

Effect of Corporate Social Responsibility on The Profitability of Firms in Nigeria

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Abstract

This research the Effect of corporate social responsibility on the profit of a firm. A case study of Lafarge Africa PLC. The study examines how corporate social responsibilities to the external stakeholders affects a firm's profit. Expenditures on sponsorship/donations and community development were employed as independent variables while return on investment was employed to measure the firm's profit. Employing an ex-post facto research design, data was collected from Lafarge Africa PLC's annual reports over the studied period. Using E-views statistical package to test at 0.05 level of significance, findings from the analysis led to the conclusion that no significant correlation exists between these variables and return on investment therefore the null hypothesis was generally accepted while the alternative hypothesis was rejected. Nonetheless, the study recommended managers to maintain their commitment to fulfilling corporate social responsibilities toward external stakeholders.

Keywords: corporate social responsibility, firm's profitability, stakeholder theory, corporate social responsibility theory.

INTRODUCTION

The Financial Times defines Corporate Social Responsibility (CSR) as a "Business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders." This movement is aimed at encouraging companies to be more aware of the impact of their businesses on the rest of society, including their own stakeholders and the environment (Financial Times). The definition of CSR, however, does not include the financial implications for a firm that installs CSR policies into their Business model. Despite unknown confirmed financial effects of implementing CSR measures into a business plan, according to the law of a capitalist economy like that of the United States of America, one would expect to observe financial implications to any significant CSR policies. In the words of Friedman (2009), a seasoned researcher in CSR area, the only one social responsibility for a business is to utilize its resources and activities to increase companies' profit (ibid.). It suggests that the social responsibility of a firm is maximizing of profits, and the overall aim of business managers is to maximize the profit return in order to satisfy the expectations from firm's shareholders, people who own the firm (Friedman, 1970, cited in Kolstad, 2007; Kolstad, 2007; Pava & Krausz, 1996). Those common investors of a firm hope to get higher-level cash returns and a solid corporate financial performance with lower risks. Majority of empirical researches merely focus on measuring the relationship between corporate social responsibility (CSR) and profitability/financial performance in order to identify whether the association is positive or negative. A few researches pay more attention to the internal connection to explain how the relationship

between CSR and profitability emerges but, in this study, the researcher goes on to investigate externally through the use of sustainability reports which depicts the impact of Lafarge Africa plc to its host Communities. Hence, it is Nevertheless, what type of relationship exists between CSR and firm's profitability? Do those CSR initiatives influence the firm's profitability in positive, negative or even neutral way? It is an interesting topic since this question somehow puzzles companies who implement CSR and want to have a balance between its CSR performance and financial performance. Despite the great interest, this is also a controversial topic since there is a number of empirical studies based on different variables from different scholars show different results and opinions on it. Some scholars claim that there is a positive relationship between the CSR and profitability while others' studies show that CSR has a negative relationship with making a profit or no relationship.

Conversely, this interdependence or mutual relationship places an obligation on a party to exercise diligence and ethical consideration when developing policies and carrying out business activities. This mutual interest also necessitates transparency and accountability in operations. Accountability and responsibility are often used interchangeably because one can only be held accountable for what they are responsible for. Therefore, responsibility and accountability are closely connected. However, responsibility primarily pertains to social and environmental aspects. Jones and George 2008, social responsibility as the perspective of a company's managers and employees regarding their duty and obligation to make decisions that safeguard, improve, and advance the well-being of stakeholders and society as a whole. In simpler terms, social accounting is the belief that an organization is responsible for acting in a way that benefits the society it operates in. Consequently, social responsibility is a responsibility that both individuals and societies bear in order to maintain a balance between economic interests and environmental well-being. It entails striking a balance between materialistic economic growth and the welfare of society and the environment, signifying the need to sustain equilibrium between these two aspects. Social responsibility accounting primarily concerns itself with assessing the contributions that a business organization makes to society and the environment. This branch of accounting has evolved in response to governmental and public demands, particularly on large corporations, urging them to enhance transparency and awareness regarding the consequences of their operations on the environment and society. Therefore, the researcher is motivated to conduct a study aimed at determining the extent to which corporations adhere to social responsibility accounting and the manner in which they present and disclose their commitments in their financial reporting.

Within the context of this study, the issue that has captured the researcher's attention is the failure of business managers to fulfill their social responsibilities to the local community, and to document such commitments in their financial reports. The research also aims to investigate the level of consistency in executing these responsibilities, if any. Many company managers overlook the importance of engaging in social responsibility towards their host communities, and it is believed that this negligence has, in recent times, resulted in reduced profitability due to conflicts of interest within these communities. It is within this context that the current study aims to explore the impact of corporate social responsibility on a company's profitability.

METHOD

This study has its theoretical basis on stakeholder theory which refers to the notion that each group has a vested interest in the manner in which an organization is operated. According to Akinsulire (2011), the traditional view is that the organizations are run so as to maximize the shareholders' wealth. However, there is another view that an organization is a coalition of various groups such as shareholders, employees, lender, customer, suppliers,

community and government. Lasher, Hedges and Fagerty (2006) opined that these interested groups can be called stakeholders of the company. Conflicts of interest may sometimes arise among stakeholders. Conflict of interest occurs when things that benefits a group robs another group of their benefits. These conflicts can affect manager's actions and therefore impacts on share Prices. The stakeholder theory proposed an increased level of environmental awareness which creates the need for companies to extend their corporate planning to include the non-traditional stakeholders like the regulatory adversary groups in order to adapt to changing social demands (Trotman, 1999). The theory suggests that besides shareholders, other stakeholders are affected by a company's activities and they must be considered in management decisions, possibly equally with shareholders (Werhane & Freeman, 1999). The basic proposition of the stakeholder theory is that the firm's success is dependent upon the successful management of all the relationships that a firm has with its stakeholders. Stakeholder theory can further be used to explain the importance of corporate social responsibility practices in an organization. According to Branco & Rodrigues (2007), social issues deserve moral consideration of their own and should lead managers to consider the social impacts of corporate activities in decision making. Regardless of any stakeholders' pressures, actions which lead to things such as the conservation of the Earth's natural resources or bio-diversity preservation, are morally praiseworthy and also CSR is seen as a defense measure of the industrial system against attacks because there is the need to proffer a balance between social objectives and profitability so as to achieve economic equilibrium.

RESULT AND DISCUSSION

Studies shows that CSR as a concept is relatively new in Nigeria and started off as a response by multinationals to remedy the effects of their extraction activities on the local communities. CSR from a Nigerian perspective can be viewed as two-fold. Firstly, there is the recent development of formal CSR practices mainly driven by MNEs and large national companies. These initiatives are mainly philanthropic with practices and understanding to a large extent "imported" from the West. Building on the United Nations declarations, conventions and efforts of constituents especially the International Labour organization, the ISO has continued a process towards a harmonized approach under the leadership of both the Swedish Standard Institute and the Brazilian Association of Technical Standards. This process has active participation of Nigeria where the National Mirror Committee on Social Responsibility is working to contribute towards the completion of ISO26000 by 2008. The aim is to encourage voluntary 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 time, companies in Nigeria did not appreciate need to enhance their reputation through the practice of CSR. 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. UACS corporate philosophy was designed to maximize shareholders' profits in line with the concept postulated by Friedman (1962). 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). Origins of Corporate Responsibility In words of Uwah (2009), the concept of social responsibility owes its antecedence to two principles namely The charity principle and The stewardship principle.

The charity principle advocates that the wealthier members of the society should be charitable to the less privilege ones. This partly draws its strength from the religious moral

code where one is to be his brother's keeper and partly from history where ancient royalties were benevolent on the rustics. The need of man has become so numerous that emphasis is shifted from individual philanthropy to corporate philanthropy. According to Gilbert Tan et al., (2006), the stewardship principle advocates the business and society as being interdependent. This implies that the companies need to be keepers or custodian in the interest of the society. This means that the companies must be sure that the external society enjoys certain benefits from its decisions and policies. Characteristics of Corporate social responsibility, According to European foundation for quality management (EFQM), some common characters six of corporation responsibilities are: 1) Meeting the need of current stakeholders without compromising the ability of future generations to meet their own demand, 2) Integrating social environmental and economic policies in day-to-day business, 3) Accepting corporate social responsibility as a core activity that is embedded into an organizational management strategy, 4) Adopting corporate social responsibility voluntarily rather than as legal requirements because it is seen to be in the long-term interests of the organization.

In order to understand the relationship between profit and corporate social responsibility, many empirical studies have been carried out between performance and corporate responsibility. The studies own different opinions ranging from being positive to negative as well as being statistically significant to not being significant. These variations happened to be as a result of different methods employed in the studies. These methods are simply the internal and external factors. Ogaji (2020) studied the effect of corporate social responsibility accounting on the financial performance of telecommunication companies. The study was to focus on the influence of the external CSR of telecommunications companies using expenditures on healthcare, education and community development. It was concluded that CR does not contribute significantly to the performance of firms by reducing return on equity. It however noted that neglecting CSR would be detrimental on firms and suggested a continuous investment in SR which can enhance corporate image and can therefore result in more patronage and possibly more profit. This study rules CSR as a tool to enhancing corporate reputation. Sulaiman, Ahmadu, Mijinyawa, (2019) studied 'Corporate Social Responsibility and Profitability of Listed Oil and Gas Firms in Nigeria'. The study examined the effect of corporate social responsibility expenditure on profitability of 5 listed oil and gas firms in Nigeria. It employed corporate social responsibility expenditures and firm size as proxies to measure corporate social responsibility as well as the use of return on equity (ROE) to measure profitability. The study focused on internal corporate social responsibility to test for significance in the relationship between variables. Results from the random effect panel estimator indicated that CSR had a positive significant effect on profitability while firm size had a significant negative effect on profitability. In line with the major findings, the study concluded that corporate social responsibility activities (internally) did not only improve the well-being of the society but also enhance shareholders' wealth.

Kwaning, et al. (2014) analyzed the effect of CSR expenditure on the financial performance of Agricultural Development Bank, Ghana during the period 2002- 2009. The results revealed negative relationship between CSR expenditure and financial performance indicators measured by ROE and net interest margin. Abdullahi and Okoh (2017) accessed the effect of profitability on social donations of listed conglomerates firms in Nigeria from 2009-2015, from the above table, the regression line can be depicted as follows:

$$\text{RETURN ON INVESTMENT} = B_0 + B_1 \text{EXPSPON/DON} + B_2 \text{EXPCOMDEV} + \text{et}$$

$$\text{RETURN ON INVESTMENT} = 0.182800 + -1.89-06\text{EXPSPON/DON} + -1.39\text{E-}07\text{EXPCOMDEV} + \text{et}$$

Where; EXPSP/DON = Expenditure on sponsorships/donations

EXPCOMDEV = Expenditure on Community development

B = Coefficient of the explanatory variables

et = error term in the model

CONCLUSION

The regression analysis is conducted to show the effect of the independent variable on the dependent variable. For the estimation conducted in this study, the main statistics of interest are the t-statistic and their corresponding significance. The secondary data collected for this study was used to analyze the results. The B_0 (0.182800) indicates that if EXPSPON/DON and EXPCOMDEV are held constant, ROI is subject to vary by 0.182800, this accounts for the influence.

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