Impact of Corporate Social Responsibility on Profitability of Quoted Food and Beverages Companies in Nigeria

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Abstract
The study examines the impact of Corporate Social Responsibility on Profitability of Quoted food and beverages companies in Nigeria from 2006 to 2015. The population of the study consists of seventeen (17) quoted food and beverages companies listed on the Nigerian stock exchange out of which twelve (12) were sampled based on the data availability. The study was carried out using secondary data collected from annual reports and accounts of the sampled companies. The data collected were analysed using multiple regression techniques. The dependent variable is profitability which is measured with profit after tax, while the independent variable is corporate social responsibility was measured using the amount spent on corporate social responsibility activities. The result of the study reveal that corporate social responsibility has a significant positive impact on profitability with value 0.007 and the $R^2$ of 0.3704. The study recommend that companies should embark on corporate social responsibility since it has positive correlation with companies profitability. Government should come up with clearly defined responsibility issues and should ensure its full implementation. This is because CSR activities help in raising the standard of living of communities and that the activities of the companies affect the life of the host communities.

Keyword: Corporate Social Responsibility, Profitability, Food and Beverages.

1. Introduction
Companies prior to 1950s, their primary objectives was profit maximization for shareholders. In those days, social issues were not given attention by the companies. In recent years, there has been a realization that companies operate within the society and that if the corporate objective are not properly aligned with the need of the society, the success of the company will be affected by strategies for dealing with the societal needs, the natural environment and business imperatives (Ricks, 2005).

Corporate social responsibility is a comprehensive set of policies practices and programmes that are integrated in the business operations, supply chain and decision making processes through out the organization and usually include issues related to business ethics, community investment, environmental concerns, governance, human right, the market place as well as the workplace (Tsoutsoura, 2004). Kotler and Lee (2005), it is an obligation to raise community wellbeing through discretionary business practices and contributions of corporate resources. Wood (1995), hold that the basic idea of corporate social responsibility is that business and society are connected rather than separate entities and expectations are placed on business due to its three roles as an institution in society, as an organization in society and as an instition in society, as an organisation in society and as individual managers who are moral actors within corporation.

Corporate social responsibility is taken as an integral part of corporate activity and companies are expected to operate as good corporate citizen. Companies are not only to make concerted effort to remedy the harm posed to the environment due to their operations but generally contribute to society’s welfare. Studies have been carried out on corporate social responsibility to determine it’s influence on profitability of different companies, however, few studies have been carried out on that in Nigeria using companies that falls outside food and beverages.

2. Objective of the study
The objective of this study is to examine the impact of corporate social responsibility on profitability of food and beverages companies listed on the Nigerian stock exchange.

3. Literature review
3.1 Corporate Social Responsibility
Corporate social responsibility is the voluntary activity undertaken by companies which are of direct benefit to employees, host communities, stakeholders and customers. Corporate social responsibility according to Carroll (2009), encompasses the economic, legal, ethical and discretionary expetion that society has on companies at a given point in time. Risk (20005), opined that corporate social responsibility involves companies choosing how to voluntarily allocate resources to social services activities in order to reach marketing and other business related objectives of which there are not clear social expectations as to how the firm should perform. Aiscough, Shank and Manullang (2007), view corporate social responsibility as economic, legal, moral and philanthropic
actions of companies that influence the quality of life of relevant stakeholders. Hopkins (2011), avers that corporate social responsibility as treating the shareholders of companies or institution ethically or responsible manner. In the work of Comb (2002) described corporate social responsibility as the ability of company to link itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for all. Lambardo (2009) conceived corporate social responsibility as the business practices based on ethical value with respect for people, communities and environment. Corporate social responsibility according to Waddock (2006) is the collection of activities which are of direct benefit to the society that a company voluntarily or discretionary undertakes. These activities form part of the overall corporate responsibilities that a company owe its shareholders and natural environment with its make territory of operations.

Corporate social responsibility is the integration of social and environmental concerns by companies in their business operations and in their interaction with their stakeholders on a voluntary basis. William and Siegal (2001) explained corporate social responsibility as the situation where organisations go beyond compliance and engages in actions that appears to further some social good, beyond the interest of the company and that which is required by law. They stressed out that corporate social responsibility is more than just following the law and there are benefits organisations derive from such actions which include; reduced risk to the company, improve human relations, employee productivity and lower cost of capital.

3.2. Corporate Social Responsibility and Profitability
Profitability is the ability of a business to earn profit. Profitability influences corporate social responsibility because only those companies with robust economic health that earns profits, that can engage in social program (Beliveau 1994). Corporate social responsibility are inter-connected (Orlitzky, Schmidt and Rynes 2003). Sun (2012) and Waddock and Graves (1997) documented that investment in corporate social responsibility leads to higher level of profitability according to Markowitz (1985) companies that implement corporate social responsibility achieve high profitability in long run than companies that do not engage in corporate social responsibility. Ruf, Muralidhar and Brown (2001) believed that involvement in corporate social responsibility by a company has both immediate and continuing or future positive financial impact. This is explain on the fact that corporate social responsibility practice improve reputation and market opportunities to the company. Customers are more willing to purchase products from those companies who advertise products related to their social responsibility (Para and Krausz,1996). Balabbaïs , Philips and Lyall, (1998), McGuire, Sundgren and Schneewres (1998), and Barnett (2007)argued that a company that perform corporate social responsibility may experience high profitability, get less labour problem, and reduced costs. Similarly, Fiori, Donato and Izzo (2007), found out that companies that often invest their time and resources in implementing corporate social responsibility do not perceive them as a cost but as a good investment with positive impact on short-term profitability.

Over the years, studies have carried out by various authors on the impact the corporate social responsibility has on the profitability of a firm. These studies had reached a conclusion with a mixed results. Among others the following uthors had looked at corporate social responsibility and firm’s profitability and reached a conclusion as:

Abiodum (2012) examined the impact of corporate social responsibility on firm’s profitability in Nigeria using ten (10) randomly selected firms’ annual reports. Ordinary least square regression analysis was used. The results revealed a negative relationship between profit after tax and investment in social responsibility.

Ocran (2011) looked at the effect of corporate social responsibility on profitability of food and beverages companies in Ghana. Data were obtained from annual reports of selected companies. The Pearson product movement correlation coefficient was used to analyse the data, the result uncovered a positive relationship between a corporate social responsibility and profitability.

Marfo, Chen,Xuhua, Antwi and Yiranbo (2015) assessed the relationship between corporate social responsibility and company’s profitability in Ghana. Data were collected from annual reports of sixteen companies.ordinary least square regression analysis was adopted in analysing the data. The study revealed that all selected companies contributed below 10% of their yearly profit to social responsibility. Therefore, there exist a negative relationship between profit after tax of the companies with corporate social responsibility.

Kiram, Kakakhel and Shaheen (2015) looked at corporate social responsibility and firms’ profitability, correlation and regression method of analysis were used to find the relationship between corporate social responsibility and profitability. The study avails insignificant association between corporate social responsibility and profitability of selected firms.

In the work of Adeje and Aderemi (2014) who assed the effects of corporate social responsibility activity disclosure on corporate profitability. The data were collected from the sampled commercial banks in Nigeria. Data were analysed using multiple regression analysis of ordinary least square. The work uncovered that bank size and corporate social responsibility disclosure score have a positive relationship with banks’ profitability while owners equity has negative association with profitability.
Odetayo, Adeyemi and Sajuyigbe (2014) investigated the impact of corporate social responsibility on profitability of Nigeria banks. Data were collected from annual reports of sixteen sampled banks. Data were analysed through the use of simple regression. The study documented a significant relationship between expenditure on corporate social responsibility and profitability of Nigerian Banks.

4. Methodology
This research adopt export facto design. The choice of the research design is because it involved examining past events. The population of the study consists of seventeen (17) quoted food and beverages companies listed on the Nigerian stock exchange. The twelve (12) sampled companies are 7Up bottling co.plc, Cadbury Nigeria plc, Dangote sugar refinery plc, Flour mills of Nigeria plc, Honeywell flour mills plc, Muli-Trex integrated food plc, Northern Nigeria flour mills plc, National salt Nigeria plc, Nestle Nigeria plc, Nigerian bottling company plc, UTC Nigeria plc and Tantalizer plc) these were drawn based on data available on CRS in their annual reports.

The independent variable, being corporate social responsibility was measured using financial expenditure on corporate social responsibility activities. The dependent variable profitability was measured using profit after tax. Control variables company size and risk were measured using by book to value ratio and this is express as:

\[
\text{Book value ratio} = \frac{\text{Market price at the end of the year} \times \text{number of share}}{\text{Total assets}}
\]

and ratio of long term debt to total assets was also used respectively. The data was analysed through the use of regression techniques. For the purpose of this research, the following model was made.

\[
\text{PROFit} = \beta_0 + \beta_{1\text{CSR}} + \beta_{2\text{SZ}} + \beta_{3\text{RSK}} + \varepsilon
\]

Where;

- \(\text{PROF}\) = profitability
- \(\beta\) = beta
- \(\text{CRS}\) = corporate social responsibility
- \(\text{SZ}\) = size of the company
- \(\text{RSK}\) = risk
- \(\varepsilon\) = error term

5. Results and Discussions
This section analyzed and discusses the results obtain from the correlation and multiple regression of a panel data. The analysis is based on the data obtained from annual reports and accounts of the listed consumer goods in Nigeria.

5.1. Correlation of the Study Variables
This subsection measures the relationship between the dependent variable (profitability) and the explanatory variables (Corporate social responsibility, firm size and firm risk).

<table>
<thead>
<tr>
<th></th>
<th>PAT</th>
<th>CSR</th>
<th>SIZE</th>
<th>RISK</th>
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<tbody>
<tr>
<td>PAT</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
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</tr>
</tbody>
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Source: Researcher’s Analysis (2017), using Stata version 12.0

Table 4.1 shows the correlation coefficients result between the dependent and the explanatory variables. The coefficient of 0.0516 shows a positive and significant relationship between corporate social responsibility and profitability while firm size and risk has negative relationship with profitability as shown by the coefficient of -0.0585 and -0.1576 respectively. On the other the control variable of size and risk has negative and significant relationship with each other. The result is in consistent with the findings of Ocran (2011).The variables shown diagonally and each has correlation coefficients of 1.0 because each variable has a perfect positive linear relationship with itself. The result shows that, the independent variables of the study have the capacity to increase profitability of listed food and beverages companies in Nigeria.

5.2. Regression Results
This section presents the regression result of the dependent variable (profitability) and other explanatory variables (corporate social responsibility, size and risk). To check for the existence of endogeneity which could negatively bias the coefficient, the Hausman specification test was performed to enable the choice between Fixed Effect (FE) and Random Effect (RE) regression for purpose of analysis. However, the Hausman specification test result shows an insignificant (p-value) of 0.1209. This shows that the study result is to be interpreted based
5.3. Impact of Corporate social responsibility (CSR) on profitability (PAT).

The hypothesis which state that CSR has no significant impact on PAT is tested Multiple regression models:

\[ \text{PAT} = \beta_0 + \beta_1 \text{CSR}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{RISK}_{it} + e_{it}. \]

The variables definition was provided in the previous section together with the model specification. Table 4.2 below presents the summary of regression results.

**Table 5.2: Summary of Random Effect (RE) Regression Result on Impact of Corporate social responsibility on profitability**

| Variables | Coefficient | Std Error | Z     | p>|z|/ |
|-----------|-------------|-----------|-------|-----|
| CONSTANT  | 9.22e+09    | 3.28e+09  | 2.81  | 0.005*|
| CSR       | 0.8918657   | 16.32544  | 2.25  | 0.007*|
| SIZE      | -6.20791    | 7.828429  | -0.79 | 0.428|
| RISK      | -1.22e+08   | 7.11e+07  | -1.71 | 0.087*|

\* Significant at 0.05

Sources: Researcher’s Analysis (2017), using Stata version 12.0

The Random effect (RE) regression results in table 4.2 show R² of 0.3704 which is the multiple coefficient of determination indicating the proportion or percentage of the total variation in the dependent variable explained by the explanatory variables. The R² of 0.3704 implies that about 37% of the variation in the dependent variable (PAT) is accounted for by the explanatory variables (CSR, SIZE, RISK). This is clear evidence that the model is a good fit and the explanatory variables are properly chosen, combined and used as significant interface to profitability and the findings of the study can be relied upon.

The random effect (RE) regression results in table 4.2 shows that CSR has a positive and significant impact on the profitability of the companies under study as shown by the coefficient of 0.8918657 and z-value of 0.005 which is statistically significant at 1% level of significance. This implies that one unit increase in the coefficient of CSR will lead to about 89.2% increase in profitability. This study concur with the findings of Aguinis and Glavas (2012), Pava and Krausz (1996) and Griffin and Mahon (1997) and is in contrast with the study of Abiodum (2014).

Considering the result presented in table 4.2 and taking on to cognisance the null hypothesis which state that CSR does not have significant impact on PAT of listed food and beverages companies in Nigeria is rejected.

6. Conclusion

The concept of CSR has become more and more common in business practices and customers today almost expect companies to be socially responsible. Though CSR will not work for some companies because some customers will not care whether the company practice CSR or not. CSR does not give immediate results, it make companies practicing more responsible.

The study concluded that corporate social responsibility has significant positive impact on profitability. Thus, an increase in corporate social responsibility will enhance profitability of food and beverages companies in Nigeria. It is advised that companies should adopt strategies that will boost CSR initiative because it will raise standard and reputation of companies and community will also enjoy from the social activities rendered by the company.

7. Recommendations

The study recommend that companies should embark on corporate social responsibility since it has positive correlation with companies profitability. Management should carry out a cost benefit analysis of CSR projects they have initiated and avail such reports to shareholders.

Shareholders should be aware of how much company intends to spend on CSR annually and where the social activities will be undertaking.

Government should come up with clearly defined responsibility issues and should ensure its full implementation. This is because CSR activities help in raising the standard of living of communities and that the activities of the companies affect the life of the host communities.

References


