

**THE IMPACT OF COOPERATE SOCIAL RESPONSIBILITY ON  
FINANCIAL PERFORMANCE OF QUOTED CONGLOMERATES IN  
NIGERIA**

**BY**

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**BEING A PROJECT SUBMITTED TO DEPARTMENT OF  
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## DECLARATION

I declare that the work in this Project entitled “Impact of Cooperate Social Responsibility on Financial Performance of Quoted Conglomerates in Nigeria” has been carried out by me in the Department of Accounting under the guidance and supervision of **Mal. Abubakar Abdulkadir**. 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.

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## CERTIFICATION

This is to certify that this research work “Impact of Cooperate Social Responsibility on Financial Performance of Quoted Conglomerates in Nigeria” is an original work undertaken by Rhoda Bisallah Turaki with Reg. No. KPT/CBMS/18/40445 and has been prepared in accordance with the appropriate norms, procedure, rules and regulations governing the preparation and presentation of project in Kaduna Polytechnic, Kaduna.

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## **DEDICATION**

This project is dedicated to Almighty GOD who gives me the grace to finish this course successfully.

## **ACKNOWLEDGMENTS**

My immeasurable appreciation goes Almighty GOD for His protection and support directly and indirectly throughout my life. I fully acknowledged and believed that without Almighty GOD mercy and support, I would not achieve what I have already achieved now.

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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 31<sup>st</sup> December 2020. 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 2015-2020. 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 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 favor 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.

The first reason that business engages in CSR initiatives is to maximise profits. Although There are practical reasons for using economic arguments to promote CSR, Blowfield points Out that there are risks associated with justifying business involvement in CSR by its Commercial benefit (2005, 517). For instance, labour standards used in CSR offer some basic Protections to workers but companies have an implicit right to retrench workers as they are Indirectly protected from any

responsibility for the consequences of disinvestment (Blowfield 2005, 517). In this view, the economic argument for business to be involved in CSR Initiatives comes at the cost of workers' labour rights. However, interpretations of Contemporary definitions of CSR indicate that there is recognition that business also has Economic responsibilities. CSR is about the manner in which companies manage their Business operations. In other words, the main concern of CSR is how a company makes its Profits (management of the core business) as opposed to what it does with its profits (Drauth 2010, 1).

Another reason that business adopts CSR codes is to ensure and improve sustainable Competitiveness (Cavico and Mujtaba 2012, 15). It is suggested that there is a business case For CSR because there is an implied positive relationship between the CSR involvement of a Company and its financial success in the long run of the business (Weber 2008, 247). Theoretical and empirical evidence to support this proposition has, however, been mixed (Salzmann et al. 2005, 28–30; Wagner et al. 2001; Margolis and Walsh 2003). Margolis and Walsh (2003) who conducted an empirical study also found mixed results but they concluded That a positive relationship between CSR involvement and financial success dominated. On The theoretical side, Wagner and Schaltegger (2004) argue that the impact of CSR Involvement on financial success depends on a company's individual strategy. Scholtens (2008) found that the results of his study support a significant relationship between financial Performance and social performance (2008, 52). Another important finding is that social Performance usually follows financial performance; although this interaction may be inverted Depending on the targets of CSR (Scholtens 2008, 52). It is worth mentioning the other benefits that business gains from engaging in CSR initiatives. These include: self-regulation and self-enforcement, establishing new

business opportunities, Securing cooperation from local communities; attracting and retaining quality investors and business partners; obtaining government support; reinforcing the company's reputation; saving costs; reducing or managing CSR-related risks; and recruiting and retaining employees (Sprinkle and Maines 2010, 447; Cavico and Mujtaba 2012, 15; Levis 2006, 52; Weber 2008, 248).

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:

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

- i. To what extent does the societal expenditure by conglomerates affect their financial performance?
- ii. 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<sub>1</sub>- CSR has no significant effect on the financial performance of conglomerates in Nigeria.

H0<sub>2</sub>- Societal expenditure by conglomerates has no significant effect on their financial performance.

H0<sub>3</sub>- Environmental expenditure by conglomerates has no significant effect on their financial performance.

H0<sub>4</sub>- 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:

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.

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.

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 2013-2019. 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**

### **LITERATURE REVIEW**

#### **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.

### **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

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) Kellogg 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 19<sup>th</sup> and early 20<sup>th</sup> 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 & Knowlton (2006), it is found that analysts 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 Price water Coopers (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 2019 by means of secondary data within the range of 2013-2019 and by the techniques of regression and Analysis of Variance (ANOVA) comparison is made of their turnover with the total investment in social responsibility. The result revealed that those selected companies have contributed infinitesimal amount of their gross earnings in social responsibility. Thus, the study recommends that the concerned organizations

should increase their involvement in social responsibility as could lead to boosting their reputational capital.

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

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

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 levels.

The study showed that there is no significant difference between employees of First Bank and Guaranty Trust Bank on corporate social responsibility and 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
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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 canons 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 benefit shareholders but is harmful to others (Friedman & Friedman, 1980).

### **Legitimacy Theory**

Legitimacy theory was developed by Prabhu (1998) and Neuet 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. Neuet 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 neoclassical 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.

## **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 31<sup>st</sup> December 2020. 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 2015-2020. 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 regressions. 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:

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

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

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

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 .380	.035	.380	.011
	Employees Relation .035	.432	.432	.272
	Company Performance to the Community .380	.432	.432	.014
	Environmental Management System .011	.272	.014	.014
Observations	48	48	48	48

Source: Output from SPSS Version 16.0

Table 4.3.1 shows 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 <sup>2</sup>	0.18	ER	0.992	1.008
Adj R <sup>2</sup>	0.13	CP	0.899	1.112
F Change	3.385	EMS	0.893	1.120
Std. Error of Estimate Mean of Y	0.05331 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 4.5.1 information 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), Aupperleet *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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