

Analysis of Non-Financial Characteristics of Corporate Performance in Nigeria

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Abstract

This study examines the non-financial characteristics of corporate performance in the Nigerian economy, using primary data approach. Data were collected through questionnaire, and a total of 100 sets of questionnaire were distributed across twenty (20) different corporate firms from ten (10) different industries, located in Ikeja, Ilupeju and Agbara Industrial Estates in Lagos and Ogun State, Nigeria. In other words, two (2) firms were selected from each industry while five (5) copies of questionnaire were also administered among different categories of staff in each of the selected firms. From the various analysis carried out in the study, ranging from frequencies distribution to the log linear tests, it was evidently shown that the non-financial characteristics of firms such as employment generation, facilities siting, philanthropic donations as well as research and manpower development have significantly promoted development in Nigeria. The study suggests among others more commitment of corporate firms in Nigeria, to improving the socio-economic welfare of people in their respective locations rather than laying more emphasis on profit maximization.

Keywords: Non-financial, Characteristics, Corporate, Performance, Nigeria.

1.0 INTRODUCTION

The effort of every economy is on the need for sustainable development in all facets of human endeavour, be it political, social, cultural, educational or economic. Therefore, corporate institutions play a significant role in all these facets of human development. This development could also be seen in terms of changes in the entire life of the people concerned, such as increase in productivity, social and economic equality, change of attitude, increase in modern and scientific knowledge, and improved institutions, among others (United Nation, 1971).

The involvement of corporate institutions in the economy explains why, when and how business actively manages its social, environmental and economic aims, performance and outcomes, and their relationships (European Economic Commission, 2002). The measures of corporate performance involve both the financial and non-financial elements. The financial measures include, value added of firms, return on assets, return on equity, return on capital employed, profitability, among others, while the non-financial elements also include, facilities siting and management, employment generation, product and service development, use and delivery, sourcing and procurement, research and manpower development, as well as philanthropic and community investment (United Nations, 2002).

These non-financial measures of corporate performance also, according to United Nations, (2002), encompass all aspects of the organisation economic interactions, including the traditional measures used in financial accounting and the intangible assets that do not systematically appear in financial statements.

Having identified some of the non-financial characteristics of corporate performance, the study seeks specifically to analyse the extent at which the non-financial activities of firms' such as employment generation, facilities siting,

philanthropic donations, research and manpower development among others, have significantly affected the socio-economic lives of people in Nigeria.

2.0 LITERATURE REVIEW

2.1 Non financial features of firms' performance

In the review of St. Microelectronics, (2001), facilities' siting, as one of the non-financial characteristics of corporate performance is known to have had significant economic impacts on local communities. Facilities' siting in a community is capable of providing positive economic impacts, through generation of income and local tax revenues and the creation or maintenance of local employment and business support, as well as being a potential catalyst for wider investment in a particular location. According to St. Microelectronics, it further creates negative impacts, through increased demand on infrastructure, public services and natural resources, and also through the displacement of existing businesses or other means of earning wage.

Another non-financial characteristic of firms is employment generation which according to Brown, (2002) is one of the most important drivers of a country's economic development. The development according to Brown, may either be direct, through permanent or contract jobs, or indirect as the case may be through supplier and out sourcing contracts.

Company's product and service development, use and delivery are other non-financial characteristics of firms, measuring performance. Through these characteristics, according to Cooperative Bank (2001), the economic effect of how a company manages its products and services primarily stems from its pricing and marketing mechanisms. Product and service delivery channels and uses also affect the economy by determining access to and use of essential utilities.

The indirect impact of corporate firms through sourcing and procurement on communities according to the bank report (which involves purchasing and outsourcing of goods and labour) can be considerable.

Also, as one of the non-financial characteristics of firms' performance, research and manpower development can positively influence lives in the economy. This is one of the claims from companies annual report and financial statements, particularly the 2008 annual report and financial statements of Costain (W/A) Plc, Guinness Nigeria Plc, Unilever group, PZ Plc among others. Also, Global Reporters, (2008), corroborate the claims of the aforementioned companies' annual reports, that a company's manpower training program may boost its own human capital, as well as that of the society in which it operates. Also in the same direction, the philanthropic donations of firms in various communities appears to be positive, as revelation from the annual report and financial statements of Total Oil (Nigeria) Plc indicates that the total donations made to charity organisations between 2007 and 2008 by the company was five hundred and fifty-six million, one hundred and ninety-two thousand, two hundred and twenty-five naira (N556, 192,225.00), to improve the welfare of people in its environment. Apart from this gesture, the company also assists in the areas of bonus, bursary and scholarship award to indigent students, procurement and free distribution of drugs and payment of medical bills, as mark of improving the living standard of people.

2.2 Theoretical Evidences

One of the theories considered in this study is the stakeholder theory. The theory has Freeman (1984, 1994), Carroll (1991), and Clarkson (1995) as its major proponents. The theory refers to stakeholders as a collection of individual or group interests which may affect or be affected by organisations. These groups include employees, shareholders, consumers, suppliers, trade unions, business associates as well as competitors. They are also recognised and involved in the success and failure of the organisation. Further, stakeholder's theory established and maintained that measures of firms' performance should also be through social and environmental factors. Moreover, firms should also be aware that responsible behaviour leads to sustainable business success (Carroll 1991). Therefore, the theory stated in both practical and managerial terms, that corporate organisations should strive, apart from making profit, to obey law, be ethical and of course be a good corporate citizen.

This study also identifies with the stage theories of growth, with Greiner, (1972) and Mueller (1972) as major proponents. The duo argued that firms evolve through five phases and each characterised by a period of relatively stable growth. They also posit that, although it is not hard to believe that the goal of every firm changes systematically over time, but it is hard to know exactly how one might see this in the data on annual growth. Based on this fact, Mueller, (1972), in his life cycle theory of the firm also argued that what a firm does (i.e. its propensity to maximise profits or sacrifice profits for growth) varies with age and other factors like investment opportunities to enable firms create jobs, increase plant size, as well as achieving other social responsibility objectives. He strongly

believed that a strictly profit maximising firm is likely to enjoy only a finite burst of growth associated with each innovation. However, if the innovation fuels enough growth to weaken the power of shareholders, then managers of companies will gradually acquire enough room to exercise discretion. Since they are liable to be more interested in the size or growth of the firm than in profits, they will therefore, take advantage of this discretion to reinvest too much of the proceeds from the innovation into other investment opportunities.

3.0 RESEARCH METHODS

The study is cross-sectional in nature, in which non-financial characteristics of all the quoted firms' vis-à-vis performance in the economy are expected to be considered. But with the increased number of quoted firms, coupled with pulling of data from variables across various firms in Nigeria therefore, the sample size for the study is limited to few selected firms. At least two firms were selected from the following group of industries; breweries, building materials, chemicals and paints, conglomerates, foods, beverages and tobacco, petroleum and textiles among others, in Ikeja, Ilupeju and Agbara Industrial Estates in both Lagos and Ogun State, Nigeria. The selection of sample size for the study was based on the consistency and years of experience of firms, qualities of products or services, profit margin and risk aversion skill, among others. The selected firms also involved those that could be classified under the economic heading in National income Accounting.

3.1 Questionnaire Administration

This study considers primary source of data collection through questionnaire method. Meanwhile, One hundred (100) copies of prepared questionnaire were distributed across twenty (20) different firms from ten (10) different industries. In each of the industries two (2) firms were selected, and five (5) copies of questionnaire were also administered among different categories of staff in each of the firms representing the industries.

3.2 Analytical Procedure

The data collected through the questionnaire were coded, based on the five points likert rating scale in the following order, strongly agree (5) Agree (4) Undecided (3), disagree (2) and strongly disagree (1).

The method of analysis involved the use of frequency distribution tables and log linear tests. The log-linear tests are commonly expressed in terms of the cell frequencies tests than the cell densities. The expected frequency for a sample of size 'n' is denoted thus:

$$F_{ij} = nf_{ij}, i = 1, 2, \dots, r \\ j = 1, 2, \dots, n$$

Where F = the expected frequencies

i = row

j = column

The general log-linear equation was adopted for the study, based on the specification of (Jobson, 1999) which further explains the effect of each variable in the equation on the cell frequencies. The specific equation for the general log-linear according to Jobson is specified thus;

$$\ln(F_{ij}) = \mu + \lambda A_i + \lambda B_j + \lambda C_k$$

Where $\ln(F_{ij})$ = the log of the expected cell frequencies of the cases for cell ij in the contingency table

μ = the overall mean of the natural log of the expected frequencies

λ = Term used to represent effects which each variable has on the cell frequencies

i and j = the categories within the variable

λA_i = the main effect for variable A

λB_j = the main effect for variable B

λC_k = the main effect for variable C

4.0 RESULTS AND DISCUSSION

Out of the one hundred (100) copies of questionnaire distributed for the study ninety five (95) copies were returned. The analysis was based on the number of returned questionnaire.

Table 1: Frequencies distribution of responses on identified quoted firms' objectives in Nigeria.

Firms' alternative objectives	Agree		Strongly agree		Undecided		Disagree		Strongly disagree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Profitability objective	6	6.3	89	93.7	0	0.00	0	0.00	0	0.00
Maximising the welfare of the people through increased disposable income and investment opportunities	28	29.5	63	66.3	4	4.2	0	0.00	0	0.00
Maximising the market share of firms' product	16	16.8	60	63.3	19	20.0	0	0.00	0	0.00
Significant contribution to the country GDP	30	31.6	63	66.3	2	2.1	0	0.00	0	0.00

Source: Field survey, 2011.

The result in Table 1 indicates firms' objective of significant contribution to the country's GDP, producing the highest rating in terms of the "agree" response from thirty (30) companies (31.6%), but also recorded "undecided" response from two (2) companies (2.1%). Also maximisation of welfare objective was rated high with "agree" response from twenty eight (28) companies (29.5%), compared with the objective of maximising market share of products, with "agree" response from sixteen (16) companies (16.8%). The former had four (4) "undecided" responses (4.2%) compared with nineteen (19) companies (20%) remains "Undecided" for the latter. Meanwhile, profitability objective of the firms produced the lowest rating in terms of the "agree" response from six (6) companies (6.3%) but evidence also shows that the objective recorded the highest rating with Eighty nine (89) companies (93.7%) in terms of "strongly agree" response, compared with other objectives of firms in Table1.

The conclusion drawn from the result in Table 1 and given the argument from the stakeholder's theory, Nigerian firms have demonstrated multi-dimensional business objectives. Despite the European Union appeal to the global corporate firms in 2002, that firms should integrate social and environmental interest in their business operations on voluntary basis, it is still evident that more corporate firms in Nigeria are deeply concerned with profit maximization more than improving the well being of people in their immediate environment.

Table 2: Frequency distribution of responses on non-financial characteristics of corporate performance in Nigeria

Non-financial firms' performance	Agree		Strongly agree		Undecided		Disagree		Strongly disagree	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Employment Generation	19	20.00	75	78.9	1	1.1	0	0.00	0	0.00
Facilities sitting	16	16.8	74	77.9	4	4.2	1	1.1	0	0.00
Philanthropic donations	21	22.1	70	73.7	3	3.2	1	1.1	0	0.00
Research and manpower development	23	24.2	62	62.3	2	2.1	0	0.00	8	8.4

Source: Field survey, 2011.

From the frequency distribution of responses in Table 2, it was agreed and strongly agreed by 94 out of 95 respondents that corporate firms do generate employment, leaving only one respondent undecided. The total percentage of responses was given as 98.9% for both "agree" and "strongly agree" while the remaining 1.1%

captured the “undecided” response. It could also be confirmed from the Table that employment generation, as one of the characteristics of corporate firms in Nigeria, plays a major role in influencing both internal and external environment of firms. Given the high response of both “agree” and “strongly agree” from Table 2, it is evidently clear that most respondents were of the opinion that the activity of generating employment is a paramount responsibility of the respective firms, as it further measure the level of productivity and overall performance of firms in their various locations. On the facilities siting, as a measure of firms’ performance, the result from Table 2 shows that out of the 95 respondents, one person disagreed, 4 undecided, while 16 and 74 respondents agreed and strongly agreed respectively. The corresponding percentages were given as 1.1%, 4.2%, 16.8% and 77.9% respectively. The higher percentage recorded altogether from both “agree” and “strongly agree” responses show that firms, in their respective communities, offered assistance, in the provision of infrastructural facilities, like roads and drainage construction, building of schools and housing estates, as well as other recreational facilities. These are good measures of firms’ performance in Nigeria. Responses on the philanthropic donations by firms in Nigeria, given in Table 2, revealed that out of the 95 respondents, 70 and 21 agreed and strongly agreed respectively that firms truly involved in a free will donations in their respective communities. But leaving three (3) “undecided” and one (1) “disagree” response on the possibility of firms’ philanthropic activities in Nigeria. Out of the total percentage, “agree” and “strongly agree” responses have altogether 95.8%, while “disagree” and “undecided” responses produced 1.1% and 3.2% respectively. Responses from both “agree” and “strongly agree”, which shows higher percentage is an indication that firms in Nigeria engages in some philanthropic activities in their immediate communities. These activities include their involvement in cash awards, scholarship, bursary awards and bonuses among others.

The frequency distribution of responses in relation to research and manpower development behaviour of firms also expresses support and encouragement given to this characteristic of firms in their respective locations. As indicated in Table 2, a total of 85 respondents agreed and strongly agreed, 2 undecided, while “disagree” and “strongly disagree” produced 0 and 8 responses respectively on the reality of research and manpower development behaviour of firms in Nigeria. The respective percentages of responses were also given as 89%, 2.1%, 0.00% and 8.4%. High ratings associated with both “agree” and “strongly agree” responses on research and manpower development behaviour of firms indicates the importance of this non-financial characteristic of firms’ performance in Nigeria. For instance, quality control measures on the firm’s product, innovations, training and retraining programs were as a result of adoption and improvement in research and manpower development behaviour of most corporate firms in Nigeria.

From various analyses of responses across various firms in Nigeria, it was revealed that the non-financial characteristics of firms, such as employment generation, facilities siting, philanthropic donations, research and manpower development, among others, were considered as important elements for measuring the performance of firms in Nigeria.

4.1 Results of General Log-Linear Test

The result of the general log-linear test on the analysis of non-financial measures of corporate performance in Nigeria is presented in Table 3;

Table 3: Results of the general log-linear Test

Parameter	Estimate	Standard Error	Z statistics	Significant level	Lower bound	Upper bound
Constant (EMG)	-693 ^C					
(FST)	-693 ^C					
(PD)	3.157 ^C					
RMD	3.701 ^C					
(EMG)	3.296	.831	3.966	.000	-4.926	4666
(FST)	.960	.299	3.216	.001	-1.546	2.375
PD	3.098	.763	4.060	.000	-4.595	3.120
RMD	1.275	.259	-4.923	.000	-1.784	.767

Source: Author’s computation, 2011.

- a. model: multinomial logit
- b. Design: Constant+EMG+FST+PD+RMD,
Where EMG: Employment Generation
FST = Facilities Siting
PD = Philanthropic Donation
RMD = Research and manpower development

c. Response: Standard of living

d. Constants are not parameters under the multinomial assumption. Therefore their standard errors are not calculated.

Meanwhile, the result of the general log-linear estimates, as presented in Table 3, shows the effect of each variable in the general log linear model, that is, the effect of employment generation, facilities siting, philanthropic donations, and research and manpower development on the performance of the Nigerian economy. From the result, employment generation, facilities siting, philanthropic donations, research and manpower development contributed positively to the Nigerian economy, with about 3.3%, 1%, 3.1% and 1.3% improvements respectively, through creation of more jobs, infrastructural development, and philanthropic gesture from the companies and improvement in quality of both products and manpower. The estimated result of the general log linear test also shows that all the non-financial characteristics of firm used in the model were statistically significant with .000, .001, .000 and .000 respectively at 5% test level. Judging from the significant contributions of the non-financial variables in the estimated log linear result, it is apparent that the non-financial measures of corporate firms also produced significant effect in the performance of the economy.

5.0 CONCLUSION

The study examined the non- financial characteristics of corporate performance in Nigeria. The evidence from the various analyses conducted, shows that non-financial features of firms, such as employment generation, facilities siting, philanthropic donations as well as research and manpower development, contributed significantly to the performance in the economy. In line with the result, firms in Nigeria have demonstrated performance in their non-financial activities and following this development, the study supports the clarion call by the European Union in 2002, that firms globally should be interested in some other activities rather than sole interest in profit making. Conclusively, many of today's successful companies are operating with multidimensional business objectives. Precisely about 80 percent of companies in Nigeria now provide information about their environmental performance, social impact, or both. Their progressive corporate socio-economic and environmental performance contributes to their long-term financial viability, which further promotes healthy communities and stable economies.

This study recommends among others, more commitment of corporate firms in Nigeria, to improving the socio-economic welfare in their respective locations than laying more emphasis on profit maximization.

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