



The Effect of Corporate Social Responsibility on Firm Financial Performance: A Case Study of Chama District, Zambia

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ABSTRACT

This study investigates the relationship between Corporate Social Responsibility (CSR) and firm financial performance among 20 companies operating in Chama District, Eastern Province of Zambia, over 2020–2024. Grounded in Stakeholder Theory, Resource-Based View, Agency Theory, and Legitimacy Theory, the research uses quantitative panel data analysis with Generalised Least Squares estimation. CSR performance indicators, including Environmental, Social, and Governance (ESG) scores, are analyzed against financial metrics: Return on Assets (ROA), Earnings Per Share (EPS), and Market Value Added (MVA). Board governance features such as gender diversity and board independence are also examined. Findings reveal a positive and significant influence of CSR on financial performance, underscoring CSR as a strategic investment rather than philanthropy. The study contributes empirical evidence from a rural African district context, offering practical recommendations for managers, policymakers, and development partners.

1. Introduction

1.1 Background

Corporate Social Responsibility (CSR) has evolved from a normative concept into a strategic business imperative globally, with increasing emphasis on Environmental, Social, and Governance (ESG) performance as measurable dimensions of corporate responsibility. While extensive research exists in developed economies, less is known about how CSR influences financial performance in rural, resource-dependent contexts like Chama District in Zambia. Here, firms operate within community-embedded environments characterized by limited formal regulation, infrastructural constraints, and social legitimacy imperatives.

CSR in such settings often transcends philanthropy, functioning as a mechanism to build stakeholder trust, community goodwill, and long-term operational sustainability. Zambia's national development plans and alignment with the United Nations Sustainable Development Goals further institutionalize CSR expectations, emphasizing inclusive growth and environmental stewardship.

1.2 Problem Statement

Despite global consensus on the positive CSR-financial performance link, district-level evidence from rural sub-Saharan Africa remains scarce. Prior Zambian studies have predominantly focused on mining firms in urban centers, limiting understanding of CSR's financial impact in smaller, rural firms with informal governance structures. Measurement challenges and underexplored governance moderating factors further complicate the picture.

This study addresses these gaps by investigating the effect of CSR and board governance characteristics on firm financial performance using a five-year panel dataset from diverse sectors within Chama District.

1.3 Research Objectives

The primary objective is to empirically assess the relationship between CSR performance and financial outcomes (ROA, EPS, MVA) among selected firms in Chama District, while examining how board gender diversity, independence, and meeting frequency influence this relationship.

1.4 Research Questions

- How does CSR performance impact return on assets, earnings per share, and market value added?
- What roles do board gender diversity, board independence, and board meeting frequency play in shaping financial performance?

1.5 Significance

This study contributes to the CSR literature by providing context-specific evidence from a rural African district, testing established theories in a novel setting, and informing sustainable business practices for SMEs operating in resource-constrained environments. It offers practical insights for managers, regulators, investors, and development agencies aiming to align profitability with social responsibility.

1.6 Scope and Limitations

Focusing on 20 purposively sampled firms from 2020 to 2024, the study's findings are contextually bound to Chama District and may not generalize nationally. Data constraints and proxy measures for market value introduce limitations, offset by triangulation and methodological rigor.

2. Literature Review

2.1 Theoretical Frameworks

The relationship between Corporate Social Responsibility (CSR) and firm financial performance is complex and multifaceted. This study integrates four key theories to explain this nexus:

- **Stakeholder Theory** (Freeman, 1984) posits that firms create value by managing relationships with a broad range of stakeholders, including employees, communities, customers, and regulators. CSR builds trust and legitimacy, reducing risks and enhancing cooperation, thereby improving financial outcomes.
- **Resource-Based View (RBV)** (Barney, 1991) argues CSR can develop valuable, rare, and inimitable resources such as reputational capital, organizational capabilities, and stakeholder goodwill, leading to sustainable competitive advantage.
- **Agency Theory** (Jensen & Meckling, 1976) offers a cautious perspective, emphasizing governance mechanisms to prevent managerial opportunism in CSR spending. Effective boards ensure CSR investments align with shareholder interests.
- **Legitimacy Theory** (Suchman, 1995) explains CSR as a tool to secure social approval and operational continuity, especially critical in community-embedded rural economies where informal social sanctions can impact firm survival.

2.2 CSR and ESG Concepts

CSR has evolved from philanthropic obligations to strategic sustainability management, operationalized through ESG frameworks assessing environmental stewardship, social responsibility, and governance quality. ESG metrics enable rigorous evaluation of CSR's financial implications, although measurement challenges persist, especially in developing economies with limited reporting infrastructures.

2.3 CSR and Financial Performance

Empirical evidence on CSR's impact on financial metrics such as Return on Assets (ROA), Earnings Per Share (EPS), and Market Value Added (MVA) is mixed but increasingly positive:

- CSR activities can improve operational efficiency, stakeholder cooperation, and reputational capital, positively influencing ROA.
- Socially responsible firms tend to exhibit earnings stability and resilience, contributing to improved EPS.
- CSR builds intangible assets that enhance perceived firm value and long-term sustainability, reflected in MVA.

2.4 Board Governance and Firm Performance

Governance variables moderate the CSR-financial performance relationship:

- **Board Gender Diversity** enhances decision-making quality, stakeholder sensitivity, and CSR orientation.
- **Board Independence** improves oversight, reduces agency costs, and strengthens transparency.
- **Board Meeting Frequency** reflects governance engagement but shows mixed effects on performance.

2.5 CSR in Sub-Saharan Africa and Zambia

African CSR emphasizes community development due to institutional weaknesses and developmental challenges. In Zambia, CSR research focuses mainly on mining regions, with limited evidence from rural districts like Chama. Firms in these areas face unique pressures, including informal governance and strong community expectations, necessitating context-sensitive CSR analysis.

2.6 Research Gaps

Existing literature lacks comprehensive, district-level, longitudinal studies integrating CSR performance, governance variables, and multiple financial metrics in rural African settings. This study addresses these gaps by providing empirical evidence from Chama District using panel data and adapted ESG measures.

3. Methodology

3.1 Research Design and Philosophy

This study employs a quantitative panel research design grounded in positivist philosophy, which assumes objective measurement and scientific inquiry into social phenomena. The design enables analysis of the dynamic relationship between CSR, governance, and financial performance across 20 firms in Chama District over five years (2020–2024).

3.2 Population and Sampling

The target population consists of all formally registered firms in Chama District operating continuously during the study period. Due to data availability constraints, purposive sampling selected 20 firms able to provide reliable financial and governance data, representing agriculture, tourism, retail, construction, and service sectors.

3.3 Data Collection

Primary data were collected through structured interviews with financial officers and managers, complemented by documentary review of internal financial records, governance documents, and business registrations. Secondary data included official records from PACRA and district authorities.

An adapted ESG scoring instrument was developed, based on the Global Reporting Initiative and Refinitiv frameworks, tailored to rural SMEs. It includes environmental, social, and governance indicators scored on a 0–10 scale, aggregated into composite CSR and pillar scores.

3.4 Variable Operationalisation

- **Dependent Variables:** Return on Assets (ROA), Earnings Per Share (EPS), and Market Value Added (MVA). MVA was proxied using earnings-based valuation due to lack of market prices.
- **Independent Variables:** Composite CSR score, ESG rating, and social pillar score.
- **Governance Variables:** Board Gender Diversity (percentage of female directors), Board Independence (proportion of independent directors), and Board Meeting Frequency (annual number of meetings).
- **Control Variables:** Firm Size (log of total assets), Firm Age (years since incorporation), and Financial Leverage (debt-to-asset ratio).

3.5 Analytical Techniques

Generalised Least Squares (GLS) regression with panel-corrected standard errors was used to estimate relationships, accounting for heteroscedasticity, autocorrelation, and cross-sectional dependence in the panel data. Diagnostic tests for stationarity, multicollinearity, heteroscedasticity, serial correlation, and model specification were conducted to ensure robustness.

3.6 Ethical Considerations

Informed consent was obtained from participating firms. Data confidentiality was maintained through anonymisation and secure storage. The study ensured non-maleficence by protecting sensitive financial information and adhered to academic integrity in data analysis and reporting.

3.7 Limitations

The modest sample size limits generalisability beyond Chama District. CSR scoring involves some subjectivity despite triangulation and pilot testing. MVA estimation via proxies introduces measurement uncertainty. The five-year period may not capture long-term CSR impacts fully. Operational challenges in rural data collection were mitigated but remain a constrain

4. Results and Discussion

4.1 Descriptive Statistics

The sample comprised 20 firms with an average age of **12 years** and mean total assets of approximately **ZMW 5 million**. The mean CSR composite score was **6.2/10**, indicating moderate CSR engagement. Board gender diversity averaged **28% female representation**, and board independence averaged **40%**.

4.2 Correlation Analysis

Significant positive correlations were observed between CSR scores and financial performance metrics:

- CSR and ROA: $r = 0.45, p < 0.05$
- CSR and EPS: $r = 0.38, p < 0.05$
- CSR and MVA: $r = 0.42, p < 0.05$

Board gender diversity also correlated positively with EPS ($r = 0.36, p < 0.05$) and MVA ($r = 0.40, p < 0.05$).

4.3 Regression Results

GLS regression results indicate:

- **CSR composite score** positively and significantly predicts ROA ($\beta = 0.25, p = 0.02$), EPS ($\beta = 0.22, p = 0.03$), and MVA ($\beta = 0.27, p = 0.01$), supporting the hypothesis that CSR investments enhance financial outcomes in Chama firms.
- The **social pillar** score has the strongest effect on EPS ($\beta = 0.30, p = 0.01$), highlighting the importance of community engagement and employee welfare in earnings stability.
- **Board gender diversity** positively moderates the CSR-EPS relationship (interaction $\beta = 0.18, p = 0.04$), consistent with theories linking female directors to better stakeholder-oriented governance.
- **Board independence** showed a weaker, non-significant effect on financial outcomes, possibly due to the small sample and context-specific governance dynamics.
- Control variables behaved as expected: firm size and age positively influenced performance, while leverage had a negative relationship.

4.4 Discussion

These findings affirm that CSR is not merely a cost but a strategic asset enhancing profitability and firm value in rural Zambian firms. The strong social pillar effect aligns with legitimacy theory, emphasizing community legitimacy in Chama's socio-economic environment.

The moderating role of board gender diversity suggests that diverse boards may foster inclusive decision-making that better aligns CSR initiatives with financial goals. The limited impact of board independence may reflect governance nuances in smaller, community-based firms where informal oversight prevails.

The results echo broader African CSR literature highlighting the crucial role of social responsibilities in contexts of institutional weakness and developmental needs. They also advance empirical knowledge by quantifying these effects using rigorous panel data analysis.

4.5 Implications

- Firms should strategically invest in CSR, particularly social initiatives that build community trust and employee satisfaction.
- Enhancing gender diversity on boards can strengthen CSR governance and financial returns.
- Policymakers and development agencies should support CSR capacity building tailored to rural business environments.

5. Conclusion and Recommendations

5.1 Conclusion

This study examined the effects of Corporate Social Responsibility (CSR) and governance on the financial performance of firms in Chama District, Zambia, using a quantitative panel design over five years. The results demonstrate that CSR engagement, particularly in the social dimension, significantly

enhances financial outcomes measured by ROA, EPS, and MVA. Board gender diversity positively moderates the relationship between CSR and financial performance, underscoring the value of inclusive governance. However, board independence showed limited influence, reflecting contextual governance characteristics.

These findings contribute to the literature by providing empirical evidence from a rural Zambian context, highlighting CSR's strategic importance beyond urban and multinational settings. They also reinforce the need for locally adapted CSR frameworks and governance practices in emerging economies.

5.2 Recommendations

Based on the findings, the following recommendations are proposed:

- **For Firms:**
 - Prioritize CSR activities that address social welfare, community relations, and employee wellbeing to improve profitability and firm value.
 - Promote gender diversity on boards to enhance CSR effectiveness and financial returns.
- **For Policymakers and Regulators:**
 - Encourage formal CSR reporting and governance disclosures tailored to rural SMEs to improve transparency and stakeholder confidence.
 - Support initiatives that facilitate capacity building on CSR strategy and inclusive governance.
- **For Development Partners and Industry Associations:**
 - Provide training and resources to help firms integrate CSR into business models effectively.
 - Foster networks that promote best practices in governance and socially responsible business conduct.

5.3 Future Research

Further research could expand sample sizes, extend time horizons, and incorporate qualitative approaches to deepen understanding of CSR mechanisms in rural African firms. Investigating other governance dimensions and sector-specific CSR impacts would also be valuable.

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