CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF QUOTED CONGLOMERATES IN NIGERIA

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COPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF QUOTED CONGLOMERATES IN NIGERIA

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A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY IN PARTIAL FULFILMENT FOR THE AWARD OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

Declaration

I declare that the work in this thesis entitled "Corporate Social Responsibility and Financial Performance of Quoted Conglomerates in Nigeria" has been carried out by me in the Department of Accounting. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this project thesis was previously presented for another degree or diploma at this or any other Institution.

…….. **……..**

Shehu Abdulrahman Date

Certification

This thesis entitled "CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF QUOTED CONGLOMERATES IN NIGERIA", by Abdulrahman SHEHU meets the regulations governing the award of the degree of Master of Science in Accounting and Finance of the Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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Abstract

The study examined the impact of corporate social responsibility on the financial performance of Quoted Conglomerates in Nigeria. The research design adopted by the study is correlational and the population constitutes of the eight (8) conglomerate companies quoted on the Nigeria Stock Exchange as at 31st December 2011. Due to the data availability of the companies and the fact that they are few in number, the study uses census approach. The study uses secondary data and the instrument used for the collection of the data is documentation. The data used are extracted from the annual reports of the conglomerates, NSE factbooks and Daily official lists of the NSE official lists of the NSE. The data is for the period of 6 years ranging from 2006-2011. The study used Multiple Regression Model as the techniques of analysis using SPSS 16.0 software. The study found that two of the independent variables (i.e. ER and CP) have significant positive impacts and other one (i.e. EMS) negative impact. In line with the findings of the study, we conclude that corporate social responsibility plays a significant role on the profitability of conglomerates in Nigeria. The study therefore recommends that companies should embark on more rendering of social responsibility as this could leads to more profitability improvement. Regulatory authorities should come up with clearly defined regulation on how to go about social responsibility issues of the companies and the government should ensure full implementations of the regulations.

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CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Conglomerates are often large and multinational companies in nature that embarks on various types of businesses. In Nigeria, they are under the regulation of the Nigerian Stock Exchange (NSE) and are mainly established to accomplish synergies, diversification and earnings growth. In early 1960s conglomerates were very popular in developed countries, but due to the difficulty associated with managing unrelated business units effectively they are now less popular. In developing countries like Nigeria, apart from the problem of managing unrelated units, conglomerates also face the problem of managing conflicts with the immediate environment in which the business units are established. In an effort to address that most of the conglomerates embark on Corporate Social Responsibility (CSR).

CSR simply means that companies in the cause of discharging their day to day activities for the purpose of profit realization should also take into consideration the effect of their activities on the members of the society in which the companies are residing and the environmental sustainability of their operations.

The origin of CSR in the Nigerian context can be traced back to the presence of unbridled of oil in the southern part of Nigeria (South-South Geo-Political Zone). The discovery of the oil brought a serious conflict between the companies and the environment. On one hand, members of the community are complaining of environmental degradation that led to various types of hardships and on the other, the companies are not willing to accept that they are the major cause of the hardships. These conflicts of interest led to the emergence and implementation of CRS. The overall objective being protecting human rights against corporate abuses and on that basis

various legislations designed to regulate business and industry in Nigeria were come up with that includes recognition of public interests by companies (Gunu, 2008).

There are various views in the literature on CRS. Some authorities like Friedman (1962) are of the view that the concern of businesses should be profit making and any activity to deter that should be stayed away by companies because no legal and democratic backing to pursue such activities. Others like Freedman and Liedtka (1991) are of the view that companies are responsible for all their stakeholders and should therefore take greater responsibility for the society at large and seek to solve social and environmental problems in their market place.

Today, most corporate managers believe that business operations should go beyond the simple prospect of money making. Thus, managers should try as much as possible to incorporate the interest of the employee, business partners, customers, shareholders and the society at large into their decision making which offers the best guarantee for consistent profitability. This view in favour of CRS implementation creates difficulty on measuring the real effect of the implementation on consistent profitability of companies. This has become more compounded as various ratios for measuring profitability exists.

Against the above backdrop, this study is undertaken with a view to evaluating the effect that implementing CRS has on the performance of conglomerates quoted on the NSE.

1.2 Statement of the Research Problem

For conglomerates to succeed financially, they must have to produce goods that could enable them generate sufficient profits. Profits making is a function of so many factors, some of which are indigenous and others exogenous. Amongst the exogenous factors are operational interruption caused by hosting community of the conglomerates. This is due to the concern of the community over negative and potential negative effects that businesses brought to the

community. The effect ranges from environmental degradations to societal conflicts as a result of the businesses' activities. In an effort to overcome the existing conflicts between conglomerates and the hosting environments the idea of CRS was advocated. While that can be considered as a welcome development that avenue for conflicts resolution exists, but the avenue creates more concern over the implementation and the quantification of the benefits to both the community and the conglomerates.

Although, series of arguments based on researches are found in literature as to the relevancy or irrelevancy of CRS on the hosting environment, there is no unanimous agreement on the subject matter due to peculiarities of settings and the variations of methodology adopted by the studies. Some of the studies argue in favour of CRS as it leads to profitability increments, societal and environmental stabilities. Others argue that it is a waste and unnecessarily leading to diversion of companies' resources to projects that have no explicit bearing on profit motive. This therefore stimulates the need for studying specific setting in order to ascertain the consequential effect of adopting CRS.

Against the above backdrop, there is every need to evaluate empirically the effect of adopting CSR on the profitability of conglomerates in Nigeria with a view of ascertaining whether its institution plays any significant role or not.

1.3 Research Questions

The following research questions are raised for the purpose of this study:

i- What effect does CSR has on the financial performance of conglomerates in Nigeria?

ii- To what extent does the societal expenditure by conglomerates affect their financial performance?

iii- To what extent does the environmental expenditure by conglomerates affect their financial performance?

1.4 Objectives of the Study

The major objective of the study is to evaluate the effect of CRS on the financial performance of conglomerates in Nigeria. Other specific objectives are:

i- To evaluate whether societal expenditure significantly affect financial performance of conglomerates in Nigeria.

ii- To evaluate whether environmental expenditure significantly affect financial performance of conglomerates in Nigeria.

iii- To evaluate whether employees' expenditure significantly affect financial performance of conglomerates in Nigeria.

1.5 Research Hypotheses

The following research hypotheses have been formulated for testing:

$H0_1$- CSR has no significant effect on the financial performance of conglomerates in Nigeria.

$H0_2$- Societal expenditure by conglomerates has no significant effect on their financial performance.

$H0_3$- Environmental expenditure by conglomerates has no significant effect on their financial performance.

$H0_4$- Employees expenditure by conglomerates has no significant effect on their financial performance.

1.6 Significance of the Study

The study should be of significance in the following ways:

i) It serves as a pioneering effort in evaluating the effect of CRS on the financial performance of conglomerates in Nigeria. This would assist the conglomerates in shaping their policy on CRS as it would reveal to them the extent to which it affects their performance.

ii) It would assist government in settling conflicts and disputes between companies and the hosting environment. This could be possible by coming up with an acceptable benchmark as to what should be expended for CRS to the hosting community.

iii) The study should serve as a reference point to those that want to research further into the area. It would enable them have more insight into the subject matter under study.

1.7 Scope of the Study

The study covered the period of six years (6yrs) ranging from 2006-2011. The time frame is chosen due to the data availability of data. As for the variables of measurement, Return on Asset (ROA) is to be used in measuring financial performance, while societal expenditure (SE), environmental expenditure (EE) and employees' expenditure are to be used in measuring CSR.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter reviews some previous studies and theories aimed at providing an analytical framework for the study on corporate social responsibility and financial performance of conglomerate companies in Nigeria. It looks at conceptual meanings of CSR and the historical origin of the concept. Empirical works done on how to measure CSR and its impact are all considered by the chapter.

2.2 The Concept of Corporate Social Responsibility (CRS)

CSR is viewed from different perspectives and angles. The perspectives vary from individual authors to organizations and as a result there is no generally accepted unified definition of the concept. But, on critically viewing the various definitions given one could observed that they are centered on three themes as stated by Wissink (2012). These themes are corporate relations to economic, societal and environmental sustainability. It is on this basis that several terms like corporate conscience, good corporate citizenship, business responsibility, business citizenship, social performance, sustainable responsible business, community relations, and responsible business are used to connote CSR.

The concept is therefore closely linked to the principle of sustainability, which argues that enterprises should make decisions based not only on financial factors such as profits and dividends, but also based on the immediate and long term social and environmental consequences of their activities (Tilt, 2009).

Some few notable definitions of CSR given by various authors are: Carroll (1979) defined CSR as the social responsibility of business to society at a point in time that encompasses the economic, legal, ethical, and philanthropic expectations.

In the view of McComb (2002), it is described as the ability of company to link itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. In another similar definition by Hill, Ainscough, Shank, and Manullang (2007), CSR is the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders.

In a concise definition given by Baker (2004), it is described as the ability of the companies to manage the business processes to produce an overall positive impact on society. Other authors' definitions of CSR are found in Bowen (1953), Fitch (1976), Carroll (1979), and Lea, (2002)

Some of the organizational' definitions of CSR are: The European Commission (2001) defined CSR as a concept which makes companies decide voluntarily to contribute to a better society and a cleaner environment by integrating social and environmental concerns in their business operations and in their interaction with their stakeholders. In another definition given by University of Miami (2007), it is considered as a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based.

The World Business Council for Sustainable Development (WBCSD, 1998), defines the CSR as a continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

From the above set of definitions, it could be observed that the definitions of CSR given are based on taking into consideration peculiarities of settings in which the definitions are targeted to represent. That informed the reason why variations exist amongst the definitions and none appears to be fully comprehensive. Despite that this study is adopting the definition given by McComb (2002).

2.3 Historical Origin of Corporate Social Responsibility (CSR)

The history of CSR can be traced back to 1700 years before Christ in which it was reported that Mesopotamian kings as of then introduced a code for innkeepers guidance on how to go about their jobs. Deviation from complying with the code led to severe penalty especially when the deviations harmed other citizens (Brass Centre, 2007).

As one of the reasons for the institutions of CSR is to enable mutual beneficial relationship to exist between the business and the hosting environment, one can justify the long existence of the concept by taking into consideration what prominent practicing religions impliedly narrated on business dealings between business owners and members of the society. This takes the form of interest prohibition which is considered as an exploitative avenue of getting income by businesses at the detriment of the societal smooth growth and development. Confirmation of this is obtainable in both Qur'an and Bible (Qur'an 57:18; Qur'an 2:276; & Qur'an 2:271; and Matt. 25-31-46; Deut. 10:17-18; Jer. 22:1-5; & Zech. 7:9-10).

When the concept is viewed from the capitalism perspective, its origin can be attributed to Carnegie writing of the principle of capitalism. According to him, for capitalism to survive, it has to be placed on two principles. The first is the charitable principle which urged established members of the society to assist less fortunate ones. The second is the stewardship principle

which required businesses and wealthy individuals to see themselves as the stewards of the immediate business environment (Freeman & Liedtka, 1991).

With industrialization advancement companies now voluntary engaged in discharging CSR. For example according to Mackey (2007) Kellog Company has claimed to be discharging CSR since the inception of the company in 1906. Another confirmation of similar incidence is found in Asongu (2007) in which he claimed that corporate paternalists of the late 19th and early 20th centuries used some of their wealth to support philanthropic activities.

Due to the prominent nature of CSR, it is now considered as one of the crucial subject matter of interest in accounting theory and practice since 70's. The accounting profession has been involved in the struggle to ensure that social responsibility expenditures are accounted for and adequately disclosed in the annual reports of financial statements (Oba 2009).

2.4 Economic Drivers of Corporate Social Responsibility (CSR)

According to Arthur (2003), researches conducted on CSR identified factors sometimes described as drivers that serve as rationale behind which companies voluntarily engaged in adopting CSR. Although, the drivers are applicable to all companies, but the extent of their applications and the roles they play in improving financial positions vary from one company to another, and also from sector to sector. Some of these notable drivers are briefly explained thus:

Management Reputation

Organizational reputation is something that is built over time, CSR offers a means by which companies can manage and influence the attitude and perception of their stakeholders, which in turn leads to trust building and mutual benefits between business and the immediate environment. Tuppen (2004) shows that CSR related issues are important drivers of corporate

image and reputation, which are major determinants of consumer satisfaction and this by extension creates positive financial returns as argued by Uadiale and Fagbemi (2011).

Qualitative Workforce

In surveys conducted by Globescan Inc. (2005) and Eweje (2006), it is found that CSR plays significant role in attracting and retaining talented diverse work force. Companies that account for the interests or needs of their employees perform in terms of quality and delivery compared to those that do not offer that **(**Grant Thornton International Business Report, 2011). In the view of Turban & Greening (1997), CSR is considered to have bearing on encouraging customers' orientation toward organizational attainment.

Investor Relations and Access to Capital

The investment community is increasingly viewing CSR as an akin to long-term risk management and good governance practice. In a survey conducted by Hill & Knowltown (2006), it is found that analyst place much more importance on corporate reputation compared to what they do on financial performance.

Risk Profile and Risk Management

CSR offers more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues and use positions of leadership as a means to gain competitive advantage. Managing risk is a central part of many corporate strategies, because reputations that take decades to build up can be ruined in hours through incidents such as corruption, scandals or even environmental accidents. These can also draw unwanted attention from regulators, courts, governments and media. Therefore, building a genuine culture of 'doing the right thing' within a corporation can offset these risks as cited by Brine *et al* (2006).

Learning and Innovation

Learning and innovation are critical to long-term survival of any business, on that basis CSR is considered as a vehicle used by business in responding to environmental and societal risks.

Competitiveness and Market Positioning/ Brand differentiation

In crowded market places, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers, and at the same time CSR can play a role in building customer loyalty based on distinctive ethical values. As such business service organizations can benefit too from building a reputation for integrity and best practice.

Operational Efficiency

CSR offers opportunities of reducing present and future costs of the business through the improvement of operational efficiency. In addition, to that companies that improve working conditions and labour practice also experience increase in productivity.

License to Operate

Companies that fail to discharge societal responsibilities stand the chance of license revoking due to litigation by community members. The companies may also suffer from serious patronization from the community members.

Laws and Regulations

Another driver of CSR is the role of independent mediators, particularly the government, in ensuring that corporations are prevented from harming the broader social wellbeing, including people and the environment. CSR critics argue that governments should set the agenda for social responsibility by the way of laws and regulations that will allow a business to conduct it responsibly in the society they are operating.

2.5 Measurements of Corporate Social Responsibility and Corporate Financial Performance

CSR and Corporate Financial Performance (CFP) are measured using different approaches as highlighted by various studies conducted in the areas. Some of the notable studies are briefly reviewed thus:

Measurement of Corporate Social Responsibility (CSR)

In measuring CSR several variables are used. In some studies subjective indicators such as survey, questionnaires are used. In others corporate annual reports to shareholders or content analyses of annual reports, expert evaluations, and regulatory compliance data are employed. Some of the studies in the area include Aupperle (1991), Bowman & Haire (1975), Wolfe (1991), Zahra, Oviatt & Minyard (1993), Heinze (1976), Moskowitz (1972), McGuire, Sundgren, & Schneeweis (1988), Akathaporn & McInnes (1993), Preton, & O'Bannon (1997), and Aupperle (1991).

In the above studies, one of the major challenges faced by them is the establishment of the relationship between CSR and performance of the organization which sometimes are basically due to insufficient data and in others the implied nature of the relationship.

There are some indices that are used in measuring CSR in relation to performance, some of these indices are explained thus:

KLD Index (Kinder, Lydenberg, Domini)

This is the index created by Kinder, Lydenberg, Domini (KLD) & Co. KLD STATS contains ratings on a wide range of CSR related items compiled from various sources such as government agencies; non-governmental involves organizations, global media publications, annual reports, regulatory filings, surrogated statements, and company disclosures. KLD STATS

organizes the various CSR-related items such as qualitative issue areas which include: the community, corporate governance, diversity, employee relations, the environment, human rights and product characteristics. For each qualitative issue area, KLD assigns a binary (0/1) rating to a set of concerns and strengths. KLD is considered the most widely used measurement of CSP since 1994 (Martela, 2005). The KLD rating provide means of assessing CSP of companies on eight dimensions, and are regarded as the most comprehensive and objective (Waddock & Graves, 1997). One of the studies of CSP that used KLD index is the work of Wry and Deephouse (2005), where the index was used to measure actual CSP.

CSP (Corporate Social Performance) Disclosure

This makes use of content analysis of annual accounts and reports. This method provides the researcher with internal ratio or ordinal measurement of the construct. According to Wolfe (1991), content analysis is the art of measuring CSP, which involves textual evaluation of firm's social and environmental disclosure in the annual accounts and report to deduce the organization's underlying social performance. CSP Disclosure was used by researchers such as Ingram (1978), Anderson and Frankle (1980), Freedman and Jaggi (1986) and Hart and Ahuja (1994).

Reputational Indices

According to Orlitzky, Schmidt, and Rynes (2003), reputational indices are usually developed on the premise that CSP is a good indicator of companies' corporate social responses. It involves professionally informed rating of companies various social and environmental actions and responses. This is done by means of tripartite rating (outstanding, honourable and worst companies). Reputational indices has been used by researchers like Studivant and Ginter (1977), Cochran and Wood (1984), and Fombrun and Shanley (1990).

Social Audit or Corporate Responsibility Index (CRI)

Under this index, participating companies are assessed against a corporate responsibility framework, including an examination of how corporate responsibility is translated from strategy into mainstream management practice, and how material risks are monitored and managed. The company's response is then externally audited, and results are published. The Council on Economic Priority (CEP) social audit ranking is used by researchers such as Fogler and Nutt (1975), Spicer (1978), and Blackburn, Doran, and Shrader, (1994).

Measurement of Corporate Financial Performance (CFP)

There is also no uniform consensus in the literature on how to measure corporate financial performance. This is due to contradictory argument as to what basis of measurement to adopt. While some authorities suggested using accounting measurement, others suggested market measurement and some mixed measurement. Some researchers like Waddock & Graves, (1997) and Cochran & Wood (1984) used accounting measurement. Some adopted market measurement like Alexander & Buchholdz (1978) and (Vance, 1975). Others like McGuire, Sundgren, & Schneeweis (1988) adopted the combination of the two approaches.

Each of the approach used has some backing reasons also some demerits linked up with it. For example, accounting measurement is criticized of only capturing historical aspects of the firm financial performance which according to Branch (1983) and Brilloff (1972) could lead to managerial manipulation. Market measurement according to Ullmann (1985) suggests investor's valuation of firms and is considered as a proper performance measure.

Accounting measures of financial performance consists of many yardsticks such as profitability, Activities and liquidity ratios. Profitability ratios are measurement of profit related to sales and profit related to investment (CFA 1999:7). In another view, it has been argued that

the continued viability of a corporation depends on its ability to earn an adequate return on its assets and capital and in which case ratios like Return on Assets (ROA), Return on Equity (ROE) and Capital Adequacy Ratios (CAR) are used.

2.6 Reviewed of Empirical Studies on Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP)

The field of tension between corporate social responsibility and financial performance is addressed in studying the relationship between the two concepts. In recent decades, many theories about the relationship between corporate social performance and corporate financial performance were put forward, ranging from a predicted negative impact of corporate social responsibility on financial performance to a positive relation from financial performance to corporate social performance. In the same period, many of these theories and predictions were put to the test; results from these tests were often contradictory. Partly, this is due to differences in research methodology and different ways of conceptualizing and operationalizing the variables of interest (Wissink, 2012). Therefore, the empirical study results on the CSR and CFP have never been in agreement, because so many researchers found different results. Some studies found negative, positive relationship, while others found no relation at all between the two component terms.

The voluntary application of the principles of CSR indicates that firms somehow gain from it. Many researchers from advanced countries and very few from developing economy show that being socially responsible can improve a business's financial health, taking into account the interests of other stakeholders can have a positive effect on a firm's long-term reputation, work relations, access to credit, product perception, and customer and supplier loyalty. Quite often, it is part of the overall business strategy to ensure that, economic and

political concerns are at the heart of this movement. Companies can benefit considerably from applying the concept of social responsibility. Specifically, company productivity may rise when new, more environmentally friendly technologies are adopted. Similarly, a company's image or reputation is now considered as an important intangible asset that must be protected and promoted. A company's reputation may give it an edge over the competitors. Also, businesses sometimes have no choice but to apply the concept of social responsibility (Committee on public finance May, 2002).

In a study conducted by PricewaterCoopers (2002) on global Chiefs Executive Officers (CEOs), it is found that 70% agreed that CSR is vital to the profitability of any company. Likewise, a fifty country study of CEOs in the same year by Environics International (2002) showed that 80% believe CSR enhances product innovation and profitability.

There are so many empirical studies of CSR and financial performance and some of the studies are reviewed as follows:

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 organisations 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 analysed 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. Likewise, 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.

Uwalomwa (2011) investigated the association between firms' characteristics and the level of corporate social disclosures in the Nigerian financial sector by using the judgmental sampling technique, a total of 31 listed firms have been selected for the study based on their level of market capitalization and direct financing of most firms from the manufacturing industry, with the helped of content analysis method of eliciting data, a scoring scheme was used for measuring the extent of corporate social disclosure in the corporate annual reports for the period of 2005-2009 which was later analyzed. The study observed that a positive association exists between a firm's characteristics and the level of corporate social disclosure. In addition, the study observed that corporate social disclosures by listed firms are still in its infancy. The study recommended that the standard setting bodies should put in place a corporate social environmental reporting framework in order to improve the level of corporate social disclosures among the listed firms in the financial industry.

Ngwakwe (2009) investigated the relationship between firms' social responsibility practices and their performance in Nigeria. The study focuses on the manufacturing industry and concluded that a positive relationship exists between the social responsibility practice of firms and their performance. In addition, prior studies by Guobadia (2000) and Minga (2010) reported a similar finding on the state of corporate social responsibility in Nigeria.

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 annul 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.

According to global survey by Ernst and Young (2002), 94% of companies believe that development of CSR strategy leads to real business benefits. The research found that company CSR programs influence 70% of all consumers purchasing decisions, with many investors and employees also being swaged in their choice of companies. Therefore, companies that fail to adopt CSR will be left behind in terms of financial performance.

Most researchers and scholars have a concrete believe that only a proven cause and effect relationship between CSR activities and financial performance can dramatically increase corporate social activity (Phillip & Claus, 2002).

Orlizky, *et al.* (2003) investigated corporate social responsibility and corporate financial performance by integrating 30 years of research from 52 previous studies by using Meta analytical techniques and the results confirmed a strong positive correlation between financial performance and the management of the company's social impact than financial performance with its environmental performance.

Tsoutsoura (2004) used extensive dataset which constitute most of the S&P 500 firms over a period of five years (1996-2000) and explored the relationship between corporate social responsibility and financial performance measured using ROA; ROE and ROS as the dependent variables, while the independent variable was corporate social responsibility (CSR) of S & P firms measured by KLD scores and tested by using empirical method which is found to be positively and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefit.

Meijer and Schuyt (2005) analyze the behavior of Dutch consumers and found that the corporate social performance of producers does not motivate consumers to buy a product. Brine *et al,* (2006) observed the relationship between financial performance and corporate social responsibility across the total population of the top 300 Australian listed companies for the year 2005 financial year out of which 277 companies were drafted into the sample after dropping companies that did not meet the requirement. The study considered corporate social responsibility as the independent variable while financial performance as the dependent variable. The measurement was based on whether companies made separate sustainability disclosure

beyond what is required of them by the regulatory frame work and the measurement of CSR was a dummy variable. The measurement used was ROA, ROE and ROS. The preliminary results revealed no statistical significant relationship exists between the adoption of corporate social responsibility and a firm's financial performance.

Saleh *et al.* (2007) found positive relationship between CSR actions disclosure and company performance in the short run. In a study conducted by Ajagbe, Adewoye and Ajetomobi (2007), in which the researchers evaluate financial performance of community banks by using a sample size of 8 community Banks, it is found that the response of the questionnaires and interviews that capital adequacy, liquidity reserve and cash reserve ratios were the significant factors in determining the performance of community Banks.

Fiori Donato, and Izzo, (2007) investigate the impact of voluntary disclosure of CSR on stock prices of Italian listed companies over the period of 2002-2007. The results show that the disclosure of CSR policies (especially those referred to employees) leads to higher stock prices because of the prevalence of a good perception of the market.

Asongu (2007) looks at the history of corporate social responsibility and traced the historical roots of the concept of CSR from ancient times to modern day and finally concluded with the suggestion that more detailed study of the history of CSR needs to be conducted.

Vergalli and Poddi (2009) examined the effect of corporate social responsibility on performance of firms. The main results seem to have supported the idea that corporate social responsibility of firms has better long run performance. Even though it has some initial cost but obtain higher sales and profits due to several causes of reputation effect, and reduction of long run costs.

Ali, Rehman, Yilmaz, Nazir and Ali (2010) analyzed the behaviour of Pakistan consumers and find that the corporate social performance of producers does not motivate consumers to buy a product from cellular industry in Pakistan. Therefore, there is no significant relationship between awareness of CSR activities, consumer satisfaction, purchase intention, and consumer retention in Pakistan. Ioannou and Serafeim (2010) investigate the impact of CSR strategies on security analysts' recommendations, and find that CSR strategies can affect value creation in public equity markets through analyst recommendations.

Babalola (2012) predicts three possible relations between CSR and company financial profitability. The first is neutral impact (such as Schröder, 2007). All companies, CSR complying as well as non- CSR complying, have the same rate of expected return and face the same cost of equity capital. This reasoning is in line with risk-return paradigm where only risk factors are priced in the market. The second is positive impact (such as Ziegler *et al*, 2007). If the risk associated to CSR compliance is correctly priced by the market, the same risk-return paradigm would imply a negative relation between CSR performance and financial performance. Companies which actively account for the CSR risk factor are seen as less risky investments relative to the companies that ignore it. The third view is negative impact (such as Wright & Ferris, 1997). The compliance with CSR principles is not efficiently priced by market participants. A positive (negative) relation follows depending on the sign of the inefficiency as cited by Setiawan and Janet (2012).

Servaes and Tamayo (2012) investigated on the impact of corporate social responsibility on firm value based on the role of customer awareness. They found that corporate social responsibility (CSR) and firm value are positively related for firms with high customer awareness, as surrogated by advertising expenditures. For firms with low customer awareness,

the relation is either negative or insignificant. In addition, they found that the effect of awareness on the value-CSR relation is reversed for firms with a poor prior reputation as corporate citizens. This evidence is consistent with the view that CSR activities can add value to the firm but only under certain conditions.

Wissink (2012) examined the relationship between corporate social performance and corporate financial performance. On the whole, the combined results suggested that the relationship between corporate social responsibility and corporate financial performance is at least neutral and perhaps slightly positive. However, the different approaches make it difficult to come to a final answer. But the result was put to the test once more, but only after trying to come to a more universal conceptualization and operationalisation of the variables, based on the inclusion of Dow Jones Sustainability Index and Corporate financial performance was operationalised by means of three different accounting variables: ROA, ROE and ROS. The world's 2500 largest companies were assessed on general and industry specific sustainability criteria by means of self-report questionnaires, media- and stakeholder analysis, and data from secondary sources (company websites, annual reports, etc.). Instrumental stakeholder theory delineates a positive relation from CSP to CFP based on relations with stakeholders; CSR has a positive impact on a corporation's relationship with stakeholders, these improved relationships ultimately result in financial performance. Two hypotheses were tested by means of multivariate statistical tests. Based on the results of these tests, the following conclusions were drawn. Size and institutional context are determinants of corporate social performance (CSP); larger firms have a greater chance of being included in the DJSI, as do firms originating from Europe compared to those from North America. ROA and ROS are positively related to subsequent social performance, when firm size is appropriately controlled for, providing evidence of the

slack resources theory. CSP is positively related to subsequent financial performance, providing evidence of the instrumental stakeholder theory. Taken together, the results provide evidence of a virtuous cycle of CSR. Better CFP results in better CSP and, in turn, better CSP results in better financial performance.

According to study conducted by Vitezić (2011), correlation exists between social responsibility and efficient performance of Croatian Enterprises. The initial point in the empirical section was dynamic analysis of business activities of Croatian entrepreneurs in the period between 1993 and 2010, on the basis of which a sample was chosen, which submit transparent reports on social responsibility. The main result obtained by univariate analysis confirms that socially more responsible enterprises have better financial results, i.e. they are more efficient, and also have better reputation. The conclusion is derived that there is a causal relationship between efficiency and social responsibility, i.e. higher efficiency level enables higher allocation of resources with the purpose of socially more responsible corporate performance and vice versa; socially responsible corporate performance have an impact on reputation and its improved efficiency.

Anescu (2009) in his study: Do investors perceive CSR as a risk factor? In identifying a systematic variation in a significantly long panel of US stock returns attributable to variation in CSR performance. The researcher implemented the Fama-Macbeth (1973) month by month cross-sectional regressions. The corporate responsibility data used, provided by KLD Research Analytics, covers six CSR dimensions updated annually between 1991 and 2007 for 650 US most visible firms belonging to either S&P500 or Domini Social Index 400. Their risk-factor analysis indicates a change in investors' perceptions of CSR performance, with a positive and statistically significant effect of CSR performance on the expected stock returns during July 1992- June 2004 and a negative effect during July 2004- June 2008. The specific component of the CSR variable that mainly drives the results is the environmental component. They argue that

the observed shift in the effect of CSR performance on stock returns is attributable to increasing publicly available CSR information.

Purnomo and Widianingsih (2012) conducted a research on the Influence of environmental performance on financial performance (with corporate social responsibility (CSR) disclosure as moderating variable) evidence from Listed Companies in Indonesia. They researched on the influence of environmental performance and Corporate Social Responsibility (CSR) Disclosure on financial performance have inconclusive results. This condition drives researcher to use CSR Disclosure as a moderating variable. The number of samples used in this research was ten firms in mining, chemical, pharmaceutical, cement, pulp and paper sectors which are listed on the Indonesia Stock Exchange (IDX) during 2006-2010 with 50 observations. Data are taken from annual report 2006-2010 of the companies listed on IDX by using multiple regression and moderated regression analysis. The CFP is measured using net profit margin, while environmental performance is measured using PROPER rating and CSR Disclosure is measured with CSR Index. The results indicate that environment performance has a positive effect on financial performance and CSR disclosure is not able to strengthen the influence of environmental performance on financial performance.

According to Yang, Lin and Chang (2010), previous empirical studies have indicated an unclear relationship between CSR and financial performance, and literature has pointed out that innovation has a great impact upon CSP and CFP. Therefore, size and R&D (research and development) are adopted in this study as control variables to investigate the relationship between CSP (Independent Variable), CFP (Dependent Variable) and CSP (Dependent Variable), CFP (Independent Variable) respectively. In this study, companies listed in the TSEC Taiwan 50 Index and TSEC Taiwan Mid-Cap 100 Index was included as samples to analyze the

linkage between CSP & CFP, and by using regression analysis. The results pointed out that previous CSP has positive impact on the ROA for the next period; however, previous CFP has nothing to do with the latter CSP. In considering R&D and size, the previous CSP has a positive correlation with the latter ROA. In addition, CSP has a negative correlation with ROE in the financial industry, and CSP has nothing to do with CFP in the electronic industry.

El Ghoul, Guedhami, Kwok and Mishra (2012) examined the effect of CSR on the cost of equity capital for a large sample of U.S. firms. Using several approaches to estimate firms' ex ante cost of equity, they find that firms with better CSR scores exhibit cheaper equity financing. In particular, their findings suggested that investment in improving responsible employee relations, environmental policies, and product strategies contributes substantially in reducing firms' cost of equity. The results also show that participation in two "sin" industries, namely, tobacco and nuclear power, increases firms' cost of equity, which supported the arguments in the literature that firms with socially responsible practices have higher valuation and lower risk.

Afonso *et al.* (2012) examined the relationship between social performance and economic performance of top Portuguese Companies, by using Spearman coefficient, to study the hypothesis of relation between the CSR Index and economic performance variables. Green Book of Commission of the European Community was used in a group of nineteen Portuguese top companies, quoted in the Euronext Lisbon stock exchange, belonging to PSI 20 Index, considering a review period of five years, from 2005 to 2009. To measure the economic and financial performance, three accounting based measures were used: ROE, ROA and ROS. A clusters analysis was applied to group companies by their social performance and to compare and correlate their economic performance, defined clusters was named in accordance with the social performance of the companies that composed each one (Cluster 1-CSR Medium, Cluster 2- CSR

High, Cluster 3- CSR Low). The companies belonging to group of Medium CSR were those which had better economic and financial performance in ROA and ROS but worst only in ROE and Low CSR companies had the better result of all in ROE that may indicate a focus in results that are important to shareholders, under valuating CSR. Results indicate that companies that had a better social performance are not the ones who had a better economic performance, and suggest that the middle path companies that had a CSR medium and better economic and financial performance in two of the three economic and financial measures of performance might provide a good relation CSR-Economic performance, as a basis to a sustainable development. The positive and significant correlations found, in the group of medium CSR companies, between CSR Index and ROA suggests that social performance may have positive influence on sales, perhaps because consumers are more predisposed to buy products and services from CSR companies. The total negative correlation between CSR Index and ROE, in the Low CSR companies, that had the better result in ROE and the worst in ROA, it may also indicate that a focus in results to shareholders, neglecting social performance, may have a negative impact in other dimensions, like sales.

Setiawan and Janet (2012) examined Corporate Social Responsibility, Financial Performance, and Market Performance of consumer goods companies listed on the Indonesian Stock Exchange during the period 2007-2010. The analysis is completed by interviewing consumers, investors, and stock analysts from financial institution in Surabaya, Indonesia. The results of the study show that corporate social responsibility leads to increase in financial performance, but have no significant effect to market performance. Corporate social responsibility will build consumers' trust about the products and will encourage them to be loyal consumers. However, investor and stock analyst state that corporate social responsibility is a

long term social investment that does not have a significant effect to the investment decision. In addition, most of the companies in the Indonesian consumer goods industry have a good financial performance, so that the stock prices remain constant.

Lungu, Chirața and Dascălu (2011) examined the relationship between reporting companies' characteristics and the importance assigned to social and environmental disclosure, by using statistical correlations based on content analysis of sustainability reports of the largest 50 companies classified by Global Fortune in 2009 in order to address the research hypotheses. The results show that size characteristics measured by assets and revenues cannot be correlated to the extent of CSR reports published by companies, but there is a significant negative correlation between change in revenues and return on equity and social and environmental disclosure for the sampled companies.

Keffas, and Olulu-Briggs (2011) examined the financial performance of CSR and Non-CSR banks using financial ratios and frontier efficiency analysis. They got accounting information for banks in Japan, US and UK quoted on the FTSE4 Good global index from Bank scope database. They include thirty-eight (38) financial and economic ratios based on variables such as Asset quality, Capital, Operations and Liquidity that captured major scope of financial performance. In addition, they used a non-parametric linear programming technique known as Data Envelopment Analysis to create a piecewise linear frontier that helps to determine the efficiency levels for both a common and separate frontier analysis. First, they find a positive relationship between corporate social responsibility and financial performance. Banks that incorporate CSR have better asset quality; capital adequacy, and are more efficient in managing their asset portfolios and capital. Second, they also find that geographical location regulates the relationship between CSR and FP during economic contraction, such that the relationship differs

across the businesses and transactional banking models. The findings are to some extent consistent with prior analysis on the CSR-FP link.

Other studies and synopses on CSR and financial performance or corporate financial performance (CFP) are represented in table 2.6.1 and 2.6.2 below:

Table 2.6.1 Representing Synopses on CSR Studies

AUTHOR NAME (S) AND YEAR	***SCOPE OF STUDY***	***INDEPENDENT VARIABLE(S)***	***DEPENDENT VARIABLE***	***OUTCOMES OR RESULTS***	***SECTOR***	***COUNTRY***	***NATURE OF DATA***
Uadiale & Fagbemi (2011)	2007	CP, EMS, and ER	ROA & ROE	Positive and significant relationship	Quoted Conglomerate companies	Nigeria	Cross Sectional Data
Uwuigbe & Egbide 2012	2008	Return on Total Assets (ROTA), Debt to Equity (Nature of the Industry) & Size of Audit firm	CSR Disclosure Index	Positive Relationship	Quoted Conglomerate Companies	Nigeria	Cross Sectional Data
Bello 2012	2002-2006	Donations (DN), Environmental Pollution & Prevention (EPP), Health & Safety of Employee and Employment of Disable Person (HS)	ROA	Negative and No significant Relationship	Quoted Conglomerate companies	Nigeria	Time Series of individual observations of companies
Iqbal, Ahmad, Basheer & Nadeem 2012	2010-2011	CSP index	ROA, ROE, D/E, & Market Value of Share	Negative Relationship	Listed Companies	Pakistan	Panel
David 2012	2011	CSR Disclosure Index	Societal Progress	Significant relationship	Banking and Communication Sectors	Nigeria	Cross sectional Data

Source: Various Previous Studies

Table 2.6.2 Representing Other Studies on CSR

S/No	**Author Name (s)**	**Year**	**Measure of CSR**	**Measure of financial performance**	**Outcomes or Results**

1-	Cochran & Wood	1984	Moskowitz reputational index	Abnormal return	Positive Relationship
2-	Aupperle, Carrol, & Hatfield	1985	Carroll's (1979) CSR construct or subjective indicators	ROA	No relationship
3-	Fombrun& Shanley	1990	Charitable contributions, Fortune index	ROIC, Market-to-book ratio	Neutral Relationship
4-	Waddock& Graves	1997	KLD Database	ROA	Positive Relationship
5-	McWilliams & Siegel	2000	KLD index	ROA	Neutral Relationship
6-	Orlitzky, Schmidt, &Rynes	2003	KLD index	P/E ratio, ROE, ROA	Mixed Relationship
7-	Nelling	2006	KLD Socrates Database	ROA	Positive Relationship

Source: Previous Studies of CSR

Despite the fact that a lot of researches have been conducted in this area of CSR and CFP in advanced countries and very few from Nigeria, by using different yardstick of measuring CSR, different theoretical framework and CFP proxies, the researcher has the belief that the outcome of the researchers from advanced countries will probably varies from a developing countries like in the case of Nigeria. Because of geographical location, nature of economy and implementation of due process, leadership style, differences in technological advancement, economic growth and development. In addition to that most of the studies are not up to date. The researchers have the believed by taken different proxies from the advanced countries and developing countries, the research outcome will add knowledge advancement on the influence of CSR on financial performance of conglomerates companies.

2.7 Theoretical Framework of the Study

There are several theoretical frameworks that could be used in addressing CSR issues. Some of these theories are briefly explained thus:

Agency Theory

One of the earliest applications of this Principal-Agent model was to sharecropping, where the landowner was the Principal and the tenant farmer the Agent. So this theory is talking about firm as a link between the agents and their principals because of the contractual relationship, the agents (i.e. Managers) can act on behalf of the principals (i.e. Owners). The theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The whole essence of agency theory is attempting to deal with two specific problems; if the goals of the principal and agent are in conflict, and to reconcile the principal and agent different tolerances for risk.

The study of business ethics is not restricted to the study of what is legal, but also the application of moral standards to business decisions. Moral standards are cannons of personal behaviour that are neither legislated nor changed by legislation. Therefore, in defining business ethics, we are really defining the voluntary role of business: how does a business behave when the law does not dictate its conduct or the law permits conduct that might benefits shareholders but is harmful to others (Friedman & Friedman, 1980).

Legitimacy Theory

Legitimacy theory was developed by Prabhu (1998) and Neu *et al.* (1998), and the theory posits that business organizations must consider the rights of the community at large, not merely those of investors. If the corporations do not appear to operate within the bounds of the behaviour considered appropriate by the community, then the community will act to remove the organizations right to continue its operations. When an actual and potential disparity exist between the business and social value systems, it will lead to threats to organizational legitimacy in the form of legal, economic, and other sanctions. Neu *et al* (1998) also argue that the

legitimacy of an organization is constructed and maintained through symbolic action, which forms part of the organization's public image. They argue that it is often easier to manage an organization's image through environmental information disclosure.

The legitimacy theory posits that businesses are bound by the social contract in which the firms agree to perform various socially desired actions in return for approval of its objective and other rewards, and this can ultimately guarantee its continued existence.

Political Economy Theory

Political economy theory is the social, political and economic framework within which human life take place. It deals with the economic analysis from political and historical perspectives (Gray, Owen, & Adams, 1996). The theory embraced that society, politics and economies are inseparable, and economic issues cannot meaningfully be investigated in the absence of considerations about the political, social and institutional framework in which the economic activity takes place. Political economy deals with the distributive consequences of economic actions. It asks who gains and who loses from economic activity and whether or not the resultant distribution is fair or just, which are central ethical issues (Robotham, 2005).

Stakeholders Theory

The stakeholder concept was first used in 1963 internal memorandum at the Stanford Research Institute. They defined stakeholders as "those groups without whose support the organization would cease to exist." The theory was later developed and championed by Freeman in the 1980s. Since then it has gained wide acceptance in business practice and in theorizing related to strategic management, corporate governance, business purpose and corporate social responsibility (CSR). Hawke (2009) pointed out that stakeholder theory is true if and only if

stockholder theory is true and the only way that a business manager can maximally serve the interests of shareholders is by serving the interests of all stakeholders.

Corporations are motivated to become more socially responsible because their important stakeholders expect them to understand and address the social and community issues that are relevant to them. Understanding what causes are important to employees is usually the first priority because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty, improved recruitment, increased retention, higher productivity, and so on). This theory argues that there are other parties involved including the governmental bodies', political group, trade unions, trade associations,' communities and the public at large apart from the other four parties. While Freeman (1984) was opposed of neo-classical economist, to him stakeholders are groups and individuals who can affect or are affected by the achievement of an organization's mission. Branco and Rodrigues (2007) opined the stakeholder perspective of CSR as the inclusion of all groups or constituents (rather than just shareholders) in managerial decision making related to the organization's portfolio of socially responsible activities.

The theoretical framework underpinning this study is stakeholder's theory because it is a theory of organizational management and business ethics that addresses morals and values in managing an organization. Stakeholder's theory attempts to address the principle of whom or what really counts. It is also an instrumental theory of the corporation that integrates both the resource based view as well as the market based view and adding socio-political level. According to Werhane and Freeman (1999), stakeholder is any individual or group whose role or relationship with an organization helps to define the organization concerning its mission, purpose or its goals to the development, functioning, survival and success or wellbeing of the

organization and its services or it can be seen as anything that is affected by the organization and its activities. Stakeholder's theory incorporate not only the investors, customers and suppliers but also governmental bodies, political groups, trade associate, corporations, trade unions, communities, prospective employees, prospective customers and the public at large.

The stakeholders' theory has been found to have an allure or influence in the real academic literature but to some extent notable scholars such as Sanda, Mikailu and Garba (2005) condemned the theory due to dearth of contextual pragmatic valuation of long term value of the firm as cited by Tsegba (2011).

2.8 Chapter Summary

This chapter basically reviews concepts and empirical works done in the area of CSR in relation to performance of business organizations and the chapter also discusses various theories used in studying CSR and at end chosen stakeholder theory as the frame adopted for the study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the methodology of the study. It explains the research design, the population and sampling design adopted by the study. The chapter also explains the sources of data collection and the analysis techniques employed by the study couple with their justifications.

3.2 Research Design

The research design adopted by the study is correlational and it involves investigating relationship between two or more variables with the hope of establishing whether effect or lack of effect exist between the variables under study. The rationale behind adopting the design is because the study is after finding whether as a result of expenditure incurrence on society, employees and environment, financial performance of the conglomerates significantly improves or not.

3.3 Population and Sampling Design

The population of this study constitutes of the eight (8) conglomerate companies quoted on the Nigeria Stock Exchange as at 31st December 2011. Due to the data availability of the companies and the fact that they are few in number, the study uses census approach. The selected companies are A. G. Leventis (Nigeria) Plc., Chellarams Plc., John Holt Plc., PZ Cussons Nigeria Plc., SCOA (Nigeria) Plc., Transnational Corporation of Nigeria Plc., UACN Plc., and Unilever Nigeria Plc.

3.4 Sources and Methods of Data Collection

The study uses secondary source of data collection and the instrument used for the collection of the data is through documentation. The data used are extracted from the annual reports of the conglomerates, NSE factbook and Daily official lists of the NSE. The data is for the period of 6 years ranging from 2006-2011. Secondary data is considered appropriate given the fact that the study is correlational in nature and is basically attempting to establish effect or lack of it under the study variables.

3.5 Technique of Data Analysis

The technique of analysis employed by the study is multiple regression. The technique is made up of one dependent variable ROA and three independent variables SE, EE and ERE. The equation of the technique is presented thus:

$$ROA_{it} = f(SE_{it}, EE_{it}, ERE_{it}) \quad \ldots\ldots 1$$

Equation 1 can be written in more detail form as follows:

$$ROA_{it} = \alpha_0 + \beta_1 SE_{it} + \beta_2 EE_{it} + \beta_3 ERE_{it} + e_{it} \quad \ldots\ldots 2$$

The following table 3.5.1 presents the variables used in the respective models above and their measurements.

S/N	***Variable***	***Symbol***	***Measurement of Variables***
1	*Return on Assets*	*ROA*	*Profit after Tax/Total Asset*
2	*Societal Expenditure*	*SE*	*Log of Expenditure amounts on Society*
3	*Environmental Expenditure*	*EE*	*Log of Expenditure amounts on Environment*
4	*Employees Relation Expenditure*	*ERE*	*Log of Expenditure amounts on Employees*

Source: Various Literature Definitions

The definitions of the variables that are used in the model are based on the regression models developed by Tsoutsoura (2004), Brammer, Brooks, and Pavelin (2006), Brine *et al* (2006), Gunu (2008), Uadiale and Fagbemi (2011), Adebayo *et al* (2012), Afonso *et al* (2012) and Bolanle *et al* (2012).

In an effort to estimate the goodness of fit of the models Mc Fadden R^2 is used. Apart from using the R^2, Correlation Matrix, Tolerance Value, and Variance Inflation Factor are also adopted in order to address Multi-Collinearity problems. All these analyses are to be done by using SPSS 16 software.

Regression models are used because they are flexible, powerful, and produce optimal results in predicting numeric output when properly structured. They also allow examining the effect of many different factors on some outcome at the same time.

3.6 Summary

The chapter examined the research methods adopted by the research work coupled with the population and the sampling design. Due to the nature of the research correlational design is employed. As regard techniques of data analysis, the tools adopted for the study is Multiple Regression Model. SPSS 16 software is used in analyzing the data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the data presentation, analysis and discussion. As earlier stated, the study used regression model in order to provide basis for testing the four hypotheses. Multiple regression model has been employed to predict the relationship between the independent variables (i.e. CP, ER and EMS) and the dependent variable (i.e. ROA).

4.2 Descriptive Statistics of the Variables

The following table presents descriptive statistics of the variables used by the study.

Table 4.2.1: Descriptive Statistics of the Variables

	Mean	Std. Deviation	N
ROA =Profit After Tax/Total Assets	.067473	.0572253	48
Employee Relations (Employee Expenditure)	.916667	.2793102	48
Company Performance to the Community (Societal Expenditure)	.458333	.5035336	48
Environmental Management System (Environmental Expenditure)	.604167	.4942040	48

Source: Output from SPSS Version 16.0

From table 4.2.1 above, the variable with the highest mean value is employee relations with a value of 0.9167; it is then followed by environmental management system with a value of 0.6042. The least value in terms of mean is ROA with a value of 0.0675. In terms of standard deviation which deals with variables variability, the highest value of 0.5035 is found in Company performance to the community, and then followed by environmental management system with a value of 0.4942. The variable with least variability value is ROA.

4.3 Correlation Matrix of the Variables

The following table presents correlation matrix of the variables under study.

Table 4.3.1: Correlation Matrix

Correlations

		ROA=Profit After Tax/Total Assets	Employees Relation	Company Performance to the Community	Environmental Management System
Pearson Correlation	ROA =Profit After Tax/Total Assets	1.000	.265	.045	-.328
	Employees Relation	.265	1.000	-.025	-.090
	Company Performance to the Community	.045	-.025	1.000	.317
	Environmental Management System	-.328	-.090	.317	1.000
Sig. (1-tailed)	ROA =Profit After Tax/Total Assets	.	.035	.380	.011
	Employees Relation	.035	.	.432	.272
	Company Performance to the Community	.380	.432	.	.014
	Environmental Management System	.011	.272	.014	.
Observations		48	48	48	48

Source: Output from SPSS Version 16.0

Table 4.3.1shows correlation results of the variables under study. The highest correlation value is found as a result of correlation between ROA and environmental management system which appeared negative with a value of 33%. It is then followed by a positive correlation of 32% which happened to be between company performance to community and environmental management system. The least correlation value of 2.5% is found between employee relations and company performance to community which is also negative. A negative correlation implies that when the value of one variable increased the value of the other decreased. In the case of positive it means that the variables are moving in tandem. The two highest correlation values

earlier mentioned appeared significant at 5% level of significance but the least correlation value happened to be not significant at all.

4.4 Regression Result of the Study

The following table presents regression results between the dependent and the independent variables under study. The table includes T-values and P-values of the variables.

Table 4.4.1: Regression Result

Variables	Coefficient	Std. Err	T- Values	P- Values/Sig
ER	.048	.028	1.733	0.090
CP	.019	.016	1.151	0.256
EMS	-.042	.017	-2.494	0.016
Cons	.040	.029	1.343	0.186

Source: Penal Regression Result by Using SPSS Version 16.0

From Table 4.4.1, the variable that appeared significant at 5% level is EMS with negative coefficient value of -.042 and negative T-value of -2.494. All the other variables appeared not significant at 5% level. ER appeared significant at 10% level but CP is not significant at all.

4.5 Model Summary with Collinearity Test

The following Table presents summary of the model fitness in which collinearity diagnostic test results are included.

Table 4.5.1: Model Summary with Collinearity Test

	RESULTS	**COLLINEARITY TEST**		
R	.433	**VARIABLES**	**Tolerance Value (TV):**	**Variance Inflation Factor (VIF):**
R^2	0.18	**ER**	0.992	1.008
Adj R^2	0.13	**CP**	0.899	1.112
F Change	3.385	**EMS**	0.893	1.120
Std. Error of Estimate	0.05331			
Mean of Y	0.0674			
F-Statistics	0.026			

From the table above the correlation coefficient represented by R appeared to be approximately 0.43 which can be considered as not a strong correlation. As for the extent to which the independent variables explains the dependent variables called coefficient of determination which is represented by R^2 it is only 18% and when strictly look at in more refined form it explains only up to 13%. The overall fitness of the model represented by F statistic has a value of 3.385 which appeared significant at 5%. This is backed up by the standard error of estimate value of 0.053 which appeared less than the mean of Y.

The table also shows tolerance value and variance inflation factor which are used in determining whether there is a presence of multicollinearity or not. The tolerance value falls within the range of 0.893 to 0.992. As the value is not less than 0.2 this indicates absence of multicollinearity as stated by Statnotes (2007).

The variance inflation factor which is the reciprocal of tolerance value falls within the range of 1.008 to 1.120. As the values do not exceed 10, this also signifies multicollinearity absence as stated by Tobachnick and Fidell (1996).

Based on table 4.5.1information the estimated regression model is represented as follows:

$$ROA_{it} = 0.040 + 0.048ER_{it} + 0.019CP_{it} - 0.042EMS_{it} + e_{it}$$

From the model, two of the independent variables ER and CP appear positive and the remaining independent variable EMS has a negative coefficient. In the case of the variables with positive coefficients, it means that for every increase in one unit of the variables, the dependent variable ROA will increase by the coefficient values of the variables. The negative coefficient value interpretation is the opposite of what is obtainable when positive value is obtained. Hence, if an additional one Naira is expended on ER, this could leads to an increment in ROA by ₦.048. In the case of CP, the increment is ₦.019. The last variable in the model EMS with negative coefficient implies decrement in value by ₦.048.

4.6 Summary of the Findings

The findings of the study indicate that two of the independent variables have a positive impacts and other one negative impact. The p-value of EMS appeared significant at 5% but all the others appeared to be significant only at 10%.

On the overall, the findings of the study provide support to the findings of Becker and Huselid (1998) that high performance in human resource management which is also known as employee relations has an economic and statistical positive impact on company financial performance and at the same time contradict Friedman (1970).

The study also supports findings made by Gunu (2008), Adebayo, Oluwatoyosi, and Elizabeth (2012), Bolanle (2012), Uadilale and Fagbemi (2011), Aupperle *et al.* (1985), Welch

and Wazzan (1999) in which they argue that community support improves companies' profitability.

4.7 Policy Implications of the Findings

As the findings indicate that variables used in the study have statistical impact though at different level of significance, this means that both regulatory authorities and companies must take corporate social responsibility issue more seriously. On the part of the companies, there is every need for them to be rendering social responsibility every now and then as this could leads to profitability improvement. This could become achievable by in-building into their policy statements and backed up by objective budget plans. On the other side, regulatory authorities should come up with clearly defined regulation on how to go about social responsibility issues of the companies and the government should ensure full implementations.

4.8 Chapter Summary

The chapter deals with the presentation and the analysis of data. Based on the analysis the study found that the independent variable used by the study have impact. Two of the variables are having positive impact and one of them having negative impact. On the overall, the chapter shows the need to take corporate responsibility issues with more degree of seriousness.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study is aimed to look at the impact of corporate social responsibility on the profitability of conglomerate in Nigeria. In an effort to achieve that three independent variables were used against one dependent variable. The independent variables are employee relations (ER), company performance to community (CP) and environmental management system (EMS). The dependent variable used by the model to represent profitability is return on assets (ROA). By means of regression analysis the study found that two of the independent variables have a positive impacts and other one negative impact. The p-value of EMS appeared significant at 5% but all the others appeared to be significant only at 10%.

5.2 Conclusions

In line with the findings of the study that show statistical significance of the variables under study, we conclude that corporate social responsibility plays a significant role on the profitability of conglomerates in Nigeria.

5.3 Recommendations

Based on summary and conclusion, the study recommends the following to the various stakeholders.

Management

Given the fact that corporate responsibility leads to profit realization management of conglomerate should ensure that the responsibility is inbuilt into their policy statements and back it up with effective budget.

Shareholders

Sometimes conflicts happened between companies and the immediate environments, based on numerous studies conducted on environmental conflict resolutions one of the factors causing that is the failure of the companies to impact positively to the environments. The study recommends that at the annual general meeting shareholders should compel the management of their companies to have well structured corporate social responsibility structure.

Employees

As corporate social responsibility has cost implications linked up with it, there is the need for the employees to become more effective and efficient in discharging their functions. By being effective and efficient the companies can be able to produce products at less cost which by extension means part of the money saved could be used in attaining responsibility issues.

Government

The government should come up with clearly defined regulation on how to go about social responsibility issues of the companies and should ensure its full implementations.

5.4 Suggestions for Further Research

Further researches should be conducted in the area by widening the scope and incorporating more relevant variables with literature backing. In addition, different methodologies may also be employed in order to address the issue in more holistic approach.

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APPENDIX 1

Table 21: Comprehensive Lists of Conglomerate Companies used for the study (2006-2011)

S/NO	FULL NAME	ABBREVIATIONS
1	Sumitomo Corporation of America (Nigeria) Plc.	SCOA Nigeria Plc.
2	Paterson Zochonis Plc.	PZ Cussons Nigeria Plc.
3	Transnational Corporation of Nigeria Plc.	Transcorp Nigeria Plc
4	UACN Plc.	United African Corporation of Nigeria
5	Chellarams Nigeria Plc.	Chellarams Nigeria Plc.
6	John Holt Nigeria Plc.	John Holt Nigeria Plc.
7	A.G Leventis Nigeria Plc.	A.G Leventis Nigeria Plc.
8	Unilever Nigeria Plc.	Unilever Nigeria Plc

Source: Fact Books and Financial Reports from 2006-2011

For the purpose of this study, the surrogates of CSR variables are measured or ascertained based on these

TABLE 6 REPRESENTING: CORPORATE SOCIAL RESPONSIBILITY (CSR) VARIABLES BASED ON THE FOLLOWING ITEMS			
S/N	**COST OF COMPANY PERFORMANCE TO COMMUNITY (CP)**	**COST OF EMPLOYEE RELATIONS (ER)**	**COST OF ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)**
1-	Sponsoring Youth Development Programme	Employees Involvement and Training	Road Rehabilitation
2-	Scholarship	Health, Medical, Safety and Welfare	Provision of Portable Water
3-	Donations to humanitarian Causes	Allowances	Prevention of Pollution and Prevention of Erosion
4-	Donations to NGO's	Social Benefits	Construction of Bridges, Roads
5-	Women Empowerment Program	Bonuse t c	Donations to other Organisations
6-	Awareness Campaign e.g. HIV/AIDS		Renovation of Packs, Play ground
7-	Donations of Products		Buildings

Source: Various CSR Definitions

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REGRESSION
  /DESCRIPTIVES MEAN STDDEV CORR SIG N
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA COLLIN TOL CHANGE
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT ROA
  /METHOD=ENTER ER CP EMS

  /RESIDUALS DURBIN HIST(ZRESID) NORM(ZRESID).
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Regression

Notes

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	Split File	<none>
	N of Rows in Working Data File	48
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.
Syntax		REGRESSION /DESCRIPTIVES MEAN STDDEV CORR SIG N /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA COLLIN TOL CHANGE /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT ROA /METHOD=ENTER ER CP EMS /RESIDUALS DURBIN HIST(ZRESID) NORM(ZRESID).
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	Elapsed Time	00:00:03.602
	Memory Required	2068 bytes
	Additional Memory Required for Residual Plots	640 bytes

[DataSet1] C:\Users\mm bello\Desktop\Abdul Ningi New CSR\New CSR2.sav

Descriptive Statistics

	Mean	Std. Deviation	N
Return on Assets =Profit After Tax/Total Assets	.067473	.0572253	48
Employees Relation	.916667	.2793102	48
Company Performance to the Community	.458333	.5035336	48
Environmental Management System	.604167	.4942040	48

Correlations

		Return on Assets =Profit After Tax/Total Assets	Employees Relation	Company Performance to the Community	Environmental Management System
Pearson Correlation	Return on Assets =Profit After Tax/Total Assets	1.000	.265	.045	-.328
	Employees Relation	.265	1.000	-.025	-.090
	Company Performance to the Community	.045	-.025	1.000	.317
	Environmental Management System	-.328	-.090	.317	1.000
Sig. (1-tailed)	Return on Assets =Profit After Tax/Total Assets	.	.035	.380	.011
	Employees Relation	.035	.	.432	.272
	Company Performance to the Community	.380	.432	.	.014
	Environmental Management System	.011	.272	.014	.
N	Return on Assets =Profit After Tax/Total Assets	48	48	48	48
	Employees Relation	48	48	48	48
	Company Performance to the Community	48	48	48	48
	Environmental Management System	48	48	48	48

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	Environmental Management System, Employees Relation, Company Performance to the Community[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Return on Assets =Profit After Tax/Total Assets

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.433[a]	.188	.132	.0533106	.188	3.385	3	44	.026	1.190

a. Predictors: (Constant), Environmental Management System, Employees Relation, Company Performance to the Community

b. Dependent Variable: Return on Assets =Profit After Tax/Total Assets

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.029	3	.010	3.385	.026[a]
	Residual	.125	44	.003		
	Total	.154	47			

a. Predictors: (Constant), Environmental Management System, Employees Relation, Company Performance to the Community

b. Dependent Variable: Return on Assets =Profit After Tax/Total Assets

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.040	.029		1.343	.186		
	Employees Relation	.048	.028	.236	1.733	.090	.992	1.008
	Company Performance to the Community	.019	.016	.165	1.151	.256	.899	1.112
	Environmental Management System	-.042	.017	-.359	-2.494	.016	.893	1.120

a. Dependent Variable: Return on Assets =Profit After Tax/Total Assets

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	Employees Relation	Company Performance to the Community	Environmental Management System
1	1	3.237	1.000	.01	.01	.03	.03
	2	.433	2.733	.02	.04	.74	.01
	3	.291	3.335	.01	.03	.22	.90
	4	.039	9.102	.97	.93	.01	.07

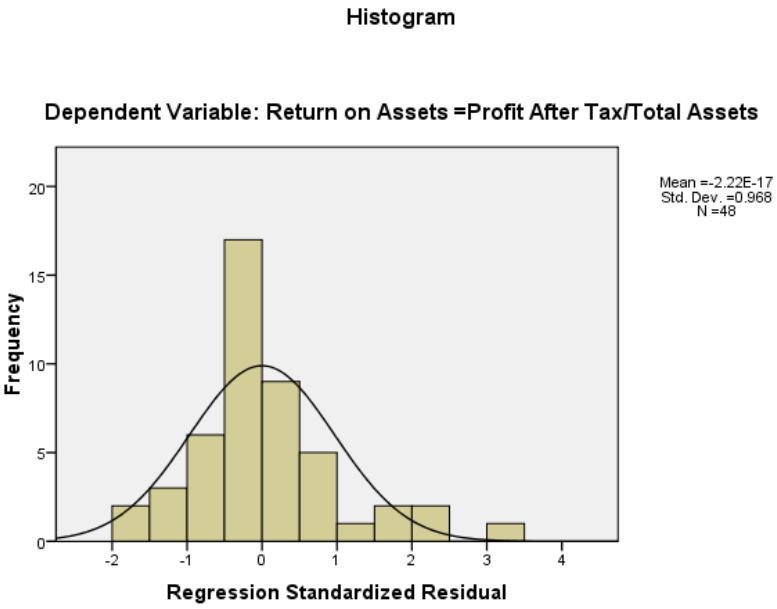
a. Dependent Variable: Return on Assets =Profit After Tax/Total Assets

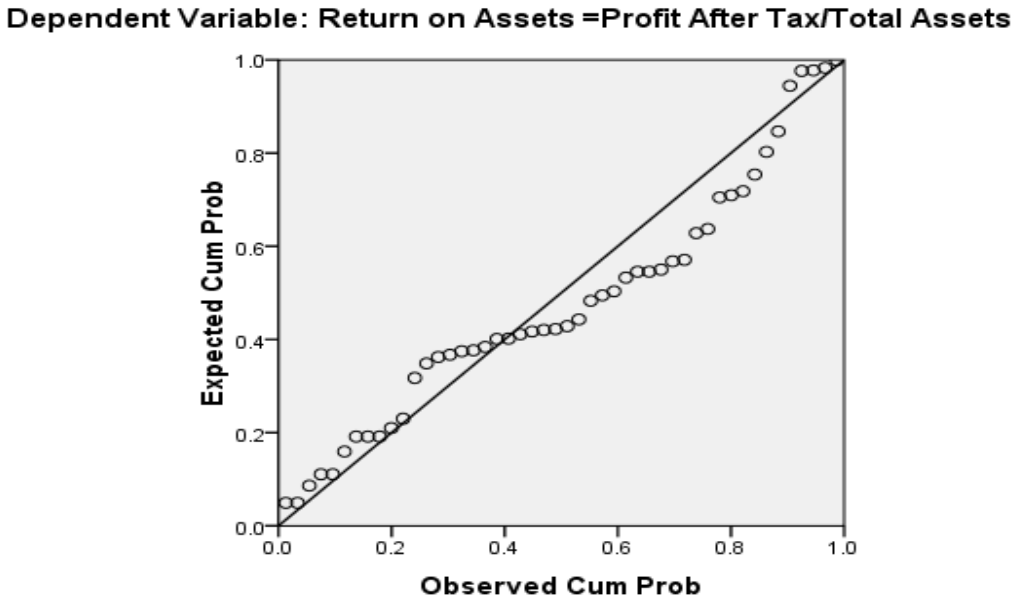
Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.001964	.106751	.067473	.0247814	48
Residual	-8.8016376E-2	.1643617	.0000000	.0515812	48
Std. Predicted Value	-2.802	1.585	.000	1.000	48
Std. Residual	-1.651	3.083	.000	.968	48

a. Dependent Variable: Return on Assets =Profit After Tax/Total Assets

Charts


Histogram
Dependent Variable: Return on Assets =Profit After Tax/Total Assets
Mean =-2.22E-17
Std. Dev. =0.968
N =48
Frequency
Regression Standardized Residual


Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Return on Assets =Profit After Tax/Total Assets
Expected Cum Prob
Observed Cum Prob