CORPORATE SOCIAL INVESTMENT – GOOD BUSINESS AND GOOD REVENUE: THE CASE OF WOOLWORTHS HOLDINGS LTD SOUTH AFRICA

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Abstract

This paper examined the relationship between corporate social investment and revenue in Woolworths Holdings Limited South Africa. The approach is thus a single case study, and financial data on social investment and revenue was retrieved from the Woolworths Holdings' Good Business Journey report 2008 -2013 and from its annual report of 2002 - 2007. Using the SPSS statistics software, a correlation was sought between the Woolworths Holdings' social investment expenditure and revenue, earnings per share and return on equity. Findings from the analysis revealed that, within the six years of Woolworths Holdings' Good Business Journey, a significant positive relationship exists between Woolworths Holdings' social investment and its revenue, earnings per share (EPS) and return on equity (ROE). A further analysis of difference in means using the t-test statistics indicates that the revenue streams to Woolworths Holdings' between 2008 – 2013 is significantly greater than the revenue streams in the six years before the Good Business Journey. In conclusion, the paper suggests a new research model, referred to in this research as the share holders' support for corporate social investment model, and it is represented as: $SHSSI = f(R_v+E_s+R_e+O_f)$. The paper thus offers an agenda for further research to apply the above model to evaluate the degree of shareholders' interest and support for corporate social investment in retailing and other companies.

Keywords: Social Investment, Revenue, South Africa

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1 Introduction

The environmental challenges of the 21st century and the concomitant negative impact on society propel an emerging positive behavioural change in human activities amidst the incessant pursuit for economic wealth. Such bourgeoning change of behaviour towards society and environment attests to an inherent visceral trait of humans towards responding and adapting to environmental vicissitudes for survival. Although some corporate empires had in the past, rebuffed the idea of corporate sustainability initiative and social responsibility as a viable business strategy, and in some instances also lunched campaigns of climate change denial (Dunlap, 2014; Brulle, 2014); however it is interesting to behold some corporations leading, campaigning for and displaying positive pragmatic initiatives towards society and environment. Albeit the economic downturn of the recent past, Woolworths Holdings Limited South Africa is one of the South African retailers with an accolade for its social investment and yet has retained a sustained value creation for its shareholders. It is therefore apposite to showcase an instance of a retailing company in an emerging economy that is 'walking the talk' towards corporate social investment. This is important to demonstrate to social apathetic companies in Africa and beyond that corporate social investment may not erode business revenue as apparently feared by some corporations.

Hence the question that motives this article is whether Woolworths' social investment has had any relationship with its revenue performance. Accordingly the objective of this paper is to examine if Woolworths' corporate social investment relates to its performance during the past six years of Woolworths' Good Business Journey.

The article is deemed significant mostly within the South African and African context – to serve as an example to other corporations in the country and in Africa in general, that corporate social investment is a business strategy that may stimulate positive revenue. The paper makes a modest contribution to existing social accounting literature by linking the stakeholder-shareholder views on corporate social responsibility with this case study, and thereafter, proceeds to formulate a new proposition with a model for further research.

The rest of this article is organised as follows: the next section after the introduction presents a review of related literature; this is followed by a theoretical discussion on the stakeholder-shareholder views of corporate social responsibility and its linkage with this paper. The subsequent section presents the method, analysis and result; this is followed by a conceptual proposition for further research. The last section is the conclusion.

2 Related literature

Many extant literatures have investigated the possible relationship between corporate social investment and firm performance using a single and multiple case studies, and with diverse findings (see e.g. Preston & O'bannon, 1997). The varied findings are not surprising though as social and cultural environment influences firm behaviour and market response to corporate sustainability initiatives.

In their study, Aupperle et al. (1985) explored the relationship between corporate social responsibility and profitability, but the study yielded no relationship between social responsibility and firm profitability, and corporate social initiatives failed to correlate with the firms' performance indicators. Similarly in their empirical research on the financial implication of corporate social responsibility McWilliams & Siegel (2000) found no relationship between the two; they argued that the reason for finding no relationship is because they integrated research and development (R&D) in their analysis; but it is possible that the length of time used in this research may have resulted in the lack of relationship as research and development may take many years before yielding any positive return, hence it may often be capitalised and written off yearly as an expense against profit. If the annual R&D write off is well spread over many years, the negative impact as alluded by McWilliams & Siegel (2000) might not be adverse on the profit figure. In another related but somewhat an inverse relationship study, Stanwick & Stanwick (1998) examined the effect of three variables on firm social responsibility performance – the firm size, firm financial performance, and firm environmental performance; their empirical findings revealed that the level of firms' social responsibility performance is affected by the firm's size, financial performance and the level of firm's pollution. Also, using a stakeholder theory, (Ruf et al. 2001) studied the firm's performance implication of corporate social responsibility; they found short and long term positive effect of improved corporate social responsibility; whilst the revenue improved within the short term, the firm's return on sales improved within the long term. In another related study (Barnett & Salomon (2012) discovered what they described as a U-shaped relationship between corporate social performance and firm financial performance; they find that firms with low corporate social investment experience higher financial performance than firms with moderate corporate social investment, but that firms with a high corporate social responsibility experience highest firm financial performance. Also in another closely related study, (Soana, 2011) evaluated the correlation between corporate social rating and financial performance; using accounting and market ratios as proxies of financial performance, results from their analysis showed no correlation between corporate social performance and financial performance. Other researchers such as Servaes & Tamayo (2013) concludes that corporate social investment may generate value for the organisation, but under some conditions such as customer awareness; hence in their empirical research on the role of customer awareness in value creating from corporate social responsibility, Servaes & Tamayo (2013) findings show that, indeed, CSR may add value to the firm if customer awareness of the firm initiatives are enhanced through advertisement. This findings thus shows the need for dissemination the positive social image of the firm to corporate stakeholders. Still, other researchers have sought to investigate possible financial performance implication of corporate social responsibility in emerging markets, and hence Aras et al (2010) found that a relationship exists between firm financial performance and corporate social responsibilities, but that this depends on the time lag between the corporate social responsibility investment and financial performance. This findings thus suggests that firms should not expect to reap the value of social investment immediately after investment; the investment initiatives must be disseminated first through various advertisement media Servaes & Tamayo (2013), and thereafter, the social investment may begin to attract more stakeholders' patronage, then the associated values may commence streaming in. however this allusion may not be taken as a given for all firms and for all manner of social investment, because in their empirical research, Inoue & Lee (2011) discovered that different types of corporate social responsibility performance such as "*employee relations, product quality, community relations, environmental issues, and diversity issues*" Inoue & Lee (2011, p. 790) has impacts on financial performance of the firm, but stressed that each social responsibility dimension has a different time impact (short term and long term) – depending on the type of CSR and on the type of firm. Confirming the above findings, Mishra & Suar (2010) studied the effect of CSR on Indian firms, and found that corporate social responsibility is associated with firms' financial and non-financial performance, and observed that stock exchange listed firms are more socially responsible than non-listed firms – thus suggesting that listed firms may be more prone to enhancing their social responsibility image possibly to be financially attractive and competitive within the stock market. Another researcher Ducassy, (2013) adopted a different perspective from the extant literature and examined the effect of corporate social responsibility on firm financial performance in times of crisis, and found that CSR is positively related to financial performance during the beginning of economic crisis. Other researchers, Cheng, Ioannou, & Serafeim (2014) also adopted a different perspective of CSR research and evaluated if corporate social responsibility may enhance financial access; their empirical research findings showed that firms with better CSR performance have little or no constraints in mobilising capital. This finding is closely related to the study of Kong (2013) which discovered that firms with high levels of corporate social investment experience high market value. Foote et al. (2010) corroborates the findings of Kong (2013) after studying the performance excellence of firms with social responsibility initiatives with findings which shows that there is a performance excellence when firms engage in social responsibility investment.

The value implication of corporate social responsibility became necessary not only for academic and research expediency, but importantly, to persuade firms that it also pays to be socially responsible. If it is rewarding to be socially responsible, it thus means that shareholders investment and attendant return may not be diminished; this reasoning thus anchors this paper on the stakeholder's view of corporate social responsibility, this is briefly discoursed below.

3 Theoretical framework

3.1 The stakeholder view on corporate social responsibility

The emergence of the notion of corporate social responsibility has witnessed a polarised debate amongst scholars who are either on the side of shareholders' view of the firm or in support of the stakeholders' perspective (Branco and Rodrigues, 2007). Before proceeding to the stakeholder's view of CSR, it is apposite to reminiscence the popularised view of the shareholders' perspective on corporate social responsibility, which is that the only objective of the firm is profit accruable to shareholders (owners of the firm); in a free economy:

…there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game… (Friedman, 2009, p.112).

According to Friedman (2002, 2009), the raging campaign for corporate social responsibility outside the interest of shareholders is a delusion of the attributes of a free economy, hence he sees CSR movement as a revolution against the norm of a free economy. Although Friedman's assertion seemed intolerable by social responsibility campaigners, but Friedman (2009) also implicitly drew his assertion closer to the ideals of corporate social responsibility when he says that the society may establish a framework to guide business interest to also promote the interest of society; he opines that an individual will more likely promote the interest of society when he is pursuing his own interest than when he is made to focus on promoting the interest of society. The foregoing reasoning by Freidman (2009) can be viewed logically as a somewhat linkage to the views of the stakeholders' view on CSR, such that Friedman (2009) was not an utter radicalism against corporate social responsibility, but that CSR must be linked to the financial interest of the firm (see e.g. Johnson, 2003).

Whereas the shareholder theory insists that social responsibility outside the interest of shareholders is not a moral obligation of business, the stakeholder theory Freeeman (2001) believes that the responsibility of business should include not only the shareholders but all stakeholders, defined by Freeman as "*…..groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by corporate actions*"(p.41); "*any group or individual who can affect or is affected by the corporation*" (p.42). Freeman concurs with the value (profit) creation goal of the corporation, but highlights that profit is the outcome of the process of value creation and that value is created in an environment where business is able to develop mutual relationships, where all stakeholders are stimulated, and where an enthused community is created with every member of the community striving in a congruence manner to deliver the value that the firm promises Freeeman (2001). It can be deduced thus that within the stakeholder theory view, value or profit cannot be achieved in a silo or in isolation of the diverse stakeholders of the corporation – "*suppliers, customers, employees, stockholders, and the local community as well as management*….(p.39)". The inscription on Woolwoths Holdings Ltd. South Africa Good Business Journey seems to concur with Freeman's theory:

We realise that the only way to accomplish our goals is by changing our approach to business and we have invited our suppliers, business partners, NGOs and customers to join us on this journey (Woolworths Holdings, 2014.p.1).

It can be seen thus that there is currently an evolving exciting paradoxical swing amongst the modern stakeholder view of corporate social responsibility which draws their argument almost close to an alignment with the Friedman's shareholder view (Johnson, 2003). The social adherent's view of corporate social responsibility can now be seen to be linking corporate social responsibility with firms' financial performance (Johnson, 2003; Burke & Logsdon, 1996) to encourage business to engage in corporate social responsibility. This is perhaps why Freeman et al.

(2004) revisited his essay on stakeholder theory and opines eloquently that "……even shareholder theory is, in fact, a version of stakeholder theory…"; Freeman et al. (2004, p.368). This is not surprising because, as can be seen from modern CSR research, both the shareholder perspective and the stakeholder perspectives of social responsibility focus their argument on value creation for the firm (Freeman et al. 2004). It is this seemingly evolving confluence (value creation) between the stakeholder and shareholder versions of corporate social responsibility that spurs this paper to suggest a proposition with a model for further research testing – that shareholders will support corporate social investment if CSR will guarantee value for their investment. This value creation is conspicuous in the WoolWorths Holdings (2013, p.19) good business journey report where the company marks an inscription "value created":

The value that we have created for our various stakeholder groups is a key measure of the positive impact that we have on the South African economy (WoolWorths Holdings, 2013, p.19.)

The value created in Woolworths Holdings Ltd South Africa – which is the wealth, is distributed to various stakeholders as follows:

- To employees as salaries,
- wages and other benefits
- To government as income tax
- (including deferred tax)
- To lenders as finance costs
- Depreciation, amortisation
- and impairment
- Social contribution
- To shareholders

4 Method

The paper adopts a single case study of Woolworths Holdings Limited (WHL) South. WHL is a retailer based in South Africa, and enlisted in the South African Johanneburg Stock Exchange in 1997 (Woolworths Holdings Limited, 2014, p.66). Data collection is archival and is drawn from the Woolworths Good Business Journey Reports of 2008 to 2013 (Woolworths Holdings Limited, 2013, p.7) (for the correlation test), and from the WHL annual report 2002-2007 (Woolworths Holdings Limited, 2008, p.12) (for an analysis of difference in means). The Woolworths' good business journey indicators became available in the Woolworths' 2008 good business journey report. The good business journey was first initiated by WoolWorths Holdings Ltd. SA and launched in 2007. WoolWorths South Africa is the only South African retailer with this unique variant of sustainability terminology – "Good Business Journey" which the company initiated in 2007. According to Woolworths Holdings Ltd. South Africa:

Business' role in driving sustainability is becoming ever more important. This applies to both the community around us and to the environment that serves us all. Our response is our good business journey. (Woolworths Holdings Limited, 2013, p.1).

Having been recognised nationally and internationally as a retailer with an outstanding performance in social and environmental issues (WHL, 2013, p.8), this paper thus chose the Woolworths Holdings Limited South Africa to show that sustainability compliance may also be beneficial to the performance of a retailing company.

Thus, in this section, the analytical method adopted is two folds. Firstly, a correlation is sought between WoolWorths social investment and revenue between the 2008 – 2013 'good business journey'. Secondly, a differential analysis of revenue performance (six years before and six years after the Good Business Journey) is undertaken to understand how the Good Business Journey (measure by its social investment) has made a difference in the revenue of WoolWorths Holdings Ltd South Africa.

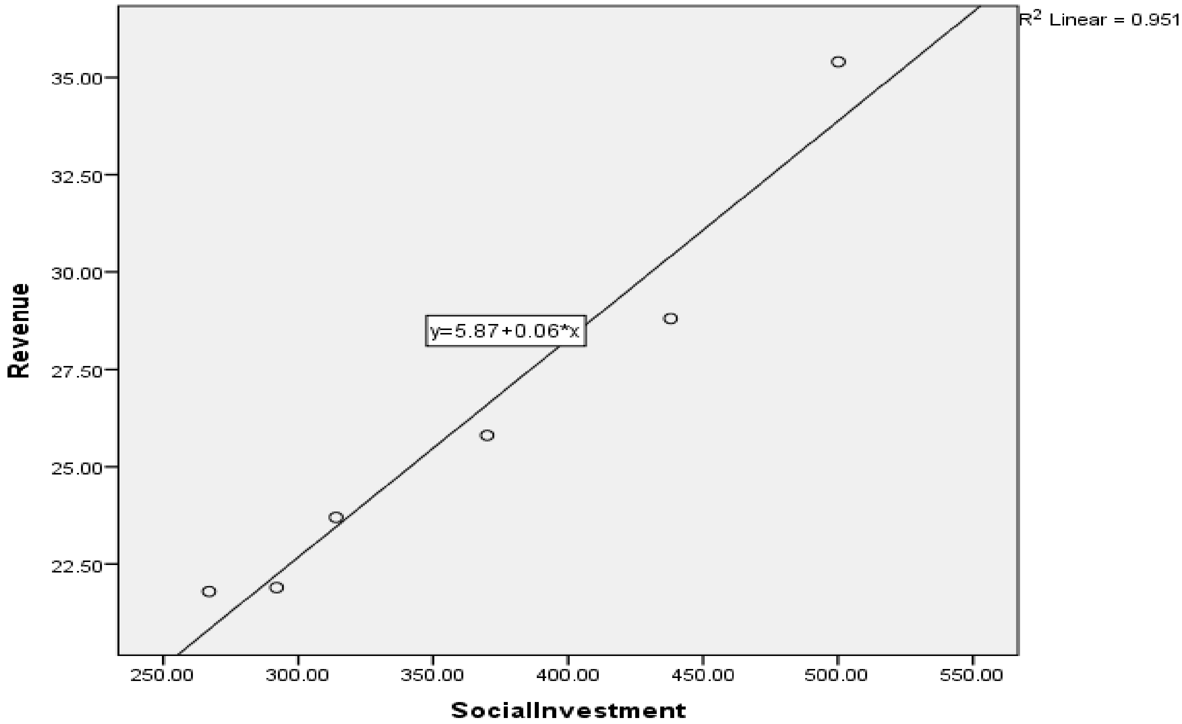
Table 1. Correlation between Woolworths Holdings Ltd corporate Social Investment & Revenue

		Revenue	SocialInvestment
Revenue	Pearson Correlation	1	.975**
	Sig. (2-tailed)		.001
	N	6	6
SocialInvestment	Pearson Correlation	.975**	1
	Sig. (2-tailed)	.001	
	N	6	6

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

Tested at 5% significance level, the Table 1 SPSS correlation test output of 0.01 significance (less than 5%), indicates that there is a significant positive relationship between social investment and revenue in Woolworths Holdings Ltd. South Africa. Figure 1 shows the correlation scatterplot.

Figure1. SCATTERPLOT (BIVAR)=SocialInvestment with Revenue



Given that the shareholders' money are used in fostering the social image of the firm, and that the shareholders interest in the business is primarily what they take home, and as such, according to (Friedman, 1998; Jensen, 2001), business must carter for the interest of shareholders. The following tables thus present a correlation test seeking to check if the Woolworths Holdings Ltd social investment has had any relationship with shareholders' earning per share and return on shareholders' equity (ROE) – six years after the Woolworths' good business journey (being good to society and shareholders); see Table 2 and Table 3.

Table 2. Correlation between Woolworths Holdings Ltd Corporate Social Investment & Earnings per Share

		SocialInvestment	HeadlineEPSincents
SocialInvestment	Pearson Correlation	1	.997**
	Sig. (2-tailed)		.000
	N	6	6
HeadlineEPSincents	Pearson Correlation	.997**	1
	Sig. (2-tailed)	.000	
	N	6	6

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

Tested at 5% significance level, the Table 2 SPSS correlation test output of 0.01 significance (less than 5%), indicates that there is a significant positive relationship between social investment and earnings per share in Woolworths Holdings Ltd. South Africa. Figure 2 shows the correlation scatterplot.

Tested at 5% significance level, the Table 3 SPSS correlation test output of 0.05 significance (equivalent to 5%), indicates that there is a significant positive relationship between social investment and Return on Equity (ROE) in Woolworths Holdings Ltd. South Africa. Figure 3 shows the correlation scatterplot.

Figure2. SCATTERPLOT (BIVAR)=SocialInvestment with Earnings Per Share

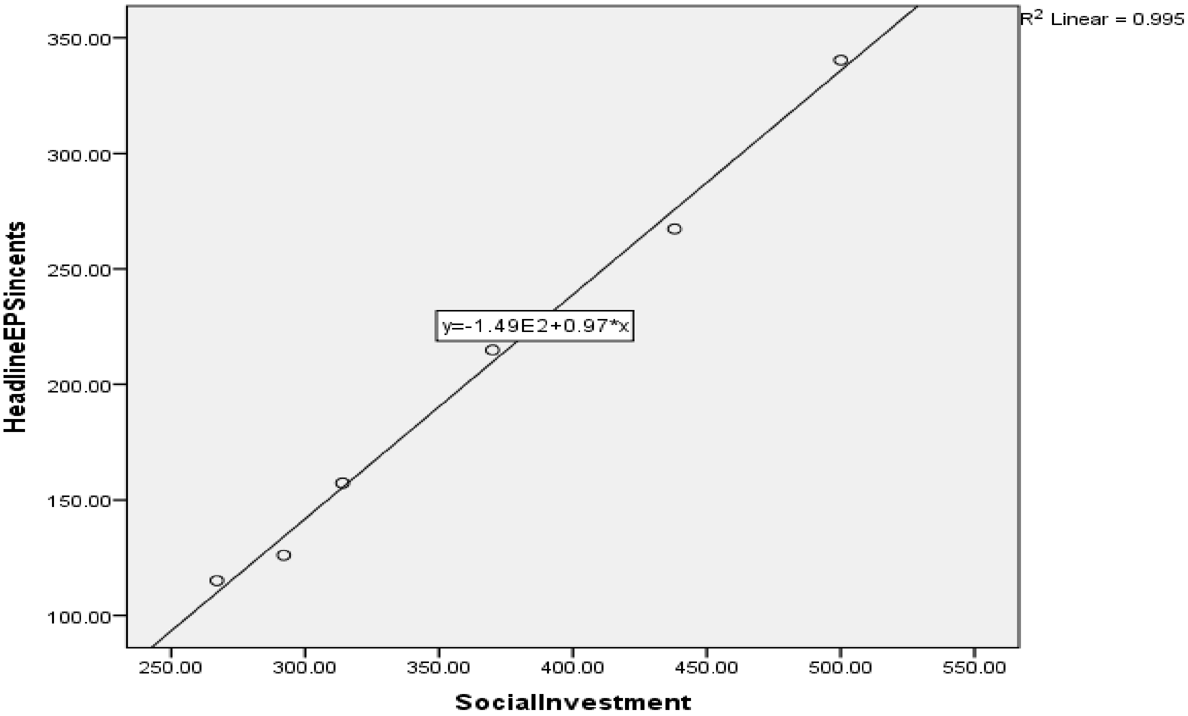


Table 3. Correlation between Woolworths Holdings Ltd Corporate Social Investment & Return on Equity (ROE)

		SocialInvestment	ROEpercentage
SocialInvestment	Pearson Correlation	1	.903*
	Sig. (2-tailed)		.014
	N	6	6
ROEpercentage	Pearson Correlation	.903*	1
	Sig. (2-tailed)	.014	
	N	6	6

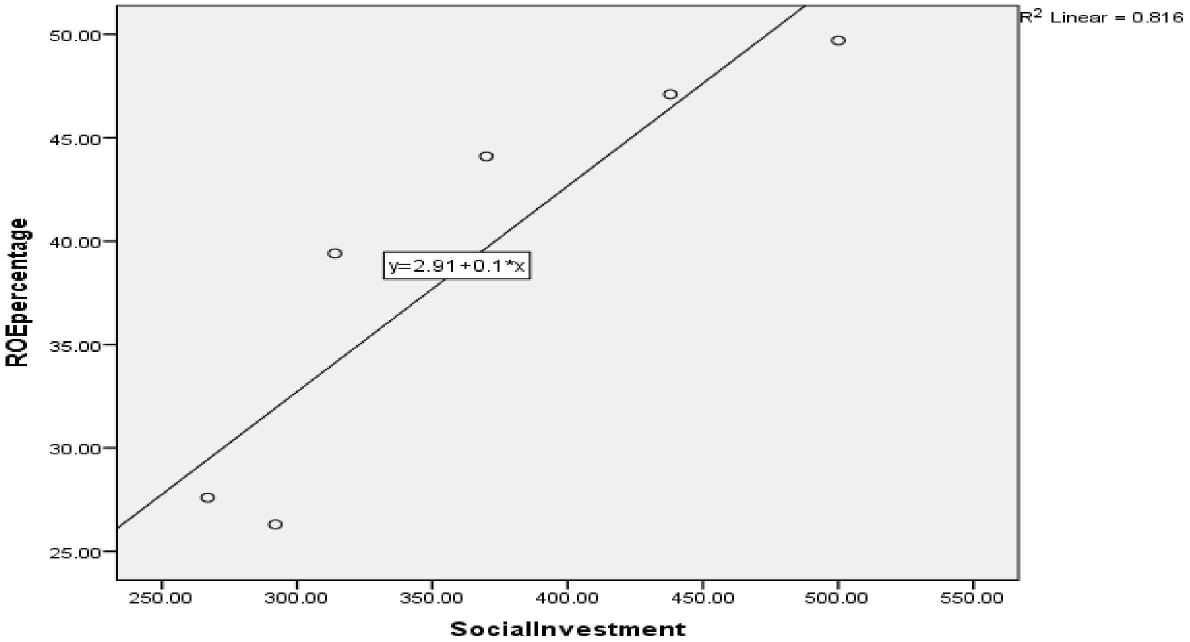
*Correlation is significant at the 0.05 level (2-tailed).

Table 4. t-Test: Paired Two Sample for Means

Difference in Means of WoolWorths' Revenue between six years before the good business journey (2002-2007) & six years after the good business journey (2008-2013)

	Rev.6yrs before	*Rev 6 yrs after*
Mean	12.76666667	26.23333333
Variance	13.06666667	27.13066667
Observations	6	6
Pearson Correlation	0.987304635	
Hypothesized Mean Difference	0	
df	5	
t Stat	18.98576741	
P(T<=t) one-tail	3.73517E-06	
t Critical one-tail	2.015048373	
P(T<=t) two-tail	7.47033E-06	
t Critical two-tail	2.570581836	

Figure3. SCATTERPLOT (BIVAR)=SocialInvestment with Return on Equity.



From Table 4, the test of mean difference in revenue is significantly different from zero as the t statistic from the Table 4 output is 18.9 higher than the t-critical which is 2.0; also the $p<0.05$, both the one-tail and two-tail tests are less than 0.001. This thus shows a significant positive higher difference in the revenue of Woolworths six years after the good business journey. The above output shows the positive difference with a mean of 26.2 six years after the good business journey over a mean of 12.7 six years before the good business journey, indicating an improved positive revenue within the first six years of the good business journey, which is better than the revenue of the six years before the good business journey of Woolthworths Holdings Ltd. South Africa.

5 A proposition for further research

From the preceding findings of this study, the paper proceeds to make a proposition for further research, which is, that companies may motivate the support of shareholders to engage in corporate social investment if their invested interests are not risked – that is, if shareholders' dividends retain an upward trajectory and if the return on shareholders' equity is guaranteed; this proposition is termed here as the *shareholders' social investment support*. This support may occur if shareholders see or foresee a concrete reality that social investment may increase their value in the business. This assertion is captured in the following schematic and model representation.

5.1 Shareholders' corporate social investment support

The paper's proposition is based on the reasoning that shareholders' investment in business is not philanthropic, their original financial interest in business still holds (Lantos, (2001); if there are no benefits accruable to the owners of business, it becomes somewhat improbable that business may engage in CSR since this will negate the primary purpose of the business (Logsdon, 1996). Thus Barnea & Rubin (2010) argues eloquently that CSR becomes a source of conflict between shareholders and management if CSR expenditure will diminish shareholders' value. Hence this paper proposition which is, that, holding other factors constant, the shareholders might support corporate social investment if shareholders perceive that corporate social investment may improve their value in the business such as:

- Revenue growth
- EPS growth
- ROE growth

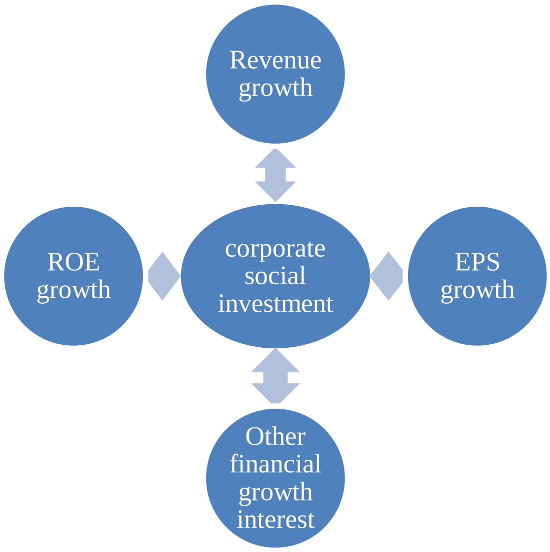
This thus is rewritten into a proposed simple testable model for further research as: shareholder support social investment (SHSSI) might possibly be elicited if such investment may result in revenue growth, earnings per share growth, and return on equity growth.

$$SHSSI = f\ (R_v+E_s+R_e+O_f)$$

Where SHSSI: share holders' support for corporate social investment; R_v: revenue growth; E_s earnings per share growth; R_e: return on equity growth; and O_f: other financial growth.

The above model proposition is captured in a schematic representation in Figure 4 below.

Figure 4: shareholders' social investment support



Source: author's proposition

Further research is therefore recommended to apply the above model to test the level of shareholders' response and support for corporate social investment.

6 Conclusion

This paper explored the revenue implication of corporate social investment using the WoolWorths Holdings Limited South Africa. The paper became apposite to show that retailing companies may also benefit from sustainability adherence. Whilst there exist a mix of results in the literature regarding the potential benefit of corporate social responsibility, few researches have looked at the correlation between social investment and revenue in a retailing company in South Africa. Thus using a single case study of WoolWorths Holdings Limited South Africa, financial data on social investment and revenue was retrieved from the WoolWorths Holdings Limited South Africa Good Business Journey report 2008 - 2013 and from its annual report of 2002 to 2007. Using the SPSS statistics software, a correlation was sought between the WoolWorths Holdings Limited South Africa social investment expenditure and revenue, earnings per share and return on equity. Findings from the analysis indicates that within the six years of WoolWorths Holdings' Good Business Journey, a significant positive relationship exists between WoolWorths Holdings' social investment and its revenue, earnings per share (EPS) and return on equity (ROE). A further analysis of difference in means using a t-test, indicates that revenue streams to WoolWorths Holdings' between 2008 – 2013 is significantly greater that the revenue streams, six years before the Good Business Journey 2002-2007. Conclusively, the implication of the above positive results is that a retailer may benefit by engaging in corporate social responsibility. This finding is assenting to the evolving confluence of the shareholder and stakeholder views of corporate social responsibility – value creation. Simply put, therefore, the value (wealth) of a retailer may be enhanced with an improved social responsibility. In conclusion, the paper offers a nuanced contribution to existing literature by suggesting a new research model which is couched in the proposition that shareholders may be willing to support corporate social investment, if indeed, their value in the firm is guaranteed. This is termed in this research as the share holders' support for corporate social investment model and it is represented as: SHSSI = f $(R_v+E_s+R_e+O_f)$. Further research is therefore recommended to apply the above model to test the degree of shareholders' interest and support for corporate social investment. This case study is thus useful for academics and scholars for teaching and for research, and for retailing companies to appreciate and implement corporate social investment as an emerging vital growth strategy.

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