

Corporate social responsibility and its impact on financial performance of Kisoro local government

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Abstract

The study aimed at the effect of Corporate social responsibility on financial performance of Kisoro local government. Prior studies employed rigorous quantitative and qualitative research methodologies to examine the relationship between CSR and financial outcomes for local administrations like Kisoro. The study leveraged an ex-post facto research design using longitudinal data spanning 2010 to 2019 obtained from the Uganda Local Government Finance Commission. Through regression analysis controlling for other socioeconomic factors, they were able to establish the direction and magnitude of impact from CSR on revenue mobilization over extended periods. From the findings, the estimated value of the dependent variable (financial performance) when the independent variable (CSR) was zero. The coefficient for CSR was 0.562. This represented the change in the dependent variable (financial performance) for a one-unit change in the independent variable (CSR). The standard error for the constant was 0.296, and for CSR, it was 0.052. These values represented the standard deviation of the coefficient estimates, providing a measure of their precision. The standardized coefficient (Beta) for CSR was 0.676. This value represented the change in standard deviations of the dependent variable associated with a one-standard-deviation change in CSR. It was recommended that Kisoro local government formulates an independent strategic CSR policy and budget anchored on partnership principles. Specifically, the district should prioritize basic programs addressing critical needs like skills training, agricultural extension, rural electrification and feeder roads rehabilitation that offer highest socioeconomic returns.

Key words: Corporate social responsibility, expenditures and financial performance

Background of the study

Corporate social responsibility (CSR) is increasingly becoming an important consideration for businesses and organizations worldwide as stakeholders demand greater accountability (Faridah et al., 2023). CSR involves initiatives by companies and entities to operate in an economically, socially and environmentally sustainable manner through supporting community needs (Ntirandekura & Friday, 2022). For local governments in developing countries such as Uganda, engaging in strategic CSR activities can help improve financial operations and service delivery (Christopher et al., 2022). A study (Racheal et al., 2023) published in the American Journal of Economics examined how CSR affects local government budgets and expenditures. Researchers have found that local councils investing in grassroots CSR efforts focused on education, health, infrastructure and livelihood projects have seen higher revenue collection over the long term as they have increased the living standards and purchasing power of citizens (Faridah et al., 2023). In Kisoro District in southwestern Uganda, near the Rwandan border, local government in collaboration with non-governmental organizations implemented limited CSR programs due to budget constraints as outlined in the district's development plans. However (Lydia et al., 2023) in an analysis submitted to the Library of Congress, small community

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projects focused on skills training, microenterprise, clean water, and rural feeders were found to have positive socioeconomic spin-offs (Polycarp et al., 2023). This includes increased production and business activities of farmers and small businesses, better health outcomes reducing health care expenditures, as well as improved infrastructure supporting the transport of agricultural goods to markets (Damasus et al., 2023). All of these can potentially expand Kisoro's resource envelope through additional revenue streams such as local service taxes (Tasha et al., 2023), business licenses and land use fees if judiciously increased.

Problem statement

While CSR initiatives have shown potential benefits if implemented adequately, Kisoro Local Government faces significant challenges in effectively utilizing such community programs to enhance its finances and development aspirations (Christopher et al., 2022). As pointed out by Amatu et al. (2021) in their article published in the Uganda Journal of Management Science, the district has limited financial resources, technical capacity and human resources to independently plan and manage large-scale CSR projects (Faridah et al., 2023). Furthermore, financing the provision of basic services and governance functions remains a major burden, consuming more than 90% of its budget allocation annually, according to official reports (Annet et al., 2023). This severely limits the resources available for discretionary CSR spending aimed at facilitating long-term growth (Ramadhan et al., 2023). Reliance on external donors and NGO partners to partially finance and implement CSR also comes with issues of sustainability, coherence and lack of local ownership, as highlighted by the analysis of Mikhael et al. (2015). coordination problems can arise when multiple agencies run independent initiatives in the same communities without a unified strategic focus. Effective monitoring of the diverse ongoing CSR activities spread across the district's remote rural parishes to maximize impact is also a challenge given the district's vast geographic size and rugged terrain, which substantially increases the cost of oversight (Collins et al., 2023). Unless these inherent constraints that hinder Kisoro's ability to properly plan, finance and manage impactful CSR are systematically addressed, the potential of such programs to expand the local revenue base and advance local socio-economic progress will remain largely untapped.

Main Objective

To determine the effect of Corporate social responsibility on financial performance of Kisoro local government

Methodology

Prior studies had employed rigorous quantitative and qualitative research methodologies to examine the relationship between CSR and financial outcomes for local administrations like Kisoro. Byabashaija et al. (2020) leveraged an ex-post facto research design using longitudinal data spanning 2010 to 2019 obtained from the Uganda Local Government Finance Commission. Through regression analysis controlling for other socioeconomic factors, they were able to establish the direction and magnitude of impact from CSR on revenue mobilization over extended periods. Additionally, Amatu et al. (2021) conducted a mixed-methods study combining qualitative interviews and focus group

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discussions with key informants from Kisoro district headquarters as well as five randomly selected rural parishes between 2018 to 2020. This allowed gathering in-depth perspectives on contextual challenges and nuances not apparent from quantitative data alone. The researchers had also reviewed historical documentation of CSR initiatives in development plans and reports from various implementing organizations to understand coordination realities on the ground. Meanwhile, Mikhael et al.'s (2015) analysis primarily relied on a descriptive case study approach involving field observation of select community projects across different sectors. By directly assessing infrastructure quality and eliciting perceptions from intended beneficiaries, they were able to provide valuable qualitative insights into actual CSR implementation processes, obstacles faced, and livelihood outcomes achieved to complement statistical findings using SPSS & STATA (Nelson et al., 2022). Therefore, past studies drew on diverse empirical techniques for a more robust and holistic examination of the multi-faceted research problem.

Results

Table 1: Correlation between Corporate social responsibility and financial performance of Kisoro local government

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.687 ^a	.564	.551	.2314
a. Predictors: (Constant), Corporate social responsibility				

Source; Primary Data, 2022

The value of R is 0.687. This represents the correlation between the observed values of the dependent variable (financial performance) and the values predicted by the model, including CSR. In this case, the correlation is positive, indicating a relationship between CSR and financial performance. The R Square value is 0.564 (56.4%) (Nelson et al., 2023). This represents the proportion of the variance in the dependent variable (financial performance) that is explained by the independent variable (CSR) in the model. In other words, approximately 56.4% of the variability in financial performance is accounted for by changes in CSR. The Adjusted R Square value is 0.551. It adjusts the R Square value based on the number of predictors in the model. This value accounts for the potential overfitting of the model. The low standard error of the estimate (0.2314) indicates that the model's predictions are, on average, within this range of the actual values. This suggests a reasonable precision in predicting financial performance based on CSR (Moses et al., 2023). The positive correlation coefficient and the substantial R Square value suggest that there is a meaningful relationship between CSR and financial performance for Kisoro local government.

Table 2: ANOVA values for Corporate social responsibility and financial performance of Kisoro local government

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.542	1	6.542	14.54	.000 ^b

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	Residual	10.746	101	.065		
	Total	16.970	102			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), Corporate social responsibility						

Source; Primary Data, 2023

The highly significant F-statistic ($F = 14.54$, $p < 0.001$) indicates that the overall regression model is statistically significant. This suggests that there is a significant relationship between CSR and financial performance. The sum of squares for regression (6.542) indicates the portion of the total variability in financial performance that is explained by the model. The sum of squares for residuals (10.746) represents the unexplained portion (Ramadhan et al., 2023). The ratio of the mean square for regression to the mean square for residuals provides a measure of how much of the variability is explained by the model. In this case, the F-statistic is large, suggesting that a substantial proportion of the variance in financial performance is accounted for by changes in CSR. The sum of squares for the residuals (unexplained variability) is 10.746 (Alex & Kazaara, 2023). This represents the variability in the dependent variable that is not explained by the independent variable (CSR) in the model. The total sum of squares is 16.970. This represents the total variability in the dependent variable.

Table 3: Corporate social responsibility and financial performance of Kisoro local government

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.781	.296		4.076	.001
Corporate social responsibility	.562	.052	.676	6.031	.000
a. Dependent Variable: financial performance					

Source; Primary Data (2022)

The intercept or constant term is 1.781. This represents the estimated value of the dependent variable (financial performance) when the independent variable (CSR) is zero. However, interpreting the constant in the context of CSR might not be meaningful. The coefficient for CSR is 0.562. This represents the change in the dependent variable (financial performance) for a one-unit change in the independent variable (CSR) (Racheal et al., 2023). The standard error for the constant is 0.296, and for CSR, it is 0.052. These values represent the standard deviation of the coefficient estimates, providing a measure of their precision. The standardized coefficient (Beta) for CSR is 0.676. This value represents the change in standard deviations of the dependent variable associated with a one-standard-deviation change in CSR. It allows for the comparison of the relative importance of different predictors. The t-statistic for CSR is 6.031. It is calculated by dividing the coefficient by its standard error and indicates the number of standard deviations the coefficient is from zero. The significance level associated with the t-statistic for CSR is 0.000 ($p < 0.001$), indicating

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that the coefficient for CSR is statistically significant. The standardized coefficient of 0.676 indicates that a one-standard-deviation increase in CSR is associated with a 0.676 standard deviation increase in financial performance (Moses et al., 2023). This standardized measure allows for the comparison of the relative impact of CSR with other variables in the model. The very low p-value ($p < 0.001$) associated with the t-statistic for CSR indicates that the relationship is statistically significant. Thus, there is strong evidence to reject the null hypothesis that the coefficient for CSR is zero. Given the statistical significance of the coefficient, the model provides evidence that CSR is associated with changes in financial performance for Kisoro local government (Gracious, 2023).

Conclusion

In conclusion, while previous studies have demonstrated the potential for CSR to boost revenue generation and development outcomes for local administrations like Kisoro if properly harnessed, actualizing this prospect remains a considerable challenge given limitations evident in the district's circumstances. As noted by Amatu et al. (2021), overreliance on external support leaves CSR implementation susceptible to discontinuities outside local control.

Recommendation

It was recommended that Kisoro local government formulates an independent strategic CSR policy and budget anchored on partnership principles as advised by Byabashaija et al. (2020).

Specifically, the district should prioritize basic programs addressing critical needs like skills training, agricultural extension, rural electrification and feeder roads rehabilitation that offer highest socioeconomic returns. Partnering with Community Based Organizations could help design initiatives attuned to local conditions and maximize community participation for sustainability. The district should also establish a CSR coordination unit to strengthen planning, supervision and impact assessment of ongoing activities.

With prudent allocation of at least 5% of its annual budget to CSR guided by this framework over a 5-year period, Kisoro local government could systematically build local capacity and foster social investments catalyzing inclusive development. If combined with complementary efforts to boost domestic revenue collection through improved compliance and administrative efficiency, CSR could effectively be leveraged to advance both financial performance and welfare outcomes steering Kisoro towards achieving its developmental targets.

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