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# The Effect of Corporate Social Responsibility on Financial Performance in Nigeria: A Multi-Dimensional Analysis

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**Abstract**

This study examines the relationship between corporate social responsibility (CSR) dimensions and financial performance in the Nigerian listed companies. The population of the study is 196 listed companies in the Nigerian stock exchange. The sample is determined to be 130 companies out of which 99 responses were received. The study adopts survey design and structural equations modelling (SEM) was conducted using smart PLS 2.0 software. It was found that customer, employee and investor relations have a positive significant effect on financial performance of Nigerian listed firms. Future studies are encouraged to examine the effect of other CSR dimensions that are not examined in the present study, on financial performance.

**Keywords**: Corporate social responsibility, financial performance, employee relation, customer relation

## 1. INTRODUCTION

Corporate social responsibility (CSR) has been defined by many authors and one of the widely accepted ones is that of Parliamentary Joint Committee on corporations and financial services (PJC, 2006) which defines it as firms considering, managing and balancing the economic, social and environmental impact of their activities. There have been a lot of debates on the effect of CSR on financial performance governed by two prominent opposing theories, stakeholder theory and the agency theory. Stakeholder theory is of the view that relating with all stakeholders and maintaining a balance in it will assist the firm to relate very well with all stakeholders which in turn will lead to a favourable financial outcome (Freeman, 1984; Jones, 1995). The agency theory on the other hand argues that social environmental investment represents an agency cost. It was forwarded by Friedman (1970) that the business of the business is to generate profit for their shareholders provided they act within the rule of the game. The focus of the proponent of agency theory is on the shareholders alone and no one else. Empirical evidences supported both positions in the previous literature, where there exist positive, negative, neutral and inexistent relationships between the CSR and financial performance. One of the reasons for having a negative, neutral and inexistent relationship, as proposed by previous studies, is lack of consideration of the multidimensionality nature of CSR. Some of the dimensions are uncorrelated therefore if taken as a composite renders the analysis meaningless (Hillman & Keim, 2001; Melo & Garrido-Morgado, 2012), hence, indicating the need to disaggregate CSR into its various dimensions. The present study investigates the relationship between CSR and financial performance, considering the three dimensions of CSR, customer relation, employee relation and investor relation.

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## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The relationship between CSR and financial performance was highly investigated by previous studies and it predominantly proves to be positive. Evidently from the findings of many meta-analytical studies such as Beurden and Gössling (2008) who reports that 68% of the studies reported a positive relationship between CSR and financial performance, 26% reported non-significant relation and 6% negative relationship. Similarly, the meta-analysis of Boaventura, Silva, and Bandeira-de-Mello (2012) reports that 65.5% of the studies in their meta-analysis reported a positive relationship, 19% reported a negative relation and 31% recorded a neutral or inexistence relationship between CSR and financial performance. Equally, the meta-analytical study of Margolis and Walsh (2003) revealed that 54 studies out of 109 used in their analysis reported a positive relationship, 7 out of 109 reported negative, 28 reported insignificant and finally 20 reported combined relationship between CSR and financial performance.

Considering the individual dimensions, customer relations for example was found to have a positive relationship with financial performance as reported by previous studies (Attig, El Ghoul, Guedhami, & Suh, 2013; Berman, Wicks, Kotha, & Jones, 1999; Hashimu & Ango, 2012; Inoue & Lee, 2011; Rodgers, Choy, & Guiral, 2013). In the area of employee relations, previous studies reveals that positive relationship exists between the said employee relations and financial performance (Abdulrahman, 2014; Attig et al., 2013; Boesso & Michelon, 2010; Hillman & Keim, 2001; Inoue & Lee, 2011; Rodgers et al., 2013; Uadiale & Fagbemi, 2012). Similarly, studies also confirm that relationship between investor relation and financial performance is positive. Owing to the fact that investors' interest are protected by presence of corporate governance in organizations and hence represents CSR to investors (Coombes & Watson, 2000; Graves & Waddock, 1994). Therefore, the relationship between investor relation and financial performance is found to be positive by many previous studies (Brown & Caylor, 2006; Chhaochharia & Laeven, 2009; Durnev & Kim, 2005; Klapper & Love, 2004). Based on the above discussions, the present study advances the following hypotheses.

H1 Customer relation has a positive and significant relationship with financial performance in Nigeria.
H2 Employee relation has a positive and significant relationship with financial performance in Nigeria.
H3 Investor relation has a positive and significant relationship with financial performance in Nigeria.

## 3. RESEARCH METHODOLOGY

The study employed stratified random sampling which is one of the probability sampling methods. Nigeria has 196 listed companies across 11 industrial sectors that constitute the population of the study. The study used the sampling formula of Dillman (2000) and Weaver (2006), to determine the sample of the study, which is 130 listed companies. The industries were taken as strata hence the sample was taken out of all the industries. The study adapted the survey questionnaires of Maignan and Ferrell (2004), and Rettab, Brik, and Mellahi (2008). The study conducted the survey on the head office of the sampled firms on the basis of 1 questionnaire per each firm mostly in Lagos state, Nigeria in 2015. The study received a total of 99 completed and useful questionnaires. The study generated a response rate of 76%, and the questionnaire is divided into 5 sections, the first is on financial performance, the second on customer relation, the third is on employee relation, fourth on investor relations and finally the fifth is on demographic information. The firms were asked to indicate their level of agreement with some statements in order to determine their level of financial performance, customer relation, employee relation and investor relation.

## 4. RESULTS AND DISCUSSIONS

The study presents its data analysis, results and findings in this section. The study conducted structural equations modelling (SEM) using partial least square (smart PLS) software version 2.0. This section also presents both the measurement and structural models of the study. Henseler, Ringle, and Sinkovics (2009) and Hair Jr, Hult, Ringle, and Sarstedt (2014) suggest the use the two step process of analysing and presentation of PLS SEM data. The present study utilised the two step process as suggested above. The first step is measurement model, then followed by structural model. In line with the suggestion of Chin (1998), the study conducts 500 bootstraps to obtain the significant level of the structural model. The study presents the research as well as the measurement model below.

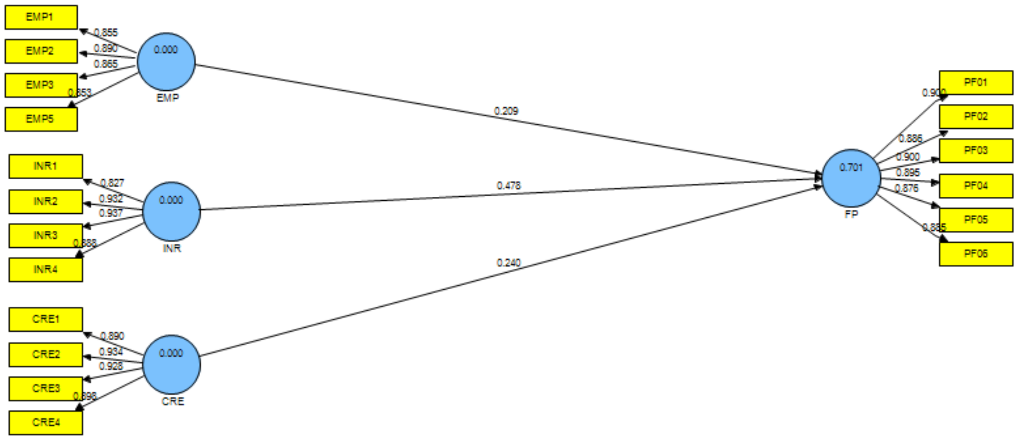

Figure 1. Measurement Model

The study assesses the composite reliability, convergent and discriminant validities under the measurement model. Convergence validity indicates the degree to which items come together to share high proportion of variance (Hair, Black, Babin, & Anderson, 2010). The loadings and the average variance extracted (AVE) of the study are above the threshold of 0.5 and composite reliability is above the threshold of 0.7 (Hair Jr et al., 2014). Therefore, the study achives convergent validity, see table 1 for details. The discriminant validity reveals the extent to which a construct discriminate itself from other constructs (Hair et al., 2010). The study compares the square root of AVE of a construct with the and expets to be higher than its correlations with all other constructs in the model (Fornell & Larcker, 1981). The square root of AVE in the present study is higher than correlations with other constructs for all the constructs in the model. Therefore, the study achieves discriminant validity, see table 2 for details.

Table 1. Convergent Validity

| **Constructs** | **Items** | **Loadings** | **AVE** | **Composite Reliability** |
|---|---|---|---|---|
| Customer Relations | CRE1 | 0.8903 | 0.833 | 0.9522 |
| | CRE2 | 0.9338 | | |
| | CRE3 | 0.928 | | |
| | CRE4 | 0.8977 | | |
| Employee Relations | EMP1 | 0.8546 | 0.75 | 0.9231 |
| | EMP2 | 0.8904 | | |
| | EMP3 | 0.8654 | | |
| | EMP5 | 0.8534 | | |
| Financial Performance | FP01 | 0.8999 | 0.7929 | 0.9583 |
| | FP02 | 0.8862 | | |
| | FP03 | 0.9002 | | |
| | FP04 | 0.8951 | | |
| | FP05 | 0.8759 | | |
| | FP06 | 0.8854 | | |
| Investor Relations | INR1 | 0.8272 | 0.8049 | 0.9427 |
| | INR2 | 0.9316 | | |
| | INR3 | 0.9374 | | |
| | INR4 | 0.8882 | | |

Table 2. Discriminant Validity

| | **CRE** | **EMP** | **FP** | **INR** |
|---|---|---|---|---|
| CRE | **0.912688** | | | |
| EMP | 0.7141 | **0.866025** | | |
| FP | 0.7277 | 0.7088 | **0.890449** | |
| INR | 0.7071 | 0.6862 | 0.7914 | **0.897162** |

The study assessed the hypothesized relationship between constructs through the structural model. The $R^2$ of the dependent variable in the present study is 70.1%, which shows the degree of the predictive accuracy of the independent variables on the dependent variable. Chin (1998), considers $R^2$ of 67%, 33% and 19% are considered substantial, moderate and weak respectively. The $R^2$ of the present study therefore falls in the category of substantial $R^2$, hence achieves the $R^2$ assessment. Therefore it can be said that the data supports the hypothesized model very well. The study presents the structural model in figure 2 below.

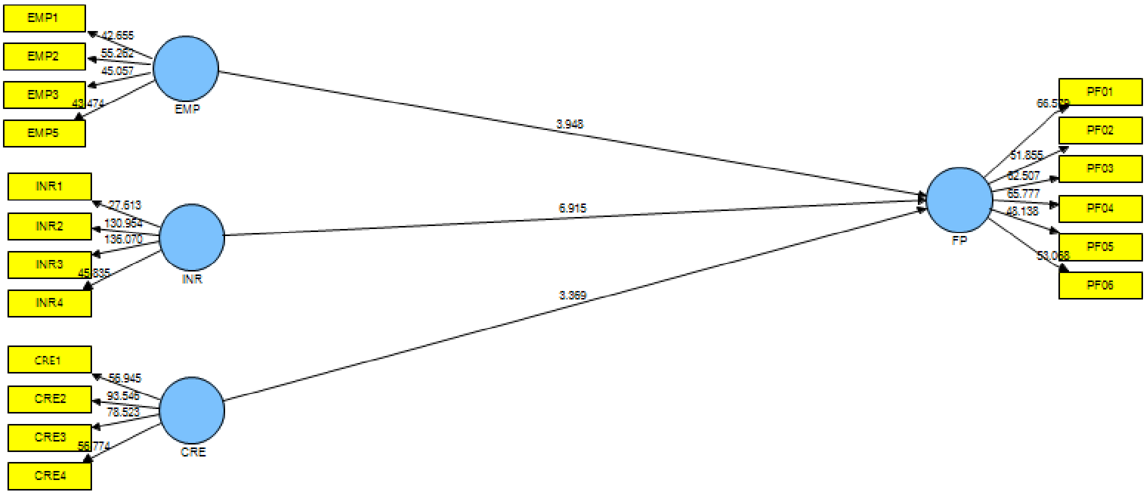


Figure 2. Structural Model

Table 3 presents the result of the structural model. The study indicates that customer relation have a positive and significant relationship with financial performance (β = 0.240, t = 3.369, p = 0.00). Similarly, the findings reveals a positive and significant relationship between employee relations and financial performance (β = 0.209, t = 3.948, p = 0.00). Finally, the study reveals a positive and significant relationship between investor relation and financial performance (β = 0.478, t = 6.915, p = 0.00). Hypotheses 1, 2 and 3 of this study were all supported as per the result presented. The findings of the study are summarized in table 3 below.

Table 3. Summary of findings

| Hypotheses | Path | Coefficient | S.E | T Statistics | P Value | Decision |
|---|---|---|---|---|---|---|
| H1 | CRE -> FP | 0.240 | 0.071 | 3.369 | 0.001 | Supported |
| H2 | EMP -> FP | 0.209 | 0.053 | 3.948 | 0.000 | Supported |
| H3 | INR -> FP | 0.478 | 0.069 | 6.915 | 0.000 | Supported |

In addition, following the blindfolding procedure, we test the predictive relevance ($Q^2$) of the model fit. According to Chin (1998), $Q^2$ is a measure of how well observed values are reconstructed by the model and its parameter estimates. A model has predictive relevance if the $Q^2$ value is greater than zero. The $Q^2$ value of the present study is greater than zero (0.5456) indicating that the model has predictive relevance (see table 4).

Table 4. $Q^2$ Predictive relevance

| Total | SSO | SSE | 1-SSE/SSO |
|---|---|---|---|
| FP | 594 | 269.9029 | 0.5456 |

## 5. CONCLUSIONS

This study examines the effect of individual CSR dimensions on financial performance of Nigerian listed firms. The results show a positive and significant effect of CSR dimensions on financial performance. This result is similar to previous studies that found a positive effect of CSR on financial performance (Brown & Caylor, 2006; Inoue & Lee, 2011). Similarly, the findings reveal a positive and significant effect of customer relations on financial performance. This is because CSR improves good relationship with customer which in return customers feel attached to the firm's products, patronize and differentiate the products leading to a better financial performance (Luo & Bhattacharya, 2006). The result is in agreement with many previous studies (Attig et al., 2013; Berman et al., 1999; Hashimu & Ango, 2012; Inoue & Lee, 2011; Rodgers et al., 2013).

Similarly, the finding obtained in the present study on employee relation indicates a positive and significant relation between employee relation and financial performance, signifying the important of CSR to employee's feelings. CSR activities encourage employees to shun away absenteeism, reduces turnover rate and improve productivity (Turban & Greening, 1997), and it increase the attractiveness of firms to intending employees (Greening & Turban, 2000). The present result provides support to many previous studies (Abdulrahman, 2014; Attig et al., 2013; Boesso & Michelon, 2010; Hillman & Keim, 2001; Inoue & Lee, 2011; Rodgers et al., 2013; Uadiale & Fagbemi, 2012). Finally, the result obtained on the relationship between investor relation and financial performance reveals a positive and significant relationship. This is possibly because many scholars have reported that investors consider CSR in their investment decisions (Rodgers et al., 2013). In addition, previous studies indicate that institutional investors are very much concerned about CSR (Abd-Mutalib, Muhammad-Jamil, & Wan-Hussin, 2014). This result is similar to many previous studies (Brown & Caylor, 2006; Chhaochharia & Laeven, 2009; Durnev & Kim, 2005; Klapper & Love, 2004). The model of this study indicates that customer relation, employee relation and investor relation have significant positive effect on the financial performance of Nigerian listed firms. This study adds to the existing literature on CSR and financial performance most especially by conducting the individual dimensions analysis. It also adds to the Nigerian CSR literature which is believed to be scanty. Additionally, the findings would be of great importance to Nigerian listed firms as it may help in identifying CSR dimensions that improve their financial performance.

These findings have implications to both theory and practice. The result sheds more light and proposes a solution to the long standing theoretical argument between the pro and against CSR. The result provides support for stakeholder theory, good management hypothesis and instrumental stakeholder theory etc. The study provides guide to Nigerian listed firms in their pursuit of a better financial performance. The result indicates that Nigerian firms should take part in CSR activities, especially customer, employee and investor relations in order to improve their financial performance.

It was concluded by the present study that conducting CSR in the areas of customers, employees and investors help to improve Nigerian listed firms' financial performance. Future studies should examine the effect of some other CSR dimensions on financial performance.

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