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## CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE PERFORMANCE IN NIGERIA

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### **ABSTRACT**

The thrust of this paper is to examine the relationship between corporate social responsibilities and companies performance. Three consecutive years data were collected on profit after tax, companies' contribution towards education, health and community development from the annual reports of twenty companies quoted in the Nigeria Stock Exchange. The ordinary least square regression result of the data collected on both corporate social responsibilities and firm performance revealed that while there is positive and not significant relationship between profitability and companies' contribution towards education and health, there is negative and not significant relationship between profitability and communities' development investment by companies in Nigeria. It is on this note it is recommended that while corporate social responsibilities could be seen as good gesture by companies and therefore encourage, corporate entities should not be coerced to undertake more than what they can comfortably contribute to their host communities as corporate social responsibilities.

**Keywords:** *corporate social responsibility, Corporate Performance, National Health Insurance Scheme, Education Tax.*

### **INTRODUCTION**

In the extant literature there are mixed findings in the relationship between corporate social responsibility and corporate performance. There are two schools of thoughts on corporate social responsibilities. These are on the extremes of a continuum that stipulate conflicting views on what the corporate social responsibilities of companies should be. The share holder school of thoughts, as propounded by Berle and Means (1932), and Friedman (1962) see the sole responsibility of organization as maximizing the wealth of the owners. This is based on the notion that company is a business unit, and as such it should be seen as economic institution. The corporate social responsibility of a company, to the proponents of this school, is exercised when the company carried out its activity within the confine of the law and pays all its financial obligations due to the governments. On the other extreme of the continuum of the corporate social responsibility is the stake holders' theory of the corporate social responsibility. The proponents are of the views that the main purpose of the corporation is not just the maximization of the share holders' value; but also to serve the community where the corporation found itself, Barnard (1938). As the corporate bodies carry out their operations within a given community, the introduction of some negative externalities into the environment would become inevitable. It is therefore of great necessities for such companies to help ameliorate the effect of these externalities. Hence it is expected that if the

organization cannot improve on the environment in which it found itself, effort should be made to maintain the status quo of such environment (Ilaboya, 2005; Bala, 2012).

In the light of the above, the thrust of the study is to ascertain the relationship between corporate social responsibility and corporate performance in Nigeria.

## **LITERATURE REVIEW**

In this section we reviewed extant literature on corporate performance, corporate contributions toward educational development, community development and health improvement scheme.

## **CORPORATE PERFORMANCE**

Corporate performance is a vital concept that relates to the way and manner with which the financial resources at the disposal of the organization are judiciously put into usage to achieve the corporate objectives of such organization (Kajola 2008). The corporate performance of organization would disclose to the various stakeholders of the organization the continuous ability for such organization to remain in business. Prior to 1980s corporate performance was measured and report in financial term, the non financial corporate performance measures were relegated to the background. It is now an acceptable fact that for business to be adjudged as successful, it needs not only to perform better in terms of financial measures; but also in terms of non financial measures such as product quality, flexibility, delivery, reliability, after sale services and consumer satisfaction (Chartered Institute of Management Accountants, 2002; Drury,2005). In view of this, during the 1980s, greater emphasis was given to the need to incorporate the non financial measures aspect of corporate performance. It was not however cleared to business managers on how the non financial performance measures can contribute to the financial success of the organizations in this era; the need to integrate the financial and non financial performance measure led to the emergence of the balanced scorecard which was propounded by Kaplan and Norton (1996). Due to the cause and effect relationship; that are deemed to exist among the perspectives of the balance scorecard, authors such as: Howell R., Brown, J., Soucy, S. and Seed, A (1987), Kaplan (1990), and Berliner and Brimson (1991) were of the view that, attention should be given to the non financial perspectives which are belief could jump start the financial success of any organization. Kaplan and Norton (1996) on the other hand were of the view that the scorecard would be said to be balanced when equal attention is given to each of the perspectives of the balance scorecard. It is true that organization performance can be measured in terms of the non financial measure; but the most popular yardstick by which the organization performance is measure in practice is the financial performance measures.

## **CORPORATE SOCIAL RESPONSIBILITY**

The concept of corporate social responsibility is misconstrued in many countries including Nigeria due to the many nomenclatures ascribed to it (Margolis and Walsh 2003). That the Nigerian youths in the southern part of the country are equating forceful payment made by

corporation before and after such corporation cite its business in some localities in Nigeria to corporate social responsibility is therefore not surprising. The United Nation (1987), on its report to the world commission on environmental and development sees corporate social responsibility as the development that meet the present generation needs without compromising the ability of the future generations to meet their own needs. Prior to the Nigeria civil war, companies in Nigeria tend to exercise their corporate social responsibility by the way of creating job opportunity to Nigerians; little or none was known about companies' contribution towards other aspects of corporate social responsibility (Oguntade and Mafimisebi, 2011). Contributions toward community development in the form of infrastructural development by companies were heralded by the 3R's (reconciliation, rehabilitation and reconstruction) policy of the military government headed by General Yakubu Gowon. In the furtherance of the rehabilitation and reconstruction policies of the three R's policy, the Niger Delta Development commission (NNDC) was created by the regime of Olusegun Obasonjo to partner with Oil and Gas multinational companies, which are expected to contribute three percent of their annual budget to the funding of NNDC. In addition to the contribution of the oil and gas companies towards the funding of the NNDC, the study of Oguntade & Mafimisebi (2011) indicates that the oil and gas industry foot the largest aspect of corporate social responsibility in terms of the provision of infrastructures in communities in Nigeria. The Oil companies have been active in the provision of the basic amenities in some communities in Nigeria that the government proved to be unable or unwilling to provide (Vertigan, 2011) due to resources constraint (Fakayode, Omotesho, Tosho and Ajayi, 2008). The telecommunication companies in Nigeria have also been contributing a great deal to the development of communities through their various corporate social responsibilities; some of these companies have undertaken project to assist the acquisition of houses at affordable price by low income Nigerians (Olanrewaju, 2012).

Furthermore, education development is among one aspect of the corporate social responsibility that majority of the companies in Nigeria contribute towards. Companies with more than hundred employees are mandated to contribute 2% of their profit before tax to the Educational Tax Fund (Oguntade & Mafimisebi, 2011). The study of Oguntade and Mafimisebi (2011) indicates that out of the total investments by companies on corporate social responsibilities in the Niger-Delta areas between the year 1999 and 2005, contribution towards education accounted for the largest chunk of corporate social responsibility during this period. Most companies in Nigeria exercise their corporate social responsibility on education through the issuance of scholarship grants to secondary and university pupils. Company such as Shell Petroleum Development Company (SPDC), issues on annual basis 2,730 secondary school and 750 university scholarships (Shell Petroleum Development Company, 2012). United Bank of Africa (UBA) in their own effort to boost education in Nigeria, on annual basis issues scholarship to 108 Nigerian (Mordi, Opeyemi, Tonbara and Ojo, 2012)\*. To facilitate research in the Federal Universities across the states in Nigeria, MTN in Collaboration with Net Library Nigeria Limited has introduced the MTN universities connection project in some of these universities, which have provided access to lecturers and

students to a collection of digital resource from over 5500 library (Olanwaju, 2012). Moreover, the Nigeria government has come to see the need to maintain a healthy population in that the socio-economic development of any country depends on how healthy the population of such country is. It is in the light of this the budgetary allocation on healthcares come next to the education and nation defense in the national budget ( Omoruan, Bamidele and Philip, 2009). To sustain a healthy working force in Nigeria, the federal government established the National Health Insurance Scheme (NHIS), through which the public corporation and organized private sector with employees of 10 people or more provide relatively free medical services to the employees and their relatives (National Health Insurance scheme, 2012). Although the NHIS has been repackaged to extend its medical services to the workers of some informal groups in Nigeria, its services are not general felt by Nigerians (Ichocku, 2005). Contribution towards health by companies in Nigeria has not been restricted to the medical services through NHIS; effort has been made by multinational companies to provide free medical services and health information to Nigerians. SPDC for instance, introduce "Health in Motion Program" with the aim of taking free medical services to the door steps of the people living in the remote regions of Niger-Delta states. SPDC is currently supporting 27 health facilities in Niger Delta in collaboration with the various beneficiary states' governors (SPDC, 2012).

## **METHODOLOGY**

This study collected data on corporate social responsibility (CSR) and corporate performance of twenty quoted companies on the Nigeria Stock Exchange for three consecutive years, 2008 through 2010. Panel data methodology was formed from these data being the combination of time series data and cross sectional data. The CRS and profitability data on the companies were collected based on convenient non probability method. Multiple regression method of data analyses was adopted and the estimated method was ordinary least square.

For the purpose of this study, economic model was stated in the form of

$$Y_{PAT} = \beta_0 + \beta_1HS + \beta_2ED + \beta_3CD + \alpha$$

Where:

PAT represents profit after taxation;

HS represents health scheme;

ED represents educational development;

CD represents community development.

Unlike the studies of Ngwakwe (2009) and Uadiale and Fagbemi (2011) which adopted return on equity (ROE) and return on total asset (ROTA), this study adopted the profit after taxation as its corporate performance measure. This became necessary due to the need have both the dependent and the independent variables in absolute Naira terms.

## **DATA PRESENTATION AND ANALYSES**

### **Table 1 Descriptive Statistics**

	PAT ₦	HEALTH ₦	EDUCATION ₦	COMM DEV ₦
Mean	12300000000	11395872	25140180	24642377
Median	6920000000	2210776	10701762	5712950
Maximum	36500000000	79500000	233000000	156000000
Minimum	-9020000000	100000	32514	118799
Std. Dev.	13100000000	20306263	46964287	42779175
Jarque-Bera	2.401852	44.84708	224.385	32.066
Probability	0.300915	0	0	0

Source: Eviews 7.0

Table 1 indicates that the sample companies in Nigeria on the average expended ₦11395872 on health scheme, ₦25140180 on education development and ₦24642377 on community development. This is a pointer that education development takes highest priority in the quest of the corporate social responsibility by companies in Nigeria. This again corroborates the finding of Oguntade & Mafimisebi (2011) that education receives the highest attention of companies in their pursuit of corporate social responsibility.

**Table 2 CORRELATION MATRIX**

	PAT	HEALTH	EDUCATION	COMM DEV
PAT	1	0.489721	0.451034	-0.07104
HEALTH	0.489721	1	0.553507	-0.05549
EDUCATION	0.451034	0.553507	1	0.026177
COMM DEV	-0.07104	-0.05549	0.026177	1

Source: Eviews 7.0

Table 2 presents the correlation result among the variables. The correlation matrix indicates PAT is positively related to expenditures on both Health Scheme and Education, while negatively related to community development. The extent of the relation being 49% between PAT and Health Scheme, 45% between PAT and Education Development, -7% between PAT and Community Development project. The expenditure on health is found to be positively related to expenditures on education development and negatively related to expenditure on Community development. The extents of these relationships are 55% and -6% respectively. The expenditure on education is positively related to expenditures on both health scheme and community development. The relationships among expenditures on community development, health scheme and education are negligible; being -6% and 3% respectively. It suffices to note that the correlation coefficients observed between the variables is suggested the unlikelihood of serious multicollinearity between the variables and this indicates the suitability of the data for regression analysis.

Table 3 REGRESSION MATRIX

Dependent Variable: PAT				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10200000000	3860000000	2.635622	0.0174
HEALTH	221.6449	160.4629	1.381284	0.1851
EDUCATION	70.87953	65.95955	1.074591	0.2976
COMMUNITY	-20.88076	72.51031	-0.28797	0.7769
R-squared	0.289985	Mean dependent var		14900000000
Adjusted R-squared	0.164689	S.D. dependent var		14100000000
S.E. of regression	12900000000	Akaike info criterion		49.56812
Sum squared resid	2.83E+21	Schwarz criterion		49.76708
Log likelihood	-516.4653	F-statistic		2.31439
Durbin-Watson stat	1.594201	Prob(F-statistic)		0.112378

Source: Eviews 7.0

$$Y_{PAT} = 10,200,000,000 + 221.6HS + 70.8 ED - 20.89CD + \alpha$$

Table 3 has the regression result of the study; as depicted in the table above, PAT being the yardstick for measuring corporate performance is the dependent variable, while the proxies adopted by the study for measuring corporate social responsibility in Nigeria – Education development, Health scheme, and Community development- formed the independent variables. From the table above, it is observed that the R<sup>2</sup>, which is an indicative of the coefficient of determination of the model, is about 29%. This suggests that about 29% of the systematic variation of the dependent variable is explained by the independent variables of the model. The coefficient of the independent variables of 70.87, -20.88, and 221.64 for education development, community development and health scheme respectively, suggest that there are positively relation between profit after tax and corporate social responsibility in the form of education development and health scheme; and a negative relationship between profit after tax and corporate social responsibility taking the form of contribution to enhance community development. The probability and [t-statistics] values of 0.30 [1.07], 0.78 [0.28], 0.19 [1.38] suggest that relationships found to exist between profit after tax and corporate social responsibility in the form of contribution towards education, community development, and health are not significant. This informed the need to iterate this study’s regression result for about the fourteenth time, which however showed a less improved result. Therefore the first regression result was used.

**DISCUSSION OF FINDINGS**

- i. This study found that contribution to educational development as their corporate social responsibility effort received priority to health scheme and community

development in Nigeria. This is in consonance with the finding of Oguntade & Mafimisebi (2011)

- ii. This study revealed that there is positive relationship between firms' contribution toward education and health as their corporate social responsibility efforts and corporate performance. This finding is in tandem with the findings of Hillman and Kiem (2001), Ngwakwe (2009), and Uadiale and Fagbemi (2011)
- iii. The regression result of this study also revealed that there is a negative relationship between corporate social responsibility in the form of contribution to community development and firms' financial performance. This is also in tandem with the finding of Vance (1975), Alexander and Buchoiz (1978), and Hillman and Keim (2001)

### **CONCLUSION AND RECOMMENDATIONS**

Unlike other studies that have been conducted in Nigeria to date on the relationship between corporate performance and corporate social responsibility, this study reflected a mixed and not significant relationship between corporate social responsibility and corporate performance. Corporate' contribution to education and health were showed to be positively related with profitability, while the relationship between the contribution in the form of community development and profitability proved otherwise. It is therefore recommended that companies operating in Niger-Delta region should concentrate on the education and health of the people. The community development programs embarked upon by the corporate bodies should gear towards the improvement of these courses and the productivity of the people of Niger-Delta.

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