

DONATION AS A PREDICTOR TO FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT

The study investigated donation and financial performance of listed manufacturing companies in Nigeria. The study adopted ex-post facto survey research design. The population for the study is forty-four (44) listed manufacturing companies comprising of consumer goods, healthcare, and industrial goods as listed in the Nigerian Stock exchange 2019, while the sample size is thirty (30) listed manufacturing companies. The instrument of the study is secondary data obtained from the aforementioned company's financial statements and Nigeria Stock Exchange (NSE) from the period of 2013 – 2017. Pearson product moment correlation coefficient and multiple regression was used to test postulated null hypothesis. The study revealed that there is no significant relationship between corporate social responsibility and financial performance of listed manufacturing companies in Nigeria. The study concluded that donation is key development strategy and practice that should be encourage by corporate organizations in Nigeria. The study recommended that listed manufacturing companies should see employee as assets to the organization, of which there must be returns on investment on them. If they incorporate this philosophy in their strategies it will improve on their return on Assets.

Keywords: Donation, Return on Asset, Financial Performance, Manufacturing Company

INTRODUCTION

Donation is one of the corporate practices that help to enhance the image of the organization thereby leading to the acceptability of the organization (Ohaka & Ogaluzor, 2018). Sufian (2012) identifies 35 areas in which corporate social responsibility can be disclosed. One of it is cash donations by the organization. Mattila and Hanks (2012) quoting Sen and Bhattacharya, (2001), says that "CSR programs can take many forms, such as diversity initiatives, recycling programs, the use of green materials, support of community events, and donations of money to charitable causes" In order to get competitive advantage over competitors and gain corporate image boosting, companies have used donations as part of their CSR strategies. In Weber (2008), he classifies donation into one time and continuous donation, according to him; "One-time CSR costs include one-time donations such as the donations granted to support the Tsunami victims in 2004. Continuous CSR costs include donations intended to continuously support a certain cause and fees such as license fees to use certain labels or patents, which are paid on a continuous basis. Corporate performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is a general measure of a firms overall financial health over a given period of time and can be used to compare similar firms across the same industry. Kaplan and Norton (1992) argues that, performance can also be assessed on a balanced scorecard of critical success factors through four perspectives financial, customers, internal business processes and learning and growth.

Liargovas and Skandalis, (2008) state that financial performance is the level of performance of a business over a specified period of time, expressed in terms of overall profits or losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. However, in a turbulent economic environment characterized by multiple mutations, the company is increasingly facing a tougher competitive space, due to the enlargement of its scope of activities and the interconnectedness of different markets. To adapt to this environment and cope with this competition, the company must be able to free the various economic and strategic challenges to ensure its sustainability, among other things is to be competitive and improve its economic and financial performance. In the world of management science, reflections on the performance have been the source of many questions.

Theoretical Framework

The basic idea of CSR is that business and society are interwoven rather than separate entities (Wood, 1991). For example, stakeholder theory explains how CSR is important, and the social contract and legitimacy theories explain why CSR is important (Moir 2001).

Stakeholder theory

Stakeholder theory is a theory of organizational management and business ethics that deals with principles and values in managing an organization (Freeman & Phillips, 2002; 2003). According to this theory, stakeholders are recognized as the group of people interested in the company’s activities (Freeman 1984; Friedman, 2007). Table 2.1 shows what stakeholders expect from their organizations.

Table 2. 1: Stakeholders and their expectations

	Primary expectations	Secondary expectations
	Financial Pay	Added value Work satisfaction
Customers	Quality Security	Long-term relationships Contribution to community Improved competitiveness
Creditors		
Suppliers		
Community		
Government		

Source: Adapted from Cannon (1994)

The originator of the stakeholder concept, Freeman, defined stakeholders as 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (1984). Recently, Freeman et al. (2004) redefined the term as 'those groups who are vital to the survival and success of the corporation'. The WBCSD (1999) identified stakeholders as representatives from labour organizations, academia, churches, indigenous people, human rights groups, government and NGOs, shareholders, employees, customers/consumers, suppliers, communities and legislators. Further, Friedman (2006) identified stakeholders as customers, employees, local communities, suppliers and distributors as well as shareholders. Other groups and individuals are also considered stakeholders, including, the media, the public, business partners, future generations, past generations (founders of organizations), academics, competitors, NGOs or activists, stakeholder representatives such as trade unions or trade associations of suppliers or distributors, financiers other than stockholders (debt holders, bondholders and creditors), competitors and government, regulators and policymakers.

According to stakeholder theory, the company's major objective is to balance the expectations of all stakeholders through their operating activities (Ansoff, 1965). The way businesses involve shareholders, employees, customers, suppliers, governments, NGOs, international organizations and other stakeholders is usually a key feature of the CSR concept (Fontaine *et al.*, 2006). Clarkson (1995) stated that the fundamental aspect of stakeholder theory is determined the stakeholders of an organization and reveal the organization's responsibility for them. In addition, they are important to the organization because their investment is subject to risk due to the activities of the organization.

Donations

The concept of donation arises through philanthropic activities of corporate organizations towards their environment and society. Corporate philanthropy is the act of a corporation promoting the welfare of others, usually through charitable donations of funds. Companies can leverage this type of CSR in various ways, though one of the most popular ways is by matching gifts their employees make to companies, this comprises donations of all form. Donation can be monetary (Cash Donations) or non-monetary such as food stuff, clothing, houses, relief material etc. "Donations should be recorded in a company's general ledger; just as any other major financial transaction is recorded. Whether money is coming in or whether it is going out, the general ledger helps to keep all of those core transactions in one central location" (Lewis, 2016).

Corporate social responsibility accounting (also known as social accounting and auditing, social accountability, social and environmental accounting, corporate social reporting, corporate social responsibility (CSR) reporting, non-financial reporting or accounting) is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large (wikipedia, 2017). Mathews and Perera (1996) defined it as the process of measuring, monitoring, and reporting to stakeholders the social and environmental effects of an organization's actions.

According to Crowther (2012), corporate responsibility accounting is commonly used in the context of business, or corporate social responsibility (CSR), although any organization, including NGOs, charities, and government agencies may engage in social accounting. Corporate responsibility accounting can also be used in conjunction with Community-Based Monitoring (CBM).

Concept of Performance

According to Richard (2009), performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Performance embraces the three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.); product market performance (productivity, sales, and market share); and shareholder return (total shareholder return, economic value added, growth, etc. Corporate performance captures corporate effectiveness plus the myriad internal performance outcomes normally associated with more efficient operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by stakeholders, shareholders, managers, or customers), such as corporate social responsibility.

Corporate performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry. Kaplan and Norton (1992) argues that, performance can also be assessed on a balanced scorecard of critical success factors through four perspectives financial, customers, internal business processes and learning and growth.

Liargovas and Skandalis, (2008) state that financial performance is the level of performance of a business over a specified period of time, expressed in terms of overall profits or losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

However, in a turbulent economic environment characterized by multiple mutations, the company is increasingly facing a tougher competitive space, due to the enlargement of its scope of activities and the interconnectedness of different markets. To adapt to this environment and cope with this competition, the company must be able to free the various economic and strategic challenges to ensure its sustainability, among other things is to be competitive and improve its economic and financial performance. In the world of management science, reflections on the performance have been the source of many questions.

Indeed, Lebas (1995) considers that "there is no universal and comprehensive definition of performance and yet every business must define the term for its internal and external communication." Moreover, the criteria for evaluating performance contribute to the lack of a universal definition. Indeed, in the 60s, the measure of performance was the size (sales, assets). Then in the 70s, it is called net income or earnings per share to evaluate performance. Later in the 80s, the performance evaluation is done through the company's ability to generate liquidity. Recently, it equates to the performance ability to create value.

The notion of performance is a controversial issue in finance largely because of its multi-dimensional meanings (Pahalathan & Ranjany, 2011). Performance can be explored from two points of view: financial and organizational (the two being interconnected); a company's performance can be measured based on variables that involve productivity, returns, growth or even customer satisfaction. Financial performance (reflected in profit maximization, maximizing return on assets and maximizing shareholder return) is based on the firm's efficiency (Barbosa & Louri, 2005).

Return on Assets

Return on assets as a good indicator of corporate, it shows the portion of the organizations profit that is generated from its total assets. This assertion is in line with that of Prastowo (2002), that see Return on Assets (ROA) as a ratio used to measure the effectiveness of the company in generating profits by exploiting its assets. It is often used as a tool to measure the rate of return on total assets after interest expense and taxes, (Brigham, 2001). This shows how efficient a company is in utilizing its assets to generate the desired profit. A higher percentage of the return

on assets reveals a better and efficient utilization of assets while a lower percentage show non-efficient utilization or underutilization of asset. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets.

It is calculated mathematically as

$$\text{ROA} = \frac{\text{Profit Before Tax}}{\text{Total Assets}} * 100$$

Empirical Review

Okoye and Ezejiofor, (2013) appraised the impact of sustainability environmental accounting in enhancing corporate productivity and economic performance it reviewed congeries of material such as journal papers, articles and other relevant material. The study which analyzed and tested dual tentative statements reveals that sustainable environmental accounting has significant impact on corporate productivity in a bid to enhance corporate growth.

Another study by Uwaigbe, (2012) on corporate environmental disclosure in Nigeria manufacturing industries adopted the use of content analysis to find out the extent of environmental disclosure practices by manufacturing firms in Nigeria. The paper concentrating on cement manufacturing firms discovered among other things that environmental reporting disclosure practices is still low. However, it failed to analyze the cost component of the firm on environmental best practices. Adediran and Alade, (2013) studied the impact of environmental and social accounting on corporate performance in Nigeria fourteen (14) randomly selected listed companies were used as the sample size. Data were obtained through secondary data collection method and was analyzed with regression analytical technique. The discovery was that a negative relationship exists between environmental accounting and return on capital employed and earnings per share (EPS) on one side and significant relationship exist between environmental accounting and net profit margin cum dividend per share (cum DPS).

Also not left out is Adeyemi and Sajuyigbe (2014) who conducted a study on the impact of CSR on profitability of Nigeria Banks. The study undertaken was an empirical examination of Nigeria Banks from 2003-2012 with sample size of six (6) using secondary data obtained from audited annual financial report of the selected bank. Simple regression analytical technique was used and result showed a significant relationship between expenditure on social responsibility and profitability of Nigeria Banks.

Palmer (2012), also conducted a study on CSR and financial performance in USA. The study which examined 333 firms out of 500 firms for five (5) years (2001-2005) reviewed that CSR and corporate financial performance have a significant positive relationship in both directions and CSR leads to increased gross margin. Kartadjumena et.al. (2011), investigating the relationship between profit and CSR disclosure and financial performance of manufacturing industry in Indonesia used T-test and chi-square (χ^2) analysis tool discovered a positive relationship between CSR and earnings per share (EPS).

Norhasimah et.al. (2015), examined the effect of environmental disclosure on financial performance of public limited companies in Malaysia. A purposive sampling technique was used to determine the sample size of 100 listed companies for the 2011. The companies were selected because of their size and it was believed that their activities have more implication on the society as reflected in their financial statements. The researcher used secondary data obtained from the audited annual financial statements of the companies. Return on Asset (ROA), earnings per share (EPS) and return on equity (ROE) were used as the measure of performance. Spearman's correlation and multiple regression were used to analyzed the data it was discovered that significant relationship exist between total environmental disclosure and finance performance.

Murray (2010), studies companies' social accounting and financial performance of the UK's largest companies, with content analysis of 30 listed companies in the London Stock exchange in 2000.

Findings of this study revealed that corporate responsibility accounting issues are of limited interest to markets except where they can be identified as relevant in terms of risk, or corporate governance. It also confirmed that there is a strong public relation in releasing social and environmental reports, which has little to do with improving company's performance.

Enahoro (2009), design the bases of environmental accounting in manufacturing Sectors in Nigeria: it was found that environmentally sustainable practices of the firms are significantly related with company performance. It was also found that, sustainable practices are inversely related with fines and penalties. It was concluded that, CSR affects corporate performance and CSR may be a possible tool for corporate conflict resolution as evidenced in the reduction of fines, penalties and compensations. Lars and Henrik (2005), investigated the effect of environmental information on the market value of listed companies in Sweden using a residual income valuation model. The results show that environmental responsibility as disclosed by sampled companies has value relevance, since it is expected to affect the future earnings of the listed companies. Their finding has implications for companies that pollute the environment – their future solvency may be eroded with gradual depletion in earnings.

METHODOLOGY

Research Design

This research employed an ex-post facto research design. Ex-post Facto" means "after the fact" or "retrospectively" and refers to those studies which investigate possible cause and effect relationships by observing an existing condition or state of affairs and searching back in time for possible causal factors (Cohen & Manion, 1989 in Ajoku, 2006). In effect, the researcher asks himself what factors seem to be associated with certain occurrences, or conditions, or aspects of behaviour.

Population of the Study

The target population for the study consist of listed manufacturing companies in the (consumer goods, healthcare, and industrial goods sector) in Nigeria as listed in the Nigeria stock exchange in 2019. This gives a total of number of forty-four (44) listed manufacturing companies.

Sample and Sampling Technique

Since the target population is large, the sample size therefore, the purposive sampling technique was utilized to was arrive at the sample size of 30 listed manufacturing companies. In this study, companies with complete annual report for the period under study (2013-2017) was selected.

Source of Data Collection

Data for the study are sourced from the annual reports of the listed manufacturing companies for a period of five years from 2013-2017. The reports were collected from the Nigeria Stock Exchange (NSE). Data generated from the secondary source have degree of reliability.

Research Instrument

The instrument of the study is secondary data obtained from the aforementioned company's annual reports and Nigeria Stock Exchange (NSE) from the period of 2013 - 2017. The data is made up with five (5) variables. The first and second variables are dimensions of the independent variables which are the employees benefit and donations. The third and fourth variables are the measures of the dependent variable which are; net profit margin, and return on asset while fifth variable is the firm size which is the moderator variable.

Method of Data Analysis

The stated research questions were analyzed using Mean and Standard Deviation in the descriptive statistics table. Whereas, the formulated hypotheses will be tested using the Multiple regression analysis explaining the relationship between the variables. And hypotheses acceptance and rejection will be decided at 0.05 alpha levels of significant using Coefficients table with the aid of the STATA12 software.

Model Specification

According to Freedman (2009), regression analysis is concerned with the study of how one or more variables affect changes in another variable.

Thus, the formula for regression: $\psi = a_0 + bx + e \dots\dots\dots 1$

- Where: ψ = index of outcome variable
- a = constant term for the independent variables
- b = index of predictor variable
- x = coefficients
- e = error level

The following models were used to analyze the bivariate relationship between the variables.

$CORPERF_{it} = a_0 + b_1(CSR)_{it} + e (0.05) \dots\dots\dots 1$

Therefore, the models are

$NPM_{it} = a_0 + b_1 EMB_{it} + b_2 DONS_{it} + b_3 FSIZE_{it} + e (.05)$

$ROA_{it} = a_0 + b_1 EMB_{it} + b_2 DONS_{it} + b_3 FSIZE_{it} + e (.05)$

Results

Test of Hypothesis 1

Ho₁ There is no significant relationship between donations and return on asset of listed manufacturing companies in Nigeria.

Hi₁: There is a significant relationship between donations and return on asset of listed manufacturing companies in Nigeria.

Regression on the relationship between donations and return on assets.

Number of obs = 145

					R-squared = 0.2817	
						roa
	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
dons	.0000197	.0000119	1.65	0.101	-3.92e-06 .0000433	
cons	35.34629	53.38306	0.66	0.509	-70.18837 140.881	

Source: output from STATA version 12

In Table above, the regression analysis table shows the relationship between donations and return on assets. The result revealed a positive and insignificant relationship between donations and return on assets of listed manufacturing companies in Nigeria (p-value= 0.101). This means that 1% increase donations will result to 0.00002% increase in return on assets all other variables held constant. The result revealed that the p-value of the independent variable is greater than 0.05. So, we accept the null hypothesis that "There is no significant relationship between donations and return on asset of listed manufacturing companies in Nigeria."

Discussion of Findings

Donations and return on asset of listed manufacturing companies in Nigeria

The study revealed that there is no significant relationship between donations and return on asset of listed manufacturing companies in Nigeria. This finding may be as a result of the fact that companies don't see donations as an investment rather a means of impacting its host environment. This finding is in contrast with the findings of Specer (1978) and Hart (2005) that positive relationship exists between sustainable practices and better corporate performance. Shrivastava (1995), have supported this assertion, suggesting that enhanced environmental and social best rehearses can assist companies gain competitive edge and subsequently improve performance. This finding like the previous one is in disagreement with the legitimacy theory that view the organization as part of a broader social system.

CONCLUSIONS

Donation is key development strategy and practice that should be encourage by corporate organizations in Nigeria. In view of the discoveries made in this study, it seems manufacturing companies are apathetic to their environmental responsibility and might experience eventual crashes on their stock price if their investors are rational in considering the future value of the firm based on its present state of social corporate responsibility. Most manufacturing companies still do not see any reason for corporate social accounting policy acceptability because of the large among cost on environmental reclamation and thus it doesn't affect or relate to their profitability. According to Ironkwe and Success (2017), that oil companies that practice corporate social responsibility, reluctantly accepted and adopted the policies and do so for deviant purposes. Another critical area on corporate social responsibility accounting is community social amenities development. Manufacturing companies should provide more beneficial community development activities to host communities.

RECOMMENDATIONS

Based on the synopsis of the discussion of findings and conclusion, the study advances the following recommendations:

1. Since the relationship between donations and net profit margin of listed manufacturing companies in Nigeria is significant, this aspect of corporate social responsibility accounting should be upheld by management and more donations should be carried out as it improves its net profit margin.
2. Manufacturing companies in Nigeria. should continue or better introduce new community development and sustainability strategies via; cultural and permanent employment strategies, this will in turn boost return on assets.
3. Policy makers should endeavor that all listed manufacturing company in respective of its size partake in one form of corporate social responsibility as it has been statistically proven that firm size does not moderate the relationship between corporate social responsibility accounting and corporate performance of listed manufacturing companies in Nigeria.

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