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**FINANCIAL PERFORMANCE AND CORPORATE SOCIAL
RESPONSIBILITY IN LISTED NON FINANCIAL FIRMS IN NIGERIA**

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Abstract

This study evaluates Financial Performance and Corporate Social Responsibility in listed Non-financial firms in Nigeria from 2009 to 2018. CSR practice by companies is virtually affected by their operations and performance. Therefore, companies with better performance are expected to engage more in CSR and consider public interest in corporate decision making. The population of this study covers all the seventy-five (75) listed non-financial firms in Nigeria from January 2009 - 31st December, 2018, from these a sample of fifty six (56) listed non-financial firms were selected by filtering. Narrowing down, the study to more specific term, it examines the effect of return on investment and net profit margin using leverage as control variables on CSR of listed non-financial firms in Nigeria. The Researcher employs correlational and expo-facto research designs using panel multiple regression as techniques of data analysis. Quantitative approach was adopted in the study and the study aligns to positivist paradigm. The study reveals that return on investment positively, strongly and statistically determines CSR measured at 1% level of significance respectively. Also, net profit margin positively influences the CSR of listed non-financial firms in Nigeria measured at 5% level of significance. The result implies that financial performance determines the CSR of non-financial firms in Nigeria. The study concludes that non-financial firms with high performance invest more in Corporate Social Services than low performing once. Therefore, the study recommends amongst others that managers of non-financial companies in Nigeria should improve their internal control mechanism for cost reduction and increase of net profit margin. While for return on investment, the management of listed non-financial firms should maintain quality assets that are durable. This is necessary because of the potential of companies that have such assets to vote more funds towards CSR.

Keywords: *Financial Performance, Corporate Social Responsibility, Non-financial firms, Nigeria*

1 Introduction

Globally, theorist have varied understanding and argue differently on the concept of CRS and it practice. To same theorist CSR is believed to be an altruistic practice that is born out of benevolence. Gleaning from this school of thought which is hinged on Friedman's (1970) and Senthouse's (2009) arguments, businesses are at liberty to carryout CSR or not. Opposing this school of thought or idea, are those that feel CSR should be embedded in business practices. As such those that hold this view believe CSR is a part and parcel of the business, thus, it is an important factor in determining the true value of any organization. Consequently, just as decisions are taken for other investment functions that directly impact on performances similar planning and decisions should be done for CSR. A firm should be able to reciprocate back to the society in which it

operates, by investing a part of its income in a beneficial manner to its host community (Nkanbra & Okorite 2007).

Achua (2008) posited that for firms to compete favourably in a free and competitive business environment with reduced friction with its host community, getting productive staff and making good returns, they must entrench CSR practices. Hence for a business to exist in perpetual safe and smooth business environment CSR is a fundamental requirement. The hope for a better living condition raised the expectations of host communities in the oil rich Niger Delta region of Nigeria, the failure of oil companies to provide succour to members of those communities where large chunk of Nigeria's hydro carbons are extracted has led to violent agitations. These agitations have disrupted the business activities of many oil companies, this has also negatively affected many of such companies' financial performance, Onwuchekwa (2002). There is no gain saying that those companies that deny the benefits accruable to stakeholders of their business gains are likely to lose the support they would have gained from such stakeholders and in turn this could affect their financial performance. Thus, it is very important for managers to take stakeholders claims very seriously in decision making that pertains to CSR (Hill & McShane, 2008).

Return on investment is the ability of excess fund invested elsewhere to generate revenue which may be used to improve the firm participating in CSR as measured by CSR information. Patten and Adams posited that Companies that impact more on the environment are those that disclose more of their CSR activities extensively and frequently than companies which don't, this could be as a result of so much attention by the public on their environmental disclosures. (Patten, 1991; Adams et al., 1998). Similarly, industries that impact more on the environment carryout more remedial activities in order to gain community trust.

In this regard, the socially responsible firms are highly appreciated by investors. Consequently, when they are able to increase public confidence in the company, this will bring about increased public trust, which will engender enhancement in return on investment and performance.

The emerging standards and global acceptability of CSR has left corporations with no choice but to strategize on the level of investments made on CSR. Globalisation has evolved the functions and attention given to business today, this evolving role has carefully captured CSR as a core function of today's business.

Internationally, government regulation regarding environmental social issues has gained more prominence, with standards, codes of conduct, and laws being promulgated at international level. As a result of the attention given to CSR, business owners and their managers give so much attention to CSR in arriving at organisational funding decisions that relates to investment (Preston & O' Bannon, 1997).

In addition, most of the studies (Abdur-Roufand; Fariset *al.* 2012; Ebiringa *et al.* 2013 & Akrouit & Ben-Othman, 2013) on CSR and financial performance adopted the use of ordinary least square using multiple regression with Chi-square tools of analysis. The use of these methods of data analysis is deficient in showing some critical characteristics and information, conducting fixed and random effects, Hausman specification test and related robustness tests. Thus, in this paper, the Researcher adopted a higher method of analysis, which is stronger and more vigorous in data analysis. GLS is used to cover for the shortcomings of the OLS and Chi-square.

Most importantly, a lot of the other researches were conducted in advanced economies, only few studies (Li & Zhang, 2010; Reverte, 2009; Wang & Song, 2011) were conducted in developing economies. There is also a gap in terms of people's ethical reasoning and decision, environment, period, methodologies employed and industries used by other studies. Thus, this study fills the gap by appraising some of the impact of FP on CSR of non-financial firms in Nigeria.

This paper evaluates the impact of performance which is measured by Return on Investment and Net Profit Margin on CSR of listed non-financial firms listed in Nigeria.

In order to achieve the objectives of this study, the following null hypotheses are formulated to be tested:

HO₁: Return on investment has no significant effect on CSR of listed non-financial firms in Nigeria

HO₂: Net profit margin has no significant effect on CSR of listed non-financial firms in Nigeria

This research will be carried out because of the relevant and pivotal role firms, especially the non-financial firms play in the economic development of Nigeria.

The findings of this study will give an insight into the effect of firm financial performance on CSR. This will assist management and stakeholders in the non-financial firms make informed decision regarding the extent to which to engage and or participate in providing social responsibility to the community in which they carry on their business. It would also proffer suggestions to the human right activist on which firm attribute to pay more attention to in trying to justify the fight for firm participation in providing CSR to the community. Government at all levels which have been soliciting the wholehearted adoption of CSR practices will find this study useful as it relates to CSR and financial performance integration within the Nigerian environment. Government will also be able to use the recommendations to develop broad based policies on CSR in Nigeria.

This paper provides empirical results that can be used as literature for the benefit of government, practitioners, scholars (students of CSR) and other users of the information. Finally, it is a humble addition to the body of existing knowledge which will enhance the quality of literature in the area of CSR in Nigeria.

Researchers of CSR will benefit from this research work as it can be used as a benchmark for future researches in CSR. Also, it will be of benefit to students whom could use it as a study material.

To efficiently carry out the desired task, the Researcher made use of secondary data extracted from annual reports of the listed non-financial firms in the Nigerian Stock Exchange. The study links firm performance and CSR of the listed study sample. The study is for ten (10) years (that is from 2009 to 2018). Independent variables of the study are return on investment and net profit margin while CSR is the dependant variable.

2. Literature Review and Theoretical Framework

This part of the paper presents conceptual, empirical and theoretical reviews of the study. World Bank states that “CSR consist of remedial actions taken by a company in a bid to ameliorate the suffering of host community and other stakeholders resulting from their operations and activities. A firm’s Financial Performance connotes the generality of assessment of activities and functions of the firm which are geared towards revenue generation with the sole aim of making profits. FP also shows the firm’s well being when compared with other firms in the same or similar sectors. It is also used by government agencies for tax assessment and scholars for analysis.

According to Carroll's theory CSR carries out some functions, namely; wealth driven, law based, moral value based and charitable. The wealth aspect is about revenue generation to make profit, which is pivotal for the others. In terms of the law premises, it is expected that organisations will operate within the ambit of the law. Also, the moral value base deals with that aspect, where organisations respect the values and norms of the host community notwithstanding whether that might adversely affect the business and even if it above the standard required by law. Finally, the charitable aspect deals with those benevolent actions taken by the business in order to gain acceptance from the general populace (Carroll, 1991).

This theory provides a more advanced perspective on CSR because it considers the businesses as they are bound by the social contract in which it states that the firms hold to perform different desired actions for the society in return for rewards and that their objectives will be approved, which consequently guarantees the firm's continued existence (Brown & Deegan, 1998); Degan, 2002; Guthrie & Parker, 1989). Companies often provide sustainable economic benefit to the society: in return, the wider society supplies them with numerous critical resources in the form of access to employees, natural resources, infrastructure, customers and legitimacy (Bailey, Harte & Sugden (2000) and Reich(1998). Companies are social creations whose very existence depends on the willingness of the wider society to endure and support them. Hence, they are deemed to agree to perform various socially desired actions in return for their acceptance as legitimate institutions in society.

Most often the economic theories used to underpin researches on CSR include stakeholder theory (Freeman, 1984), stockholders' theory (Friedman, 1982), agency theory, good management theory, slack resource theory and legitimacy theory. In the case of this research work, it will be hinged on the legitimacy theory, which believes that CSR occurs as a result of so many forceful elements in the background. Contextually, legitimacy implies those corporate activities that are done to appease the society, which invariably leads to acceptance by the community. Additionally, the legitimacy theory believes that, for those organizations that want to survive and grow to continue in business, they must carry out CSR acts. Consequently, companies could carry out philanthropic and charitable activities in order to remain relevant and to be legally accepted (Davies, 1997; Deegan, 2002; Mile & Patten, 2002). Legitimacy theory expects, firms to strike a balance between their activities and what the society expects.

Waluyo (2017) carried out studies on CSR activities of property and real estate firms using stock index and firm growth in Indonesia. The study made use of secondary data extracted from the annual reports of the sampled companies by measuring the reaction of the firms to social responsiveness. Out of the 49 companies of the study population, 30 samples were selected. The selection was based on listing in the ISE between 2012 - 2016. Data was analysed using ML regression analysis. The researcher asserted that CSR disclosure is significantly affected by firm size, firm age and firm growth.

Ghoul, Guedhami, Kwok and Mishra (2011) examined the effect of CSR (CSR) on the cost of equity capital for a large sample of U.S. firms. Using four databases; Compustat North America, which provided industry affiliation and financial data, KLD STATS (created and maintained by KLD Research & Analytics, Inc. (KLD)) which provided CSR data, and CRSP monthly return files, which provided information on stock returns. In conclusion, they contended that *ceteris paribus*, high CSR firms owing to low CSR firms having a reduced investor base and higher perceived risks.

There is no doubt that different views exist as to the effect of performance on the CSR of firms in Nigeria and other economies. One of the perceptions is that firms with better financial performance are likely to engage more in CSR. There are a lot of debates as to which factor determines CSR most. Thus views vary as amongst ROA, ROE, ROI, EVA, NPM and Liquidity, which one is the most powerful in determining CSR? Hence, it has been difficult to determine which factor drives firms to invest in CSR. There is also a gap in terms of people's ethical reasoning and decision, environment, period, methodologies employed and industries used by other studies. Thus, most other studies had some inconsistencies and mixed outcomes. This study therefore, seeks to contribute to the existing literatures in this area by examining the extent to which performance impacts on CSR of listed non-financial firms in Nigeria.

3. Methodology and Data

The study population is all the 75 listed that do not engage in financial services from 01/01/2009 – 31/12/2018. The companies are consumer goods (27), industrial goods (21), agriculture (5), conglomerate (6), natural resources (5) and health care (11). A filter was used to remove any company that was listed after 2009. Consequently, 18 firms were eliminated, thus, 56 firms were left to be used as the study sample. Secondary source of information was used. This is because

the research work is quantitative with post-positivism paradigm. The data is for ten years (2009 to 2018). Panel multiple regression was adopted to examine the model of the study. Longitudinal panel data was used to account for individual heterogeneity of the sample firms. Therefore, ordinary least square regression using multiple regression technique is employed for the purpose of this research.

In order to test the hypotheses formulated and achieve the objectives of the study the model that test the hypotheses of the study are specified as follows:

$$CSR_{it} = \beta_0 + \beta_1 ROI_{it} + \beta_2 NPM_{it} + \beta_3 LEV_{it} + e_{it}$$

Where:

CSR= CSR

ROI = Return on investment of the sampled non-financial firms

NPM= Net profit margin

LEV= Leverage (control variable)

e_{it} = error term

The measurements for the dependent, independent and control variables of the study are provided as follows:

Table 2: Definition of Variables, Measurement and Sources

Variable	Acronym	Definition/Measurement
Independent Variables		
Return on investment	ROI	Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. (Hassan <i>et al</i> , 2013)
Net Profit Margin	NPM	NPM is the measurement of a company's ability to make high net sales against total net income. It is measured as Net sales/net income (Riyanto, 1995)
Dependant Variable		
CSR	CSR	CSR is measured as natural logarithm of total cost spent on CSR by the company annually. (Abdu, 2016).

Source: Authors, 2017

4. Result and Discussion

Table 3 Correlation Matrix

Variable	CSR	ROI	NPM	LEV	VIF	T-Values
CSR	1.000					
ROI	0.396	1.000			1.000	0.998
NPM	0.067	-0.044	1.000		1.010	0.994
LEV	0.063	-0.003	0.067	1.000	1.000	0.995

Source: Stata/Mp Version 15.1 Output, 2020

Table 3 shows the relationship between CSR and the independent variables both individually and cumulatively including the dependent variable (CSR). CSR has a positive relationship with ROI as seen based on the correlation coefficient of 0.396. Impliedly, as ROI increases CSR also increases. Similarly, the same applies to NPM as seen at 0.067. Hence multicollinearity is not a problem statistically. (Tobachnick & Fidell, 1996).

Table 4 Summary of Regression Result

Variable	Coefficient	Z-Value	P-Value
ROI	14.892	10.310	0.000
NPM	2.095	2.070	0.039
LEV	0.078	1.520	0.129
Constant	7.339	13.240	0.000
R-square			0.167
Wald Chi2			111.660
Wald-Sig			0.000
Mean VIF			1.000
Hetest chi			29.270
Het-Sig			0.000
Hausman			0.170
Hausman Sig			0.982

Source: Stata/Mp Version 15.1 Output, 2020

Table 4 shows the cumulative R^2 (0.167), this indicates that, the model is fit, variables properly selected, combined and used in the study. This is statistically

supported by the wald chi2 statistics coefficient of 111.660 with a p-value of 0.0000 which is statistically significant at 1% level of significance.

The important of testing the effect of return on investment and CSR (CSR) is of paramount importance. The result presented in table 4 shows that return on investment has a strong positive, significant and statistical relationship with the CSR (CSR) as represented by the coefficient values of 14.892 which is at 1%, significant level. Therefore, a company with higher return on investment may likely willing to invest more in CSR (CSR). However, this finding is not surprising base on the above fact and also it provides an evidence that return on investment contributed significantly to investment in CSR. The result of ROI is not contrary at all, ROI reveals a positive and statistical association at 1% with CSR of listed non financial ventures in Nigeria. Consequently, the First Hypothesis, H_{01} is nullified.

Regression result in table 4 reveal that NPM at 2.070 with coefficient 2.095 with a significant p-value of 0.039. This indicates that NPM has a positive, significant and statistical impact on the CSR of listed non financial firms in Nigeria. Thus, each 5% addition to NPM will also positive add more to CSR. Another explanation is that the more the NPM achieved by listed non financial firms in Nigeria, the more the likely chances of participating in CSR by these companies. NPM as a performance measure is expected to have a direct relation with participation in CSR by listed non financial firms in Nigeria.

Finally, NPM was found to have a positive, significant and statistical influence on CSR of Nigerian listed financial firms at all level of significance. Similarly, this finding was found to be consistent with my priory expectations. Here also the Second Hypothesis, H_{02} is annulled.

5. Conclusion

Conclusively, there is a statistically significant correlation when ROI is regressed against CSR. This suggests that, ROI determines the CSR of non financial firms listed in Nigeria. Therefore, the higher the ROI of non financial firms listed in Nigeria, the higher their participation in CSR.

Finally, NPM affects CSR significantly. Based on this fact, firms with substantial amount of NPM are found to be stronger in improving the sampled firm's participation in CSR. The researcher recommends for companies to ensure that

they increase their ROI; this will promote their participation in CSR. Also the management of non financial firms in Nigeria are advised to improve their NPM; this will also promote their participation in CSR.

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