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The Impact of Corporate Social Responsibility Reporting On Profitability of Nigerian Manufacturing Firms

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Abstract
The performance of business organizations is affected by their strategies and operations in market and non-market environments. Hence, there is a debate on the extent to which company directors and managers should consider social and environmental factors in making decisions. It is therefore against the foregoing that this study examined the impact of corporate social responsibility on profitability of Nigerian manufacturing firms for the period 2004 to 2013. The resulted showed that with CSR, the impact of corporate social responsibility has positive and significant impact on net profit of manufacturing firms in Nigeria. The implication is that as the companies add to the social wellbeing of the society where the company is located it affects their return in terms of profit positively. This result reinforces the accumulating body of empirical support for the positive impact of CSR on financial performance.
Keywords: Corporate Social Responsibility, Profitability, Manufacturing Firms

Introduction

The performance of business organizations is affected by their strategies and operations in market and non-market environments. Hence, there is a debate on the extent to which company directors and managers should consider social and environmental factors in making decisions. In essence, Corporate Social Responsibility (CSR) may be described as an approach to decision making which encompasses both social and environmental factors. It can therefore be inferred that CSR is a deliberate inclusion of public interest into corporate decision making, and the honoring of a triple bottom line which are People, Planet and Profit (Harpreet, 2009). CSR has been defined in various ways. Majority of these definitions integrate the three dimensions: economic, environmental and social aspects into the definition, what is usually called the triple bottom line. The triple bottom line is considering that companies do not only have one objective; profitability, but that they also have objectives of adding environmental and social value to society (Mirfazli, 2008).

CSR has been defined as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Green Paper Promoting a European Framework for Corporate Social Responsibility (2001). Helg (2007) also defines CSR as the set of standards to which a company subscribes in order to make its impact on society.

A wide variety of definitions of firm performance have also been proposed in the literature. Both accounting and market definitions have been used to study the relationship between corporate social responsibility and firm performance (Orlitzky *et al*. 2003). However, since most social responsibility scholars seek to understand the ways that socially responsible corporate activities can create or destroy shareholder wealth, market definitions of firm performance seem likely to be more appropriate than accounting definitions of firm performance in this context (Margolis & Walsh 2001). Today`s competitive and dynamic market environment has created new set of challenges for any business which are not only related to economics. To survive and prosper, firms must bridge the gaps in economic as well as social systems. Maximizing shareholder`s wealth is an every time essential but fulfilling that condition alone is no more valid in measuring the financial prosperity (Senaratne & Wijesinghe 2011).

McWilliams and Siegel (2001) stated that the definition of CSR was not always clear and they define CSR as actions that appear to further some social good, beyond the interests of the firm and what is required by law. In modern concept of CSR states that the business enterprises is in their usual process of business decision making should pay due attention to the social interests of the community. A company is not only an economic entity but a social and political entity also. Most of the decisions taken by the companies not only affect the stockholders but also the creditors, debtors, employees and the society at large in one way or the other (Kapoor & Sandhu, 2010).

Corporate Social Responsibility arose as a result of the dynamic changes in which the accounting environment has undergone in the last two decades. The past two decades have witnessed a remarkable change in the way business is been operated and managed, with the quest for excellence and all-round growth. The pursuit of financial growth does not always lead to social advancement, and is often detrimental to the environment; resulting in unhealthy workplaces, exposure to toxic substances and urban decay and sometimes death of the populace due to inhalation of toxic waste (pollution). Managers and practitioners are often criticized for being single minded about value maximization. The turn of events has pressurized firms to put serious efforts into a wide range of Corporate Social Responsibility (CSR) activities.

CSR has become a critical aspect in strategic decision making of a firm primarily due to financial scandals and a drop in investors` confidence. CSR has stepped into the limelight in the 21st century to add to the financial performance of a company and suggests that corporate decision makers must take care of a range of social and environmental affairs in other to maximize long-term financial returns. Every firm differs in the way it implement CSR in strategic business practices, with its size, operating industry, stakeholder demands, historical CSR engagement, level of diversification, research and development and labour market conditions a few of the factors that determine this decision making. A firm`s cost of adhering to ethical standards will translate into higher product prices, a competitive disadvantage and lower profitability. The main problem facing Nigeria is to determine if there is significant impact of CSR reporting on the financial performance of manufacturing companies in Nigeria.

In view of the above problems, this study assesses the impact of CSR reporting on financialperformance of manufacturing companies in Nigeria with special reference on the performance of manufacturing companies in Nigeria. Thus, the main objective of this paper is to assess the impact of CSR reporting on profitability of manufacturing companies in Nigeria.

Review of Related Literature

There are so many empirical studies of CSR and financial performance. For instance, Ojo (2007), focused on the social responsibility of business organizations in Nigeria by examining the extent of involvement of organizations toward the concept of CSR with a view of recommending the strategic importance of being socially responsible to all stakeholders. The study employed the annual reports and accounts of randomly selected 40 limited liabilities companies out of 209 companies as at July 2007 by means of secondary data within the range of 2002-2006 and by the techniques of regression and Analysis of Variance (ANOVA) comparison is made of their turnover with the total investment in social responsibility. The result revealed that those selected companies have contributed infinitesimal amount of their gross earnings in social responsibility. Thus, the study recommends that the concerned organizations should increase their involvement in social responsibility as could lead to boosting their reputational capital.

Gunu (2008) studied the influence of corporate social responsibility on the performance of banks by using Zenith bank as the case study. The study considered CSR as the independent variable while profit after tax (PAT), total assets (TA), dividend (DIV) and gross earnings (GRE) as the individual dependent variables. The study used secondary data from financial statements of Zenith Bank within the period of 2002-2006 and by means of simple regression analysis the study finds that corporate social responsibility is significantly related to PAT, DIV, TA and GRE. It was recommended that organizations should make efforts to be socially responsible in order to ensure harmony in the communities in which they are operating.

In another study by Oba (2009), the findings reveal that the explanatory variables (i.e. community social responsibility, human resource management, charitable contribution and firm size as explanatory variables) are found to have significant aggregate impact on market value which was represented by Tobin's equity Q (i.e. Total debt plus Equity at market value all over the total assets) of quoted conglomerates in Nigeria.

Uadiale and Fagbemi (2011) examined the impact of CSR activities on financial performance in developing economies. The study considered employee relations (ER), company performance (CP) and environmental management system (EMS) to be the independent variables, while the individual dependent variables were measured with Return on Equity (ROE) and Return on Assets (ROA) in Nigerian companies. The study used a sample of forty audited financial statements of quoted companies in Nigeria. The results showed that CSR has a positive and significant relationship with the financial performance measures.

Bolanle *et al* (2012) examined corporate social responsibility and profitability of Nigerian banks based on causal relationship by using First Bank of Nigeria Plc. as the case study for the period of ten years (2001-2010). CSR was considered as the independent variable while PAT was the dependent variable. The data collected for the study were analyzed by using correlation and regression analysis. The outcome of the research showed a significant positive impact of CSR on PAT. The study recommended the need for banks to demonstrate high level of commitment to corporate social responsibility in order to enhance their profitability in the long run.

Adeboye and Olawale (2012) examined corporate social responsibility (CSR) and business ethics as effective tools for business performance in Nigerian banks. The study also attempt to ascertain whether social responsibility of banks and their ethical practices lead to the achievement of organizational goals. The research was conducted on a set of purposive sample of 100 employees randomly drawn from two Nigerian banks i.e. First Bank Plc.and Guaranty Trust Bank Plc. The two hypotheses formulated were tested using t-statistic at .05 alpha level. The study showed that there is no significant difference between employees of First Bank and Guaranty Trust Bank on corporate social responsibility and business ethics as regard business performance. However, ethical standard of doing business and financial performance differ significantly.

Also, Amaeshi *et al* (2006) looked at corporate social responsibility in Nigeria, a western mimicry of indigenous practices. They explored four key sectors of the Nigerian economy and came up with the conclusion that firms are socially constructed and their behaviour must reflect the society in which they are embedded, thus they must be socially responsible to the environment in which they operate.

Akano *et al.* (2013) examined the various types of social responsibility activities information that were disclosed by Nigerian commercial banks and the factors that determine the level of disclosure in their annual reports and accounts. The sample size consists of thirteen commercial banks that have been licensed to operate in Nigeria by Central Banks of Nigeria and are quoted on the Nigerian Stock Exchange as at 2009. Out of these, twelve banks are Nigerian banks and one is international. The data used for this study was collected through “content analysis” of annual reports of these banks and results of descriptive statistics indicate that the banks disclosed more information on human resources and community involvement and very low information on environmental, product quality and consumer relation. The outcome of multivariate analysis suggests that value of total assets have positive relationship and statistically significant with the level of corporate social responsibility activities disclosure. Gross earnings and number of branches are positively and significantly related with Corporate Social Responsibility Disclosure (CSRD) level.

Adebayo *et al.* (2012) explored the meaning and practice of corporate social responsibility in relation to its impact on profitability (return on assets and return on equity) by using regression and product moment correlation. The result of the study revealed that indigenous firms perceived and practice corporate social responsibility as corporate philanthropy. It was also discovered that the performance and reporting of social responsibility has a positive correlation with the profitability, that is, return on assets of the banks. It was also revealed that the performance of corporate social responsibility reporting has no correlation with return on equity. The study concluded that performance and reporting of social responsibility goes a long way in boosting the reputation, sales and profit level of the firms.

Methodology

Our paper adopted the *ex-post facto* design is to be adopted. The data were sourced from financial statements and company’s annual reports selected manufacturing firms in Nigeria for the period 2004 to 2013. Ratios values were then computed from the figures as reported in the annual reports. The data extracted included profit after tax and total amount spent on CSR for the period. The population of our study is made up of 27 manufacturing companies listed on the Nigerian Stock Exchange. Each company in the population must have finished its obligation in delivering annual reports for the year ended 2013.

However, a sample size of ten (10) listed manufacturing companies on the Nigerian Stock Exchange was randomly selected. With respect to the sample data, a non-probability sampling method was adopted. Thus 10 companies from 7 sectors (out of the 27 listed on the Nigerian Stock Exchange) were purposively selected. These sectors are, Breweries; Chemical and Paints; Conglomerate; Beverages; Health Care; Industrial/Domestic Products. Listed companies on the Nigerian Stock Exchange will be selected because of easier access to their annual reports as compared to the non-listed companies. The selected industries represented those that engage in Corporate Social Responsibility, which are either environmentally sensitive in their daily operations, or industrial and utility companies which are widely recognized to have the greatest social and environmental problems. These companies also represent those that engage in CSR reporting. Indigenous and multinational companies will also be included.

As there is no specific theoretical perspective or adequate empirical evidence that supports the superiority of any specific proxy measure over the others, this study adopted the Net Profit Margin (NPM) which is an indicator of how profitable a company as a measure of profitability. The margin shows how good a company is at converting revenue into profits. For Corporate Social Responsibility (CSR), this proxy was measured by taking the natural logarithm of the quantum value of corporate social responsibility as reported in the financial statements of the firms sampled.

In the light of the aim of this paper, we state that there is no positive and significant impact of Corporate Social Responsibility reporting on Net Profit Margin of manufacturing organization in Nigeria, this is represented as:

NPM = F (CSR).. (i)

Model (i) can be further specified as:

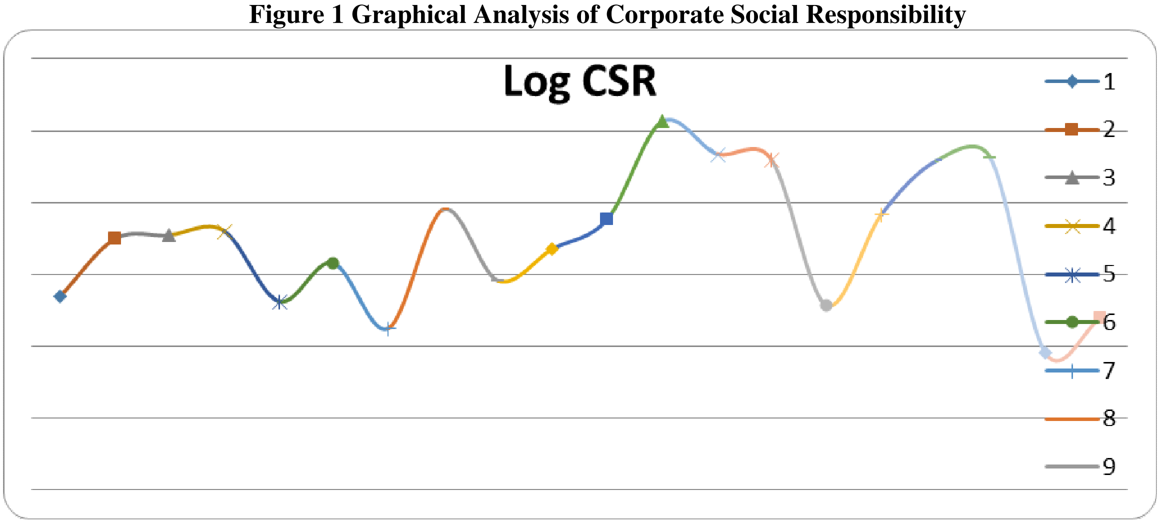
NPM = B0 + B1(CSR) + U .... (ii)
where:
NPM = Net Profit Margin
CSR = Corporate Social Responsibility

The simple regression analysis with the applications of the Ordinary Least Square (OLS) method was used to test the hypothesis.

Analysis

As earlier stated, the study used regression model in order to provide basis for testing the hypothesis. Simple regression model has been employed to predict the relationship between the dependent variables (i.e. NPM and the independent variable (i.e. CSR). Table 1 graphically represents the trend of corporate social responsibility of selected firms.

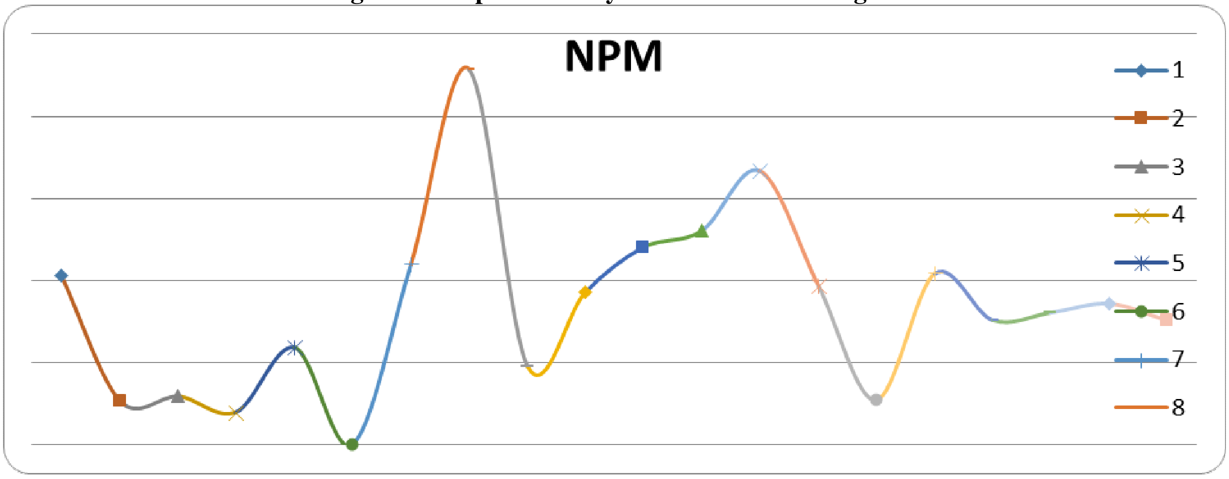
Figure 1 Graphical Analysis of Corporate Social Responsibility



Source: Researcher's Excel Results

As could be observed from the Figure 4.1, there was a fluctuation in the value of corporate social responsibility for the various firms under study. This may not be unconnected with the expenditure of the manufacturing firms within the period of this study. Figure 2 graphically represents the trend of Net profit margin of selected firms

Figure 2 Graphical Analysis of Net Profit Margin



Source: Researcher's Excel Results

From Figure 2 above fig above, it can be seen that Net Profit Margin of the manufacturing companies for the period under study was fluctuating. In 2004, the net profit margin was 0.10, the figure decrease 0.00 in the sixth observation; however, it increased again in the eighth observation to 0.23. The fluctuation could be attributed to fluctuation in selling price, administrative expenses and operating expenses.

Table 1 Descriptive Statistics

	CSR	NPM
Mean	1.536459	0.098586
Median	1.000000	0.090000
Maximum	4.058692	0.430000
Minimum	0.000000	-0.270000
Std. Dev.	1.451627	0.095821
Skewness	0.393211	0.390631
Kurtosis	1.522984	6.928363
Jarque-Bera	11.55014	66.17494
Probability	0.003104	0.000000
Observations	99	99

Source: Researcher's E-view Output

Table 1 presents the descriptive statistical analysis of the variables. The table depicts the mean, median, standard deviation, skewness, kurtosis, Jarque-Bera as well as the probability values of the model proxies.

Table 2 Corporate social responsibility and Net Profit Margin

Dependent Variable: NPM				
Method: Least Squares				
Sample(adjusted): 2 100				
Included observations: 99 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	0.008467	0.006647	2.273800	0.0058
C	0.085577	0.014016	6.105532	0.0000
R-squared	0.716452	Mean dependent var		0.098586
Adjusted R-squared	0.606313	S.D. dependent var		0.095821
S.E. of regression	0.095518	Akaike info criterion		-1.839008
Sum squared resid	0.884998	Schwarz criterion		-1.786582
Log likelihood	93.03092	F-statistic		1.622567
Durbin-Watson stat	0.878169	Prob(F-statistic)		0.205778

Source: Researcher's E-view Result

Table 2 above shows the result of the simple regression analysis of the impact of corporate social responsibility reporting on Net Profit Margin of manufacturing organization. The coefficient of determination (R-square), which measures the goodness of fit of the model, indicates that 72% of the variations observed in the dependent variable were explained by the independent variable. This was moderated to Adjusted R-squared to 61%. The result shows that Corporate Social Responsibility has a positive and significant impact on Net Profit Margin of the manufacturing organization ($a = 0.01$, $p = 0.01 < 0.05$).

Conclusion and Recommendation

The resulted showed that with CSR, the impact of corporate social responsibility has positive and significant impact on net profit of manufacturing firms in Nigeria. The implication is that as the companies add to the social wellbeing of the society where the company is located it affects their return in terms of profit positively. This result reinforces the accumulating body of empirical support for the positive impact of CSR on financial performance. This finding supports arguments that CSR spending in the long run provides better return on the next marginal naira. In the light of the findings of this study, we recommend that since corporate social responsibility reporting had a positive and significant impact on the manufacturing organizations under study. Therefore, manufacturing organizations should always make provisions for social development of the society in order to boost their image/reputation, thereby increasing their returns. The standard setting bodies should set up Corporate Social Responsibility framework for all companies so as to improve the level of CSR disclosure of companies.

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