

UNIVERSITY OF GHANA
(College of Humanities)



**ESSAYS ON THE NEXUS BETWEEN CORPORATE
GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY
AND CORPORATE PROFITABILITY: EMPIRICAL
EVIDENCE FROM LISTED FIRMS IN AFRICA**

BY

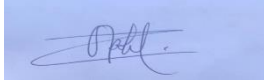
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**THIS THESIS IS SUBMITTED TO THE UNIVERSITY OF GHANA,
LEGON IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR
THE AWARD OF PHD IN ACCOUNTING DEGREE.**

MAY, 2025

DECLARATION



30TH MAY, 2025

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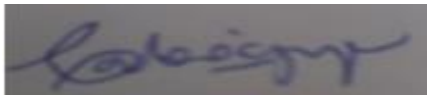
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CERTIFICATION

I, the undersigned, do hereby certify that this thesis was supervised in accordance with the guidelines laid down by the University.



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DEDICATION

With gratitude to Almighty God, I dedicate this work to my dear mother, Madam Victoria Akyaa and my beloved wife, Mrs. Stella Vivian Opoku.

Moreover, to my loved children, Deborah, Nana Appiah, Nana Ofori, Abigail, Jessica, Dansowaa and Papa.



ACKNOWLEDGEMENT

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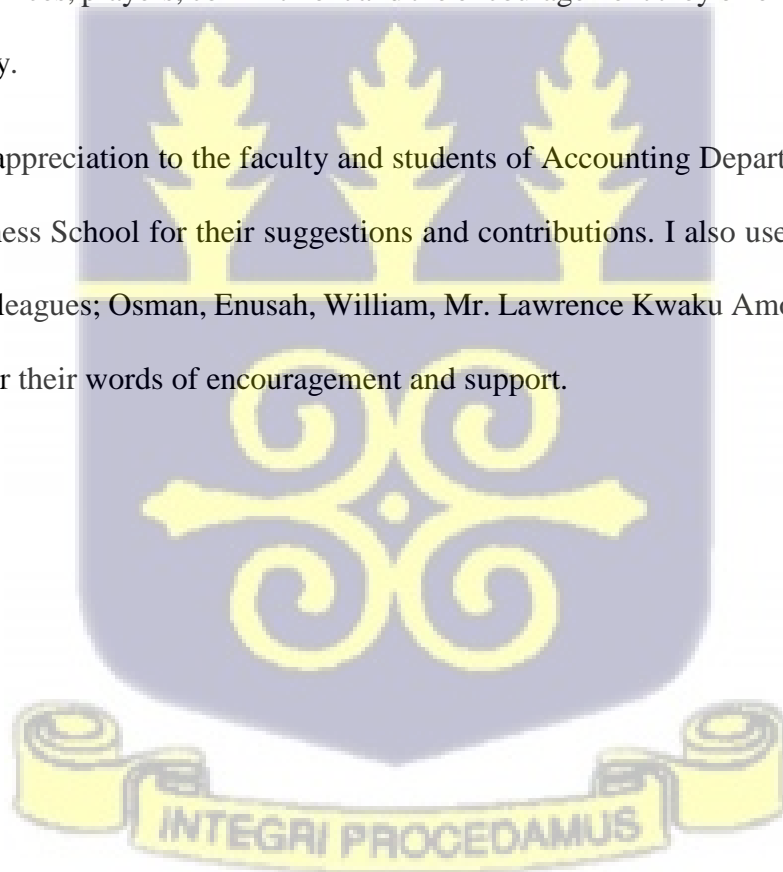


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ABSTRACT

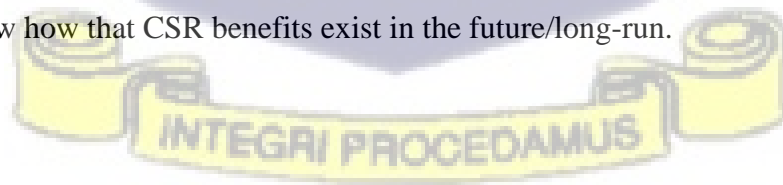
Corporate governance (CG) structures and corporate social responsibility (CSR) have been proposed as mechanisms through which firms can promote corporate profitability. However, the key issues that remain unclarified in the empirical literature, are whether or not corporate governance structures have same effects across sectors and across stakeholder and shareholder profits, whether or not there is a short-run and long-run effects of CSR on shareholder and stakeholder profits across different sectors and whether or not there is a non-linear and synergetic effects of corporate social responsibility (CSR) on corporate profitability, particularly within the context of listed firms across different sectors in Africa.

This thesis, therefore, focuses on investigating the nexus between corporate governance structures, corporate social responsibility (CSR), and the interactions between CSR dimensions on stakeholder and shareholder profits in African listed firms across different sectors. The thesis employs a dynamic Generalized Method of Moments (GMM) panel data strategy of 369 listed firms in Africa between 2006 and 2020.

The first study specifically examines corporate governance structures and finds that their effects on stakeholder and shareholder profits vary significantly across sectors. It emphasizes that corporate governance structures should be sector-specific to enhance profitability and highlights the persistent benefits of corporate governance in the long run, except for the Consumer Staple and Consumer Discretionary sectors. The second study investigates the effects of CSR on shareholder and stakeholder profits. It reveals that different CSR activities have varying effects across sectors. Governance-related CSR benefits stakeholder and shareholder profits in financial and consumer staple sectors, while social-related CSR enhances profits in Africa as a whole, financial, and consumer discretionary sectors. Environmental-related CSR only improves profits in the full sample and consumer discretionary sector. The study emphasizes the need for sector-specific CSR guidelines and careful selection of CSR

activities. The third study explores the non-linear and synergetic effects of CSR on profitability. It identifies an inverted non-linear threshold effect of social and governance CSR on shareholder profitability, suggesting that excessive CSR activities can harm shareholder profitability beyond a certain threshold. Synergies are found between social and governance CSR on shareholder profitability and between social and environmental CSR on stakeholder profitability. The study highlights the importance of cautious selection and coordination of CSR activities, as well as the positive long-term effects of CSR on profitability.

This thesis makes several contributions in the literature: First, it enriches the empirical and theoretical literature by addressing and providing new insights on the nexus between corporate governance and shareholder and stakeholder profitability especially regarding the varying effect of corporate governance structures not only across stakeholder and shareholder profitability, and also across sectors and industries, as well as the short-run and long-run relationships in the nexus. Secondly, providing evidence on the heterogeneous effect of CSR and firm profitability across different sectors and across shareholder and stakeholder profits, as well as ascertaining evidence on the short-run and long run effects of CSR on shareholder and stakeholder profits. Thirdly, by seminally, providing evidence of a non-linear threshold effect of CSR, which can inform practitioners and managers of the extent/level beyond/below which CSR yields positive and or negative effects on shareholder and stakeholder profitability. Likewise, for the purpose of providing justification and incentive for CSR expanding, the study attempts to show how that CSR benefits exist in the future/long-run.



CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In the last two to three decades, the discourse regarding corporate governance (CG) and its attendant issues has become widespread and extensive (Krechovská & Procházková, 2014). The extensive discourse—covering theory, empirical studies, policy-making, and practice—largely stems from the corporate scandals, crises, and failures that have occurred over the past thirty years (Krechovská & Procházková, 2014; Allen, 2005). Notable among these corporate scandals are the cases of Enron and WorldCom (Marx et al., 2011; Ehikioya, 2009; Bauer et al., 2004). Investigations by experts into these high-profile corporate failures revealed that poor corporate governance, or the breakdown thereof, was a major contributing factor (Krechovská & Procházková, 2014). According to experts, many financial and corporate failures, crises, and scandals could have been prevented or minimized had there been strong corporate governance systems—such as independent audit committees and effective internal control mechanisms—in place (Crittenden & Crittenden, 2012; Connelly et al., 2017).

Theoretically, it is understood that a number of benefits accrue to firms that practice good corporate governance. That is, good corporate governance promotes the overall welfare of all stakeholders and enhances economic efficiency in organizations (Sami et al., 2011; Bhatt & Bhatt, 2017), which clearly suggests that corporate governance lies at the core of organizational outcomes and activities. These benefits have also been confirmed empirically, as prior studies provide evidence that corporate governance can lead to improved firm profitability and enhanced firm value (Sami et al., 2011; Dzingai & Fakoya, 2017; Bhat et al., 2018; Rahman & Islam, 2018).

In addition to arguments in favour of corporate governance and the attention it has garnered over the years, another important management concept that has gained widespread traction is corporate social responsibility (CSR). From the perspective of stakeholder theory, businesses are accountable not only to capital providers or shareholders but also to multiple stakeholders, such as suppliers and customers, who may be impacted by or influence the strategic decisions and positioning of the firm. Moreover, it is suggested that focusing solely on capital providers, while neglecting the demands of multiple stakeholders, undermines sustainable value creation. Integrating social responsibility policies into firm-wide strategy is thus essential for attaining long-term competitive advantage (Vilanova et al., 2009).

It is believed that by undertaking various CSR initiatives, a firm enhances its brand and reputation, strengthens relationships with stakeholders (Grougiou et al., 2016), ensures consumer loyalty (Currás-Pérez et al., 2018), minimizes financing costs (El Ghouli et al., 2011), attracts high-quality human resources (Turban & Greening, 1997), and ultimately achieves long-term success (Wood, 2011). Against this backdrop, CSR cannot be treated as a marginal activity, as it carries significant implications for the sustainable growth of both firms and the societies in which they operate (D'Amato & Falivena, 2020).

From the foregoing, it is evident that corporate governance and corporate social responsibility are two critical organizational functions whose importance cannot be overlooked in the pursuit of sustainable firm success. Given their increasing prominence and theoretical relevance, policymakers, practitioners, and academics have shown sustained interest in exploring how these two concepts influence firm performance and value. This interest has led to a growing body of research linking CG and CSR to various dimensions of firm performance. However, much of this literature has focused on developed countries, and the relationships investigated have often been linear and direct (Almashhadani, 2022; Kiradoo, 2019; Haji et al., 2025).

In line with scholarly calls for further research on corporate governance across diverse contexts and industries (Bhatt & Bhatt, 2017), and prompted by the limitations identified in studies such as Chung et al. (2018) and Hu et al. (2018) regarding the value implications of CSR across sectors, the present study revisits the impact of CG and CSR on shareholder and stakeholder value maximization using firm-level data from the African context.

The sectors used for the study are interesting and warrant an issue to be investigated. These sectors are part of the sectors grouped from the Stock Exchanges of the Thirteen (13) African countries selected under the Global Industry Classification Standard (GICS) Sectors.

Companies or firms are classified based on their principal business activity, with a company's or firm's primary source of revenue being the key factor. GICS provide a consistent analysis and comparison. These sectors (Financial, Material, Industrial, Consumer Staples and Consumer Discretionary), have varying CSR obligations and CG challenges. For example, financial sector face governance reforms and risk disclosures, industrial and material sectors face environmental pressure and community expectations, and consumer goods firms face customer and labour-rated CSR.

Financial sector provide financial services or intermediation, for example, banks and insurance companies provide services for the public and institutions. Material sector engage in the discovery, development and processing of raw materials, for example, firms which engage in mining and metal refining. Industrial sector is part of the economy concerned with producing goods without much direct input of natural resources, for example, the manufacturing, production, assembling, distribution of capital goods, the provision of commercial services and supplies. Consumer staples sector produces goods that are basic consumers cannot forgo. They are a set of essential products, for example food and beverages, toothpaste, soap and they fall within the fast moving consumer goods category.

Consumer Discretionary sector deals with the non-essential goods such as luxury cars, expensive electrical appliances and so on.

The choice of selecting the sample period from 2006 to 2020 for the study is motivated by both theoretical and practical considerations that align with the evolution of corporate governance (CG), corporate social responsibility (CSR), and profitability trends across African listed firms as follows;

Regulatory and Institutional Developments

The mid-2000s marked a pivotal shift in the regulatory landscape across many Africa countries, with several stock Exchanges and regulatory authorities strengthening CG and CSR disclosure requirements. For example, the introduction or revision of corporate governance codes in countries like South Africa (King III in 2009), Nigeria, Kenya and Ghana during this period provided a more formal framework for corporate governance and CSR practices. This timeframe captures these institutional reforms and their subsequent impact on firm performance.

Availability and Reliability of Data

From 2009 onwards, there was a noticeable improvement in the availability, transparency, and quality of financial and non-financial disclosures among listed firms in Africa, facilitated by technological advancements, improved regulatory oversight, and enhanced reporting standards (e.g. adoption of IFRS). This makes the data from this period more reliable and suitable for empirical analysis.

Capturing Long-Term Trends and Shocks

A 15-year period offers a robust timeframe to observe long-term trends and causal relationships among CG, CSR, and Profitability. It also encompasses significant global and

regional economic events-such as the 2008-2009 global financial crisis, the commodity price shocks of 2014-2016, and the onset of the COVID-19 Pandemic in 2020-allowing for an examination of how external shocks influence corporate behaviour and performance.

CSR and ESG Integration Trends

The growing Integration of Environmental, Social, and Governance (ESG) factors into investment decisions and corporate reporting in Africa began gaining traction around this period (2006-2020). Selecting 2006-2020 allows for the study to assess how African firms responded to global CSR trends and investor pressures over time.

Comparative Benchmarks and Empirical Consistency

Previous empirical research on CG, CSR, and firm performance in Africa and other emerging markets have used overlapping or nearby periods. Selecting 2006-2020 ensure methodological consistency and comparability with existing literature, aiding in the validation and contextualization of findings.

Justification for the Econometric Approach-Generalized Method of Moments (GMM) employed for the Study

Endogeneity Concerns-Corporate Governance and CSR are likely to be endogenous to Corporate Profitability. Reverse causality may exist: more profitable firms might invest more in CSR or adopt better governance structures.

Omitted Variable Bias- Is possible if unobserved firm-specific characteristics influence both governance practices and profitability

Measurement errors in CG or CSR indicators could bias traditional estimators.



Dynamic Nature of Profitability- Corporate profitability is typically persistent over time, implying the past profitability influences current performance. To account for this dynamic structure, a lagged dependent variable is included.

Panel Data Characteristics- The dataset comprises of panel data (multiple firms over time), which allows for controlling unobserved firm-specific heterogeneity. GMM estimators exploit the panel structure to provide more efficient and consistent estimates than cross-sectional models.

Given the presence of potential endogeneity, the dynamic nature of Corporate Performance, and the panel structure of the data, the GMM estimator is well-justified. It enables consistent and efficient estimation of the causal relationships between CG, CSR, and Profitability, thereby strengthening the empirical validity of the findings in the African corporate context.

1.2 Problem statement

The study is driven by the fact that Corporate Governance (CG), Corporate Social Responsibility (CSR), and Corporate Profitability (CP)-(both Shareholder and Stakeholder perspective) are deeply interlinked.

Corporate Governance (CG) refers to systems, principles, and processes by which companies are directed and controlled. Good governance ensures transparency, accountability, and ethical decision-making.

Corporate Social Responsibility (CSR): CSR involves a company's commitment to operate ethically and contribute to economic development while improving the quality of life of its workforce, local community, and society at large.

Stakeholder profitability is profit attributable to stakeholders whereas Shareholder profitability is profit attributable to shareholders. Return on Assets (ROA) measures how efficiently a firm uses all its resources (assets) to generate profits, not just shareholder equity. Since stakeholders (creditors, employees, suppliers, regulators, communities) are directly tied to the firm's assets, ROA reflects the collective return generated for the broader group. ROA is calculated as Profit before Interest and Tax divided by Total Assets multiplied by 100. ROA captures how well management uses total resources (financed by both debt and equity) to generate value and this link directly to stakeholders. Unlike Return on Equity (ROE), which is narrowly focused on returns to equity holders, ROA reflects the firm's contribution to the economy and society through how it deploys total assets.

High ROA indicates effective value creation benefiting multiple parties, aligning with the stakeholder perspective of governance. Evidence shows that firms with strong governance and stakeholder-oriented strategies (for example, CSR, sustainability, fair employment) tend to exhibit higher ROA, because these practices enhance long-term efficiency. In summary, ROA is justified as a measure of stakeholder of stakeholder profitability because it captures the value generated from all resources employed by the firm, reflecting benefits that accrue not only to shareholders but also to creditors, employees, suppliers, regulators, and communities at large. ROA aligns with stakeholder theory's call for inclusive performance metrics beyond shareholder wealth maximization. Prior studies have empirically used ROA as a proxy for stakeholder profitability (Mahmuda & Muktadir-Al-Mukit, 2023; Xu et al., 2022; Gomtsian, 2023; Chen et al., 2021; Kim et al., 2020).

The practice of good corporate governance has become increasingly imperative and relevant in an ever-changing and complex corporate environment. In this context, the attention of policymakers, practitioners, and academics has been drawn to investigating the empirical

relationship between corporate governance (CG) and various organizational issues and outcomes for the purpose of well-informed decision-making.

That is, in an attempt to understand how CG impacts firm performance or value, a number of empirical insights have been produced (Sami et al., 2011; Zabri et al., 2016; Dzingai & Fakoya, 2017; Connelly et al., 2017; Bhat et al., 2018; Rahman & Islam, 2018; Al-Ahdal et al., 2020), albeit with contradictory outcomes, while the relationships have largely been examined as direct. For instance, Wu et al. (2023) argue that corporate governance structures influence value maximization through several mechanisms, including board composition, executive compensation, audit quality, and stakeholder engagement. Similarly, Hasan et al. (2024) contend that board independence and gender diversity enhance financial performance and shareholder value. They further posit that audit independence and the effectiveness of audit committees are also critical in ensuring transparency and accountability, which are essential for building stakeholder trust.

Moreover, regarding firms pursuing corporate social responsibility (CSR) practices and integrating these into their corporate-wide strategies, the literature suggests that such activities have become increasingly relevant and imperative in the modern business environment, which is marked by numerous complexities and challenges and characterized by constant dynamism. Like corporate governance, the attention CSR has received from policymakers, corporate practitioners, and academics has led to a number of empirical studies investigating the impact of CSR on firm performance (Singh et al., 2017; Hu et al., 2018; Kim et al., 2018; Chung et al., 2018; D'Amato & Falivena, 2019; Cho et al., 2019).

Prior empirical studies have addressed the relationship between corporate governance, CSR, and firm performance. However, few studies examine how these mechanisms create value for shareholders and stakeholders, especially in Africa (Inekwe et al., 2021; Farah et al., 2021;

Arhinful et al., 2024; Tenakwah et al., 2024). Accordingly, the present study seeks to re-examine the relationship between CG, CSR, and shareholder/stakeholder value maximization through the lens of sector, non-linearity, and corporate profitability (i.e., shareholder and stakeholder profitability), using a sample of firms operating in diverse African settings.

From a theoretical standpoint, there are two dominant theories that underpin the discourse on how profit is created, promoted, and protected (Isayas, 2022; Kochan & Rubinstein, 2000). First, from a theoretical perspective, the shareholder theory (often associated with the Anglo-American approach) argues that equity holders are the sole focus for creating, promoting, and protecting profits generated from the assets of a firm. Hence, all corporate governance structures are implemented with the intention of creating, promoting, and protecting shareholder financial value and interest in the firm (Gomtsian, 2023; Kara et al., 2023; Nareswari, 2023). Unlike the shareholder theory, the stakeholder theory advances that the focus of firm profitability should not only be on equity holders' interests, but also consider the interests of other stakeholders who have non-financial claims on the firm (Alfalih, 2022; Kanoujiya et al., 2023; Richards, 2023). Put differently, the central rationale for instituting mechanisms such as corporate governance structures is to create, promote, and protect firm profitability, and the actions of firm management should be aligned not only with shareholders' interests but also with those of all stakeholders.

Following these two dominant theories, maximizing firm profitability is one of the key objectives for implementing corporate structures and strategies. Interestingly, while several studies have empirically explored the relationship between corporate governance structures and profitability at both the firm (Almashhadani & Almashhadani, 2022; Farooq et al., 2022; Ronowah & Seetanah, 2023) and country levels (Agbloyor et al., 2022), there remain several unexplored gaps and questions in the literature—especially in the context of Africa.

First, while significant studies exist on the link between corporate governance (CG) and firm profitability—reporting varying results (Dawood et al., 2023)—the empirical literature remains unclear about which specific corporate governance structures influence firm profitability within particular sectors or industries. Drawing on literature that emphasizes the importance of recognizing contextual differences (Stephens et al., 2019; Harzing & Pudelko, 2016), it can be argued that the structure, nature, and regulatory environment of different sectors or industries may significantly shape the impact of CG practices. Recognizing these contextual variations—as highlighted in earlier works (Ogbor et al., 2023; Prohorovs, 2023; Şerban et al., 2023; Elango & Dhandapani, 2020)—can enhance our understanding and interpretation of firm-level outcomes. Accordingly, certain CG structures may prove more effective in some sectors than in others.

However, empirical studies that present sector-specific evidence on the effects of corporate governance structures remain limited or virtually non-existent. Such insights could assist policymakers and regulators in designing tailored governance frameworks, avoiding the pitfalls of applying one-size-fits-all approach.

Second, while the concepts of stakeholder and shareholder profitability are widely discussed in theory, relatively few studies (Bui & Krajcsák, 2023; Shingade et al., 2022; Sulbahri et al., 2022) have empirically examined them using return on assets (ROA) and return on equity (ROE) as proxies. Notably, those few studies focus predominantly on banks in Africa, overlooking how CG affects stakeholder and shareholder profitability in other sectors. To the best of our knowledge, the present study offers the first sector-specific analysis of how CG influences these dual dimensions of profitability among listed firms in Africa. In essence, the study tests whether the “one-size-fits-all” approach to corporate governance holds across sectors and between stakeholders and shareholders.

Furthermore, it is argued that engaging in corporate social responsibility (CSR) can (i) enhance corporate image and reputation (Chen et al., 2021; Kim et al., 2020; Lin-Hi & Blumberg, 2018; Pomeroy, 2017; Sontaite-Petkeviciene, 2015; Fombrun, 2005), (ii) reduce regulatory scrutiny (Haji et al., 2022; Gamper-Rabindran & Finger, 2013; Frynas, 2012; Gond et al., 2011; Polishchuk, 2009; Lyon & Maxwell, 2008), and (iii) improve revenue mobilization and financial performance (Feng et al., 2022; Carini et al., 2017; Nollet et al., 2016; Rhou et al., 2016; Gregory et al., 2014; Du et al., 2010). Despite these contributions, unresolved issues persist. For instance, while literature posits that environmental, social, and governance (ESG) dimensions of CSR drive firm performance, the extent to which these effects differ across sectors remains underexplored.

Following the contextual theory of difference (Stephens et al., 2019; Harzing & Pudelko, 2016) and studies emphasizing inter-group variation (Elango & Dhandapani, 2020), it is reasonable to expect sectoral variation in the effects of CSR due to differences in operating cycles, regulatory environments, and reporting requirements. Yet, existing studies often control for industry effects without estimating CSR's sector-specific influence on firm profitability—especially in African contexts.

Moreover, the concept of CSR is inherently linked to stakeholder profitability maximization (Inkpen & Sundaram, 2022; Kochan & Rubinstein, 2000). However, the literature is silent on whether CSR improves stakeholder value at the expense of shareholders or benefits both groups. While CSR is broadly considered a stakeholder-oriented practice—and shareholders are technically stakeholders—evidence on its differentiated impact across these groups is lacking.

Additionally, guided by the economic principle of resource scarcity, it becomes essential to assess both the short- and long-run effects of CSR on stakeholder and shareholder profitability.

Current empirical literature offers limited insight into the durability of CSR's impacts, especially across sectors.

This gap raises several critical questions, elaborated below: Are CSR activities coordinated in ways that generate synergies and complementarities? Do these synergistic effects benefit both shareholders and stakeholders? Does CSR exhibit non-linear effects on profitability? And do these effects persist across short and long time horizons?

In practice, firms often undertake multiple CSR initiatives simultaneously, yet the empirical literature—particularly in Africa—has not addressed whether the bundling of CSR activities leads to amplified profitability outcomes. This study investigates whether coordinated CSR efforts—spanning ESG dimensions—produce synergetic and complementary effects on firm profitability.

Using the distributive framework that categorizes corporate profits into stakeholder and shareholder profits (Dameri & Ferrando, 2022; Gholami et al., 2022; Glamboosky et al., 2023), the study presents novel evidence on the synergy and complementarity of CSR's effects across these two dimensions in the African context.

Furthermore, extant studies have reported mixed results—positive, negative, or insignificant—regarding CSR's impact on firm profitability. One likely explanation for these inconsistencies is the existence of non-linear threshold effects. However, the empirical literature lacks studies that estimate the thresholds beyond or below which CSR produces diminishing or enhancing effects on shareholder and stakeholder profitability, particularly in Africa.

This study aims to bridge that gap by examining whether CSR benefits exhibit threshold and long-term effects, thereby offering practical guidance on the optimal scale and duration of CSR investments.

This study contributes to the empirical and theoretical literature by addressing the following questions:

- (i) Are there significant differences in stakeholder and shareholder profitability across sectors?
- (ii) Does the effect of corporate governance structures differ across sectors?
- (iii) Do CG structures affect stakeholder and shareholder profitability differently?
- (iv) Are the effects of CG consistent across sectors?
- (v) Do the effects of CG on profitability persist in the long run?
- (vi) How do CSR components (ESG) affect profitability across sectors?
- (vii) What is the effect of CSR on shareholder and stakeholder profitability?
- (viii) Do stakeholders or shareholders benefit more from CSR activities?
- (ix) Are there short-run and long-run CSR effects on profitability?
- (x) Is there a non-linear threshold effect of CSR on profitability?
- (xi) Do CSR activities exhibit synergetic and complementary effects on stakeholder and shareholder profitability?

By answering these questions, the study offers new insights into the nexus between corporate governance, CSR, and profitability across different sectors. The rest of the paper is structured as follows: literature review; overview of profitability and CG across sectors; methodology and data; empirical results and discussion; and finally, conclusions and policy recommendations.

1.3 Purpose of the study

The main purpose of the study is to investigate the inter-relationship between corporate governance, corporate social responsibility and corporate profitability, highlighting different factors that could affect the inter-relationship.

1.4 Research Objectives of the study

Chapter 1: Examine the impact of CG on value creation for shareholders/stakeholders across different sectors

Chapter 2: Examine the impact of CSR on value creation for shareholders/ stakeholders across different sectors

Chapter 3: Examine the non-linearity, synergies, complementarities, and long-run across different sectors in Africa on corporate social responsibility activities on shareholder and stakeholder profitability

1.4.1 Chapter two specific objectives and questions

The specific objectives to be achieved in chapter two are presented as follows;

- i. To investigate whether there is significant difference in levels of stakeholder and shareholder profitability across sectors.
- ii. To examine whether there is significant difference in corporate governance across sectors.
- iii. To examine whether the effect of corporate governance structures on shareholder and stakeholder profitability varies.
- iv. To examine whether the effect of corporate governance structures on corporate profitability varies across sectors.
- v. To investigate whether the effect of corporate governance structures on stakeholder and shareholder profitability exists in the long-run.

The questions to be answered in chapter two are presented as follows;

- i) Are there significant differences in the levels of stakeholder and shareholder profitability across sectors?

- ii) Are there significant differences in the corporate governance across sectors?
- iii) Do corporate governance structures yield same effects on shareholder and stakeholder profitability?
- iv) Do corporate governance structures yield varying effects across sectors?
- v) Does the effect of corporate governance on stakeholder and shareholder profit exist in the long-run?

1.4.2 Chapter three specific objectives and questions

The specific objectives of chapter three are as follows:

- (i) Investigate the effect of different CSR indicators (ESG) on profitability across different sectors.
- (ii) Examine the effect of CSR on shareholder and stakeholder profits.
- (iii) Examine whether shareholders or stakeholders benefit more from corporate social responsibility.
- (iv) Ascertain evidence on the short-run and long-run effects of CSR on shareholder and stakeholder profits.

The questions to be answered in chapter three are presented as follows;

- i. Does the effect of different CSR indicators on corporate profitability vary across sectors?
- ii. Does CSR affect shareholder and stakeholder profit differently?
- iii. Do shareholders or stakeholders benefit more from CSR activities?
- iv. Are there any short and long run effects of CSR on shareholder and stakeholder profitability?

1.4.3 Chapter four specific objectives and questions

The specific objectives to be achieved in chapter four are outlined as follows:

- i. Examine whether CSR indicators have synergetic and complimentary effects on corporate profitability
- ii. Investigate the synergetic-complementarity effect of CSR indicators on shareholder and stakeholder profitability.
- iii. Examine whether there is a non-linear nexus between CSR reporting and corporate profitability
- iv. Ascertain whether there is a non-linear effect of CSR on corporate profitability in the short and long run.

The research questions to be answered in chapter four are presented as follows:

- i. Are CSR activities well-coordinated to yield the desirable synergetic and complementary effects on profits?
- ii. Do CSR activities produce synergetic-complementarity effects on both shareholder and stakeholder profits?
- iii. Does CSR have non-linear effects on corporate profits?
- iv. Do the complementary and non-linear effects exist in the short and long runs?

1.5 Significance and contribution of the study

This thesis contributes to both theory and practice in five significant ways. First, unlike most prior studies that adopt a generalized approach, this research investigates how sector type moderates the relationship between corporate governance (CG), corporate social responsibility (CSR), and firm value. This enables a more nuanced understanding of sectoral variations in governance effectiveness and CSR impact. Second, the thesis conceptualizes corporate

profitability not only as an outcome variable but also as a potential channel through which CG and CSR influence firm value—an analytical perspective that has been largely overlooked in existing literature. Third, by focusing on listed firms in Africa, the study contributes empirical evidence from a region where governance structures, CSR priorities, and institutional environments differ markedly from those in Western economies, thus enhancing the global relevance and generalizability of CG-CSR research. Fourth, it provides a comparative perspective on how governance and CSR practices mediate the balance between shareholder wealth creation and broader stakeholder interests, thereby informing the ongoing debate on value drivers in emerging markets. Finally, by employing robust econometric techniques—including panel data analysis and moderation tests—the study offers empirical clarity on the complex inter-relationships among governance, CSR, profitability, and firm value.

Regarding the contributions from the empirical chapter (Chapter 2) on the effect of corporate governance on shareholder and stakeholder profitability contributes to the empirical and theoretical literature by providing answers to the following questions: (i) Are there significant differences in the levels of stakeholder and shareholder profitability across sectors?, (ii) Are there significant differences in the corporate governance across sectors?, (iii) Does corporate governance structures yield same effects on shareholder and stakeholder profitability?, (iv) does corporate governance structures yield varying effects across sectors? and (v) does the effect of corporate governance on stakeholder and shareholder profit exist in the long-run across sectors?. Providing answers to these questions presents new insights, the chapter makes a significant contribution to the corporate governance literature by investigating how governance structures affect both shareholder and stakeholder profitability in the African business environment. A key aspect of this chapter is its sectoral analysis, which addresses the question of whether stakeholder and shareholder profitability differ significantly across sectors. By analyzing corporate governance mechanisms at sector level, this study contributes new

empirical insights into whether governance structures function uniformly across different business sectors or exhibit variation due to sector-specific factors. Additionally, this chapter enhances our understanding of whether corporate governance mechanisms yield the same effects on shareholder and stakeholder profitability. Traditional governance theories often assume a one-size-fits-all approach, but this research examines whether certain governance mechanisms work more effectively for stakeholders than shareholders, or vice versa. Furthermore, it explores whether these governance effects persist in the long run, offering evidence on whether firms benefit from sustained governance policies over time or if their impact diminishes.

The chapter relating to the nexus between corporate social responsibility reporting and firm profitability also contributes to literature in four ways: that is by (i) investigating the effect of different CSR indicators (ESG) on profitability across different sectors, (ii) offering evidence on the effect of CSR on shareholder and stakeholder profits, (iii) projecting evidence on who benefits more between shareholders and stakeholders and (iv) ascertaining evidence on the short-run and long-run effects of CSR exist on shareholder and stakeholder profits. By answering these specific questions this chapter contributes to the literature by critically examining how CSR, particularly through ESG (Environmental, Social, and Governance) indicators, affects firm profitability across different sectors. While numerous studies have explored the CSR-profitability link, this study differentiates itself by offering a sector-specific analysis, recognizing that CSR priorities and impacts may vary depending on sector characteristics. Moreover, this chapter provides empirical evidence on whether CSR primarily benefits shareholders, stakeholders, or both. Traditional perspectives often assume that CSR either maximizes stakeholder welfare or serves as a tool for enhancing shareholder wealth. This study offers a nuanced perspective by investigating whether CSR activities yield differential effects on these two groups, thus shedding light on the ultimate beneficiaries of corporate social

responsibility initiatives. Another key contribution is the examination of the short-term and long-term effects of CSR on shareholder and stakeholder profits. Existing research often focuses on immediate financial performance outcomes, yet this study extends the discussion by exploring whether CSR investments generate sustained profitability effects. Again by leveraging a dataset of 369 listed firms in Africa from 2006 to 2020, this chapter presents robust empirical evidence that enhances the understanding of CSR's role in corporate financial performance in developing markets.

Furthermore, the chapter regarding the non-linearity, synergies, complementarities and long-run effects of corporate social responsibility reporting and corporate profitability also makes a unique contribution by investigating the non-linear effects of CSR on firm profitability. While many studies assume a linear relationship between CSR and financial performance, this chapter argues that the relationship may exhibit threshold effects—where CSR investments yield positive returns up to a certain level but may become inefficient or costly beyond that threshold. By applying advanced econometric techniques, this chapter provides practitioners and managers with actionable insights on the optimal level of CSR investment required to maximize shareholder and stakeholder value. Additionally, this chapter explores the synergies and complementarities between CSR and corporate governance, addressing an important yet under-researched area. By analyzing whether firms that combine strong governance mechanisms with CSR initiatives achieve superior financial outcomes, this study expands the theoretical discourse on how governance and CSR interact to influence firm performance. Lastly, the chapter investigates the long-run sustainability of CSR-driven financial benefits. While prior studies have primarily focused on immediate-term financial outcomes, this research assesses whether CSR benefits persist over time. By distinguishing between short-run and long-run CSR effects, the study contributes novel empirical insights that are critical for firms seeking to balance ethical responsibilities with financial sustainability.

In all, this thesis, provides a rigorous analysis, employing extensive datasets and applying robust methodologies towards contributing to advance the understanding of complex relationships between corporate governance, CSR reporting, and profitability, and also offering implications for both theory and practice.

Summary of contributions of the Three (3) Empirical Chapters

Empirical Paper One (Chapter 2) - Effect of Corporate Governance on Profitability of African Firms-A Sectoral Evidence

Dual Focus on Shareholder and Stakeholder Profitability

Most existing literature on CG in emerging markets focuses primarily on shareholder profitability. This study uniquely incorporates stakeholder profitability, capturing how CG practices influence not only investors but also employees, customers, communities, suppliers etc. This broadened focus aligns with recent shifts toward stakeholder capitalism and inclusive economic growth in Africa.

Sectoral Disaggregation within Emerging African Economies

While studies on CG in Africa normally treat firms and countries as homogeneous, this study adopts a Sectoral approach, recognizing that CG mechanisms (e.g. Board Independence, Audit Independence, Board Size, CEO Duality and Board Gender Diversity) may impact profitability differently across sectors. This takes into account sector-specific policy insights and a more nuanced understanding of governance relationships.

Empirical Focus on listed Firms in Emerging African Markets

This study contributes region-specific empirical evidence from African Stock Exchanges where firm-level governance challenges such as weak enforcement, political interference, and the absence of key intermediaries and institutions that are necessary for effective market

functioning are particularly important but understudied. This enhances global comparative analysis and highlights the institutional uniqueness of African markets.

Use of a Multidimensional Profitability Framework

The study suggests a multidimensional framework for evaluating profitability, integrating shareholder metrics and stakeholder metrics. This reflects a modernized analytical lens responsive to CG and long-term value creation.

Policy and Corporate Governance Reform Implications

The findings of the study are positioned to offer evidence-based recommendations for African policymakers, regulatory bodies and institution leaders on how CG reforms can drive inclusive profitability.

Empirical Paper Two (Chapter 3)-Corporate Social Responsibility (CSR) Reporting and Firm Profitability in Africa: Exploring Short- Run and Long-Run Sectoral Evidence

African Context-Specific Analysis

The study breaks new ground by focusing on Africa, a region with unique institutional, regulatory, and socio-economic conditions that shapes CSR practices differently. This regional study addresses a significant gap in global CSR research and presents insights tailored to emerging market dynamics.

Time Horizon Differentiation: Short- Run and Long Run

The study initiates a nuanced understanding of temporal effects in the sense that many prior research examine CSR's impact in static or cross-sectional terms, but this dynamic framework empower an assessment of how the profitability effects of CSR evolve potentially.

Sectoral Evidence and Heterogeneity

The sector-specific approach brings about sectoral heterogeneity into the analysis, recognizing that CSR's profitability implications vary across sectors and, therefore, enables tailored insights for policy and firm-level strategy, particularly in sectors where CSR is more socially or environmentally consequential.

Dual Perspective: Shareholder versus Stakeholder Profitability

By incorporating both shareholder and stakeholder profitability metrics, this dual perspective enhances the analytical depth and aligns with evolving paradigms in corporate governance and sustainability.

Empirical Methodological Innovation

By using dynamic panel econometric model, the study offers long-term equilibrium relationships between CSR reporting and profitability across time and sectors-something often under-explored in Africa-CSR research.

Empirical Paper 3 (Chapter 4) - Corporate Social Responsibility (CSR) and Corporate Profitability in Africa: Non-Linearities, Synergies and Complementarities

Focus on the African Context

The relationship between CSR and Profitability has been widely investigated in Western and Asian economies but Africa remains significantly under-researched. This study fills a critical gap by providing context-specific insights into how CSR interacts with corporate performance on the continent, where institutional frameworks, socio-economic challenges, and stakeholder expectations differ markedly from those in more developed markets.

Exploration of Non- Linear Relationships

Most existing studies assume a linear relationship between CSR and Profitability-either positive or negative. This study introduces non-linearity into the analysis, indicating that the relationship may not be straightforward. For example, moderate levels of CSR may improve profitability while excessive investment might produce diminishing returns. For example, the inverted U-shaped exploration is novel and reflective of real world situations.

Synergies and Complimentarities Framework

The study breaks new ground by investigating synergies and complementarities between different dimensions of CSR (e.g. environmental, social, governance) and between CSR and other corporate strategies. This multidimensional approach explores whether combining CSR Initiatives creates amplified effects on profitability, rather than assessing CSR dimensions in isolation.

Interdisciplinary and Integrated Perspective

By blending economic theory, strategic management, and development studies, the study promotes interdisciplinary approach. It goes beyond simplistic cause-effect directions to evaluate how CSR serves as a risk management tool and a source of competitive advantage, particularly in complex and evolving African economies.

Empirical Contribution with Innovative Methodology

Using advanced econometric technique like GMM to detect non-linearities and interactions, this study contributes methodologically. Such tools are still rarely applied in African CSR research.

Policy and Institutional Relevance in African Settings

This study produces actionable insights for African policymakers, investors, and corporate leaders, tailored to regional socio-political realities. It could guide CSR frameworks better aligned with profitability goals, sustainable development agendas, and stakeholder expectations in African markets.

This study rethinks the CSR-Profitability link through a more complex, realistic lens while grounding the analysis firmly in underrepresented African corporate landscape.

The study proffers a novel contribution by empirically examining the triangular relationship between corporate governance, corporate social responsibility and corporate profitability in the context of African listed firms, a region that remains insufficiently examined in the global corporate governance-corporate social responsibility literature. Specifically, the study is innovative in the following ways;

i. Contextual Focus on Africa

While extensive studies exist in developed markets (e.g., the USA, Europe, and parts of Asia), Africa is relatively underrepresented in empirical research on CG-CSR-Corporate Profitability (CP) dynamics. The study addresses this significant gap by providing continental-level evidence from African Stock Exchanges.

ii. Integrated Framework

Most existing studies treat CG, CSR and Profitability in binary relationships (e.g., CG versus CP or CSR versus CP). This study uniquely explores the interdependence and interaction of all three constructs offering a more holistic and integrative understanding of how corporate governance mechanisms influence corporate social responsibility practices and how both affect firm profitability.

iii. Methodological Rigor with Panel Data

Using panel data econometrics on listed firms (369) over several years (15), the study applies advanced estimation technique (GMM) to control for endogeneity and firm-level heterogeneity, improving the robustness and creditability of findings.

iv. Corporate Governance as a Driver of CSR in African Listed Firms

The study explores how distinctive corporate governance mechanisms in African markets, such as CEO Duality, Board Independence, Audit Independence, Board Size, Board Gender Diversity and regulatory enforcement- shape CSR behaviours differently from other regions.

v. Policy and Practice Relevance

By focusing on publicly listed firms, the study offers actionable insights for regulators, investors, and corporate leaders in Africa, contributing to evidence-based policy making and enhanced corporate practices.

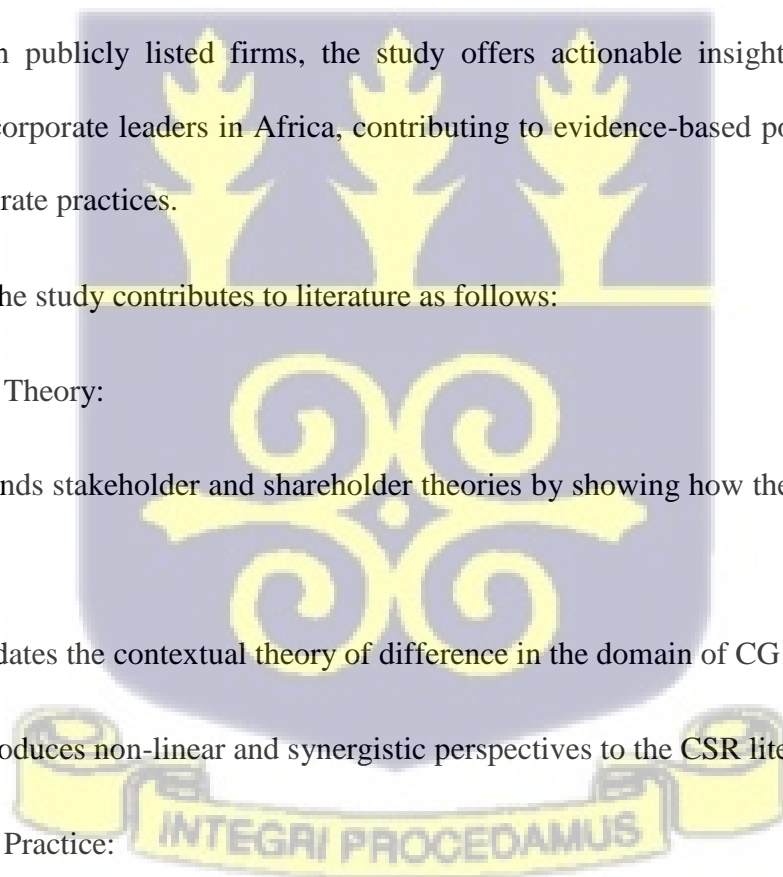
In conclusion, the study contributes to literature as follows:

Contribution to Theory:

- The study extends stakeholder and shareholder theories by showing how their objectives can be concurrent
- The study validates the contextual theory of difference in the domain of CG and CSR
- The study introduces non-linear and synergistic perspectives to the CSR literature in Africa.

Contribution to Practice:

- The study offers actionable insights for policymakers, regulators, managers, and investors on how to design effective CG structures and CSR initiatives.



- Provides a nuanced understanding of sectoral variations, enabling more effective governance and CSR implementation.

- Highlights the importance of balancing shareholder wealth with broader stakeholder interests.

Empirical: Provides a novel, sector specific evidence from Africa on the CG-CSR-Profitability nexus, a significantly under-researched region, a region where there are weak enforcement mechanisms. For example, it provides robust empirical evidence on the interrelationship between CG, CSR and both shareholder and stakeholder profitability.

1.6 The structure of the thesis

The thesis comprises five chapters, chapter one represents the introductory issues which outlines the background of the study, problem statement, the objectives and research questions, significance of the studies, and structure of the entire thesis.

In chapter two, the study investigates effect of corporate governance on stakeholder and shareholder profitability focusing on a sectoral analysis and on the bases of that employed a dynamic GMM panel of 369 listed firms in Africa between 2006 and 2020 across five different sectors to empirically test the relationship. The chapter three, also employs evidence of same listed firms in Africa between 2006 and 2020 in a dynamic Generalized Method of Moments (GMM) model to shed insights on the link between CSR and shareholder and stakeholder profits. Then in Chapter four, the study ascertains whether there are evidences for non-linearity, synergies, complementarities and long-run effects across different sectors in Africa on corporate social responsibility activities on shareholder and stakeholder profitability. The conclusion, policy implications, limitations and avenues for future research are captured in Chapter five.

CHAPTER TWO

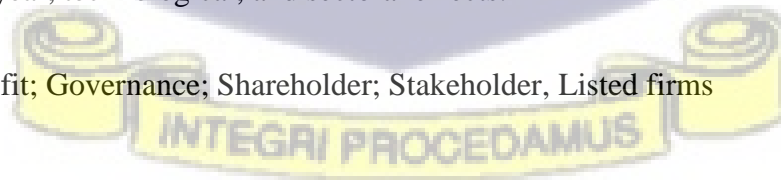
EFFECT OF CORPORATE GOVERNANCE ON PROFITABILITY OF AFRICAN FIRMS: A SECTORAL EVIDENCE



Abstract

Corporate governance structures have been proposed as one of mechanisms through which firms can promote profitability. However, as to whether corporate governance structures have same effects across sectors and across stakeholder and shareholder profits remains unattended to in the empirical literature. Hence, in this study, a sectoral evidence of how corporate governance influence stakeholder and shareholder profits is presented. The study employs a dynamic GMM panel of 369 listed firms in Africa between 2006 and 2020 across five different sectors. The results show that the effects of shareholder and stakeholder profits on corporate governance vary significantly across sectors. The dynamic model results reveal that corporate governance structures have varying effect on stakeholder and shareholder profits across different sectors implying that corporate governance structure is not “a one size fit all”. The findings also reveal that the impact of corporate governance structures varies both in the short and long run, indicating that the benefits of corporate governance on stakeholder and shareholder profits persist over time across different sectors, except for the Consumer Staples and Consumer Discretionary sectors. These results underscore the importance of designing and implementing sector-specific corporate governance frameworks to optimize profitability. Furthermore, they suggest that both shareholders and stakeholders can derive benefits from corporate governance both in the present and the future. The findings remain robust after accounting for year, technological, and sectoral effects.

Keywords: Profit; Governance; Shareholder; Stakeholder, Listed firms



2.1 Introduction

Industries and sectors operate within distinct regulatory environments, competitive landscapes, and technological contexts that fundamentally shape their operational dynamics and performance determinants. Despite this well-established heterogeneity across sectors, corporate governance research and policies have largely adopted a universal approach that assumes governance mechanisms function identically across all industries (Elango & Dhandapani, 2020; Şerban et al., 2023). This problematic one-size-fits-all paradigm has led to inconsistent empirical findings regarding the effectiveness of corporate governance in enhancing firm performance and profitability (Dawood et al., 2023).

The healthcare sector, for instance, faces unique regulatory scrutiny and ethical considerations that may require more robust board independence and specialized expertise compared to manufacturing firms. Similarly, technology companies operating in rapidly evolving markets might benefit more from governance structures that prioritize innovation and adaptability rather than rigid oversight. These sectoral nuances fundamentally alter how governance mechanisms influence firm outcomes, yet they remain significantly underexplored in the empirical literature, particularly in the African context where institutional environments add another layer of complexity.

Corporate governance, defined as the system of rules, practices, and processes by which companies are directed and controlled (Monks & Minow, 2011), serves as the primary mechanism through which the separation of ownership and control is managed in corporate entities. Unlike sole proprietorships where ownership and management are unified, corporations structurally separate shareholders (owners) from executives (controllers), creating potential agency conflicts (Segrestin et al., 2019; Ben Fatma & Chouaibi, 2023). Governance structures theoretically address these conflicts by aligning management interests with

shareholder objectives (Lohde et al., 2020; Fama & Jensen, 1983), facilitating value creation for various stakeholders (Bebchuk & Tallarita, 2022; Hoskisson et al., 2018), and promoting efficient resource allocation (Collins, 2021; Barney, 2018).

However, a critical gap exists in our understanding of whether these governance functions operate uniformly across diverse sectors. While existing research has extensively examined the general relationship between governance and firm performance, it has largely neglected how sector-specific characteristics moderate this relationship (OGBOR et al., 2023; Prohorovs, 2023). This oversight has significant implications for policy formulation and corporate practice, as it has led to the implementation of standardized governance codes that may be sub-optimal for certain sectors.

Furthermore, a fundamental tension exists in how we conceptualize and measure the very objective that corporate governance aims to achieve: profitability. The shareholder-centric perspective, championed by Friedman (1970), narrowly defines profitability in terms of returns to equity holders, positioning shareholders as the primary beneficiaries of governance mechanisms. In stark contrast, the stakeholder perspective (Freeman, 1984) argues that firms must simultaneously pursue profitability for a broader constellation of stakeholders—employees, customers, communities, and the environment—often requiring fundamentally different governance approaches. This theoretical dichotomy has created a problematic bifurcation in corporate governance research and practice, with most studies examining either shareholder or stakeholder profitability in isolation, as if they were mutually exclusive objectives.

The failure to simultaneously examine both dimensions across sectors has led to significant knowledge gaps and potentially misguided governance recommendations. For instance, governance structures that effectively promote short-term shareholder profits in extractive

sectors might simultaneously undermine longer-term stakeholder value creation, or vice versa. The few empirical studies that have attempted to measure both constructs (Bui & Krajcsák, 2023; Shingade et al., 2022; Sulbahri et al., 2022) have not only been methodologically limited—typically using ROA and ROE as simplistic proxies—but also narrowly focused on banking institutions, leaving other crucial sectors entirely unexplored. This selective sectoral focus has perpetuated a dangerously incomplete understanding of how governance influences different profitability dimensions across the diverse economic landscape, particularly in the African context where stakeholder considerations often carry distinct cultural and institutional significance.

The African context amplifies these research gaps due to its unique institutional environment characterized by varying degrees of market development, regulatory enforcement, and ownership structures across countries and sectors. Listed firms in Africa operate within these complex institutional settings, making them an ideal sample for examining how governance mechanisms interact with sectoral characteristics to influence different profitability dimensions.

To address these significant gaps, this study provides the first comprehensive sectoral analysis of how corporate governance structures influence both shareholder and stakeholder profitability among listed firms in Africa. We challenge the prevailing universal governance paradigm by examining whether governance effectiveness varies systematically across sectors and stakeholder groups. Specifically, our research answers five critical questions:

1. Do levels of stakeholder and shareholder profitability exhibit significant sectoral variation?
2. To what extent do corporate governance structures differ systematically across sectors?

3. Do governance mechanisms impact shareholder and stakeholder profitability differently?
4. How does the relationship between governance and profitability vary across sectors?
5. Do the effects of corporate governance on profitability persist over time, and does this temporal dimension vary by sector?

Our findings reveal substantial heterogeneity in both profitability metrics and governance practices across sectors. More importantly, our dynamic model results demonstrate that governance structures have differential impacts on stakeholder and shareholder profits depending on the sector context, providing definitive evidence against the "one-size-fits-all" governance approach. This sectoral variation persists over time, with long-term governance effects differing significantly across sectors.

The remainder of this chapter proceeds as follows: a review of relevant literature, an overview of sectoral patterns in profitability and governance, our methodological approach and data, empirical findings and discussion, and conclusions with policy implications.

2.2 Literature Review

2.2.1 Theory and Concept on Governance

In this study, three main theories are employed to explain the issues and ideas advanced. These theories include the shareholder theory, stakeholder theory and contextual theory of difference. Interestingly, while the shareholder and stakeholder theories seek to explain how business strategies (like corporate governance) are developed and instituted to create, promote and protect firm profitability, the contextual theory of difference explains or justifies the study's desire to recognize contextual difference such as sector. The next paragraphs discuss the relevance of these theories to this present study.

Until few decades ago, business/profit enhancing strategies/mechanisms such as corporate governance structures followed the shareholder theory approach (Abdullah & Tursoy, 2023; Di Vito & Trottier, 2022; Khatib et al., 2022; Friedman, 1970). It is the dominant and most popular theory that shows that the sole objective/responsibility of business managers is to maximize shareholder value/profits (Friedman, 1970). The shareholder theory has its origins from Friedman's 1970 paper titled "The social responsibility of business is to increase profit". The shareholder theory preaches that the sole and dignifying responsibility of a business is to pursue profit maximizing goals solely for its shareholder's benefit. Also named as Anglo-American framework, the shareholder theory advance that because shareholders have financially contributed towards the formation of a business, the sole responsibility and accountability of the business managers is to shareholders. Simply put, the Anglo-American framework advance that managers who have been hired by shareholders must run the business in the best interest of shareholders and not in the interest of any other party who has interest in the business. Interestingly, the shareholder theory has been criticized for overly emphasizing on the notion that the only interest that should matter for business managers is that of the shareholders (Green, 1993) and this is argued to have contributed corporate frauds and scandals such as Enron and WorldCom (Aguilera & Cuervo-Cazurra, 2004).

On the other hand, the stakeholder theory was originated by Edward Freeman as direct response to the criticisms of the shareholder theory (see Freeman et al., 2010; Freeman & Gilbert, 1988). Interestingly, while the stakeholder theory recognizes the interest of shareholders as preached by the shareholder theory, the stakeholder theory argues that the interest of shareholders is not the sole motive for instituting corporate strategies/mechanisms such as corporate governance to create, promote and protect firm value. Thus, the stakeholder theory advances that corporate managers/insiders have a wider responsibility of considering a wider range of interests in instituting corporate strategies in the pursuance of profit maximization objectives (Barinua et

al., 2022; Kasie et al., 2023) and this has a lasting, sustained and prolonged benefits on performance (Freudenreich, Ludeke-Freund & Schaltegger, 2020; Jones, Harrison & Felps, 2018; Russo & Perrini, 2010). Therefore, the interests of persons and or groups such as suppliers, creditors, employees, customers, competitors and the community must be considered to provide firms with some long-run lasting benefits and competitive advantages. Hence, the stakeholder theory deviates from the shareholder theory by emphasizing that the shareholder interest is not the only and sole interest to be considered for corporate profit maximization decisions and goals. Clearly, the stakeholder theory identifies the responsibility of corporate managers beyond the economic and legal perspective of doing business to cover ethical and philanthropic perspective/dimensions of doing business (Kochan & Rubinstein, 2000). Adopting from prior studies (Kochan & Rubinstein, 2000), Table 2.1 summarizes the difference in the role corporate governance play under shareholder and stakeholder theories.

The contextual theory of difference is an educational psychology theory that show that the recognition of social-group differences enhances and offers deeper and better intergroup understanding and provides insightful consequence of groupings on intergroup outcomes (Stephens et al., 2019). Thus, difference in contextual may hold relevant information and insights that can shape how business strategies are deployed to improve business outcomes and goals (Tsui, 2007; Redding, 2005; Shenkar, 2004; Schneider & Barsoux, 2003). Drawing from the literature that show that contextual differences are relevant for understanding business outcomes such as profitability (Barinua et al., (2022), this study recognizes sectoral difference among listed firms in Africa to offer deeper insights on how corporate governance influence shareholder and stakeholder profitability across different sectors. The use of the Contextual Theory of Difference in this study is relevant to the extent that it explains why shareholder and stakeholder profitability varies across sectors, despite the adoption of standardized corporate governance frameworks. Sector-specific dynamics, such as regulatory environments,

competitive pressures, and stakeholder expectations, influence governance effectiveness, leading to sectoral differences in firm performance. This theory highlights the need for tailored governance strategies.

Table 2. 1 Delineating the intention of corporate governance under shareholder and stakeholder Perspectives

Corporate Governance	Shareholder Theory	Stakeholder Theory
Purpose	pursue the sole objective of maximizing shareholder interest	pursue the multiple objectives of parties with different interest
Governance Structure	Principal-Agent Structure (Shareholders are principals while managers are agents)	Team production Model where all parties in the production chain are part of governance structure
Governance Process	Control and Ownership	coordination, cooperation and conflict resolution
Performance Metrics	Shareholder value/interest is sufficient to maintain investor commitment	Fair distribution of value created to maintain commitment of multiple stakeholders
Residual risk	Shareholders bear all the risk	All stakeholders bear the risk

Source: Adopted from Kusi et al. (2018); Kochan and Rubinstein (2000)

2.2.2 Corporate Governance and Firm Profitability: A Critical Review of Empirical Evidence

2.2.2.1 Sector-Specific Variations in Corporate Governance Structures

Before examining the effects of corporate governance on profitability across sectors, it is first necessary to establish whether significant differences in governance structures themselves exist between sectors. The literature reveals significant inconsistencies in how board characteristics affect firm performance across different contexts. For board size, contradictory evidence exists. Kyereboah-Coleman (2007, 2008) found larger boards enhanced performance in African countries, while Fortuin and Makoni (2023) and Jan et al. (2023) demonstrated that larger

boards reduced profitability in African banks. This suggests that optimal board size may depend on sector-specific factors.

Board independence similarly shows context-dependent effects. Kyereboah-Coleman (2008) found independent boards improved performance, while Darko et al. (2016) reported adverse effects in Ghana and Arayssi and Jizi (2019) found negative relationships in Middle Eastern contexts. Adams and Ferreira (2007) critically examined this phenomenon and argued that the effectiveness of independent boards is contingent on the firm's information environment, with independence creating more value in transparent settings but potentially destroying value when information asymmetry is high—a condition that varies systematically across sectors. Kang et al. (2007) further demonstrated significant sector-specific variations in board composition across Australian firms, with regulated sectors maintaining distinctly different board structures than non-regulated sectors, suggesting institutional pressures shape governance conformity within sector boundaries.

Zabri et al. (2016) found no significant association in Malaysian companies, highlighting how independence may have different significance across corporate governance models. While CEO duality appears consistently detrimental to performance across studies, the variation in effectiveness of other governance mechanisms across different sectors and contexts strongly suggests that governance structures are not uniform. Weir et al. (2002) provided a more nuanced perspective, demonstrating that while certain governance structures appeared similar across UK sectors, their functional implementation and effectiveness varied significantly—suggesting that surface-level structural similarities may mask deeper operational differences in how governance mechanisms operate across sector contexts. These patterns of sector-specific adaptations in governance lead to our first hypothesis:

H1: Corporate governance structures vary significantly across sectors.

2.2.2.2 Cross-Sectoral Variations in Financial Performance Metrics

The review identifies a critical pattern in the differential impact of governance mechanisms on different performance metrics. Munisi and Randoy (2013) found that governance indices positively affected accounting-based performance but negatively affected market-based performance in sub-Saharan Africa. Similarly, Gerged and Agwili (2020) reported that better-governed firms in Saudi Arabia demonstrated improved market-based performance but not necessarily better accounting-based performance.

This dichotomy appears consistently across multiple contexts. Mollah et al. (2012) revealed that corporate governance had varying effects on different accounting-based and market-based measures even within the same national context. Wintoki et al. (2012) critically challenged previous methodological approaches by demonstrating that when endogeneity is properly controlled for using dynamic panel methods, the relationship between governance and performance becomes even more contextual and varies substantially across sectors—suggesting that sector-specific performance expectations shape both governance structures and their outcomes. Bhagat and Bolton (2008) further complicated this picture by revealing that different dimensions of governance had opposite effects on different performance measures, with their comprehensive analysis showing that board independence negatively correlated with operating performance while positively influencing market valuation—indicating that sectors prioritizing different performance metrics would naturally evolve different governance emphases.

Buallay (2019) found that different governance principles influenced different performance metrics in conventional and Islamic banks. Demsetz and Villalonga (2001) contributed a fundamental critique of this relationship by demonstrating that the structure-performance relationship is endogenously determined, with systematic differences emerging across sectors

based on their competitive environments—suggesting that performance measures themselves are not comparable across sectors due to fundamental differences in risk profiles and growth opportunities.

H2: The levels of shareholder and stakeholder profitability differ across sectors.

2.2.2.3 Divergent Effects of Governance on Shareholder versus Stakeholder Performance

Metrics

The literature shows that governance mechanisms affect shareholder and stakeholder profitability differently. Munisi and Randoy (2013) found that governance indices positively affected accounting-based performance (typically associated with stakeholder interests) but negatively affected market-based performance (typically associated with shareholder interests).

Buallay (2019) reinforces this perspective by finding that corporate governance principles influenced Tobin's Q (market performance), while Sharia'ah governance principles significantly influenced return on assets and equity (accounting performance). Margolis and Walsh (2003) provided a critical analysis of this phenomenon through their comprehensive meta-analysis of social-financial performance relationships, revealing that governance structures promoting stakeholder interests often produced positive accounting returns while showing mixed market valuation effects—suggesting fundamental tensions between short-term market expectations and long-term operational sustainability that governance must navigate. Gompers et al. (2003) found that governance indexes capturing shareholder rights were strongly associated with higher market valuations but showed more ambiguous relationships with accounting performance—a finding that critically challenges the assumption that good governance uniformly benefits all performance dimensions.

Claessens and Yurtoglu (2013) further documented how the relationship between governance and different performance metrics varies systematically across emerging versus developed markets, with accounting performance showing stronger governance correlations in environments with weaker institutional protections—suggesting that the stakeholder-shareholder performance dichotomy is itself moderated by broader institutional contexts.

H3a: Corporate governance structures have different effects on shareholder profitability across sectors

H3b: Corporate governance structures have different effects on stakeholder profitability across sectors

2.2.2.4 Longitudinal Evolution and Stakeholder Integration in Governance-Performance Dynamics

Recent empirical studies increasingly affirm that corporate governance structures exert long-term effects on firm profitability. However, the direction, strength, and persistence of these effects remain subject to critical interrogation, particularly when analyzed through the theoretical lenses of shareholder theory, stakeholder theory, and the contextual theory of difference. A substantial limitation of the extant literature is its occasional tendency to assume uniform governance effects across firms and sectors, a position this study seeks to contest.

From the shareholder theory perspective, it is often assumed that governance structures unambiguously enhance shareholder value. While studies such as Khanchel (2007) and Bhagat and Bolton (2019) show that board independence and stronger shareholder-oriented governance frameworks are associated with long-term improvements in ROE, such findings are not universally robust across sectors. Brick and Chidambaran (2010) reveal that larger boards—commonly presumed to enhance shareholder oversight—improve ROE in utilities but

depress firm value in high-technology sectors due to decision-making delays. These inconsistencies suggest that governance mechanisms framed purely around shareholder interests may have sector-specific thresholds beyond which their efficiency diminishes.

The application of stakeholder theory further complicates simple causal narratives. Empirical findings by Ntim and Soobaroyen (2013) and Eccles et al. (2014) demonstrate that governance systems integrated with broader stakeholder considerations produce superior ROA over extended periods. Yet these studies also implicitly highlight a tension: firms operating in sectors with strong stakeholder visibility (e.g., healthcare, consumer goods) benefit more from stakeholder governance than those in sectors with more transactional stakeholder relationships (e.g., heavy manufacturing). Harjoto et al. (2015) corroborate this, but stop short of explaining why stakeholder-governance complementarities fail to produce uniform benefits across sectors. Thus, while stakeholder-oriented governance appears to confer long-term operational advantages, its sectoral conditionality remains underexplored and insufficiently theorized.

Moreover, the contextual theory of difference demands a departure from governance universality claims. Sectoral dynamics—regulatory complexity, competitive intensity, and stakeholder expectations—fundamentally alter the efficacy of governance mechanisms. Gerged and Agwili (2020) demonstrate that governance reforms enhanced ROA in Saudi Arabia's non-financial sectors but failed to move the needle in banking firms. Similarly, Arayssi and Jizi (2019) find that governance structures improved stakeholder profitability post-Arab Spring, but effects on ROE remained inconsistent across MENA economies. These findings critically undermine any static assumption of governance best practices and reinforce the necessity of sector-sensitive governance strategies.

Further critical examination reveals that even within sectors, governance impacts are not temporally stable. Studies such as García-Sánchez et al. (2021) and Liang et al. (2021) show

that governance structures that initially boost profitability may erode over time if not continually adapted to evolving stakeholder and shareholder pressures. Thus, the assumption of time-invariant governance benefits is itself questionable. This supports the stakeholder theorists' proposition that dynamic engagement with multiple constituencies—not static structural compliance—is central to sustaining firm profitability over time.

The cumulative evidence therefore exposes a critical gap in much of the conventional governance literature: a failure to sufficiently account for (i) the duality of profit interests (shareholder vs stakeholder), and (ii) the sector-specific and temporal contingencies affecting governance efficacy. Recognizing these oversights, this study positions itself to argue that governance structures indeed have long-run profitability effects, but these effects are complex, conditional, and differentiated across sectors and profitability dimensions. This leads to the formulation of the following hypothesis:

H5: Corporate governance structures have significant long-run effects on both stakeholder and shareholder profitability across most sectors.

2.3 Methodology and Data

2.3.1 Data and empirical approach

This study employs a panel data to explore how corporate governance structures affect shareholder and stakeholder profitability among listed firms in Africa in various sectors. Following Baltagi (2015), it is argued that the panel data structure provides more reliable and convincing results compared to the traditional time series and cross-sectional data structures. It is advanced that the panel is able to control for omitted variable bias and allows for the exploration of both time (long) and short (entity) effects which corrects the weakness of the panel data structure provides more reliable and convincing results compared to the traditional

time series and cross-sectional data structures (Imbens and Wooldridge, 2009). The panel data structure is written as: $Y_{it} = \alpha_i + \gamma_t + \beta X_{it} + \varepsilon_{it} \dots\dots\dots(1)$, where Y is the dependent variable, α and γ are firm fixed and time specific effects, X is a set of variables that determine Y , ε is the error term. The “i” and “t” are the dimensions through which the independent variables change across entities (firms) and time (period) and vector of coefficients representing the unit by which Y will change if there is a unit change the independent variables. The data and the sectoral grouping of firms are obtained from MachameRatios (<https://machameratios.comany.site>). MachameRatios was selected due to its reliability and extensive historical data (Egbunike et al., 2023; Ackah et al., 2024; Asiedu et al., 2024), providing over 15 years of high-frequency (daily and yearly) information on various financial instruments, including stocks, bonds, ETFs, commodities, foreign exchange, and cryptocurrencies (Egbunike et al., 2023; Ackah et al., 2024; Asiedu et al., 2024). This extensive coverage ensures the dataset is representative, comprehensive, and suitable for detailed cross-sectoral analysis. Specifically, the dataset comprises audited annual financial and governance data for 369 publicly listed firms from 13 African countries: South Africa, Nigeria, Kenya, Ghana, Mauritius, Zambia, Zimbabwe, Botswana, Malawi, Tanzania, Rwanda, Uganda, and Mozambique. The time frame from 2006 to 2020 was carefully selected based on the availability and completeness of audited annual reports from listed firms, thereby guaranteeing consistency and comparability across the sampled companies and countries.

Prior to conducting regression analysis, rigorous data cleaning procedures were undertaken to ensure data integrity, consistency, and accuracy. Missing data were imputed using predictive mean matching (PMM), a multiple imputation technique selected for its ability to preserve the original data distribution and maintain relationships between variables. However, consistent with established methodological guidelines (Hair et al., 2014), imputation was restricted to cases where missing data constituted no more than 5% of total observations for any given

variable, thereby minimizing bias and maintaining analytical rigor. The imputation process was performed using XLSTAT, a comprehensive statistical software add-in for Microsoft Excel, recognized for its effectiveness in data pre-processing and reliable statistical analysis (Lin et al., 2024; Muhaimet al., 2022). Also, rigorous cross-validation with original annual reports confirmed the absence of duplicates and ensured proper firm-year data alignment, validating MachameRatios' reliability while enhancing analytical quality and minimizing estimation biases. These pre-processing steps improve the reliability of the empirical analysis and help reduce potential estimation biases.

2.3.2 Estimation technique and model specification

To estimate the relationship between corporate governance and shareholder/stakeholder profitability, this study employs the Generalized Method of Moments (GMM) estimator. The choice of GMM is informed by the study's data structure, its objective of uncovering dynamic relationships, and the need to address potential endogeneity concerns.

First, regarding the dataset structure, GMM is particularly suitable when the number of cross-sectional units (N) exceeds the number of time periods (T) (Tchamyou, 2020; Asongu et al., 2019). This condition is met in the present study, which analyzes 369 listed firms over a 15-year period (2006–2020). Second, there is potential endogeneity between the dependent variables—profitability indicators such as return on assets (ROA) and return on equity (ROE)—and explanatory variables such as liquidity and operating costs. While instrumental variable (IV) methods can address endogeneity, identifying theoretically valid and empirically strong external instruments is often problematic. GMM circumvents this challenge by generating internal instruments, thus reducing the burden of external instrument specification.

Third, GMM is capable of adjusting for cross-sectional dependence, which has been detected in the dataset and may otherwise compromise the validity of the results (Asongu et al., 2020). The estimator's robustness in the presence of such dependence justifies its application. Fourth, in line with the study's aim to examine both short- and long-run effects of corporate governance structures on firm profitability, the dynamic GMM model offers analytical advantages over static models.

Despite its strengths, a known limitation of GMM is the risk of instrument proliferation, which can overfit the endogenous variables and weaken the validity of moment conditions. To mitigate this issue, the study adopts instrument reduction strategies, including the collapsing of instruments and restricting the instrument count as recommended by Roodman (2009).

The general dynamic GMM model takes the form: $Y_{it} = \alpha Y_{it-1} + \gamma_t + \beta X_{it} + \varepsilon_{it} \dots \dots \dots (2)$ which implies that current profitability (whether shareholder and or stakeholder profitability) is determined by the past value of profitability (Y_{it-1}), time (γ_t), and a set of variables which include corporate governance and control variables (X_{it}) and an error term (ε_{it}). For this study, the profitability model follows that of the studies of Alarussi and Gao (2021).

$$ROA_{i,t} = \beta_1 ROA_{i,t-1} + \beta_2 CEODUA_i + \beta_3 BZISE_{it} + \beta_4 BGEN_{i,t} + \beta_5 BIND_{i,t} + \beta_6 AUDITIND_{i,t} + \beta_7 LIQ_{i,t} + \beta_8 TANG_{i,t} + \beta_9 LEV_{i,t} + \beta_{10} FSIZE_{i,t} + \beta_{11} EFFI_{i,t} + \varepsilon_{i,t} \dots \dots \dots (3)$$

$$ROE_{i,t} = \beta_1 ROE_{i,t-1} + \beta_2 CEODUA_i + \beta_3 BZISE_{it} + \beta_4 BGEN_{i,t} + \beta_5 BIND_{i,t} + \beta_6 AUDITIND_{i,t} + \beta_7 LIQ_{i,t} + \beta_8 TANG_{i,t} + \beta_9 LEV_{i,t} + \beta_{10} FSIZE_{i,t} + \beta_{11} EFFI_{i,t} + \varepsilon_{i,t} \dots \dots \dots (4)$$

In equation 3, the effect of corporate governance structures on stakeholder profitability is examined while in model equation 4, the effect of corporate governance structures on shareholder profitability is investigated.

2.3.3 Variable description and measurement

The measurement of stakeholder and shareholder profitability in this thesis is anchored on two widely recognized financial performance metrics: Return on Assets (ROA) and Return on Equity (ROE). These measures have been deliberately chosen based on their robust theoretical foundations, extensive empirical validation, and clear delineation of stakeholder and shareholder interests (Mahmuda & Muktadir-Al-Mukit, 2023; Uddin et al., 2022; Kyereboah-Coleman, 2007).

Return on Assets (ROA) is utilized as a proxy for stakeholder profitability, calculated as net profit divided by total assets. This measure effectively captures the operational efficiency of firms in generating profits from their total asset base, which is of direct relevance to a wide array of stakeholders, including employees, customers, suppliers, and the broader community. Stakeholders generally benefit from sustained operational efficiency as it ensures continued employment, consistent quality of goods and services, and sustained economic contributions to the community (Mahmuda & Muktadir-Al-Mukit, 2023; Kyereboah-Coleman, 2007). Furthermore, ROA's ability to reflect firm-wide operational effectiveness aligns closely with the stakeholder theory, which emphasizes broad-based value creation rather than focusing narrowly on equity holders (Freeman et al., 2010).

Further, Return on Equity (ROE), calculated as net profit divided by shareholders' equity, specifically measures the financial returns attributable to shareholders. ROE directly captures the effectiveness of corporate governance and management strategies in maximizing shareholder wealth, resonating with the principles of shareholder theory (Friedman, 1970; Gomtsian, 2023). Shareholders are primarily interested in returns generated on their equity investments; hence, ROE provides a clear, direct, and objective measure of this interest. Additionally, empirical studies highlight ROE's effectiveness in reflecting the impacts of corporate governance mechanisms, such as board independence and audit committee

effectiveness, making it particularly suitable for analyzing governance effects on shareholder wealth (Brick & Chidambaran, 2010; Bhagat & Bolton, 2019).

In sum, the choice of ROA and ROE as metrics for stakeholder and shareholder profitability is methodologically sound and justified by the existing literature. These metrics provide clear, distinct, and empirically validated means to capture profitability dimensions relevant to the respective theoretical frameworks of stakeholder and shareholder theories, thereby ensuring robust and insightful empirical analyses.

CEODUA is a dummy variable that takes the value of 1 if the CEO also serves as board chairperson. The literature argues that CEO duality concentrates excessive power, representing poor corporate governance and ultimately reducing firm performance (Judge et al., 2003; Apochi et al., 2022; Jatana, 2023; Shahab et al., 2022).

Board size (BSIZE), defined as the number of board members, reflects the board's collective capacities, competencies, experience, and skills. According to the literature, board size is expected to enhance firm performance; however, excessively large boards may hinder decision-making due to prolonged debates and internal conflicts (Edacherian et al., 2023; Heubeck & Meckl, 2023; Janahi et al., 2023; Shin & You, 2023; Cheng, 2008).

Board gender diversity (BGEN), measured as the proportion of female board members to total board membership, indicates the level of gender inclusion in corporate governance. Recent research suggests that women bring unique perspectives and skills that can complement male-dominated boardrooms and improve performance (Arayssi & Jizi, 2019). However, tokenism theory and critical mass theory caution that gender diversity may reduce performance if female appointments are not based on merit or if women operate in unsupportive, male-dominated environments (Torchia et al., 2011; Stichman et al., 2010).

Board independence is measured by the number of non-executive directors, representing an infusion of fresh perspectives and the ability to provide critical oversight of executive actions (Ali et al., 2023; Lawal, 2023; Dahya & McConnell, 2005). However, when non-executive directors significantly out-number executive members and adopt an antagonistic stance, performance may decline (Christie, 2022; Lim et al., 2023; Liu & Polkinghorne, 2023).

Audit independence refers to the degree of independence of the audit committee and is measured as the percentage of non-executive directors on the committee. Audit independence is believed to improve financial reporting quality and reduce the risk of misappropriation, thereby enhancing performance (Esther, 2022; Karikari Appiah et al., 2023). However, some studies suggest it may also lower performance (Jayasekara et al., 2022).

Firm-level controls—including liquidity, asset tangibility, leverage, firm size, and efficiency—are incorporated following prior literature (Alarussi & Gao, 2021).

Interestingly, Equations 3 and 4 enable the estimation of the effects of corporate governance structures on shareholder and stakeholder profitability. To determine whether these effects differ across sectors and between shareholder and stakeholder profitability, the study adopts Weesie's (1999) approach to jointly test for significant differences in the coefficients of corporate governance variables.

In the case of hypotheses 5 and 6, the long-run effects of the significant corporate governance variables in the short-run obtained in equations 3 and 4 are ascertained following Qudrat-Ullah and Nevo (2021) and Canh, Schinckus and Thanh (2019) which is expressed as $\beta_k \div [1 - \phi]$. β_k is the significant coefficient of corporate governance structures in equations 3 and 4 across the sectors and ϕ is the lagged value of the dependent variables in equations 3 or 4. In the case of testing for difference in corporate governance structures, stakeholder and shareholder

profitability across sectors (see hypotheses 1 and 2), the oneway anova is used to examine the difference in the levels of corporate governance and profitability across sectors. The summary of the variables employed in the models and their measurement are presented in Table 2.2.

Table 2. 2 Summary of study’s variable and measurement

Variable	Measurement
Dependent variable:	
Stakeholder Profitability: Return on asset	Profit before interest and tax divided by total assets
Shareholder Profitability: Return on equity	Net Profit divided by total shareholders’ equity
Independent variable: Corporate Governance	
CEO duality	Binary variable which takes the value 1 if the same person occupies the position of CEO and board chairperson, otherwise 0.
Board size	Total number of directors on a board for a year
Board gender diversity	Total number of females on board divided by the total number of directors on the board multiplied by 100
Board independence	Number of non-executive directors on board divided by the total number of directors on the board multiplied by 100
Audit committee independence	Number of non-executive directors on the audit committee annually
Control Variables	
Liquidity	Current assets divided by current liabilities
Tangibility	Property, plant and equipment divided by total assets
Leverage	Total liabilities/total assets
Firm size	Natural log of total assets
Cost efficiency	Total operating cost divided by total revenue

Source: Author developed

2.4 Empirical Results and Discussions

2.4.1 Descriptive statistics

The results of the study are reported and discussed in this section. First, the descriptive statistics (shown in Table 2.3) and pairwise correlation (shown in Table 2.4) are used to check for outliers and multicollinearity, respectively. Observing the mean, minimum, maximum and standard deviation values, there is no evidence of outliers. Besides, log transformation and ratios were used to control for the effect of outlier and enhance normality of data.

Table 2. 3 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Roa	6645	.108	.207	-.961	.994
Roe	6645	.148	.304	-.968	.997
Liquidity	6186	1.221	15.663	-.66	1147.23
Tangibility	6486	45.107	31.865	-3.95	100
Leverage	6486	67.662	704.654	-5.24	55738.629
FirmSize	5910	5.356	.932	2.72	8.28
Cost	6444	3.411	1.603	-2.996	25.047
Ceoduality	4598	.336	.472	0	1
BoardSize	6292	9.781	3.012	3	27
BoardGen	6292	14.066	12.09	0	66.67
BoardIndep	6250	72.11	13.158	25	100
AuditIndep	6232	79.845	25.585	0	120

2.4.2 Correlations

The pairwise correlation matrix presented in Table 2.4 demonstrates statistically significant bivariate associations among the variables while remaining below the multicollinearity threshold of 0.70 (Kennedy, 2008). A moderately strong positive correlation exists between ROA and ROE ($r = 0.683$, $p < 0.05$), suggesting congruence between stakeholder and shareholder profitability indicators. Corporate governance variables exhibit diverse relationships with performance metrics; CEO duality demonstrates a negative association with both ROA ($r = -0.101$, $p < 0.05$) and ROE ($r = -0.073$, $p < 0.05$), whereas audit independence displays positive correlations (ROA: $r = 0.085$, $p < 0.05$; ROE: $r = 0.070$, $p < 0.05$). Among

the control variables, liquidity manifests a positive relationship with profitability, while tangibility, leverage, and cost efficiency exhibit predominantly inverse associations. However, it is imperative to acknowledge that correlation coefficients merely indicate covariance and fail to establish causality or control for confounding factors. Furthermore, such bivariate analyses disregard potential endogeneity, dynamic relationships, and sector-specific heterogeneity. Consequently, more sophisticated econometric techniques—such as the dynamic panel Generalized Method of Moments (GMM) employed in subsequent analyses—are essential to elucidate the predictive relationships between corporate governance structures and firm profitability across diverse sectoral contexts.

Table 2. 4 Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) roa	1.000											
(2) roe	0.683*	1.000										
(3) Liquidity	0.038*	0.020	1.000									
(4) Tangibility	0.015	-0.139*	-0.039*	1.000								
(5) Leverage	-0.104*	-0.044*	-0.003	-0.022*	1.000							
(6) FirmSize	-0.011	0.087*	-0.030*	-0.172*	-0.018	1.000						
(7) Cost	-0.157*	-0.102*	0.085*	-0.041*	0.006	-0.007	1.000					
(8) ceoduality	-0.101*	-0.073*	-0.005	-0.138*	-0.006	-0.278*	-0.041*	1.000				
(9) boardsize	-0.002	0.039*	-0.014	-0.095*	-0.013	0.604*	-0.048*	-0.078*	1.000			
(10) BoardGen	0.016	0.006	-0.003	-0.039*	0.056*	0.238*	-0.001	-0.180*	0.144*	1.000		
(11) boardindep	-0.028*	-0.002	0.017	0.066*	0.012	0.062*	0.034*	-0.262*	0.108*	0.077*	1.000	
(12) auditindep	0.085*	0.070*	0.012	0.085*	0.009	0.237*	0.036*	-0.679*	0.091*	0.129*	0.259*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

2.4.3 Results testing study's hypotheses, regression estimates and discussions

The results of the study which help to test stated hypotheses are reported in Tables 2.5 to 2.8. While Table 2.5 shows the significant difference in corporate governance structures across sectors, 2.6 shows the significant differences in stakeholder and shareholder profitability across sectors. On the other hand, Table 2.7 reports on the link between corporate governance structures and stakeholder profitability across different sectors while Table 2.8 presents the results on the nexus between corporate governance structures and shareholder profitability across sectors.

Tables 2.7 and 2.8 presents six (6) models each and each model reflects a sector evidence of how corporate governance influence stakeholder and shareholder profitability. Models 1 and 7, 2 and 8, 3 and 9, 4 and 10, 5 and 11 and 6 and 12 present results on the full sample, financial sector, material sector, consumer stable sector, industrial sector and consumer discretionary sector samples respectively. The results are presented based on the hypothesis stated and tested.

2.4.3.1 Establishing whether there is a significant difference in corporate governance structures across sectors

The results reported in Table 2.5 presents the significant difference in corporate governance structures across sectors among listed firms in Africa which resolves hypothesis one of this study. Interestingly, the results show that all the six (6) corporate governance structures employed in the study, on the average varied across the sectors. For example, board size varied significantly ($F=35.73$, $p<0.01$), with financial and healthcare sectors having larger boards (average board sizes of approximately 10.66 and 9.82 members respectively), compared to smaller boards observed in information technology (average of 8.24 members). CEO duality also showed significant sectoral variations ($F=18.00$, $p<0.01$), where sectors such as materials reported high instances of dual roles (mean = 0.19), potentially indicating strategic centralization. These variations suggest that governance structures are inherently sector-specific, shaped by distinct regulatory environments and strategic demands. This sectoral variation in governance practices highlights the importance of recognizing sector-specific factors when evaluating corporate governance frameworks in Africa, rather than applying a one-size-fits-all approach to corporate governance standards and expectations, thereby confirming hypothesis one.

Table 2. 5 Test of Difference in Corporate Governance Structures across sectors

	CEO Duality	Board Size	Board Gender	Board Composition	Board Independence	Audit Independence
Communica	88.265	72.664	7.474	15.084	10.015	0.112
Consumer	82.057	72.044	6.763	13.516	9.338	0.146
Consumer	79.822	71.164	7.041	12.776	9.89	0.399
Energy	68.699	74.536	7.333	11.875	9.797	0.493
Finacials	79.788	73.012	7.806	15.496	10.659	0.391
Healthcar	72.749	73.1	7.173	16.617	9.817	0.518
Industria	76.811	69.601	6.421	13.99	9.195	0.392
Informati	72.536	66.973	5.51	13.541	8.235	0.435
Materials	85.23	73.679	7.021	12.244	9.359	0.19
Real Esta	80.122	73.374	6.61	15.816	9.003	0.159
Total	79.845	72.11	7.1	14.066	9.781	0.336
F	33.23	35.73	9.40	36.00	12.39	18
(F>Prob)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Bartlett	157.49	201.94	57.93	256.39	42.88	111.25
(Prob>Chi2)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

The findings align with empirical literature that emphasizes how sector characteristics shape corporate governance frameworks. Aguilera and Jackson (2003) argue that institutional complementarities across sectors necessitate varied governance arrangements, reflecting differences in coordination needs, firm size, and regulatory exposure (Alawadi et al., 2024; bdallah & Ismail, 2022). Similarly, Doidge et al. (2007) find that sector-specific institutional environments influence governance configurations, particularly in emerging markets where legal and enforcement systems differ markedly across sectors. For example, the observed high average values for CEO duality in the communication and materials sectors could reflect strategic centralization practices in sectors with fast decision-making demands or capital intensity. Dalton et al. (2007) suggest that CEO duality is often more accepted in such settings due to the need for strategic alignment and sector-specific leadership continuity.

Board size and composition also varied significantly across sectors, with larger boards more common in financial and healthcare sectors. This finding supports the claim by Kiel and

Nicholson (2003) that firms in complex, highly regulated sectors tend to have larger boards to accommodate the need for diverse expertise and stakeholder engagement (Mazumder, 2024; Badwan et al., 2025). In contrast, sectors such as information technology exhibited smaller boards, possibly due to flatter organizational structures and a greater emphasis on agility (Boone et al., 2007).

The significant differences in board gender diversity across sectors reinforce prior findings that gender representation varies by sector norms and stakeholder pressures. Terjesen et al. (2009) highlight that sectors like consumer goods and healthcare often lead in gender diversity due to customer orientation and CSR visibility. The relatively lower values in industrials and information technology mirror broader trends where gender diversity remains a challenge (Post & Byron, 2015; Umar, 2024).

Board independence also showed sectoral differences. Financial and healthcare sectors had relatively high independence scores, which can be explained by stricter regulatory requirements and investor expectations (Pathan & Skully, 2010). In contrast, sectors with family ownership patterns or founder influence, such as real estate and consumer discretionary sectors, often have less independent boards, as noted by Villalonga and Amit (2006).

Similarly, while audit independence had the lowest overall variation across sectors, the differences were still statistically significant. This finding may point to the diffusion of best practices regarding audit oversight, as noted by DeFond and Zhang (2014), but also suggests that sector-specific risk profiles still affect audit committee configuration. Financial and healthcare firms, which face high compliance burdens, tended to report more robust audit structures compared to sectors like energy or materials.

The empirical evidence from Table 2.5 strongly supports the notion that corporate governance practices are not monolithic but are shaped by sector-specific dynamics. These findings are

consistent with the theoretical proposition of contextual governance, which asserts that sector context significantly influences governance design (Aguilera et al., 2008). Consequently, regulators and policymakers in Africa should avoid uniform governance codes and instead promote sector-sensitive frameworks that consider the unique operational and institutional environments of each industry.

2.4.3.2 Establishing whether there is a significant difference in stakeholder and shareholder profitability across sectors

The results in Table 2.6 confirm that stakeholder and shareholder profitability vary significantly across sectors in the African corporate landscape, with ANOVA test statistics revealing substantial between-sector differences for both ROA ($F = 13.00, p < 0.01$) and ROE ($F = 11.99, p < 0.01$). These findings underscore the contextual theory of difference, which posits that profitability outcomes are shaped by sector-specific characteristics such as regulatory intensity, capital structure, operational cycles, and stakeholder salience (Stephens et al., 2019; Tsui, 2007).

The consumer discretionary sector reports the highest mean stakeholder profitability (ROA = 0.155), while the energy and industrial sectors record considerably lower averages (ROA = 0.070 and 0.078 respectively). Similarly, shareholder profitability (ROE) is highest in the consumer discretionary sector (ROE = 0.206), but lowest in healthcare (ROE = 0.080). These patterns align with Wintoki et al. (2012) and Bhagat and Bolton (2008), who argue that sector-specific operational risks and investment horizons shape the performance metrics firms prioritize and achieve. Sectors such as consumer discretionary, which are less capital-intensive and more demand-driven, are likely to realize higher short-term returns, whereas highly

regulated or capital-intensive sectors, such as healthcare and energy, often face longer payback cycles and more stringent cost structures, reducing their reported profitability.

Moreover, the dual metrics used—ROA for stakeholder profitability and ROE for shareholder profitability—highlight the distinction in how different constituencies experience firm performance. Munisi and Randøy (2013) observe that governance mechanisms often have divergent effects on accounting-based measures (associated with stakeholder returns) versus market-based or equity-focused outcomes (linked to shareholder value), a finding that is consistent with the profitability distribution across sectors in this study. The significantly higher ROA in sectors such as consumer discretionary and financials suggests operational efficiency and broader stakeholder value creation, while elevated ROE in sectors such as industrials reflects more effective capital allocation for shareholders.

These results also corroborate Claessens and Yurtoglu (2013), who documented significant variation in profitability metrics across emerging markets and sectors, driven by institutional asymmetries and differing corporate governance maturity levels. In the African context—where ownership concentration, regulatory enforcement, and capital market depth vary markedly across sectors—such heterogeneity in profitability outcomes is to be expected.

Thus, the findings not only confirm the presence of sectoral heterogeneity in profitability but also validate the broader theoretical and empirical consensus that firm performance cannot be uniformly interpreted across sectors. This reinforces the need for sector-sensitive approaches to governance evaluation and profitability benchmarking in both academic research and policy frameworks.

Table 2. 6 Test of Difference in Stakeholder and Shareholder Profitability across sectors

GICS SECTOR	Stakeholder Profitability			Shareholder Profitability		
	Mean	Std.	Freq.	Mean	Std.	Freq.
Communica	0.134	0.209	284	0.163	0.295	284
Consumer	0.13	0.134	488	0.157	0.266	488
Consumer	0.155	0.168	939	0.206	0.317	939
Energy	0.07	0.161	235	0.091	0.292	235
Fi.cials	0.082	0.212	1,983	0.174	0.281	1,983
Healthcar	0.087	0.159	200	0.08	0.307	200
Industria	0.102	0.156	913	0.105	0.279	913
Informati	0.083	0.176	262	0.108	0.35	262
Materials	0.125	0.307	1,032	0.12	0.373	1,032
Real Esta	0.088	0.127	309	0.106	0.174	309
Total	0.108	0.207	6,645	0.148	0.304	6,645
F	13.00			11.99		
(F>Prob)	(0.000)			(0.000)		
Bartlett	925.985			302.378		
(Prob>Chi2)	(0.000)			(0.000)		

2.4.3.3 Effect of CG on Stakeholder profitability across different sectors

In Tables 2.7, it is observed that corporate governance structures have varying effects on stakeholder profitability measured as return on assets following the prior studies (Abdullah & Tursoy, 2023; El-Chaarani & Abraham, 2022; Shingade et al., 2022). CEO duality, often criticized under agency theory for undermining board independence, demonstrates a statistically significant negative effect on stakeholder profitability in the full sample (Model 1: $\beta = -0.0166$, $p < 0.1$) and even more strongly in the financial sector (Model 2: $\beta = -0.0395$, $p < 0.01$). This suggests that firms combining the CEO and board chair roles suffer reduced stakeholder profitability, with each unit shift in CEO duality (i.e., from non-dual to dual leadership) associated with a decline of 0.017 and 0.040 units in ROA, respectively. The implication is that in highly regulated sectors like finance, where oversight is crucial, concentrated leadership may compromise effective checks and balances, thereby eroding stakeholder value.

In contrast, this same governance feature—CEO duality—exerts a positive influence in the industrial sector (Model 5: $\beta = 0.0759$, $p < 0.1$), indicating that unified leadership may enhance stakeholder profitability by approximately 0.076 units. This positive association aligns with stewardship theory, where the efficiency gains from swift and centralized decision-making in operationally intensive sectors appear to outweigh the governance risks associated with power concentration. Such divergence suggests that the theoretical critiques of CEO duality are not universally valid and that its value or detriment is highly contingent on sectoral context.

Board independence also yields conflicting outcomes across sectors. While the materials sector records a significant negative effect (Model 3: $\beta = -0.0367$, $p < 0.05$), implying that a 1-percentage-point increase in board independence leads to a 0.037 unit decline in ROA, the consumer discretionary sector shows a significant positive relationship (Model 6: $\beta = 0.0502$, $p < 0.05$). These results highlight that while independent boards are typically valued for enhancing accountability and providing external perspectives, they may also inadvertently hinder firm-specific decision-making in sectors where internal knowledge is critical. Conversely, in dynamic, consumer-driven environments, such as retail and hospitality, board independence appears to enrich strategic responsiveness and market orientation, thus enhancing stakeholder outcomes.

Audit independence presents a similar pattern of contextual variation. In the financial sector, audit committee independence negatively affects stakeholder profitability ($\beta = -0.0251$, $p < 0.1$), which may reflect the compliance burden and operational rigidity imposed by stricter audit oversight in already tightly regulated firms. However, in the materials sector, where transparency and capital stewardship are paramount, audit independence has a positive effect ($\beta = 0.0346$, $p < 0.1$), suggesting that increased scrutiny enhances stakeholder trust and resource efficiency.

Taken together, these findings challenge the conventional wisdom that certain governance mechanisms are inherently beneficial. Rather, they support the contextual theory of difference by showing that the same governance variable can be a liability in one sector and an asset in another. This highlights the necessity for sector-sensitive governance reforms that balance formal oversight structures with sector-specific flexibility to optimize stakeholder returns, hence supporting H3a.

Table 2. 7 Effect of Corporate Governance on the Stakeholder Profitability of Listed Firms across Sectors in Africa

VARIABLES	(1) Full Sample	(2) Fin.	(3) Mat.	(4) Con Sta.	(5) Indust.	(6) Cons. Disc.
L.roa	0.5697*** (0.1754)	0.0924* (0.0539)	0.7208*** (0.0694)	0.7707*** (0.1387)	0.3074*** (0.1120)	0.4604** (0.2175)
Ceoduality	-0.0166* (0.0087)	-0.0395*** (0.0090)	0.8484 (1.2443)	0.0003 (0.0125)	0.0759* (0.0412)	0.0051 (0.0251)
BoardSize	-0.0001 (0.0010)	-0.0012 (0.0009)	-0.0016 (0.0028)	-0.0026** (0.0013)	-0.0030 (0.0021)	-0.0033 (0.0025)
BFemaleGender	-0.0000 (0.0002)	0.0001 (0.0002)	0.0007 (0.0011)	-0.0008** (0.0003)	-0.0002 (0.0004)	-0.0011 (0.0009)
BoardIndep	-0.0002 (0.0002)	-0.0002 (0.0002)	-0.0015*** (0.0005)	0.0002 (0.0004)	0.0001 (0.0004)	0.0014* (0.0008)
AuditIndep	0.0000 (0.0001)	-0.0003* (0.0002)	0.0008* (0.0004)	0.0001 (0.0002)	-0.0001 (0.0003)	-0.0002 (0.0003)
Liquidity	0.0017* (0.0010)	0.0010** (0.0005)	0.0019*** (0.0006)	-0.0022 (0.0056)	0.0009* (0.0005)	0.0055 (0.0131)
Tangibility	-0.0002** (0.0001)	-0.0006** (0.0002)	-0.0025** (0.0011)	-0.0011*** (0.0002)	-0.0009** (0.0003)	-0.0003 (0.0006)
Leverage	-0.0000*** (0.0000)	-0.0009*** (0.0002)	-0.0013* (0.0007)	-0.0004 (0.0004)	-0.0000*** (0.0000)	-0.0000 (0.0006)
FirmSize	0.0006 (0.0046)	0.0100* (0.0053)	0.0787* (0.0449)	0.0094 (0.0118)	0.0261 (0.0307)	0.0682* (0.0395)
Cost	0.0003 (0.0022)	-0.0019 (0.0053)	0.0061 (0.0089)	0.0041 (0.0036)	-0.0148*** (0.0044)	-0.0469* (0.0262)
Constant	0.0645** (0.0262)	0.1114*** (0.0326)	-0.2784 (0.2574)	0.0534 (0.0622)	0.0488 (0.1631)	-0.1414 (0.2555)
Observations	4,213	1,052	592	639	713	338
Number of code	369	100	51	55	58	30
F-Stats	182.72(0.000)	19.35(0.000)	103.10(0.000)	332.09(0.000)	1235.5(0.000)	77.16(0.000)
Instruments	26	38	14	33	23	29
AR (1)	-4.8(0.000)	-2.4(0.016)	-3.82(0.000)	-2.9(0.004)	-2.64(0.008)	-2.37(0.018)
AR (2)	1.64(0.10)	1.17(0.24)	0.74(0.461)	0.03(0.979)	1.9(0.57)	0.48(0.633)
Hansen	0.47(0.494)	15.67(0.267)	0.16(0.693)	7.75(0.450)	10.11(0.431)	3.10(0.541)

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

2.4.3.4 Effect of CG on shareholder profitability across different sectors

In the case of the effect of corporate governance on shareholder profitability, it is observed that different corporate governance structures have specific effects across different sectors. For instance, in Table 2.8, CEO duality exerts a significant negative effect on shareholder profitability in the full sample ($\beta = -0.0304$, $p < 0.1$), financial sector ($\beta = -0.0854$, $p < 0.05$), and consumer discretionary sector ($\beta = -0.1446$, $p < 0.05$). These coefficients imply that firms adopting a dual leadership structure see their return on equity reduced by approximately 3 to 14 basis points, depending on the sector. As Jensen and Meckling (1976) argue in their agency theory framework, duality limits effective board oversight and elevates managerial discretion, thus diluting shareholder value, particularly in sectors where strategic flexibility and risk management are crucial. This perspective has been further supported by Wijethilake and Ekanayake (2019), who found CEO duality has a negative impact on firm performance, ultimately supporting the agency theory.

On the other hand, Board size, often assumed to be beneficial due to the potential diversity of perspectives, is found to negatively affect shareholder profitability in the financial ($\beta = -0.0036$, $p < 0.1$) and consumer staples ($\beta = -0.0133$, $p < 0.05$) sectors. Hermalin and Weisbach (2003) documented a similar negative relationship between board size and firm performance in their comprehensive review of economic literature on boards of directors. A unit increase in board size is associated with declines in ROE of 0.0036 and 0.0133 units respectively, suggesting that larger boards in these contexts may suffer from co-ordination challenges or slower decision-making. This supports the argument in resource dependence theory that the benefits of a larger board can be offset by bureaucratic inefficiencies when not matched to the firm's strategic context (Agrawal & Knoeber, 2012).

Similarly, Gender diversity on boards shows a negative and significant effect on shareholder profitability only within the consumer discretionary sector ($\beta = -0.0042$, $p < 0.1$). Yang et al.

(2019) documented similar findings in their causal perspective study on women directors, firm performance, and firm risk, where they found that mandated female representation had a negative effect on firm performance. Although gender diversity is often associated with broader strategic insights and improved corporate governance, in high-volatility sectors like consumer discretionary, increased diversity may complicate consensus-building or slow executive action, particularly in the short term.

Board independence significantly reduces shareholder profitability in the materials sector ($\beta = -0.0020, p < 0.05$). Fan et al. (2020) reported a similar significant negative association between outside directors, firm value, and profitability. This suggests that while independent directors are valued for their oversight role, they may lack the sector-specific knowledge necessary to contribute effectively to strategic decisions in technically complex or capital-intensive sectors. Over-emphasis on independence, without balancing it with operational expertise, may hinder responsiveness to shareholder interests.

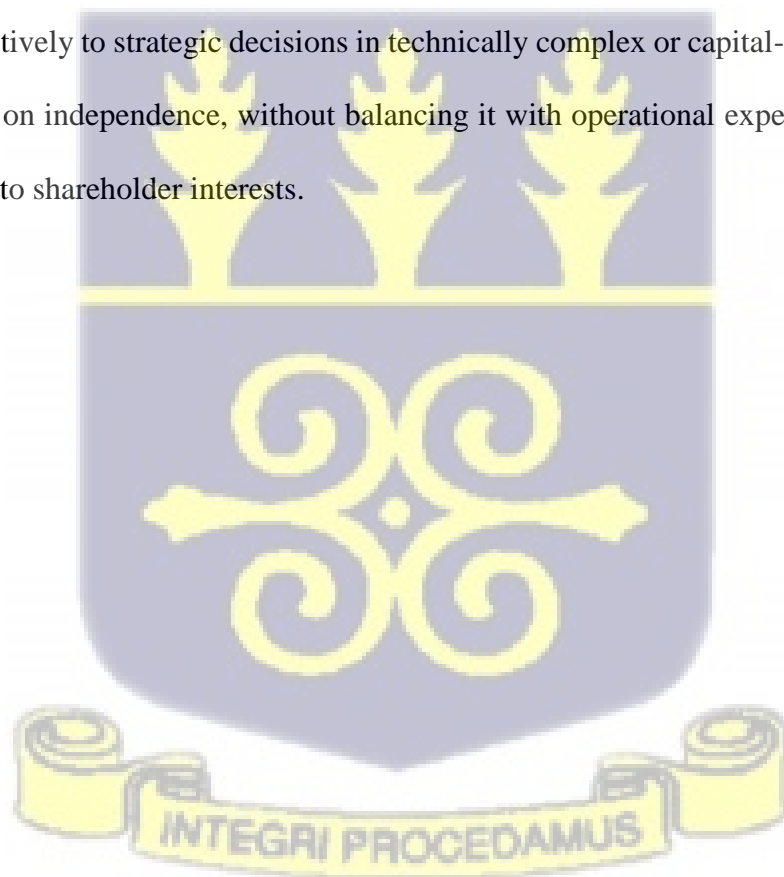


Table 2. 8 Effect of Corporate Governance on the Shareholder Profitability of Listed Firms across Sectors in Africa

VARIABLES	(7) Full Sample	(8) Fin.	(9) Mat.	(10) Con Sta.	(11) Indust.	(12) Cons. Disc.
L.roe	0.2591*** (0.0420)	0.2574*** (0.0685)	0.2328** (0.1077)	0.2719** (0.1090)	0.1362** (0.0671)	0.3319* (0.1738)
Ceoduality	-0.0304* (0.0165)	-0.0854** (0.0361)	0.0453 (0.0321)	0.0318 (0.0513)	0.0423 (0.1823)	-0.1446** (0.0678)
BoardSize	-0.0015 (0.0018)	-0.0036* (0.0020)	-0.0035 (0.0057)	-0.0133** (0.0065)	0.0014 (0.0055)	-0.0032 (0.0058)
BFemaleGender	0.0003 (0.0005)	0.0006 (0.0007)	-0.0014 (0.0011)	-0.0017 (0.0016)	0.0006 (0.0016)	-0.0042* (0.0025)
BoardIndep	-0.0001 (0.0004)	-0.0003 (0.0005)	-0.0020** (0.0008)	0.0011 (0.0013)	0.0000 (0.0011)	-0.0003 (0.0013)
AuditIndep	0.0001 (0.0002)	-0.0003 (0.0007)	-0.0002 (0.0004)	0.0000 (0.0009)	-0.0004 (0.0009)	-0.0014 (0.0013)
Liquidity	0.0034*** (0.0012)	0.0014* (0.0008)	0.0053*** (0.0011)	-0.0021 (0.0090)	0.0054** (0.0027)	0.0340 (0.0288)
Tangibility	-0.0007*** (0.0002)	-0.0009* (0.0005)	-0.0005 (0.0005)	-0.0028** (0.0011)	-0.0019** (0.0009)	0.0013 (0.0016)
Leverage	-0.0000*** (0.0000)	0.0006 (0.0004)	-0.0006 (0.0010)	0.0003 (0.0005)	-0.0000*** (0.0000)	0.0013 (0.0010)
FirmSize	0.0137* (0.0082)	0.0163 (0.0129)	0.0105 (0.0200)	0.0532* (0.0304)	0.0446 (0.0688)	-0.1072* (0.0599)
Cost	-0.0153*** (0.0051)	-0.0091 (0.0105)	-0.0145* (0.0081)	0.0017 (0.0134)	-0.0479*** (0.0177)	-0.0641** (0.0277)
Constant	0.1219** (0.0558)	0.1360 (0.0854)	0.2943*** (0.1074)	0.0817 (0.2195)	0.0480 (0.4179)	0.9471*** (0.2501)
Observations	4,213	1,052	592	639	713	338
Number of ccode	369	100	51	55	58	30
F-Stats	67.90(0.000)	55.63(0.000)	102.1(0.000)	21.38(0.000)	194.84(0.000)	72.76(0.000)
Instruments	38	15	25	36	29	29
AR(1)	-7.4(0.000)	-3.91(0.000)	-2.56(0.011)	-2.70(0.007)	-2.94(0.003)	-1.88(0.059)
AR(2)	-0.06(0.955)	-0.92(0.357)	0.29(0.772)	-0.11(0.910)	-0.33(0.744)	-0.15(0.884)
Hansen	14.91(0.313)	2.50(0.286)	11.16(0.598)	15.77(0.150)	5.83(0.212)	2.80(0.592)

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Finally, audit committee independence exhibits no statistically significant relationship with shareholder profitability in any of the sectors examined. This suggests that while audit committees play a vital role in financial integrity and compliance, their direct influence on shareholder returns is minimal, likely operating through indirect channels such as risk mitigation and reputation management.

In sum, these results emphasize the importance of tailoring governance reforms to the specific institutional and operational realities of each sector. Attempting to generalize the efficacy of governance structures across sectors may obscure important contingencies that ultimately affect shareholder outcomes (Krause, Semadeni, & Cannella, 2014).

2.4.3.5 Long-Run Effects of Corporate governance structures on both stakeholder and shareholder profitability across sectors.

To examine the long-run effects of significant corporate governance structures on stakeholder and shareholder profitability, the study adopts the methodological approach of Qudrat-Ullah and Nevo (2021) and Canh et al. (2019). The long-run estimations presented in Table 2.9 reinforce the persistence of corporate governance effects on profitability, confirming that certain governance mechanisms exert enduring influence beyond immediate operational periods. However, these effects are neither uniform nor consistent across sectors, highlighting the salience of sector-specific dynamics in moderating governance-performance linkages.

CEO duality exhibits the most pronounced long-run effects. For stakeholder profitability, it remains detrimental in both the full sample ($\beta = -0.038$, $p < 0.05$) and financial sector ($\beta = -0.044$, $p < 0.01$), implying that firms with a unified leadership structure reduce stakeholder returns by 3.8 to 4.4 percentage points over time. These results uphold the agency theory, suggesting that the concentration of executive power continues to impair long-term firm accountability and value creation for non-shareholding stakeholders, particularly in sectors demanding high regulatory compliance and transparency. Interestingly, for shareholder profitability, the long-run effect of CEO duality is negative in the financial ($\beta = -0.041$, $p = 0.058$), materials ($\beta = -0.115$, $p < 0.05$), and industrials sectors ($\beta = -0.216$, $p < 0.1$), suggesting that sustained dual leadership significantly erodes shareholder returns. In the materials sector, for instance, a dual CEO-chair role reduces ROE by 11.5 percentage points—an economically

and statistically meaningful decline that reveals the long-run governance cost of weakened checks and balances.

A somewhat paradoxical result emerges in the full sample, where CEO duality has a small but statistically significant positive effect on shareholder profitability ($\beta = 0.110$, $p < 0.05$). This might suggest that in less regulated or more agile firm environments, unified leadership could offer stability and decisive strategic direction that benefits equity holders—albeit such benefits may not generalize across sectors.

Board independence demonstrates a negative long-run relationship with shareholder profitability in the industrials sector ($\beta = -0.003$, $p < 0.05$), suggesting that overly independent boards may inhibit operational decision-making in sectors where technical expertise and swift action are essential. Meanwhile, audit committee independence negatively affects stakeholder profitability in the materials sector ($\beta = -0.0003$, $p = 0.068$), albeit marginally, pointing to the potential for over-monitoring to dampen efficiency gains in capital-intensive sectors.

Table 2. 9: Long-run Effects of CG on shareholder and Stakeholder Profitability across sectors

Variable	Profitability Type	Sector	Coefficient	P-value
Audit Committee Independence	Stakeholder (ROA)	Materials	-0.0003*	0.061
Board Gender Diversity	Shareholder (ROE)	Consumer Discretionary	-0.006	0.397
Board Gender Diversity	Stakeholder (ROA)	Consumer Discretionary	-0.003	0.301
Board Independence	Shareholder (ROE)	Industrials	-0.003**	0.031
Board Independence	Stakeholder (ROA)	Consumer Staples	-0.0002	0.612
Board Size	Shareholder (ROE)	Consumer Staples	-0.005*	0.058
Board Size	Shareholder (ROE)	Consumer Discretionary	0.002	0.363
Board Size	Stakeholder (ROA)	Industrials	-0.012	0.338
CEO Duality	Shareholder (ROE)	Financial	-0.041*	0.068
CEO Duality	Shareholder (ROE)	Materials	-0.115**	0.027
CEO Duality	Shareholder (ROE)	Industrials	-0.216*	0.072
CEO Duality	Stakeholder (ROA)	Full Sample	-0.038**	0.011
CEO Duality	Stakeholder (ROA)	Financial	-0.044***	0.009
CEO Duality	Shareholder (ROE)	Full Sample	0.110**	0.014

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Conversely, the long-run effects of board size and board gender diversity are largely insignificant or weakly negative across most sectors. Board size, for example, has a negative effect on shareholder profitability in the consumer staples sector ($\beta = -0.005$, $p = 0.08$), but is statistically insignificant elsewhere. Similarly, board gender diversity exhibits no significant long-run effect on either stakeholder or shareholder profitability in any sector. These results imply that the long-run value of these structural attributes may be context-dependent, and their short-term influence does not necessarily persist.

Overall, these findings provide strong evidence that governance structures—particularly CEO duality and board independence—have sustained and sector-contingent implications for both stakeholder and shareholder outcomes. They also highlight the limits of static governance configurations and support the need for adaptive and sector-aligned governance reforms to ensure enduring profitability and organizational resilience

These findings provide strong evidence of the sustained impact of corporate governance mechanisms on financial performance, reinforcing prior literature (Freudenreich et al., 2018; Russo & Perrini, 2010) that highlights the enduring influence of governance structures on stakeholder and shareholder profitability, confirming H4. Notably, this study offers novel empirical confirmation that corporate governance also has long-run effects on shareholder profitability, a finding that, to the best of our knowledge, has not been explicitly documented in previous research. The sustained influence of corporate governance on profitability aligns with the stakeholder theory, which posits that well-structured governance mechanisms enhance firm stability, risk management, and investor confidence over time. Governance practices such as board independence, CEO duality, and audit independence contribute to long-term financial health, ensuring that firms uphold accountability and transparency while balancing stakeholder interests.

The lack of long-run effects of board size and board female gender diversity in the consumer staple and consumer discretionary sectors suggests that, while these factors may influence short-term performance, their impact does not persist over time. In the consumer sectors, where market dynamics are driven by demand fluctuations and brand positioning, governance structures may need continuous adaptation rather than relying on static board characteristics for sustained profitability. On the issue of gender diversity, the result aligns with the resource dependence theory, which argues that while diverse boards provide broader perspectives, their long-term effectiveness depends on sector-specific challenges and external market conditions.

The confirmation of sustained corporate governance effects on shareholder profitability is particularly significant. Unlike stakeholder-oriented frameworks, which emphasize broad economic and social benefits, shareholder profitability is traditionally viewed through a short-term financial lens. However, these findings suggest that effective governance structures contribute to stable earnings, lower volatility, and consistent returns for shareholders over the long run. This underscores the importance of governance reforms aimed at enhancing investor protection, minimizing agency conflicts, and ensuring robust financial oversight.

The study's results confirm that corporate governance structures exert a lasting impact on both stakeholder and shareholder profitability, with sector-specific exceptions. These findings extend existing literature by reinforcing the long-term significance of governance in firm performance and, for the first time, empirically demonstrating its sustained effects on shareholder profitability. Given these insights, firms should prioritize governance mechanisms that align with their sector's long-term strategic goals to maximize stakeholder and shareholder value.

Focusing on the control variables, it is observed that firm liquidity and size measured as cash to current liabilities and natural log of assets respectively, have consistent positive effects on shareholder and stakeholder profitability across the sectors and supports the findings of prior studies (Alarussi & Gao, 2021). On the contrary, fixed assets (tangibility), use of debt (leverage) and cost inefficiency reduced shareholder and stakeholder profitability consistently across the sectors.

2.5 Conclusions, Policy Implications and Recommendations

This study examines the short-run and long-run effects of corporate governance on stakeholder and shareholder profitability among listed firm in different sectors. Motivated by the contextual theory of difference which suggests the recognition of contextual/sectoral differences and the concept of sustained/lasting long-run effect of stakeholder theory approach to business value/profit creation process, this study attempts to offer distinct evidence on how corporate governance structures influence stakeholder and shareholder profitability across several firms in different sectors in Africa for the first time to the best of our knowledge. The study employs 369 listed firm across Africa between 2006 and 2020 in a dynamic GMM panel model to provide sectoral evidence on how corporate governance structures influence stakeholder and shareholder profits in the short-run and long-run. The key contributions of this study is in two folds (i) use the contextual theory of difference provide a sectoral evidence of how corporate governance affect shareholder and stakeholder profits and (ii) test the sustain/long-run effect of corporate governance on stakeholder and shareholder profits. The data and the sectoral grouping of firms are obtained from Machame Ratios.

From the test of difference results using Anova technique, it is evident that the levels of shareholder and stakeholder profitability and corporate governance structures vary significantly across the Financial, Industrial, Material, Consumer Staple and Consumer

Discretionary sectors. Consequently, the study observes that the effects of corporate governance structures vary significantly on both stakeholder and shareholder profits across different sectors. Additionally, the results show that the effects of corporate governance structures on stakeholder and shareholder profitability exist both in the short-run and long-run across most of the sectors with the exception of Consumer Staple sector where the effects exist only in the short-run and no effect in the industrial sector under shareholder profitability.

The findings of this study have significant empirical, policy, and theoretical implications, reinforcing the need for sector-specific corporate governance frameworks, refined research methodologies, and an expanded theoretical understanding of governance effects within the African sub-region. Given the varying impacts of corporate governance structures on shareholder and stakeholder profitability across sectors, a one-size-fits-all approach is ineffective. Instead, governance policies should be tailored to sector-specific needs to ensure their effectiveness and relevance.

2.6 Policy and Practical Implications

The study confirms that corporate governance effects differ by sector, meaning uniform governance policies may fail to address sector-specific challenges. Policymakers must develop tailored governance strategies that align with the unique characteristics of different sectors. Policymakers and regulators are encouraged to develop sector-specific corporate governance guidelines to ensure policies address the unique regulatory, financial, and operational realities of different sectors. For example, formulating policies towards stricter board independence and audit oversight in financial institutions to enhance investor confidence and reduce systemic risks. In addition, promoting policies towards more flexible CEO leadership structures in industrial and technology sectors where strategic agility is critical.

In relation to listed firms in particular, it will be in order for relevant regulatory and policy making bodies to mandate periodic corporate governance assessments at the sectoral level to ensure firms comply with evolving sector best practices. More so, policy wise, there could be

introduction of corporate governance incentive programs, such as tax benefits for firms that adhere to enhanced governance standards, encouraging voluntary compliance beyond legal requirements. Last but not least, regulators should strengthen regulatory enforcement mechanisms by integrating real-time governance monitoring tools, ensuring firms adhere to sector-specific governance requirements without excessive regulatory burdens.

2.7 Implications for research and academics

The results emphasize that contextual differences across sectors significantly influence governance outcomes. Ignoring these variations may distort empirical findings, leading to misleading conclusions that negatively impact policy formulation and corporate decision-making.

In this regard, it is recommended that academics and researchers adopt sector segmented research methodologies to ensure governance effects are accurately analyzed within sectoral contexts rather than treating all sectors as homogenous. In addition, integration of qualitative insights (e.g., case studies, expert interviews) alongside quantitative methods to capture the nuanced realities of governance implementation in different sectors is the way to go as far as research and academics are concerned. Furthermore, there could be the development of region and sector-specific governance indices, considering local economic conditions, regulatory frameworks, and sector dynamics to enhance research relevance.

Other issues that need attention include encouraging inter-disciplinary research collaborations between finance, law, and corporate governance experts to develop more holistic models of governance effectiveness while leveraging machine learning and AI-driven analytics to process large datasets, uncover hidden patterns, and improve governance performance predictions across sectors.

This study reinforces stakeholder theory by confirming that corporate governance has long-term benefits for a broad range of stakeholders, including government, society, creditors, employees, customers, and suppliers. Furthermore, it extends the shareholder theory framework by demonstrating, for the first time, that corporate governance has a sustained long-run effect on shareholder profitability, challenging the traditional view that governance primarily drives short-term financial returns.

On the back of these implications, the study proposes integrating a long-term perspective into shareholder theory by recognizing that governance strategies not only maximize short-term profits but also contribute to sustained financial stability and value creation. More so, researchers and academics are encouraged to develop hybrid governance models that incorporate both stakeholder and shareholder perspectives, acknowledging that effective governance structures must balance both interests while encouraging empirical testing of governance theories across diverse sectors to refine and expand theoretical frameworks, ensuring their applicability across different economic contexts.

Last but not least, it is recommended that researchers and academics explore the role of dynamic governance structures, acknowledging that governance mechanisms should evolve alongside sector and economic developments rather than remain static, while expanding corporate governance education and training programs to incorporate emerging governance frameworks, equipping future corporate leaders with the necessary tools to implement sustainable governance practices.

The study's findings demand a revised approach to corporate governance, moving away from generalized policies toward sector specific governance frameworks that cater for sector needs. Additionally, researchers must acknowledge contextual variations to improve empirical reliability, while theoretical models must evolve to reflect the long-term impact of governance

on both stakeholders and shareholders. By implementing tailored policies, refining research methodologies, and expanding governance theories, corporate governance can effectively enhance sustainable profitability across sectors.



CHAPTER THREE

CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING AND FIRM PROFITABILITY IN AFRICA: EXPLORING SHORT-RUN AND LONG-RUN SECTORAL EVIDENCE



Abstract

In this study, the short-run and long-run effects of CSR on shareholder and stakeholder profits of listed firms in Africa across different sectors was examined. The study employs 369 listed firms in Africa between 2006 and 2020 in a dynamic Generalized Method of Moments (GMM) model to shed insights on the link between CSR and shareholder and stakeholder profits. The results show that different CSR activities reported have varying effects on shareholder and stakeholder profits across different sectors. Specifically, while governance related CSR promotes stakeholder and shareholder profits in financial and consumer staple sectors but derailed shareholder profits in consumer discretionary sector, social related CSR positively influenced stakeholder and shareholder profits in Africa as a whole (full sample), financial and consumer discretionary sectors. Furthermore, environmental related CSR only enhanced stakeholder and shareholder profits in the full sample and consumer discretionary sector. Additionally, the results further show that the effects of CSR transcend from the short-run into the long-run implying that CSR have both present and future beneficial effects on shareholder and stakeholder profits. Clearly, these results offer novel insight that suggests that CSR may not be a “one-size-fit-all” corporate strategy for enhanced shareholder and stakeholder profits. Hence, the results imply that (i) managers, regulators and policymakers must develop and implement sector specific CSR guidelines because not all CSR activities may promote firm performance to shareholders and stakeholders, (ii) managers, stakeholders and shareholders must commit investments towards CSR especially when the effects of CSR are both short-run and long-run oriented and (iii) managers, stakeholders and shareholders must be careful and selective in the pursuit of CSR activities since not all the CSR activities enhances stakeholder and shareholder profits in all sectors.

Keywords: Corporate Social Responsibility; Shareholder; Stakeholders; Profitability

3.1 Introduction

Profitability remains a central indicator of firm performance and long-term sustainability in Accounting and Finance literature. It is widely acknowledged that a firm's ability to generate and sustain profit determines its growth prospects, survival, and strategic relevance in competitive markets (Sarto et al., 2020; Baumohl et al., 2019; Rehman et al., 2016). Theories of capital structure and dividend policy posit that profitability enhances investor confidence, increases access to cheaper financing, improves internal funding through retained earnings, and strengthens the firm's image—all of which support the case for profit maximization as a fundamental corporate objective (Ardalan, 2017; Baker & Martin, 2011; Myers, 2001; Strebulaev, 2007).

Two prominent theoretical lenses—shareholder theory and stakeholder theory—offer divergent perspectives on the objectives firms should pursue to achieve profitability. Shareholder theory, grounded in the Anglo-American corporate governance tradition, holds that firms exist primarily to maximize returns for shareholders, who are considered the residual claimants of corporate success (Friedman, 1970; Glambosky et al., 2023). In contrast, stakeholder theory argues that firms create sustainable value by considering the interests of all key stakeholders, including employees, customers, suppliers, communities, and shareholders (Freeman & Gilbert, 1988; Mesnard, 2022). This theory emphasizes inclusive governance and corporate social responsibility posits that long-term profitability is best achieved when firms address broader social, ethical, and environmental concerns.

Corporate Social Responsibility (CSR) has emerged as a strategic mechanism for embedding stakeholder interests into corporate practice. As defined by Dahlsrud (2008), CSR encompasses a firm's voluntary commitment to ethical, sustainable, and socially responsive behaviour that transcends profit-making to include environmental protection, employee welfare, and

community development. CSR reporting has thus become a critical tool for communicating corporate efforts aimed at meeting stakeholder expectations and improving public accountability (Moravcikova et al., 2015; Du et al., 2010; Trapp, 2014).

CSR is theorized to contribute to firm performance in multiple ways: enhancing corporate reputation and legitimacy (Pomering, 2017; Lin-Hi & Blumberg, 2018), reducing regulatory scrutiny (Haji et al., 2022; Lyon & Maxwell, 2008), and boosting stakeholder trust and loyalty, which can translate into increased revenues and long-term competitiveness (Feng et al., 2022; Rhou et al., 2016). However, the empirical literature remains inconclusive on several fronts.

First, it is unclear whether CSR delivers uniform benefits across sectors. While numerous studies report a positive relationship between CSR and firm performance (e.g., Margolis et al., 2009; Velte, 2021), few have examined sectoral heterogeneity in these outcomes. Sector-specific factors, such as regulatory intensity, stakeholder visibility, operational cycles, and public scrutiny may influence how CSR activities affect firm profitability (Harzing & Pudelko, 2016; Elango & Dhandapani, 2020). Yet, most empirical work merely controls for sectoral effects without explicitly analyzing how CSR outcomes differ across sectors—particularly in the African context, where CSR can play a pivotal role in addressing socio-economic and environmental challenges (Jamali et al., 2020; Inekwe et al., 2021; Tawiah et al., 2025). Thus, the African context demands sector-specific CSR analyses to account for its unique socio-economic dynamics—such as informal economies, post-colonial governance legacies, and climate-vulnerable ecosystems—alongside environmental pressures exacerbated by extractive sectors and rapid urbanization.

Second, although CSR aligns closely with stakeholder theory, its actual distributional impact on shareholders versus other stakeholders remains debated. Scholars question whether CSR initiatives benefit stakeholders at the expense of shareholders or if they generate shared value

for both groups (Inkpen & Sundaram, 2022; Kochan & Rubinstein, 2000). This is a critical gap given that shareholders are technically part of the broader stakeholder group but often have distinct, and sometimes conflicting, interests.

Third, given the principle of resource scarcity, firms require evidence that CSR investments yield both short-term and long-term returns. While short-run benefits have been documented, empirical studies exploring the long-run profitability of CSR, especially in sectorally disaggregated African contexts, remain sparse.

To address these gaps, this study investigates the short-run and long-run effects of CSR reporting on shareholder and stakeholder profitability across diverse sectoral contexts in Africa. Using a dynamic Generalized Method of Moments (GMM) model on a panel of 369 listed firms from 13 African countries between 2006 and 2020, the study provides robust and context-sensitive insights. The findings reveal that governance-related CSR enhances both shareholder and stakeholder profitability in the financial and consumer staples sectors but negatively affects shareholder returns in the consumer discretionary sector. Social CSR significantly improves profitability in the full sample, particularly in financial and consumer discretionary sectors. Environmental CSR shows positive effects only for the full sample and consumer discretionary sector. Moreover, the results confirm that these effects persist into the long run, highlighting CSR's strategic relevance over time.

Theoretically, this study contributes to literature by advancing a contextual theory of difference, which challenges the “one-size-fits-all” assumption of CSR and profitability. It shows that CSR’s value is contingent upon sector-specific dynamics and stakeholder configurations. Practically, the study informs managers, regulators, and investors that CSR strategies must be tailored to sectoral characteristics to optimize performance. It also guides

policy by advocating for differentiated CSR frameworks and reporting standards that align with sector realities and stakeholder demands across African economies.

The rest of the study is organized as follows: Section 3.2 reviews the theoretical and empirical literature on CSR and firm profitability. Section 3.3 outlines the methodology, data sources, estimation strategy, and variable construction. Section 3.4 presents and discusses the empirical results, including both sectoral and temporal analyses. Finally, Section 3.5 concludes with policy implications, theoretical contributions, and recommendations for future research.

3.2 Literature Review

3.2.1 Theoretical review

This thesis is underpinned by three key theories: the shareholder theory, the stakeholder theory and the contextual theory of difference. While the shareholder and stakeholder theory attempt to explain the strategies employed by firms in pursuit and distribution of profits to shareholder and stakeholders, the contextual theory of difference project the importance of recognizing and capturing group differences.

From the literature, shareholder theory presents managers as agents of shareholders, requiring them to prioritize shareholder wealth maximization over other stakeholder interests. According to Friedman (1970) and subsequent scholars (DesJardine et al., 2023; Glambosky et al., 2023), businesses exist solely to generate profits for their shareholders, and any corporate social responsibility (CSR) initiative should be pursued only if it enhances shareholder value. This framework, often referred to as the Anglo-American model of corporate governance, has significantly shaped modern business practices, reinforcing the idea that a company's primary obligation is to its investors. However, the evolving business environment and empirical evidence suggest that CSR can impact both shareholder and stakeholder profitability, creating short- and long-term financial implications that challenge the traditional view of the

shareholder theory. Traditionally, shareholder theory views CSR as a cost that reduces immediate financial returns. Since CSR often involves allocating resources to environmental, social, and governance (ESG) activities, it may reduce short-term profitability by diverting funds from core business operations to initiatives like philanthropy (donations, community development projects), sustainability programs (renewable energy, carbon reduction efforts), and employee well-being (higher wages, diversity and inclusion programs).

According to Friedman (1970), engaging in CSR without a direct financial benefit contradicts the fundamental responsibility of business managers. As a result, short-term shareholders may perceive CSR investments as unnecessary expenses, leading to, lower quarterly earnings and reduced dividends, stock price volatility due to investor skepticism, and increased operational costs that do not immediately yield financial returns. While CSR may be financially costly in the short term, stakeholders, including employees, customers, and communities, often experience immediate benefits. Key positive effects include, improved employee satisfaction and productivity (due to better working conditions and ethical labour practices), enhanced brand reputation and customer loyalty, which may offset short-term revenue losses, and reduced regulatory and legal risks, leading to fewer fines and compliance costs. Thus, while shareholders may experience lower returns in the short run, stakeholders, particularly employees and consumers, can benefit immediately from CSR-driven policies.

Interestingly, the shareholder theory has heavily been criticized for overly focusing on shareholder value maximization at the expense of other stakeholders (suppliers, creditors, employees, customers, competitors, society and the community) (Green, 1993). Arguably, prior studies (see Aguilera & Cuervo-Cazurra, 2004) posit that the over-concentration on shareholder profit maximization at the expense of other stakeholders' interest influenced the incidence corporate frauds and scandals like Enron and WorldCom. The criticism of the shareholder theory led to the emergence of the stakeholder theory which originated from

Edward Freeman (Freeman et al., 2010; Freeman & Gilbert, 1988). Unlike the shareholder theory, the stakeholder theory advance that the interest of all stakeholders including that of shareholders should be at the core of all corporate decisions not just the interest of shareholders. Contrary to Friedman's (1970) short-term perspective, recent empirical studies argue that CSR is not merely a cost but a long-term strategic investment that ultimately enhances shareholder profitability. DesJardine et al. (2023) and Glamboosky et al. (2023) highlight that companies integrating CSR into their core business strategy often experience higher long-term financial returns due to sustained brand loyalty and customer retention, leading to revenue stability, attracting socially responsible investors, increasing stock demand and valuation, enhanced risk management, reducing exposure to reputational and financial risks, and operational efficiency improvements (such as energy-saving initiatives that cut costs over time). Hence, the practice of social corporate responsibility which reports on a firm's implemented efforts on responding to the interest of other stakeholders can yield long lasting benefits for stakeholders which include shareholders.

The recognition of contextual differences such as geographical, sectoral, cultural, economic, and income variations has been widely discussed in the literature (Inkpen & Sundaram, 2022; Mesnard, 2022). The contextual theory of difference (Stephens et al., 2019) highlights that understanding and incorporating contextual differences can lead to more effective decision-making and improved business outcomes.

In the context of corporate social responsibility (CSR), recognizing contextual variations is crucial, as CSR activities may not have uniform effects across sectors or regions. Different sectors experience varied stakeholder expectations, regulatory requirements, and economic constraints, which in turn may shape how CSR influences shareholder and stakeholder profitability. This study applies the contextual approach to analyze how sectoral differences affect the profitability outcomes of CSR initiatives across African-listed firms. The contextual

theory of difference posits that business strategies should be tailored to specific environments to maximize effectiveness (Tsui, 2007; Redding, 2005; Makhija & Shenkar, 2004; Schneider & Barsoux, 2003). In the context of CSR and profitability, this means that the impact of CSR on financial performance may vary significantly depending on sectoral and geographical factors.

Studies have demonstrated that sectoral variations play a crucial role in shaping business performance (Mesnard, 2022; Osei et al., 2023). For example, sectors with high environmental impact (e.g., mining, oil, and gas) face greater regulatory scrutiny, making environmental CSR investments more critical for maintaining operational stability and profitability. In addition, consumer-driven sectors (e.g., retail, technology, and hospitality) benefit from socially responsible business practices that enhance brand loyalty and customer retention, directly impacting revenue. More so, financial and professional service sectors experience CSR benefits primarily through corporate governance improvements, ethical investment attraction, and enhanced stakeholder trust. By acknowledging these differences, this study provides sector-specific insights into how CSR influences shareholder and stakeholder profitability across African-listed firms. The application of the Contextual Theory of Difference in this research is pertinent because it clarifies why profitability for shareholders and stakeholders differs among sectors, even when uniform corporate social responsibility frameworks are implemented. Factors unique to each sector, such as regulatory conditions, competitive forces, and stakeholder demands, affect the success of CSR, resulting in variations in company performance across sectors. This theory underscores the importance of developing CSR strategies that are customized to specific sector needs.

3.2.2 Empirical review

In this section, empirical studies report on the effect of corporate social responsibilities on firm value are presented and discussed. The studies presented and discussed use varying measures of corporate social responsibilities (CSR) including, mandatory CSR, involuntary CSR, CSR investments, CSR disclosure, CSR engagement, CSR reporting, environmental CSR, social CSR and governance CSR while in the light of firm performance indicators such as return on assets (ROA), return on equity (ROE) and Tobins Q are to proxy firm performance/value. The studies discussed are presented on continental basis and across sectors.

In the context of Africa, Siueias et al. (2019) assessed the effect of voluntary corporate social responsibility disclosures on bank performance in Mozambique and South Africa. The study employs fixed effect and two stage least squares panel regression analysis comprising of 20 banks from Mozambique and South Africa covering periods between 2012 and 2016. The results show that financial performance of banks in these countries is significantly and positively affected by corporate social responsibility disclosures. The results again show that South African banks out-perform Mozambique banks in terms of social corporate responsibility disclosure and bank performance/profitability. Likewise, Sampong, Song, Boahene and Wadie (2018), study how corporate social responsibility disclosure influence firm performance in listed firms in sub-Saharan Africa without focusing any specific sector. This study employed 126 listed firm on Johannesburg Stock Exchange Market between 2010 and 2015. The estimation technique employed is fixed effect panel data. The results show a significant positive effect of social corporate responsibility on firm value implying that firms embarking on social corporate responsibility help promote the value of firms. However, the results failed to provide significant effect of environmental and governance corporate responsibility on firm value.

Also, Oyewumi et al. (2018) investigated how investment in corporate social responsibility and its disclosure affect corporate financial performance of banks in Nigeria. Employing Wallace and Hussain estimator of component variances in a panel of 21 banks between 2010 and 2014, the results show that investment in corporate social responsibility without disclosing it may not be beneficial for banks in Nigeria. Hence, undertaking corporate social responsibility and disclosing it is the way forward for banks to financially benefit from corporate social responsibility in the banking sector in Nigeria. More so, Nyeadi, Ibrahim and Sare (2018) investigated the impact of corporate social responsibility on financial performance of listed firms in South Africa. The study employed a panel corrected standard errors of 56 financial, mining and oil listed firms in South Africa between 2011 and 2013. The results show that the overall/composite index of corporate social responsibility has positive significant effect on firm performance. Decomposing corporate social responsibility, it is observed that social and environmental corporate social responsibility has no significant effect of financial performance whereas governance dimension of corporate social responsibility has significant positive effect on financial performance.

Similarly, Agyemang and Ansong (2017) examined how corporate social responsibility in Ghanaian SMEs influenced their financial performance while mediating this relationship with access to capital. Employing primary data collected from 423 SMEs with Accra, partial least squares are used to arrive at the results of the study. The results suggest that while SMEs that improved their corporate social responsibility positioned themselves to enhance their reputation which led to improved financial performance for SMEs, access to capital did not serve as a mediator for this relationship. Again, Ansong (2017) evaluated the effect of corporate social responsibility on the financial performance of SMEs in Ghana while mediating this nexus with stakeholder engagement. The study employed primary data collected from 423 SMEs in a partial least squares estimation. The results suggest that SMEs with improved

corporate social responsibility are better positioned to engage more with their stakeholders, which translates into better SME performance. Moreover, Famiye (2017) studied the impact of corporate social responsibility on organizational competitive performance indicators such as cost, quality, flexibility and delivery. Employing structural equation modelling as a tool for analysis, the study shows that corporate social responsibility initiatives among Ghanaian firms enhance the operative competitive performance (cost, quality, delivery and flexibility) as well as overall firm performance.

In the context of Asia, Li, Liao and Albitar (2019) constructed a comprehensive index on corporate environment responsibility engagement to investigate how corporate environment responsibility engagement affect firm value as well as showing how corporate innovation mediate this relationship. Employing a panel data of 496 Chinese A-shared listed firms between 2008 and 2016, the results show that initial engagement in corporate environmental responsibility lowers firm value but beyond a certain threshold of corporate environmental engagement, corporate environmental engagement tend to promote firm value. Additionally, while corporate innovation promotes firm value, it is established that corporate innovation mediates the nexus between corporate environmental engagement and firm value. Likewise, Jadiyappa, Iyer and Jyothi (2019) examine how mandatory corporate social responsibility influence firm value in India. The study employed 944 firms covering periods between 2011 and 2017 and report that there are significant changes in firm value pre and post CSR regulations in 2015. The panel regression models show that the market value of firms increased when mandatory corporate social responsibility was imposed.

Moreover, Kao et al. (2018) examined the effect of corporate social responsibility on state-owned and non-state-owned firms in China. The study used simultaneous equation modelling in a panel data strategy which yield an observation of 1250 between 2008 and 2012. The results show that variations in market response to corporate social responsibility affect firm

performance. The results show that while firm performance negatively affects corporate social responsibility for state-owned firm which reinforces the managerial opportunism hypothesis, corporate social responsibility positively influence firm performance for non-state-owned firms which supports the good management hypothesis. Clearly, this shows how relevant ownership types is to the determination of the CSR-firm performance nexus. In addition, Maqbool and Zameer (2018) examined the effect of corporate social responsibility on financial performance of listed banks in the Indian banking sector. The study employed a fixed and random effect panel data of 28 banks listed on the Bombay Stock Exchange between 2007 and 2016. The results reveal that corporate social responsibility within the listed banks context in India promote the corporate financial performance of banks; hence encourage banks to undertake corporate social responsibility activities.

Also, Fayad et al. (2017) evaluated how corporate social responsibility influence the performance of banks in the Lebanese banking sector. Employing a panel data of seven (7) Lebanese banks between 2012 and 2015 that controls for technological and year effects, the result illustrates that corporate social responsibility in the form of human development, community development and environmental protection significantly improves the performance of banks in Lebanon. Similarly, Xiong et al. (2016) studied the effect of corporate social responsibility on corporate financial performance of construction firms in China. The study employs a longitudinal cross-lagged correlation analysis of simultaneous equation modelling covering periods between 2010 and 2013. The results show that previous year corporate social responsibility has the potential to impact the corporate financial performance of construction firms in China. Likewise, Yusoff et al. (2013) examined the effect of corporate governance disclosure on corporate financial performance of 30 publicly listed firms in Malaysia between 2009 and 2011. The study employed panel data regression models and revealed that corporate social responsibility breadth, depth and concentration have significant effects on corporate

financial performance of listed firms in Malaysia. Specifically, corporate social responsibility disclosure breadth and concentration has positive significant effect on corporate performance suggesting that good firm performers are those firms that display relatively high corporate social responsibility disclosure breadth and concentration.

In the American context, Yoon and Chung (2018) investigated the effect of external and internal stakeholder effect of corporate social responsibility on the financial performance of restaurants in United States. The study employed a fixed effect panel data of 59 restaurants between 2001 and 2012 while controlling for year and firm effects. The results show that corporate social responsibility promotes firm market value but significantly dampens the operational profitability performance of restaurants in the United States. Similarly, Youn, et al. (2015) evaluated the effect of corporate social responsibility on corporate financial performance in the hospitality and controls for the moderating effect of firm size in the relationship. Controlling for unobserved biases, the study employs the two-way fixed effect panel data with Newey-West standard errors that contains 261 restaurant firms between 1991 and 2011 in the United States. The results reveal that while corporate social responsibility promotes corporate financial performance, the size of the restaurant moderates the positive effect of corporate social responsibility on corporate financial performance in the USA. Likewise, Lee et al. (2013) examined the effect of operation-relatedness and non-operational relatedness dimensions of corporate social responsibility on firm performance in the United States airline industry while moderating these relationships with price of oil. The study employed a random panel effect of 17 airlines listed in the United States between 1991 and 2009. The results show that operational-relatedness of corporate social responsibility has significant positive effect on firm performance. Additionally, the result show that oil prices positively moderate the effect of operational-relatedness (non-operational relatedness) dimensions of corporate social responsibility on firm performance. Clearly, the results suggest

that firms benefit from corporate social responsibility when corporate social responsibility undertaken by firms are strongly related with their core operations.

In Europe, Crifo et al. (2016) analyzed the effect of different combinations of corporate social responsibility dimensions on corporate economic performance, employing simultaneous equations that consist of 10,293 French firms in survey data in 2003 and 2006. The results show that all the different dimension and combinations of corporate social responsibility dimensions tend to promote corporate economic performance but these positive effects change depending on the dimension or type of corporate social responsibility in question. Clearly, this result suggests a higher degree of substitutability effects within the qualitative dimensions of corporate social responsibility on corporate economic performance compared to that of quantitative dimensions of corporate social responsibility. Moreover, Rodriguez-Fernandez (2016) examined the bi-causal relationship between corporate social responsibility and financial performance of listed firms in Spain. Using the theoretical perspectives of agency, stewardship, resource dependency and stakeholder theories, the study employs 107 companies between 2006 and 2009 in a model that controls for reverse causality. The results reveal that there is a positive significant reverse causality between corporate social responsibility and corporate performance for listed firms on the Madrid Stock Exchange.

Interestingly, there are a number of studies that employ different countries from different continents (across continent). For instance, Abdi et al. (2022) studied how corporate sustainability through social, environmental and governance responsibility affect firm performance in the airline industry while moderating this nexus with firm size and age. The study used fixed effect and random effect panel data of 39 airline across different countries between 2009 and 2019. The results show that while firm participation in social and environmental responsibilities significantly promote financial efficiency, firm size is observed to be a relevant moderator in determining the nexus between corporate social responsibility

and both firm performance and value in the air transport industry. Likewise, Mallin et al. (2014) investigated the effect of corporate social responsibility on the financial performance of 90 Islamic banks across 13 countries. The study employs a cross-sectional data to investigate the effect of corporate social responsibility on firm performance within the context of Islamic banking. The initial results show that while Islamic banks engage in a diversified number of corporate social responsibility in the areas, there is less commitment towards environmental dimension of corporate social responsibility by Islamic banks. Using cross-sectional and pooled OLS models, the results show that corporate social responsibility has significant positive association between corporate social responsibility and financial performance while the three-stage least squares approach which controls for endogeneity and bi-causal effects report a significant positive effect from firm performance to corporate social responsibility commitment among Islamic banks.

Again, Chen et al. (2015) examined how disclosure of corporate social responsibility on financial performance in the manufacturing industry. Employing 75 companies from three continents including Europe, Asia and America, the results show that while corporate social responsibility practices did not vary significantly across manufacturing firms, it is reported that many corporate social responsibility indicators have positive significant association with firm performance measured as return on equity. More so, Patari et al. (2014) studied how investments in corporate social responsibility influence corporate performance of firms in the energy sector. The study employed 14 energy companies covering periods between 1991 and 2009 in a granger causality model to examine the bi-causal nexus between corporate performance and corporate social responsibility performance. The results suggest different effects of corporate social responsibility strengths and concerns on corporate financial performance in the energy sector. Specifically, corporate social responsibility concerns granger-cause both firm and market level performance whereas corporate social responsibility

strengths appear only to granger cause market value performance of energy companies. On the contrary, the results do not provide enough evidence to suggest that corporate financial performance granger-cause corporate social responsibility.

3.2.2.1 Gaps and Hypotheses Development

Following the theoretical and empirical review, there is a dominant view that corporate social responsibility is an effective corporate strategy for promoting firm performance/value although a few studies reported otherwise. Despite the contribution of prior studies to the link between CSR and firm profitability, there are still some gaps existing in the current empirical and conceptual studies as reviewed in the theoretical and empirical sections.

First, CSR from both theoretical and empirical perspective projects CSR as a “one-size-fits-all” corporate strategy for enhancing shareholder and stakeholder profitability. However, given the different measurements of CSR and the difference in the operational cycle and structure of firms across different sectors, there is a possibility CSR may not be a “one-size-fits-all” corporate strategy for firms in different sectors and also across stakeholders and shareholders profits of firms. Yet, the extant literature is silent and unclear about how CSR influence firm profitability in various sectors and across stakeholders and shareholders. Following this, this study argues the possibility that given the different measures of CSR, it may not be beneficial for all firms across different sectors. Hence, the study hypothesizes that:

H₁: Corporate social responsibility (CSR) measures have same effects across sectors/industries.

Second, CSR concept is largely linked with stakeholder theory which projects that corporate manager must pursue an objective of maximization the interests of all parties (stakeholders) to a corporate entity and not just the shareholder interest. Hence, the theoretical orientation is that CSR is beneficial for stakeholders. However, considering shareholders as part/component of

stakeholders, the existing literature is unresolved about whether CSR promotes stakeholder profits at the expense of shareholder profits and which of these two (stakeholders and shareholders) benefits more from CSR. Following these, the study hypothesizes that:

H₂: Corporate social responsibility (CSR) measures have same effects across stakeholder and shareholder profits.

H₃: Both stakeholders and shareholders benefit from corporate social responsibility (CSR).

Third, the employment of CSR as corporate strategy requires huge investments. Following the concept of scarcity of resources in economics, corporate managers are faced with selecting strategies that optimally benefits the firm value creation process. Hence, corporate managers must have enough evidence on how CSR influence firm performance in the present (Short-run) and in the future (long-run). However, while there is plenty of evidence to show that CSR promote firm performance/profits in the short-run, there are limited evidences of long-run effects of CSR on shareholder and stakeholder profits across different sectors especially in Africa. Following this argument, the present study hypothesizes that:

H₄: Corporate social responsibility (CSR) measures have long-run effects on stakeholder and shareholder profits across sectors. Hence, in this study four (4) hypotheses are stated and tested.

3.3 Methodology and Data

3.3.1 Data and Research Approach

In this study, the panel data estimation strategy is employed to examine the effect of CSR on shareholder and stakeholder profitability across different sectors among listed firms in Africa. Econometric literature argue that the panel data structure offers more convincing and robust results compared to the cross-sectional and time series data structures (Baltagi, 2015; Baltagi

& Baltagi, 2008). Imbens and Wooldridge (2009) also advance that the panel data structure provides the ability to control for omitted variable biases and additionally captures both entity and time variations and hence make the panel data structure more preferred for this study. In estimating the panel data structure, it is expressed as: $Y_{it} = \alpha_i + \gamma_t + \beta X_{it} + \varepsilon_{it}$ (1), where Y is the dependent variable, α and γ are firm fixed and time specific effects respectively, X is a set of variables that determine Y , ε is the error term. The subscripts “i” and “t” are the dimensions through which the variables change across entities (firms) and time (period) and vector of coefficients representing the unit by which Y will change if there is a unit change in the independent variables.

The data and the sectoral grouping of firms are obtained from MachameRatios database (<https://machameratios.companysite>), which is a digital library network that provides more than 15 years of daily and yearly research data on African securities exchanges, covering stocks, bonds, ETFs, commodities, forex, and cryptocurrencies.

The data covers 369 listed firms between the periods of 2006 and 2020, from 13 African countries namely South Africa, Nigeria, Kenya, Ghana, Mauritius, Zambia, Zimbabwe, Botswana, Malawi, Tanzania, Rwanda, Uganda and Mozambique. The period selected for the study and the number of listed firms and countries were solely. The period selected for the study was solely based on availability of data. That is, the audited annual reports of the listed firms were publicly available for the chosen period hence the concentration. Prior to conducting regression estimation, the data underwent a comprehensive cleaning process to ensure accuracy and consistency. Missing values were addressed using appropriate imputation techniques, while duplicate observations and outliers were identified and either corrected or winsorized as necessary. The panel structure was verified to ensure the correct alignment of firm-year observations, and necessary transformations, such as logarithmic conversions for skewed

variables, were applied. These pre-processing steps enhance the reliability of the empirical analysis and mitigate potential estimation biases.

3.3.2 Estimation Technique and Model Specification

For the purpose of estimating the nexus between CSR and shareholder and stakeholder profitability, the generalized method of moments (GMM) model which is expressed as $Y_{it} = \alpha Y_{it-1} + \gamma_t + \beta X_{it} + \varepsilon_{it} \dots \dots \dots (2)$ was employed where current profitability (whether shareholder and or stakeholder profitability) (Y_{it}) is determined by the past value of profitability (Y_{it-1}), time (γ_t), and a set of variables which include CSR and control variables (X_{it}) and an error term (ε_{it}).

The use of GMM has been necessitated by a number of reasons including data structure, purpose of the study and control of endogeneity reasons. First on the reason of data structure, the literature on GMM (see Tchamyou, 2020; Asongu, le Roux, Nwachukwu and Pyke, 2019) advance that when the number of entities (369) is greater than the number of time series (15) the GMM produces more robust and reliable results as in the case of this study, the GMM yields more accurate and reliable results. Second, there is a potential endogenous relationship between the dependent variable (profitability, [ROA, ROE]) and CSR which as necessitated the use of the GMM as the GMM has the ability to control such endogeneity.

Although endogeneity can be resolved through instrumental variable models, the theoretical and empirical requirements that justifies an ideal instrument to be used in instrumental variable models remains debatable and difficult to observe. Hence an alternative is the GMM which offers a solution by generating its own internal instruments and thereby lessening the researcher burden of identifying appropriate instruments. Third, the GMM also adjusts for cross-sectional dependence which has the potential to influence the reliability and quality of the results (Tchamyou, Erreygers & Cassimon, 2019) and has been identified to be present in the data (appendix 3.1 in appendices). Hence, the GMM is employed to help control for cross-sectional dependence which present in the data. Four, given the purpose of this current study to estimate

and understand the long-run effect of CSR on firm profitability, the GMM offers the ability and opportunity ahead of other models; static and dynamic models. Hence, the above stated reasons have warranted the use of the GMM for this study. Meanwhile, one of the key limitations of the GMM approach is that, it can generate a large number of instruments, particularly in system GMM, which may overfit the model and weaken the validity of the moment conditions. To cure this limitation, an instrument reduction technique by way of collapsing instruments (Roodman, 2009) and selecting a subset of instruments to maintain an optimal instrument count was employed.

For this study, the profitability model follows that of the studies of (Aydoğmuş et al., (2022) ,Sihotang et al., (2022), and contextualized as:

$$ROA_{i,t} = \beta_1 ROA_{i,t-1} + \beta_2 CSR_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \varepsilon_{i,t} \dots \dots \dots (3)$$

$$ROE_{i,t} = \beta_1 ROE_{i,t-1} + \beta_2 CSR_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \varepsilon_{i,t} \dots \dots \dots (4)$$

While equation 3 represents the model on how CRS affect stakeholder profitability (ROA), equation 4 represents the model on how CSR affect shareholder profitability (ROE). The representation of ROA and ROE as stakeholder and shareholder profits follow prior studies (Xu et al., 2022; Kyereboah-Coleman, 2007). Equations 3 and 4 are estimated across different sectoral samples which include financial, industrial, material, consumer staple and consumer discretionary sectors. In testing for the differences in coefficients across stakeholder and shareholder profits and in different sectors, the approach of Weesie (1999) is employed to jointly test for significant difference in coefficients of CSR. In ascertaining the long-run effect of CSR on shareholder and stakeholder profitability, the study follows the approach of Qudrat-Ullah and Nevo (2021) and Canh, Schinckus and Thanh (2019) which is expressed as $\beta_k \div [1 - \phi] \dots \dots (5)$. β_k is the significant coefficient of CSR in equations 3 and 4 across the sectors

and ϕ is the lagged value of the dependent variables in equations 3 or 4. Hence, equation 5 is employed to determine the effect of CSR on shareholder and stakeholder profitability in the long-run.

3.3.3 Variables and measurement

The thesis employs Return on Assets (ROA), calculated as net profit divided by total assets, and Return on Equity (ROE), calculated as net profit divided by shareholders' equity, as measures of stakeholder and shareholder profitability, respectively. The representation of ROA and ROE as proxies for stakeholder and shareholder profitability, respectively, follows prior studies (Xu et al., 2022; Kyereboah-Coleman, 2007). These measures are grounded in robust theoretical foundations and extensive empirical support. ROA effectively captures firm-wide operational efficiency relevant to various stakeholders, aligning with stakeholder theory by reflecting broad-based value creation. Conversely, ROE specifically measures financial returns for shareholders, directly reflecting the efficacy of corporate governance mechanisms and management strategies in maximizing shareholder wealth, consistent with shareholder theory. The deliberate selection of these metrics ensures clear, distinct, and empirically validated assessments of profitability aligned with stakeholder and shareholder interests.

Corporate Social Responsibility (CSR) reflects the reported contributions of firms toward environmental, social, and governance (ESG) issues. CSR is expected to enhance both stakeholder and shareholder profitability. It is argued that CSR can improve revenue mobilization by strengthening corporate image and reputation (Chen et al., 2021; Kim et al., 2020; Lin-Hi & Blumberg, 2018), which, in turn, tends to enhance firm profitability. Overall, CSR is expected to positively influence profitability, though the effects may differ by sector and by type of profitability (i.e., shareholder versus stakeholder).

To measure CSR, a composite score was obtained from the machame developed based on the presence of relevant disclosures in audited annual reports regarding activities in the domains of society, environment, and governance—consistent with the Global Reporting Initiative (GRI) framework.

Corporate governance structures included in this study are CEO duality, board size, board gender diversity, board independence, and audit independence. CEO duality reflects the concentration of corporate power and is measured using a dummy variable that takes the value of 1 if the CEO also serves as the board chair (Boachie, 2023; Judge et al., 2003). The literature provides mixed evidence on the effect of CEO duality on firm performance (Joel et al., 2023; Judge et al., 2003), suggesting that its impact is context-dependent and unclear.

Board size captures the cumulative experience, capacity, competence, and skill of board members and is measured by the total number of board members. While larger boards may bring diverse expertise and enhance decision-making, they may also slow processes, increase conflicts, and hinder firm performance (Gan & Erikson, 2022; Cheng, 2008). Thus, the effect of board size is ambiguous.

Board gender diversity, measured as the number of female directors, has become a prominent governance concern, as women have historically been underrepresented despite their distinct and valuable contributions (Arayssi & Jizi, 2019). However, the literature is inconclusive regarding its impact on performance, drawing on tokenism and critical mass theories (Torchia et al., 2011; Stichman et al., 2010).

Board independence is measured by the number of non-executive directors who do not participate in the day-to-day management of the firm. These directors are expected to introduce objective scrutiny and fresh perspectives to board deliberations, thereby improving

performance. However, excessive independence may lead to antagonism and friction, potentially reducing performance (Dahya & McConnell, 2005). Hence, the effect is not straightforward.

Audit independence reflects the extent to which the audit committee operates autonomously in overseeing financial reporting and minimizing misappropriation risks. It is expected to promote firm performance.

Liquidity is measured as the ratio of cash to current liabilities. Based on the trade-off between liquidity and profitability, a negative relationship is anticipated (Bibi & Amjad, 2017; Rehman et al., 2015). Tangibility is calculated as the ratio of non-current (fixed) assets to total assets. According to the going concern principle, fixed assets support ongoing operations and should be positively associated with performance. However, if assets become obsolete or incur high maintenance costs, their effect may be negative.

Leverage, or financial leverage, is measured as the degree to which firms use debt to finance operations. Its effect on profitability is ambiguous, depending on whether the benefits of debt outweigh its risks (Aryantinia & Jumonoa, 2021; Anderson & Minnema, 2018; Boadi et al., 2013).

Firm size, measured as the natural logarithm of total assets, may impact profitability positively or negatively. Economies of scale can enhance profitability, while diseconomies of scale may reduce it (Kaukab & Nawaz, 2019; Abeyrathna & Priyadarshana, 2019; Alarussi & Alhadary, 2018; Peny, 2016).

Finally, operating cost, based on the income statement approach, is expected to reduce profitability, given that higher costs typically erode profit margins. See Table 3.1 for a summary of variables and their measurement.

Table 3. 1 Variable summary and measurement

Variable	Measurement
Response variable-Profitability	
Return on equity (ROE)	Net Profit divided by total shareholders' equity
Return on asset (ROA)	Profit before interest and tax divided by total assets
Explanatory variables-CSR	
Environmental CSR index (ENV)	Environmental CSR index takes account of issues of the environment as captured in the annual reports of the firms. It represents accountability on issues of the environment as addressed by the firm. Examples of areas of interest as per GRI considered for developing the environmental CSR index include energy disclosure, biodiversity disclosure, water related disclosures, emission related disclosures, environmental reporting disclosures, and waste management disclosures.
Social CSR Index (SOC)	The social CSR index is developed by taking into account issues on the society as captured in the annual report of the firms. The index considers the various issues relating to the society as a whole as addressed and contained in the annual reports. To develop the index, the social issues considered include health and safety disclosures, customer and complaints disclosures, donations to external communities, human rights disclosures, product quality and safety disclosures, community development disclosures, and other philanthropic disclosures.
Governance CSR index (GOV)	This is an index formed through the consideration of issues relating to the internal governance and internal stakeholders of the firm as disclosed in the annual report of the firms. In developing the index, the areas considered include board remuneration disclosure, risk disclosures, disclosure of CEO role, disclosure on leadership ethics, disclosure on board composition, disclosure on executive composition, disclosure on transparency and reporting, and disclosures relating to stakeholder management and treatment.
Control variables	
Liquidity (LIQ)	Current assets divided by current liabilities
Tangibility (TANG)	Property plant and equipment divided by total assets
Leverage (LEV)	Total liabilities/total assets
Firm size (FSIZE)	Natural log of total assets
Management efficiency (cost-to-income ratio) (ME)	Total operating cost divided by total revenue

CEO duality (CEO DUAL)	Binary variable which takes the value 1 if the same person occupies the position of CEO and board chairperson, otherwise 0.
Board size (BDSIZE)	Total number of directors on a board for a year
Board gender diversity (PFMOB)	Total number of females on board divided by the total number of directors on the board multiplied by 100
Board independence (BDIND)	Number of non-executive directors on board divided by the total number of directors on the board multiplied by 100
Audit committee independence (AUCIND)	Number of non-executive directors on the audit committee annually

Source: Author's work

3.4 Empirical Results and Discussions

The results of the study are reported and discussed in this section.

3.4.1 Descriptive statistics

First, the descriptive statistic (Table 3.2) and pairwise correlation (Table 3.3) are used to check for outliers and multicollinearity, respectively. Observing the mean, minimum, maximum and standard deviation values, there is no evidence of outliers. Besides, log transformation and ratios were used to control for the effect of outlier and enhance normality of data.

Table 3. 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	6645	.108	.207	-.961	.994
ROE	6645	.148	.304	-.968	.997
CSRSOCIAL	5888	.365	.219	0	1
CSRENVIRON	5961	.149	.21	0	1
CSRGOVERCE	5972	.469	.194	0	1
LIQ	6186	1.221	15.663	-.66	1147.23
TANG	6486	45.107	31.865	-3.95	100
LEV	6486	67.662	704.654	-5.24	55738.629
FSIZE	5910	5.356	.932	2.72	8.28
COST	6463	25.041	.009	25.041	25.737
CEODUAL	4598	.336	.472	0	1
BSZIE	6292	9.781	3.012	3	27
BGEN	6292	14.066	12.09	0	66.67
BIND	6250	72.11	13.158	25	100
AUDITIND	6232	79.845	25.585	0	120

3.4.2 Pairwise correlations

The pairwise correlation matrix presented in Table 3.3 provides important insights into the relationships among the study variables and helps assess potential multicollinearity concerns, with all correlation values falling below the 0.7 threshold as per Kennedy (2008). Notably, the strong positive correlation between ROA and ROE (0.683*) confirms that stakeholder profitability aligns closely with shareholder profitability, reflecting shared underlying performance drivers. Social CSR (CSRSOCIAL) and environmental CSR (CSRENVIRON) are positively correlated with both ROA and ROE, though weakly, suggesting that such initiatives may marginally enhance firm performance. Interestingly, governance-related CSR (CSRGOVER) has a weak negative correlation with both ROA (-0.023*) and ROE (-0.005), implying that certain governance disclosures may not directly translate to immediate profitability gains. Liquidity (LIQ) shows a weak positive relationship with profitability metrics, whereas leverage (LEV) is negatively correlated with both ROA (-0.104*) and ROE (-0.044*), consistent with literature that associates high leverage with financial strain. Firm size (FSIZE) has a mild positive correlation with ROE (0.087*), reflecting the advantage of scale economies. CEO duality (CEODUAL) is negatively associated with both profitability measures and with audit independence (-0.779*), reinforcing governance literature that critiques role consolidation. Furthermore, larger board size (BSIZE) is positively correlated with firm size (0.604*) and CSR indicators, suggesting that broader boards are linked to larger and potentially more socially responsible firms. Board gender diversity (BGEN) shows modest positive correlations with CSR variables and firm size, but is negatively related to CEO duality (-0.180*), implying more gender-inclusive boards may support dispersed leadership. Lastly, the correlation between board independence (BIND) and profitability is negligible, but its negative association with CEO duality (-0.262*) aligns with governance best practices advocating for checks on executive power.

Table 3. 3 Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) ROA	1.000														
(2) ROE	0.683*	1.000													
(3) CSRSOCIAL	0.056*	0.033*	1.000												
(4) CSRENVIRON	0.054*	0.018	0.515*	1.000											
(5) CSRGOVER	-0.023*	-0.005	0.494*	0.460*	1.000										
(6) LIQ	0.038*	0.020	-0.024*	-0.030*	0.009	1.000									
(7) TANG	0.015	-0.139*	0.070*	0.070*	0.039*	-0.039*	1.000								
(8) LEV	-0.104*	-0.044*	-0.018	0.006	0.003	-0.003	-0.022*	1.000							
(9) FSIZE	-0.011	0.087*	0.399*	0.477*	0.460*	-0.030*	-0.172*	-0.018	1.000						
(10) COST	-0.004	-0.004	0.024*	0.022*	0.027*	0.000	0.018	0.000	0.008	1.000					
(11) CEODUAL	-0.101*	-0.073*	-0.115*	-0.350*	-0.359*	-0.005	-0.138*	-0.006	-0.278*	-0.011	1.000				
(12) BSIZE	-0.002	0.039*	0.324*	0.373*	0.298*	-0.014	-0.095*	-0.013	0.604*	-0.008	-0.078*	1.000			
(13) BGEN	0.016	0.006	0.204*	0.260*	0.283*	-0.003	-0.039*	0.056*	0.238*	0.001	-0.180*	0.144*	1.000		
(14) BIND	-0.028*	-0.002	-0.014	0.078*	0.057*	0.017	0.066*	0.012	0.062*	0.003	-0.262*	0.108*	0.077*	1.000	
(15) AUDITIND	0.085*	0.070*	0.084*	0.255*	0.232*	0.012	0.085*	0.009	0.237*	0.011	-0.779*	0.091*	0.129*	0.259*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

However, while correlation analysis offers preliminary insights into linear associations between variables, it does not imply causality, predictive relationship, nor account for dynamic or sectoral effects, and may mask endogeneity issues and omitted variable biases. Therefore, to draw more robust and inferential conclusions, it is necessary to proceed with advanced econometric techniques such as the system GMM employed in this study for further analysis.

3.4.3 Regression output and discussions

The regression results of the study are reported in Table 3.4, which presents the nexus between CSR and shareholder profitability. The table contains eighteen (18) estimated models, with each model reflecting sectoral evidence of how CSR influences stakeholder and shareholder profitability. Models represent sectoral results covering full (1-3 and 19-21), financial sector (4-6 and 22-24), material sector (7-9 and 25-27), consumer stable sector (10-12 and 28-30), industrial sector (13-15 and 31-33) and consumer discretionary sector (16-18 and 34-36) samples respectively.

The findings of this study reveal that the effects of environmental, social, and governance (ESG)-related corporate social responsibility (CSR) on stakeholder and shareholder

profitability are nuanced and highly dependent on sectoral context. In the full sample, both social and environmental CSR activities were found to have a significant and positive impact on stakeholder profitability, while only social CSR significantly enhanced shareholder profitability. This result aligns with meta-analytical evidence indicating that CSR—particularly social initiatives—positively influences financial outcomes by improving corporate image and customer satisfaction (Margolis, Elfenbein, & Walsh, 2009; Velte, 2021). Furthermore, research suggests that CSR’s impact varies based on its focus, with internal CSR activities such as governance reforms generally yielding more consistent financial returns than external efforts like community engagement, which may have mixed or delayed effects (Egbe, Mo, & Inam, 2022).

The sectoral analysis underscores the importance of sector-specific factors in moderating the CSR–performance relationship. For example, in the financial sector, social and governance-related CSR initiatives significantly enhanced stakeholder profitability, while only social CSR had a positive effect on shareholder profits. This corresponds with findings that governance mechanisms—such as board independence and gender diversity—are key drivers of CSR effectiveness and firm value, particularly in highly regulated sectors like finance (Velte, 2021). In contrast, within the materials, consumer staples, and industrial sectors, most CSR components showed no significant impact on either stakeholder or shareholder profitability—with the exception of governance-related CSR in consumer staples, which positively influenced shareholder profits. These findings support the argument that CSR is not a “one-size-fits-all” strategy and that sectoral context and stakeholder expectations critically shape its financial outcomes (Putri, Wardani, & Hwihanus, 2024).

Interestingly, in the consumer discretionary sector, governance-related CSR had a negative and significant impact on stakeholder profitability, while both social and environmental CSR significantly enhanced shareholder profitability. This result is consistent with prior studies showing that the effectiveness of CSR is contingent on firm-level and sector-specific characteristics, including product diversification, external investment pressures, and market competitiveness (Egbe et al., 2022; Putri et al., 2024). Moreover, social and environmental CSR initiatives tend to be more positively received in consumer-facing sectors, where stakeholders are more attentive and sensitive to corporate behaviour (Egbe et al., 2022). Supporting this, Ioannou and Serafeim (2015) found that the financial benefits of CSR are more pronounced in sectors with high public visibility and consumer interaction, while Awaysheh et al. (2020) emphasized that firms operating under greater stakeholder scrutiny experience more substantial CSR-related performance gains.

Collectively, these findings underscore that the financial impact of CSR is sector-specific, reinforcing the growing consensus that sector context, stakeholder priorities, and the nature of CSR initiatives all significantly shape outcomes (Margolis et al., 2009; Putri et al., 2024; Velte, 2021). Accordingly, firms should customize their CSR strategies to reflect sector-specific dynamics and stakeholder expectations, in order to optimize both stakeholder and shareholder value.

3.4.3.1 Examining whether the effect of CSR measures vary across stakeholder and shareholder profits and sectorial differences

From Table 3.4, In the full sample (Models 1-3), social CSR demonstrates a statistically significant positive impact on stakeholder profitability ($\beta = 0.0323$, $p < 0.1$ in Model 1), as does environmental CSR ($\beta = 0.0320$, $p < 0.1$ in Model 2), while governance-related CSR shows no significant effect (Model 3).

The sectoral analysis reveals important heterogeneity in CSR effects. In the financial sector (Models 4-6), social CSR positively impacts stakeholder profitability ($\beta = 0.0331$, $p < 0.1$ in Model 4), as does governance-related CSR ($\beta = 0.0254$, $p < 0.1$ in Model 6), while environmental CSR shows no significant effect (Model 5). This suggests that financial institutions in Africa benefit from socially responsible practices and strong governance mechanisms, aligning with their fiduciary responsibilities.

In contrast, the materials sector (Models 7-9) shows no statistically significant relationships between any CSR dimensions and stakeholder profitability, suggesting that in this resource-intensive sector, CSR activities may have limited immediate financial impact, at least in terms of return on assets.

Similarly, the consumer staples sector (Models 10-12) and industrial sector (Models 13-15) show no significant CSR effects on stakeholder profitability, indicating that the relationship between CSR and financial performance is not uniform across all economic sectors in Africa.

Most notably, in the consumer discretionary sector (Models 16-18), governance-related CSR exhibits a significant negative impact on stakeholder profitability ($\beta = -0.1678$, $p < 0.05$ in Model 18). This substantial negative coefficient suggests that governance initiatives in this sector may impose costs that outweigh immediate financial benefits, or potentially conflict with operational flexibility needed in consumer-facing sectors.

These findings align with prior literature suggesting contextual dependencies in CSR impacts. For instance, governance-related CSR's positive effect on stakeholder profitability in the financial sector ($\beta = 0.0254$, $p < 0.1$) supports assertions by Velte (2021) that governance mechanisms enhance firm value in regulated sectors. The contrasting negative effect of governance CSR in consumer discretionary firms ($\beta = -0.1678$, $p < 0.05$) resonates with

research by Kaul and Luo (2015) indicating that CSR activities' effectiveness depends on alignment with core business capabilities.

Among the control variables, liquidity consistently shows positive effects on stakeholder profitability across sectors, with coefficients ranging from 0.0009 ($p < 0.1$) in the industrial sector (Model 14) to 0.0026 ($p < 0.05$) in the full sample (Models 1-3). Tangibility exhibits negative effects across all sectors, with coefficients between -0.0002 ($p < 0.05$) and -0.0019 ($p < 0.1$), suggesting fixed assets may constrain operational profitability in African firms.

CEO duality shows predominantly negative associations with stakeholder profitability, most strongly in the financial sector ($\beta = -0.0458$, $p < 0.01$ in Model 4), reinforcing governance literature's critique of power concentration. Board gender diversity shows a negative relationship with stakeholder profitability in the consumer staples sector ($\beta = -0.0009$, $p < 0.01$ in Models 10-12), contrasting with the positive effect of board independence in the consumer discretionary sector ($\beta = 0.0014$, $p < 0.1$ in Model 18).

The long-run effects calculated for significant CSR variables provide additional insights. Social CSR in the full sample shows a long-run coefficient of 0.0611 ($p < 0.05$), substantially higher than its short-run effect (0.0323), suggesting compounding benefits over time. Similarly, environmental CSR's long-run effect (0.0602, $p < 0.05$) exceeds its short-run impact. In the financial sector, social CSR (long-run $\beta = 0.0382$, $p < 0.1$) and governance CSR (long-run $\beta = 0.0284$, $p < 0.1$) demonstrate persistent positive effects, while governance CSR in the consumer discretionary sector shows an amplified negative long-run effect (-0.3023), though at marginal significance.

This nuanced relationship aligns with prior empirical studies emphasizing the heterogeneity of CSR impacts across sectors and stakeholder groups. For example, Ghanbarpour et al. (2024) found that CSR's influence on customer satisfaction and investor perceptions varies depending

on whether firms operate in product versus service sectors and whether they serve business-to-business or business-to-consumer markets, underscoring the role of contextual factors in CSR value creation. Similarly, Leung and Mao (2023) reported that CSR engagement positively affects firm financial performance and reduces distress risk, particularly in firms with highly mobile workforces, which suggests that internal stakeholder dynamics modulate CSR's financial benefits.

Moreover, the positive effect of governance-related CSR on financial sector stakeholder profits is consistent with findings by Velte (2021), who showed that governance mechanisms such as board independence and transparency enhance CSR outcomes and firm value in regulated sectors. The contrasting negative effect of governance CSR on stakeholder profits in consumer discretionary firms may reflect sector-specific stakeholder expectations and competitive dynamics, as suggested by Kaul and Luo (2015), who argued that the alignment of CSR activities with core business capabilities determines whether CSR creates or detracts value for different stakeholder groups.

The differential impact of social and environmental CSR on shareholder profits in consumer discretionary sectors also echoes results from meta-analytic studies (Margolis, Elfenbein, & Walsh, 2009) that highlight the stronger financial returns from socially and environmentally oriented CSR in consumer-facing sectors due to higher visibility and stakeholder sensitivity. Furthermore, Juniarti (2018) demonstrated that the long-term shareholder value generated by CSR activities varies across sectors, with high-profile sectors-those with significant social and environmental risks-deriving greater sustainable benefits from consistent CSR engagement.

Collectively, these empirical studies corroborate the present findings that CSR's effects on profitability are neither uniform across stakeholder groups nor sectors. Instead, they emphasize the importance of tailoring CSR strategies to sector-specific characteristics and stakeholder

priorities to maximize both shareholder and stakeholder value. This supports the broader theoretical perspective that sectoral differences and the distinct nature of stakeholder and shareholder interests critically shape how CSR initiatives translate into firm performance outcomes.



Table 3. 4 Sectoral Effects of Corporate Social Responsibility on Stakeholder Profitability among Listed Firms in Africa

	Full Sample			Financial Sector			Material Sector			Consumer Staple Sector			Industry Sector			Consumer Discretionary Sector		
VARIABLES	(1) FS-Soc	(2) FS-Env	(3) FS-Gov	(4) Fin-Soc	(5) Fin-Env	(6) Fin-Gov	(7) Mat-Soc	(8) Mat-Env	(9) Mat-Gov	(10) ConSta-Soc	(11) ConSta-Env	(12) ConSta-Gov	(13) Ind-Soc	(14) Ind-Env	(15) Ind-Gov	(16) ConDis-Soc	(17) ConDis-Env	(18) ConDis-Gov
L.ROA	0.4721** (0.1944)	0.4683** (0.1921)	0.4729** (0.1908)	0.1331** (0.0525)	0.1358** (0.0527)	0.1080* (0.0625)	0.7686*** (0.1040)	0.7645*** (0.1001)	0.7670*** (0.1013)	0.6837*** (0.0964)	0.6885*** (0.0933)	0.6811*** (0.0997)	0.3058*** (0.1085)	0.3210*** (0.1125)	0.3018*** (0.1097)	0.4773** (0.2147)	0.4801* (0.2355)	0.4448** (0.2166)
csrsocial	0.0323* (0.0193)			0.0331* (0.0196)			-0.0281 (0.0552)			-0.0031 (0.0233)			-0.0225 (0.0431)			-0.0445 (0.0528)		
csrenviron		0.0320* (0.0181)			-0.0017 (0.0114)			0.0143 (0.0424)			0.0063 (0.0271)		0.0401 (0.0459)				-0.0537 (0.0677)	
csrgover			-0.0009 (0.0157)			0.0254* (0.0146)		0.0820 (0.0874)			0.0094 (0.0361)				-0.0293 (0.0497)			-0.1678** (0.0746)
LIQ	0.0026** (0.0011)	0.0026** (0.0011)	0.0026** (0.0012)	0.0017*** (0.0003)	0.0017*** (0.0003)	0.0011** (0.0005)	0.0015* (0.0009)	0.0016* (0.0009)	0.0016* (0.0009)	-0.0025 (0.0060)	-0.0025 (0.0062)	-0.0028 (0.0059)	0.0009* (0.0005)	0.0008 (0.0005)	0.0009* (0.0005)	0.0045 (0.0138)	0.0052 (0.0133)	0.0064 (0.0136)
TANG	-0.0002** (0.0001)	-0.0002** (0.0001)	-0.0002** (0.0001)	-0.0007*** (0.0002)	-0.0007*** (0.0002)	-0.0006** (0.0002)	-0.0019* (0.0010)	-0.0019* (0.0010)	-0.0019* (0.0010)	-0.0011*** (0.0002)	-0.0011*** (0.0002)	-0.0011*** (0.0002)	-0.0009** (0.0003)	-0.0009** (0.0003)	-0.0009** (0.0004)	-0.0003 (0.0006)	-0.0004 (0.0006)	-0.0003 (0.0006)
LEV	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0008*** (0.0002)	-0.0008*** (0.0002)	-0.0008*** (0.0002)	-0.0012* (0.0006)	-0.0012* (0.0006)	-0.0011* (0.0006)	-0.0005 (0.0004)	-0.0005 (0.0004)	-0.0005 (0.0004)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0001 (0.0006)	-0.0001 (0.0006)	-0.0000 (0.0006)
FSIZE	-0.0028 (0.0044)	-0.0028 (0.0045)	-0.0001 (0.0048)	0.0008 (0.0063)	0.0034 (0.0061)	0.0056 (0.0057)	0.0406 (0.0510)	0.0355 (0.0501)	0.0381 (0.0508)	0.0128 (0.0144)	0.0115 (0.0129)	0.0110 (0.0136)	0.0271 (0.0305)	0.0216 (0.0311)	0.0282 (0.0309)	0.0680 (0.0403)	0.0622 (0.0384)	0.0592 (0.0367)
COST	-0.0097** (0.0038)	-0.0096** (0.0038)	-0.0098** (0.0039)	-0.0011 (0.0036)	-0.0010 (0.0038)	-0.0014 (0.0045)	0.0047 (0.0078)	0.0042 (0.0083)	0.0050 (0.0084)	0.0030 (0.0038)	0.0031 (0.0037)	0.0032 (0.0038)	-0.0149*** (0.0045)	-0.0149*** (0.0049)	-0.0147*** (0.0042)	-0.0482* (0.0262)	-0.0485* (0.0259)	-0.0481** (0.0228)
CEODUAL	-0.0219** (0.0097)	-0.0186** (0.0088)	-0.0216** (0.0095)	-0.0458*** (0.0084)	-0.0420*** (0.0080)	-0.0386*** (0.0088)	-13.5671 (134.3879)	-5.7059 (24.8039)	-3.7449 (43.2624)	-0.0020 (0.0126)	-0.0019 (0.0132)	-0.0030 (0.0126)	0.0743* (0.0426)	0.0782* (0.0442)	0.0760* (0.0451)	0.0025 (0.0244)	0.0008 (0.0245)	0.0083 (0.0307)
BSIZE	-0.0003 (0.0010)	-0.0003 (0.0010)	-0.0000 (0.0010)	0.0004 (0.0011)	0.0004 (0.0011)	-0.0007 (0.0010)	0.0002 (0.0029)	0.0000 (0.0029)	-0.0001 (0.0029)	-0.0025* (0.0014)	-0.0025* (0.0015)	-0.0025 (0.0015)	-0.0028 (0.0021)	-0.0033 (0.0020)	-0.0028 (0.0022)	-0.0029 (0.0027)	-0.0035 (0.0026)	-0.0040 (0.0032)
BGEN	0.0000 (0.0002)	0.0000 (0.0002)	0.0000 (0.0002)	0.0004 (0.0003)	0.0004 (0.0003)	0.0001 (0.0002)	0.0005 (0.0009)	0.0004 (0.0009)	0.0004 (0.0009)	-0.0009*** (0.0003)	-0.0009*** (0.0003)	-0.0009*** (0.0003)	-0.0002 (0.0005)	-0.0001 (0.0005)	-0.0002 (0.0004)	-0.0010 (0.0009)	-0.0010 (0.0009)	-0.0010 (0.0009)
BIND	-0.0002 (0.0002)	-0.0003 (0.0002)	-0.0003 (0.0002)	-0.0003 (0.0002)	-0.0003 (0.0002)	-0.0003 (0.0002)	-0.0014** (0.0005)	-0.0013** (0.0005)	-0.0014** (0.0005)	0.0002 (0.0003)	0.0002 (0.0003)	0.0002 (0.0003)	0.0001 (0.0004)	0.0001 (0.0004)	0.0001 (0.0004)	0.0014* (0.0008)	0.0014* (0.0008)	0.0016* (0.0009)
AUDITIND	0.0000 (0.0001)	0.0000 (0.0001)	0.0000 (0.0001)	-0.0003** (0.0001)	-0.0003** (0.0001)	-0.0003 (0.0002)	0.0009** (0.0004)	0.0009** (0.0004)	0.0009** (0.0005)	0.0001 (0.0002)	0.0001 (0.0002)	0.0001 (0.0002)	-0.0001 (0.0003)	-0.0001 (0.0003)	-0.0001 (0.0003)	-0.0002 (0.0003)	-0.0001 (0.0003)	-0.0002 (0.0003)
Constant	0.1182*** (0.0343)	0.1261*** (0.0361)	0.1132*** (0.0326)	0.1315*** (0.0294)	0.1294*** (0.0308)	0.1232*** (0.0306)	2.5039 (24.9230)	1.0586 (4.7818)	0.6504 (8.1715)	0.0728 (0.0718)	0.0770 (0.0672)	0.0953 (0.0706)	0.0495 (0.1618)	0.0713 (0.1684)	0.0464 (0.1623)	-0.1226 (0.2501)	-0.0974 (0.2335)	-0.0149 (0.2202)
Year Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Long-run CSR $\beta_k \div [1 - \phi]$	0.0611** (0.0240)	0.0602** (0.0254)		0.0382* (0.0227)		0.0284* (0.0167)												-0.3023 (0.1917)
Instruments	27	27	27	27	27	36	16	16	16	35	35	35	24	24	24	30	30	30
F-Stat	165.17(.00)	165.01(.00)	157.9(.00)	36.06(.00)	35.51(.00)	20.71(.00)	72.73(.00)	78.91(.00)	75.37(.00)	21.97(.00)	221.93(.00)	210.74(.00)	1108.1(.00)	2091.85(.00)	1284.5(.00)	74.57(.00)	86.4(.02)	78.9(.00)
AR(1)	-4.19(.00)	-4.2(.00)	-4.26(.00)	-2.39(.017)	-2.38(.017)	-2.43(.015)	-3.6(.00)	-3.62(.00)	-3.59(.00)	-2.89(.00)	-2.92(.00)	-2.88(.00)	-2.64(.01)	-2.62(.01)	-2.66(.01)	-2.37(.02)	-2.34(.02)	-2.38(.02)
AR(2)	1.4(.16)	1.41(.16)	1.42(.156)	1.46(.145)	1.52(.129)	1.23(.219)	0.55(.583)	0.58(.562)	0.61(.543)	0.01(.995)	0.01(.995)	-0.00(.998)	1.91(.06)	1.89(.06)	1.9(.06)	0.5(.614)	0.49(.624)	0.5(.615)
Hansen	0.11(.74)	0.09(.77)	0.11(.74)	0.73(.394)	0.78(.377)	11.77(.300)	3.56(.169)	3.73(.155)	3.74(.154)	10.11(.342)	10.22(.333)	10.2(.335)	10.1(.432)	10.35(.41)	10.01(.44)	3.02(.554)	3.06(.548)	3.33(.504)
Observations	4,209	4,213	4,213	1,052	1,052	1,052	591	592	592	639	639	639	712	713	713	338	338	338
Firms	369	369	369	100	100	100	51	51	51	55	55	55	58	58	58	30	30	30

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 3. 5 Sectoral Effects of Corporate Social Responsibility on Shareholder Profitability among Listed Firms in Africa

VARIABLES	Full Sample			Financial Sector			Material Sector			Consumer Staple			Industry Sector			Consumer Discretionary Sector		
	(19) FS-Soc	(20) FS-Env	(21) FS-Gov	(22) Fin-Soc	(23) Fin-Env	(24) Fin-Gov	(25) Mat-Soc	(26) Mat-Env	(27) Mat-Gov	(28) ConSta-Soc	(29) ConSta-Env	(30) ConSta-Gov	(31) Ind-Soc	(32) Ind-Env	(33) Ind-Gov	(34) ConDis-Soc	(35) ConDis-Env	(36) ConDis-Gov
L.ROE	0.2567*** (0.0415)	0.2591*** (0.0420)	0.2592*** (0.0420)	0.2574*** (0.0585)	0.2580*** (0.0687)	0.2545*** (0.0683)	0.2359** (0.1099)	0.2282** (0.1041)	0.2333** (0.1109)	0.2951*** (0.1054)	0.3154*** (0.1084)	0.3014*** (0.1071)	0.1349** (0.0671)	0.1352** (0.0663)	0.1361** (0.0668)	0.2995* (0.1758)	0.2725* (0.1550)	0.3207* (0.1767)
CSRsocial	0.0713*** (0.0275)			0.0921** (0.0463)			0.0300 (0.0605)			0.0489 (0.0720)			-0.0856 (0.1012)			0.2961*** (0.0924)		
CSRenviron		0.0383 (0.0275)			-0.0045 (0.0275)						-0.0686 (0.0636)		0.0706 (0.0879)					0.4381*** (0.1168)
CSRgover			0.0215 (0.0298)			0.0453 (0.0310)			0.0755 (0.0890)			0.1529* (0.0831)			-0.0886 (0.1224)			-0.1838 (0.2073)
LIQ	0.0033*** (0.0012)	0.0034*** (0.0012)	0.0034*** (0.0012)	0.0020*** (0.0006)	0.0014* (0.0008)	0.0015* (0.0008)	0.0053*** (0.0011)	0.0053*** (0.0010)	0.0053*** (0.0011)	0.0026 (0.0090)	0.0022 (0.0091)	-0.0010 (0.0092)	0.0054* (0.0027)	0.0054** (0.0027)	0.0055** (0.0026)	0.0405 (0.0288)	0.0411 (0.0300)	0.0343 (0.0288)
TANG	-0.0008*** (0.0002)	-0.0008*** (0.0002)	-0.0007*** (0.0002)	-0.0012** (0.0005)	-0.0009* (0.0005)	-0.0009* (0.0005)	-0.0006 (0.0005)	-0.0005 (0.0005)	-0.0005 (0.0005)	-0.0028*** (0.0010)	-0.0027*** (0.0010)	-0.0028*** (0.0010)	-0.0019** (0.0009)	-0.0019** (0.0009)	-0.0019** (0.0009)	0.0014 (0.0015)	0.0021 (0.0016)	0.0012 (0.0016)
LEV	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	0.0004 (0.0005)	0.0006 (0.0004)	0.0006 (0.0004)	-0.0007 (0.0010)	-0.0006 (0.0009)	-0.0006 (0.0010)	0.0003 (0.0005)	0.0003 (0.0005)	0.0003 (0.0005)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	0.0017 (0.0011)	0.0017* (0.0009)	0.0014 (0.0010)
FSIZE	0.0078 (0.0083)	0.0105 (0.0086)	0.0122 (0.0085)	0.0101 (0.0139)	0.0168 (0.0137)	0.0128 (0.0133)	0.0072 (0.0209)	0.0198 (0.0188)	0.0096 (0.0201)	0.0416 (0.0306)	0.0401 (0.0327)	0.0281 (0.0272)	0.0489 (0.0687)	0.0457 (0.0686)	0.0452 (0.0691)	-0.1283*** (0.0454)	-0.1422*** (0.0396)	-0.1096* (0.0605)
COST	-0.0150*** (0.0048)	-0.0148*** (0.0050)	-0.0152*** (0.0050)	-0.0090 (0.0099)	-0.0092 (0.0106)	-0.0090 (0.0103)	-0.0148* (0.0077)	-0.0141* (0.0079)	-0.0152* (0.0076)	0.0078 (0.0132)	0.0074 (0.0130)	0.0088 (0.0130)	-0.0486*** (0.0178)	-0.0483*** (0.0177)	-0.0490*** (0.0175)	-0.0617** (0.0281)	-0.0586** (0.0273)	-0.0652** (0.0274)
CEODUAL	-0.0319* (0.0165)	-0.0269 (0.0164)	-0.0289* (0.0167)	-0.0991*** (0.0330)	-0.0856** (0.0363)	-0.0849** (0.0359)	0.0473 (0.0332)	0.0405 (0.0320)	0.0594* (0.0350)	0.0236 (0.0466)	0.0341 (0.0502)	0.0178 (0.0461)	0.0371 (0.1849)	0.0368 (0.1847)	0.0439 (0.1816)	-0.1457** (0.0619)	-0.1306** (0.0482)	-0.1392* (0.0691)
BFSIZE	-0.0020 (0.0018)	-0.0018 (0.0018)	-0.0016 (0.0018)	-0.0026 (0.0022)	-0.0037* (0.0020)	-0.0035* (0.0020)	-0.0040 (0.0060)	-0.0026 (0.0059)	-0.0049 (0.0055)	-0.0114* (0.0061)	-0.0126** (0.0060)	-0.0120* (0.0060)	0.0020 (0.0055)	0.0017 (0.0056)	0.0017 (0.0054)	-0.0045 (0.0060)	0.0001 (0.0060)	-0.0042 (0.0066)
BGEN	0.0002 (0.0005)	0.0002 (0.0005)	0.0002 (0.0005)	0.0006 (0.0007)	0.0006 (0.0007)	0.0005 (0.0007)	-0.0013 (0.0011)	-0.0012 (0.0011)	-0.0016 (0.0011)	-0.0009 (0.0015)	-0.0010 (0.0017)	-0.0015 (0.0015)	0.0006 (0.0016)	0.0006 (0.0016)	0.0007 (0.0017)	-0.0048** (0.0022)	-0.0059*** (0.0021)	-0.0040 (0.0025)
BIND	0.0000 (0.0004)	-0.0001 (0.0004)	-0.0001 (0.0004)	-0.0005 (0.0006)	-0.0003 (0.0005)	-0.0003 (0.0005)	-0.0020** (0.0008)	-0.0019** (0.0008)	-0.0020** (0.0008)	0.0008 (0.0012)	0.0010 (0.0011)	0.0008 (0.0011)	0.0000 (0.0011)	0.0000 (0.0011)	-0.0001 (0.0011)	-0.0002 (0.0013)	-0.0004 (0.0012)	-0.0001 (0.0014)
AUDITIND	0.0001 (0.0002)	0.0001 (0.0002)	0.0001 (0.0002)	-0.0003 (0.0006)	-0.0003 (0.0007)	-0.0003 (0.0007)	-0.0002 (0.0004)	-0.0002 (0.0004)	-0.0001 (0.0005)	0.0002 (0.0009)	0.0002 (0.0009)	0.0000 (0.0009)	-0.0004 (0.0009)	-0.0005 (0.0009)	-0.0004 (0.0009)	-0.0013 (0.0013)	-0.0016 (0.0012)	-0.0014 (0.0013)
Constant	0.1314** (0.0553)	0.1357** (0.0565)	0.1188** (0.0558)	0.1858** (0.0798)	0.1331 (0.0887)	0.1437* (0.0858)	0.3101*** (0.1074)	0.2428** (0.1018)	0.2677** (0.1097)	0.1221 (0.2281)	0.1182 (0.2437)	0.1932 (0.2065)	0.0928 (0.4103)	0.1031 (0.4173)	0.0926 (0.4571)	0.8996*** (0.2315)	0.9866*** (0.2114)	1.0528*** (0.2425)
Year Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Long-Run	0.0959***			0.1240*								0.2188*			0.4227***	0.6022***		
CSR																		
$\beta_k \div [1 - \phi]$	(0.0373)			(0.0663)								(0.1122)			(0.1303)	(0.1846)		
Instruments	39	39	39	15	16	16	26	26	26	25	25	25	30	30	30	30	30	30
F-Stat	65.43(.00)	65.12(.00)	64.51(.00)	53.9(.00)	54.34(.00)	52.25(.00)	106.64(.00)	94.18(.00)	83.78(.00)	23.76(.00)	22.70(.00)	26.26(.00)	18562.74(.00)	17846.61(.00)	19068.91(.00)	77.26(.00)	127.43(.00)	73.47(.00)
AR(1)	-7.38(.00)	-7.4(.00)	-7.4(.00)	-4.09(.00)	-3.93(.00)	-3.92(.00)	-2.55(.011)	-2.57(.01)	-2.53(.011)	-2.7(.01)	-2.73(.01)	-2.72(.01)	-2.94(.013)	-2.95(.00)	-2.94(.00)	-1.89(.058)	-1.92(.055)	-1.88(.06)
AR(2)	-0.08(.933)	-0.06(.954)	-0.05(.957)	-0.98(.327)	-0.92(.36)	-0.92(.36)	0.3(.762)	0.28(.781)	0.3(.765)	-0.08(.936)	-0.04(.967)	-0.07(.942)	-0.34(.732)	-0.33(.739)	-0.34(.733)	-0.17(.865)	-0.23(.819)	-0.16(.87)
Hansen	14.33(.351)	14.9(.313)	14.99(.308)	0.02(.876)	2.52(.284)	2.46(.292)	11.29(.587)	10.68(.638)	11.36(.580)	13.26(.277)	14.37(.215)	13.14(.285)	5.84(.211)	5.86(.21)	5.85(.211)	3.07(.546)	2.67(.614)	2.8(.591)
Observations	4,209	4,213	4,213	1,052	1,052	1,052	591	592	592	639	639	639	712	713	713	338	338	338
Firms	369	369	369	100	100	100	51	51	51	55	55	55	58	58	58	30	30	30

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

3.4.3.2 Effect of CSR on shareholder and stakeholder profitability

In the context of providing evidence on who benefits from CSR activities, the result show that CSR activities promote the profits distributable to both stakeholders and shareholders implying that the benefits of CSR are not restricted to only stakeholders and or shareholders. Consequently, using the approach of Clogg et al. (1995) and Paternoster et al. (1998) $[(|\beta_1 - \beta_2|)/\sqrt{((\text{Standard Error of } \beta_1)^2 + (\text{Standard Error of } \beta_2)^2)}]$ to test for significant difference in the coefficients across shareholder and stakeholder profits, it is observed that there is no significant difference in the significant coefficients across stakeholders and shareholders profits implying there is less/no evidence to show whether shareholders benefits more from CSR or vice versa. However, testing for difference in CSR coefficients across sectors, it is observed that there are evidences to suggest that the differences in coefficients of CSR on stakeholder and shareholders across some sectors are significantly different from zero implying that the observed difference in coefficients are relevant and worth considering/recognizing. This implies that the effect of governance related CSR activities tend to have higher effects on stakeholder profits in the financial sector (Model 6) compared to the consumer discretionary sector (Model 18) while the effect of social related CSR tends to have higher effects on shareholder profits in the consumer discretionary sector (Model 34) compared to the financial sector (22) and the full sample (Model 19).

As observed in Chen and Gavius (2015) whose result show that knowledgeable investors do not think CSR has a significant chance of making money for the company or that knowledgeable investors' superior access to corporate information enables them to identify CSR firm practices that go against the CSR theory. Furthermore, our findings imply that investors sentimentally price their aspirations for the long-term well-being of society as though it were long-term wealth for shareholders, which is why CSR has positive value implications on the exchange.

These findings extend the literature by providing evidence to show that CSR which has heavily been documented to promote stakeholder interest also benefits shareholders interest which is profits.

3.4.3.3 Short and Long run effect of CSR on shareholder and stakeholder profitability across sectors.

The long-run effects calculated (from Table 3.4 and 3.5) for significant CSR variables provide additional insights. Social CSR in the full sample shows a long-run coefficient of 0.0611 ($p < 0.05$), substantially higher than its short-run effect (0.0323), suggesting compounding benefits over time. Similarly, environmental CSR's long-run effect (0.0602, $p < 0.05$) exceeds its short-run impact. In the financial sector, social CSR (long-run $\beta = 0.0382$, $p < 0.1$) and governance CSR (long-run $\beta = 0.0284$, $p < 0.1$) demonstrate persistent positive effects, while governance CSR in the consumer discretionary sector shows an amplified negative long-run effect (-0.3023), though at marginal significance.

From the results, the coefficients presented in Tables 3 and 4 provide compelling evidence of the short-run effects of CSR on both stakeholder and shareholder profitability across different sectors. In addition to these immediate effects, this study follows the methodological framework of Qudrat-Ullah and Nevo (2021) and Canh et al. (2019) to explore whether CSR's influence extends beyond the short run, generating long-run value for firm constituents. The computations confirm the presence of long-run effects, indicating that CSR investments yield sustained benefits to both stakeholders and shareholders over time. This long-term profitability effect reinforces the business case for integrating CSR into core strategic planning. In essence, CSR is shown to be more than a peripheral or public relations function; it is a viable financial strategy with enduring positive impacts on firm performance.

These findings align with the empirical insights of Flammer (2015), who provided the first causal evidence that CSR implementation leads to increased shareholder value and improved operating performance, driven by enhanced labour productivity and sales growth. Flammer also noted that CSR benefits are stronger in sectors with higher CSR intensity, reflecting stakeholder responsiveness to socially conscious practices. Similarly, DesJardine et al. (2021) in a longitudinal analysis, reported that firms maintaining consistent CSR practices over time achieved greater resilience and more stable financial returns, especially during economic downturns. This supports the argument that CSR acts as intangible capital strengthening organizational legitimacy and stakeholder loyalty in the long run.

Further corroborating this position, Ioannou and Serafeim (2015) conducted a multi-country study demonstrating that firms with embedded, long-horizon CSR strategies outperform their peers in stock market valuation and profitability. Their work underscores that market participants recognize and reward sustained social and environmental performance³. In the African context, Adamu (2021) found that CSR activities, particularly workplace-related initiatives, have a significant positive influence on financial performance metrics such as return on equity among Nigerian public listed companies. This suggests that consistent CSR engagement yields long-term profitability benefits, especially in emerging markets.

Additionally, CSR's long-term financial benefits may arise from cost efficiencies, risk mitigation, and innovation-driven growth, as shown by Carroll and Shabana (2010). By embedding stakeholder concerns into operational models, firms can pre-empt costly compliance issues, reduce reputational risks, and enhance customer and employee retention—all contributing to sustained profitability.

Regarding control variables, the study found that firm liquidity consistently and positively influences both stakeholder and shareholder profitability, confirming prior evidence that

liquidity enhances operational flexibility and financial stability (Rehman et al., 2016). Conversely, tangibility, leverage, and operating costs show consistent negative effects on profitability, aligning with earlier studies suggesting that overinvestment in fixed assets or excessive debt burdens constrain profitability, especially in uncertain or emerging market contexts (Bibi & Amjad, 2017; Aryantina & Jumonoa, 2021; Gan & Erikson, 2022).

Together, these findings provide strong empirical support for the strategic integration of CSR in corporate governance and performance models. They emphasize that CSR is effective not only in the short term but also accumulates value over time, justifying continued and increased investment by firms seeking to balance financial performance with societal impact.

3.5 Conclusion, Policy Implications and Recommendations

In this study, the effect of CSR on shareholder and stakeholder profits are examined across different sectors within the African region. This study is motivated by (i) lack of sectoral effect of CSR on shareholder and stakeholder profits especially in Africa, (ii) limited evidence on how CSR benefits/affects shareholder profits especially when CSR has strongly and heavily linked to stakeholder interests and (iii) limited evidence on the persistent long-run/future effect/benefits of CSR on shareholder and stakeholder profits. The study employs 369 listed firms in Africa between 2006 and 2020 in a dynamic GMM model to shed insights on the link between CSR and shareholder and stakeholder profits.

The results show that within the African context, different CSR activities reported have varying effects on shareholder and stakeholder profits across different sectors. Specifically, while governance related CSR promotes stakeholder and shareholder profits in financial and consumer staple sectors, it at the same time dampened/derailed stakeholder profits in the consumer discretionary sector. Similarly, while social related CSR positively influenced stakeholder and shareholder profits in the Africa as a whole (full sample) respectively, social

related CSR further enhanced stakeholder profits in the financial sector and shareholder profits in the consumer discretionary and financial sector respectively. Furthermore, environmental related CSR only enhanced stakeholder profits in the full sample and shareholder profits in the consumer discretionary sector. Clearly, while these results suggest that CSR have varying effects across stakeholders, shareholders and sectors, it offers novel insight that suggests that CSR may not be a “one-size-fit-all” corporate strategy for enhanced shareholder and stakeholder profits. Interestingly, the results further shows that the effects of CSR transcend from the short-run into the long-run implying that CSR have both present and future enhancing effects on shareholder and stakeholder profits.

The findings of this study have significant policy implications for regulators, policymakers, managers, shareholders, and other stakeholders of listed firms in Africa. As CSR becomes an increasingly essential component of corporate strategy, its effectiveness in enhancing firm performance must be assessed within the context of sectoral and regional variations. While CSR has been widely recognized for its long-term benefits, its impact on shareholder and stakeholder profitability differs across sectors. This underscores the need for a structured, evidence-based approach to CSR policy and investment decisions to maximize both short-term and long-term gains.

The study suggests that not all CSR activities yield positive results for firms across different sectors. This calls for sector-specific CSR guidelines, as a "one-size-fits-all" approach may lead to inefficient allocation of resources and diminished firm performance. In a sector like, mining, oil and gas, it is proposed that their CSR activities in the areas of environmental conservation and community development should be prioritized given the sector’s high environmental impact and regulatory scrutiny. In a sector like retail and consumer goods, initiatives like fair wages, ethical sourcing, and supply chain transparency should be pursued given its ability to ensure enhance brand reputation and customer loyalty. In addition, for

financial services sector, it will be appropriate that they focus on corporate governance, ethical investment policies and financial inclusion as part of their CSR activities in ensuring stakeholder trust and regulatory compliance.

Based on the findings, it is also important that, generally, policymakers and regulators develop sector-specific CSR frameworks tailored to the unique needs and risks of different sectors, while efforts should be made by these regulatory bodies (e.g., Securities and Exchange Commissions, Industry Associations) to mandate sector-specific CSR reporting standards to ensure firms align their CSR efforts with sectoral priorities. Furthermore, boards should make appropriate moves to ensure they integrate CSR performance metrics into executive compensation structures to align leadership incentives with long-term sustainability goals. It is also proposed that managers conduct a cost-benefit analysis before investing in CSR activities to assess their financial and social return on investment (ROI). Last but not least, firms should engage with stakeholders (customers, employees, regulators) to identify high impact CSR initiatives that align with both business goals and social needs.

Regulatory bodies within African economies are advised to formulate sector-specific Corporate Social Responsibility (CSR) policies that are congruent with the unique socio-economic and regulatory contexts of various sectors. Such alignment is crucial to ensure that CSR practices effectively address critical challenges, including financial inclusion, infrastructure deficiencies, and social welfare.

Corporate leaders in African-listed companies should adapt CSR strategies to reflect sector-specific profitability patterns and local economic conditions, prioritizing initiatives that yield concrete social and economic benefits while ensuring long-term financial viability.

In the financial sector, firms should prioritize governance-related CSR initiatives, particularly those that enhance financial literacy, consumer protection, and ethical banking practices, given

their demonstrated efficacy in improving both shareholder and stakeholder returns in the region.

Companies within the consumer discretionary sector in Africa should meticulously evaluate governance-related CSR strategies to mitigate potential negative impacts on stakeholder profitability, ensuring that CSR efforts are concentrated on community engagement, responsible marketing, and equitable labour practices. Firms in the consumer staples sector should incorporate governance-related CSR into their business models to foster long-term profitability and social goodwill, particularly through initiatives that promote food security, ethical sourcing, and sustainable agricultural practices.

Again, sector associations within African markets are encouraged to facilitate dialogues on best practices in corporate social responsibility (CSR), ensuring that businesses implement strategies that address the continent's distinct challenges, such as poverty alleviation, access to clean water, and education. Policymakers should advocate for sector-specific CSR disclosure frameworks that enhance transparency and accountability, aligning with Africa's developmental objectives, particularly through mandatory reporting on social impact and sustainability metrics. Investors in African stock markets are advised to evaluate CSR engagement based on sector-specific financial performance, prioritizing firms that align CSR efforts with national and regional development priorities. Researchers should investigate the long-term impacts of CSR across various African sectors, focusing on the contribution of CSR initiatives to inclusive growth, technological innovation, and long-term resilience. Risk management professionals within African firms should incorporate CSR-related risks and opportunities into corporate decision-making frameworks, with an emphasis on risk mitigation in sectors such as mining, energy, and manufacturing, where social and environmental issues are most significant.

In the context of Africa, consumer discretionary companies are advised to prioritize social and environmental corporate social responsibility (CSR) initiatives over governance-related strategies to enhance stakeholder value. This approach is particularly pertinent in emerging

consumer markets where brand reputation and ethical consumerism increasingly influence purchasing decisions. Multinational corporations operating within the African continent should implement adaptable CSR frameworks that account for regional, cultural, and sector-specific variations in the business environment, thereby ensuring that CSR initiatives are tailored to local needs and regulatory landscapes. Social responsibility consultants in Africa are encouraged to offer sector-specific guidance to optimize CSR effectiveness, especially in sectors where social impact is closely linked to regulatory approvals and market access. Companies should undertake regular sector-based impact assessments of their CSR initiatives to evaluate long-term effectiveness in African economies, ensuring that CSR investments produce measurable economic, environmental, and social benefits. Furthermore, government agencies should incentivize sector-specific CSR initiatives through tax benefits and regulatory support that align with national economic and social development plans, particularly in sectors such as renewable energy, healthcare, and education.

Academic and policy researchers may have to investigate the complementarities, synergies and thresholds effects of CSR on firm profitability to inform policy on the selection and extent of CSR pursuit by firms.



CHAPTER FOUR

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CORPORATE PROFITABILITY IN AFRICA: NON-LINEARITIES, SYNERGIES, AND COMPLEMENTARITIES



Abstract

This study examines the non-linear and synergies, complementarities and long-run effects of corporate social responsibility (CSR) on corporate profitability classified into corporate stakeholder profitability and corporate shareholder profitability in Africa. The study employs a dynamic Generalized Method of Moments (GMM) panel data strategy of 369 listed firms in Africa between 2006 and 2020. The main results show that an inverted non-linear threshold effect of social and governance CSR exist on shareholder profitability but not for stakeholder profitability indicating that social and governance CSR may be injurious to corporate shareholder beyond a certain threshold. Similarly, the study documents synergetic and complementary effects between social and governance CSR on shareholder profitability while documenting synergetic and complementary effects between social and environmental CSR on stakeholder profitability. Furthermore, the study documents the existence of long-run inverted U-shape effect of social and governance-oriented CSR on shareholder profitability and a long-run synergetic nexus between social and governance CSR and environmental and social CSR on shareholder and stakeholder profitability respectively. These imply that the synergetic and non-linear effects of CSR activities existing beyond the short-run. These findings imply that managers and shareholders are hereby cautioned about the dark side of CSR activities and must be mindful that excessive CSR activities can damage shareholder profitability. Secondly, managers must be cautious in the selection, combination and co-ordination of CSR activities because CSR activities undertaken together can produce synergies that boost both stakeholder and shareholder profitability. Thirdly, the results on the long-run effect of CSR provides additional justification for managers to spend and engage in CSR activities especially, when the effects of CSR have positive long lasting synergetic effects on shareholder and stakeholder profitability. The findings are robust to technological and industry effects.

Keywords: Stakeholder; Shareholder; Profitability; Corporate Social Responsibility.

4.1 Introduction

Corporate profitability remains a fundamental pillar of firm sustainability, underpinning the “going concern” assumption that firms will operate into the foreseeable future (Desai et al., 2020; Rehman et al., 2016; Ramezani et al., 2002). Profitable firms are more likely to attract external capital, reinvest earnings internally, and instill confidence in both current and prospective investors (Baker & Martin, 2011; Strebulaev, 2007). Given this critical role, corporate profitability has long attracted scholarly attention in accounting and finance literature.

In parallel, corporate social responsibility (CSR) has gained traction as a strategic tool for enhancing stakeholder trust and reputational capital. CSR initiatives-spanning environmental, social, and governance (ESG) dimensions-enable firms to address societal expectations while building legitimacy with stakeholders such as communities, customers, regulators, and employees (Freeman & Velamuri, 2006; Trapp, 2014; Steurer, 2010). Prior research suggests that CSR may improve firm image and reduce regulatory pressure (Gamper-Rabindran & Finger, 2013; Haji et al., 2022), while enhancing financial performance through increased consumer loyalty and investor appeal (Du et al., 2010; Fatemi et al., 2018).

Yet, despite the widely documented potential of CSR, its relationship with profitability remains empirically contested and theoretically fragmented, particularly in emerging and African markets. Existing studies report mixed results-positive, negative, or null effects-depending on the context, the CSR dimension examined, and the financial metric used (Zheng et al., 2022; Nollet et al., 2016; Tang et al., 2012). For example, recent empirical work on Indian firms found that composite ESG scores insignificantly impacted profitability, though social initiatives positively correlated with return on assets (ROA), while governance initiatives negatively affected ROA. Similarly, Chinese studies demonstrated that environmental

performance significantly improved profitability through innovation and market acceptance, but governance strategies showed diminishing returns. This variation highlights a critical research gap: CSR is often treated as a homogeneous construct, despite the fact that firms frequently implement multiple, overlapping CSR initiatives, each with potentially non-linear and interactive effects.

Moreover, the empirical literature has largely focused on linear relationships between CSR and profitability, overlooking the possibility of threshold effects-where CSR benefits may taper off or even reverse beyond certain levels (Fombrun, 2005; Barnett & Salomon, 2012). This omission is particularly problematic in Africa, where CSR practices are often shaped by heterogeneous institutional, cultural, and sectoral dynamics. The non-linearity hypothesis-that CSR may have diminished or even negative returns at higher levels-remains underexplored in African corporate research and lacks robust empirical validation in this context.

Compounding this gap is the scarcity of studies exploring synergies and complementarities across CSR domains. In practice, firms do not engage in CSR activities in isolation; they bundle environmental, social, and governance initiatives in pursuit of strategic and reputational objectives. However, whether such combinations yield complementary or synergistic effects on firm performance remains an open question (Gregory et al., 2014; Flammer & Ioannou, 2021). For instance, Chinese environmental performance studies identified synergies between governance methods and market-driven environmental effectiveness, while Swedish research noted that sustainability performance positively correlated with financial outcomes, particularly in firms with educationally diverse boards. This oversight restricts our understanding of how CSR integration across domains can amplify-or erode-profitability, particularly when measured from both stakeholder and shareholder perspectives.

A further limitation in existing research is the temporal scope. While many studies examine short-run effects, few investigate whether CSR benefits persist in the long run, especially in environments characterized by regulatory volatility and limited investor protections, such as in many African economies (Steurer, 2010; Ioannou & Serafeim, 2017). Longitudinal evidence on whether CSR creates enduring financial value-either through compounding stakeholder trust or sustainable operational efficiencies-is still lacking.

In response, this study addresses four interrelated and underexplored questions:

1. Does CSR have non-linear effects on corporate profitability?
2. Do synergistic or complementary interactions among CSR dimensions exist, and how do they affect financial outcomes?
3. Are these effects different for shareholder versus stakeholder profitability?
4. Do these patterns persist in both the short run and the long run?

To investigate these questions, we employ a dynamic panel GMM approach on a longitudinal dataset of 369 listed African firms from 2006 to 2020. Our findings reveal that the relationship between CSR and profitability is complex and non-linear. Specifically, we identify inverted U-shaped effects of social and governance CSR on shareholder profitability, as well as positive synergies between social and governance CSR (for shareholder profitability) and between social and environmental CSR (for stakeholder profitability). These effects persist in the long run, suggesting durable financial benefits from strategically coordinated CSR investments.

This study contributes to theory by demonstrating that CSR's profitability effects are contingent on both threshold levels and inter-CSR complementarities, advancing current understanding beyond linear or isolated CSR impacts. Practically, it offers guidance to managers on the importance of aligning and calibrating CSR efforts to optimize financial returns for both shareholders and stakeholders, particularly in emerging markets.

The rest of the study is organized into literature review, methodology and data, empirical results and discussions and conclusions, policy implications and recommendations.

4.2 Literature Review

4.2.1 Theories explaining the issues under discussion and empirical literature review

Corporate social responsibility is a concept that have several roots from the business perspective, political perspective, sociology perspective and ethical perspective (see Crane et al., 2008; Garriga & Mele, 2004; Klonoski, 1991). Given the different perspectives to corporate social responsibility, theories like economic responsibility theory, shareholder value theory and stakeholder value theory explain CSR from a business perspective while ethical responsibility theory, corporate citizenship theory and corporate social performance theory explain CSR from the ethical, political and sociology perspectives, respectively. In this study, however, the economic responsibility theory which encompasses shareholder and stakeholder value theories are used to support the nexus between CSR and corporate performance.

From the economic responsibility theory, it is argued that the core responsibility of corporate entities is wealth/value creation (Crane et al., 2008; Garriga & Mele, 2004; Klonoski, 1991). Stemming from the notion that corporate entities are established to maximize wealth by undertaking viable economic ventures that create economic value, the economic responsibility theory projects wealth maximization. This suggests and implies that all corporate activities and strategies including corporate social responsibility should be designed and channeled to maximizing wealth.

Following the profit/value maximization/pursuit and distribution frameworks (see Kochan & Rubinstein, 2000), the shareholder and stakeholder value theories emphasize on how profits/value created is pursued and distributed. While the shareholder value theory argues that the pursuit of profit maximization must be strictly designed and channelled towards the interest of shareholders. Thus, all corporate activities and strategies including corporate social responsibility must protect and maximize the shareholder interest. On the contrary, the stakeholder value theory posits that in the pursuit of profit maximization, the interest of other parties other than shareholders must also be considered and made an integral part of all corporate activities and strategies (Seiyaibo & Okoye, 2020; Aguilera & Cuervo-Cazurra, 2009; 2004). It posited that the pursuit of stakeholder value theory provides some long-run value for firms and looks beyond maximizing the shareholders interest to include the interest of other parties such as creditors, society, customers, suppliers and debtors while the shareholder value theory solely focuses on protecting/maximizing the interest of shareholders. Following the shareholder and stakeholder value theories, return on equity and return on assets are employed as measures for shareholder and stakeholder values, respectively (Kochan & Rubinstein, 2000). Following the theories reviewed, there are theoretical arguments to show that CSR may affect corporate performance.

Considering empirical studies, there are several studies that investigate the non-linear effect of corporate social responsibility on corporate performance of firms. The literature generally suggests that if the cost of CSR exceeds the benefits of CSR, then it may lessen firm performance. This suggests that CSR can have both positive and negative effects on corporate performance and hence indicating a possibility of non-linear nexus between CSR and corporate performance. For instance, in the context of United States, Rouine, Ammari and Bruna (2022) examined how corporate social responsibility affects firms' total risk by S&P500 listed firms

between 2002 and 2017. The study employs panel smooth transition regression and shows that the nexus between corporate social responsibility performance is non-linear implying that corporate social responsibility mitigates firm risk beyond a certain threshold. Likewise, Alfalih (2022) examined both the linear and non-linear impact of corporate social dimensions such as environment, social and governance (ESG) and how their interactions influence economic growth in the short and long-term using SP-500 non-financial companies and other manufacturing and service USA based firms. The study employed the dynamic panel model using the System Generalized Method of Moments (SYS-GMM) technique. A total observation of 2,829 were made on 281 companies between the period 2010 to 2019. The results reveal that firms' financial performance was largely influenced by social and governance dimensions of environment, social and government (ESG). The findings imply that directly and indirectly, ESG disclosure practices significantly impacts corporate financial performance of firms.

Also, Chen, Guo, Hsiao, Chen (2018) investigated the difference between corporate social responsibility and corporate performance. The study used 1461 non-financial service companies that are publicly traded in the US by observing 6715 firms yearly. The study posits that the relationships between corporate social responsibility and corporate financial performance as well as between corporate social irresponsibility and economic performance are U-shaped. Moreover, Blasi, Caporin and Fontini (2018) investigated the effect on corporate social responsibility activities and their economic performance having considered seven macro-categories of corporate social responsibility and six market-based and accounting-based performance indicators by disaggregating the firm's sector of activities. The study used a sample of 988 US-based companies from nine different sectors which include raw materials, consumer goods, consumer service, financial service, health care, industrial, oil and gas, technology and utilities. The study employed the dynamic panel model to analyze the relationship and found that corporate social responsibility activities affect economic

performance based on sectoral differences. This implies that firm's total returns on stock are increased while financial risk are minimized. Furthermore, Nguyen and Nguyen (2015) examined the impact of corporate social responsibility on firm risk of US based firms related by KLD. Using the panel analysis technique to highlight the corporate social responsibility dimensions that contribute most to a firm's credit risk and to reveal potential non-linear relationships between corporate social responsibility and firm risk. The results show that there is an increased risk on shareholders in the areas of diversity, employee relations and corporate governance. Additionally, the findings portray that corporate social responsibility as it relates to diversity and employee relations are associated with increased risk. This implies that aggregate social responsibility indicators have a positive influence on firm risk and ought to be strengthened to minimize such.

In the context of Europe, Lahouel, Zaid, Managi and Taleb (2022) studied the non-linear effect of environmental corporate social responsibility on firm financial performance to enhance our understanding on when it becomes beneficial to go green using panel smooth transition regression. The data covers periods between 2005 and 2017 and includes economies like Italy, Germany, France and Spain. The results illustrate that various nexus ranging from non-linear negative, non-linear positive, to inverted U-shape exist between environmental corporate social responsibility and firm performance. Similarly, Lajnef and Ellouz (2022) sought to examine the link between corporate social responsibility and company performance using non-financial French firms between 2004 and 2020. Employing non-linear autoregressive NARX model, the results suggest that (i) a bi-directional nexus exist between corporate social responsibility and company performance and (ii) French firms rely heavily on social and environmental corporate social responsibility to improve their performance.

More so, Lahouel and Zaid (2020) sought to answer the long-standing question of when it pays for firms to go green by employing the panel smooth transition regression model on how

environmental performance and financial performance are related. The study employed 61 French companies from the period 2005 to 2017. The findings portrayed an inverted-U relationship and an inverted-V relationship when using Tobin's Q and return on assets, respectively. This implies that beyond a certain level of environmental related corporate social responsibility, it may impede firm financial performance. Nirino, Miglietta and Salvi (2020) explored the impact of corporate social responsibility on firm's financial performance of the food and beverage sector. The study used ordinary least square regression analysis on data from 190 food and beverage firms and find out that governance and social outcomes are positively influenced by corporate social responsibility governance. This implies that stakeholders in the food and beverage industry are really concern about environmental and societal outcomes and this creates economic value in increasing financial performance.

Again, Gangi, Mustilli and Varrone (2019) studied whether and how knowledge of corporate social responsibility affects financial performance in the banking sector of Europe. The study employed fixed effects regression analysis as well as the two-stage Heckman model (1976) to deal with the possible endogeneity bias on 72 banks from European Countries for the period 2009 to 2015. Findings from the study show that knowledge on corporate social responsibility affects citizens' behaviour which intends to affect financial performance of European banks. Also, regarding the reputational effect of corporate social responsibility, performance of citizens is a positive indicator of bank's financial performance. Findings from the study implies that knowledge on corporate social responsibility plays an important role in the implementation of corporate social responsibility programs effectively for external stakeholders and increases a bank's competitive advantage. Additionally, Nollet, Filis and Mitrokostas (2016) investigated the nexus between corporate social performance and financial performance employing both accounting and market based financial performance indicators. Using fixed effect panel models of S&P500 firms between 2007 and 2011, the results show that corporate

social performance has a non-linear inverted U-shape effect on return on capital suggesting that corporate social performance has positive effect on financial performance in the long-run. Their results further show that the inverted U-shape effect of corporate social performance on financial performance is significant for only governance-related social corporate performance. Furthermore, Cavaco and Crifo (2014) examined the interplay between various corporate social responsibility dimensions that link corporate social responsibility and financial performance. Using a final unbalanced panel sample of 300 firms with 1094 observations annually from 15 countries over the period 2002-2007, the results show that behaving responsibly towards companies' stakeholders, for example employees, customers and suppliers serve as complementary inputs of financial performance. This implies that conflicts are lessened while mutual benefits among stakeholders are maximized significantly leading to increase financial performance that gives firm competitive advantage.

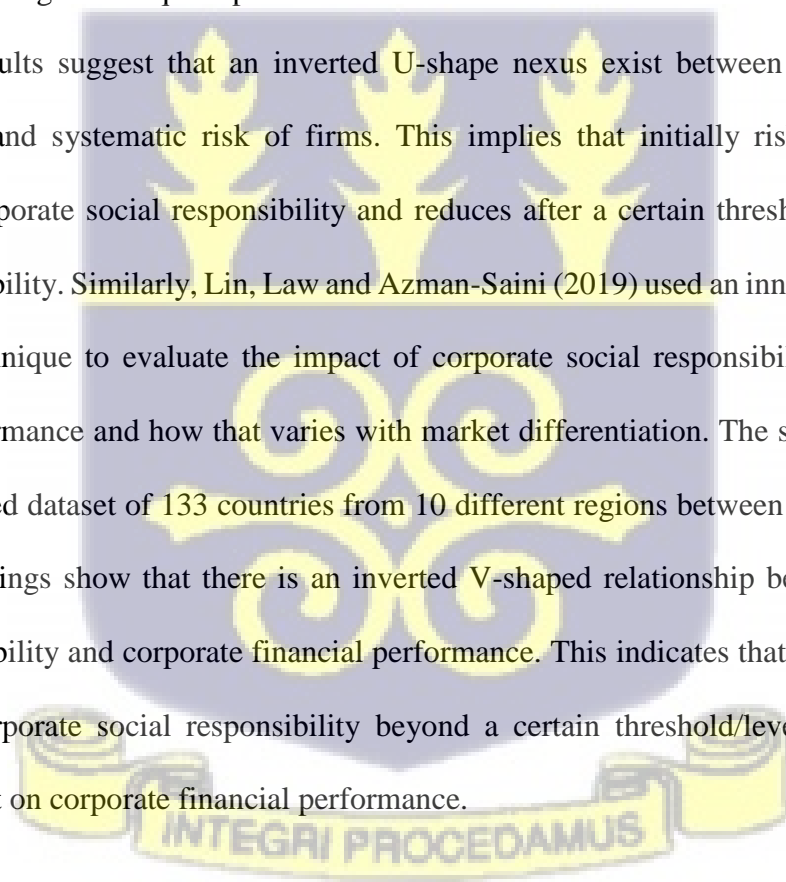
In the context of Asia, Zheng, Deng, Song, Ye and Luo (2022) evaluated the non-linear relationships of corporate social responsibility, innovation and construction firm performance as a moderating role of construction firm's competitive position. Using the multiple regression model analysis on 75 construction firms in China with an annual observation of 292, the study found that corporate social responsibility and innovation have a U-shaped impact on construction firms using the price-to-book ratio as measure of corporate financial performance. This indicates that corporate social responsibility and innovation can only exert influence on the financial performance of construction firms upon reaching a certain level. Moreover, Lee and Yang (2021) examined the impact of corporate social responsibility expenditure on firm profitability among Taiwan firms. The study employs panel smooth transition model which covers data between 2013 and 2017 and reports that corporate social responsibility related expenditure has a non-linear effect on profitability. Likewise, Liu, Saleem, Shabbir, Shahzad Shabbir, Irshad and Khan (2021) investigated the effects of corporate social responsibility and

financial technology on bank performance by using a dataset of Chinese banks between the period 2009 to 2018. Using regression models, the findings indicate that while corporate social performance indicators (governance, social and environment) have no significant impact on the return on assets, return on equity and nominal interest profit margin, there is evidence to show that governance and environmental related corporate social responsibility yield complementary-synergetic effects on bank performance. This simply implies that governance and environmental related CSR are well-coordinated and organized to promote bank performance. Additionally, corporate social responsibility has an inverted U-shape effect on bank return on assets while financial technology has a positive and significant impact on return on equity and nominal interest of profit margin.

Also, Shabbir, Aslam, Irshad, Bilal, Aziz, Abbasi and Zia (2020) evaluated the effect of corporate social responsibility on corporate performance of financial and non-financial firms in Pakistan. The study employs linear panel models of 350 firms covering periods between 2011 and 2017. The results report that while corporate social responsibility has a linear negative effect on return on capital, a non-linear U-shape nexus is reported from corporate social responsibility to accounting based performance implying that corporate social responsibility promotes firm performance in the long-run. Specifically, environmental and governance related corporate social responsibility strongly exhibits this non-linear relationship on firm performance. Again, Tunio, Jamali, Mirani, Das, Laghari and Xiao (2020) examined how corporate social responsibility disclosures affect bank financial performance while exploring the mediating role of employee productivity. Using a panel data framework comprising of 30 Chinese commercial banks between 2008 and 2019, the results suggest that while governance CSR significantly affect banking performance and employee productivity also promotes banking performance, a non-linear relationship is reported between the composite score of ESG with employee productivity on financial performance of banks. Furthermore, Fabozzi, Ng and

Tunaru (2022) investigated how corporate sustainability in the form of corporate social responsibility affect corporate financial performance and credit ratings in Japan. Employing panel regression analysis, the results show that corporate social responsibility has negative effects on accounting-base performance indicators while having a positive effect on stock market-based indicators. However, the quantile regression models exhibit non-linear patterns of CSR on performance and credit ratings.

In the context of cross-country studies, Farah, Li, Li and Shamsuddin (2021) evaluates the non-linear effect of corporate social responsibility on firm systematic risk while using operating leverage as medium/moderator through which corporate social responsibility affects firm risk. Employing a 2-stage least square panel model with firms from 43 countries between 2005 and 2017, their results suggest that an inverted U-shape nexus exist between corporate social responsibility and systematic risk of firms. This implies that initially risk increases with increase in corporate social responsibility and reduces after a certain threshold of corporate social responsibility. Similarly, Lin, Law and Azman-Saini (2019) used an innovative threshold estimation technique to evaluate the impact of corporate social responsibility on corporate financial performance and how that varies with market differentiation. The study employed a world automated dataset of 133 countries from 10 different regions between the period 2011-2017. The findings show that there is an inverted V-shaped relationship between corporate social responsibility and corporate financial performance. This indicates that when there is an increase in corporate social responsibility beyond a certain threshold/level it results in a declining effect on corporate financial performance.



4.2.2 Gaps and Hypotheses Development

From the theoretical and empirical review, there are many evidences to show that a non-linear relationship exists between corporate social responsibility and corporate performance. Interestingly, empirical evidence of non-linear relationship between corporate social responsibility and corporate performance is limited if not non-existent. Additionally, existing studies fail to employ all the three indicators of corporate social responsibility; environmental, social and governance (ESG) to examine which of them has non-linear effect on corporate performance especially in the context of Africa. Given the lack of empirical evidence on the non-linearity effect of CSR on corporate performance while several evidences exist in other regions, there is an urgent need to have such empirical evidence in the context of Africa to help improve our understanding and corporate policy on the appreciable levels/thresholds of CSR that significantly affect corporate performance. In view of this, this study hypothesizes that:

H1: There is no non-linear relationship between corporate social responsibility indicators (ESG) on corporate performance in Africa.

Similarly, following the empirical studies on corporate social responsibility and corporate performance, there are no indications of synergetic effects of corporate social responsibility indicators on corporate performance especially in the context of Africa. Put differently, the empirical literature is silent on whether undertaking two corporate social responsibility activities at the same time yields desirable effects on corporate performance. The absence of such evidence impedes our understanding of policy on how the CSR practice of undertaking two CSR activities at the same time influence corporate performance. Thus, there is an urgent need to have empirical evidence on the CSR policy practice of undertaking two CSR activities affect corporate performance to substantiate this policy practice. Hence, the study hypothesizes that:

H2: there is no synergetic/complementary effect between CSR activities on corporate performance in Africa.

One key novelty of these two hypotheses hinges on their ability to explore the non-linear and synergetic/complementary effects of CSR on corporate performance by delineating corporate performance into shareholder and stakeholder profits following prior studies (DesJardine et al., 2023; Glambosky et al., 2023; Richards, 2023). Thus, prior studies through the shareholder and stakeholder theories differentiate between shareholder profits from stakeholder profit. That is, the study brings to fore the non-linear and synergetic effect of CSR on shareholder and stakeholder profits for the first time to the best of our knowledge, especially in the context of Africa. Finally, while the above hypotheses examine the short-run non-linear and synergetic effects of CSR on shareholder and stakeholder profits, for the purpose of deepening our understanding of CSR and justifying CSR expenditure, the study further presents evidence of long-run effect of CSR on shareholder and stakeholder profits. This evidence is engineered to provide justification for CSR spending and hence this study hypothesizes that:

H3: there is no long-run effect of CSR on shareholder and stakeholder profits.

4.3 Methodology and Data

4.3.1 Data, and research strategy

The study employs secondary data sourced from the MachameRatios database, encompassing 369 publicly listed firms across diverse sectors in Africa. The MachameRatios is a digital library network offering over 15 years of daily and annual research data on African securities exchanges, including stocks, bonds, ETFs, commodities, forex, and cryptocurrencies. The dataset covers the period from 2006 to 2020 and includes essential firm performance, and corporate social responsibility (CSR) variables pertinent to the analysis. Prior to conducting

regression estimation, the data underwent a comprehensive cleaning process to ensure accuracy and consistency. Missing values were addressed using appropriate imputation techniques, while duplicate observations and outliers were identified and either corrected or winsorized as necessary. The panel structure was verified to ensure the correct alignment of firm-year observations, and necessary transformations, such as logarithmic conversions for skewed variables, were applied. These pre-processing steps enhance the reliability of the empirical analysis and mitigate potential estimation biases. In line with Baltagi (2015), panel data is considered superior to traditional time series and cross-sectional data, as it enhances the reliability and robustness of empirical findings. Panel data allows for the control of omitted variable bias and facilitates the analysis of both long-term (temporal) and short-term (entity-specific) effects, thereby addressing limitations associated with other data structures (Imbens & Wooldridge, 2009). This methodological approach strengthens the validity of the study's findings by providing a more comprehensive assessment of governance-performance dynamics across different sectors.

4.3.2 Estimation Technique

In this study, the dynamic GMM panel data strategy ($Y_{it} = \alpha Y_{it-1} + \gamma_t + \beta X_{it} + \varepsilon_{it} \dots$ Eq. 1) is employed to explore the link between CSR and corporate performance. While the econometric literature projects that the panel strategy provides more convincing and reliable results compared to the traditional time series and cross-sectional strategies (Baltagi, 2015; Baltagi and Baltagi, 2008) and has the ability to deal with omitted variable biases (Imbens and Wooldridge, 2009), the dynamic GMM is employed for several reasons. First for the purpose of achieving the objective on estimating long-run effects of CSR on corporate performance, the dynamic GMM offers that ability (see Quadrat-Ullah and Nevo, 2021; Canh, Schinckus and Thanh, 2019) and expresses it as $\beta_k \div [1 - \phi] \dots$ (Eq. 2). That is, the long-run estimation is obtained by dividing the significant coefficient of CSR (β_k) by one minus significant

coefficient of the lag of the dependent variable ($[1 - \phi]$). Similarly, following the econometric literature on dynamic GMM models, the GMM is used to control for the presence of cross-sectional dependency (see appendix 4.1 in the appendices) and high persistence in dependent variable (see appendix 4.2 in the appendices) which are present in the dataset (Tchamyou, Erreygers and Cassimon, 2019). Also, for data structures in which the number of entities (firms) is greater than the number of time series (years), the GMM provides more convincing, robust and reliable results (Tchamyou, 2020; Asongu, le Roux, Nwachukwu and Pyke, 2019). Again, to resolve the potential endogeneity problem caused by reverse causality which may exist between CSR and corporate performance, the GMM offers an easier alternative means of resolving such endogeneity other than using the instrumental variable model approach (Roodman, 2009). To obtain the non-linear threshold point of CSR on corporate performance, the approach partial derivatives are taken with respect to CSR and equated to zero and solved to obtain $-\beta_i/2*\beta_j \dots\dots$ (Eq. 3) (see Lind and Mehlum, 2010). It is imperative to state that one of the key limitations of the GMM approach is that, it can generate a large number of instruments, particularly in system GMM, which may overfit the model and weaken the validity of the moment conditions. In an effort to cure this limitation, an instrument reduction technique by way of collapsing instruments (Roodman, 2009) and selecting a subset of instruments to maintain an optimal instrument count was employed.

In response to growing academic and managerial interest in how different dimensions of Corporate Social Responsibility (CSR) interact to influence firm profitability, this study employs a structured approach to test for synergetic and complementary effects among Environmental (E), Social (S), and Governance (G) CSR indicators. The aim is to determine whether combinations of these CSR dimensions produce joint effects on profitability that are greater (synergies) or different in direction (complementarities) than their individual effects.

The concept of synergy in CSR literature refers to a situation where the joint implementation of two CSR initiatives yields a combined effect on firm performance that exceeds the sum of their individual effects (Porter & Kramer, 2011; Surroca et al., 2010). Complementarity, on the other hand, implies that the effect of one CSR dimension depends on the presence of another, such that they work together in ways that modify each other's influence (Hull & Rothenberg, 2008).

To empirically test for these effects, this study adopts an interaction term framework within a dynamic Generalized Method of Moments (GMM) estimation. Specifically, interaction terms were constructed by multiplying the standardized values of relevant CSR components (e.g., Social \times Governance, Social \times Environmental). These interaction terms were then introduced into the profitability regression models alongside their corresponding main effects. In this regard, a significantly positive coefficient on the interaction term indicates a synergetic effect—i.e., the joint implementation of both CSR activities enhances profitability more than their individual contributions. Conversely, a significantly negative coefficient may signal that combined CSR efforts are counter-productive or exhibit diminishing returns.

This method follows established practices in strategic management and CSR research (e.g., Barnett, 2007; Luo & Bhattacharya, 2009), and aligns with recent methodological advancements in examining joint strategic effects (Hawn & Ioannou, 2016; Canh, Schinckus & Thanh, 2019).⁷

To account for sector-specific effects, interaction terms were estimated separately for each sector, ensuring that the analysis reflects the contextual differences in CSR impact as emphasized by the contextual theory of difference (Stephens et al., 2019).

Finally, robustness checks—including model re-estimation without interaction terms and the inclusion of time and sector dummies—were conducted to validate the consistency of the synergy and complementarity results.

Following prior studies (Alarussi and Gao, 2021), the dynamic GMM model is expressed as:

Non-linear Effect of CSR on Stakeholder and shareholder profitability [Models 4-5]

$$ROA_{i,t} = \beta_1 ROA_{i,t-1} + \beta_2 CSR_{i,t} + \beta_3 [CSR_{i,t} * CSR_{i,t}] + \beta_4 CEODUA_i + \beta_5 BZISE_{it} + \beta_6 BGEN_{i,t} + \beta_7 BIND_{i,t} + \beta_8 AUDITIND_{i,t} + \beta_9 LIQ_{i,t} + \beta_{10} TANG_{i,t} + \beta_{11} LEV_{i,t} + \beta_{12} FSIZE_{i,t} + \beta_{13} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (4)

$$ROE_{i,t} = \beta_1 ROE_{i,t-1} + \beta_2 CSR_{i,t} + \beta_3 [CSR_{i,t} * CSR_{i,t}] + \beta_4 CEODUA_i + \beta_5 BZISE_{it} + \beta_6 BGEN_{i,t} + \beta_7 BIND_{i,t} + \beta_8 AUDITIND_{i,t} + \beta_9 LIQ_{i,t} + \beta_{10} TANG_{i,t} + \beta_{11} LEV_{i,t} + \beta_{12} FSIZE_{i,t} + \beta_{13} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (5)

Synergetic and Complementarity Effects of CSR indicators on Stakeholder profitability [Models 6-8]

$$ROA_{i,t} = \beta_1 ROA_{i,t-1} + \beta_2 CSRSOC * CSRENV_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (6)

$$ROA_{i,t} = \beta_1 ROA_{i,t-1} + \beta_2 CSRSOC * CSRGOV_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (7)

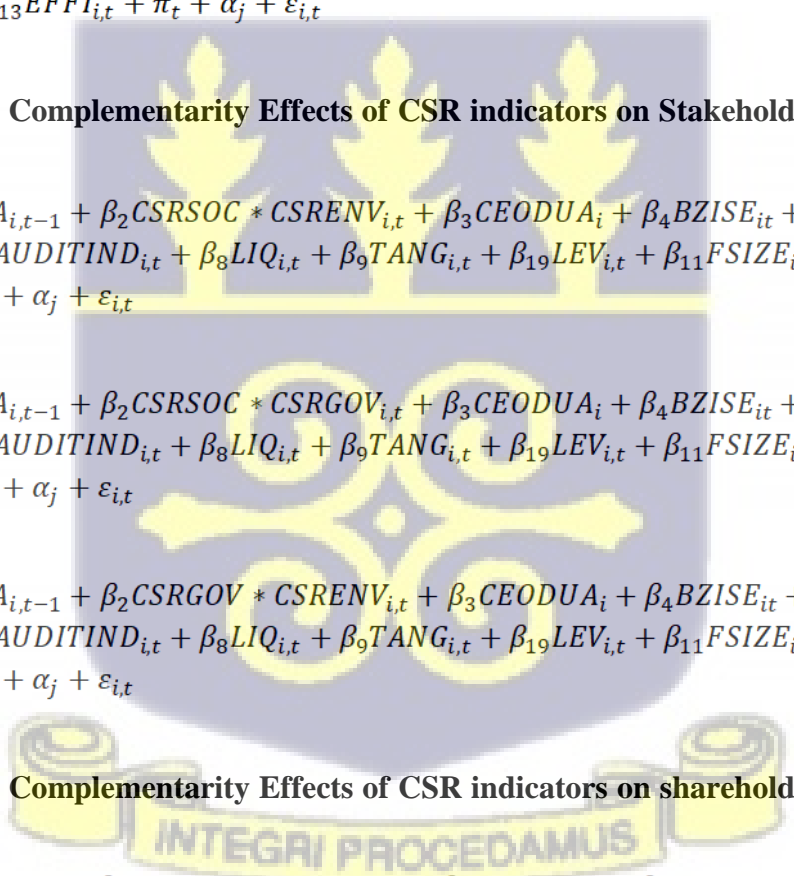
$$ROA_{i,t} = \beta_1 ROA_{i,t-1} + \beta_2 CSRGOV * CSRENV_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (8)

Synergetic and Complementarity Effects of CSR indicators on shareholder profitability [Models 9-11]

$$ROE_{i,t} = \beta_1 ROE_{i,t-1} + \beta_2 CSRSOC * CSRENV_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (9)



$$ROE_{i,t} = \beta_1 ROE_{i,t-1} + \beta_2 CSRSOC * CSRGOV_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (10)

$$ROE_{i,t} = \beta_1 ROE_{i,t-1} + \beta_2 CSRGOV * CSRENV_{i,t} + \beta_3 CEODUA_i + \beta_4 BZISE_{it} + \beta_5 BGEN_{i,t} + \beta_6 BIND_{i,t} + \beta_7 AUDITIND_{i,t} + \beta_8 LIQ_{i,t} + \beta_9 TANG_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} FSIZE_{i,t} + \beta_{12} EFFI_{i,t} + \pi_t + \alpha_j + \varepsilon_{i,t}$$

..... (11)

Models 4-5 deals with the non-linear effects of CSR on stakeholder and shareholder respectively. Similarly, Models 6-8 and 9-11 present results on the synergetic and complementarity effects on stakeholder and shareholder profitability, respectively.

4.3.3 Variable definition and measurement

From the models, stakeholder and shareholder profitability are dependent variables and represented with return on assets and return on equity respectively. Following prior studies (Inkpen & Sundaram, 2022; Janahi et al., 2023) return on assets is a reflection of stakeholder profitability while return on equity is a reflection of shareholder profitability and hence this study implements stakeholder and shareholder profitability as such. In terms of corporate social responsibility, three (3) indicators including social (CSRSOC), environmental (CSRENV) and governance (CSRGOV) responsibilities are employed. It is anticipated that CSR indicators will have a non-linear inverted U-shape effect on both stakeholder and shareholder profitability following prior studies (Zheng et al., 2020; Rouine, Ammari & Bruna, 2022; Alfalih, 2022; Lahouel et al., 2022). It is argued that CSR promotes profitability depending on the costs and benefits associated with CSR activities. When CSR cost exceeds its benefits, a negative nexus is expected between CSR and profitability and vice versa. In view of this, this present study argues that initially, CSR may promote profitability because its cost is lower while extreme levels of CSR may dampen profitability because its cost outweighs its benefits (Zheng et al., 2022; Lahouel et al., 2022). Similarly, a positive-synergetic effect is expected between CSR

activities and profitability when CSR activities are properly aligned, managed, coordinated and implemented. However, a negative-synergetic effect is expected between CSR activities and profitability when CSR activities have substitutive effects. Hence, CSR is expected to have non-linear, synergetic and complementary effects on both stakeholder and shareholder profits.

The situation where the CEO doubles as the board chairperson (CEODUA) is regarded as a weak governance structure because it reflects concentration of corporate power and is captured as a dummy which assume the value 1 when the CEO is the same as the board chairperson and otherwise 0 (Bansal et al., 2023; Gonçalves et al., 2022; Jebran et al., 2023). Thus, a negative effect is expected between CEO duality and profitability. Board size (BSIZE) is measured as the number of board members and is expected to promote profitability because board members employ the skills, competencies and capabilities to advance the attainment of corporate goals (Cheng, 2008). Board gender (BGEN) is captured as the number of female board members to the total board members. Female board members are expected to promote profitability because females present unique and diverse skills and competencies that complement that male board members (Arayssi & Jizi, 2019). However, the critical mass theory advance that the effect of female board can be positive or negative depending on their number on the board. Board independence (BIND) measures the ability of the board to be independent of pressures from internal/executive board members and is measured as the number of non-executive members. The literature posits that non-executive members inject new ideas and scrutinizes the performance of executive board members and this promote profitability. However, when scrutiny becomes antagonistic then, non-executive members may impede profitability (Dahya and McConnell, 2005). Audit independence (AUDITIND) captures the degree to which the board audit committee is autonomous in scrutinizing the financials of the firms to prevent misappropriation of funds. It is expected to promote corporate performance. In terms of

liquidity (LIQ) which is measured as cash to total current assets, a negative nexus is expected between liquidity and profitability. This is supported by the trade-off concept between liquidity and profitability (Bibi & Amjad, 2017; Rehman et al., 2015). Following the going concern concept in accounting, tangibility (TANG) which represents fixed assets is argued to be the economic resources of a firm and expected to assist the operations of a firm to create value. Hence, a positive relationship may exist between tangibility and profitability. However, a negative nexus may exist between tangibility and profitability when fixed assets are obsolete and attract higher repairs and maintenance costs. Financial leverage (LEV) represents the use of debt financing option by firms to supplement equity capital. Leverage may have a positive effect on profit because it complements equity capital to assist in financing the firm whereas a negative effect may exist when the interest charged on the debt is high (see Dalci, 2018; Yoon & Jang, 2005; Baker, 1973). Firm size (FSIZE) is measured with the natural log of total assets and it is argued to either have positive or negative effects on profitability following the economies of scale and diseconomies of scale concepts, respectively (see Alarussi and Gao, 2021; Dogan, 2013; Hall & Weiss, 1967). Following the profit determination process using the income statement method, operating cost (EFFI) is deducted from revenue to arrive at profit. Hence, a negative relationship is expected between cost and profit. The period selected for the study and the number of firms constituting the sample were based on data availability.

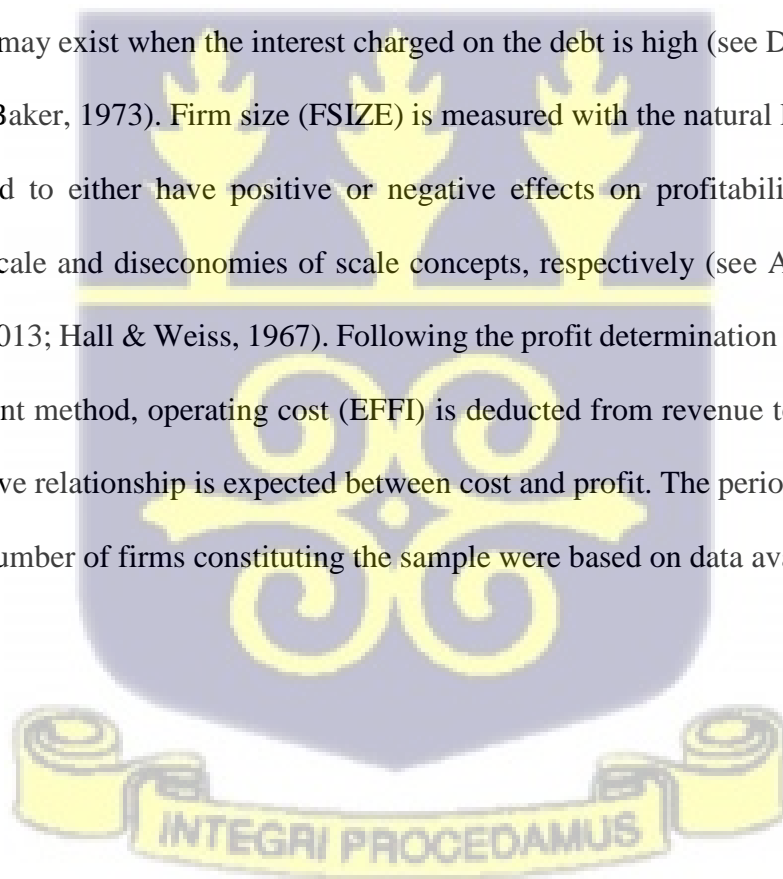


Table 4. 1 Variable description and measurement

Variable	Measurement
Response variable-Profitability	
Return on equity (ROE)	Net Profit divided by total shareholders' equity
Return on asset (ROA)	Profit before interest and tax divided by total assets
Explanatory variables-CSR	
Environmental CSR index (ENV)	Environmental CSR index takes account of issues of the environment as captured in the annual reports of the firms. It represents accountability on issues of the environment as addressed by the firm. Examples of areas of interest as per GRI considered for developing the environmental CSR index include energy disclosure, biodiversity disclosure, water related disclosures, emission related disclosures, environmental reporting disclosures, and waste management disclosures.
Social CSR Index (SOC)	The social CSR index is developed by taking into account issues on the society as captured in the annual report of the firms. The index considers the various issues relating to the society as a whole as addressed and contained in the annual reports. To develop the index, the social issues considered include health and safety disclosures, customer and complaints disclosures, donations to external communities, human rights disclosures, product quality and safety disclosures, community development disclosures, and other philanthropic disclosures.
Governance CSR index (GOV)	This is an index formed through the consideration of issues relating to the internal governance and internal stakeholders of the firm as disclosed in the annual report of the firms. In developing the index, the areas considered include board remuneration disclosure, risk disclosures, disclosure of CEO role, disclosure on leadership ethics, disclosure on board composition, disclosure on executive composition, disclosure on transparency and reporting, and disclosures relating to stakeholder management and treatment.
Control variables	
Liquidity (LIQ)	Current assets divided by current liabilities
Tangibility (TANG)	Property plant and equipment divided by total assets
Leverage (LEV)	Total liabilities/total assets
Firm size (FSIZE)	Natural log of total assets
Management efficiency (cost-to-income ratio) (ME)	Total operating cost divided by total revenue

CEO duality (CEO DUAL)	Binary variable which takes the value 1 if the same person occupies the position of CEO and board chairperson, otherwise 0.
Board size (BDSIZE)	Total number of directors on a board for a year
Board gender diversity (PFMOB)	Total number of females on board divided by the total number of directors on the board multiplied by 100
Board independence (BDIND)	Number of non-executive directors on board divided by the total number of directors on the board multiplied by 100
Audit committee independence (AUCIND)	Number of non-executive directors on the audit committee annually

Source: Author's work:

4.4 Empirical Results and Discussions

In this section, the main results and its auxiliary analysis and tests are reported and discussed.

4.4.1 Descriptive statistics

First the auxiliary analysis and tests are presented and discussed briefly. In Table 4.2, outliers which have the potential to compromise the quality of the results are screened for using the mean, minimum, maximum and standard deviation. From the table, there are no evidences of outliers. Again, natural logs and ratio analysis are performed to ensure normality of data and to reduce outlier effects.

Table 4. 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	6645	.108	.207	-.961	.994
ROE	6645	.148	.304	-.968	.997
CSRSOC	5888	.365	.219	0	1
CSRENV	5961	.149	.21	0	1
CSRGOV	5972	.469	.194	0	1
LIQ	6186	1.221	15.663	-.66	1147.23
TANG	6486	45.107	31.865	-3.95	100
LEV	6486	67.662	704.654	-5.24	55738.629
FSIZE	5910	5.356	.932	2.72	8.28
COST	6463	25.041	.009	25.041	25.737
CEODUAL	4598	.336	.472	0	1
BSZIE	6292	9.781	3.012	3	27
BGEN	6292	14.066	12.09	0	66.67
BIND	6250	72.11	13.158	25	100
AUDITIND	6232	79.845	25.585	0	120

4.4.2 Correlation result

Table 4.3 is used to check for the existence of multicollinearity but no evidence of multicollinearity is found following Kennedy (2008) that sets the multicollinearity threshold to 0.7. The correlation results (Table 4.3) reveal a range of statistically significant associations between key corporate social responsibility (CSR) variables, firm-level controls, and corporate profitability indicators (ROA and ROE). A strong positive correlation exists between stakeholder (ROA) and shareholder (ROE) profitability ($r = 0.683, p < 0.05$), indicating that factors improving firm efficiency tend to benefit both stakeholder and shareholder interests. CEO duality shows a negative relationship with both ROA and ROE, suggesting that combining the roles of CEO and board chair may undermine governance effectiveness and profitability. Conversely, audit committee independence is positively associated with profitability, reinforcing the importance of strong internal oversight mechanisms. Among the control variables, liquidity exhibits a positive correlation with profitability, while tangibility, leverage, and cost efficiency are negatively associated, reflecting the resource allocation trade-offs and risk structures firms face. However, while these bivariate relationships offer useful preliminary insights, they do not account for endogeneity, sectoral heterogeneity, or dynamic effects. Thus, more robust methods such as the GMM estimation are employed in later sections to assess the true causal influence of CSR activities on firm profitability.

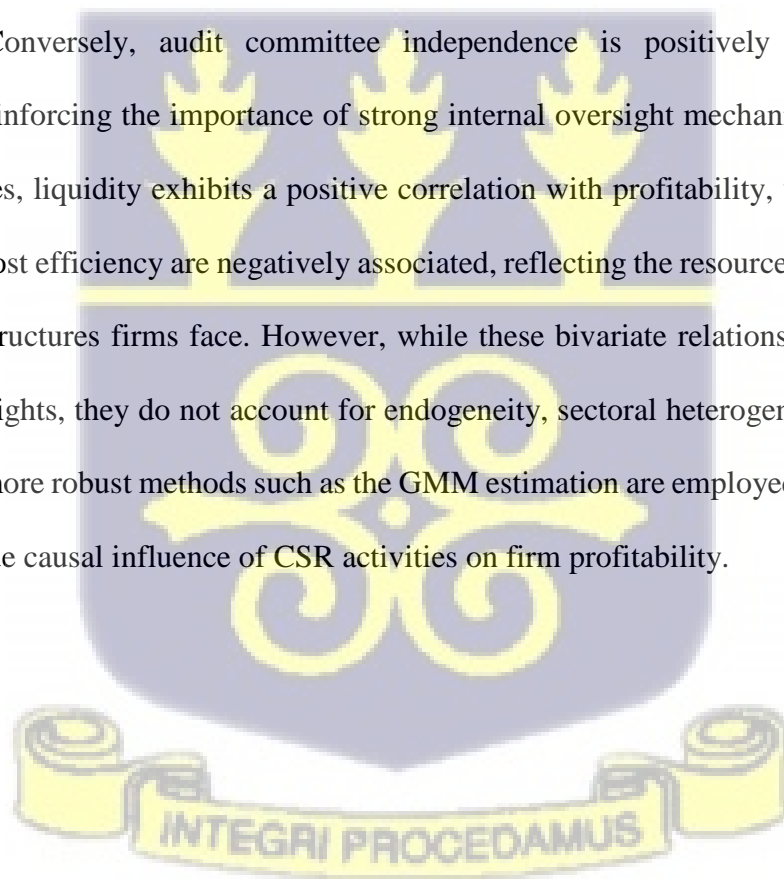


Table 4. 3: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) ROA	1.000														
(2) ROE	0.683*	1.000													
(3) CSRSOC	0.056*	0.033*	1.000												
(4) CSRENV	0.054*	0.018	0.515*	1.000											
(5) CSRGOV	-0.023*	-0.005	0.494*	0.460*	1.000										
(6) LIQ	0.038*	0.020	-0.024*	-0.030*	0.009	1.000									
(7) TANG	0.015	-0.139*	0.070*	0.070*	0.039*	-0.039*	1.000								
(8) LEV	-0.104*	-0.044*	-0.018	0.006	0.003	-0.003	-0.022*	1.000							
(9) FSIZE	-0.011	0.087*	0.399*	0.477*	0.460*	-0.030*	-0.172*	0.018	1.000						
(10) COST	-0.004	-0.004	0.024*	0.022*	0.027*	0.000	0.018	0.000	0.008	1.000					
(11) CEODUAL	-0.101*	-0.073*	-0.115*	-0.350*	-0.359*	-0.005	-0.138*	-0.006	-0.278*	-0.011	1.000				
(12) BSIZE	-0.002	0.039*	0.324*	0.373*	0.298*	-0.014	-0.095*	-0.013	0.604*	-0.008	-0.078*	1.000			
(13) BGEN	0.016	0.006	0.204*	0.260*	0.283*	-0.003	-0.039*	0.056*	0.238*	0.001	-0.180*	0.144*	1.000		
(14) BIND	-0.028*	-0.002	-0.014	0.078*	0.057*	0.017	0.066*	0.012	0.062*	0.003	-0.262*	0.108*	0.077*	1.000	
(15) AUDITIND	0.085*	0.070*	0.084*	0.255*	0.232*	0.012	0.085*	0.009	0.237*	0.011	-0.779*	0.091*	0.129*	0.259*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4.4.3 Regression results and discussion

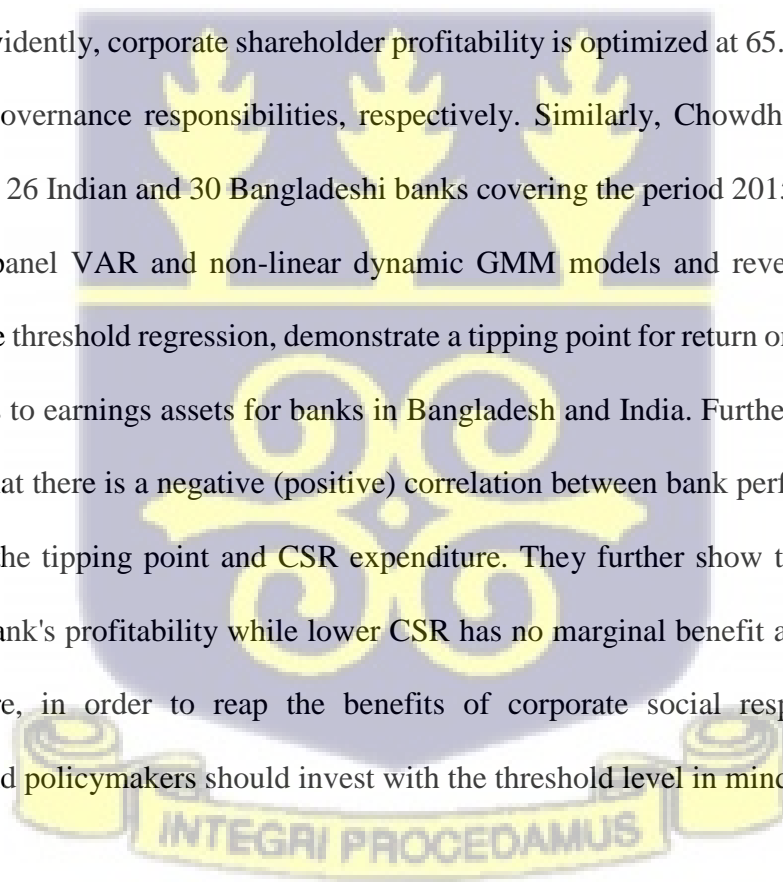
The main results are reported in tables 4.5 and 4.6 and represent the link between CSR and stakeholder and shareholder profitability. While Table 4.5 controls for both technological and industry effects, Table 4.6 controls for only presents results on the nexus between CSR and shareholder profitability. In each Table, 12 models are presented of which the first six of the 12 models report on the nexus between CSR and stakeholder while the last six report on link between CSR and shareholder profitability. The results are presented and discussed based on the hypotheses of the study:

4.4.3.1 Existence of Non-linear Threshold Effect of CSR on Profitability

Examining the effect of CSR on corporate stakeholder and shareholder profitability, it is observed that a significant non-linear nexus exists for social (CSRSOC) (Model 7) and governance (CSRGOV) (Model 9) corporate social responsibilities on only corporate shareholder profitability. The non-linear effects of both social and governance corporate social responsibilities exhibit inverted U-shape effects indicating that initial levels of both social and

governance corporate social responsibilities promotes corporate shareholder profitability but reduces corporate shareholder profitability at extreme levels of social and governance corporate social responsibilities. This finding supports the evidence of prior studies (Zheng et al., 2020; Rouine, Ammari & Bruna, 2022; Alfalih, 2022; Lahouel et al., 2022) that show that corporate social responsibility enhances profitability below certain thresholds of corporate social responsibility. The finding shows that beyond a certain threshold of CSR, CSR may be injurious to corporate shareholder profitability.

Using the threshold computation by Lind and Mehlum (2010) as indicated in equation 3, it is observed that the threshold points beyond which social and governance corporate social responsibility may be harmful to corporate shareholder profitability are 65.41% and 56.37%, respectively. Evidently, corporate shareholder profitability is optimized at 65.41% and 56.37% of social and governance responsibilities, respectively. Similarly, Chowdhury et al. (2024) using data from 26 Indian and 30 Bangladeshi banks covering the period 2015 and 2021, They employed the panel VAR and non-linear dynamic GMM models and revealed a U-shaped association. The threshold regression, demonstrate a tipping point for return on equity, Tobin's-Q, and earnings to earnings assets for banks in Bangladesh and India. Furthermore, this study demonstrates that there is a negative (positive) correlation between bank performance prior to and following the tipping point and CSR expenditure. They further show that optimal CSR improves the bank's profitability while lower CSR has no marginal benefit and instead raises costs. Therefore, in order to reap the benefits of corporate social responsibility, bank management and policymakers should invest with the threshold level in mind.



4.4.3.2 Existence of Synergetic-Complementarity Effects of CSR on Corporate Profitability

Examining the synergetic and complementary effects of corporate social responsibilities on corporate stakeholder and shareholder profitability, the study follows prior studies that use the sign in front of the interactive term to determine synergies and complementarities (Luh et al., 2023; Kriese et al., 2021; Brambor et al., 2006). It results show that synergetic and complementary effects exist between social and governance corporate social responsibility on corporate shareholder profitability (Model 12) and between social and environmental corporate social responsibilities on corporate stakeholder profitability (Model 16). These show that undertaking social and governance corporate social responsibilities together and social and environmental corporate social responsibilities together produces synergetic-complementary effects that enhance the profitability of shareholders and stakeholders, respectively. These suggest social and environmental CSR and governance CSR are well aligned, coordinated and managed to yield the desirable synergetic-complementary effects on stakeholder and shareholder profitability respectively. Similar findings were reached by Oh et. al. (2018) investigated whether different governance frameworks support CSR in a complementary or alternative manner. Through the use of a panel sample of American companies from 2004 to 2010, we discovered that various governance mechanisms mostly serve as stand-ins for CSR. Our results imply that various combinations of governance structures can provide a comparable degree of CSR. Our research advances the theoretical and practical domains of corporate governance and corporate social responsibility. This result contributes to novel insights to the CSR-corporate performance nexus by indicating which CSR activities are well aligned and coordinated to enhance corporate performance.

4.4.3.3 Existence of Long-run non-linear and synergetic Effects on Corporate Profitability

In examining for long-run effects synergetic and threshold effects of CSR on the profitability of stakeholder and shareholders, the study employs the approach of prior studies as indicated in equation 2 (Qudrat-Ullah & Nevo, 2021; Canh, Schinckus & Thanh, 2019). The results show that the synergetic and complementary effects between social and governance CSR (Table 4.4) on shareholder profits and social and environmental CSR on stakeholder profit (Table 4.4) that exist in the short-run also exist in the long-run. This show that the synergetic and complement effect of CSR activities do not only affect the profits of stakeholders and shareholders in the short-run but also in the long-run. Thus, while corporate entities can benefit from well aligned and coordinated CSR activities, the effects are high in the long-run compared to the short-run. Edjoukou et al. (2023) found that with the exception of ROE, CSRD has a long-term positive correlation with every profitability measure. Therefore, the results demonstrate that CSR initiatives do not provide results right away. CSR initiatives have a favourable impact on a company's financial success in the years that follow their implementation. Therefore, in order to produce significant profit, managers should be conscious that social practices should be an integral element of the overall corporate strategy.

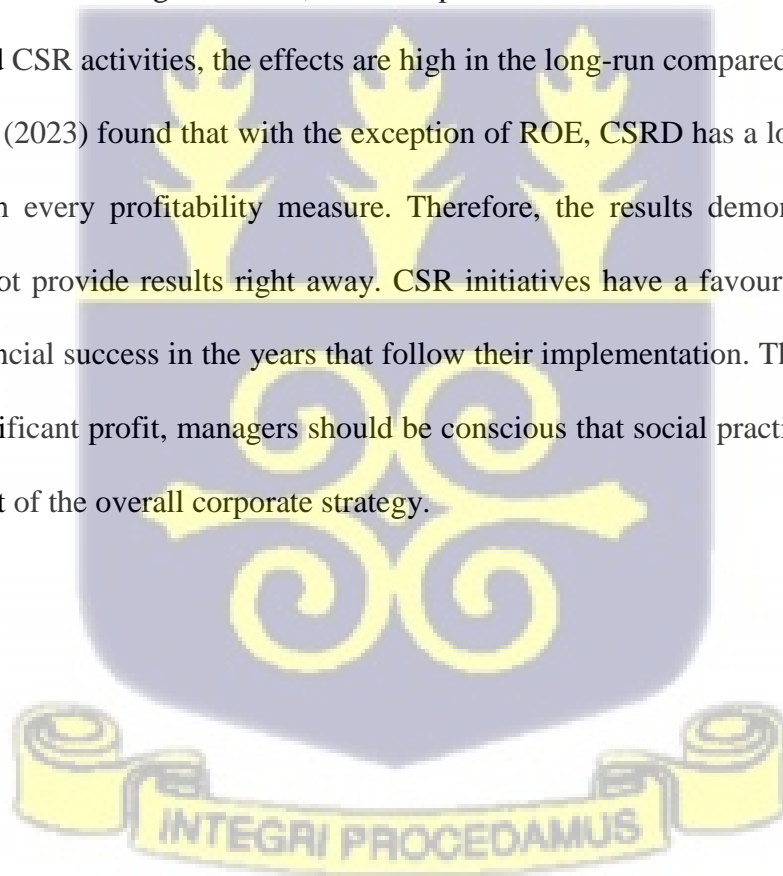


Table 4. 4: Long-Run Synergetic and Threshold Effects of CSR Activities on Corporate Profitability

Effect Type	CSR Components	Profitability Measure	Formula	Coefficient	Std. Error	z	P>z	95% Conf. Interval
Synergetic Effects	Social × Governance	Shareholder (ROE)	$(b[\text{gov} \times \text{soc}]) / (1 - b[l.\text{roe}])$	0.11	0.055	1.98	0.048*	0.001 - 0.218
	Environmental × Social	Stakeholder (ROA)	$(b[\text{env} \times \text{soc}]) / (1 - b[l.\text{roanew}])$	0.093	0.041	2.26	0.024*	0.013 - 0.174
	Social × Governance	Shareholder (ROE-alt)	$(b[\text{gov} \times \text{soc}]) / (1 - b[l.\text{roenew}])$	0.119	0.055	2.14	0.032*	0.010 - 0.227
Threshold Effects (Governance)								
	Governance (Linear)	Shareholder (ROE)	$(b[\text{gov}]) / (1 - b[l.\text{roenew}])$	0.369	0.189	1.95	0.051	-0.742
	Governance (Squared)	Shareholder (ROE)	$(b[\text{gov} \times \text{gov}]) / (1 - b[l.\text{roenew}])$	-0.348	0.183	-1.9	0.057	-0.718
	Governance (Linear, Alt)	Shareholder (ROE)	$(b[\text{gov}]) / (1 - b[l.\text{roenew}])$	0.378	0.186	2.03	0.042*	0.014 - 0.742
	Governance (Squared, Alt)	Shareholder (ROE)	$(b[\text{gov} \times \text{gov}]) / (1 - b[l.\text{roenew}])$	-0.335	0.178	-1.88	0.06	-0.698
Threshold Effects (Social)								
	Social (Linear)	Shareholder (ROE)	$(b[\text{soc}]) / (1 - b[l.\text{roenew}])$	0.262	0.1	2.63	0.009* *	0.067 - 0.458
	Social (Squared)	Shareholder (ROE)	$(b[\text{soc} \times \text{soc}]) / (1 - b[l.\text{roenew}])$	-0.2	0.108	-1.86	0.064	-0.423

In terms of testing for the long-run threshold point effects (see Table 4.4) of CSR on corporate profitability, it is observed that long-run inverted U-shape effect exist just like in the short-run implying that beyond a certain threshold/level of governance and social CSR activities, it may dampen shareholder profitability. Interestingly, the long-run threshold points are similar to the short-run threshold points and exist for only corporate shareholder profitability. These provide indications that both stakeholders and shareholders seem to benefit in the short and long-run from synergetic effects social and governance CSR activities while the non-linear social and governance CSR activities exist for only shareholder profitability.

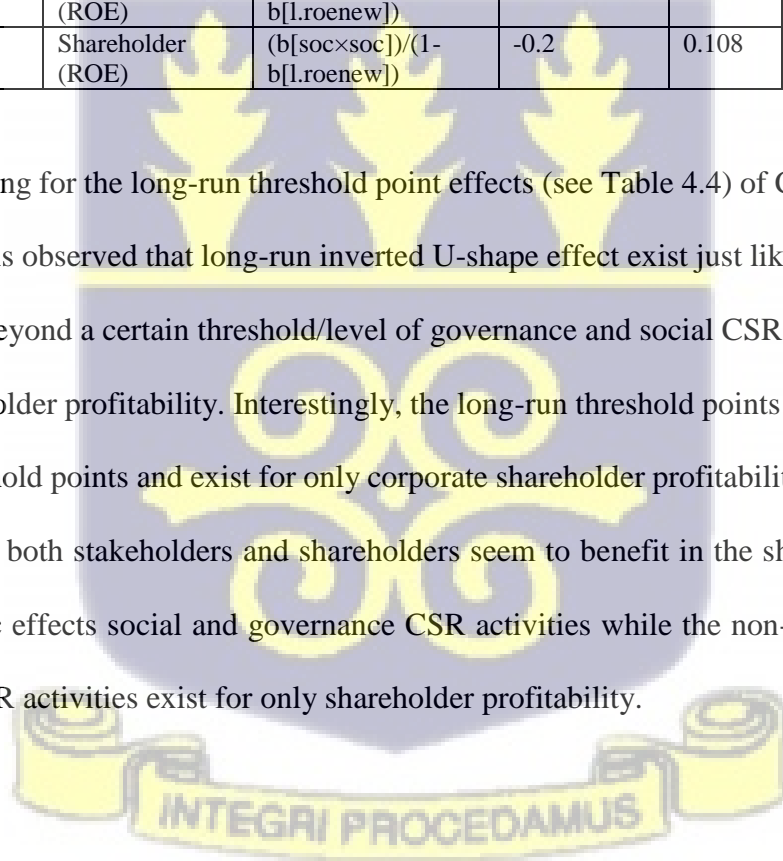


Table 4. 5 Effect of CSR on Corporate Stakeholder and Shareholder Profitability

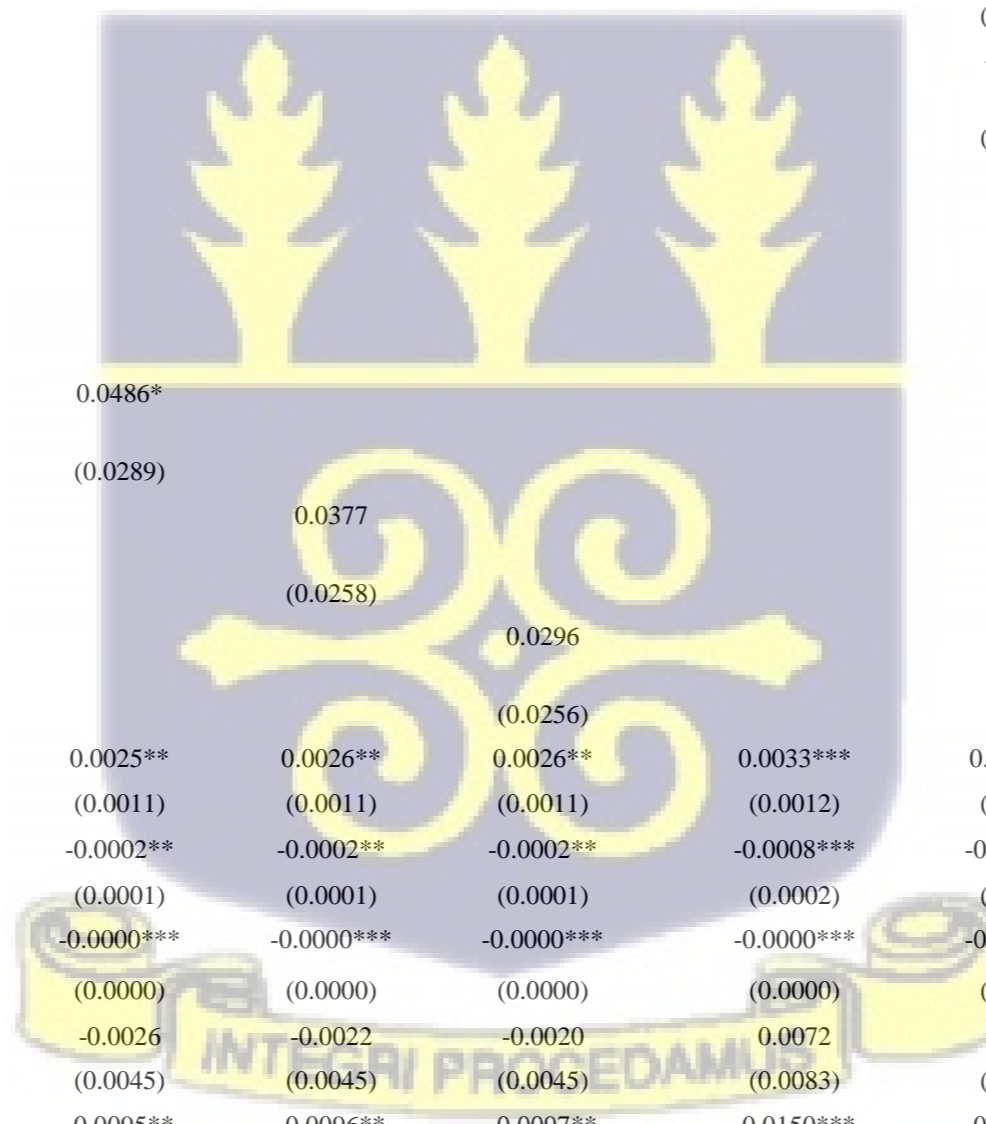
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Corporate Stakeholder Profitability						Corporate Shareholder Profitability					
L.ROA	0.4627** (0.1962)	0.4613** (0.1934)	0.4490** (0.1936)	0.4692** (0.1937)	0.4609** (0.1919)	0.4691** (0.1935)						
L.ROE							0.2520*** (0.0418)	0.2557*** (0.0423)	0.2552*** (0.0424)	0.2626*** (0.0441)	0.2555*** (0.0428)	0.2599*** (0.0426)
CSRSOC	0.0633 (0.0406)						0.1961*** (0.0755)					
c.CSRSOC#c.CSRSOC	-0.0559 (0.0398)						-0.1499* (0.0815)					
CSRENV		-0.0020 (0.0319)						0.0376 (0.0711)				
c.CSRENV#c.CSRENV		0.0338 (0.0483)						-0.0040 (0.1110)				
CSRGOV			0.0818 (0.0629)						0.2814** (0.1383)			
c.CSRGOV#c.CSRGOV			-0.0867 (0.0616)						-0.2496* (0.1329)			
c.CSRSOC#c.CSRENV				0.0212 (0.0228)						0.0357 (0.0414)		
c.CSRENV#c.CSRGOV					0.0144 (0.0221)						0.0565 (0.0429)	
c.CSRGOV#c.CSRSOC						0.0074 (0.0213)						0.0878** (0.0408)
LIQ	0.0026** (0.0011)	0.0026** (0.0011)	0.0027** (0.0011)	0.0026** (0.0011)	0.0026** (0.0011)	0.0026** (0.0011)	0.0033*** (0.0010)	0.0034*** (0.0011)	0.0034*** (0.0010)	0.0036*** (0.0009)	0.0034*** (0.0011)	0.0034*** (0.0010)
TANG	-0.0006*** (0.0002)	-0.0006*** (0.0002)	-0.0006*** (0.0002)	-0.0006*** (0.0002)	-0.0006*** (0.0002)	-0.0006*** (0.0002)	-0.0010*** (0.0003)	-0.0011*** (0.0003)	-0.0010*** (0.0003)	-0.0010*** (0.0003)	-0.0010*** (0.0003)	-0.0010*** (0.0003)
LEV	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)
FSIZE	0.0046 (0.0060)	0.0048 (0.0063)	0.0066 (0.0064)	0.0051 (0.0063)	0.0056 (0.0064)	0.0059 (0.0062)	0.0087 (0.0087)	0.0130 (0.0093)	0.0129 (0.0087)	0.0119 (0.0096)	0.0132 (0.0091)	0.0091 (0.0090)
COST	-0.0068** (0.0031)	-0.0068** (0.0031)	-0.0070** (0.0032)	-0.0067** (0.0031)	-0.0068** (0.0031)	-0.0068** (0.0031)	-0.0114** (0.0048)	-0.0112** (0.0049)	-0.0115** (0.0050)	-0.0094* (0.0048)	-0.0115** (0.0050)	-0.0106** (0.0046)
CEODUA	-0.0182** (0.0086)	-0.0159** (0.0079)	-0.0170** (0.0083)	-0.0160** (0.0081)	-0.0161** (0.0081)	-0.0166** (0.0082)	-0.0373** (0.0163)	-0.0292* (0.0163)	-0.0295* (0.0165)	-0.0316* (0.0167)	-0.0303* (0.0163)	-0.0304* (0.0166)
BSIZE	-0.0005 (0.0011)	-0.0005 (0.0010)	-0.0004 (0.0010)	-0.0004 (0.0010)	-0.0004 (0.0010)	-0.0004 (0.0010)	-0.0025 (0.0018)	-0.0023 (0.0018)	-0.0022 (0.0018)	-0.0018 (0.0019)	-0.0021 (0.0018)	-0.0024 (0.0019)
BGEN	0.0000 (0.0002)	0.0000 (0.0002)	0.0001 (0.0002)	0.0000 (0.0002)	0.0000 (0.0002)	0.0000 (0.0002)	0.0002 (0.0005)	0.0003 (0.0005)	0.0003 (0.0005)	0.0004 (0.0005)	0.0002 (0.0005)	0.0002 (0.0005)
BINDE	-0.0002 (0.0002)	-0.0002 (0.0002)	-0.0002 (0.0002)	-0.0002 (0.0002)	-0.0002 (0.0002)	-0.0002 (0.0002)	0.0000 (0.0004)	-0.0000 (0.0004)	-0.0000 (0.0004)	-0.0000 (0.0004)	-0.0000 (0.0004)	0.0000 (0.0004)
AUDITCOMIND	0.0000 (0.0001)	0.0000 (0.0001)	0.0000 (0.0001)	0.0000 (0.0001)	0.0000 (0.0001)	0.0000 (0.0001)	0.0001 (0.0002)	0.0001 (0.0002)	0.0001 (0.0002)	0.0002 (0.0002)	0.0001 (0.0002)	0.0001 (0.0002)
Constant	0.1015*** (0.0326)	0.1133*** (0.0356)	0.0876** (0.0339)	0.1103*** (0.0349)	0.1090*** (0.0351)	0.1051*** (0.0345)	0.1245* (0.0636)	0.1435** (0.0660)	0.0776 (0.0682)	0.1223* (0.0640)	0.1362** (0.0640)	0.1450** (0.0650)
Year Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Observations	4,209	4,213	4,213	4,209	4,213	4,209	4,209	4,213	4,213	4,209	4,213	4,209
Number of ccode	369	369	369	369	369	369	369	369	369	369	369	369
Turning Point							65.41%		56.37%			
Instruments	37	37	37	36	36	36	49	49	49	50	50	50
AR(1)	-4.08(0.00)	-4.12(0.00)	-4.07(0.00)	-4.15(0.00)	-4.14(0.00)	-4.15(0.00)	-7.38(0.00)	-7.39(0.00)	-7.40(0.00)	-7.34(0.00)	-7.37(0.00)	-7.41(0.00)
AR(2)	1.39(0.165)	1.39(0.164)	1.37(0.172)	1.41(0.158)	1.39(0.163)	1.41(0.159)	-0.10(0.921)	-0.08(0.932)	-0.08(0.933)	-0.04(0.966)	-0.09(0.929)	-0.07(0.948)
Sargan	0.53(0.467)	0.45(0.504)	0.41(0.523)	0.51(0.477)	0.47(0.495)	0.53(0.467)	37.35(0.00)	40.92(0.00)	41.19(0.00)	49.91(0.00)	43.24(0.00)	43.07(0.00)
Hansen	0.26(0.609)	0.22(0.640)	0.20(0.655)	0.25(0.618)	0.23(0.635)	0.26(0.610)	13.9(0.381)	14.67(0.328)	14.56(0.336)	21.37(0.125)	15.80(0.395)	17.93(0.267)



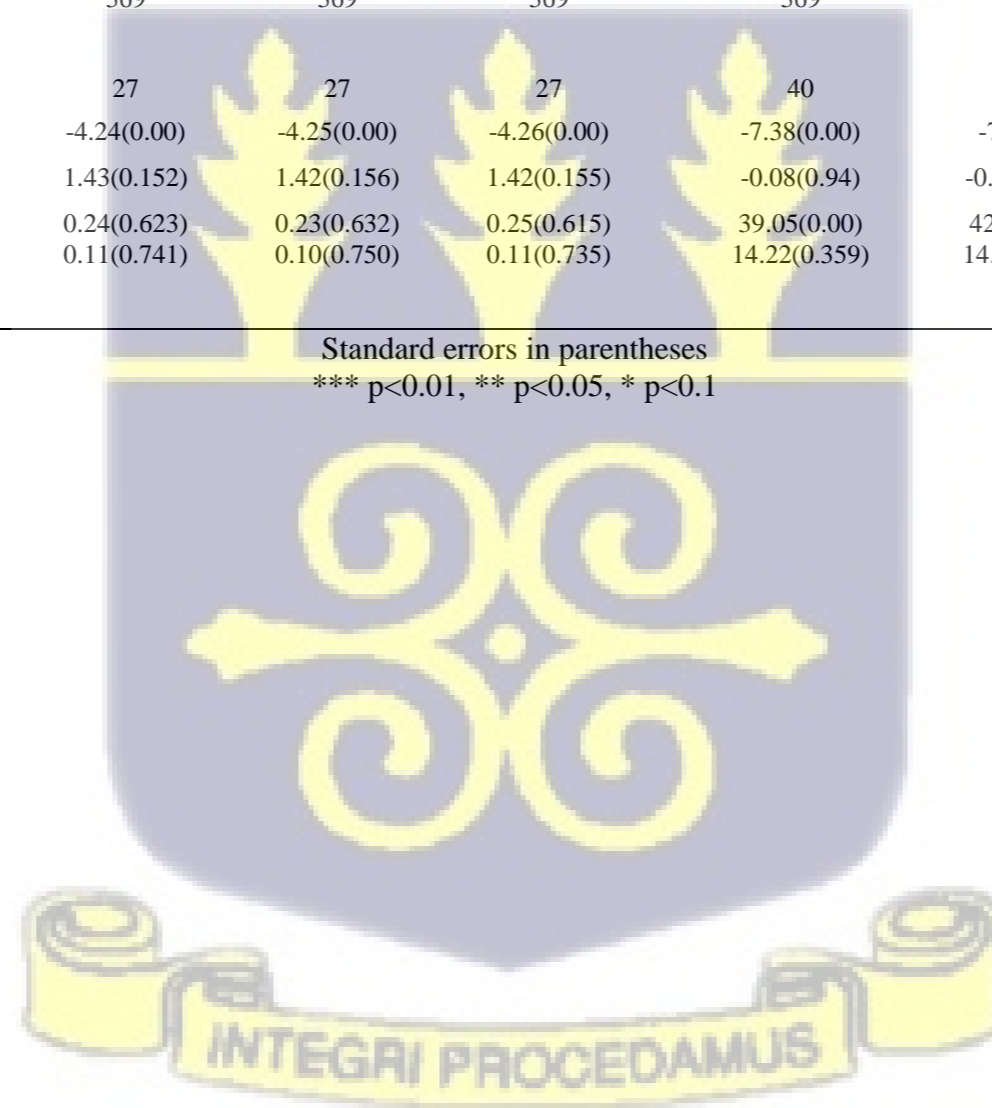
Table 4. 6 Effect CSR on Corporate Stakeholder and Shareholder Profitability

VARIABLES	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	Corporate Stakeholder Profitability						Corporate Shareholder Profitability					
L.ROA	0.4704** (0.1952)	0.4696** (0.1929)	0.4610** (0.1920)	0.4788** (0.1927)	0.4718** (0.1906)	0.4774** (0.1922)						
L.ROE							0.2559*** (0.0414)	0.2590*** (0.0419)	0.2583*** (0.0420)	0.2627*** (0.0432)	0.2593*** (0.0419)	0.2628*** (0.0419)
CSRSOC	0.0631 (0.0400)						0.1567** (0.0743)					
c.CSRSOC#c.CSRSOC	-0.0371 (0.0357)						-0.1029 (0.0807)					
CSRENV		0.0214 (0.0356)						0.0488 (0.0709)				
c.CSRENV#c.CSRENV		0.0187 (0.0509)						-0.0184 (0.1127)				
CSRGOV			0.0889 (0.0636)						0.2740* (0.1405)			
c.CSRGOV#c.CSRGOV			-0.0917 (0.0618)						-0.2582* (0.1360)			
c.CSRSOC#c.CSRENV				0.0486* (0.0289)						0.0523 (0.0410)		
c.CSRENV#c.CSRGOV					0.0377 (0.0258)						0.0563 (0.0417)	
c.CSRGOV#c.CSRSOC						0.0296 (0.0256)						0.0809** (0.0405)
LIQ	0.0026** (0.0011)	0.0026** (0.0011)	0.0026** (0.0012)	0.0025** (0.0011)	0.0026** (0.0011)	0.0026** (0.0011)	0.0033*** (0.0012)	0.0034*** (0.0012)	0.0034*** (0.0012)	0.0036*** (0.0011)	0.0034*** (0.0012)	0.0035*** (0.0011)
TANG	-0.0002** (0.0001)	-0.0002** (0.0001)	-0.0002* (0.0001)	-0.0002** (0.0001)	-0.0002** (0.0001)	-0.0002** (0.0001)	-0.0008*** (0.0002)	-0.0008*** (0.0002)	-0.0007*** (0.0002)	-0.0007*** (0.0002)	-0.0007*** (0.0002)	-0.0007*** (0.0002)
LEV	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)	-0.0000*** (0.0000)
FSIZE	-0.0030 (0.0044)	-0.0028 (0.0045)	-0.0005 (0.0048)	-0.0026 (0.0045)	-0.0022 (0.0045)	-0.0020 (0.0045)	0.0072 (0.0083)	-0.0105 (0.0086)	0.0109 (0.0085)	0.0082 (0.0088)	0.0109 (0.0085)	0.0077 (0.0085)
COST	-0.0097** (0.0038)	-0.0096** (0.0038)	-0.0100** (0.0040)	-0.0095** (0.0038)	-0.0096** (0.0038)	-0.0097** (0.0038)	-0.0150*** (0.0048)	-0.0149*** (0.0050)	-0.0154*** (0.0051)	-0.0136*** (0.0050)	-0.0150*** (0.0049)	-0.0143*** (0.0046)
CEODUA	-0.0226**	-0.0188**	-0.0218**	-0.0191**	-0.0193**	-0.0207**	-0.0339**	-0.0267	-0.0291*	-0.0302*	-0.0276*	-0.0285*



	(0.0100)	(0.0088)	(0.0095)	(0.0090)	(0.0090)	(0.0093)	(0.0166)	(0.0165)	(0.0167)	(0.0168)	(0.0164)	(0.0167)
Bsize	-0.0003	-0.0003	-0.0001	-0.0003	-0.0002	-0.0002	-0.0020	-0.0019	-0.0016	-0.0013	-0.0018	-0.0020
	(0.0010)	(0.0010)	(0.0010)	(0.0010)	(0.0010)	(0.0010)	(0.0018)	(0.0018)	(0.0018)	(0.0019)	(0.0018)	(0.0019)
BGEN	0.0000	0.0000	0.0001	-0.0000	0.0000	0.0000	0.0002	0.0002	0.0003	0.0003	0.0002	0.0002
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0005)	(0.0005)	(0.0005)	(0.0005)	(0.0005)	(0.0005)
BINDE	-0.0002	-0.0003	-0.0003	-0.0003	-0.0003	-0.0002	0.0000	-0.0001	-0.0000	-0.0001	-0.0001	0.0000
	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)
AUDITCOMIND	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0002	0.0001	0.0001	0.0002	0.0002	0.0002
	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
Constant	0.1143***	0.1258***	0.0951***	0.1241***	0.1228***	0.1181***	0.1204**	0.1357**	0.0772	0.1313**	0.1325**	0.1323**
	(0.0331)	(0.0362)	(0.0327)	(0.0360)	(0.0353)	(0.0347)	(0.0553)	(0.0565)	(0.0588)	(0.0570)	(0.0558)	(0.0555)
Year Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,209	4,213	4,213	4,209	4,213	4,209	4,209	4,213	4,213	4,209	4,213	4,209
Number of ccode	369	369	369	369	369	369	369	369	369	369	369	369
Turning Point									53.06%			
Instruments	22	28	28	27	27	27	40	40	40	41	41	41
AR(1)	-4.17(0.00)	-4.19(0.00)	-4.19(0.00)	-4.24(0.00)	-4.25(0.00)	-4.26(0.00)	-7.38(0.00)	-7.4(0.00)	-7.4(0.00)	-7.35(0.00)	-7.41(0.00)	-7.42(0.00)
AR(2)	1.4(0.162)	1.41(0.158)	1.39(0.163)	1.43(0.152)	1.42(0.156)	1.42(0.155)	-0.08(0.94)	-0.06(0.954)	-0.06(0.953)	-0.03(0.973)	-0.06(0.954)	-0.04(0.968)
Sargan	0.25(0.619)	0.2(0.653)	0.19(0.66)	0.24(0.623)	0.23(0.632)	0.25(0.615)	39.05(0.00)	42.89(0.00)	43.02(0.00)	50.06(0.00)	44.28(0.00)	44.68(0.00)
Hansen	0.11(0.737)	0.09(0.764)	0.09(0.77)	0.11(0.741)	0.10(0.750)	0.11(0.735)	14.22(0.359)	14.92(0.312)	14.77(0.322)	19.89(0.176)	15.3(0.430)	17.59(0.285)

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1



4.5 Conclusions, Policy Implications and Recommendations

This study examines the non-linear, synergies, complementarities and long-run effects of corporate social responsibility (CSR) on corporate profitability classified into corporate stakeholder profitability and corporate shareholder profitability. Motivated by the lack of empirical evidence on short-run and long-run non-linear and synergetic effects of CSR activities on corporate stakeholder and shareholder profitability, this present study provides such evidence to contribute to the CSR-corporate performance nexus particularly in the context of Africa. Specifically, this study attempts to (i) examine the existence of non-linear threshold effects of CSR activities on stakeholder and shareholder profitability, (ii) establish synergetic and complementarity effects of CSR activities on stakeholder and shareholder profitability and (iii) estimate and examine the existence of long-run synergetic and non-linear threshold effects of CSR activities on stakeholder and shareholder profitability. The study employs a dynamic GMM panel data strategy of 369 listed firms in Africa between 2006 and 2020.

The main results show that an inverted non-linear threshold effect of social and governance CSR exist on shareholder profitability but not for stakeholder profitability indicating that social and governance CSR may be injurious to corporate shareholder profitability beyond a certain threshold. Similarly, the study documents synergetic and complementary effects between social and governance CSR on shareholder profitability while documenting synergetic and complementary effects between social and environmental CSR on stakeholder profitability. These show that social and governance CSR and environmental and social CSR jointly complement each other to enhance shareholder and stakeholder profitability respectively. Furthermore, the study documents the existence of long-run inverted U-shape effect of social and governance-oriented CSR on shareholder profitability and a long-run synergetic nexus between social and governance CSR and environmental and social CSR on shareholder and stakeholder profitability, respectively. These imply that the synergetic and non-linear effects

of CSR activities existing beyond the short-run.

The findings of this study offer valuable insights and actionable recommendations for managers, shareholders, and stakeholders of listed firms in Africa. Given the complex relationship between corporate social responsibility (CSR) and corporate profitability, decision-makers must carefully design their CSR strategies to maximize benefits while minimizing risks. Given the study's findings, the following recommendations are made:

First, it will be appropriate for firms to conduct regular assessment of the financial implications of their CSR initiatives by using metrics such as Return on CSR Investment (ROCI) to ensure CSR activities generate positive net benefits. This will ensure firms are embarking on initiatives which have the potential to birth long-term benefits. In addition, it is proposed that firms develop sector-specific CSR budgeting models that allocate resources efficiently, ensuring CSR expenditures remain within profit-maximizing thresholds while conducting annual CSR impact assessments to monitor whether CSR initiatives are contributing to corporate profitability or causing financial strain.

Furthermore, instead of implementing CSR initiatives in isolation firms should design integrated CSR frameworks that combine activities in social, environmental, and governance (ESG) dimensions to maximize impact. Given the long-run effect that was observed, it is also recommended that firms and their management should actively involve key stakeholders (customers, employees, investors, and communities) in CSR decision-making processes to ensure alignment with stakeholder expectations and sustained profitability.

Additionally, managers and shareholders hereby cautioned about the dark side of CSR activities and must be mindful to remain within optimal margins of CSR to promote corporate profitability. Thus, undertaking excessive CSR activities can damage shareholder profitability, hence, managers and shareholders must take note of the threshold points that derail corporate

profitability. Also, managers must be cautious of the selection and combination of CSR activities because CSR activities undertaken together can produce synergies and complementarities that boost both stakeholder and shareholder profitability when there are properly aligned and coordinated. Lastly, the results on the long-run effect of CSR provides additional justification for managers to spend and engage in CSR activities especially, when the effects of CSR have positive long lasting synergetic effects on shareholder and stakeholder profitability.



CHAPTER FIVE

CONCLUSIONS AND OVERALL IMPLICATIONS OF FINDINGS

5.1 Introduction

This concluding chapter, gives a synopsis and summarizes the key issues emerging from the results of the various chapters. It then offers the concluding remarks from all the chapters based on the findings, and provides valid suggestions and recommendations regarding the implications for public policy and in line with the objectives of the entire thesis. This chapter also highlights the unique and specific contributions from each chapter, then acknowledges the limitations of the thesis and further provides directions for future research in the relevant area.

5.2 Overview

This thesis encompasses three different but related essays on the nexus between corporate governance, corporate social responsibility and corporate profitability, with evidence from listed firms in Africa. Chapter two to four are empirical details examining various issues regarding the relationships between corporate governance, corporate social responsibility and corporate profitability:

Chapter two examines the effects of corporate governance on stakeholder and shareholder profitability among listed firms in Africa in different sectors. Motivated by the contextual theory of difference which suggests the recognition of contextual/sectoral differences and the concept of sustained/lasting long-run effect of stakeholder theory approach to business value creation process, this study attempts to offer distinct evidence on how corporate governance structures influence stakeholder and shareholder profitability across several firms in different sectors in Africa for the first time to the best of our knowledge. The study employs 369 listed firm across Africa between 2006 and 2020 in a dynamic GMM panel model to provide sectoral evidence on how corporate governance structure influence stakeholder and shareholder profits

in the short-run and long-run. The key contributions of this study is in two folds (i) use of contextual theory of difference to provide a sectoral evidence of how corporate governance affect shareholder and stakeholder profits and (ii) test the sustain/long-run effect of corporate governance on stakeholder and shareholder profits. The data and the sectoral grouping of firms are obtained from Machame Ratios. From the test of difference results using anova technique, it is evident that the levels of shareholder and stakeholder profitability and corporate governance structures vary significantly across the Financial, Industrial, Material, Consumer Staple and Consumer Discretionary sectors. Consequently, the study observes that the effects of corporate governance structures vary significantly on both stakeholder and shareholder profits across different sectors. Additionally, the results show that the effects corporate governance structures on stakeholder and shareholder profitability exist both in the short-run and long-run across most of the sectors with the exception of Consumer Staple sector where the effects exist only in the short-run and no effect in the industrial sector under shareholder profitability

Chapter three, relatedly analyses the effect of CSR on shareholder and stakeholder profits across different sectors. This study is motivated by (i) lack of sectoral effect of CSR on shareholder and stakeholder profits especially in Africa, (ii) limited evidence on how CSR benefits/affects shareholder profits especially when CSR has strongly and heavily linked to stakeholder interests and (iii) limited evidence on the persistent long-run/future effect/benefits of CSR on shareholder and stakeholder profits. The study employs 369 listed firms in Africa between 2006 and 2020 in a dynamic GMM model to shed insights on the link between CSR and shareholder and stakeholder profits.

The results show that different CSR activities reported have varying effects on shareholder and stakeholder profits across different sectors. Specifically, while governance related CSR promotes stakeholder and shareholder profits in financial and consumer staple sectors, it at the

same time dampened/derailed stakeholder profits in the consumer discretionary sector. Similarly, while social related CSR positively influenced stakeholder and shareholder profits in the Africa as a whole (full sample) respectively, social related CSR further enhanced stakeholder profits in the financial sector and shareholder profits in the consumer discretionary and financial sector respectively. Furthermore, environmental related CSR only enhanced stakeholder profits in the full sample and shareholder profits in the consumer discretionary sector. Clearly, while these results suggest that CSR have varying effects across stakeholders, shareholders and sectors, it offers novel insight that suggests that CSR may not be a “one-size-fit-all” corporate strategy for enhanced shareholder and stakeholder profits. Interestingly, the results further shows that the effects of CSR transcend from the short-run into the long-run implying that CSR have both present and future enhancing effects on shareholder and stakeholder profits.

Chapter four, connectedly examines the non-linear and synergetic effects of corporate social responsibility (CSR) on corporate profitability classified into corporate stakeholder profitability and corporate shareholder profitability. Motivated by the lack of empirical evidence on short-run and long-run non-linear and synergetic effects of CSR activities on corporate stakeholder and shareholder profitability, this present study provides such evidence to contribute to the CSR-corporate performance nexus particularly in the context of Africa. Specifically, this study attempts to (i) examine the existence of non-linear threshold effects of CSR activities on stakeholder and shareholder profitability, (ii) establish synergetic and complementarity effects of CSR activities on stakeholder and shareholder profitability and (iii) estimate and examine the existence of long-run synergetic and non-linear threshold effects of CSR activities on stakeholder and shareholder profitability. The study employs a dynamic GMM panel data strategy of 369 listed firms in Africa between 2006 and 2020. The main results show an inverted non-linear threshold effect of social and governance CSR exist on shareholder

profitability but not for stakeholder profitability indicating that social and governance CSR may be injurious to corporate shareholder profitability beyond a certain threshold. Similarly, the study documents synergetic and complementary effects between social and governance CSR on shareholder profitability while documenting synergetic and complementary effects between social and environmental CSR on stakeholder profitability. These show that social and governance CSR and environmental and social CSR jointly complement each other to enhance shareholder and stakeholder profitability respectively. Furthermore, the study documents the existence of long-run inverted U-shape effect of social and governance-oriented CSR on shareholder profitability and a long-run synergetic nexus between social and governance CSR and environmental and social CSR on shareholder and stakeholder profitability, respectively. These imply that the synergetic and non-linear effects of CSR activities existing beyond the short-run.

5.3 Summary and public policy implications

This thesis contributes meaningfully to the expanding literature on corporate governance, corporate social responsibility (CSR), and firm profitability, particularly within the African context. It advances both theoretical understanding and practical policy design across three major areas:

Firstly, the findings affirm that the impact of corporate governance structures on shareholder and stakeholder profitability varies significantly across sectors, underscoring the inadequacy of a uniform governance approach. This supports empirical findings by Amin and Cumming (2025), who demonstrate sectoral heterogeneity in the governance–performance nexus across Taiwanese firms. In line with Affes and Jarboui (2023), this study provides robust evidence that governance mechanisms must be tailored to sector-specific dynamics to enhance relevance and effectiveness. The results further extend the shareholder theory by confirming that

corporate governance influences not only short-term outcomes but also sustain long-run shareholder value creation, aligning with earlier longitudinal findings by Bhagat and Bolton (2008). Simultaneously, the persistent long-run benefits to stakeholders—including employees, creditors, and communities—highlight the broader social returns of governance frameworks, resonating with stakeholder theory as argued by Freeman et al. (2007).

Secondly, this research emphasizes the need for differentiated CSR policy frameworks across sectors. The empirical results show that the efficacy of CSR initiatives is contingent on both their type and sector application—echoing the conclusions of García- Sánchez and García-Meca (2017), who find that CSR impacts vary significantly by sectoral and regional factors. Therefore, regulators, firm managers, and boards should design CSR strategies that are not only consistent with stakeholder expectations but also strategically aligned with sector-specific priorities. The documented short-run and long-run positive effects of CSR on firm performance—particularly when initiatives are well-targeted—are consistent with the work of Malik (2015), who highlights how CSR can be a long-term investment in reputational capital. Importantly, the findings encourage firms to explore the threshold effects and synergies of CSR initiatives to ensure their sustainability and profitability, in line with the non-linear CSR-performance relationship found by Nollet et al. (2016), and Lahouel and Taleb (2025).

Thirdly, the study cautions managers and shareholders against the “dark side” of CSR. Excessive or poorly aligned CSR engagement may become counter-productive, reducing shareholder value—a concern validated by empirical work from Forrest and Hasseldine (2016), who find that over-investment in CSR can divert resources from core business objectives, particularly in resource-constrained environments. This thesis, therefore, reinforces the necessity of identifying and operating within optimal CSR margins to avoid diminishing returns. Moreover, when CSR initiatives are coordinated effectively—producing synergistic effects—both stakeholder and shareholder interests can be served simultaneously, as evidenced

by empirical findings from Flammer (2015). The long-run profitability benefits observed here justify the integration of CSR into long-term strategic planning, especially in sectors where social legitimacy and stakeholder engagement are essential for competitive advantage.

Theoretically, this thesis contributes to the evolving understanding of the economic responsibility dimension of CSR, supporting the view that firms can and should create value for both shareholders and broader stakeholder groups (Carroll & Shabana, 2010). It also offers empirical validation of the contextual theory of difference, affirming those firm strategies—particularly in governance and CSR—must be sensitive to sectoral and environmental contexts. These insights are especially relevant for policymakers and business leaders in emerging markets, where institutional and market heterogeneity further complicates the application of universal strategies.

5.3.1 Implications for the Broader African Economic Context

These findings have significant implications for Africa's economic development trajectory. The sectoral heterogeneity in governance and CSR effects directly intersects with the continent's ongoing economic diversification efforts. While extractive sectors have historically dominated many African economies, the findings suggest that as countries transition toward more service-oriented and consumer-facing sectors, governance and CSR frameworks must evolve accordingly. This is particularly relevant as the African Continental Free Trade Area (AfCFTA) implementation accelerates cross-border trade and investment, potentially reshaping sectoral compositions across the continent. The demonstrated long-term positive effects of appropriate governance structures on firm performance provide valuable insights for developing Africa's capital markets. Currently, only approximately 2,400 companies are listed across all African exchanges (Olujinmi & Olujinmi, 2023), compared to over 5,700 in the United States alone (Statista, 2025). This significant disparity highlights the substantial challenges Africa faces in capital formation and allocation, limiting its economic growth potential. The thesis findings

suggest that sector-specific governance reforms could enhance investor confidence and capital market participation, potentially addressing the persistent capital access constraints faced by African businesses. This aligns with recent World Bank (2023) recommendations emphasizing tailored regulatory approaches for different market segments to stimulate Africa's private sector growth.

For policymakers engaged in pan-African initiatives, the thesis provides empirical justification for moving beyond one-size-fits-all governance codes. The African Peer Review Mechanism (APRM) and other continental governance frameworks would benefit from incorporating sectoral nuances into their assessment criteria, rather than applying universal standards across all sectors. Similarly, the findings on CSR's varied sectoral impacts should inform the African Union's implementation strategy for its Agenda 2063, particularly regarding private sector contributions to sustainable development goals.

The research also holds implications for addressing Africa's persistent foreign direct investment (FDI) constraints. Contrary to the continent's abundant resources and growth potential, Africa attracts only 3-5% of global FDI flows (UNCTAD, 2023). The thesis demonstrates that governance and CSR practices influence firm performance differently across sectors, suggesting that investment promotion strategies should be customized according to target sectors rather than applying generic approaches. For the growing technology and financial services sectors, for instance, governance mechanisms emphasized would differ substantially from those highlighted for extractive or manufacturing sectors.

Furthermore, the finding that excessive CSR can be detrimental to shareholder value has particular significance in the African context, where many firms operate under severe resource constraints and institutional voids. African businesses must strike a delicate balance—fulfilling social responsibilities while maintaining profitability in challenging operating environments.

The identified threshold effects provide practical guidance for this calibration, potentially helping African firms avoid diverting critical resources to sub-optimal CSR initiatives.

Finally, as Africa faces increasing climate vulnerability and social inequality challenges, the demonstrated complementarity effects between environmental and social CSR dimensions offer a blueprint for integrated sustainability approaches. This complements continental efforts such as the African Green Innovation Framework, suggesting that co-ordinated CSR strategies across multiple dimensions may yield superior outcomes compared to siloed initiatives.

Theoretically, this thesis contributes to the evolving understanding of the economic responsibility dimension of CSR, supporting the view that firms can and should create value for both shareholders and broader stakeholder groups (Carroll & Shabana, 2010). It also offers empirical validation of the contextual theory of difference, affirming that firm strategies—particularly in governance and CSR—must be sensitive to sectoral and environmental contexts. These insights are especially relevant for policymakers and business leaders in emerging markets, where institutional and market heterogeneity further complicates the application of universal strategies.

5.3.2 Specific Recommendations to Sector Stakeholders

In response to the empirical findings of this study and the observed sectoral variations in the effects of corporate governance (CG) and corporate social responsibility (CSR) on shareholder and stakeholder profitability, it is necessary to provide targeted recommendations to key industry stakeholders—namely, corporate governance advocates, CSR advocates, sector regulators, and firm-level managers.

To begin with, the study reveals that corporate governance mechanisms do not exert uniform effects across sectors or profitability dimensions. Therefore, CG advocates such as governance

institutes, think tanks, and academic bodies should push for the development of sector-specific governance frameworks rather than adopting or promoting universal codes. For instance, the financial sector benefits significantly from governance-related CSR and robust board structures, while the consumer discretionary sector shows more mixed effects. In light of this, training programs, policy roundtables, and certification schemes should reflect these nuances by promoting contextually responsive governance tools that align with sector-specific regulatory demands and stakeholder expectations.

In addition, the findings suggest that social and environmental CSR dimensions have stronger positive effects on profitability than governance-related CSR in several sectors. As such, CSR advocates—including NGOs, ESG consultants, and multilateral agencies—are encouraged to support firms in adopting ESG reporting standards that align with their core operational risks and sectoral reputations. For example, CSR efforts in extractive or consumer-facing sectors should prioritize environmental and social investments with measurable stakeholder outcomes. Moreover, CSR advocates should promote longitudinal monitoring and evaluation frameworks to demonstrate not just the philanthropic but also the financial returns on CSR investments, thereby enhancing firm-level buy-in and strengthening the credibility of CSR practices.

Furthermore, regulators such as securities commissions, stock exchanges, and ministries of trade must take into account the study's finding that the impacts of CG and CSR vary significantly by sector. In this regard, regulatory bodies should reform listing and disclosure requirements to reflect sector-specific realities. This could include revising CG and CSR reporting guidelines to accommodate materiality thresholds unique to each sector. Additionally, regulators may consider incentivizing firms that demonstrate performance-enhancing governance or CSR practices through tax benefits, expedited regulatory approvals, or public recognition. Integrated reporting frameworks that capture both financial performance

and stakeholder value creation should also be considered, especially in sectors where stakeholder profitability (ROA) is significantly influenced by CSR activities.

Equally important, corporate executives and boards must avoid a one-size-fits-all approach in implementing governance and CSR strategies. The study provides strong evidence to support the strategic alignment of governance mechanisms and CSR initiatives with firm-specific and sector-specific profitability drivers. For example, firms in the financial and consumer staples sectors should emphasize governance structures such as independent audit committees and board oversight, which have demonstrated significant positive effects. Meanwhile, firms in the consumer discretionary sector should invest more strategically in social CSR activities to enhance customer loyalty and stakeholder goodwill. Moreover, managers should pay attention to the non-linear and threshold effects of CSR, ensuring that resource allocation to CSR is optimal and not excessive or tokenistic.

Finally, international development partners and research institutions have a vital role to play. Given the heterogeneity in the effects of CSR and CG across sectors, development partners supporting responsible business conduct in Africa should tailor their interventions to address sector-specific gaps and institutional constraints. This could include funding comparative sector studies, piloting sector-targeted CSR initiatives, and supporting regulatory capacity-building in emerging sectors. At the same time, research institutions should build on this study by conducting firm-level and country-level disaggregation of CG-CSR-profitability dynamics, thereby fostering evidence-based reforms at both the micro and macro levels.

Overall, translating empirical evidence into actionable reforms requires targeted, sectorally nuanced interventions. This study provides a strong basis for developing differentiated governance and CSR frameworks that reflect the dynamic realities of African capital markets and firm environments. Only through such evidence-led approaches can governance and CSR

be transformed from compliance checklists into engines of sustainable profitability. Also, the recommendations are summarized in Table 5.1, including implementation timeline.

Table 5.1 Classification of Recommendations by Implementation Horizon

Time Horizon	Recommendation	Specific Interventions	Key Stakeholders	Expected Outcome
Short-Term	Conduct regular CSR financial impact assessments	Implement Return on CSR Investment (ROCI) tools; track CSR costs vs returns annually	Corporate finance teams, CSR managers	Improved resource allocation; early detection of ineffective CSR spending
	Avoid excessive CSR spending beyond optimal thresholds	Use empirical CSR-profitability thresholds to guide budgets	Board of Directors, CEOs	Prevent erosion of shareholder value
	Encourage stakeholder involvement in CSR decisions	Run stakeholder forums, survey, or focus groups	CSR departments, community liaisons	Better stakeholder alignment; reputational gains
	Encourage sector-based CSR reporting	Initiate voluntary disclosure on ESG activities based on sector norms	Sector associations, SEC, NGOs	Enhanced transparency and benchmarking
	Tailor CSR to firm-specific sector needs	Review CSR activities against sectoral challenges	Company strategy teams, ESG consultants	Increased CSR effectiveness
Medium-Term	Develop sector-specific CSR budgeting models	Create sector-specific CSR financial templates; integrate with company ERP systems	CFOs, ESG advisors	Smarter, sector-aligned CSR funding strategies
	Coordinate CSR activities across ESG domains	Design programs that combine social + environmental + governance actions	CSR committees, sustainability units	Synergetic benefits for stakeholder and shareholder value
	Mandate sector-specific CSR reporting standards	Collaborate with regulators to introduce sector-level CSR KPIs	Regulators, policy bodies (e.g. SEC), sector regulators	Standardization and comparability
	Build internal capacity for CSR impact monitoring	Train internal CSR teams in data analytics, impact evaluation	HR units, external trainers	Stronger CSR accountability and strategy alignment
	Tailor CSR guidance by regulators and social consultants	Issue sector-based CSR toolkits; hold CSR compliance workshops	Sector regulators, social consultants	CSR effectiveness aligned with social license to operate
Long-Term	Institutionalize integrated CSR frameworks aligned with firm strategy	Embed CSR in strategic planning processes; include in balanced scorecard	Strategy departments, C-suite executives	Long-term CSR performance and profitability integration
	Reform sector-specific governance structures to support CSR-profitable alignment	Introduce governance reforms that enable CSR boards/subcommittees	Governance reform committees, investor boards	Sectorally-relevant governance for sustainable profitability
	Promote pan-African CSR and CG frameworks tailored to sectoral realities	Adjust APRM and AU frameworks to recognize sector-specific variations	African Union, APRM, AfCFTA working groups	Harmonized sector-sensitive governance across Africa
	Encourage long-horizon CSR strategies that build organizational legitimacy and resilience	Support CSR investments with multi-year impact forecasts	Institutional investors, corporate planning teams	Long-run risk mitigation, investor confidence, market resilience
	Support academic and empirical research on non-linear CSR-profitability thresholds	Fund longitudinal studies; collaborate with universities	Donors, think tanks, policy researchers	Evidence-based policymaking and threshold identification

5.4 Limitations of the thesis

Despite the enormous and invaluable contributions this thesis makes to the body of knowledge and practice in the areas of corporate governance, corporate social responsibility reporting and corporate profitability, a few limitations can be identified in the research.

Firstly, the research focused on the relationships between corporate governance, corporate social responsibility reporting and corporate profitability of only listed firms in Africa without looking at the dynamics of non-listed firms and firms outside Africa, thus the findings might not accurately reflect the wide-ranging effects of CSR reporting on different industries and regions outside Africa.

Secondly, the analysis of the relationships between the key variables in this thesis did not touch on the comparative analysis of the firms located in different sub-regions of Africa, such as North Africa versus South Africa, or West Africa versus East Africa etc. which could have spiced up the results and the analysis reached.

Thirdly, apart from the dynamic Generalized Method of Moments (GMM) regression model applied in this research, other models could have been applied, especially in the chapter bothering of non-linearity, a purely non-linear model could have been employed. That notwithstanding, there is a strong justification for the use of the model in all the relevant areas of the study.

However, the above limitations, notwithstanding, the thesis provides results, analysis and policy prescriptions that are intriguing in the areas of corporate governance, corporate social responsibility reporting, and corporate profitability.

5.5 Avenues for future research

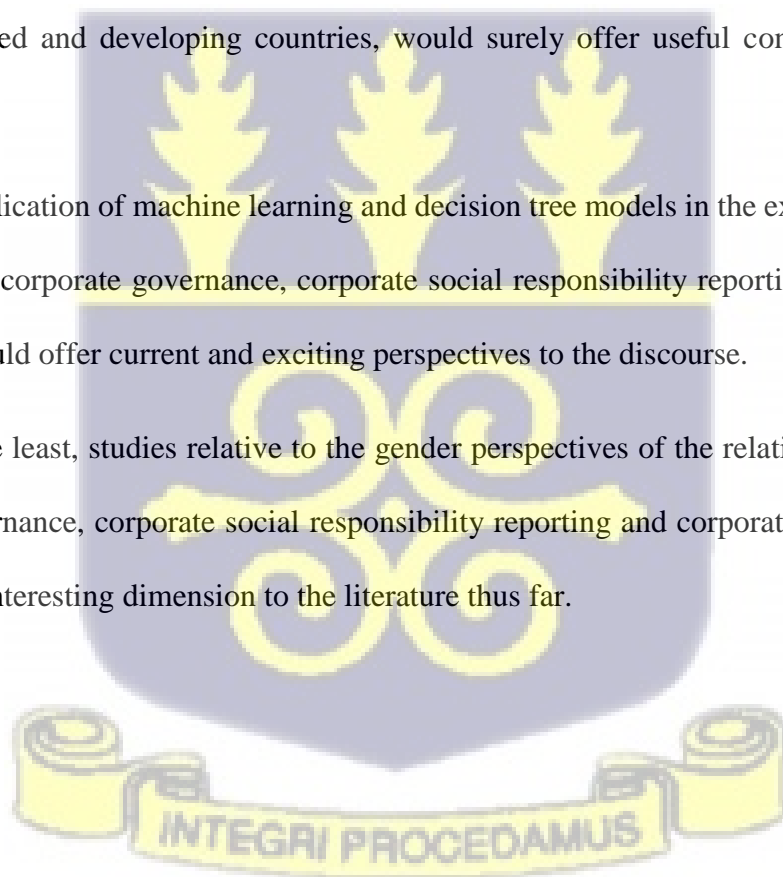
Consequent to the above limitations outlined, avenues for future research can be identified as follows:

Firstly, a study to interrogate the relationships between corporate governance, corporate social responsibility reporting and corporate profitability of both listed and non-listed firms in Africa or including listed firms outside Africa will reveal interesting findings for generalization and policy direction.

Secondly, comparative research on the nexus between corporate governance, corporate social responsibility reporting and corporate profitability among listed firms located in different sub-regions of Africa, such as North Africa versus South Africa, or West Africa versus East Africa and in developed and developing countries, would surely offer useful contributions in the literature.

Thirdly, an application of machine learning and decision tree models in the examination of the nexus between corporate governance, corporate social responsibility reporting and corporate profitability could offer current and exciting perspectives to the discourse.

Last but not the least, studies relative to the gender perspectives of the relationships between corporate governance, corporate social responsibility reporting and corporate profitability on would add an interesting dimension to the literature thus far.



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APPENDICES

Appendix 2.1: Cross Sectional Dependence

Pesaran (2015) test for weak cross-sectional dependence.

Residuals calculated using predict, e from xtreg.

(2,253 missing values generated)

Unbalanced panel detected, test adjusted.

H0: errors are weakly cross-sectional dependent.

CD = 5.038

p-value = 0.000

Appendix 3.1: Cross Sectional Dependence

Pesaran (2015) test for weak cross-sectional dependence.

Residuals calculated using predict, residuals.

(2,429 missing values generated)

Unbalanced panel detected, test adjusted.

H0: errors are weakly cross-sectional dependent.

CD = 62.832

p-value = 0.000

Appendix 4.1: Cross Sectional Dependence

Pesaran (2015) test for weak cross-sectional dependence.

Residuals calculated using predict, residuals.

(2,429 missing values generated)

Unbalanced panel detected, test adjusted.

H0: errors are weakly cross-sectional dependent.

CD = 62.832

p-value = 0.000

