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Corporate Social Responsibility and performance of State Owned Enterprises, a case of the Zimbabwe Revenue Authority.

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Abstract

The research investigates whether corporate social responsibility has influenced the tax base, client's compliant levels, employee motivation and general understanding and appreciation of what the taxman does. The objectives of the research is to determine if corporate social responsibility enhances ZIMRAs reputation, establish if there is a link between corporate social responsibility and revenue collection, establish stakeholder perceptions on ZIMRAs corporate social responsibility, and to find strategies on how to improve CSR activities at ZIMRA. The research employs both qualitative and quantitative designs in each approach. The research was quantitative since the research was to identify a statistical relationship between corporate social responsibility and revenue collection, stakeholder perception and reputation, and if strategies improve ZIMRAs corporate social responsibility. The qualitative paradigm was also used to triangulate results from the questionnaires. The study established that for a quasi-government organisation like ZIMRA that as revenue increases CSR expenditure decreases. It also established that CSR improves ZIMRA's reputation and stakeholder perception whilst strategy improves ZIMRAs corporate social responsibility. The study recommends Smart Partnering, engaging in internal CSR, standardising CSR and increase of donations. Areas for further study involve looking at the place of state owned enterprises in CSR activities, especially those that have an environmental effect. The place and role of parastatals or state – owned enterprises in CSR issues need further research to establish the levels of CSR that they have to engage in as a prescription to easing socio – economic problems faced by society.

Keywords: corporate social responsibility (CSR), corporate performance, reputation, revenue, stakeholder, tax

INTRODUCTION

Corporate social responsibility is a key concept defining the way of doing business. Today, businesses are engaged in corporate social responsibility activities and these activities are increasing. In Africa, corporate social responsibility at MTN, a telecommunications firm based in South Africa, works on health and literacy challenges in Ghana, SAP supports and works with science centres and museums in South Africa. Standard Bank offers mobile banking to Africa's poor (Godelnik, 2013). Zimbabwe has Econet, a telecommunication company that runs the Capernaum Trust which sponsors students from poor families up to tertiary level (www.econet.co.zw). OK Zimbabwe has been involved in charities, the environment, old people's homes, hospice centres, and disabled persons doing various activities (www.okzinvestor.com).

Zimbabwe Revenue Authority (ZIMRA) is involved in a number of corporate social responsibility programmes and activities. These activities include but are not limited to introduction of solar powered systems, intensifying "go green" campaigns, and donations to children's and old people's homes (www.zimra.co.zw). There are a lot of companies engaged in strategic Corporate Social Responsibility activities (Illia et al, 2013). It has incorporated CSR into its Balanced Score Card (BSC). This BSC assesses and gives points on whether or not the organisation and its employees have engaged in corporate social responsibility activities. What it does not do is to assess the impact of the corporate social responsibility on the beneficiaries (of corporate social responsibility activities), the taxpayers and other stakeholders. This research focused on the taxpayer as they have a greater impact on the financial performance of ZIMRA in as far as the collection of revenue is concerned. In the changing world of enhanced access to information people are more informed about the need to be responsible to activities that have an environmental and societal impact.

The study was conducted in Mutare and Masvingo, which are within one of the Zimbabwe Revenue Authority regions. Choosing that region was done in order to be able to conduct a thorough study. While a national study could have been ideal, the financial resources required could have been unsustainable. ZIMRA has several centres, or stations, and all of these are involved in at least one corporate social responsibility activity quarterly. The Commissioner General also organises annually, a Charity Ball to raise funds to donate to selected and deserving charities and causes (Mudzimu, 2011).

There is a negative perception about ZIMRA in the minds of some in society including taxpayers and travellers, thereby affecting its reputation and image negatively. They have generally accepted, conventionally, that ZIMRA, as a tax collector is there to take people's hard earned money for no immediate tangible benefit and seize their goods at border posts. This research interrogates ZIMRA's corporate social responsibility, the meaning it has on stakeholders who are the beneficiaries, tax payers, government, employees and the general populace. The research also interrogates and explores the effect corporate social responsibility has on ZIMRA's reputation, revenue collection patterns and stakeholder perception.

The research sought to determine if corporate social responsibility enhances ZIMRAs reputation, to establish if there is a link between corporate social responsibility and revenue collection, to establish stakeholder perceptions on ZIMRAs corporate social responsibility and to find strategies on how to improve corporate social responsibility activities at ZIMRA.

LITERATURE REVIEW

Corporate social responsibility and Not for Profit organisations

There is so much literature on Corporate Social Responsibility, focusing on the business world corporate social responsibilities. Little exist if any on how the findings researched on corporate social responsibility on businesses can be true for quasi-government organisations such as ZIMRA engaging in corporate social responsibility. Crowther and Aras (2010) point out that Not for Profit organisations have no profit motives and decision must be taken according to different criteria. Weight is given to the provision of a service, which necessitated the existence of the organisation. They also point out the existence of a separation between the acquisition of resources and their utilisation. Therefore different driving forces operate in the Not for Profit organisations, meaning that the stakeholders are different.

According to Cooney (2012), Adam Smith is often considered by modern traditionalist as a hero of capitalism and freedom, and a reason why subsidies should not exist. He argues that Smith recognised the concept of externalities and other free market breakdowns but did not really deal with them as a major challenge to society, asserting that Smith can be forgiven: when he was living, there were less than one billion people on the planet, and the concept of externalities (mercury emission, DDT, cancer and other diseases caused by, but not paid for by, a business seeking its own self-interest) would have been exonerated even by the most progressive economist.

Corporate Social Responsibility and Reputation

Vision and leadership, products and services, financial performance, staff treatment, social and environmental responsibility and emotional appeal are part of the key drivers of reputation explained by Godelnik (2013). He posits that firms that have better corporate social responsibility ratings perform better than those that do not. He further asserts that firms perceived as comprising weak corporate social responsibility experienced stock decline and incremental gain during good times and subsequent mitigation of negative publicity. Consumers are interested in why companies engage in corporate social responsibility, especially their motives and not just the existence of corporate social responsibility activities (ibid). He further affirms that companies still need to work hard to make sure stakeholders are aware of their efforts and that these efforts are sincere.

McDonnell (2012) argues that corporate social responsibility creates certain liabilities. Instead of serving as a form of insurance against future denigration, corporate social responsibility may just put firms on the activists' radar for criticism. When consumers encounter negative information about a company, it can sometimes be helped by its corporate social responsibility reputation (Eisingerich and Bhardwaj, 2011).

Keys et al (2013) claim that with philanthropy, corporate donations confer the majority of benefits on society, with possible but in most cases questionable reputational benefit to the

business. In the same approach, in what can be stated to as propaganda, corporate social responsibility activities are focused for the most part on building a company's reputation with little tangible benefit to society. This is perceived as advertising and is potentially risky if it exposes a gap between the company's words and actions. Companies that actively promote their corporate social responsibility programme are generally viewed more positively than those that do lack highly visible programmes (www.truist.com, 2013).

According to Ioannou (2010) top executives and managers, who are interested in implementing corporate social responsibility strategies in their organisations should be aware that there is a real possibility analysts may react negatively to their initial attempt to implement such strategies leading to the destruction of value in capital markets. Managers should focus on communicating the significant value of corporate social responsibility strategy to the investment community. Highlighting short term costs but also long-term benefits could mitigate difficulties that investors may face in understanding the value generated through such activities and might speed up the adjustment of their valuation models to this new corporate social responsibility. Managers should be mindful of what is communicated and to whom it is communicated to (ibid). This leads to the following hypothesis:

Hypothesis 1: corporate social responsibility improves ZIMRA reputation.

Hypothesis 2: corporate social responsibility improves stakeholders' perceptions.

Hypothesis 3: Strategies improve ZIMRAs corporate social responsibility.

Improvement in Revenue collections

Karen et al, (2005) posit that a reputation for social responsibility protected firms associated with a crisis from stock decline. Cheng et al (2013) assert that firms with better corporate social responsibility performance face significantly lower capital constraints. They provide evidence that both better stakeholders' engagement and transparency around corporate social responsibility performance are important in reducing capital constraints. The results are further confirmed using several alternative measures of capital constraints, a paired analysis based on a rating shock to corporate social responsibility performance, an instrumental variable approach, and a simultaneous equation approach. They also showed the relation is driven by both the social and environmental dimension of corporate social responsibility (ibid).

Rakowski (2011) argues that corporate social responsibility can be positive or negative depending on a firm's innovation and product quality, arguing that firms with corporate social responsibility initiatives have higher financial returns when they produce high quality and innovative products, yet in firms that are not innovative, corporate social responsibility initiatives may actually lower market value. Managers can leverage corporate social responsibility for higher market return by aligning strategy with corporate social responsibility initiatives and maintain product quality and innovation.

Rakowski (2011) posits that when firms are innovative, with good product quality, corporate social responsibility will improve customer satisfaction, thereby increasing financial returns. A firm's corporate social responsibility, coupled with innovation and quality, makes customers feel connected to it, which leads to customer loyalty. When firms are not innovative corporate social responsibility decreases customer satisfaction, negatively affecting financial return (ibid). Market value may fall because customers will not buy products that do not keep up with their needs and expectations. For implication on managers, generating high quality and innovative technologies, products and services will meet the changing customer needs and help customers feel connected to your company, leading corporate social responsibility to improve financial performance.

Companies are facing increasing pressure to both maintain profitability and behave in socially responsible ways, yet researchers have provided little information on how corporate social responsibility impacts profitability (Mohr et al, 2001). Hillenbrand and Money (2007) found out that customers and employees see corporate social responsibility in three ways: as business behaviour towards them, as business behaviour towards other stakeholder groups and as business behaviour that ensures a business' own success. These may relate to issues such as how an organisation provides benefits to stakeholders through its products and services, how it communicates with stakeholders as well the emotional impact that the organisation has on stakeholders. This leads to the following hypothesis:

Hypothesis 4: Corporate Social Responsibility improves revenue collection.

Triple Bottom Line

According to Elkington (2012) the idea behind the triple bottom line is that business and investors should measure their performance against a new set of metrics that capture the economic, social, and environmental value added or destroyed during the process of wealth creation. Irrespective of the industry, corporate social responsibility is supposed to be a win-win by committing to operating a business with a focus on improving performance on triple bottom line—factors that measure impacts on people, the planet, and profits (www.chemweek.com).

Corporate social responsibility is a way to attract and retain talent (www.business.time.com). It is the third most important driver of employee engagement and for companies in the USA an organisation stature in the community is the second most important driver of employee engagement, and a company's reputation (ibid). According to a Deloitte 2011 survey, 70% of those between ages of 18 to 26 say a company's commitment to the community has an influence on their decision to work there.

Enterprising abiding by laws and regulations and rules and with strong sense of social responsibility undoubtedly gain trust from government organs and are granted with more freedom by the nation or local government. The faithful and honest enterprises usually are given preferential policies by the government or conferred some honours (Li, 2012).

Milton Friedman's stance on CSR

Corporate social responsibility does not go without critics, the notable one being Friedman (1970) and his famous quote: 'There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profit'. This means that there are some scholars who view philanthropic acts of corporate social responsibility as not necessary in business as businesses should concentrate on core business activity of making a profit. Lin-Hi, (2008) supports investment in social cooperation for mutual advantage and how unclear the responsibility of business means on corporate social responsibility.

Theoretical Perspective

Stakeholder Theory

Stakeholder theory posits that the drive of a business is to generate as much value as possible for stakeholders (Freeman, 2004). In order to succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction (ibid).

Conceptual Framework

The conceptual framework as illustrated by the diagrams below show how the relationship between ZIMRA and its stakeholders can be linked through implementing the Stakeholder Theory. This results in engaging in corporate social responsibilities which should have an effect on reputation, revenue collection and stakeholder perception of ZIMRA.

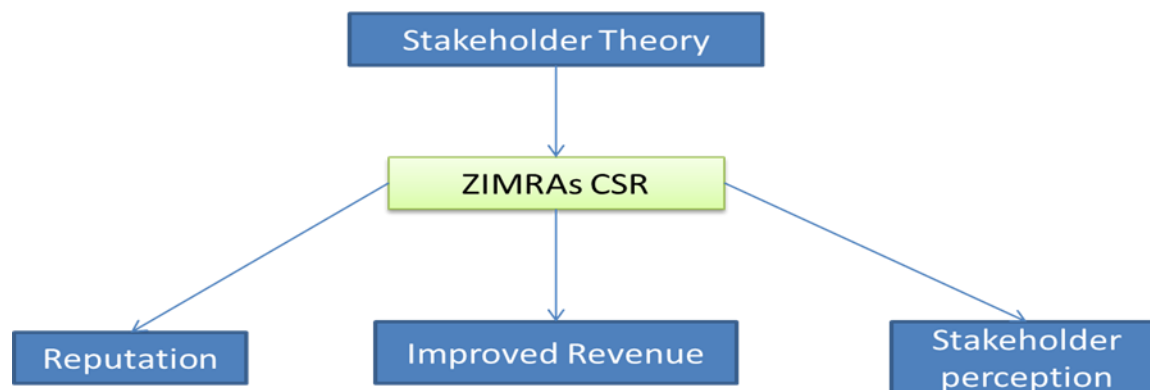


Figure 2.1: Conceptual Framework

The stakeholders of ZIMRA are government, taxpayers, agents, travellers, community. Each stakeholder has a legitimate expectation. For example government expect ZIMRA to meet revenue targets and effect trade controls, taxpayers expect to be charged and pay the correct amount, expedite services, community expect to meet targets in an environmentally and

socially responsible way. Employees expect a good working environment, a distinct career path and sustainable remuneration.

METHODOLOGY

The research was carried out by using a quantitative instrument – a questionnaire and a qualitative instrument – an interview guide to triangulate and strengthen findings from both instruments. The population in this study consisted of 136 175 stakeholders in the Masvingo and Mutare Regions of ZIMRA. A convenience sample of 110 was used. As supported by Skowronek and Duerr (2009), convenience sampling is suitable where you want to get the best results from capable respondents and also at an affordable cost. 92 out of 110 questionnaires were returned. 15 interviews were held with stakeholders of ZIMRA.

RESULTS AND DISCUSSIONS

Testing H1: corporate social responsibility improves ZIMRA reputation.

At 5% level of significance and $df = 4$, the critical value = 9.488 and the test statistic is 6.40. Since $6.40 < 9.488$, therefore fail to reject H1 at 5% level of significance. This shows that corporate social responsibility has the effect of improving the reputation of ZIMRA. The research also showed that 81.2% of the stakeholders responded by insisting that ZIMRA's corporate social responsibility has long term benefits. In having long term benefits corporate social responsibility can be strategic for ZIMRA.

Testing H2: corporate social responsibility improves stakeholders' perceptions.

The P – value = 5%, $df = 4$, critical value and test statistic = 11.81; this implies that $11.81 > 9.488$. Therefore reject H2 at 5% level of significance. This means that by engaging in CSR, the stakeholders' perceptions of ZIMRA does not increase or get enhanced.

Testing H3: Strategies improve ZIMRA's corporate social responsibility.

At 5% level of significance, $df = 4$, critical value = 9.488; since the test statistic is 5.36, the $5.36 < 9.488$, therefore fail to reject H3. Strategies have been proved to enhance CSR activities. The research has shown that ZIMRA's corporate social responsibility is strategic to the extent of being long term, improving reputation, improving stakeholder perception, but not in increasing revenue. Strategy improves ZIMRA's corporate social responsibility increasing employee and management commitment and engagement, creating opportunities, innovations and collaborations. Strategies also give direction to the type of and how to conduct corporate social responsibility. Given this world's dynamic and ever changing environment ZIMRA should adopt the emergent strategy by Mintzberg (1978). When mapped to the Five Stages of Organisational Learning by Zadek (2004) ZIMRA fits partly in the compliance stage and partly in the managerial stage. ZIMRA should move towards the Strategic stage and integrate seriously corporate social responsibility issues into their core business activities.

Hypothesis 4: Corporate Social Responsibility improves revenue collection.**Table 1: Correlations**

			CSR	Revenue
Kendall's tau_b	CSR	Correlation Coefficient	1.000	-1.000
		Sig. (2-tailed)	.	.
		N	3	3
	Revenue	Correlation Coefficient	-1.000**	1.000
		Sig. (2-tailed)	.	.
		N	3	3
Spearman's rho	CSR	Correlation Coefficient	1.000	-1.000**
		Sig. (2-tailed)	.	.
		N	3	3
	Revenue	Correlation Coefficient	-1.000**	1.000
		Sig. (2-tailed)	.	.
		N	3	3

** . Correlation is significant at the 0.01 level (2-tailed).

Source: computations from SPSS

Results from Table 1 show that there is a strong negative relationship ($r = -1$, $p < 0.01$) between CSR and revenue collection. As revenue collection increases, CSR support reduces by a similar proportion. H_4 is thus not supported. This seems to be at variance with expectations whereas revenue collection increases, CSR activities are expected to increase.

CONCLUSION

From the research it was found that while corporate social responsibility has a quick response to stakeholder perception, and reputation, it is not true when it comes to revenue collection. The research also found out that whilst ZIMRA is engaged in corporate social responsibility activities, their donation are proportionally and significantly low when compared to the revenue that it is supposed to collected.

RECOMMENATIONS

The researchers recommend the following:

- *Strategic stage-* ZIMRA should move toward Strategic stage and integrate corporate social responsibility issues into their core business activities according to the Five Stages of Organisational Learning by Zadek (2004). They should take advantage of quality management systems by certifying with ISO and come up with a social hand book that will document all their social activities.

- *Smart partnering*- ZIMRA should adopt the smart partnering solution suggested by Keys et al (2009) by partnering with society so as to take advantage of each other's expertise and come up with creative corporate social responsibility solutions that are beneficial to both ZIMRA and the social partner.
- *Engage in internal Corporate Social Responsibility* - ZIMRA should also look internally to its employees who are sometimes faced with social challenges to give a helping hand and consider this as a corporate social responsibility activity which will be recorded and accounted for on the Balanced Score Card.
- *Standardising* - ZIMRA should maintain corporate social responsibility on its Balanced Score Card. It should be more specific on the corporate social responsibility activities it engages in and this should be forecasted and standardised throughout.
- *Increase Donations* - ZIMRA should increase their donations, because their current expenditure on corporate social responsibility is not positively proportional to the revenue collected.

Area for future research

The place and role of parastatals or state – owned enterprises in CSR issues needs further research to establish the levels of CSR that they have to engage in as a prescription to easing socio – economic problems faced by society. As argued by Friedman (1970), is CSR for not – for – profit organisations?

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