

**SOCIAL RESPONSIBILITY DISCLOSURES AND FINANCIAL PERFORMANCE OF
MANUFACTURING FIRMS IN NIGERIA**

Okpolosa Matthew Onyebuchi
Department of Accounting, Faculty of Management Sciences
Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Rivers State,
Nigeria.

Email: Onyebuchi,okpolosa55@gmail.com

ABSTRACT

Social responsibility disclosure has come to stay as an important concept in the business all over the world specially developing countries like Nigeria. Social responsibility disclosures studies in Nigeria have concentrated on multinational firms particularly the oil and gas firms in the Niger Delta region and banking industries, while none or less has been done on other sector like the manufacturing firms. Therefore, this study investigated what determines social responsibility disclosures and financial performance of manufacturing firms in Nigeria. The study adopted Expost-facto research design. The study used secondary sourced of data collection from Nigeria Stock Exchange website of fourth eight (48) yearly period from financial reports of eight (8) manufacturing firms that covered period 2015 – 2020. This study used estimated technique of both Pearson Moment Correlation Coefficients and Simple Linear Regression Analysis method with the help of Statistical Package for Social Science (SPSS) to run the coefficient. The empirical findings indicate that, community development/donation of social responsibility disclosures had no statistically and significantly relationship on profit before tax and return on equity of financial performance among manufacturing firms selected under the study in Nigeria. Therefore, the study concluded that, mere investing in social responsibility activities without a critical analysis and a channel of disclosure of such activities to stakeholders will not impact positively on the firm's financial performance.

Keywords: Social Responsibility Disclosures, Community Development/Donations, Return on Equity and Financial Performance.

INTRODUCTION

A great deal of studies in Nigeria over time have been on multinational firms particularly the oil and gas firms in the Niger Delta region and banking industries. In recent times, scholars are gradually shifting emphasis to other sectors. Social Responsibility (SR) cost is assuming greater importance globally and Nigeria with no exception. Advocacy has increased in the mass media for corporate organization to take a greater responsibility for the development of society by adopting best practices in the Social Responsibility (SR) initiative. Social Responsibility (SR) basically implies the supportive duties of an organization to the community or society it operates from. Olayinka and Temitope (2012) posit that social responsibility (SR) has the potential to make positive contributions to the development of society and businesses. Positive impacts of social responsibility by corporate organizations are been felt world over this is based on the influence it has created on the environment.

Manufacturing firms in putting effort in social responsibility have produced multiplier effect on the economy. Manufacturing firms in Nigeria have continued to make enormous contribution to the development of the economy and society (Babalola, 2012). Recent researchers acknowledge existence of Social Responsibility and now focus on why it is adopted and how it influences the organization. Mcguire et.al (2016), posit that firms invest in reputation through their active involvement in social responsibility. Lee et al. (2017) provided empirical evidence that firms

engaging in social responsibility activities seek to enhance their corporate image which can enable them improve their profits and revenue. Carroll and Shabana (2011) stated that social responsibility should be applied so as, to obtain reputational capital and maintain legitimacy within the society. It is based on this background that this study is set to investigate what determine social responsibility disclosure among manufacturing firms in Nigeria.

2. Statement of the Problem

The demand for social responsibility in the manufacturing firms is imperative seeing that the manufacturing firms are instrumental to the development of the country. With increase in complexities new demands for improved transparency along with better corporate social responsibility disclosure on citizenship are demanded (Jamali et al., 2017). Besides, most corporate stoical responsibility disclosures studies in Nigeria have concentrated on multinational firms. Particularly, the oil and gas firms in the Niger Delta region and banking industries, while little or nothing has been done on indigenous firms and other industries like the manufacturing firms (Amaeshi et.al 2006; Oluyemi et.al, 2016).

Objective of the Study

The aim of this study was to investigate the relationship between social responsibility disclosures and financial performance of manufacturing firms in Nigeria. Specifically, the study sought to:

- i) Determine the relationship donations/charitable gifts and return on equity of manufacturing firms in Nigeria.
- ii) Ascertain the relationship between donations/charitable gifts and profit before tax of manufacturing firms in Nigeria.

CONCEPTUAL REVIEWS

Social Responsibility Disclosures

Social Responsibility is generally understood to be the way a company attains a balance or integration of economic, environmental, and social imperatives while at the same time addressing shareholder and stakeholder expectations, with the understanding that businesses play a key role on job and wealth creation in society. Obafemi et al. (2018) social responsibility id described as the identification, measurement, monitoring, and reporting of the social and economic effects of an organization on society. It is the disclosure of those costs and benefits that may or may not be quantify in monetary terms arising from the economic activities of firms, which are substantially borne by stakeholders and the community at large. Social responsibility disclosure is a growing term that still does not have a standard definition or a fully recognized set of specific criteria. Burton, et al., (2019), interpreted social responsibility as a technique a company attains a balance amongst its commercial, communal and ecological duties in its processes to enable it attain the expectations of both the shareholders and other stakeholders. Hopkins (2014) defined social responsibility as handling the interested parties of the business in a way deemed acceptable in a civilized society with an aim of improving quality of life and at the same time preserves profitability of the corporation.

Financial Performance

This information is presented in statement of comprehensive income, known as income statement and lastly, changes in financial position, means how business activities have affected the investor's stake in the entity (Oyadonghan, 2017). Bariweni (2016) evaluation of firm performance can be measured through the use of financial analyses which are also known as accounting ratio analyses. He stated that, the result of accounting ratio information is needed by users to assess whether entity has made satisfactory contribution to their investment or not. Financial performance of an entity relates to the entity's ability and focus on economic resources available in a profitable

manner and how well entity managed to generate considerable cash flows by consuming such resources. Also, users are interested in knowing how much cash and cash equivalents which have been generated and where they have been utilized i.e. cash flows. In this regard he also reported there are number of accounting and market base measures including return on assets (ROA), return on equity (ROE), earnings per share (EPS), net profit, profit before tax, profit after tax, operating profit, gross profit, return on capital employed,

Relationship between Social Responsibility Disclosure and Financial Performance

Also, social responsibility disclosure, firms seek to create, maintain, or repair their societal legitimacy which they also stand to benefit from the supportive influences of the society, and from the increased awareness of their products and services, and from the patronages of customers and other stakeholders. Uwuigbe and Uadiale (2016) examined whether a significant difference exists in the level of corporate social environmental disclosure between building material and brewery industries. The results of the study suggest that the level of corporate social environmental disclosures differ significantly between the selected industries. There is a need to evaluate the relationship between social responsibility and financial performance because corporate management reacts to the community and other stakeholders' expectations because they continually seek to ensure that they are perceived as operating within the norms of their respective societies, and that their activities are perceived as being legitimate (Hamid & Atan, 2011). They however noted that corporate social environmental disclosure among the selected listed firms in Nigeria is generally low and still at its nascent stage. Perrini et al. (2011) social responsibility practices and related information disclosure usually become reliability indicators, and brand positioning for corporate entities. They inspire firms to understand their customers' needs better through open dialogue and transparent interaction. That is, social responsibility disclosure facilitates a firm's visibility, which shareholders and financial partners may interpret as a signal of the firm's successful attempts to meet their expectations, thereby turning into lower perceived risks and easier access to capital markets. Likewise, voluntary social responsibility disclosure supports the firm in facing social and political pressures to act in socially acceptable ways. They further noted that the integration of social responsibility in a firm's disclosure practices is seen as a signaling exercise to avoid potential adverse selection risks and exposure to future social costs.

Theoretical Review

Theories are characterized as an assumption or system of assumptions, accepted principles, and rules of procedure based on limited information or knowledge, devised to analyze, predict, or otherwise explain the nature or behavior of a specified set of phenomena; abstract reasoning. The theory that underpins the study was legitimacy theory are as follows-

The theory of legitimacy support external control, checks and balances and more of a state mind or perception (Hillman et.al, 2009). Legitimacy theory is increasingly being applied in accounting and social responsibility research particularly in situations involving private sector organization performance disclosure (Deegan, 2006). This theory suggests that businesses operate in society via an expressed or implied social contract upon which their survival and growth are dependent. Patten (1992) had earlier noted that disclosure of social responsibility initiatives positively correlated with organizational legitimacy, which suggests that firm legitimized their operations through voluntary social responsibility disclosures. The legitimacy theory is probably one of the oldest and the most widely used in explaining the motivation behind firms social responsibility initiatives and disclosure practices (Murthy & Abeysekera, 2008. This theory is based generally on the premise that firm would signal their legitimacy by making adequate disclosures of their activities (Gray, Kouhy, & Lavers, 1995). As it applies to social responsibility disclosure studies, the legitimacy theory is not separated from the stakeholder theory; rather these theories are overlapping and complementary within the political economy assumptions. Legitimacy theory attempts to explain the survival and growth of organizations based on the need to acquire and

maintain the support of its constituent stakeholders. It links stakeholder support with the alignment of organizational goals and those of groups and society in general.

Empirical Review

A number of studies have purposeful between social responsibility disclosure and financial performance in developed and developing countries like Nigeria. The marks varied from one study to another depend on the variables used in measuring social responsibility and financial performance, the methods of data analysis and the time series period used during the study.

Olayinka and Temitope (2012) examined the effect of corporate social responsibility and financial performance in developing economies. Using a sample of forty audited financial statements of quoted companies in Nigeria, this study examines the impact of corporate social responsibility activities on financial performance measured with Return on Equity (ROE) and Return on Assets (ROA). The results show that corporate social responsibility has a positive and significant relationship with the financial performance measures. These results reinforce the accumulating body of empirical support for the positive impact of corporate social responsibility on financial performance.

Amidu et al. (2017) carried a study to evaluate the impact of corporate social responsibility disclosure on the financial performance of firms in Africa for both short and long terms. 158 listed companies were selected from six African countries. Secondary data was used. Multiple linear regression analysis was done with a sample of panel data for a period of 11 years (2005-2015). The empirical results showed that unlike for the sales and manufacturing, health and pharmacy and others industries, affects the financial performance of firms in the short-run (ROA) negatively for the mining, investment and transport industries.

Obafemi et al. (2018) in their study examined the effect of corporate social responsibility (CSR) investment and disclosure on corporate financial performance. The study employed explanatory and content analysis designs with sample consists of 21 money deposit banks in Nigeria which was obtained from the website of the Central Bank of Nigeria (CBN). Descriptive statistics, Pearson correlation, and Wallace and Hussain estimator method of data analysis was used. The results showed that corporate social responsibility investment without due disclosure would have little or no contribution to corporate financial performance.

METHODOLOGY

The study adopted ex-post-facto research design. The study used secondary sourced of data collection from Nigeria Stock Exchange website of fourth eight (48) yearly period from financial reports of eight (8) manufacturing firms that covered period 2015 – 2020. This study used estimated technique of both Pearson Moment Correlation Coefficients and Simple Linear Regression Analysis method with the help of Statistical Package for Social Science (SPSS) to run the coefficient. The statistical test for the measurement of the parameter estimate includes the co-efficient of determination R^2 , Durbin-Watson (DW), F-ratio and the t-test. The significance level at which the hypothesis is accepted is 5% (0.05).

Model Specification

In order to investigate the relationship between what determines social responsibility disclosures among manufacturing firms in Nigeria, thus, drawing from the Neo-classical syntheses of Sala-i-Martin (2002), the research analyses was guided in a functional relationship established for the variables: the independent variable social responsibility discourses', indices such as community development/donation (CDD). These independent variable metrics are used linearly in measuring profit before tax (PBT) and return on equity (ROE). The model specification is as stated below

$$PBT = f(CDD) - \quad - \quad - \quad - \quad - \quad 1$$

$$ROE = f(CDD) - \quad - \quad - \quad - \quad - \quad 2$$

This can be written in Ordinary Least Square (OLS) form as:

$$PBT_t = a_0 + a_1CDD_t + U_t - \quad - \quad - \quad 3$$

$$ROE_t = a_0 + a_1CDD_t + U_t - \quad - \quad - \quad 4$$

$a_1 > 0$

Where: CDD= Community development/donations as proxy for social responsibility disclosures

PBT = Profit before tax as proxy for financial performance

ROE = Return on Equity as proxy for financial performance

t = time period under study

a_0 = constant

a_1 = parameter or coefficient of explanatory variable

u = error term.

DATA ANALYSIS AND DISCUSSION

Table 1: Correlation Coefficient of the Variables

		CDD	PBT
CDD	Pearson Correlation	1	.027
	Sig. (2-tailed)		.853
	N	48	48
PBT	Pearson Correlation	.027	1
	Sig. (2-tailed)	.853	
	N	48	48
		CDD	PBT
CDD	Pearson Correlation	1	-.076
	Sig. (2-tailed)		.607
	N	48	48
ROE	Pearson Correlation	-.076	1
	Sig. (2-tailed)	.607	
	N	48	48

computation SPSS

Source: Source: Author's

Table 1 showed the result of Pearson correlation coefficient of relationship between community development/donation (CDD) and profit before tax (PBT). The table above showed a correlation coefficient of 0.027 which indicated very weak positive correlation between community development/donation (CDD) and profit before tax (PBT) with P value of 0.853 > 0.05, implied no statistically significantly correlation. The result also showed a correlation coefficient of --0.076 which indicated negative correlation between community development/donation (CDD) and profit before tax (PBT) with P value of 0.607 > 0.05, implying no statistically significantly correlation. Therefore, we accept the null hypotheses one and two and reject the alternatives.

Table 2: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F	Sig
1	.027 ^a	.001	-.021	50692.7279 9	1.204	.035	.853

a. Predictors: (Constant), CDD

b. Dependent Variable: PBT

Source: Author's computation SPSS

From the results in table 2 showed that R (0.027), R² (0.001) and adjusted R² (-0.021) that measured the proportion of the variations in profit before tax (PBT) of dependent variable attributed to community development/donation (CDD) of independent variable implied that, the independent variable explain only 1% (percent) of the variation in community development/donation (CDD). The remaining variation is the error term and is attributed to other factors not included in the model. The value for community development/donation (CDD) is unexcited and very high since the unexplained variation is about 99% (percent). The result of durbin-waston statistic of 1.204 showed present of no autocorrelation of the error term. This means that the estimates based on OLS is spurious. It means that the results of the analysis are not reliable for predictions.

In the table above gives a regression significant P value of 0.853 > F (0.035) and 0.05 indicating that, the overall model is not statistically significantly at 0.05% in community development/donation (CDD) of social responsibility and profit before tax (PBT) of financial performance among manufacturing firms in Nigeria.

Table 3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	21866.712	79401.609		2.754	.008
	CDD	.007	.035	.027	.186	.853

a. Dependent Variable: PBT

Decision Rule: Reject Ho₁ for P ≤ 0.05, otherwise Accept.

Decision: The above table indicates a very weak positive relationship with P value of 0.853 > 0.05 significant level between community development/donation (CDD) and profit before tax (PBT). Therefore, we accept the null hypothesis and reject the alternate which implies that, community development/donation (CDD) does not statistically significantly related with profit before tax (PBT).

Table 4: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F	Sig
1	.076 ^a	.006	-.016	41.07940	.510	.269	.607

a. Predictors: (Constant), CDD

b. Dependent Variable: ROE

Source: Author's computation SPSS

The results in table 4 showed that R (0.076), R^2 (0.006) and adjusted R^2 (-0.16) that measured the proportion of the variations in return on equity (ROE) of dependent variable attributed to community development/donation (CDD) of independent variable implied that, the independent variable explain only 7% (percent) of the variation in community development/donation (CDD). The remaining variation is the error term and is attributed to other factors not included in the model. The value for community development/donation (CDD) is unexcited and very high since the unexplained variation is about 93% (percent). The result of durbin-waston statistic of 0.510 showed present of no autocorrelation of the error term. This means that the estimates based on OLS is spurious. It means that the results of the analysis are not reliable for predictions.

The above table gives a regression significant P value of $0.607 > F(0.269)$ and 0.05 indicating that, the overall model is not statistically significantly at 0.05% in community development/donation (CDD) of social responsibility and return on equity (ROE) of financial performance among manufacturing firms in Nigeria.

Table 5 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.316	6.434		2.536	.015
	CDD	-1.490E-008	.000	-.076	-.519	.607

a. Dependent Variable: ROE

Decision Rule: Reject H_0 for $P \leq 0.05$, otherwise Accept.

Decision: The above table indicates a very weak positive relationship with P value of $0.607 > 0.05$ significant level between community development/donation (CDD) and return on equity (ROE). Therefore, we accept the null hypothesis and reject the alternate which implies that, community development/donation (CDD) does not statistically significantly related with return on equity (ROE).

CONCLUSION

This study investigated social responsibility disclosures among manufacturing firms in Nigeria using Pearson Moment Correlation Coefficient and Simple Linear Regression. The study made use of time series data of community development/donations as proxy for social responsibility disclosure. Profit before tax and return on requite was used as proxy for financial performance. Eight manufacturing firms were selected for the period of 2015 to 2020 making fourth eight (48) yearly period. Data were sourced from Nigeria Stock Exchange (NSC) website. The empirical findings indicate that, community development/donation of social responsibility disclosures had no statistically and significantly relationship on profit before tax and return on equity of financial performance among manufacturing firms selected under the study in Nigeria. Therefore, the study concluded that, mere investing in social responsibility activities without a critical analysis and a channel of disclosure of such activities to stakeholders will not impact positively on the firm's financial performance. Rather, it would only be a depletion of its financial resources to service social responsibility activities.

RECOMMENDATIONS

The study recommends as follows-

1. Corporate entities in Nigeria should appraise social responsibility discourses activities before investing in all ramifications in order to maintain their image/reputation thereby increasing their returns.
2. Unhealthy corporate social responsibility policies may cause externalities, resulting an injury to stakeholders' interests/benefits and disappointed stakeholders may turn around as relinquished customer as well as source of declining earnings.
3. Government should establish standard corporate social responsibility disclosures policies that will not affect the performance of firms and encourage institutions on it implementation.

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