THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FIRMS' PROFITABILITY IN NIGERIA: A STUDY OF SELECTED QUOTED FIRMS FROM 2003 – 2012

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ABSTRACT

This study examined the impact of corporate social responsibility (CSR) on firms' profitability among the selected quoted Nigerian firms between 2003 and 2012. This study relied on secondary sources of data. The data were extracted from the Nigerian Stock Exchange Fact Books, annual reports and financial statements of the selected firms. A total of one hundred and ten non-financial firms on the Nigerian Stock Exchange were selected and a sample size of eighty-six firms was chosen, using the Burley's formula propounded by Yamane. The selection of firms was based on two-sampling procedure. The data collected were analyzed using E-views statistical package. The study revealed that a significant and negative relationship exists between CSR and profitability of the selected quoted firms during the period under review. From our investigation, the Nigeria corporate organization identified with the shareholder theory. This implied that Nigeria corporate organizations may not embark on CSR activities if it will not affect or influence their economic interests positively or maximally. It is believed that the sole consistency of business management is the shareholders and the sole concern of shareholders is profit maximization. Any activity is justified if it increases the value of the firm to its shareholders and is not justified if the value of the firm is reduced. A wide-range and multi-tiered awareness campaign needs to be organized in order to make the various stakeholders and businesses understand the necessity and advantages of CSR and remove any misconceptions related to it.

Keywords: Corporate Social Responsibility, Firms' Profitability, Nigerian Stock Exchange, Nigeria.

Introduction:

Corporate social responsibility (CSR) has been recognized by business organizations globally as a key to business success. CSR is a concept with a growing currency around the globe and it frequently overlaps with similar approaches such as corporate sustainability, corporate sustainable development, corporate responsibility, and corporate citizenship. Carroll (1979) saw corporate social responsibility as a construct with four main components: economic responsibility to investors and consumers, legal responsibility to the government or the law, ethical responsibilities to the society, and discretionary responsibility to the community. On the other hand, Meehan, Meehan and Richards (2006), defined corporate social responsibility as one multidimensional construct capturing "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's social relationships". According to Osemene (2012) many organizations in Nigeria are driven by the need to make more and more profits to the detriment of all the stakeholders, while some do not adequately respond to the needs of host communities, employees' welfare, environmental protection and community development.
On the overall, CSR activities are gaining momentum in Nigeria as companies attempt to project a positive image to the society; hence this study aimed to examined the relationship between corporate social responsibility and firms' profitability in Nigeria, with reference to selected quoted firms from 2003 – 2012. Thus, the study aimed to provide answer to the following research question which will guide the focus of the study: What is the relationship between CSR and profitability of selected quoted firms in Nigeria?

Objective of the Study:

The broad objective of this study is to examine the relationship between corporate social responsibility and firms' profitability in Nigeria, with reference to selected quoted firms from 2003 – 2012.

Hypothesis:

There is no significant relationship between CSR and profitability of selected quoted firms in Nigeria.

Literature Review:

Corporate Social Responsibility (CSR): Concept, Definitions and Scope:

Various views on corporate social responsibility (CSR) have been expressed over the years, with Bowen's view expressed in his 1953 publication of Social Responsibilities for the Businessman, reportedly considered by many as definitive on the subject (Lee, 2008). Most authors argued in favour of CSR, despite the lack of consensus on what it really meant. However, Friedman (1962) promoted a contrary viewpoint by asserting that "business had no other social responsibility than to make as much profit as possible".
McGuire (1963), while agreeing that economic concerns are important to businesses, argued that "the idea of social responsibilities supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations". Other considerations in CSR definition exist. One of which is Carroll's (1979) four-part definition of CSR which encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of any given organization; namely:

- Be profitable (economic),
- Be obedient to laws and regulations (legal),
- Do what is right, fair and just (ethical), and
- Be good corporate citizens (philanthropic/discretionary).

Most corporate organizations subscribe to the four parts but feel more obligated to the first three. Visser (2006) argued against Carroll's CSR model, and postulated CSR practice as a socio-cultural product that reflects the society and people in which the corporate bodies operate.
Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet'. This is tantamount to saying that beyond profit, corporate bodies need to address issues of importance to the people and the environment.

The History and Development of CSR in Nigeria:

The development of CSR in Nigeria can be traced to the colonial period when the European corporations operated in the country. Then the concept of shareholders theory was predominantly pursued by the premier European corporation called Royal Niger Company (RNC) chartered in 1886 (Amaeshi, Adi, Ogbechie and Amao, 2006). Shareholder theory defines the primary duty of a firm's managers as the maximization of shareholders wealth (Berle and Means, 1932; Friedman, 1962). The corporate philosophy of the RNC in Nigeria during this period exemplified shareholder perspective of the firm stated above. Between 1885 and 1900, the company provided casual employment for few indigenes in its postal system in Akassa in 1887, Calabar in 1891, Burutu in 1897 and Lokoja in 1899. The postal system was established primarily for conveying mails from its trading stations located in these commercial centers to and from Lagos by a weekly mail boat (Amaeshi, et. al., 2006).
The successor of RNC, the United Africa Company (UAC) was formed in 1919 by a merger between two British trading companies active primarily in West Africa; the Niger Company and the African and Eastern Association. UAC's corporate philosophy was designed to maximize shareholders' profits in line with the concept postulated by Friedman (1962).
The 1970s heralded a new phase in the history of corporate social responsibility in Nigeria. The civil war had ended and the military was in the saddle of political affairs of the country until 1979. This decade was characterized by oil boom and economic buoyancy for the country. In the post-war Nigeria, the Federal Government under the Gen. Yakubu Gowon rolled out the "state social responsibility" concept envisioned in government's 3R policy called "reconciliation, rehabilitation and reconstruction", which was targeted at the citizens of the Eastern region (former Biafra). The policy focused on the restoration of damaged infrastructure, such as shelters, local markets, clinics, roads, hospitals, schools, colleges, universities, airports, etc., in order that the people might be able to recommence their lives as swiftly as possible (Gowon, 2007).
Prior to the 1990s, corporate entities in Nigeria viewed their primary duty as the maximization of shareholders wealth in line with Berle and Means (1932) and Friedman (1962). However, beginning from the 1990s, corporate citizenship dimension of corporate social responsibility began to emerge in Nigeria. Davenport (2000), states that "corporate citizenship became a commonly used term by practitioners" in the 1990s; and this is true for Nigeria. Prior to the time, companies in Nigeria did not appreciate need to enhance their reputation through the

practice of CSR. The tempo for the implementation of CSR activities gathered momentum, especially among the oil companies, with the internalization of the conflict between the Ogoni people and the Shell Petroleum Development Company (SPDC) in 1992 (Kretzman, 1995). The Ogoni-SPDC's crisis led to shift in companies' attitude and CSR in Nigeria. Most companies have since realized the potential impact of CSR on corporate reputation, safety of corporate assets and corporate performance (Lewis, 2003; Garone, 1999).

Corporate Social Responsibility Studies in Nigeria:

Despite the dearth of prior literatures in developing countries (especially Nigeria), the research generally found that the extent of social environmental disclosures in annual reports is lower than in the developed countries. In the Nigerian context, the conclusions derived from existing prior studies are mixed. Amaeshi, Adi, Ogbechie, and Amao (2006) explored four key sectors of the Nigerian economy and came up with the conclusion that firms are socially constructed and their behavior must reflect the society in which they are embedded, thus they must be socially responsible to the environment in which they operate. Also, Ngwakwe (2009) titled environmental responsibility and firms' performance in Nigeria, investigated the relationship between firms social responsibility practices and their performance. The study while focusing only on the manufacturing industry concluded that a positive relationship exists between the social responsibility practice of firms and their performance. In addition, prior studies by Guobadia (2000) and Minga (2010) reported a similar finding on the state of corporate social responsibility in Nigeria. In the same vein, Uwalomwa (2011) investigated the association between firms' characteristics and the level of corporate social disclosures in the Nigerian financial sector. The study while focusing only on the financial sector concluded that a positive association existed between a firm's characteristics and the level of corporate social disclosures. Finally, Adediran and Okoye (2011) examined the impact of CSR on corporate performance in Nigeria. The study while focusing on forty-five randomly selected quoted companies analyzed their 2009 annual reports, and reported that there is no significant relationship between CSR and corporate performance.

Methodology:

The study is concerned with examining the relationship between CSR and firms' profitability in Nigeria. A longitudinal survey design was employed. The population of this study consists of one hundred and ten (110) non-financial firms quoted on the Nigerian Stock Exchange from the year 2003 to the year 2012. Most previous studies in Nigeria employed the cross-sectional research design and focused attention mainly on financial sector, hence non-inclusion of financial sector in the study. From the total number of 110 firms, the sample size of 86 firms was chosen, using the Burley's formula. The Burley's formula was propounded by Yamane (1973) for the determination of sample size for finite population. The formula is expressed as follows:

$$n = \frac{N}{1 + N(e)^2}$$

where:
n = sample size
N = Population
e = level of significance (5% for this study)

The method of firm selection was based on stratified random sampling. The selection was based on two-stage sampling procedure. The first stage involved the selection of research population into homogenous subsets with heterogeneity between the subsets in accordance with the Nigerian Stock Exchange sectoral classification. From each sector, random selections of sixty percent of the firms were drawn based on the relative proportion of the population represented by each sector. This is to ensure proportional representation of the different sectors that make up the population. A sample size of eighty-six firms were randomly selected, we deleted firms that do not have complete data of the relevant variables required for our analysis. This may be due to cessation of operation at any point during the period of study; problems with the Nigerian Stock Exchange and Securities and Exchange Commission; and also change of financial accounting year – end at any time during the period of study. This measure will help to guide against data omission and ensure uniformity in data presentation. Thus, the study retained in total, a sample size of sixty-five (65) firms over a ten (10) year period of time in a balanced panel. These firms are active non-financial firms with a basic characteristic of continuous operational existence over a period of at least ten years to date. However, only firms that meet the following criteria are included in the study:

a. Must be listed on the first-tier Nigerian Stock Exchange Market;
b. Has record of data covering the study period; and
c. Must be a going concern.

This study relied wholly on secondary sources of data. Accordingly, the data were extracted from Nigerian Stock Exchange Fact Books (2003-2012), Annual Reports and Financial Statements (2003-2012) of quoted firms in Nigeria and other relevant publications. Specifically, the data collected are information on employee relations, community relations, environment and product. For a meaningful and representative data collection, the firms were classified into the following industrial sectors according to the Nigerian Stock Exchange Classification: agro-allied, automobile, brewery, building materials, chemical and paints, computer and office equipment, conglomerate, construction, engineering technology, food/beverage and tobacco, healthcare, industrial/domestic product, packaging, petroleum, printing and publishing, as well as textiles.

Model Specification:

The study employs the Stakeholder Theory to examine the relationship between CSR and profitability of selected quoted firms in Nigeria. In order to achieve this, the study adopted the generalized least squares model used by Mahoney and Roberts (2007) in their study.

$Yit = \beta o + X^1 it\ \beta + \mu it$ ……………………………………………………(1)

Where:

Yit = the dependent variable of firm *i* in time t (i.e. firms' profitability proxies)

$X^1 it$ = vector of explanatory variables of firm *i* in time t

βo = constant term from the baseline estimation

β = estimated coefficients

μit = ϰ NID (O, δ^2), that is, the model is based on the classical normal linear regression which assumes that each μi is distributed normally with:

Mean: $E(\mu i) = 0$ ---(2)

Variance: $E\{\mu i - E(\mu i)\}^2 = E(\mu i^2) = \delta^2$ ……………………………...(3)

Cov $(\mu i, \mu j)$: $E\{[(\mu i - E(\mu i)][\mu j - E(\mu j)]\} = E(\mu i\ \mu j) = 0\ i \neq j$ ………(4)

The symbol ϰ means distributed as and NID stands for normally and independently distributed. Two models were analyzed using the indicators of profitability, namely: return on assets (ROA), and return on equity (ROE) as dependent variable on the independent variable (CSR). The general forms of the model are then specified as:

Model 1: $ROAit = \beta o + \beta_1\ CSRit + \mu it$ ……………………………….(5)

$\beta o, \beta_1 > 0$

Model 2: $ROEit = \beta o + \beta_1\ CSRit + \mu it$ ……………………………….(6)

$\beta o, \beta_1 > 0$

where:

Profitability proxies – ROA means profit after tax on total assets ratio, and ROE means profit after tax on total equity ratio.

CSR is measured by total index of CSR disclosure of firm *i* at time t (employee relations, community involvement, environmental issues and product characteristics).

Data Analysis/Findings:

Model 1: The estimated regression set of equations and the computation of the regression coefficients are as follows: ROA = 9.8971 – 0.1123 CSR

(32.2298) (-9.9740)

The equation and the computation of the regression coefficient above revealed that the *a priori* expectations of the estimated parameters were met, which states that there exist a direct relationship between ROA and CSR variables, and that the relationship is significant and negative during the period under review. Therefore, we rejected the null hypothesis which states there is no significant relationship between CSR and the profitability of selected quoted firms in Nigeria. See Appendix One.

Model 2: The estimated regression set of equations and the computation of the regression coefficients are as follows: ROE = 13.2849 – 0.0732 CSR

(29.9971) (-4.2229)

The equation and the computation of the regression coefficient above revealed that the *a priori* expectations of the estimated parameters were met, which states that there exist a direct relationship between ROE and CSR variables, and that the relationship is significant and negative during the period under review. Therefore, we rejected the null hypothesis which states there is no significant relationship between CSR and the profitability of selected quoted firms in Nigeria. See Appendix Two.

We therefore, conclude that there is a significant and negative relationship between CSR and profitability of selected quoted firms in Nigeria. This finding is consistent with the findings of Wright and Ferris (1997). Those arguing for a negative relationship between CSR and profitability believe that firms that perform responsibility incur a competitive disadvantage (Aupperle, et al., 1985), simply because they are incurring costs that might otherwise be avoided or that should be borne by others (individuals and government).

Conclusion:

From our investigation, the Nigeria corporate organization identified with the shareholder theory, whereas this study was based on stakeholder theory. This implied that Nigeria corporate organizations may not embark on CSR activities if it will not affect or influence their economic interests positively or maximally. The findings of this study suggest the views of the proponents of the shareholder theory, which holds that the firm is (and should be) manage in the interests of the firm's shareholders (Cochran, 1994). The findings also confirmed Osemene's view. According to Osemene (2012) many organizations in Nigeria are driven by the need to make more and more profits to the detriment of all the stakeholders, while some do not adequately respond to the needs of host communities, employees' welfare, environmental protection and community development. It is believed that the sole consistency of business management is the shareholders and the sole concern of shareholders is profit maximization. Any activity is justified if it increases the value of the firm to its shareholders and is not justified if the value of the firm is reduced (Cochran, 1994).

Recommendations:

A wide-range and multi-tiered awareness campaign needs to be organized in order to make the various stakeholders and businesses understand the necessity and advantages of CSR and remove any misconceptions related to it. Flowing from this improved awareness, cross-stakeholder dialogue between governments, business, civil society and academia is a necessity. A relevant and enabling CSR policy needs to be developed by government with the involvement of all stakeholders. An effective regulatory authority is key to this strategic thrust, having the requisite capacity to implement guidelines and monitor progress. All this is achievable but requires a strategic approach and a step- by- step process so that businesses in Nigeria can emerge stronger in the current paradigm.

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APPENDIX ONE

Model 1:

From preliminary generalized least squares regression calculation, it was found that there were indications of serial correlation. In an attempt to correct for autocorrelation scheme, we used the Cochrane-Orcutt method. The most satisfactory results were obtained from autocorrelation AR (1) converged after 15 iterations as follows:

Cochrane-Orcutt Method AR (1) Converged after 15 iterations
Dependent variable is ROA
585 observations used for estimation from 2003-2012

Regressor	Coefficient	Std. Error	t. ratio	Prob.
C	9.8971	0.3071	32.2298	0.0000
CSR	-0.1123	0.0113	-9.9740	0.0000
R-Squared	0.7477	Adjusted R-Squared	0.7469	
S.E. of Regression	40.0336	F-stat. 862.4115	Prob (F-stat.) 0.0000	
DW-statistic	2.1410			

APPENDIX TWO

From preliminary generalized least squares regression calculation, it was found that there were indications of serial correlation. In an attempt to correct for autocorrelation scheme, we used the Cochrane-Orcutt method. The most satisfactory results were obtained from autocorrelation AR (1) converged after 12 iterations as follows:

Cochrane-Orcutt Method AR (1) Converged after 15 iterations
Dependent variable is ROE
585 observations used for estimation from 2003-2012

Regressor	Coefficient	Std. Error	t. ratio	Prob.
C	13.2849	0.2657	29.9971	0.0000
CSR	-0.0732	0.0173	-4.2229	0.0000
R-Squared	0.6287	Adjusted R-Squared	0.6274	
S.E. of Regression	168.5124	F-stat. 492.7890	Prob (F-stat.) 0.0000	
DW-statistic	1.9904			

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