

# Boosting Ghanaian SME performance

## The role of corporate social responsibility in Ghanaian SMEs

Corporate social responsibility (CSR) looks at how a firm enacts programmes that look to benefit society, the environment and economic performance. CSR also involves introducing an ethical approach to stakeholder dealings. A large proportion of CEOs globally rate CSR initiatives as important to the sustainability of their firms. The key to longevity in the global marketplace is how well firms deal with, and respond to, the societies in which they operate. The relationship between firm and public is built on trust, and this trust is gained through exceptional CSR programmes.

In past studies, there has been an inconclusive relationship outlined between CSR and corporate financial performance. The key to unravelling this confusion is in the mediating factors surrounding the link between CSR and financial performance. Boosting CSR improves reputation, which eventually improves profitability. More telling, is whether this relationship is direct. The work of Agyemang and Ansong (2017), using a partial least squares analytical approach, looks at the link between CSR and financial performance, and whether any connection is direct in small to medium enterprises (SMEs) in Ghana. Ghanaian SMEs are the focus because of the increasing pressure they are coming under to adopt CSR practices. The findings suggest that better CSR activities cause improve financial performance, through easier access to capital funding and a boost to corporate reputation.

### The CSR hypotheses

Neoclassical economists have argued that CSR causes needless increases in costs for firms, and hinders financial performance. The benefits are only seen to help management, and not firm shareholders. Yet this view is increasingly being viewed as misguided. The belief is that CSR can improve access to resources, attract and retain skilled employees, and benefit social legitimacy. CSR can also work in a similar way to advertising, and significantly boost the effects of goodwill. Stakeholder theory outlines that CSR allows for the management of multiple stakeholders simultaneously. As such, Agyemang and Ansong (2017) hypothesize that:

*H1.* There is a significant positive relationship between CSR and financial performance of SMEs.

Stakeholder theory also suggests that the diverse and numerous interests of internal and external stakeholders are taken into account by firms when strategies are developed for the achievement of corporate goals. The problem arises in trying to please all parties at once. The multiplicity of stakeholder benefits from CSR means it can be useful for such a problem. CSR can mitigate losses from regulatory, legislative or fiscal issues, whilst boosting socially conscious consumer numbers and attract socially conscious investors. Two reasons for adopting CSR activities are seen as:

- (1) the ability to access reduced idiosyncratic capital controls due to lower agency costs; and



- (2) boosted revenue and profit because of improved stakeholder relationships and reduced informal asymmetry thanks to increased credible CSR behavior and operational transparency.

Because of this, Agyemang and Ansong (2017) hypothesize that:

*H2.* There is a positive relationship between CSR and access to capital of SMEs.

The reputation of a firm relies on the view of its stakeholders over a period of time. The better a firm's reputation, the more competitive it is generally thought to be in the marketplace. It is widely believed that CSR practices can significantly improve the reputation of a firm, both from consumers and employees. Therefore, Agyemang and Ansong (2017) hypothesize that:

*H3.* CSR is positively associated with firm reputation.

A primary concern of SMEs in both developed and developing markets is the easy access to capital. SMEs typically borrow to cover working capital needs, and restrictions in their access to capital are seen as highly detrimental. The availability of external financial resources and partners significantly reduces the chances of failure. The key to growth, therefore, is in finding capital wherever possible. Agyemang and Ansong (2017) hypothesize that:

*H4.* Access to capital is positively related to financial performance.

There is a clear connection between the reputation of a firm and its financial success. The wealth accumulated by a firm due to reputation is often called goodwill, this being the key to improving financial performance. Reputation can also lead to competitive advantage, this itself also boosting profitability. It is therefore hypothesized by Agyemang and Ansong (2017) that:

*H5.* Firm reputation is positively related to financial performance.

### **Considering the effects of CSR on performance**

The results are, by and large, as expected. *H1*, *H3*, *H4*, and *H5* are supported, the surprise being that *H2* is not supported. This means that, within the SME market of Ghana, CSR can be seen to have a significantly positive relationship with firm reputation. Those SMEs that successfully engage with CSR programmes improve their reputations, also meaning that CSR programmes improve relations between a firm and its stakeholders. This improved reputation is seen as having a substantial impact on Ghanaian SME performance, largely attributed to the goodwill accrued through reputational enhancement. Those SMEs with high-ranking reputations outperform those with lower reputations.

The easy access to capital is seen as a crucial indicator of financial performance. Where capital is easily accessible, SMEs are seen to thrive. The ability of SMEs to exploit opportunities is also boosted by access to capital. Furthermore, CSR is seen to have a positive relationship to financial performance. Those Ghanaian SMEs that adopt successful CSR practices see improved revenues and profitability. Strangely, however, despite links showing CSR performance as improving access to capital, the opposite is the case with Ghanaian SMEs. It could well be that those SMEs that adopt CSR initiatives are seen as incurring unnecessary costs. This could suggest to capital providers, however incorrectly, that the SMEs do not need access to capital. However, ultimately it seems that the implementation of successful CSR programmes can significantly improve the financial performance of SMEs.

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**Comment**  
The review is based on “Corporate social responsibility and firm performance of Ghanaian SMEs: mediating the role of access to capital and firm reputation” by Otuo Serebour Agyemang and Abraham Ansong, published in the *Journal of Global Responsibility*.

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**Reference**  
Agyemang, O.S, and Ansong, A. (2017), “Corporate social responsibility and firm performance of Ghanaian SMEs: mediating the role of access to capital and firm reputation”, *Journal of Global Responsibility*, Vol. 8 No. 1, pp. 47-62.

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