



IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FIRM'S PROFITABILITY: EVIDENCE FROM LISTED FOOD AND BEVERAGE COMPANIES IN NIGERIA

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ABSTRACT

This study was aimed at examining the impact of CSR on firm's profitability as evidenced from food and beverage companies in Nigeria. The study adopted a correlational research design, using a population of sixteen (16) food and beverage companies listed on the Nigerian Stock Exchange as at 31st December 2019. And a sample ten (10) out of the sixteen (16) were selected. Data was collected through secondary where the annual financial statements of the selected food and beverage companies were obtained and analyses using descriptive statistics and multiple regression model. The results from the analysis of the data obtained revealed that corporate social responsibility has a significant and positive relationship with the profitability of food and beverage companies in Nigeria. Hence, the study makes recommendations that management of listed food and beverage companies in Nigeria should increase their CSR investment as it has been found to positively improve the profitability of food and beverage companies in Nigeria because, this in the long run create good name for the company and also improve patronage. And a policy framework should be design for corporate social responsibilities in Nigeria by the government and ensure compliance by setting mechanisms and institutions for the implementation of CSR. Research attention should be given to social accounting and social costs by researchers in Nigeria.

Key words: Corporate social responsibility (CSR), firm's profitability, net profit margin (NPM), food and beverage companies, CSR investment, social accounting and social costs



1. INTRODUCTION

Corporate Social Responsibility is generally referred to as the implied obligations of a firm to protect and improve social welfare of the stakeholders and community hosting it in the present as well as in the future, by creating sustainable welfares and development initiatives (Lin, 2019). Srivastava (2012) also opined that business executives may expand competitiveness by adopting CSR strategies, based on the strengths of their corporations.

According to Nagurney and Li (2014), businesses primarily exist to make profit. The profit motive has often been perceived as representing a lack of concern for all other objectives of an organization. But today, businesses are realizing that in order to stay profitable in a rapidly changing environment, they would have to become socially responsible.

The issue of Corporate Social Responsibility (hereafter referred as CSR) and financial performance has been a subject of debate since the 1960's (Cochran and Wood 1984), and whether or not the former acts as the driver to influence the latter. For more than thirty years,

CSR has become a dynamic approach to embrace the interests of stakeholders, a way to retain the modest advantage and to settle profit objectives with long-term policies. (Raza., 2012). It is of no doubt that hundreds of researches have been conducted in the area of CSR and profitability in various countries and context, each very resourceful and contributive to the field (for example, Cochran and Wood (1984), James (2011), Nurdiono, (2019), Griffin and Mahon (1997); Waddock and Graves (1997); Jackson and Parsa (2009); Kempf and Osthoff (2007). However, these studies have similar, divergent and inconsistent views on the subject matter.

Despite the research conducted in the field of corporate social responsibility and profitability of firms in Nigeria, there are also some industries which have not been adequately accorded research attention and these includes agricultural and the food and beverage industry.

This study is aimed at examining the impact of CSR on firm's profitability as evidenced from food and beverage companies in Nigeria. The independent variable is CSR whereas the dependent variable is firm's profitability which will be proxied by net profit margin (NPM). In line with the objective of the study, a research hypothesis was formulated in null form, viz:



Ho1. Corporate Social Responsibility has no significant impact on net profit margin (NPM) of listed food and beverage companies in Nigeria.

2. CONCEPTUAL CONSIDERATIONS

Under this section, concepts of corporate social responsibility, categorization of corporate social responsibility, the benefits of corporate social responsibility, concept of profitability, measurement of profitability and so on were considered.

Corporate Social Responsibility

Davis (1993) defined CSR as ‘the firm’s considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firms to accomplish social and environmental benefits along with the traditional economic gains which the firms seek. For Angelidis and Ibrahim (1993), CSR are ‘corporate actions whose purpose is to satisfy social needs’ (Bronn & Vrioni, 2001). Brown and Dacin (1997) adopted the wider societal perspective and defined CSR as the company’s ‘status and activities’ regarding its responsiveness to its perceived societal obligations as they apply to all company stakeholders. Enderle and Tavis (1998) believed CSR as ‘the policy and practice of a corporation’s social involvement over and beyond its legal obligations for the benefit of the society at large’. According to the World Bank, CSR is a ‘term describing a company’s obligations to be accountable to all of its stakeholders in all its operations and activities (Doane, 2005).

The Benefits of Corporate Social Responsibility

Companies addressing issues related to the right of indigenous people have reaped a lot of benefits. Some of the benefits accruing to business organization that is involved in social responsibility include the following.

i. Enhanced Reputation

Good company performance in relation to sustainability issues can both build reputation while poor performance when exposed can damage brand value.

ii. Increased Ability to Recruit, Develop and Retain Staff

These can be direct or indirect. The 1999 business Ethics study found that employees are more likely to be loyal when they believe their workplace has ethical practices.



An organization that engages in corporate social responsibility will have dedicated and productive employees.

iii. Better Relations with Government

A good relationship with government can give a company significant competitive benefit in terms of gaining a social license to operate from local community, particularly in the resource sector with regard to gaining access to scarce reserves.

iv. Enjoying Preferred Business Partner Status

Given the opportunity to choose among several bidders for a potential project, some governments are more likely to choose a company with the best reputation with respect to indigenous relations and human rights practices.

Firm's Profitability

Profitability is the ability of a firm to make effective use of resources at her disposal in order to generate revenue in excess of its expenses. According to Business dictionary.com (2014), profitability is the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio. This definition looks at it from the point of ability to generate profit by firm. Don Hofstrand (2009) also sees Profitability as the primary goal of all business ventures.

Hansen and Mowen (2005) identified two (2) types of performance, financial performance and

Financial statement analysis will enable firms to dissect various processes that make up their operations; it will also enable a firm to have a view of factors that influence their performance and those that do not contribute meaningfully to their performance. Varieties of definitions have been offered by various scholars, but we will take a look at some.

Measurement of Firm's profitability

Every firm is most concerned about its profitability. Profitability ratios show a company's overall efficiency and performance. Profitability ratios are divided into two types: margins and returns. Ratios that show margins represent the firm's ability to translate sales into profit at various stages of measurement. Examples include; gross profit margin, operating profit margin, net profit margin, and cash flow margin. Ratios that show returns represent the firm's ability to measure the overall efficiency



of the firm in generating returns for its shareholders. Example includes; Return on assets (ROA), return on equity (ROE), cash return on asset, return on investment (ROI). For the purpose of this study, profitability is represented by ratios that show margins.

i. Gross Profit Margin (GPM)

The GPM looks at cost of goods sold as a percentage of sales. This ratio looks at how well a company controls the cost of its inventory and the manufacturing of its products and subsequently passes on the costs to its customers. The larger the gross profit margin, the better the company. Gross profit margin can be calculated by dividing gross profit by net sales and multiplying by 100%.

ii. Operating Profit Margin (OPM)

ROA measure is itself the product of a measure of financial efficiency and a measure of profitability. The Operating profit margin is a measure of profit per unit (Naira) of product produced or output. It is calculated by dividing the Naira amount of ROA by gross revenues. A business operation that has a high OPM is a low cost producer (Johnson, 2014).

iii. Net Profit Margin (NPM)

When doing a simple profitability ratio analysis, the net profit margin is the most often margin ratio used. The net profit margin shows how much of each sales naira shows up as net income after all expenses are paid. The NPM shows how much of each naira in revenue collected by a company translates into profit. It helps investors asses if a company's management is generating enough profit from its sales and whether operating costs and overhead costs are contained. NPM can be calculated as net income or profit after tax divided by net sales or net revenue multiplied by 100%.

Empirical Review on Corporate Social Responsibility and Firm Profitability

The relations between CSR and financial performance are mostly inconclusive, but positive relations between the two have been reported in most of the studies (Margolis and Walsh, 2003) suggesting an instrumental orientation of CSR initiatives. An instrumental orientation towards CSR suggests the alignment of the social goal with the business goal where CSR is considered as a strategic tool to promote the economic objective of the firm. Managers foresee significant value additions in firm performance due to strengthened stakeholder relations.



Management theorists argue that improvement in firm performance has a tendency to augmented firm's ability to invest in CSR towards stakeholders, (Waddock and Graves, 1997). With respect to CSR and firm's financial performance, the literature consists of three principal folds: (i) the existence of a positive association between CSR and financial results (ii) the lack of correlation between CSR and financial results; and (iii) the existence of a negative association between CSR and financial results.

Adeyanju, (2012) studied "an assessment of the impact of corporate social responsibility on Nigerian society": the examples of banking and communication industries. The study aimed to consider the imperative and benefits of CSR on the Nigeria society. James, (2011), examined "corporate social responsibility: how socially responsible are business organizations today". The study made use of qualitative research method and secondary source of data. The study found that Nigerian companies are becoming increasingly aware of the importance of CSR and the advantages of being a corporate citizen.

Ananaba and Chukwuka (2016), researched on Corporate Social Responsibility and Its Implementation in Nigeria: Problems and Prospects. The paper aims at studying the commitment of foreign as well as local businesses in achievement of corporate social responsibility in Nigeria. The research adopted the qualitative research, as it reviews the literature relating to the problems of implementing CSR in Nigeria. After critical x-ray of related write-ups on the topic under study, the study found out that some factors such as inability of Nigeria Government to enforce

Theoretical Framework

There are a lot of theories used by prior researchers to underpin studies that relate to corporate social responsibility. The generally and most adopted are the following: stakeholder theory, stewardship theory, utilitarian theory, managerial theory, relational theory etc. This study will in line with prior literatures adopt the utilitarian theory, stakeholder theory and stewardship theory.

Utilitarian Theory

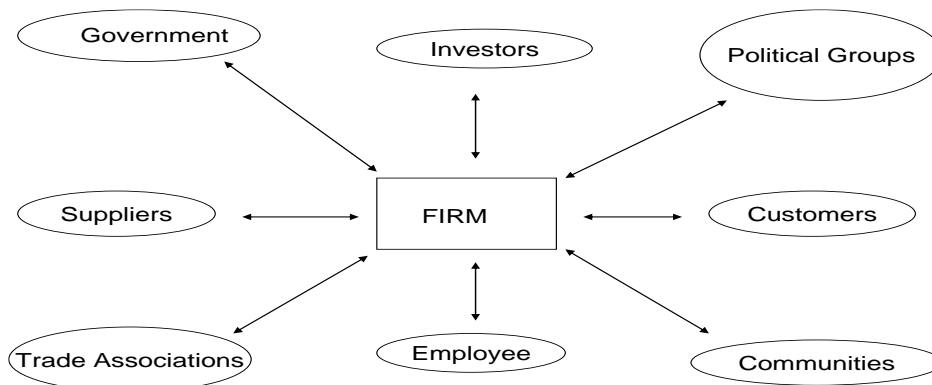
The utilitarian theory relates to a strategy for competitive advantages. The proponents of these theories are, for instance, Porter and Cramer (2002) and Litz (1996) who viewed the theories as bases for formulating strategies in the dynamic usage of natural resources of the corporation for competitive advantages. The strategies also include altruistic activities that are socially recognized as instruments

for marketing. Secchi (2007) further divides the utilitarian group of theories into two, namely, the social costs of the corporation and the idea of functionalism.

Stakeholder Theory

One of the original advocates of stakeholder theory, Freeman (1984), identified the emergence of stakeholder groups as important elements to the organization requiring consideration. Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognizant of the myriad participants who seek multiple and sometimes diverging goals (Donaldson and Preston 1995). The stakeholder's theory from the view point of Donaldson and Preston (1995) is described in Figure 1 below:

Figure 1: Diagram of Stakeholder Theory Model



Source: Donaldson and Preston (1995)

Stewardship Theory

Whereas agency theorists view executives and directors as self-serving and opportunistic, stewardship theorists, reject agency assumptions, suggesting that directors frequently have interests that are consistent with those of shareholders. Donaldson and Davis (1991) suggest an alternative “model of man” where “organizational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses” (Donaldson and Davis, 1991). Equally, managers may carry out their role from a sense of duty. Citing the work of Silverman (1970),



Donaldson and Davis argued that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige.

3. RESEARCH METHODOLOGY

This study adopts a correlational research design. This is because correlation is mostly used by researchers to establish or examine a statistical relationship between two or more variables. The population of this study includes all food and beverage companies listed on the Nigerian Stock Exchange which as at 31st December 2019 are sixteen (16) in number.

Sample Size and Sampling Technique

Ten (10) listed food and beverage companies were purposively selected to represent the population of the study. With regard to the sampling technique, purposive or convenience sampling was used. The sample size of the study is shown in the table below:

Table 1
Sample Size of the study

S/No	Company
1.	Dangote Sugar Refinery Plc
2.	Flour mills Nig. Plc
3.	Honey well flour mill Plc
4.	Nestle Nig. Plc
5.	Champion breweries Plc
6.	Nigerian brewery Plc
7.	PZ Cussons Nig. Plc
8.	Guinness Nig. Plc
9.	Unilever Nig. Plc
10.	Cadbury Nigeria plc

Source: Generated from Population of the Study



Method of data collection and Technique for data analysis

The study employs data from secondary source only. The data, which are quantitative in nature, have been extracted from the audited annual reports and accounts of the selected listed food and beverage companies in Nigeria for the period 2011-2020.

The techniques for data analysis are descriptive statistics and inferential statistics. Descriptive statistics includes the following; mean, mode, median, and standard deviation. Inferential statistics include correlation and multiple regressions.

Variable measurement and model specification

The dependent variable of the study is firm's profitability which is represented by Net Profit Margin (NPM). The independent variable for this study is corporate social responsibility (CSR).

Table 2
Variables of the Study and Measurement

Variable Acronym	Variable Name	Variable Measurement	Source (s)
NPM	Net Profit Margin	(PAT/Turnover)	Marko and Stephanie (2014)
CSR	Corporate Social Responsibility	Natural Log of CSR value	Abdu, 2014

Source: Developed by the Researcher from Prior Studies

Model specification

The regression model used for the dependent and independent variable is,

$$NPM_{it} = \alpha_{it} + \beta_1 CSR_{it} + \epsilon_{it}$$

Where: NPM= Net Profit Margin

CSR= Corporate Social Responsibility

α : constant,

β_1 is the coefficients of the parameter estimate.

it: panel data

ϵ : the error term.



DATA ANALYSIS AND DISCUSSION

The section covered the analysis and discussion of results. It also includes the robustness tests for the dependent and the independent variables of the study.

Descriptive Analysis

This sub-section provides descriptive statistical analysis of the data generated on the dependent and independent variables of the study. It provides the summary statistics of the data collected such as mean, minimum, maximum and standard deviation of all variables in the study. Thus, Table 3 presents the descriptive statistics of variables.

Table 3
Descriptive Statistics of the Variables

	N	Minimum	Maximum	Mean	Standard deviation
NPM	100	-1.019346	0.190907	0.0410753	0.1773241
CSR	100	2.94939	8.53737	6.532976	1.721465

Source: STATA 13.0 output

Table 3 presents the descriptive statistics of the variables, net profit margin and corporate social responsibility. From Table 3, it can be observed that the number of observations for each variable is 100. This is in line with the number of the sampled companies which is 10, and the study period of 10 years. NPM has minimum and maximum values of -1.019346 and 0.190907 respectively and the mean value of 0.0410753 as well as the standard deviation value of 0.1773241. The standard deviation value depicts how the NPM moves between the minimum and the maximum value and a low standard deviation implies a low rate of deviation from the mean.

Table 3 indicates that the mean of the CSR of the sampled firms is 6.532976 with standard deviation of 1.721465, and minimum value of 2.94939 and 8.53737 as the maximum value. This implies that CSR of the sampled firms on average is 6.532976, and the standard deviation value indicates that the CSR value deviates heavily from the mean value from both sides by 1.721465, implying that there is significant dispersion of the data from the mean because the standard deviation is high.



Correlation Matrix

Correlation analysis deals with the relationship among variables both dependent and independent variables. The correlation coefficient can range in value from -1 to +1. The larger the absolute value of the coefficient, the stronger the relationship between variables. For Pearson correlation, an absolute value of 1 indicates a perfect linear relationship. A correlation close to 0 (zero) indicates no linear relationship between variables. The sign of the coefficient indicates the direction of the correlation.

Table 4
Correlation matrix for the dependent and independent variables

	NPM	CSR
NPM	1.0000	
CSR	0.5067	1.0000

Source: Correlation Matrix Results Using STATA 13

Table 4 depicts that CSR is positively related with NPM of the sampled listed food and beverage companies in Nigeria to the tune of 50.67%.

The relationship between the variables themselves (autocorrelation) is not found to be significant, except for one of that found to be significantly related, though this may not be enough to surmise that multicollinearity exists among the explanatory or exogenous variables of the study unless the variance inflation factor and tolerance values are comparatively beyond the established rule of thumb.

Regression Result

This section presents, interprets and discusses the regression result of the dependent variable (profitability proxied by NPM) and the independent variables of the study (corporate social responsibility).



Table 5
Summary of Regression Result for NPM and Discussion

Variables	Coefficients	Z-values	P-values
CSR	0.0284377	3.10	0.003
R ²			0.3714
Mean VIF			1.51
Hetttest			136.26(0.000)
Hausman Test			0.86(0.8351)
LM Test			0.00(1.0000)

Source: Result output from STATA 13

The cumulative R², (0.3714) which is the combined coefficient of determination indicates the extent to which the independent variable explains the total variation in the dependent variable. Thus, it signifies that 37.14% of the total variation in profitability (NPM) of listed food and beverage companies in Nigeria is caused by CSR. This further implies that for every change in corporate social responsibility of listed food and beverage firms in Nigeria, profitability will invariably be affected. This means that estimated regression analysis is fit, and where there is a change in independent variables, profitability (NPM) will also be affected by the same change. Amongst other things to be considered is the number of variables used, the higher the number of variables used, the higher the R² and vice versa.

The results of the mean VIF of 1.51 prove the absence of perfect multicollinearity among the independent variables. The rule of thumb is that a value of VIF of 10 and above is a suggestion of multicollinearity among the explanatory variables (Gujarati, 2004).

From table 5 above, it is observed that CSR has a z-value of 3.10 and a beta coefficient of 0.0284377 with a p-value value of 0.003. This signifies that CSR is positively and significantly influencing or increasing profitability (NPM) of food and beverage companies in Nigeria. This implies that for any increase in investment in CSR by food and beverage companies in Nigeria, the NPM of those firms will increase significantly. This also implies that for every one percent (1%) increase in CSR contribution, the NPM margin will increase by 2.84%.



CONCLUSION AND RECOMMENDATIONS

Conclusion

The findings of this study as reveals that corporate social responsibility has a significant and positive relationship with the profitability of food and beverage companies in Nigeria. Therefore, the study concludes that Corporate Social Responsibility spending in the long run helps to increase returns on the next marginal naira, thus every Food and Beverage Company in Nigeria should integrate it into their spending culture. The study also concludes that there is positive relationship between CSR expenditure and banks profitability thus suggesting causal relationship between the CSR and profitability of food and beverage firms.

Recommendations

The study makes recommendations that management of listed food and beverage companies in Nigeria should increase their CSR investment as it has been found to positively improve the profitability of food and beverage companies in Nigeria because, this in the long run create good name for the company and also improve patronage.

Policy Implications

Policy framework should be design for corporate social responsibilities in Nigeria by the government and ensure compliance by setting mechanisms and institutions for the implementation of CSR. Companies in Nigeria particularly the profitable ones should give greater priority to CSR. This has the tendency to assist them to survive and maintain their profitability. Additionally, research attention should be given to social accounting and social costs by researchers in Nigeria.

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