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Corporate Social Responsibility and Corporate Financial Performance Attractiveness of Companies in Nigeria

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ABSTRACT

There is a growing awareness that public entities have a responsibility to be good corporate citizens and consider the interests of more than just their financial stockholders. This study examined corporate social responsibility and corporate financial performance attractiveness of quoted oil and gas companies in Nigeria. Secondary data were obtained from corporate statement of financial position and accounts data of quoted oil and gas companies extracted from annual published accounts of the organization post IFRS 2011-2015. Content analysis was carried out on the financial statement to establish corporate social responsibility before correlation of corporate social responsibility and performance variables with return n assets, return on equity and earnings per share using special pack for social sciences version 21.0 to analysis data based on Pearson product moment of correlation. Findings indicate weak and insignificant relationship linking corporate social responsibility with return on assets, return on equity and earnings per share indicating that corporate social responsibility cost does not affect corporate financial performance attractiveness. Based on the above, the study recommend that further analysis based on risk adjusted and market based methods as accounting performance measures are historical and susceptible to manipulation by managers. These intrinsic weaknesses can adversely affect our results.

Keywords: Return on Assets, Return on Equity, Earnings Per Share, Employee Relation, Environmental Relationship.

INTRODUCTION

Financial reporting translates firm's actions or economic activities, evaluates and communicates the activities in monetary yardsticks for users. These users cut across various segments of the society and include regulatory agencies, communities, investors, creditors, tax authorities, employees, accounting practitioners, stock analysts and firm management. The role of businesses and their impact on society continues to be recognized throughout the world(Bushee & Noe, 2000; Botosan & Plumlee, 2002; Corier & Magnan, 2003), The reason is not farfetched. This is due to the central role that work has for social development. The term "corporate social responsibility" includes a number of issues related to interaction with public companies. These issues include ethics, management, social activities such as philanthropy and public participation, product safety, equal opportunities, human rights and environmental activities. Social responsibility signals that all these activities are recorded, and they directly reflect the budget for the benefit of users(Spicer, 1978; Husted 2000; Mahaney & Roberts, 2007).

These activities are either disclose through cost disclosures or statements by the chairman of the Board of directors of the firm. Accounting literature has recognized the significant role social responsibility plays in the society. This explains why the debate on the subject is yet to abate. In view of the important roles Corporate Social Responsibility plays on firm's decision making, the correlation linking an entity relationship with society and ethical rules or activities and its financial outcome is a crucial issue for debate in academic and empirical literature. There is however rich literature on social responsibility reporting (Spicer, 1978; Murphy, 2002; Plumlee; Drouru & Marshall, 2000; Rogers & Van Buskirk, 2015).

Most of these studies are of foreign origin with a few studies in West African region. Prior studies produce mixed results creating gaps for further studies. Therefore the aim of the study is to ascertain the nature of relationship linking Corporate Social Responsibility and firms financial performance while the objectives include determining the relation of Corporate Social Responsibility to Return on assets, return on Equity and Earnings per share. The remainder of this paper is organized as follows after the introduction; section two provides a review of the related literature and the three research questions and hypotheses. Section three discusses the methodology adopted; section four empirically presents the results and discussion. Section five wraps up the investigation with conclusions, recommendation, limitation and suggestion for further study.

Literature Review

The theoretical structure for this work is anchored on baseline theories of stake-holders legitimacy theory. Stakeholders' theory is a departure from the shareholders theory which recognizes only shareholders as the beneficiary of a financial report hence all activities of the firm is aimed at satisfying shareholders. In contrast, the stakeholder's theory recognizes other users. Duttmar & Thakor (2007) the major stakeholders of a firm are public interest groups, community, employees, regulatory agencies of government, creditors, stock analysts, banks, communities, customers, suppliers, employees and shareholders. All these subjects are interested in the firm's work. Interested parties can be further classified as primary and secondary actors. Baskerville, 1991; Brammer & Pavelin (2006), the primary party involved in the enterprise's business secures its survival in perpetuity, meaning that this category of stakeholders is concerned to ensure the company's economic survival. Secondary stakeholders, on the other hand, have no economic interest in society and are subject to influence, affection and its effect and its effect without financial transactions and are not necessary for the survival of the enterprise. Legitimacy theory suggests that companies knowingly ensure that their actions and actions are in line with the boundaries and norms of their operating environment.

Legitimacy - a condition that occurs when solid values match the company's values (Azubuike, 2009). When there are differences between companies and the public system, it is a threat to firms. This is based on the conception that a social contract exist between the firm and the society. (Deegan & Unerman, 2006). The "social contract" can be explained as the expectations of the society from the firm any deviation from the social contract can produce negative exposure and sanctions. The laws of the society which a firm operates changes with passage of time. So, in order to maintain its legitimacy, society must change to meet the new expectations of society. This can lead to additional obligations, such as employee health, safety and the environment. (Dowling & Pfeffer, 1975) described a process that a company can legitimize its activities:

i. The company can modify the results, goals and working methods to adapt the predominant definition of the law;
ii. The organization may try to change the definition of communication through social legitimation to conform to the current practices, product and organization values;
iii. The organization can try to communicate through identification with symbols, values and institutions that have a solid foundation of legitimacy.

Legitimacy of information society reached in the financial sphere. According to Deegan & Unerman (2006), they are used as a means to legitimize the company's shares through the information provided by the parties concerned. It can also be used to prevent the spread of bad news. Through voluntary disclosure in the financial statements or company executives try to influence the parties concerned with the legitimacy of their business(Williams, 1982; Verrecchia, 2001; Orlitzky; Schmidt & Rynes, 2003).

Empirical Review

Previous studies have yielded mixed results on the relationship between corporate social responsibility and productivity. The reason can be explained by the different methods used for research. These methods range from accounting methods, market based method and risk adjusted method for performance. On the other hand assessing social responsibility has its own problems. One method relies on expert assessment of the social responsibility policies of the entity examined but the success of this method depend on the skill of the expert. Other strategies such as an index from Council of Concerned rankings from Business and Society indexes but these methods may be unreliable.

Other studies analyse financial statements and corporate reports with the attendant problem of creating confusion in defining terms. In a study conducted by Dittmar & Thakor (2007) using evaluation method, According to reports, the company with a high rating has high market returns. On the contrary, using a subset of the same company that Gunnighan & Gaddene (2003), found a lower yield on the stock market value of the stock market index.

The studies failed to adapt to the risk. Nothing this gap, Brammer & Pavelin (2006), undertook a further analysis of the same set of companies using the risk-adjusted method ; result confirm insignificant relationship linking social responsibility and risk-adjusted return on market shares.

Other studies found positive relationship linking social responsibility action of firms and accounting-measures of performance (Dietrich; Kachelmever; Kleinmuntz & Linsmeier, 2001). Butosan & Plumlee 2002) found a positive correlation linking social responsibility and accounting performance after controlling for age of assets.

Francis; Nanda & Olssan (2009) no significant relationship linking social responsibility and Returns on asset when risk is adjusted. Cotmier & Magnan (2003) classified firm's social responsibility status by best, honourable and worst and proceeded to make comparison of firm average with industry average using the same sample used by Markowitz (2015).

Result confirmed that firms with honourable classification had higher accounting performance than firms with other criteria. The controversy between outcomes of empirical results concerning the association of social responsibility were further investigated by other authors. Hughas; Liu & Liu (2007), found that firms rated high on social performance using pollution control activities as criteria indicate lower total and systematic risk than firms with less socially responsibility activities. Spicer (1978); Botosan & Plumlee (2002), found negative relation of social responsibility and accounting-based risk but found insignificant association of market-based risk and social responsibility. Francis; Nanda & Olsson (2009), found a positive association linking social responsibility and firm performance using content analysis. In contrast Preston found no relation between these variables.

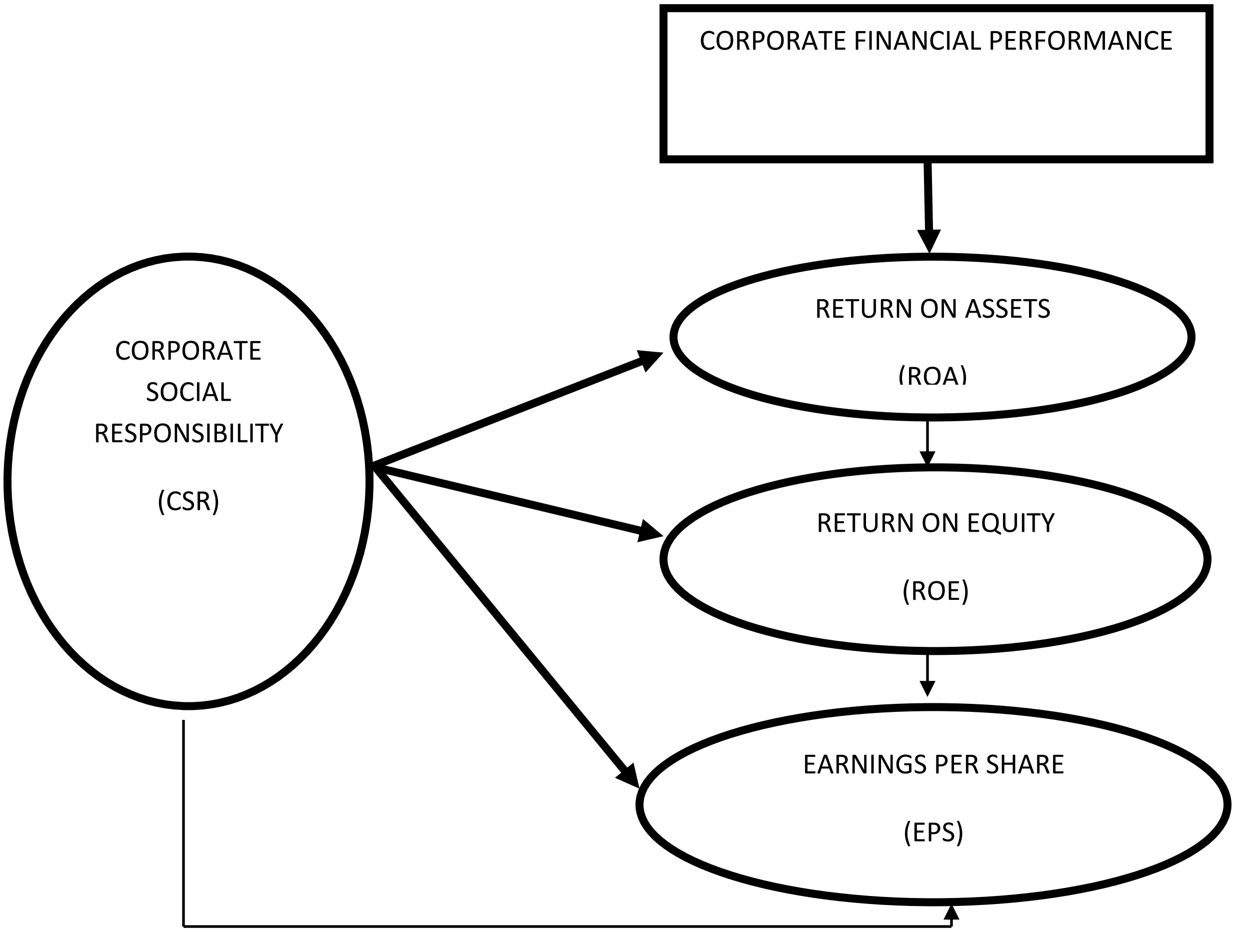

Figure 1: Operational framework of corporate social responsibility and corporate financial performance attractiveness of companies in Nigeria.

Research Questions and hypotheses

This investigation seeks to answer to questions about corporate social responsibility through an evaluation of corporate financial performance attractiveness regarding the relevance (Claus & Thomos, 2001; Dietrich; Kachelaneier; Kleinmuntz & Linsmeier (2001), challenges (Baskerville (1991(, Jaworsky & Kohli (1993); Cannighan & Gaddene (2003) Brammer & Pavelin (2006), and ways of corporate reporting framework, specifically, the empirical study seeks to provide answers to the following research questions (RQ)

Rq_1: To what extent of corporate social responsibility between return on assts of companies in Nigeria?

Rq_2: Is there any significant positive relationship between corporate social responsibility and return on equity of companies in Nigeria.

Rq_3: What is the extent of relationship between corporate social responsibility and earnings per share of companies in Nigeria?

The above research questions lend themselves to a number of hypotheses, stated in the null form, and related with each research question as stated below as thus:

H_{01}: There is no significant difference linking the relationship between corporate social responsibilities with return on assets of companies in Nigeria.

H_{02}: There is no significant difference linking the relationship between corporate social responsibilities with return on equity of companies in Nigeria.

H_{03}: There is no significant difference linking the relationship between corporate social responsibility and earnings per share of companies in Nigeria.

METHODOLOGY

Data used for this study is obtained from the Nigeria Stock exchange fact book and website of pharmaceutical firms listed between 2011 and 2015. The reason is the study focused mainly on IFRS prepared financial statements. The data is mainly secondary data obtained from financial statements of firms studied. The study adopted cross sectional ex-post factor design because a cross section of the manufacturing firms in Nigeria are studied and ex-post facto because it relies on past and verifiable data which is audited financial statements. The study adopted census approach because it examined mainly a cross section of the firm thereby ignoring sampling which is not required in census method.

Variable the independent variable in the study is corporate social responsibility which is measured using content analysis. When a firm incurs social responsibility cost or confirms the implementation of social responsibility project through the Chairman's statement or the Managing Directors statement in the corporate report it is assigned the value 1 otherwise zero. Employee variables in the study are stable financial indicators "Return on Assets", "Capital Performance" and "Earnings per Share" of quoted companies in Nigeria.

Formula for calculating Return on Assets is shown thus:

$$ROA = \frac{\text{Net Profit after tax+ interest}}{\text{Total Assets}}$$

Return on Equity (ROE) is expressed mathematically thus:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit after tax – pref. Div}}{\text{Shareholders' Equity}}$$

$$\textbf{Earnings per Share (EPS)} = \frac{\text{Net profit (loss) attributable to ordinary shareholders}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

Model specification

The model is formulated from Y= a + bx + e,

Where y is the dependent variable, x= independent variable, b=is the regression co-efficient on the variable x, a= the intercept term (it is the conditional average of y if x=o), e= residual error term. Thus the model for this research is:

$FP = \int(CSR)$

FP = ROA, ROE and EPS

$ROA = \int(CSR)$ (i)

$ROE = \int(CSR)$ (ii)

$EPS = \int(CSR)$ (iii)

From functional relationship, mathematical models are specified thus:

$ROA_{\wedge} = \alpha_0 + \alpha_1 CSR_{\wedge}$ (iv)

$ROE_{\wedge} = \beta_0 + \beta_1 CSR_{\wedge}$ (v)

$EPS_{\wedge} = \beta_0 + \beta_1 CSR_{\wedge}$ (vi)

Using equations iv to vi, econometric form of models are specified as:

$ROA_{\wedge} = \alpha_0 + \alpha_1 CSR_{\wedge} + e_{\wedge}$ (vii)

$ROE_{\wedge} = \beta_0 + \beta_1 CSR_{\wedge} + e_{\wedge}$ (viii)

$EPS_{\wedge} = \beta_0 + \beta_1 CSR_{\wedge} + e_{\wedge}$ (ix)

Where ROA is Return on Assets, ROE is Return on Equity and EPS is Earnings per share. CSR is corporate social responsibility. Ui,t is error term, α_0, β_0, = intercepts .

RESULTS AND DISCUSSION

1 A key area assessed in this study is the correlation linking corporate social responsibility and Return on Assets

H_{o1}. There is no significant relationship linking corporate social responsibility and Return on assets of quoted companies in Nigeria. The analysis of the above hypothesis is presented in the table 1 below.

Table 1: Correlation of Corporate Social Responsibility and Return on asset.

		CORPORATE SOCIAL RESPONSIBILITY	RETURN ON ASSET
CORPORATE SOCIAL RESPONSIBILITY	Pearson Correlation	1	-.316
	Sig. (2-tailed)		.606
	N	5	5
RETURN ON ASSETS	Pearson Correlation	-.316	1
	Sig. (2-tailed)	.606	
	N	5	5

Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively

Pearson product-moment correlation coefficient was calculated to ascertain the relationship linking Return on assets and corporate social responsibility. Output confirmed weak negative correlation linking the two variables, r = -0.316, n = 5, p = 0.606. r indicates correlation coefficient and signifies strength of relationship linking the two variables; one the dependent variable which is Return on assets) and the independent variable which is Corporate social responsibility. n is the number of cases included in the analysis and p shows the level of significance of the result in other words probability. Result confirms insignificant and negative relationship linking corporate social responsibility and firm's financial performance. In effect this implies increase in corporate social responsibility decreases performance and vice versa. We therefore accept the null hypothesis which states no correlation linking corporate social responsibility and ROA and conclude that there is no significant relationship linking return on asset and corporate social responsibility. This finding is substantially consistent with empirical studies of Claus & Thomas (2001), Gunnighan & Gaddene (2003), Dittmar & Thakor (2007), Francis; Nanda & Olsson (2009**)** who reported the existence of causal link between corporate social responsibility and return on assets respectively.

H_{o2}. There is no significant relationship linking corporate social responsibility and Return on equity of quoted companies in Nigeria.

Table 2: Correlation of Corporate social Responsibility and Returns on Equity

		CORPORATE SOCIAL RESPONSIBILITY	RETURN ON EQUITY
CORPORATE SOCIAL RESPONSIBILITY	Pearson Correlation	1	.057
	Sig. (2-tailed)		.936
	N	5	5
RETURN ON EQUITY	Pearson Correlation	.057	1
	Sig. (2-tailed)	.936	
	N	5	5

Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively

There was a weak negative correlation linking CSR and ROE, r = -0.057, n = 5, p = 0.936. Result showed no significant positive relationship linking corporate social responsibility and returns on Equity. We therefore accept null hypothesis which states that there is no significant correlation linking CSR and ROE. The finding is inconsistent with finding in previous studies by Baskerville (1991), Jawarsky & Kohli (1993), Bietrich et al (2001), Brammer & Pavelin (2006), Azubuike (2009), Larker & Rusticas (2010) who found a negative between CSR and ROE of quoted companies respectively.

H_{o3}. There is no significant relationship linking corporate social responsibility and Earnings per share of quoted companies in Nigeria.

Table 13: Correlation of Corporate social responsibility and Earnings per share of quoted companies in Nigeria.

		CORPORATE SOCIAL RESPONSIBILITY	EARNINGS PER SHARE
CORPORATE SOCIAL RESPONSIBILITY	Pearson Correlation	1	0.053
	Sig. (2-tailed)		0.852
	N	5	5
EARNINGS PER SHARE	Pearson Correlation	0.053	1
	Sig. (2-tailed)	0.852	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).
Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively.

There was a strong correlation linking capital adequacy ratio and loan loss provision, r = 0.053, n = 5, p = 0.852. The p value of 0.0852 is more than the 0.05 level of significance chosen for the analysis and there was 5.3% correlation coefficient which indicates a weak positive linear association between corporate social responsibility and earning per share of quoted companies in Nigeria. Overall, it was a mild positive correlation linking corporate social responsibility and earnings per share. Therefore, we accept the null hypothesis and conclude that there are no significant relationships that link corporate social responsibility and earnings per share. This finding is in agreement with finding in previous empirical studies by Coffey & Fryxell (1991), Core (2001), Dhaliwal, Heitzman & Li (2006), Hughas, Liu & Liu (2007), Larcker & Rasticas (2010), Lev, Petrovits & Redhekrishnan (2010) who found a positive link between CSR and EPS of quoted oil and gas companies respectively.

CONCLUSION AND RECOMMENDATIONS

Our results show that corporate social responsibility has no significant effect on company performance by using asset performance, earnings per share, and earnings per share. This result must be interpreted with caution, considering the lack of measurements on the basis of accounting, performance measurement criteria. Accounting-based measures relate only to the historical aspects of the company. In addition, they are subject to management manipulation bias and differences in accounting procedures. Accounting performance does not allow you to adapt to risk, industry features, and other variables. This study also did not control the factors that may affect the results. Given the observed deficiencies, it is recommended in future studies accounting based and market based methods of performance in assessing the relationship linking CSR and performance. Risk adjusted values should be used. The market value parameters will help in expunging reliance on only historical performance of the firms and project into future performance. The market produces a number of advantages over accounting indicators because they are less susceptible to differential accounting procedures and management manipulation and investors are assessing the company's ability to generate future economic benefits, not the previous results.

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