

FINANCIAL RESOURCE AVAILABILITY AND CORPORATE SOCIAL RESPONSIBILITY EXPENDITURES IN A SUB-SAHARAN ECONOMY: THE INSTITUTIONAL DIFFERENCE HYPOTHESIS

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Studies done in developed economies have demonstrated a positive relationship between financial resource availability and CSR. Arguments that we term the Institutional Difference Hypothesis (IDH) drawn from the institutional literature, however, suggest that institutional differences between developed and developing economies are likely to result in different CSR implications. Integrating the logic of IDH with insights from slack resources theory, we argue that there exists a negative relationship between financial resource availability and CSR expenditures for firms in Ghana, a sub-Saharan African emerging economy. We use lagged data from the Ghana Investment Promotion Centre and find that Return on Sales, Return on Equity, and Net Profitability were consistently associated with lower CSR expenditures. We highlight the implications of our findings for research and managers. Copyright © 2013 John Wiley & Sons, Ltd.

INTRODUCTION

Researchers have long been interested in examining the antecedents of what has come to be called Corporate Social Responsibility, or CSR (Brammer and Millington, 2008; Surroca, Tribo, and Waddock, 2010; Wood, 2010). One significant research stream within this perspective, undertaken primarily in the institutionally stable and resource abundant context of Europe and North America, has explored the relationship between firm availability of financial resources and CSR activities and expenditures (e.g. Atkinson and Galaskiewicz,

1988; Buehler and Shetty, 1976; Surroca *et al.*, 2010; Waddock and Graves, 1997). These studies have used slack resources theory to explain that firms increase involvement in discretionary activities, such as CSR, when the availability of financial resources increases (Surroca *et al.*, 2010; Waddock and Graves, 1997). In keeping with this idea, researchers have not only concluded from a meta-analysis that the relationship between financial resources and social responsibility could be considered ‘universally positive’ (Orlitzky, Schmidt, and Rynes, 2003: 423) but have also confirmed this relationship using a sample across 28 nations (Surroca *et al.*, 2010).

Despite recent calls for scholarly attention to CSR in institutionally constrained environments, such as sub-Saharan Africa (e.g. Matten and Moon, 2008; Visser, 2006), studies examining this relationship in that context have been rare. Such omission is significant given that CSR activities are

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likely to be different depending on contextual conditions (Campbell, 2007; Matten and Moon, 2008) and thus the extant focus has left unaddressed some potentially fruitful research questions. Such omission also implies that the presumption of universality regarding a positive relationship between financial resources and CSR may be premature.

Accordingly, in this study we examine the relationship between financial resource availability and social engagement in Ghana. In carrying out this examination, we take into account a significant stream of research that applies institutional theory to emerging economies and highlights its potential CSR implications (Amaeshi *et al.*, 2006; Campbell, 2007; Chen, Patten, and Roberts, 2008; Doh *et al.*, 2010; Matten and Moon, 2008). A review of these studies reveals a consistent set of theoretical arguments that center on what we term the 'Institution Difference Hypothesis' (IDH). The IDH emphasizes the significant cross-contextual institutional differences that exist between developed and developing economies and how these institutional differences are likely to affect the nature, generation, and consequences of CSR (Halme, Roome, and Dobers, 2009; Matten and Moon, 2008; Robertson and Crittenden, 2003; Visser, 2008).

We therefore argue that the institutional distinctions between developed and sub-Saharan African economies (Hoskisson *et al.*, 2000) are likely to lead to different financial availability-CSR relationships. Specifically, we suggest that in the emerging sub-Saharan African context there exists a substantial restriction on the availability of capital (Austin, Kresge, and Cohn, 1996; World Bank, 2005). IDH logic suggests that under such circumstances Ghanaian firms are likely to place a high premium on capital retention and may not fully recognize the potential strategic benefit accruing from CSR expenditures (Frynas, 2005; Ofori and Hinson, 2007). Further, Ghanaian firms face little pressure for CSR from either the government or NGOs, the former of which is focused more on economic development and job creation amidst promarket reform and lacks adequate mechanisms for social enforcement, and the latter are only beginning to develop effective advocacy strategies (Amao, 2008; Atuguba and Dowuona-Hammond, 2006; Blowfield and Frynas, 2005; Fabig and Boele, 1999; Waddell, 2000; Winston, 2006; World Bank, 2005). Finally, given relatively high levels of bribery and corruption (Ahunwan, 2002; Osei, 1998), successful firms with larger amounts of

financial resources can more readily evade compliance. In sum, while research undertaken in developed economies characterized by strong financial institutions posits a positive relationship between firm financial resource availability and CSR expenditures, IDH logic suggests a negative relationship.

We tested our hypothesis on African firms operating in Ghana using data from the Ghana Investment Promotion Centre (GIPC). Focusing on Ghana was appropriate given that it is, in some important respects, representative of sub-Saharan African emerging economies. We measured firm financial resource availability using return on sales, return on equity, and firm profit and measured firm CSR expenditures using CSR/employees, CSR/firm equity, and the natural log of CSR expenditures. Our main results and sensitivity tests show a consistently negative relationship between financial resources and CSR expenditures and thus strongly support our hypothesis.

This study makes the following contributions to the literature. First, we add empirical support to conceptual and theoretical IDH research suggesting that, given the different institutional contexts between extant research settings in developed economies and those in Ghana, there are likely to be different CSR responses (Campbell, 2007; Matten and Moon, 2008; Visser, 2008). Specifically, where institutional development undergirding CSR is weak, financial resource availability will not have its customary positive effect but perhaps even have the reverse. Second, our study is particularly relevant given that 'Africa is becoming the new Asia' (Guo, 2010) and is drawing increased research regarding both business activity and CSR (Acquaah, 2007; Hoskisson *et al.*, 2000; Ofori-Dankwa and Julian, 2011; Wright *et al.*, 2005). We thus generate findings on a CSR-salient, high misery context of interest to a range of scholars (Margolis and Walsh, 2003; Ofori-Dankwa and Julian, 2011; Visser, 2008) and begin to build a theory-based understanding of the nature and implications of CSR in the sub-Saharan African institutional environment.

THEORY

A wide range of theoretical perspectives have been employed to address CSR, such as agency, stakeholder, stewardship, resource-based, slack resources, and institutional. Some see CSR as

an agency cost, a diversion of corporate earnings away from their rightful owners to social causes preferred by a firm's misdirected managers (Friedman, 1970; McWilliams, Siegel, and Wright, 2006). Stakeholder theory emphasizes the importance of a firm addressing the needs of other constituencies in addition to those of stockholders (Donaldson and Preston, 1995; Freeman, 1984). Stewardship theory is counterpoised against agency theory, viewing managers as responsible overseers in pursuit of social good rather than guileful operators out to maximize only their own outcomes (Davis, Schoorman, and Donaldson, 1997; Donaldson and Davis, 1991). Resource-based views of CSR have emphasized the importance of rare and inimitable assets and capabilities leading to more effective CSR involvement (McWilliams and Siegel, 2001; Russo and Fouts, 1997). Alternatively, slack resources theory has emphasized how resources (such as financial ones) enable CSR activity (Surroca *et al.*, 2010; Waddock and Graves, 1997). Recent perspectives on CSR emphasize the importance of the institutions in which firms are embedded and how they influence the parameters of CSR activity in different contexts (Campbell, 2007; Matten and Moon, 2008). Across these different theoretical perspectives, research on CSR divides into two broad scholarly perspectives: one examines CSR's effects on firm performance while the other emphasizes the antecedents of CSR (Surroca *et al.*, 2010). The former (which has been the dominant focus of CSR research [Wood, 2010]) raises questions of whether one can 'do well by doing good' and has been seen as a powerful way to make the 'business case' for CSR (Carroll and Shabana, 2010). The latter, which has been relatively much less researched, focuses on identifying factors that cause firms to do good (Margolis and Walsh, 2003). We position our study in the research stream addressing CSR antecedents.

Antecedents of CSR expenditures: slack resources theory

Slack resources theory has been the primary theoretical grounding of CSR antecedent research and has directed attention toward the effects of financial resource availability on CSR expenditures (e.g. McGuire, Sundgren, and Schneeweis, 1988; Ullmann, 1985). The importance of slack resources theory for CSR expenditures have been

subsequently clarified and confirmed by other researchers (Adams and Hardwick, 1998; Brammer and Millington, 2004; Preston and O'Bannon, 1997; Saiia, Carroll, and Buchholtz, 2003; Seifert, Morris, and Bartkus, 2004; Waddock and Graves, 1997), and more recent researchers still investigate its posited relationships and employ the theory's logic (Amato and Amato, 2007; Brammer and Millington, 2008; Surroca *et al.*, 2010). When financial resources are abundant (such as when profits are high), firms are more likely to conclude that CSR is a discretionary expense that they can afford and so pursue greater social engagement (Adams and Hardwick, 1998; Carroll, 1991; Preston and O'Bannon, 1997; Seifert *et al.*, 2004). Thus, from an initially low baseline of CSR when financial resource availability is meager, the firm's ability and propensity to engage in social involvement rises along with financial resource availability.

Institutional difference hypothesis

CSR antecedent studies have been primarily based within the context of developed economies, and as a result slack resources theory has tacitly assumed conditions of resource munificence and institutional advancement. Thus, the results of CSR antecedent research have not been subject to substantial institutional 'stress testing' by crossing implicit boundary conditions. There is theoretical warrant, however, to think that such conditions matter. A review of the CSR literature identifies an emerging body of research positing what we call the *Institutional Difference Hypothesis* (IDH) (Amaeshi *et al.*, 2006; Campbell, 2007; Chen *et al.*, 2008; Doh *et al.*, 2010; Matten and Moon, 2008; Visser, 2008). Such IDH studies use institutional theory as their primary theoretical lens (Dimaggio and Powell, 1983; Meyer and Rowan, 1977) and build on a well-established stream of emerging economies research the idea that institutional differences between developed and emerging economies have important effects on strategic decision making (Hoskisson *et al.*, 2000; Makhija, 2003; Peng, 2003; Wright *et al.*, 2005). Studies using the IDH suggest that firm views of, and strategic decisions about, CSR are likely to vary according to level of economic and institutional development (Amaeshi *et al.*, 2006; Matten and Moon, 2008; Robertson, 2009). Some scholars have suggested that the relative priority

of different aspects of CSR can vary across institutional boundary conditions as well (Visser, 2006), given the context-bound and culturally inter-subjective nature of CSR (Amaeshi *et al.*, 2006; Matten and Moon, 2008; Robertson, 2009).

Yet, little examination of CSR antecedents has occurred in emerging economies, in general, and sub-Saharan African ones, in particular, resulting in calls for more (e.g. Amaeshi *et al.*, 2006; Visser, 2006, 2008). In light of the IDH, however, researchers should exercise caution in applying to the sub-Saharan African context the theoretical approaches being used in extant research in developed economies given the substantially different institutional contexts between developed and emerging regions (Dartey-Baah and Amponsah-Tawiah, 2011). Unlike these developed economies, much of sub-Saharan Africa is characterized by promarket reforms, a relative lack of institutional resources and financial capital scarcity (Austin *et al.*, 1996; Hoskisson *et al.*, 2000; World Bank, 2000, 2005). When inappropriately applied to developing economies, theories originating in relatively developed and munificent contexts run the risk of conceptual misspecification. To reflect the sub-Saharan African context, we examine CSR antecedents in the nation of Ghana, which is representative of the unique institutional conditions facing firms in that region.

HYPOTHESIS

We argue below that institutional conditions in sub-Saharan Africa, distinct from those in the West, are likely to affect the direction of the relationship between firm performance and CSR. We identify several of these institutional differences below and posit that, contrary to extant research, as firms in Ghana do better financially they engage in less CSR.

First, and unlike the institutionally munificent conditions of the developed economies, firms operating in the sub-Saharan African region face great difficulty in accessing both the investment funding and working capital necessary to conduct business operations (Austin *et al.*, 1996; Chu, Benzeng, and McGee, 2007; World Bank, 2000, 2005). Stock markets are often small, thinly traded, and offer poor prospects for substantial equity infusion (Ahunwan, 2002; Osei, 1998; Yartey and Adjasi, 2007). By comparison, the

banking sector is fairly well developed, yet lenders require substantial amounts of collateral, charge high interest rates, and tend to lend only for the short-term to minimize default risk (Abor and Biekpe, 2005; Elkan, 1988; Gwatidzo and Ojah, 2009; Honohan, 2000; Tagoe, Nyarko, and Anuwa-Amarh, 2005). Furthermore, business conditions in sub-Saharan Africa have not been historically favorable, with sudden political shifts, commodity price swings, and underdeveloped institutions and physical infrastructure (World Bank, 2000). Such experience breeds a business culture of financial survival, conservative financial management, and the judicious accumulation (if not outright hoarding) of capital funds (Quartey, 2003). Thus, facing such commercial conditions, and with a conservative and risk-averse outlook, internally generated funds that are free and clear of outside influence and obligation, such as profits, are highly desirable and are likely to be husbanded with great care (Austin *et al.*, 1996). Higher profits are likely to be associated with relative scrimping in areas not seen as critical and under which the firm is not under a great deal of pressure to expend.

Second, and concomitant with the capital scarcity in the African context, CSR is not seen by corporations as an integral part of its larger corporate goals (Frynas, 2005), which is consistent with evidence suggesting that emerging economies firms have a low level of awareness and appreciation of CSR and of its potential benefits for firms (Ramasmay and Ting, 2004). A study of Ghanaian firms concluded that they viewed CSR as having marginal strategic value (Ofori and Hinson, 2007), and others have noted that African managers generally have shown minimal interest in CSR (de Jongh and Prinsloo, 2005). Indeed, Hilson's (2007: 43) examination of corporate social responsibility in Ghanaian mining concludes with 'a stark reminder that mining companies are not charities and engage in African countries strictly for commercial purposes.' Consistent with these arguments, the lack of substantive CSR activities by profitable South African firms led the government to mandate a corporate social investment program requiring firms to give a small proportion of their profits to CSR and to report their corporate social investment expenditures (Arya and Zhang, 2009; de Jongh and Prinsloo, 2005; Hamann, 2004). Thus, within a context of weak financial institutions wherein firm funding is difficult to obtain (Austin *et al.*, 1996; World Bank, 2000,

2005), African firms may have been reluctant to make CSR expenditures due to the perception that they drain profits and do not bring economic benefits to the firm (Ofori and Hinson, 2007).

Third, there also exists little governmental pressure for CSR in West Africa in general and Ghana in particular (Blowfield and Frynas, 2005). In part, this is because governments facing constrained economic circumstances have been primarily focusing on issues relating to pro-market reform, such as commercial development and job creation (Debrah, 2002; Domfeh, 2004). In reaction to chronic economic failure, in the early 1980s several sub-Saharan African countries undertook IMF-sponsored Structural Adjustment Programs that initiated powerful market-oriented economic changes (Acquaah, 2007; Domfeh, 2004; Hoskisson *et al.*, 2000; Sawyerr, 1993; World Bank, 2000). Promarket reforms began to address the imperative of poverty alleviation by means of economic development, market activity, and firm commercial achievement rather than through the government ownership of economic assets (GIPC, 1997; Hoskisson *et al.*, 2000).

Ghana's government set an ambitious goal of raising the economic development level to that of a medium-income nation by 2020, emphasizing targets in the areas of human development, economic growth, and both rural and urban development (Ghana Vision 2020, 1995). Along these lines, government agencies were increasingly mandated to reward firms for financial success. For example, the Ghana Investment Promotion Centre annually provides coveted national awards to strongly performing firms in different sectors based on such indicators as profits and sales growth, identifying successful market exemplars for emulation (GIPC, 2000–2005). Reflecting these priorities, the GIPC initially selected its top performing companies based on size (1996–1999) and then, from 2001 on, emphasized profit. They collected CSR data only in 2005 but stopped doing so in subsequent years. In response to the tepid government interest in CSR and a sharper governmental emphasis on economic development, Atuguba and Dowuona-Hammond (2006: 11) admonished the GIPC that 'the criteria for determining Ghana Club 100 must include, explicitly, a detailed section on CSR.'

Fourth, there has been little sustained societal pressure for comprehensive CSR activities in most West African countries (Fabig and Boele, 1999). Further, NGO activity in Ghana/West

Africa is neither sufficiently organized nor adequately developed to carry out sustained advocacy (Atuguba and Dowuona-Hammond, 2006; Fabig and Boele, 1999; Waddell, 2000; Winston, 2006). A case in point is the situation in Igoniland, Nigeria, where, despite making substantial profits, firm CSR expenditure has been very low and it is only recently that worldwide attention has been directed toward the injustices and lack of effective CSR in that region (Boele, Fabig, and Wheeler, 2001; Idemudia and Ite, 2006). Another example is provided by Atuguba and Dowuona-Hammond (2006: 11) who noted that, although the Consumer Association of Ghana was formed to enforce CSR in Ghana, it was 'plagued by inadequate capacity and financial constraints, which have affected their effectiveness.'

Fifth, in Ghana there were 'hardly any laws that directly require businesses to be socially responsible' nor until 2006 did a comprehensive CSR document exist (Atuguba and Dowuona-Hammond (2006: 10)). Prior to the 2006 launch of the Ghana Business Code, there existed no formalized setting of norms, standards, and expectations for business social involvement, and even then signing up was strictly voluntary. Studies suggest that relying on voluntary adherence to CSR standards is an ineffective approach toward ensuring substantive CSR activities (Doane, 2005). Not surprisingly, by 2011 only 60 firms in Ghana had signed up for the Ghana Business Code (Amponsah-Tawiah and Dartey-Baah, 2011). Ghana's weak regulatory regime reflects the West African region, as effective legal CSR influence is also lacking in Nigeria (Achua, 2008; Amao, 2008).

Sixth, governments in emerging economies such as Ghana have only weakly enforced the limited laws addressing social investment that do exist (Frynas, 2004). While laconic efforts to ensure compliance is in part due to sub-Saharan African government emphasis on economic development relative to CSR, these governments also lack the appropriate human resources and policing facilities to enforce these laws. Such paltry enforcement efforts generally reflect the underdeveloped legal and political institutions in the region (Visser, 2006; World Bank, 2000). Atuguba and Dowuona-Hammond (2006: 11) stated the need in Ghana to 'create opportunities for the enforcement of business and professional codes of ethics as they relate to CSR.'

Finally, in countries such as Ghana and Nigeria, weak governance structures, underdeveloped institutional standards, and desultory governmental monitoring and enforcement of laws make firm malfeasance particularly prevalent (Ahunwan, 2002; Rose-Ackerman, 1999; Werlin, 1973). For example, in Ghana the issue of corruption was recognized as so severe that a five person National Commission of Enquiry into Bribery and Corruption was set up in 1970 to trace its root causes and to make recommendations for reducing its incidence (Werlin, 1973). Despite several attempts to change the corruption culture in countries such as Ghana, problems associated with bribery are still particularly pernicious (Ahunwan, 2002; Rose-Ackerman, 1999). Similarly, in Nigeria problems in the business environment are exacerbated by the context of a political culture of corruption and bribery (Ahunwan, 2002). The incidence of such corruption allows firms with more resources to readily evade compliance with the few laws on CSR that do exist (Achua, 2008; Amao, 2008). The issue of corruption is so pervasive that Atuguba and Dowuona-Hammond (2006: 104) describe instances of even NGOs, who are presumed to be more 'socially responsible,' misapplying funds.

In sum, the low priority status of CSR and the weak institutions supporting it allow successful firms to marginalize social involvement, while conditions of capital constraint motivate firms with higher profits to stockpile funds and scrimp on expenditures seen as nonessential. In an institutional context characterized by such funding shortages combined with little recognition of the value of CSR, little societal and governmental pressure for CSR, lack of appropriate and comprehensive laws encouraging CSR, and a high incidence of bribery and corruption facilitating evasion of CSR, it is likely that firms with higher financial resource availability will give less toward CSR. We therefore posit:

Hypothesis: The greater the financial resource availability, the less CSR will be provided by sub-Saharan African firms.

METHODS

Our research site is Ghana, an economically developing nation in sub-Saharan Africa ranked as 'emerging' by the IMF (Hoskisson *et al.*, 2000;

World Bank, 2000). Failure of the state socialism adopted in the 1960s led, in the 1980s, to the initiation of substantial reforms toward a market economy model, supplemented by further ancillary reform at the industry level in the mid-1990s (Domfeh, 2004). The effects of these reforms continue through the present, although Ghana still lags developed economies in areas of economic development, infrastructure, and financial institutions (Debrah, 2002).

Our sample is drawn from the firms in the Ghana Club 100 (GC100) selected by the Ghana Investment Promotion Centre (GIPC). In 1996 this department of the Ghanaian government Ministry of Industry sought to develop a reputable data source similar in structure and concept to the Fortune 500 and so began collecting and disseminating data on the 100 largest firms in the nation, both domestic and foreign. In 2000 the GIPC selection criteria changed to focus on size, profit, and growth considerations, and in 2005, data on corporate social performance expenditures was also included for the first time (though it was not included subsequently). Procedures used in the collection of the data lead to a high level of confidence in its accuracy and validity. First, government sponsorship of the Ghana Club 100 provided the project normative legitimacy, as well as an element of coercive pressure in relation to any intentional inaccuracies. Second, the data collection and analysis was undertaken by SEM International Associates, a Ghanaian management consulting firm with principals who earned advanced business degrees at Harvard, University of Toronto, and the University of Rochester, one of whom taught finance at the University of Michigan (SEM International Associates, 2006). Thus, the data was collected and handled by individuals trained in Western standards of accounting and business analysis. Third, consideration for inclusion in the GC100 requires the submission of several years of audited accounts; and fourth, submission requirements also include documentation from the Ghanaian Internal Revenue Service, Value Added Tax Service, and the Social Security and National Insurance Trust (Ghana Club 100, 2009).

From the 2005 Ghana Club 100 list we drew firms that were African controlled, either through being domestically owned or a subsidiary of a sub-Saharan African MNC. We took this approach because subsidiaries of non-African MNCs are less likely to be fully embedded in the sub-Saharan

African institutional context than are African firms, the former being subject to a foreign cultural influence emanating from a non-African headquarter nation as well as the MNC itself. We retained only those firms for which data was available from 2003 to 2005, thus strengthening causality (Lev, Petrovits and Radhakrishnan, 2010; Surroca *et al.*, 2010). This resulted in a list of 41 firms for which complete data was available from 12 different sector designations provided by the GIPC: commercial banking, community banking, nonbank financial, insurance, manufacturing, trading, information and communication technology, building and construction, tourism and hospitality, automobiles and equipment, pharmaceuticals and healthcare, and general services. Drawing from such a full range of sectors strengthens the generalizability of our results.

Dependent variables

Measurement of CSR has long challenged scholars and a variety of different approaches have been employed (Wood, 2010). Given that our question addresses what causes firms to engage in CSR, we find that a measure focusing on actual responsiveness (Carroll and Shabana, 2010), in our case the amount of money spent on corporate socially-directed activity, to be a superior approach. Our expenditure-related measure has the advantage of providing an objective, monetary quantification of a firm's CSR (Wood, 2010), as well as representing a substantive commitment of resources rather than the mere symbolic commitment associated with the making of verbal claims or CSR website reporting (e.g. Arya and Zhang, 2009; Chapple and Moon, 2005). Furthermore, both financial resources and CSR expenditures are particularly salient in a capital-constrained context given that financial resource availability is a highly desirable and distinct competitive factor and that expending such scarce resources on CSR represents an unmistakable prioritization.

The GIPC GC100 report included 2005 expenditures on CSR. The GIPC defined what they termed 'corporate social responsibility' as 'programs, products or services' that 'demonstrate the company's leadership, sincerity and on-going commitment in incorporating ethical values, compliance with legal requirements and respect for individuals, communities and environment into their business processes' (GIPC, 2005: 47). GIPC data reflected

monetary contributions by companies under six broad areas: (1) health concerns, such as children's health, malnutrition, and medical research; (2) education, such as the provision of scholarships; (3) poverty alleviation, such as provision of potable water, sanitation, rural development, and housing; (4) environmental concerns, such as energy efficiency, waste reduction, and sustainable practices; (5) issues relating to the socially vulnerable, such as women, children, and the physically challenged; and (6) sports, such as sports development. As argued by Brammer and Millington (2008: 1327), corporate philanthropy as a measure of CSR activities has several important advantages: it is increasingly seen as a salient component of a firm's corporate social performance; its use answers calls for greater specificity in CSR research; it avoids conceptual and measurement issues that attend composite operationalization; and it taps into a wider range of social issues across different stakeholders than single dimension measures.

We measure CSR in three ways: CSR/Employees, CSR/Equity and natural log of CSR expenditures. The GIPC provided 2005 data on the amount of firm expenditure on CSR, and we generated our first two measures by dividing firm expenditure on CSR by the number of employees and by firm equity, respectively. For the third measure we took the natural log of a firm's expenditures allocated toward CSR, permitting an assessment in relation to absolute CSR spending, as well. CSR expenditure as a percentage of firm size, equity, as well as its natural log, are frequently used measures in the literature (Amato and Amato, 2007; Brammer and Millington, 2004, 2008; Navarro, 1988; Wang, Choi, and Li, 2008).

By using ratio measurement we follow previous scholars who have argued that to provide a valid basis of comparison across firms it is necessary to scale charitable contributions by some organizational characteristic (such as size), a position with which we concur (Amato and Amato, 2007; Wang *et al.*, 2008). Standard CSR measures are also well suited for our research and sample in other ways. Evidence exists that firms in promarket reform contexts prefer to think of CSR in expenditure-related, philanthropic-oriented terms (Robertson, 2009). Furthermore, our approach is consistent with other CSR scholars addressing Africa who assessed the monetary value of CSR initiatives (Arya and Zhang, 2009). Dependent variables

were from 2005, one to two years later than the independent variables (2003–2004). Such timing strengthens the tests of the hypothesis given that it reduces the likelihood that the dependent variable is influencing other variables that preceded them in time.

Independent variables

Profitability and profit are direct measures of self-generated funding, a major supply of pecuniary resources (Austin *et al.*, 1996) and also represent a tangible indicator of the availability of resources to potentially fund social investments. Using information provided by the GIPC we measured firm financial resource availability with indicators of longstanding use in research on CSR: return on sales (Adams and Hardwick, 1998; Cochrane and Wood, 1984; Stanwick and Stanwick, 1998), return on equity (Johnson and Greening, 1999; Waddock and Graves, 1997), and firm net profit (Levy and Shatto, 1978; McElroy and Siegfried, 1985). We measured return on sales by dividing net profit by firm turnover. For most firms in the GC100, turnover was equivalent to firm sales. For banks, however, the GIPC measured turnover by gross interest income plus commission and fees, and for insurance firms it was net premium earned plus investment income (GIPC 100, 2005). We measured return on equity by dividing net profit by firm equity. net profit was provided directly from the GC100 dataset.

Such tripartite measurement of financial resource availability enables an assessment of the consistency of findings, reinforcing the robustness of our results. To average out single year effects (and strengthen the case for causality), we calculated these three measures by averaging 2003 and 2004. (Use of data from as much as two years earlier than the date of our dependent variables focuses more precisely on the causal direction of interest, from financial resource availability to CSR.)

Control variables

We control for both firm and industry level conditions. With respect to firm characteristics, first, *advertising* is an indicator of sought visibility and a prominent independent variable appearing in the literature on CSR expenditures (e.g. Amato and Amato, 2007). Firm expenditure data on

advertising was not available, but whether or not a firm purchased advertising in the prominent 2005 Ghana Club 100 publication served as a useful proxy (set to 1 if so, 0 if not).

Second, as an indicator of achieved visibility through means of media coverage, we also held constant *web hits*. Media hits have been shown to positively relate to charitable giving (Maignan and Ralston, 2002). The firm web hits measure for 2004 was the number of web articles calculated by using the searchable article database on the ghanaweb.com website for each firm, using all known firm name variants. Third, another firm characteristic potentially relating to CSR expenditures was *technology use* (e.g. Maignan and Ralston, 2002). The 2004 Ghana Club 100 guide indicated the URL of each company's website, if they had one (set to 1 if so, 0 if not).

Fourth, studies from Western economies suggest an association between *business reputation* and CSR (Surroca *et al.*, 2010). To measure business reputation, we noted the number of times each firm appeared in the Ghana Club 100 from 2000 to 2003 (from 0 to 4). Fifth, we also controlled for *firm revenue*, which is likely to be associated with greater firm slack (Austin *et al.*, 1996). Revenue was measured using the natural log of the 'turnover' measure provided in the Ghana Club 100, 2004 list.

Sixth, we also controlled for *firm age* by subtracting the date of founding from 2005 since differences in context at founding could affect inclination toward CSR. Seventh, we controlled for the level of *firm equity*. All else being equal, firms with larger equity will have financed the acquisition of assets through shareholder investment rather than more costly debt. Such debt can raise the risk of default and may cause firms to reduce CSR expenditure to compensate (e.g. Brammer and Millington, 2004, 2008). Owner's equity for 2004 was provided by the GIPC database. We corrected this measure for size by dividing equity by firm turnover.

Eighth, we also controlled for whether or not firms are *publicly traded*. Publicly traded firms in nations like Ghana have broader access to funding from nascent but very vibrant stock markets than those that don't (Quartey and Gaddah, 2007). We measured publicly traded by visiting the website of the Ghana Stock Exchange (www.gse.com.gh). All firms with list dates on this exchange before December 31, 2002 were listed as publicly traded

(= 1); all others were counted as private (= 0). No firms went public in 2003. Ninth, a last firm characteristic with CSR implications held constant is firm *mission statement focus*. Public statements place a high sense of obligation on firms and may relate to factors that have been shown important in explaining CSR (Choi and Wang, 2007). We consulted the 2004 mission statements listed in the Ghana Club 100 documentation. Two academics independently rated these mission statements on the following scale: (1) mention of stockholders only; (2) mention of other primary stakeholders, such as customers and/or employees (with no mention of secondary stakeholders); and (3) mention of secondary stakeholders, such as the local community or society. Consultation and discussion resolved any disagreements.

We controlled for two aspects of industry conditions, the calculation of which required the use of the full list of GC100 firms from 2004. First, we assessed the extent of *environmental uncertainty*. Research from both developed and emerging economies points to the importance of the organization's environment when dealing with CSR activities (Jamali and Mirshak, 2007; Matten and Moon, 2008) and in holding constant its effects when researching sub-Saharan African nations (Sawyer, 1993). We measured sector uncertainty by calculating the variance of return on sales in 2004 across firms in each sector, following a method employed by Makhija (2003). Second, firms are likely to mimic other firms by following commonly accepted business practices in such areas as philanthropic giving (Galaskiewicz and Wasserman, 1989). Accordingly, we measured *sector CSR philosophy* by averaging the mission statement ratings above for all firms in each sector for 2004.

Statistical analysis

Examination of the distributions of our variables revealed that the ratio dependent measures (CSR/Employees and CSR/Equity), the independent variable net profit and our measure of environmental uncertainty all displayed considerable departure from normality (peaked and positively skewed). Following Hair, *et al.* (1998), we employed the natural log transformation to correct for these. This operation changed measures of kurtosis and skewness to acceptable ranges and we used these transformed variables in the analysis.

We employed multiple hierarchical regression analysis to test our hypothesis. In the first stage we entered the control variables and in the second stage we entered the hypothesis variables. We employed twelve distinct models: Models 1, 5, and 9 included our controls while the rest of the Models introduced return on sales, return on equity, and net profit individually for each dependent variable. Descriptive statistics are presented in Table 1 and regression results are presented in Table 2. Multicollinearity tests for our control and independent variables found that the variance inflation factors were all <3.5, well below the cut-off = 10 recommended by Hair *et al.* (1998), except for firm revenue in Models 4, 8, and 12. Again, following Hair *et al.* (1998: 220) recommendations for assessing the presence of multicollinearity, we examined the condition indexes and variance proportion coefficients for those equations. Given that no proportion coefficient exceeded 0.90 for any of the three dimensions whose condition index exceeded the common threshold of 30, we concluded that multicollinearity did not threaten the interpretability of our results.

RESULTS

Regarding return on sales, our results show that all three regression coefficients are negative and significant, all at $p = 0.01$ level or better and two at the $p = 0.001$ level. Firms with higher return on sales clearly allocated a lower amount to CSR, in spite of their readier access to financial resources. This provides strong support for our hypothesis that greater financial resource availability leads to less CSR in sub-Saharan firms.

Our return on equity results also show that all three regression coefficients have a negative relationship, two of these (CSR/Equity nl and Net Profits nl) at the $p = 0.05$ level whereas the relationship with CSR/Employees nl is only close to marginal significance ($p = 0.133$). These results provide substantial support for our hypothesis.

For firm net profits nl , two regression coefficients (CSR/Employees nl and CSR/Equity nl) were statistically significant in the negative direction at the $p = 0.05$ level or better, although the third (for our absolute expenditure measure) was only close to marginal significance ($p = 0.126$). Clearly higher firm profits led to lower proportional CSR expenditures for African firms

Table 1. Descriptive statistics^a

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|--------|---------|-------|---------|-------|--------|--------|--------|-------|--------|--------|-------|-------|-------|------|-------|------|
| Mean | 0.24 | -4.88 | 5.09 | 0.13 | 0.30 | 8.29 | 0.34 | 7.93 | 0.44 | 2.42 | 10.71 | 21.60 | 0.52 | 0.15 | 1.78 | -5.62 | 1.84 |
| Std dev | 1.53 | 1.59 | 1.54 | 0.10 | 0.20 | 1.52 | 0.46 | 14.31 | 0.50 | 1.38 | 1.42 | 13.08 | 0.37 | 0.36 | 0.79 | 0.87 | 0.18 |
| Minimum | -3.51 | -8.08 | 0.69 | 0.00 | 0.04 | 5.00 | 0.00 | 0.00 | 0.00 | 0.00 | 8.19 | 5.00 | 0.01 | 0.00 | 1.00 | -6.91 | 1.50 |
| Maximum | 5.43 | 1.18 | 9.01 | 0.34 | 0.93 | 11.77 | 1.00 | 62.00 | 1.00 | 4.00 | 14.46 | 80.00 | 1.87 | 1.00 | 3.00 | -3.69 | 2.00 |
| 1. CSR/employees _{it} | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 2. CSR/equity _{it} | 0.85** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3. CSR expenditure _{it} | 0.83** | 0.60** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 4. ROS | 0.06 | 0.06 | -0.02 | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 5. ROE | 0.04 | 0.09 | -0.06 | 0.46** | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 6. Net profits _{it} | -0.10 | -0.47** | 0.32* | 0.25 | 0.20 | — | — | — | — | — | — | — | — | — | — | — | — |
| 7. Advertising | 0.01 | -0.08 | 0.08 | -0.19 | 0.09 | 0.15 | — | — | — | — | — | — | — | — | — | — | — |
| 8. Web hits | -0.13 | -0.31* | 0.12 | 0.02 | 0.05 | 0.51** | -0.05 | — | — | — | — | — | — | — | — | — | — |
| 9. Technology use | 0.06 | -0.12 | 0.11 | -0.26 | 0.02 | 0.25 | 0.02 | 0.10 | — | — | — | — | — | — | — | — | — |
| 10. Business reputation | -0.29 | -0.50** | 0.04 | -0.34* | -0.27 | 0.48** | 0.24 | 0.45** | 0.14 | — | — | — | — | — | — | — | — |
| 11. Firm revenue _{it} | -0.23 | -0.53** | 0.24 | -0.39* | -0.16 | 0.75** | 0.20 | 0.47** | 0.35* | 0.69** | — | — | — | — | — | — | — |
| 12. Firm age | -0.19 | -0.18 | 0.05 | -0.05 | -0.09 | 0.20 | -0.08 | 0.23 | -0.15 | 0.42** | 0.30 | — | — | — | — | — | — |
| 13. Firm equity | 0.02 | -0.23 | 0.02 | 0.52** | -0.16 | 0.31* | -0.11 | 0.14 | -0.20 | 0.04 | -0.09 | 0.03 | — | — | — | — | — |
| 14. Publicly traded | -0.22 | -0.42** | 0.06 | -0.03 | -0.13 | 0.54** | 0.24 | 0.60** | 0.05 | 0.37* | 0.52** | 0.23 | 0.27 | — | — | — | — |
| 15. Mission statement focus | 0.31* | 0.27 | 0.32* | -0.02 | -0.03 | 0.05 | 0.15 | 0.02 | 0.01 | 0.01 | 0.02 | 0.13 | -0.06 | 0.25 | — | — | — |
| 16. Environmental uncertainty _{it} | 0.35* | 0.29 | 0.25 | 0.57** | 0.17 | 0.13 | -0.36* | -0.15 | -0.07 | -0.32* | -0.28 | -0.18 | 0.37* | -0.03 | 0.03 | — | — |
| 17. Sector CSR philosophy | -0.27 | -0.51** | -0.06 | -0.54** | -0.25 | 0.35* | 0.28 | 0.22 | 0.28 | 0.64** | 0.66** | -0.05 | -0.02 | 0.27 | 0.05 | -0.28 | — |

^a Significance levels: * = 0.05; ** = 0.01.

Table 2. Regression results: effect of financial resource availability on CSR^{a,b}

| | CSR/employees ^{nl} | | | CSR/equity ^{nl} | | | CSR spending ^{nl} | | | | | | |
|---|-----------------------------|----------|---------|--------------------------|---------|----------|----------------------------|---------|---------|----------|----------|----------|----------|
| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 | Model 8 | Model 9 | Model 10 | Model 11 | Model 12 |
| Advertising | 0.27 | 0.41** | 0.38* | 0.41* | 0.18 | 0.30* | 0.29† | 0.33* | 0.28† | 0.40** | 0.41* | 0.38* | |
| Web hits | 0.24 | 0.43* | 0.36† | 0.39† | 0.18 | 0.34* | 0.31† | 0.34* | 0.25 | 0.42* | 0.40* | 0.36† | |
| Technology use | 0.09 | 0.04 | 0.10 | 0.12 | -0.03 | -0.07 | -0.02 | 0.01 | -0.02 | -0.06 | -0.00 | 0.01 | |
| Business reputation | -0.08 | -0.10 | -0.19 | -0.10 | -0.08 | -0.09 | -0.19 | -0.09 | -0.05 | -0.06 | -0.17 | -0.06 | |
| Revenue ^{nl} | 0.28 | 0.36 | 0.29 | 0.96* | -0.09 | -0.02 | -0.08 | 0.65† | 0.88** | 0.95*** | 0.89*** | 1.38** | |
| Firm age | -0.14 | -0.17 | -0.10 | -0.18 | -0.05 | -0.08 | -0.01 | -0.10 | -0.12 | -0.15 | -0.08 | -0.15 | |
| Firm equity | 0.10 | 0.42* | 0.05 | 0.33† | -0.23 | 0.04 | -0.29* | 0.01 | 0.13 | 0.41* | 0.06 | 0.29 | |
| Public | -0.55* | -0.73*** | -0.64** | -0.66** | -0.41* | -0.57*** | -0.50* | -0.52** | -0.56* | -0.72*** | -0.67** | -0.64** | |
| Mission statement focus | 0.43** | 0.47*** | 0.41* | 0.48** | 0.34* | 0.37** | 0.33* | 0.39** | 0.43** | 0.47*** | 0.42** | 0.47** | |
| Environmental uncertainty ^{nl} | 0.36* | 0.65*** | 0.45* | 0.56** | 0.30* | 0.56*** | 0.40* | 0.52** | 0.37* | 0.64*** | 0.49** | 0.52** | |
| Sector CSR philosophy | -0.33 | -0.72** | -0.35 | -0.53* | -0.31 | -0.65** | -0.33† | -0.53* | -0.51* | -0.86*** | -0.53* | -0.66* | |
| ROS | — | -0.75*** | — | — | — | -0.66*** | — | — | — | -0.68** | — | — | |
| ROE | — | — | -0.25 | — | — | — | -0.27* | — | — | — | -0.32* | — | |
| Net profit ^{nl} | — | — | — | -0.68* | — | — | — | -0.74** | — | — | — | -0.50 | |
| R ² change | 0.43 | 0.18 | 0.04 | 0.08 | 0.59 | 0.14 | 0.05 | 0.09 | 0.49 | 0.15 | 0.07 | 0.04 | |
| F-statistic | 2.06† | 13.70*** | 2.39 | 4.48* | 3.95*** | 14.88*** | 4.19* | 8.08** | 2.58* | 11.69** | 4.51* | 2.48 | |
| df1, df2 | 11,30 | 1,29 | 1,29 | 1,29 | 11,30 | 1,29 | 1,29 | 1,29 | 11,30 | 1,29 | 1,29 | 1,29 | |

^a Beta coefficients are reported.

^b Significance levels: † = 0.10; * = 0.05; ** = 0.01; *** = 0.001.

in Ghana, even though it did not do so as strongly for absolute expenditures. These results again provide substantial support for our hypothesis.

Sensitivity tests

To determine the robustness of our finding a negative relationship, we assessed the sensitivity of our results to differences along three dimensions: dependent variable measurement, time frame, and sample frame. First, to assess the sensitivity of our findings to differences in dependent variable measurement, we divided the amount of CSR expenditures by sales and by firm profit to provide two alternative ratio measures, resulting in the same pattern of findings, usually at the same or higher level of statistical significance. Thus, our findings are robust to alternative dependent variable operationalization.

Next, to assess the sensitivity of our results to the time frame of measurement, we averaged our financial resource availability measures over 2002 through 2004, going one year farther back than in our main analysis. For all 5 of our measures of CSR (including the 2 additional ones above) 13 of 15 coefficients were negatively significant at the marginal level or better (including a now significant coefficient for return on equity on CSR/Employees). Using a longer timeframe for profits results in essentially the same pattern of findings.

Finally, since it is possible that the subsidiaries of African MNCs were substantively different than domestic Ghanaian firms in spite of sharing a common African culture, we reran the main analyses without these five non-Ghanaian firms. All 15 coefficients were negative significant, only 1 of which was marginally so, suggesting that our findings are robust to variation in sample frame.

In sum, 34 of the 36 coefficients in our sensitivity tests show the relationship between firm resource availability and CSR expenditure to be statistically significantly negative, only four of which were marginally so. A tabular summary of these tests are available from either author upon request.

DISCUSSION

Research on the antecedents of CSR activity has focused on firms in developed nations and has

primarily employed the logic of slack resources theory to explain a positive relationship between financial resource availability and CSR. To extend this research, we cross institutional boundary conditions and integrate slack resources theory with institutional theory to examine this relationship in a sub-Saharan African emerging economy. The conditions of capital constraint in the sub-Saharan context make the examination of financial resource availability particularly pertinent. Consistent with our IDH-based hypothesis, our findings suggest that in Ghana there exists a negative relationship between financial resource availability and CSR expenditures. Specifically, return on sales, return on equity, and firm net profitability show a consistently negative and significant relationship with CSR expenditures, a finding that our sensitivity tests proved to be robust to variation in dependent variable measurement, time frame, and sample frame. African (Ghanaian and non-Ghanaian) firms in Ghana that have higher levels of financial resource availability clearly invest (or spend) a smaller amount of those resources in CSR, in spite of their readier access to them.

Our study makes several important contributions to theory and research. First, we capture the main thesis of a range of studies examining the institutional implications for CSR that we termed the IDH (e.g. Campbell, 2007; Matten and Moon, 2008; Visser, 2008). By proposing this summary representation of these studies as a hypothesis, our study provides CSR researchers with a unitary framework to evaluate the primary thrust of these recent studies as well as provide a contrast with the theoretical frameworks used in most studies in developed economies. Further, given that IDH studies that were associated with CSR have primarily been theoretical and conceptual (e.g. Campbell, 2007; Matten and Moon, 2008; Visser, 2008), we extend this concept by providing empirical support.

Accordingly, we employed the IDH to provide a context-sensitive argument for a negative financial resource availability-CSR expenditure relationship. Specifically, we noted that firms embedded in the sub-Saharan African context face financial capital constraint (Austin *et al.*, 1996; World Bank, 2000, 2005); doubt the strategic value of CSR (de Jongh and Prinsloo, 2005; Frynas, 2005; Ofori and Hinson, 2007); face little regulatory, enforcement, or advocacy pressure to engage

in CSR (Atuguba and Dowuona-Hammond, 2006; Blowfield and Frynas, 2005; Fabig and Boele, 1999); and are able to evade compliance due to an environment of corruption (Achua, 2008; Ahunwan, 2002; Amao, 2008). Our findings support our theorizing that the institutional conditions of sub-Saharan Africa represent important influences on the effects of CSR antecedents (Matten and Moon, 2008; Visser, 2006) to such an extent that the presumed 'universally positive relationship' between corporate financial performance and CSR (Orlitzky *et al.*, 2003: 423) becomes negative.

Along this line, we note that slack resources theory's positive prediction has been subjected to a range of tests in developed contexts and has found support in several studies (Adams and Hardwick, 1998; Orlitzky *et al.*, 2003; Preston and O'Bannon, 1997; Seifert *et al.*, 2004; Surroca *et al.*, 2010; Waddock and Graves, 1997). Yet, the slack resources theory itself is tacitly framed in universal terms given its lack of contextual consideration and its unstated assumption that financial resource availability will be seen and treated by managers similarly across different institutional situations (e.g. Surroca *et al.*, 2010; Waddock and Graves, 1997). This study's finding further solidifies the contention that, to begin to develop CSR theory that is contextually robust, it is necessary to cross institutional boundary conditions such as we did in this empirical research (Campbell, 2007; Matten and Moon, 2008). We therefore answer calls for more robust institutional and situation-sensitized models of CSR (Campbell, 2007; Margolis and Walsh, 2003; Matten and Moon, 2008; Visser, 2008) and fill an important literature gap by providing and testing a contextualized institutional explanation of CSR expenditures in a distinct context.

Second, examining CSR in a resource-constrained nation enables us to observe empirically concerns voiced by Margolis and Walsh (2003) regarding the corporate role in the alleviation of human misery (e.g. World Bank, 2000) and bring to focus an important managerial implication. While our findings in some ways highlight the alarm raised by de Jongh and Prinsloo (2005) that African firms may not be particularly interested in CSR activities, it also sends a cautionary note to top managerial decision makers. If more profitable firms are perceived as inequitable in that they do not give back to society through charitable activities such as CSR,

this may lead to government mandates regarding CSR expenditures and activities. The situation in South Africa is illustrative in that firms doing well did not necessarily spend more on CSR and so were eventually required to do so by law (Arya and Zhang, 2009; Hamann, 2007). Further, while the perennial debate regarding the relative effectiveness of government-mandated versus privately-directed social behavior appears to be far from resolved, those African managers who strongly favor the latter may need to act more proactively to preserve their autonomy in this area.

We also recognize potential limitations in our study. Specifically, we only looked at one country and it is possible that these findings may be specific to the setting and not to developing nations generally. Consequently, more broad-based statistical studies targeting these areas are warranted. Another limitation is that the government had collected only one year of CSR data while multiple years would have been analytically preferable. Nations like Ghana do not have the extensive, multi-year databases, such as Compustat and KLD that are prevalent in developed economies, thus limiting analyses conducted within them. Further, while we focused on the important aspect of expenditures as our measure of CSR (e.g. Brammer and Millington, 2008), CSR is a multi-faceted concept with various other dimensions, such as employee needs and environmental pollution concerns. Further research using additional measures tapping into various other aspects of CSR is therefore warranted.

In conclusion, the results of this study caution that naïve application of theory used in the extant literature may seriously misjudge the antecedents of CSR expenditures in different institutional contexts. Expecting higher financial resources to lead firms in developing economies, such as those in sub-Saharan Africa, to increase social involvement, as occurs in developed economies, may result in disappointment. While a substantial research stream has emphasized slack resources theory, our study makes a contribution by using the IDH to integrate extant concepts with contextualized institutional theory. In the process, this study questions the robustness of sole reliance on current theoretical explanations, with their tacit assumptions of universality and thus reaffirms the need for context-sensitized insights.

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