed firms in Pakistan	GMM technique	CSR disclosure	ROA	information asymmetry (IA)	positive	Indian Journal of Economics and Business
van Beurden and Go¨ssling (2008)	34 studies 1990–2007	regression analysis	CSP	CFP	Firm size Industry R&D Risk	positive	

3.5 Hypothesis Development

Given the above in-depth literature reviews, the following hypotheses are formulated.

H1: CSR influences the financial performance of listed firms in Africa.

H2: Capital Structure is a mediator that affects the relationship between CSR and firm performance in Africa.

CHAPTER FOUR

RESEARCH METHOD

4.1 Sample Size and Data

The research study sample consists of listed firms in the Africa in 2020 which includes both financial and non-financial sectors. The study uses secondary data to extract financial data and ESG Scores as proxies of CSR performance. ESG scores and financial data were collected from the Bloomberg database. A total sample of 1,559 listed firms in Africa was collected, including all sectors and all regions in Africa (North, East, South, and West Africa). However, to ensure the consistency of the sample collected, two fundamental criteria were formulated: firms in the sample data must be active during the trading year. They must have complete data (i.e., complete ESG scores and financial data) of the period under review. Based on the above requirement, 1,529 companies were removed, and the final sample includes 70 companies or observation of firm-years from six countries, namely South Africa, Nigeria, Morocco, Kenya, and Egypt.

Table 4.1 Number of firms by country

Country	# of Firms
Egypt	5
Kenya	1
Morocco	3
Nigeria	4
South Africa	57
Total	**70**

Source: Author

Table 4.2 Percentage and number of Sample by Sector

SECTOR NAME	SAMPLE NUMER	PERCENTAGE
Communication Services	6	8.571428571
Consumer Discretionary	7	10
Consumer Staples	9	12.85714286
Energy	1	1.428571429
Financials	22	31.42857143
Health Care	4	5.714285714
Industrials	2	2.857142857
Materials	14	20
Real Estate	5	7.142857143
TOTAL	**70**	**100**

Source: Author

4.2 Independent Variable: Corporate Social Responsibility

The research's primary independent and explanatory variable is CSR performance is proxied by the Bloomberg and RobeccoSam standard and poor (S&P) ESG scores, which represent firm ESG performance. The study further divides aggregate ESG scores into individual dimensions, namely Environment Scores (ES), Social Scores (SS), and Governance Scores (GS), in order to enable the research to access and observe which CSR dimension is the main driver for enhancing firm financial performance and shareholder's value creation, this is in line with the research findings of (Nollet et al., 2016). The study uses Bloomberg databases because it is more sophisticated, relevant, up-to-date, reliable, and the most minor subjective data sources.

4.3 Dependent Variables

Tobin's Q ratio and ROA are often used to proxy for firm financial performance, and they are the primary dependent variables in the study. Tobin's Q is a market-based measure of a firm's performance. It is measured as the book value of total assets (both current and noncurrent Assets) minus the equity book value plus the market, divided by the book value of total assets. Prior studies of (Schreck 2011; Wang & Sarkis, 2017; Utami, 2015, and Crisóstomo et al., 2011) use Tobin's Q as a proxy firm performance. While ROA is an accounting-based measure commonly used to proxy for firm financial performance. The study used both measures since both influence firm value and are used to measure the financial performance of the firm and provide information about firm profitability and shareholder's returns (Mishra & Modi, 2013; Orlitzky et al., 2003; Wang & Sarkis, 2017; Crisóstomo et al., 2011, and Reverte, 2009). The above prior studies have shown that ROA and also influence firm CSR engagements.

4.4 Mediator Variable

The research investigated the role of capital structure (proxied by total debt to equity proxy) as a potential mediator of the relationship between CSR and financial performance because it has the potential to influence the relationship strongly. Firms that participate in and disclose their CSR activities may benefit from easy access to capital by attracting creditors and lowering the cost of capital (Yang et al., 2018) demonstrated that CSR can significantly reduce information asymmetry between firms and creditors. In addition, the research findings of (Sheikh, 2019) revealed that the relationship between CSR and performance is mediated through capital structure. Based on the above literature, we examine the role of capital structure on CSR and firm performance. The study uses total debt (short and long-term debt) to total equity (DE) as a measurement of capital structure and the following studies use debt as a measurement of firm capital structure (Mishra & Modi, 2013, Utami, 2015, and Vishwanathan et al., 2020).

4.5 Control Variables

Control variables are variables order than the study dependent and independent variables that can influence the association between CSR performance and firm financial performance. Thus, such variables must be controlled. Size, sector, country, and ROE are some of the variables that prior studies identified as likely to influence CSR performance significantly. The prior studies of (Hillman & Keim 2001; Crisóstomo et al., 2011; Ducassy, 2013; Laskar, 2017, van Beurden & Gössling 2008, Elshabasy 2018; Reverte 2009, Moustafa et al., 2012) have demonstrated that SIZE has a strong correlation with CSR and firm value because more prominent firms have a more significant market share, market capitalization, higher turnover, product diversity, and better opportunity for access to capital than small firms. Size influences the capacity of a firm to undertake CSR. For instance, more prominent firms undertake more CSR activities due to their visibility to the public and media, and their connection with their stakeholders becomes complex because of the increasing stakeholder demand. Firm size and social performance show a strong correlation. The study employed the log of total sales and assets as a proxy for the firm size (LN Sales). Moreover, the prior studies (Waddock & Graves, 1997; Hillman & Keim, 2001; Crisóstomo et al., 2011; Muraba, 2021; van Beurden & Gössling 2008, and de Campos-Rasera et al., 2021) employed log of sales, log of assets, natural log of market capitalization, log of workforce as a proxy to measure firm size. Also, the above scholars revealed that because of different jurisdiction laws and sectors of operations which differ in the way they operate and deal with ESG, therefore they demonstrated a need to control for some listed firms, the country characteristics, and sector variables (Waddock & Graves, 1997 and Abugre & Anlesinya, 2019). The study used a dummy to ensure the model is not affected or influenced by the country's characteristics, and sectoral

differences; the dummy variables to measure country characteristics and sector are represented as (COUNTRY 1-5 and GICS), respectively.

Table 4.2: Variables and Description

Variables Employed	Description of Variables
Independent variables	
-ESG scores (Bloomberg& S&P)	-Total average of Environment, Social and Governance Scores ESG (Bloomberg &S&P)
- AV_EN	-Average Environmental Scores (Bloomberg&S&P)
-AV_SOC	-Average Social Scores (Bloomberg& S&P)
-AV_GDS	-Average Governance Scores (Bloomberg &S&P)
Dependent variables	
-ROA	-Return on Assets
-Q Ratio	-Tobin's Q Ratio
Mediator Variable (Capital Structure)	
Debt_Equity	-Debt to Equity ratio
Control variables	
-ROE	-Return on Equity
-Dummy Variable (Country1….5)	-Country's Characteristic
-Dummy Variable (GICS)	-Sector or Industrial Effect
-LN Assets/ LN Sales	-Logarithm of Total Assets or Sales

-BTM	-Book to Market ratio

4.3 Model Specification

This section employed a model to examine the association between CSR and firm performance, considering Capital Structure as a moderating variable. The ordinary Least Square (OLS) multi-regression model was used and was carried out using the newest Stata software version Called StataMP18.

The research model takes the following expression.

$Y_{it} = \alpha + \beta_1 AV_ESG + \beta_2 AV_EN + \beta_3 AV_SOC + \beta_4 AV_GOV + \beta_5 D_E + \beta X_{it} + \epsilon_{it}$

Y_{it} = ROA and Tobin's Q Ratio represent firm performance (FP)

α= Constant

β_1- β_4=Co-efficient of independent variables

AV_ESG= average ESG scores from Bloomberg and S&P (Environment, Social, and Governance)

AV_EN= Average Environmental Disclosure Scores

AV_SOC= Average Social Disclosure Scores

AV_GOV= Average Governance Disclosure Scores

βX_{it} = Co-efficient of control variables (ROE, Country1_5, GICS, LN Sales, BTM)

ϵ_{it}= Error Terms

CHAPTER FIVE

5.1DATA ANALYSIS, INTERPRETATION, AND DISCUSSION

This chapter presents the empirical results on the relationship between CSR and firm performance, considering capital structure as a mediator variable.

5.1 Descriptive statistics and correlation matrix

Table 5.1a Descriptive Statistics of the Variables employed.

Variable	Obs	Mean	Std. Dev.	Min	Max
AV ESG	70	34.949	20.49	2.4	76
AV EN	70	30.585	21.349	0	74.75
AV SOC	70	33.469	21.136	.75	84.15
AV GOV	70	48.572	20.986	7.8	88.15
MKT CAP	70	191615.12	549368.02	15.664	4173220.3
ROA	70	5.04	16.711	-19.429	111.799
TOBIN Q RATIO	70	1.46	.843	.477	5.299
ROE	70	11.874	29.817	-111.046	120.141
DEBT EQUITY	70	194.997	898.645	0	7541.026
LN ASSETS	70	11.182	1.979	5.211	15.953
BTM	70	4.354	7.798	-.06	44.034
COUNTRY1	70	4.529	1.139	1	5
GICS1	70	5.086	2.448	1	9

Data source Bloomberg and S&P

Table **5.1a** above summarizes the descriptives of the variables, including the standard deviation, mean, minimum, and maximum value of the variables under study. In the above table, CSR performance was measured using the total average scores of Bloomberg and Standard and Poor (AV-ESG) and the average scores of the individual pillar (i.e., Average Dimensional Scores). The average governance score demonstrates the lowest volatility (most stable) level and the highest mean value among the individual scores. In contrast, the average environmental score shows the least stable variables (highest standard deviation) and lowest average values. The significant difference between the minimum and maximum values of the total ESG scores demonstrates that a firm with higher or lower ESG performance dominates the selected firms.

However, Tobin's Q demonstrated the lowest volatility, while ROA and ROE demonstrated the highest volatility and the highest maximum and minimum value regarding the measurement of financial performance. Debt to equity as a proxy of the capital structure showed a low average value and high volatility level. In contrast, some control variables employed in this study, such as book to market (BTM), log of assets, log of sales, market capitalization, country characteristics, and sector or industrial effect, show moderate volatility.

Table 5.1b Pairwise Correlation Analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) AV_ESG	1.000											
(2) AV_EN	0.940	1.000										
(3) AV_SOC	0.945	0.831	1.000									
(4) AV_GOV	0.919	0.853	0.862	1.000								
(5)TOBIN_Q_RATIO	-0.012	0.087	-0.096	-0.112	1.000							
(6) ROA	-0.040	0.082	-0.126	-0.084	0.320	1.000						
(7) ROE	-0.026	0.075	-0.124	-0.090	0.386	0.803	1.000					
(8)DEBT_EQUITY	-0.026	-0.070	0.000	-0.024	-0.083	-0.178	-0.508	1.000				
(9) LN_ASSETS	0.016	0.003	0.001	0.013	-0.110	-0.130	-0.002	-0.251	1.000			
(10) BTM	0.307	0.365	0.249	0.249	0.321	0.128	0.179	-0.047	-0.207	1.000		
(11) COUNTRY1	0.446	0.465	0.411	0.567	-0.227	-0.087	-0.101	0.062	0.059	0.079	1.000	
(12) GICS1	0.193	0.165	0.272	0.167	-0.243	-0.137	-0.260	0.118	-0.057	-0.029	0.134	1.000

Table **5.1b** exhibits the pair-wise correlation analysis of both dependent (ROA, Tobin's Q), Moderator (Debt to Equity Ratios), Independent Variables (ESG scores), and control variables. The highest correlation is depicted among the average ESG scores. In contrast, a moderate and positive correlation is observed in the control variables and ESG scores but a mixed correlation with the FP measures. However, the negative and lowest negative correlation was observed between the dependent (ROA, Tobin's Q) and independent variables (ESG scores) except for the environmental dimension, which observed a positive relationship in all the financial

measurements. The moderating variables (equity debt) negatively correlate with ESG and firm performance.

5.2 Test of H1

Table 5.2a: Linear regression using Average ESG and Tobin's Q

TOBIN_Q_RATIO	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_ESG	.002	.006	0.44	.663	-.009	.013	
COUNTRY1	-.177	.09	-1.97	.054	-.356	.003	*
GICS1	-.066	.041	-1.61	.114	-.147	.016	
BTM	.032	.014	2.31	.024	.004	.06	**
LN_SALES	.063	.067	0.93	.355	-.072	.198	
DEBT_EQUITY	0	0	0.17	.865	0	0	
MKT_CAP	0	0	1.69	.096	0	0	*
Constant	1.663	.773	2.15	.035	.118	3.207	**
Mean dependent var		1.460	SD dependent var			0.843	
R-squared		0.295	Number of obs			70	
F-test		3.710	Prob > F			0.002	
Akaike crit. (AIC)		165.258	Bayesian crit. (BIC)			183.246	

**** p<.01, ** p<.05, * p<.1*

Table 5.2b: Linear regression using individual ESG and Tobin's Q

TOBIN_Q_RATIO	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_EN	.021	.009	2.29	.025	.003	.039	**
AV_SOC	-.007	.009	-0.78	.437	-.026	.011	
AV_GOV	-.011	.011	-1.03	.306	-.032	.01	
COUNTRY1	-.166	.097	-1.71	.092	-.36	.028	*
GICS1	-.064	.041	-1.58	.12	-.146	.017	
BTM	.025	.014	1.76	.084	-.003	.052	*
LN_SALES	.042	.067	0.63	.531	-.091	.175	
DEBT_EQUITY	0	0	0.28	.781	0	0	
MKT_CAP	0	0	1.62	.111	0	0	
Constant	2.068	.778	2.66	.01	.512	3.625	**
Mean dependent var		1.460	SD dependent var			0.843	
R-squared		0.350	Number of obs			70	
F-test		3.592	Prob > F			0.001	
Akaike crit. (AIC)		163.583	Bayesian crit. (BIC)			186.068	

**** p<.01, ** p<.05, * p<.1*

Table 5.2c: Linear regression using Average ESG and ROA

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_ESG	.053	.121	0.44	.664	-.189	.294	
COUNTRY1	-.111	1.968	-0.06	.955	-4.046	3.824	
GICS1	-1.428	.894	-1.60	.115	-3.216	.359	
BTM	-.038	.302	-0.13	.901	-.642	.567	
LN_SALES	-3.102	1.476	-2.10	.04	-6.052	-.152	**
DEBT_EQUITY	-.004	.002	-1.84	.071	-.009	0	*
MKT_CAP	0	0	1.94	.057	0	0	*
Constant	41.851	16.92	2.47	.016	8.027	75.674	**
Mean dependent var		5.040	SD dependent var			16.711	
R-squared		0.140	Number of obs			70	
F-test		1.438	Prob > F			0.207	
Akaike crit. (AIC)		597.362	Bayesian crit. (BIC)			615.350	

*** *p<.01, *** *p<.05, ** *p<.1*

Table 5.2d: Linear regression using individual ESG and ROA

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_EN	.615	.192	3.20	.002	.231	1	***
AV_SOC	-.37	.196	-1.89	.064	-.762	.023	*
AV_GOV	-.156	.221	-0.71	.482	-.598	.286	
COUNTRY1	-.446	2.037	-0.22	.827	-4.521	3.628	
GICS1	-1.276	.859	-1.49	.143	-2.994	.442	
BTM	-.273	.293	-0.93	.356	-.86	.314	
LN_SALES	-3.812	1.399	-2.73	.008	-6.609	-1.014	***
DEBT_EQUITY	-.004	.002	-1.78	.08	-.008	0	*
MKT_CAP	0	0	1.98	.052	0	0	*
Constant	53.783	16.356	3.29	.002	21.066	86.5	***
Mean dependent var		5.040	SD dependent var			16.711	
R-squared		0.269	Number of obs			70	
F-test		2.456	Prob > F			0.019	
Akaike crit. (AIC)		589.941	Bayesian crit. (BIC)			612.426	

*** *p<.01, *** *p<.05, ** *p<.1*

Tables 5.2a, 5.2b, 5.2c, &5.2d report the regression analysis results of the nexus between CSR and firm performance. The research finding revealed that the effect of ESG performance is positive and insignificant in both measurements of financial performance (Tobin's Q and ROA). It indicates that any variation of the firm average ESG activities, for instance, an increase or decrease in firm CSR performance, would not impact the firm's profitability or value, ceteris paribus, holding other variables constant. The average general ESG coefficient of the research shows a positive sign with no statistical significance; the study, therefore, rejects H1 that firm CSR performance affects the

performance of listed firms in Africa. The study findings align with the findings of (Han et al., 2016 and Nollet et al. 2016), who reported the insignificant relationship of ESG on firm performance. The finding is also consistent with the research of (Chetty et al., 2015), which observed an insignificant relationship between the CSR engagement of both firms that entered or exited from Johannesburg securities exchange on the socially responsible investment index on financial performance.

However, the research findings opposed many of the earlier studies that demonstrated and argued that CSR activities increase firm profitability and benefit shareholders (Orlitzky et al., 2003; Laskar, 2018). The finding also contradicted the recent empirical findings of (Orah et al., 2021), revealing a positive relationship between CSR performance and firm performance in sub-African listed firms. In addition, to observe which ESG variable is the primary driver of the nexus, the three average individual ESG dimension scores were analyzed further. The linear model represents a negative and insignificant relationship for average Governance scores on ROA (-0.156) and Tobin's Q(-0.11). The findings show an enormously significant and positive relationship between environmental score (0.651, 0.21) on ROA and Tobin's Q, respectively. This result is in line with studies (Sharfman & Fernando, 2008) argued that continuous environmental disclosure, management, and improvement are strategic choices that lead to enhanced firm profitability and wealth creation. The research findings also concur with Elshabasy (2018), which showed a positive relationship between environmental information disclosure and profitability.

However, the regression analysis demonstrated an inverse relationship between social scores (-0.007, -0.37) and firm performance (ROA and Tobin’s Q). The study claims that the CSR expenditure allocated to such social activities depletes firm profitability and wealth creation. The

finding was unsurprising because CSR in Africa mainly involves social activities such as charitable donations which may not help differentiate firm from their competitors. The possible explanation of the negative impact of social engagement may be that CSR funds invested in social activities are primarily towards helping communities and charitable donations; the key critical stakeholder such as suppliers, customers (quality product), and pressing issues regarding workers received little attention. According to Hillman & Keim, 2001, social activities beyond primary stakeholders may negatively impact firm performance. Therefore, firm managers who seek to over-invest in such activities are not maximizing profit and shareholder return; rather, their image as good citizens (Barnea & Rubin, 2010). A mix of results was observed in the control variables, ROA inversely and insignificantly impacted countries' characteristics, sector or industrial effects, and Book to Market, and a negative but significant effect was observed on firm size and debt-equity. In contrast, a positive and significant impact was found on firm market capitalization.

5.3 Test of H2

Table 5.3a: Results of testing H2 using ROA and Individual ESG scores

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_EN	.797	.257	3.10	.003	.282	1.313	***
AV_SOC	-.398	.242	-1.65	.105	-.882	.085	
AV_GOV	-.348	.336	-1.03	.305	-1.021	.326	
COUNTRY1	-.558	2.083	-0.27	.79	-4.731	3.615	
GICS1	-1.381	.953	-1.45	.153	-3.291	.529	
BTM	-.25	.301	-0.83	.41	-.854	.354	
LN_ASSETS	.456	1.916	0.24	.813	-3.383	4.295	
LN_SALES	-4.062	2.444	-1.66	.102	-8.957	.833	
DEBT_EQUITY	-.084	.082	-1.02	.31	-.247	.08	
MKT_CAP	7.62e-06	4.34e-06	1.75	.085	-1.08e-06	.0000163	*
c.AV_EN#| c.DEBT_EQUITY	-.0030795	.003	-1.04	.305	-.009	.003	
c.AV_SOC#| c.DEBT_EQUITY	-.0000453	.002	-0.03	.978	-.003	.003	
c.AV_GOV#| c.DEBT_EQUITY	.0032789	.004	0.82	.415	-.005	.011	
Constant	57.528	17.887	3.22	.002	21.696	93.36	***

Mean dependent var	5.040	SD dependent var	16.711
R-squared	0.289	Number of obs	70
F-test	1.751	Prob > F	0.075
Akaike crit. (AIC)	596.022	Bayesian crit. (BIC)	627.501

**** p<.01, ** p<.05, * p<.1*

Table 5.3b: Results of testing H2 using ROA and aggregate ESG scores

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_ESG	.081	.141	0.57	.571	-.202	.364	
COUNTRY1	-.117	1.993	-0.06	.953	-4.103	3.869	
GICS1	-1.409	.966	-1.46	.15	-3.342	.523	
BTM	-.062	.308	-0.20	.841	-.678	.554	
LN_ASSETS	-.963	1.885	-0.51	.611	-4.734	2.808	
LN_SALES	-2.157	2.34	-0.92	.36	-6.837	2.523	
DEBT_EQUITY	.004	.018	0.24	.81	-.032	.04	
MKT_CAP	0	0	1.92	.06	0	0	*
c.AV_ESG#| c.DEBT_EQUIT Y	-.0003173	.000652	-0.49	.628	-.002	.001	
Constant	42.391	17.295	2.45	.017	7.796	76.986	**

Mean dependent var	5.040	SD dependent var	16.711
R-squared	0.147	Number of obs	70
F-test	1.146	Prob > F	0.346
Akaike crit. (AIC)	600.791	Bayesian crit. (BIC)	623.276

**** p<.01, ** p<.05, * p<.1*

Table 5.3c: Results of testing H2 Tobin's 'Q and ESGS scores

TOBIN_Q_RATI O	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AV_ESG	.003	.006	0.60	.55	-.008	.014	
COUNTRY1	-.18	.078	-2.31	.024	-.336	-.024	**
GICS1	-.03	.038	-0.79	.434	-.105	.046	
BTM	.027	.012	2.23	.029	.003	.051	**
LN_ASSETS	-.342	.074	-4.65	0	-.489	-.195	***
LN_SALES	.391	.091	4.29	0	.209	.574	***
DEBT_EQUITY	.001	.001	1.12	.268	-.001	.002	
MKT_CAP	0	0	2.05	.044	0	0	**
c.AV_ESG#| c.DEBT_EQUIT Y	-.0000289	.0000255	-1.14	.261	-.0000798	.000022	
Constant	1.998	.675	2.96	.004	.647	3.349	***

Mean dependent var	1.460	SD dependent var	0.843
R-squared	0.489	Number of obs	70
F-test	6.377	Prob > F	0.000
Akaike crit. (AIC)	146.770	Bayesian crit. (BIC)	169.255

**** p<.01, ** p<.05, * p<.1*

Table 5.3d: Results of testing H2 using Tobin's Q and Individual ESG scores

TOBIN_Q_RATI	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig

O							
AV_EN	.012	.011	1.16	.25	-.009	.034	
AV_SOC	-.004	.01	-0.38	.705	-.024	.016	
AV_GOV	-.007	.014	-0.48	.63	-.035	.021	
COUNTRY1	-.163	.087	-1.89	.064	-.337	.01	*
GICS1	-.029	.04	-0.73	.466	-.108	.05	
BTM	.026	.013	2.06	.044	.001	.051	**
LN_ASSETS	-.347	.08	-4.36	0	-.506	-.188	***
LN_SALES	.403	.102	3.97	0	.2	.606	***
DEBT_EQUITY	0	.003	0.03	.975	-.007	.007	
MKT_CAP	0	0	1.72	.09	0	0	*
c.AV_EN#| c.DEBT_EQUITY	-.0000598	.0001235	-0.48	.63	-.0003072	.0001877	
c.AV_SOC#| c.DEBT_EQUITY	.0000499	.0000684	0.73	.469	-.0000872	.0001869	
c.AV_GOV#| c.DEBT_EQUITY	-.0000143	.000166	-0.09	.932	-.0003467	.0003182	
Constant	2.095	.743	2.82	.007	.607	3.584	***

Mean dependent var	1.460	SD dependent var	0.843
R-squared	0.518	Number of obs	70
F-test	4.627	Prob > F	0.000
Akaike crit. (AIC)	150.683	Bayesian crit. (BIC)	182.162

*** *p<.01, *** *p<.05, * *p<.1*

In addition, concerning ***H2***, the empirical findings found Capital Structure (i.e., Mediator variable) to have a negative and insignificant influence on the relationship between CSR aggregate ESG and a mixed nexus among the individual ESG scores and firm performance (ROA) of listed firms in Africa. The empirical findings contradict the findings (Ben et al., 2022; Jiraporn et al., 2014, and Sharfman & Fernando, 2008) which demonstrated CSR and firm performance is mediated by that capital structure and that high CSR performance increases access to capital markets and firm leverage level. The findings also concur with the study of (Elshabasy, 2018, and Gantyowati & Agustine, 2017) demonstrating that leverage (debt to equity) has no significant effect of on CSR and firm performance.

Conclusion

The regression analysis revealed a positive but insignificant relationship between CSR and firm performance. This means that CSR does not influence firm profitability and wealth creation. Therefore the study reject H1 because of the insignificant relationship observed. This study finding aligns with the prior studies (Han et e al., 2016 & Nollet et al., 2016). When the individual ESG was analyzed, environmental scores showed a substantial positive nexus with the firm performance, the opposite holds for social and governance scores. The findings show that CSR funding towards environmental activities enhances the firm value and profitability while engagement in social activities is likely to reduce firm performance. Environmental disclosure performance is identified as the primary driver of CSR variables of the relationship observed in the empirical findings above used as a performance measure.

Capital structure is not a mediator between CSR and firm performance. The findings demonstrate that capital structure negatively but insignificantly influences the above relationship. This supports the findings of Agyemang & Ansong, (2017), which reveal the insignificant relationship.

Overall, there are various reasons why the results of the empirical findings are both insignificant. The possible explanation of the insignificant relationship between CSR and firm performance is attributed to the fact that CSR is still in its early stage in Africa, lack of enough resources, and the traditional mindset of some of the capital providers basing their financing and investing activities and decision making on the firm's ability to maximize their returns, repayments, and profit. In addition, the low level of awareness amongst firm managers to identify which CSR activities drive firm performance. and lack of understanding, especially among customers, of the significance of CSR when making purchasing decision.

Another explanation can be attributed to socioeconomic developmental challenges African countries face, such as weak governance, poverty, and poor physical and human capital; therefore, CSR practice in listed firms in Africa is an issue of fulfilling the minimum requirements of the law concerning CSR. This supports the study by Campbell (2007), which argued that strong and well-enforced government regulation negotiated and agreed upon by firms and some critical stakeholders would influence and motivate firms to act in the most socially responsible way. Strong NGOs, including the press, media, and social movement organizations, will influence firm CSR activities. These factors need to be more strongly monitored and implemented in Africa. If the above factors are addressed and put into practice, CSR will significantly impact firm performance in Africa.

Based on the findings, there has been little contribution of CSR to firm performance in Africa.

This study can have relevant implications for policy and practice. Specifically, it suggests that:

1. The government and listed firms should negotiate the minimum CSR practice, thereby formalizing and institutionalizing CSR in Africa by rewarding firms that practice CSR.
2. Awareness campaigns are needed to increase the general understanding of the importance of firm CSR practice and how to make consumption, financing, and investment decisions to influence firm CSR engagement.
3. The African governments should encourage the teaching of CSR in schools.
4. The press and media should be motivated to monitor the CSR activities of firms.
5. The manager should try to find out which CSR factors influence a firm’s performance.

The study has some limitations. The research covers a sample period of 1 year which is made up of 6 countries in Africa. The author believes that the relationship between CSR and firm

performance may become significant as the sample size increases, and the use of alternative financial variables and non- financial performance indicators may yield different results. Furthermore, future research should also investigate the mediatiting role of economic growth, social and political development, and public governance on CSR. Future research should consider the above limitations and apply different research approaches.

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