Corporate Social Responsibility And The Economic Value Added (Eva) Of Non-Bank Financial Organizations In Nigeria

BY

Bingilar Paymaster Frank PhD

Department of Accountancy, Faculty of Management Sciences, Niger Delta University, Wilberforce Island, Bayelsa State.

Email: paymasterfrank@gmail.com, +2348036620414

&

Bariweni Binaebi

Department of Business Education, School of Vocational and Technical Education, Isaac Jasper Boro College of Education, Sagbama, Bayelsa State.

Email: bbinaebi2@gmail.com

IJSER

Abstract

This research paper investigated the relationship between corporate social responsibility activities of manufacturing companies their financial performance in terms of economic value added. In order to achieve the purpose of the study, data was collected from ten (10) manufacturing companies quoted on the Nigeria stock exchange for the period spanning 2013 to 2019. The objective of the research was to determine how manufacturing companies expenditures on environmental management and donations to charitable organizations affect their economic value added. Data collected for the study was analyzed using OLS panel regression technique. The results of the data analyses showed that there is a positive relationship between environmental management, donations to charities and the economic value added of manufacturing companies. However, the finding was not statistically significant implying that corporate social reponsibility has minimal effect on the bottom line of companies. From the findings of the research, it is concluded that spending on corporate social responsibility in terms of environmental management expenditures and donations to charitable organizations helps to improve the economic value added of manufacturing companies by improving the reputation of companies. However, the size of the effect of corporate social responsibility on the performance is minimal thus cannot be relied on as a determinant of financial performance of amnufacturing companies in Nigeria. It is thus recommended that manufacturing companies improve on their corporate social responsibility activities by refocusing on activities that have the potential to significantly improve financial performance.

Keywords: Corporate social responsibility, economic value added, financial performance, manufacturing companies, environmental management, expenditure, organizational effects, donations, Nigerian stock exchange.

Introduction

Milton Friedman in 1970 asserted that there is only one social responsibility of the business organization and that is utilize its resources and engage in activities designed to increase its profits so long as it stays on the right side of the law in the legitimate pursuit of its objectives. Thus, the early corporate organization was focused on providing value mainly for its owners and immediate stakeholders like the the government, employees, funds providers etc. Stanley, (2011) stated that corporations at this time were portrayed as depleting natural resources, not mindful of the footprint of their activities on the earth's capacity, polluting the environment and threatening among many other malaises.

Social and environmental problems caused by business organizations of the era attracted public attention to the social conduct of business organizations and demands for corporations to become better corporate citizens. Consequently, corporate organizations have consciously evolved away from this once popular position. Corporations are now expected to provide value for its immediate stakeholders and also the wider society. Thus, Martinaik and Polivka (2012) stated that the real principle of corporate social responsibility is a tradeoff, where the the firm's owners give up some part of their profits so as to increase utility of the society as a whole.

The idea of corporate social responsibility holds that beyond its immediate/economic stakeholders, corporate organization should also contribute to the community and the natural environment (Chutimant, Wanchai & Panarat, 2017). In this sense, the corporation must take action to ensure that its actions are socially responsible responsible as much as it can without ruining itself. This may include providing remediation where its activities has adversely affected the environment, contribute to the less previlleged in society, contribute to its immediate community through developmental programs, trainings and such other activties that may have a positive effect on the wider economy and do so without the compulsion of the law.

IJSER

Corporate social responsibility involves the corporation sacrificing part of its profit for the benefit of its local community and the socity at large. Essentially, embarking on corporate social responsibility involves incurring additional costs which increases the operating expenses of the corporation. According to Martinaik and Polivka (2012), if there is any effect of the corporate social responsibility concept on the amount of capital employed, its ultimate impact on economic value added is negative. However, corporate social responsibility is not without benefit for the discerning business organization. Nwakanma and Emerole (2017) stated that orgnizations strive to be socially responsible, their corporate reputation is improved as customers and consumers become more confident in the activities of the organization.

In the same vein, Sheldon, (1992) asserted that corporate reputation is a valuable asset for business firms who have invested certain portion of their profit to develop and maintain a positive corporate reputation. Thus, proper management of corporate reputation through corporate social responsibility activities can have positive consequences which can be harnessed to increase cash flow and ultimately profits. Considering the above, this research paper is aimed at investigating the effect of corporate socil responsibility on the economic value added of manufacturing companies in Nigeria.

Statement of Problem

Corporate organizations have contributed in no small measure to many of the problems faced by the society presently. The depletion of natural resources is attributed majorly to unfettered exploitation of natural resources by corporations. Same with environmental degradation resulting from industrial activities. In some extreme cases like the Niger Delta region of Nigeria, corporations contributed not only to depletion of resources and environmental degradation but also to human rights abuses in collusion with local authorities. Thus, the demand for corporate organization to become socially responsible and contribute to remedy some of its past adverse effects on society. Chopra and Kanji, (2010) enumerate some of the corporate social responsibility activities undertaken by orgnizations to include: ethical practices in employment and labor by improving workplaces; building local communities and communicate with concerned

IJSER

communities regarding the consequences of its policies and products; invest in building social infrastructure; contribute to cleaner environment, its protection and sustainability; and contribute by way of corporate governance to economic development at large.

A review of previous research indicates that a large body of literature exists assessing the corporate social responsibility activties of firms and how such activities affects the organization exists (Igbekoyi, 2017; Ijeoma & Oghoghomeh, 2014; Nwakanma & Emerole, 2017; Olaoye & Oluwadare, 2018). However, none of these previous research has investigated the effect of corporate social responsibility on the performance of corporations in terms of economic value added. Thus, the present study will contribute on previous research by bridging this gap in literature.

Purpose of Study

The purpose of this research is to assess the effect of corporate social responsibility on the economic value added (EVA) of Manufacturing companies in Nigeria. The specific objectives of the research are set out below:

- Determine the effect of expenditures on environmental management on the economic value added of manufacturing companies in Nigeria
- Determine the effect of voluntary donations to charities on the economic value added of manufacturing companies in Nigeria

Hypothesis

Ho_1: Expenditures on environmental management programs does not significantly affect the economic value added of manufacturing companies in Nigeria

Ho_2: Voluntary donations to charities does not significantly affect economic value added of manufacturing companies in Nigeria

Theoretical Basis

Stakeholder theory was proposed by Freeman (1984) and is based on the axiom that it is in the best long-term interest of a business to care for its stakeholders on whom the firm depends for its inputs and outputs. This perspective is a paradigm

IJSER

shift from the neoclassical theory that focuses only on the business owners (Gbadamosi, 2016). The aim of the stakeholder theory is to create an enabling environment for the firm to operate and thrive in. This achieved by ensuring that those who have a stake in the operations of the organization benefits from its activities. Stakeholder is abroad concept; its scope encompasses the internal stakeholders like managers and employees, the external stakeholders like investors who commit resources based on their perception of the information available to them, the future generations who are affected by the corporation's past, present and future activities, and the broad society together with the societal issues that condition human values. This populist characteristic of the stakeholder theory is instrumental to the development of the strategic case for the corporate social responsibility (Becchetti, Ciciretti & Giovannelli, 2013; Orlitzky, 2013). Conceptualized in this way, makes it possible to identify the corporate goals and its stakeholders, develop strategies to manage stakeholders needs by manipulating attitudes, structures, and practices, and to assess the relationship between stakeholder management and outcomes (Kasim, 2012).

IJSER

Corporate Social Responsibility

According to Gbadamosi (2016), business organizations getting involved in contributing to the activties aimed at developing society beyond their basic pursuit of profit making to accelerate shareholders' wealth maximization has been gaining momentum in business and in academics. This followed in the hills pressures on corporations to be better corporate citizens. However, despite the increased on the subject matter, there is no consensus on what exactly constitutes corporate social responsibility. However, a common theme in corporate social responsibilitiy literature as pointed out by Peloza & Shang, (2011) relates to how to create value to the stakeholders beyond the interest of the legal owners of the corporation.

Some of the major values which business organization can add to society through the vehicle of corporate social responsibility include: ethical practices in employment and labor by improving workplaces; building local communities and communicate with

concerned communities regarding the consequences of its policies and products; invest in building social infrastructure; contribute to cleaner environment, its protection and sustainability; and contribute by way of corporate governance to economic development at large (Chopra & Kanji, 2010). Holme and Watts (2000) defined corporate social responsibility as the continuous commitment by business to behave in a manner that will not harm the community or society and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.

Businesses organizations can use responsible decision making to secure their activities by making decisions that allow for government agencies to minimize their involvement in the corporation. Carroll (1991) further extended the literature on the definition ocorporate social responsibility from the traditional economic and legal responsibility to ethical and philanthropic responsibility in response to the rising concerns on ethical issues in businesses. Kaschny, (2018) also stated that companies express their corporate responsibility through their waste and pollution reduction processes; contributing to educational and social programs in local communities; and earning adequate returns on the employed resources. Finally, the focus of corporate social responsibility has extended beyond the initial focus which emphasized the official behaviour of individual corporate organizations to include the behaviour of suppliers and the uses to which products were put and how they were disposed of after use.

Economic Value Added

Economic value added is a value based financial performance measure, an investment decision tool and a performance measure reflecting the absolute amount of shareholder value created. It is computed as the product of the “excess return” made on an investment or investments and the capital invested in that investment or investments. Economic value added is the net operating profit minus an appropriate charge for the opportunity cost of all capital invested in an enterprise or project. It is an estimate of true economic profit, or the amount by which earnings exceed or fall short of the required minimum rate of return investors could get by investing in other securities of comparable risk (Stewart, 1990). Economic value added is constantly regarded as a

simple, simple measurement that provides a good picture of shareholder wealth creation. In addition to motivating managers to create shareholder value and to serving as a basis for the calculation of management compensation, there are further practical advantages that value based measurement systems can offer (Geyser & Liebenberg, 2003). However Wood (2000) was of the opinion that economic value added like other financial performance measures like return on investment and return on asset is not sufficient as a single metric to provide adequate assessment of the financial performance of business organization.

Review of Empirical Literature

Sang, Chune and Jason (2019) analyzed whether a systematic relationship exists between corporate social responsibility and corporate financial performance by using a sample of 191 firms listed on the Korea Exchange. For the purpose of the study, return on assets was used as a proxy for profitability, and Tobin's Q was used as a proxy for firm value. The correlation properties between the variable was assessed using Pearson correlation and regression analysis. From the findings, it was confirmed that CSR performance has a partial positive correlation with profitability and firm value. Analysis of the correlation between CSR performance and financial performance indicators revealed a positive relationship between the growth rate of total assets and corporate soundness and social contribution.

Olaoye and Oluwadare (2018) examined the relationship between corporate social responsibility and stock market price of selected firms in Nigeria. The findings of the study which employed the use of panel regression technique as tool of analysis confirmed that a firm's social responsibility is not correlated to stock price market. It was also found that corporate social responsibility could not be influenced by stock price market. Thus, it was recommended that those who are saddled with responsibility should draw a line of distinction between factors that affect CSR from stock price market in order to achieve organizational goals and satisfy different stakeholders.

Nwakanma and Emerole (2017) focused on corporate social responsibility and corporate reputation of Dufil Prima Foods Nigeria Ltd. The research adopted survey research design using both primary and secondary data which were analyzed using

IJSER

Pearson correlation and multiple regression techniques. Findings of the study revealed that corporate social responsibility has a strong positive effect on corporate reputation, and corporate social responsibility was significant and positively related to the financial performance of the organisation. Corporate social responsibility positively impacts on corporate reputation. The study thus recommended that organisations should not relegate their corporate social responsibilities because the accrued benefits are greater than the financial involvement.

Chutimant and Wanchai (2017) investigated relationships between corporate social responsibility disclosure and firm performance in publicly-listed firms in Thailand using a stakeholder theory as proposed by Parmar, et al. (2010). Data was collected based on the content analysis from annual reports from a sample of 394 companies in the Stock Exchange for the year 2014. Using multiple regression analysis, the findings showed that all six group dimensions of CSR disclosure (shareholders, customers, employees, suppliers, the local community and the natural environment) are positively related to return on assets (ROA), particularly disclosure in dimensions such as investors and customers.

Igbekoyi, (2017) examined the causal effect of corporate social responsibility (CSR) on value drivers in the Nigerian manufacturing sector. The study utilized data from a sample of 30 manufacturing firms listed on the Nigerian Stock Exchange. While the collected data was analyzed OLS co-integration and the Granger causality test were used to examine the causal effect of social responsibility on value drivers. The results show that there is long run relationship between CSR and the value drivers. Furthermore, the findings showed that shareholders and employees have link with CSR. It was concluded that the involvement of firms in CSR activities leads to increased dividend payout which maximizes the wealth of the owners and which will also translate to increase in the benefits of the employee.

Ijeoma and Oghoghomeh (2014) conducted a study to determine the contribution of corporate social responsibility on organizational performance. Data for the study was collected from Central Bank of Nigeria Statistical Bulletin and annual reports of three listed companies. The statistical tool employed was the regression method and the line

graph analysis. The results showed that corporate social responsibility contributed significantly to company's performance. Also, it was found that social performance disclosure had an association with company's performance. Thus for companies, improving sustainability performance is important and it is equally important as improving company's financial performance.

Palmer (2012) explored and tested the relationship between corporate social responsibility and corporate financial performance. It additionally tested the impact CSP has on sales and gross margin in hopes of providing insight on sales strategies that can be implemented to maximize the impact of the relationship. Using data from the Standard and Poors (S&P) 500 firms and covering the 2001 to 2005 and analyzed using time series regression. The results indicated that corporate social responsibility and corporate financial performance have a significantly positive relationship in both directions, supporting the view that CSR programs have positive impacts on the bottom-line. The findings further indicated that increased CSP leads to increases in gross margin, indicating that some customers are willing to pay a premium for the products and/or services of a company with CSR initiatives.

IJSER

Methodology

The ex post facto research design was adopted for this study. The design was adopted considering the nature of the study which require the collection of data on events that had already taken place. Data for the study was collected using the content analysis technique from the annual financial reports of five (5) manufacturing companies listed on the Nigeria Stock Exchange for the period 2013 to 2019. The following are the companies in the sample: Flour Mills, Dangote Sugar, Livestock Feeds, Nascon Allied Industries, Nestle Nigeria, Nigeria Breweris, Lafarge Nigeria, Oando, DN Meyer, and Guiness. The collected data were those on the corporate financial spending of the manufacturing companies specifically relating to expenditures on environmental management programs and voluntary donations to charitable organizations as shown in the annual reports. While Economic Value Added was used to proxy the performance of the companies in relation to their Corporate Social Reponsibility spending. Method

of analysis adopted for the study is the Ordinary Least Square (OLS) regression technique. In its general form, it is given as:

$$Y = B_0 + B_1X_1 + B_2X_2 + ... + B_NX_N + U \ldots\ldots (1)$$

Where Y = Dependent Variable

X_1 .... X_N = Independent Variables

B_1 .... B_N = Coefficients of independent variables

B_0 = Constant Term

U = Error Term

For the purpose of the study, it is posited that the Economic Value Added of the manufacturing companies is a function of their CSR expenditure. This is stated functionally as:

$$EVA = f(CSR) \ldots\ldots. (2)$$

Where CSR is further expanded into Environmental Management Expenditure (ENVT) and Voluntary Donations to Charitable organizations (CHAR), we restate equation two above as:

$$EVA = f(ENVT, CHAR) \ldots (3)$$

The mathematical form of the above function can be written as:

$$EVA = \beta_0 + \beta ENVT + \beta_2 CHAR \ldots. (4)$$

Following an econometric panel estimation technique equation four can be rewritten as:

$$EVA_{it} = \beta_0 + \beta_1 ENVT_{it} + \beta_2 CHAR_{it} + \varepsilon_{it} \ldots.. (5)$$

Thus, equation five (5) above is the basis of analysis in the next section

It is expected that β1, β2 > 0

Data Analysis and Interpretation

Data for the research was collected from the annual financial reports of the ten (10) manufacturing companies for the period 2013 to 2019. The data on environmental management, donations to charitable organizations and economic value added. Method of analysis adopted os the panel regression model.

Table 1:

Dependent Variable: LNEVA
Method: Panel Least Squares
Date: 08/31/19 Time: 16:55
Sample: 2013 2019
Periods included: 5
Cross-sections included: 10
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.48121	4.224661	2.480959	0.0167
LNENVT	0.335915	0.200553	1.674945	0.1006
LNCHAR	0.113464	0.175795	0.645435	0.5218

R-squared	0.064714	Mean dependent var	17.69222
Adjusted R-squared	0.024915	S.D. dependent var	1.501214
S.E. of regression	1.482395	Akaike info criterion	3.683319
Sum squared resid	103.2822	Schwarz criterion	3.798041
Log likelihood	-89.08298	Hannan-Quinn criter.	3.727006
F-statistic	1.626008	Durbin-Watson stat	1.452592
Prob(F-statistic)	0.207583		

The regression results in table above indicate coefficients of regression (B) values of 0.3359 and 0.1135 respectively for CSR expenditures on environmental management and donations to charitable organizations by manufacturing companies in Nigeria. This values implies that there is a positive relationship between economic value added (EVA) and environmental management expenditures and donations to charitable organization. Thus, a unit increase on any of environmental management and donations to charities is predicted to lead to 0.3359 and 0.1135 respectively for CSR expenditures on environmental management and donations to charitable organization. However, the expenditures on CSR do not have a statistically significant effect on the economic value added of the companies under review given the probability value of 0.1006 and 0.5218 for both variables. The findings further shows that CSR expenditures can only accounting for about 6.5%% of the variations in the financial performance in terms of economic value added.

Discussion of Findings

This research paper investigated the relationship between corporate social responsibility activities of manufacturing companies their financial performance in terms of economic value added. In order to achieve the purpose of the study, data was collected from ten (10) manufacturing companies quoted on the Nigeria stock exchange for the period

IJSER

spanning 2013 to 2019. The objective of the research was determine how manufacturing companies expenditures on environmental management and donations to charitable organizations affect their economic value added.

Data collected for the study was analyzed using OLS panel regression technique. The results of the data analyses showed that there is a positive relationship between environmental management, donations to charities and the economic value added of manufacturing companies. This result implies that increased spending on corporate social responsibility in terms of environmental management and donations to charitable organizations will lead to increase in the economic value added of manufacturing compaines in Nigeria.

However, the finding was not statistically significant implying that corporate social reponsibility has minimal effect on the bottom line of companies. However, Nwakanma and Emerole (2017) who focused on corporate social responsibility and corporate reputation of revealed that corporate social responsibility has a strong positive effect on corporate reputation, and corporate social responsibility was significant. Thus, good corporate reputation can be harnessed to generate higher revenue and profitability for the organizations as customers and clients will have more confidence in the activities of the organization.

In line with this, Ijeoma and Oghoghomeh (2014) confimred the above by revealing that corporate social responsibility contributed significantly to company's performance. Also, it was found that social performance disclosure had an association with company's performance. Thus for companies, improving sustainability performance is important and it is equally important as improving company's financial performance. However, Olaoye and Oluwadare (2018) showed that a firm's social responsibility is not correlated to stock price market. Also, they found that corporate social responsibility could not be influenced by stock price market.

Conclusion and recommendation

From the findings of the research, it is concluded that spending on corporate social responsibility in terms of environmental management expenditures and donations to charitable organizations helps to improve the economic value added of manufacturing companies by improving the reputation of companies. However, the size of the effect of corporate social responsibility on the performance is minimal thus cannot be relied on as a determinant of financial performance of amnufacturing companies in Nigeria. Considering that empirical evidence from other economies appear to support the hypothesis that corporate social repsonsibility has a significant effect on the finanicial performance performance, it is recommended that manufacturing companies improve on their corporate social responsibility activities by refocusing on activities that have the potential to significantly improve financial performance.

References

Amidu, P.M., Liu, Y. & Sesay, B. (2017). The impact of corporate social responsibility disclosure on financial performance of firms in Africa, *International Journal of Economics and Financial Issues*, 7(5): 137-146.

Becchetti, L., Ciciretti, R. & Giovannelli, A. (2013). Corporate social responsibility and earnings forecasting unbiasedness. *Journal of Banking and Finance,* 37: 3654-3668.

Carroll, A.B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders, *Business Horizons,* 34(4): 39–48.

Chopra, K.P. & Kanji, K.G. (2010). corporate social responsibility in a global economy. *Total Quality Management*, 21(2): 119–143.

Chutimant, B., Wanchai, P. & Panarat, P. (2017). Corporate social responsibility and firm performance in Thailand, *Journal of Business and Retail Management Research,* 12(1) : 169-178.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pitman.

Friedman, M. (1970). The social responsibility of business is to increase its profits. New York Times Magazine. September 13, 1970.

IJSER

Gbadamosi, W.I. (2016). corporate social responsibility and financial performance of banks in the United States, *Walden Dissertations and Doctoral Studies*.

Geyser, M. & Liebenberg, I.E. (2003). Creating a new valuation tool for south african agricultural co-operatives, *Agrekon*, 42(2): 106-115.

Grigoris, G., George, K., Eleni, Z. & Xanthi, P. (2016). The impact of corporate social responsibility on financial performance, *Investment Management and Financial Innovations,* 13(3-1). 171-182.

Holme, R. & Watts, P. (2000). Corporate social responsibility: Making good business sense. Conches-Geneva, Switzerland: *World Business Council for Sustainable Development.*

Igbekoyi, O.E. (2017). Causal effect of corporate social responsibility on value drivers in the nigerian manufacturing sector*, Journal of Emerging Trends in Economics and Management Sciences*, 8(3):169-177

Ijeoma, N.B. & Oghoghomeh, T. (2014). Determining the Contribution of Corporate Social Responsibility on Organizational Performance. *International Journal of Economics, Finance and Management Sciences,* 2(1): 84-91.

Kaschny, M. (2018). *Innovation and transformation*. Germany: Springer Verlag.

Kasim, H. (2012). The relationship between oil and gas industry investment in alternative energy and corporate social responsibility, *A PHD DissertationUniversity of Michigan, UMI* No.3499193.

Martinaik, D. & Polivka, M. (2012). Contribution of corporate social responsibility to the shareholder value: experimental perspective, *Ekonomika a management* (1): 108-124

Nwakanma, C.N. & Emerole, G.A. (2017). Corporate social responsibility and corporate reputation: a study of dufil prima foods Ltd Port Harcourt, Nigeria, *International Journal of Social Sciences and Management Researc*h, 3(8).

Olaoye, O. F., & Oluwadare, O. E. (2018). Corporate social responsibility and stock price market of selected listed companies in Nigeria. *International Journal of Academic Research in Business and Social Sciences*, 8(7), 872–886.

Orlitzky, M. (2013). Corporate social responsibility, noise, and stock market volatility. *The Academy of Management Perspectives*, 27(3), 230-254.

Palmer, H.J. (2012). Corporate social responsibility and financial performance: does it pay to be good*? CMC Senior Theses.* Paper 529.

IJSER

Parmar, B.L., Freeman, R.E., Harrison, J.S., Wicks, A.C., Purnell, L. & DeColle, S. (2010). Stakeholder theory: the state of the art, *The Academy of Management Annals,* 4(1): 403–445.

Peloza, J. & Shang, J. (2011). How can corporate social responsibility activities create value for stakeholders? A systematic review. *Journal of the Academy of Marketing Science,* 39(1): 117-135.

Sang, J.C., Chune, Y.C. & Jason, Y. (2019). Study on the relationship between csr and financial performance, Sustainability, 11 343.

Sheldon, P. (1992). *Reputation risk management*. London: Pitman Publishing.

Stanley, A.S. (2011). A correlational study examining the relationship between social responsibility and financial performance, *A PHD Dissertation, University of Michigan*, 3453666.

Stewart, M.L. (1990). *The quest for value*. Harper: New York.

Wood, N. (2000). Economic value added (EVA): Uses, benefits and limitations – A South African perspective. *Southern African Business Review,* 4(1):46–53.

IJSER