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An Impact of Social Audits on Corporate Performance: Analyses of Nigerian Manufacturing Firms.

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Abstract
This study examines the impact of corporate social responsibility on the profitability of firms in Nigeria. The main objective of this study is to examine the relationship between corporate social responsibility and firms' profitability in Nigeria. The study makes use of secondary data, sourced from ten (10) randomly selected firms' annual report and financial summary between "1999-2008". The study makes use of ordinary least square for the analysis of collected data. Findings from the analysis show that the sample firms invested less than ten percent of their annual profit to social responsibility. The co-efficient of determination of the result obtained gives 0.622016 (62%), this depicts that the explanatory variable account for about 62% changes or variations in selected firms performance (PAT) are caused by changes in corporate social responsibility (CSR) in Nigeria. The study concludes and recommends that laws and regulations to obligate firms to recognize and to comply with social responsibility should be enacted. Also, adequate attention should be given to social accounting in terms of social costs.
Keywords: Corporate social responsibility; firms' profitability; Social Audit; Nigeria.

1. Introduction

Corporations around the world are struggling with a new role, which is to meet the needs of the present generation without compromising the ability of the next generations to meet their own needs. Organizations are being called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to apply sustainability principles to the ways in which they conduct their business. *Sustainability* refers to an organization's activities, typically considered voluntary, that demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders (Van Alstyne, 2005).

It is no longer acceptable for a corporation to experience economic prosperity in isolation from those agents impacted by its actions. A firm must now focus its attention on both increasing its bottom line and being a good corporate citizen (Dia, 1996). Keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organizations to reshape their frameworks, rules, and business models. To understand and enhance current efforts, the most socially responsible organizations continue to revise their short- and long-term agendas, to stay ahead of rapidly changing challenges (Lee, 2008).

Organizations have developed a variety of strategies for dealing with this intersection of societal needs, the natural environment, and corresponding business imperatives. Organizations can also be considered on a developmental continuum with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide. At one end of the continuum are organizations that do not acknowledge any responsibility to society and the environment. And on the other end of the continuum are those organizations that view their operations as having a significant impact as well as reliance on society at the economic, social, and ecological levels, thus resulting in a sense of responsibility beyond the traditional boundaries of the organization. Most organizations can be placed somewhere in between (Roman et al, 2001)

A firm cannot ignore the problems of the environment in which it operates. This implies that a firm that which to continue operation and enjoy customers' loyalty and patronage must seek social audit by scanning the environment it operates and ascertain the needs of the dwellers so as to provide it satisfactorily. Therefore, there is a need to examine the impact of corporate social responsibility on firm's profitability in Nigeria. In its stronger form, the concept of Corporate Social Responsibility (CSR) asserts that corporations have an obligation to consider the interests of customers, employees, shareholders, communities, as well as the ecological "footprint" in all aspects of their operations.

McGuire (1988) argued that companies who do not take into account CSR, may not survive since they may fail to innovate. They conjectured that design may form the basis of constructing the link between innovation and CSR. In the same way, Little (2006) maintained that corporate social responsibility initiatives can lead to innovations through the use of social, environmental, or sustainability drivers to create new products and services. Business and academic researchers have shown increasing levels of interest in Corporate Social Responsibility (CSR) during recent years. The theme of environmental and social responsibility appears in a number of political and legal documents and is gaining ever-greater importance at the international level. Today, corporate leaders face a dynamic and challenging task in attempting to apply societal ethical standards to responsible business practice.

However, there is a great deal of ambiguity and uncertainty about what corporate social responsibility really means as well as what drives a business to pursue it. Whatever are the motivations behind CSR theories, it is also interpreted as the concept of triple bottom-line *("People, Planet, Profit")* which captures an expanded spectrum of values and criteria for measuring organizational success; economic, environmental and social. Whereas business ethics and corporate governance combine to generate the means to achieve organizational excellence, the real test is when this excellence is converted into business sustainability and here, corporate social responsibility plays a major role.

Various views have been offered to explain the importance or otherwise of corporate social responsibility (CSR) in business activity. For their part, neoclassical economists advance a rather narrow conception of CSR, believing that firms should only focus on their economic and legal obligations. Surely, so the argument goes, firms should devote their energies to supplying goods and services to their customers, they should minimise costs and maximise profits; and all this should, of course, take place within the laws and rules/regulations of the land (Carroll, 1991; Jackson, 2004). Indeed, some proponents of this viewpoint go as far as to argue that CSR is not only a deflection from the main business of wealth-creation, thus serving to blunt competition, but is also an economic (cost) imposition on the firm (Friedman, 1970). Friedman (1999), also note that critics of CSR point out: “Some corporations ‘may be using the procrustean formulae of corporate social and environmental responsibility to deflect attention from the fundamentals’ [CSR] can, therefore, hide a multitude of socially irresponsible sins

This study serves as an added contribution to the existing work of other authors that has discussed issues on corporate social responsibility such as Friedman, (2008), Van (2005), Dia, (1996); Lee, (2008); Roman, (1999)) as it goes further to examine various issues that surrounding corporate social responsibility, how its affect firms’ profitability Therefore, this research is capable of use for future studies, and might even generate further research, as it is going to be useful for managers in making prudent and financial decision, business stakeholder, governments’ agencies and some other interested bodies to expand their knowledge on the research topic.

The main aim of this study is to examine the impact of corporate social responsibility on the profitability of firms in Nigeria. Apart from the introduction, this paper is further divided into five other sections. Section two borders on the reviews of available literature, section three addresses the methodological phase while section four centers on the data presentation and analyses. Section five focuses on the discussion of result while section six, being the last section, provides the concluding remarks and policy suggestions.

2.0 Theoretical Framework and Empirical Review

2.1 Theoretical Literature

Since there is a great heterogeneity of theories and approaches of corporate social responsibility, discussion in this paper is based on a comprehensive analysis by Hawkins (2006) and it is compared with an analysis by Garriga and Mele (2004) cited by Hawkins (2006). Hawkins has come up with a group of theories based on corporate firms’ criterion and society. The theories are as follows:

(1) The utilitarian theory, (2) The managerial theory, and (3) The relational theory.

On the other hand, Garriga and Mele’s (2004) analysis maps corporate social responsibility into four types of territories. They are: 1) Instrumental theories, 2) Political theories, 3) Integrative theories, and 4) Ethical theories. There is no doubt that some similarities do exist in both conceptualizations of corporate social responsibility and the discussion will be based on emphases and approaches. In effect, these whole theories can be categorized into two major overarching theories viz;

(a) Utilitarian/Stakeholder Hypotheses of CSR. (b) Shareholder Views of CSR and (c) Social Contract/Ethical Views of CSR

In the utilitarian theories the corporation serves as a part of the economic system in which the function is mechanical i.e. traditionally known as in profit maximization. Corporate social responsibility ideas emerged after a realization that there is a need for an economics of responsibility, embedded in the business ethics of a corporation. Hence, the old idea of *laissez faire* business gives way to determinism, individualism to public control, and personal responsibility to social responsibility. Utilitarian could also be taken synonymously with instrumental theories

(Garriga and Mele, 2004) cited by Hawkins in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results. The utilitarian theories are related to strategies for competitive advantages. The proponents of these theories are, for instance, Litz (1996) who viewed the theories as bases for formulating strategies in the dynamic usage of natural resources of the corporation for competitive advantages. The strategies also include altruistic activities that are socially recognized as instruments for marketing.

On the other hand, the stakeholder approach has been developed as one of the strategies in improving the management of the firm. It is also said as a way to understand reality in order to manage the socially responsible behavior of a firm. The stakeholder approach further considers a firm as an interconnected web of different interests where self-creation and community creation happen interdependently; and individuals behave altruistically. Based on Garriga and Mele's (2004) analysis, stakeholder approach is both within the integrative and ethical theories, where the former emphasizes the integration of social demands and the latter focuses on the right thing to achieve a good society. These are supported by the work of Aguilera et al (2005) where balances among the interests of the stakeholders are the emphases; and the work of Freeman and Phillips (2002) that considers fiduciary duties towards stakeholders of the firms, respectively.

Finally, the social contract theory of the relational group refers to the fundamental issue of justifying the morality of economic activities in order to have a theoretical basis for analyzing social relations between corporation and society. Hence, corporate social responsibility is derived from the moral legitimacy the corporation achieves in the society and understanding about corporate social responsibility is contained in the justification of social actions that legitimize the behavior of the corporation.

Garriga and Mele's (2004) analysis puts the social contract theory under the group of ethical theories, the approaches of which include universal rights (UN Global Compact, 1999) and sustainable development (WCED, 1987; Korhonen, 2003). Both approaches of corporate social responsibility are based on human rights, labor rights and respect for the environment.

Conclusions about the three groups of CSR theories are as follows: Utilitarian is simplified in its views by the individuals and mechanical from the corporation perspective, managerial is very organizational oriented and measurable; the stakeholder's view emphasized welfarism of all stakeholders affected by the action and inaction of the organization during its productive, business and economic activities while the ethical theory is emphasizing strategies to achieve a good society.

2.2 Literature Review

Boutilier, (2007), reflected on the attention being paid to the role that corporations can play in poverty reduction and other aspects of sustainable community development. His study applies the social network analysis concepts of social capital, bridging, bonding, and core periphery structure to firm/stakeholder networks.

Graafland, and Van de Ven, (2006), they confined those managers' strategic views of corporate social responsibility (the extrinsic motive), as well as their moral views (the intrinsic motive), have been measured through a single-item approach and with reference to five stakeholder groups: employees, customers, competitors, suppliers, and society at large. Lopez, Garcia, and Rodriguez, (2007), in their conclusion, they found that the link between the performance indicator and CSR is negative.

Mackey and Barney, (2007), their findings reveal that if the demand for socially responsible investment opportunities is greater than the supply, then economic value will be created, and thus, managers in publicly traded firms might fund socially responsible activities that do not maximize the present value of the firm's cash flow.

Keim, (2006), conclude that although their findings begin to outline boundary conditions of stakeholder theory, further work in this area will help to direct the breadth and depth of stakeholder management. Sweeney and Coughlan, (2008), their research pointed out a lack of clear focus on the benefits of CSR for the shareholder as a specific stakeholder, as only one of the seven industries in the study places any focus on them. Waldman, Gupta, and Howell, (2006), conclude on cultural and leadership predictors of corporate social responsibility values of top management.

Keim argue that current awareness on CSR has increased among organizations in Malaysia. Therefore, this research aims to analyze the extent of CSR practices among different types of organization and industries in Malaysia. Balmer and Greyser (2006) they conclude that the overall attitude of the respondents toward the importance of CSR for their companies is more or less important. The majority of the respondents (62.5%) consider it as quite important while 25% – as very important. All respondents have a common understanding about CSR with the main focus on social engagements of the companies.

Li, Lam, Qian, and Fang (2006), their results also show that institutional ownership has only an indirect effect on firm performance, such as corporate profitability. Six out of nine hypotheses were supported. Strike, Gao, and Bansal (2006), the main implication of the findings of the empirical study for research is that CSR and irresponsibility both move together with international diversification. Therefore, there is strong support for dividing the concept into its positive and negative components, which are separated yet related constructs.

3.0 Methodology

This study examine Impact Of Corporate Social Responsibility On The Profitability Of Firms In Nigeria, the study employs econometric method in formulating a regression model which would be analyzed through the use ordinary least square regression (OLS). The model to be used for this study will be adopted from the previous work of Windell (2006). The methodology employed in the study was that the researcher examines the annual report and accounts of randomly selected companies and compared their turnover with their investment in social responsibility stated as:

$TUV = \beta_0 + \beta_1 CSR$

He makes use of correlation, regression, and analysis of variance (ANOVA) to analyze the relationship between the two variables. The above model would be adopted and modified for this study. Therefore, this study present the below model;

$Y = f(X_1)$ ……………………………….. (1)

$Y = b_0 + b_1X_1$ …………………………… (2)

$PAT = b_0 + b_1CSR + u$…........................... (3)

Where:

PAT = Profit after Tax to proxy firms profitability as dependent variable; CSR = Corporate Social Responsibility of the selected company; b_0-b_1, =Parameter of the Estimate; U = Error term

This study depends mainly on secondary data, which was obtained from the ten (10) randomly selected profitable firms on the Nigerian Stock Exchange. There annual reports and financial summary between "1999-2008" i.e. ten (10) years period. The selected firms are Nestle Plc, PZ Plc, UAC Foods Plc, Flour Mills, Cadbury Nigerian Plc, Unilever Plc, May and Baker Plc, Nigerian Bottling Company, Northern Nigerian Flour Mill Plc and Pepsi and for the purpose of this study ordinary least square method is employed. This is because the parameter estimate obtained by the OLS is adopted because it computational procedure is fairly simple and the data requirement are not too concessive.

4.0 Model Estimation and Discussion of Findings

This chapter deals with estimation results, analysis and interpretation of results.

4.1 Model Estimations

Insert table 1 here

4.2 Discussion of Results

The analysis above explains the relationship between corporate social responsibility and firm's profitability in Nigeria. The table revealed that the amount committed to social responsibility vary from one company to the other. The data further revealed that all the sample firms invested less than ten percent of their annual profit to social responsibility.

However, the E-view analysis above depicts that negative relationship (-0.177424) exists between firm's performance measure with profit after tax and investment in social responsibility. This implies that the slope of the estimate is in accordance with the a priori expectations, which shows that there is inverse relationship between the two variables (PAT and CSR).This implies that the more the profit recorded by firms in Nigeria the less they invest in corporate social responsibilities. This suggests that these organization survival and ability to make profit in the long run could be threatened as various stakeholder particularly their host communities could threaten their existence. This result conforms to evidence from Lopez, Garcia, and Rodriguez, (2007) who carried out their study based on the Dow Jones Sustainability Index. The study uses a total sample of 110 firms from the period of 1998 to 2004 and analyzes the relevant accounting indicators. Accounting information published by sample firms was compiled. They found that the link between the performance indicator and CSR is negative.

The co-efficient of determination of the result obtained gives 0.622016 (62%), this depicts that the explanatory variable account for about 62% changes or variations in selected firms performance (PAT) are caused by changes in corporate social responsibility (CSR) in Nigeria. The test of autocorrelation shows that there is no serial autocorrelation for the regressed model under study because the value obtained gives 0.642927 which falls below the range of autocorrelation.

Findings from analysis shows that the amount committed to social responsibility vary from one company to the other. The data further revealed that all the sample firms invested less than ten percent of their annual profit to social responsibility. However, the Empirical analysis above depicts that negative relationship exists between firm's performance measure with profit after tax and investment in social responsibility which shows that there is inverse relationship between the two variables (PAT and CSR). The co-efficient of determination of the result obtained gives 0.622016 (62%), this depicts that the explanatory variable account for about 62% changes or variations in selected firms performance (PAT) are caused by changes in corporate social responsibility (CSR) in Nigeria. The test of autocorrelation shows that there is no serial autocorrelation for the regressed model under study because the value obtained gives 0.642927 which falls below the range of autocorrelation.

5.0 Conclusion and Recommendation

Organizations have developed a variety of strategies for dealing with this intersection of societal needs, the natural environment, and corresponding business imperatives. Organizations can also be considered on a developmental continuum with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide. At one end of the continuum are organizations that do not acknowledge any responsibility to society and the environment. And on the other end of the continuum are those organizations that view their operations as having a significant impact as well as reliance on society at the economic, social, and ecological levels, thus resulting in a sense of responsibility beyond the traditional boundaries of the organization (Reign, 2001).

Companies face challenges and limitations as they implement CSR. These usually relate either to political issues or to organizational-level concerns and are often embedded in culture. The complexity of operating in a global society places new demands on organizations and their leadership. This study concludes that profitable organizations in Nigeria do not invest much in corporate social responsibilities and this has tendency to threaten their long run existence.

Though, in Nigeria social responsibility is encouraged in achieving greater firm's performance, but organizations in the country have not really engaged in CSR which have implications for the survival of these firms. This paper therefore offers the following policy suggestions on how firms can improve on their CSR to ensure greater and better performance.

Policy framework should be design for corporate social responsibilities in Nigeria by the government and ensure compliance by setting mechanisms and institutions for the implementation of CSR. Companies in Nigeria particularly the profitable one should give greater priority to CSR. This has the tendency to assists them to survive and maintain their profitability. Attention should be given to social accounting and social costs by firms in Nigeria.

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Table 1 Model Estimations

Dependent Variable: PAT

Method: Least Squares

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.177424	0.792544	-0.223866	0.8285
C	15135117	4946862.	3.059539	0.0156

R-squared = 0.622016 (62%); Adjusted R-squared = 0.591254
Durbin-Watson stat = 0.642927; F-statistic = 24.103260

Source: E-View Output Analysis