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Corporate Social Responsibility And Performance Of Non-Financial Firms Quoted On Nigerian Stock Exchange.

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Abstract: *Thispaper explores Corporate Social Responsibility and performance of non-financial firms Quoted on the Nigerian Stock Exchange. The paper adopts Ex-post facto research design, using panel data. Secondary data was used from 2006-2016 extracted from annual reports and account of 40 sample firms using purposive sampling technique. Data was analyzed using panel regression for model 1and 2. Findings of this paper indicates a positive significant effect of CSR on ROA, while ROE reported negative significant effect. The paper therefore, recommended that the management of the non-financial firms quoted on NSE should continue to engage in CSR programs in an effort to ensure legitimacy and improve company's FP. Also, the findings of this paper have shown some practical implications on the management in making prudent and sound financial decisions, because the paper has established whether there is significant effect on CSR and performance as this will allow Non-Quoted companies in knowing whether to practice CSR and firmsimproved on their performance or not.*

Keywords: *Corporate Social Responsibility, Financial Performance and Quoted Non- Financial Firms*

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I Introduction

In Nigeria, Corporate Social Responsibility gained prominence in the 1990s following the Ogoni crisis, as a result of the interest shown by the international communities in the conflict between oil and gas companies and their host communities (Oguntade & Mafimisebi, 2011). Additionally, current financial crises in developing countries particularly, in Nigeria with attendance consequence on social inequality, unemployment, infrastructure deficit, social tension and insecurity demand for performing CSR activities with particular interest to company labor and community relations practice issues of great concern for sustainable development in Nigeria (Ibenta, 2014).

Specifically, the nature of CSR in Nigeria Stock Exchange especially (non-financial quoted firms) includes investment in education sector through provision of construction and renovation of lecture theatres in tertiary institutions, provision of primary and secondary schools, amount spent on funding scholarship program or activities, support to physically challenge, employment opportunities to qualified physically challenge persons, amount spent on conservation cost, amount spent on training of employees on health and safety, sponsoring awareness campaigns such as enlightenment against discrimination for people living with HIV and Cancer. In addition, reason for chosen non-financial sector context are, due to these sector tend to have huge long term social and environmental impact on society with few social and environmental credentials than other sector in Nigeria (World Bank, 2005).

Further, financial performance is considered as one of the most imperative studied gauges the strategic worth of CSR (Ortlitki, Schmidt, & Rynes, 2003). Scholars have also reiterated the interdependence between CSR and FP a number of decades ago in Western countries. Many firms have been confronted with increasing pressure on corporate accountability from their stakeholders (managers, employees, customer, government, shareholders and society (Waddock, 2004).

Moreover, the expectations of social services from firms have become very high in Nigeria and the negligence of expectations by those firms had culminated in a very turbulent environment for them such as Illiteracy, poor infrastructures, bad road networks, poverty in the country and environmental pollution (Onwuchekwa, 2009). In other words, if firms to ignore the claims that, stakeholders place on them, the stakeholders are likely to withdraw their support which might impede the financial performance of the firms. Based on the foregoing, the following objectives were formulated:

1.1 Objectives of the paper

i. To investigate the effect of corporate social responsibility expenditure on Return on Asset

ii. To explore the effect of corporate social responsibility expenditure on Return on Equity.

1.2 Hypotheses of the Paper:

In line with the objectives of this paper, the following hypotheses were formulated.

$H_{0.1:}$ Corporate social responsibility expenditure has no significant effect on Return on Asset.

$H_{0.2}$: Corporate social responsibility expenditure has no significant effect on Return on Equity.

II Literature Review and Theoretical Framework

2.1 Concept of Corporate Social Responsibility

Quite a number of scholars have defined corporate social responsibility from different perspectives. Corporate Social Responsibility (CSR) concept emphasizes community participation by business enterprises. It proposes that a private firm has responsibilities to society that extend beyond making a profit. WBCS 2000 define CSR is continuing commitment of a business to act morally and add to economic development while improving the quality of life of the work force and the surrounding community at large. This can be achieved through the various corporate social responsibility activities that the business chooses to engage in for the benefit of its stakeholders (such as employees, suppliers, shareholders, government, community/society and customers)

According to, McShane and Glinow (2003) defined social responsibility as a person's or an organization's moral obligation towards others who are affected by his or her actions. It serves as a source of motivation in solving societal problems. In the word of Nicolau (2008), CSR refers to a company's obligations to be accountable to all of its stakeholders in all its operations and activities. Social responsible companies consider the full scope of their impact on communities and the environment when they are making decisions, balancing the needs of stakeholders with their need to make profit.

Additionally, Adeyanju (2012) notes that any good definition of social responsibility must contain if not all, most of the following: Responsibility that:

a) Goes beyond the production goods and services at a profit;

b) Helps in solving important social problems those that the organization are responsible for creating;

c) Makes corporations have greater constituency than stockholders alone;

d) Makes corporations have great impacts that goes beyond marketplace transactions; and,

e) Makes corporations serve a wider range of human values that can be captured by a sole focus on value.

2.2 Forms of Corporate Social Responsibility

Caroll and Buchholtz (2000) identified four types of CSR with an Organization can pursue, and they include:

2.2.1 Economic Responsibilities

A company's first responsibility is its economic responsibility that is to say, a firm need to be primarily concerned with making more earning or profit for the overwhelming interest of shareholders. Further, Economic responsibility lies on the basis which all business activities rest is to satisfy this economic responsibility by providing goods and services that consumer need and want, and the process make acceptable profit for its shareholders (Caroll & Buchholtz, 2000). In his view suggest that all other responsibility are consummated on these responsibility. He summarizes what characterizes the economic responsibility into what has been listed below;

a. It is essential to act in a way that is consistent with maximizing earning per share.

b. It is essential to maintain a strong competitive position.

c. It is important to be committed to being a profitable as possible.

e. It is important to ensure and perform by a firm in a following manner such as:Integrity, corporate governance, economic development of the community, transparency, prevention of bribery and corruption, payments to national and local authorities, use of local suppliers, hiring local labour and similar areas.

2.2.2 Legal Responsibilities

A company's legal responsibilities are the requirements that are placed on it by the law. Next to ensuring that company is profitable, ensuring that corporations operate in a legal environment and it onerous on them to comply with all laws and regulations governing the state and immediate communities as well. Additionally, legal responsibility which espouse that corporation are legal entities incorporated by government (society) to engage in enterprises activities that are allowed by the state. Caroll and Bucchholtz (2000) view, as a partial fulfilment of the social contract between business and society, firm are expected to pursue their economic missions within the framework of law such as it is important to provide goods and services that at least, meet minimal legal requirements, it is important to be the law abiding corporate citizen.

2.2.3 Ethical Responsibilities.

Ethical responsibilities are responsibilities that a company puts on itself because its owners believe it's the right thing to do not because they have an obligation to do so. It includes doing what is right, fair and just. Moreover, ethical responsibility it is expected to perform with the societal values and ethical norms, it is essential to prevent ethical norms from being compromised in order to achieve corporate goals.

2.2.4 Social or Philanthropic Responsibilities.

Carolls and Buchholtz (2000) view, constitute those corporate actions that response to society's expectation that businesses must be a good corporate citizen. They include business contribution of financial and human resources, such as contribution to arts, education, Human rights, training and developing local labour, contributing expertise to community programs, donating, funds, services, projects, etc to community where they operate and improving the quality of life in general.

2.3 Concept of Firms Performance

The concept of financial performance is a multi - dimensional concept and its explanation continues to occupy a prominent place in literature, (Theiri & Ati, 2011). Profitability is the main objective of all business ventures, without profitability the business will not survive in the long run. Therefore, the measurement of current or past profitability and projecting future profitability is very important. Profitability is the most important measure of the success of the business and a business that is not profitable cannot survive. Consequently, profitability of firm plays a significance role in the structure and development of firm because it measures the performance, success of the firm and enhances the reputation of the firm (Nousheen & Arshad, 2013).

2.4 Importance of Firms Performance

Performance measurement is critical to effective management of any firm (Demirbag, Tatoglu, Tekinus & Zaim 2006). The process improvement is not possible without measuring the outcomes. Hence, organizational performance improvement requires measurements to identify the level to which the use of organizational resources impact business performance (Gadenne & Sharma, 2002, Madu, Aheto, Kuei & Winokur, 1996). The firm's success is basically explained by its performance over a certain period of time. Researchers have extended efforts to determine measures for the concept of performance as a crucial notion.

2.5 Measurement of Firm Performance

Corporate performance is used as a measure to dictate an organization's growth and development. It shows the level of improvement made by an organization or firm within a period of time.

(a) Return on Asset (ROA)

ROA, as the measurement of performance, informed the investor how well a company uses its assets to generate income. And that a higher ROA denotes higher level of management performance. ROA is an indication of the operating efficiency of the firm. According to Panagiotis & Konstantinos (2005), ROA can be viewed as the firm's ability to make use of its assets

(b) Return on Equity (ROE)

ROE is a test of profitability based on the investments of the owners of the business. It measures the return which accrues to the shareholders after interest payments and taxes are deducted. In addition, ROE reveals what return investors take for their investments (Tangen, 2003). Moreover, Sugiono 2009 stated that the ROE is the ratio that measures rate of return to business over the whole existing capital.

2.6 Theoretical Framework

This paper adopts stakeholder theory because the theory is about business linking with other stakeholder. Hence the need for firms to adopt the propositions of this theory and practice CSR which is of public interest and people driven. Lorca and Garcia-Diez (2004) argue that the business climate has changed remarkably over the past number of years, such that, today success is beyond dependent on only shareholder's satisfaction but on the satisfaction of all the stakeholders of the company.

III Methodology

This paper used an Ex-post facto and Descriptive Research Design by using Panel data covering a period of eleven 11 years (2006-2016). Secondary data was used, with panel data regression analysis for first and second model. The independent variable in this study was CSR expenditure measure by proxy of investment in CSR activities while dependent variable is ROA, ROE.

The population of this paper is made up of all the non-financials quoted firms on the Nigerian Stock Exchange, for a period of eleven years (2006-2016). There are 119 non-financial Quoted firms on the Nigeria Stock Exchange, (NSE Website May, 2017). These were picked from ten (10) different sectors, that comprises of, Agriculture (5), Conglomerate (6), Construction / Real- estate (7), Consumer Good (23), Healthcare (11), ICT (9), Industrial Good (17), Natural Resource (4), Oil and Gas (13) and Service (24). Decision to choose these Quoted firms on the NSE is due to the availability and quality of the data considering the fact that all Quoted firms are required by law to submit periodic data to the NSE as well as published audited annual report and accounts.

This paper used a sample of forty (40) firms Quoted on NSE for 11 years, using purposive sampling technique (see appendix 1). The period was determined due to availability of data and to collect more information. Choice of Oil and Gas (8), Consumer Good (16), Natural Resource (3) and Industrial Good (13), is justified on basis of the fact that, they represent the most environmentally visible and sensitive sectors and also due to their specific core businesses nature of making huge profit from their investment in Nigeria (Singh & Davidson, 2003).

3.1 Model Specification and Variable Measurement

The independent variable is defined as the total amounts spent on corporate social responsibility activities ROA and ROE representing dependent variables. Moreover, this study was employs the used of control variable to augment the model which includes size, risk, leverage and fage. Consequently, the proposed theoretical model was represented by the following general function (see appendix 2: variables measurement)

FPi = f(CSRi, **X**) ,,,(1)

where: FP is a measure of firm i's Firms Financial performance,

CSR is a measure of firm i's corporate socially responsibility expenditure,

X is a vector of control variables, which includes firm i's financial characteristics.

Panel regression models with ROA and ROE, as dependent variables………………………………………………………………………………………(2)

1. Panel regression models with ROA as the dependent variable

$Y1 = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + e$

2. Panel regression models with ROE as the dependent variable

$Y2 = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + e$

Explanation

Y1= ROA, Y2= ROE, Y3= Tobin's Q, α =Constanta, β_1- β_8=Coefficient of Regression X_1= $Csrc_{it}$ X_2=$Size_{it}$, X_3= $Risk_{it}$, X_4= $Leverage_{it}$, $X_{5=}$ Fage $_{it}$,

The model of the study is mathematically expressed as follows;

$ROA_{it}=\alpha+\beta1CSR_{it}+\beta2Firmsize_{it}+\beta3Risk_{it}+\beta4Leverage_{it} + \beta_5\ Fage + \varepsilon_{it}$

$ROE_{it}=\alpha+\beta1CSR_{it}+\beta2Firmsize_{it}+\beta3Risk_{it}+\beta4Leverage_{it}+ \beta_5\ Fage + \varepsilon_i$,

Decision rules are taken at 5% significant levels.

IV Discussion of Findings

4.1Introduction

This section focused on the analysis and presentation of data as well as discussion of paper findings. Descriptive statistics and Panel Regression wereused to explore the effect Cooperate Social Responsibility (CSR) on Performance. Data were collected from 40 non-financial Quoted firms on the Nigerian Stock Exchange (NSE). Data analysis and presentation were done in two sections. The first section was based on descriptive analysis and presentation of the independent, dependent and control variables. The second section presents diagnostic tests, as preliminary investigation, while the second section focused on the analysis and presentation of data based on the research hypotheses. All tables and figures presented herein were derived from field data.

4.2 Descriptive Analysis of Variables

The descriptive statistics is presented in table 4.1(see appendix 3) in which the minimum, maximum, mean and standard deviation of the data for the variable incorporated in the paper. Analysis of the table reveals that the mean Corporate Social Responsibility of the firms are 5.42. The mean Return of Assets of the firms is 2.3. The mean Return of Equity are 15.12. The minimum and maximum values show that the scores were measured during good and bad times (i.e. in time of losses and profits). The associated standard deviation indicates the extent to which means scores of the variables deviated from the overall mean.

4.4 Test of research paper hypotheses

For each model, Hausman test for endogeneity was employed to determine the Effect Specification appropriate for the model.

4.4.1Research Hypothesis one: Corporate social responsibility expenditure has no significant effect on Return on Asset. (Table 4.2, see appendix 4)

Table 4.2 shows the panel regression with fixed effect results model summary of the effect of Corporate Social Responsibility (CSR) on Return on Assets (ROA) of non-financial Quoted firms on Nigerian Stock Exchange while controlling for Firm Size, Risk, Leverage and Fage. Hausman specification tests to indicates that Fixed Effect Specification is more accurate than the Random Effect model since the Hausman test is significant. (Chi-sq=18.64; p-value=0.0022). From the model, there was a significant positive effect of CSR on ROA when the covariance is controlled for (F-statistics=6.17; p-value=0.000). An inspection of the individual variables indicates that CSR has a significant effect on ROA (t=3.956; p-value=0.001). Despite reaching significant effect, the coefficient of determination of the result obtained to give 0.34 (34%) this depicts that the explanatory variable account for about 34% variation or change from non-financial Quoted firms on NSE performance measured by (ROA) is trigger by changes in CSR in non-financial Quoted firms on NSE. This however, indicates that other variables could account for the remaining 66%. Based on this, the research hypothesis above is therefore rejected, implying that Corporate Social Responsibility has a significant effect on Return of Assets to non-financial Quoted firms listed in the Nigerian Stock Exchange.This finding concurred with the finding of (Uadiale and Fagbemi, 2011, Cheruiyot, 2010; Mwangi and Jerotich, 2013; Abdullahi, 2014) who found that Corporate Social Responsibility significantly affects Return on Assets of firms. Subsequently, they found a positive relationship between ROA and CSR. They argued that ROA growth can be used to finance company's CSR activities. They concluded that if firms did not generate sufficient ROA, then the firms did not implement many Social Responsibility activities.

4.4.2 Research Hypothesis two: Corporate social responsibility expenditure has no significant effect on Return on Equity. (See Table 4.3, appendix 5)

Table 4.4 show the panel regression with summary of fixed effect results model regarding the effect of Corporate Social Responsibility on Return on Equity of non-financial Quoted firms on Nigerian Stock Exchange while controlling for Firm Size, Risk, Leverage and Fage. Hausman tests for endogeneity indicates that Fixed Effect Specification is more robust than Random Effect model since the Hausman test is significant for the model (Chi-sq=15.97735; p-value=0.000). There was a significant negative effect of CSR on ROE (F-statistics=4.187998; p-value=0.00000) when the covariance were controlled for. When the individual variables were considered separate, CSR (t=-4.32; p-value=0.000 made significant negative effect on ROE. Despite reaching a statistical significant, CSR explained only 24% of the variance in ROE, leaving 76% still to be accounted for by other variables. On the basis of this, the research hypothesis was therefore rejected, implying that Corporate Social Responsibility has a significant but negative effect on Return on Equity even when firm size, risk, leverage and fage are controlled for.As evident by the results, the study also corroborated with the shareholders' theory. While also confirming the study, Weshah, Dahiyat, Awwad and Hajjat (2012), Monsuru and Abdulazeez (2014), it contradicts the findings of Elmosaid and Boutti (2012).

V Recommendations

Based on the conclusion of the study, following recommendations were made.

1. Non-financial Quoted firms on Nigeria Stock Exchange should continue to engage in CSR activities to increase their return, thus ROA. This is because of the significant positive effect of CSR expenditure on financial performance measure by ROA.
2. Non-financial Quoted firms on NSE should find a strategic way for implementing CSR initiative to ensure legitimacy and gain market for their product and services. This is because as the legitimacy theory suggests a firms' has the larger responsibility to promote corporate social responsibility activities.
3. Nigerian government by way legislation should design policy framework and ensure compliance to compel firms to implement cooperate social responsibility activities. This is because non-financial Quoted firms has not been embarking on CSR activities positively.
4. Government should play it role to motivate firm by way of tax incentive to adjust Nigeria tax law in order to cater for expenses on CSR as a deductible expense. This will reduce tax liability of firms and also encourage firms to actively embark on CSR as it will impact on their FP in long run and reduce the burden on government in terms of provision of social welfare for the societies and nation at large.

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Appendices

Appendix 1: Sample Size of the Study

S/N	Name of the Companies	Sector	S/N	Name of the Companies	Sector
1	Eterna plc	Oil and Gas	21	7up Nigeria	Consumer Goods
2	Forte	Oil and Gas	22	Cadbury Nigeria	Consumer Goods
3	Japaul Oil and Maritime Services plc	Oil and Gas	23	Champion Breweries	Consumer Goods
4	Mobil Oil Nig plc	Oil and Gas	24	Dangote Sugar	Consumer Goods
5	MRS Oil Nig plc	Oil and Gas	25	Flour Mills of Nigeria	Consumer Goods
6	Oando	Oil and Gas	26	Guinness Nigeria	Consumer Goods
7	Total Nig plc	Oil and Gas	27	International Breweres	Consumer Goods
8	Conoil	Oil and Gas	28	Nascom Allied	Consumer Goods
9	African Paints Nigeria	Industrial Goods	29	Nestle Nigeria	Consumer Goods
10	Avon Crowncaps and Containers	Industrial Goods	30	Nigeria Breweries	Consumer Goods
11	Berger Paints Nigeria	Industrial Goods	31	Nigeria Enamelware	Consumer Goods
12	Beta Glass Company	Industrial Goods	32	Nigeria Northern Flour Mill	Consumer Goods
13	Cement Comy of Northern Nigeria	Industrial Goods	33	Pz Cussons	Consumer Goods
14	Chemical and Allied Product	Industrial Goods	34	Unilever Nigeria	Consumer Goods
15	Cutix	Industrial Goods	35	Union Discon Salt	Consumer Goods
16	Dn Meyer	Industrial Goods	36	Vono product	Consumer Goods
17	First Alumminium Nigeria	Industrial Goods	37	Aluminium Extrusion Industrial	Natural Resource
18	Greif Nigeria	Industrial Goods	38	B.O.C Gases Nigeria	Natural Resource
19	Lafarge Cement Wapco Nigeria	Industrial Goods	39	Thomas Wyatt	Natural Resource
20	Premier Paints	Industrial Goods	40	Vitafoam Nigeia	Consumer Goods

Appendix 2: Variables Measurement

Variables name	Variables Description	Source
Independent variable		
CSR	NL of the lump sum value expended in CSR to help the society/stakeholders.	Kiran, Shahid & Farzana (2015)
Dependent Variables		
Return on Asset (ROA)	Net profit/ Total Asset	Ibrahm &Abdusmad (2011)
Return on Equity (ROE)	Net Profit/ Total Equity	Subramayam & wild(2014)
Tobin's Q	(Market value of Equity + Total Debt)/Total Asset	Bozec & Dia (2015), Najid & Abdul Rahman (2011)
Earnings per Share (EPS)	Number of Share/Net profit	Brigham & Houston (2006)
Control Variables		
Size	Log of Total Asset	Ehsan &Kaleem (2012)
Leverage	Total debt/Total asset	Sheikh & Wang (2011)
Risk	Stdv of EBIT/Total Asset over 3 years period	Campbell (2006)
Firm Age (Fage)	Numbers of years firms listing on NSE to date	Ehsan & Kaleem (2012), Schreck (2011)

Source. Author Computation 2017.

Appendix 3: Descriptive Statistics Table

Table 4.1: Summarized Descriptive Statistics Variables

	ROA	ROE	EPS	TBQ	CSR	SIZE	LEV	RISK	FAGE
Mean	2.322	15.119	0.877	1.0261	5.424	7.078	53.78	-1.6255	29.025
Median	2.269	15.325	1.049	0.954	5.330	7.148	52.27	-1.4079	30.000
Maximum	5.241	44.290	6.658	4.975	9.990	9.340	99.51	4.6583	52.000
Minimum	-1.427	-6.000	-5.897	-4.635	0.000	4.836	4.81	-6.9120	8.0000
Std. Dev.	1.1005	7.566	2.241	1.769	1.858	0.926	19.96	1.8287	8.088
Skewness	0.191	-0.023	-0.061	-0.192	-0.006	-0.109	0.06	-0.2894	-0.0705
Kurtosis	2.995	0.721	3.792	3.350	2.516	2.597	2.50	3.4099	2.5623
JarqueBera	2.995	0.721	3.792	4.938	4.279	3.828	4.72	9.2244	3.877
Probability	0.224	0.697	0.150	0.085	0.118	0.147	0.09	0.00993	0.1439
Sum	1017.2	6622.4	383.9	449.45	2375.7	3100.2	23558.9	-715.26	12771.0
Sum Sq D.	529.25	25012.7	2194.5	1367.5	1509.03	374.71	174076.2	1468.08	28720.72
Observations	439	439	439	439	439	439	439	439	439

Author Computation 2017

Appendix 4: Test of Hypothesis for Model 1

Table 4.2: ROA and CSR Fixed Effect Model Summary

Variable	Coefficient	Std. Error	t-Statistic	P-value
CSR	0.121138	0.030318	3.995481	0.001
SIZE	-10.65851	3.578724	-2.978298	0.003
RISK	0.069846	0.086656	0.806020	0.420
LEV	0.067718	0.062503	1.083439	0.279
FAGE	0.265890	0.285234	0.932182	0.351
R-squared	0.408283			
Adjusted R-squared	0.342203			
F-statistic	6.178618			
P-value	0.000000			

Dependent Variable: ROA. AUTHOR COMPUTATION 2017

Appendix 5: Test of Hypothesis for Model 2

Table 4.3: ROE and CSR Fixed Effect Model Summary

Variable	Coefficient	Std. Error	t-Statistic	P-value.
CSR	-2.238010	0.468990	-4.771975	0.0000
SIZ	0.702118	1.998132	0.351387	0.7255
RISK	-0.078546	0.048383	-1.623450	0.1053
LEV	0.095805	0.034898	2.745285	0.0063
FAGE	-0.407518	0.159257	-2.558875	0.0109
R-squared	0.318660			
Adjusted R-squared	0.242571			
F-statistic	4.187998			
P-value	0.000000			

Dependent Variable: ROE. AUTHOR COMPUTATION 2017.