Corporate Social Responsibility and Financial Performance in the Nigerian Construction Industry

Ibrahim Magaji Barde, and Garba Tela

Abstract—Improving the quality of the environment is an issue of concern due to its ecological, social and economic importance. Organisations that are deemed socially responsible strive to maintain environmental quality while at the same time posting an acceptable feat in financial performance. This study assesses corporate social responsibility and financial performance of listed companies in the Nigerian construction industry. Using an ex-post facto and survey designs, the research generates data from the annual reports and accounts of sampled construction companies and also from questionnaire administered using a five point Likert Scale. Data was analysed using multiple regression analysis and chi-square test. The result of the analysis shows that financial performance of the companies in the Nigerian construction industry is impacted more by non-philanthropic activities than by philanthropic services, leading to the conclusion that discharging non philanthropic responsibilities (eg legal or ethical) by construction companies is important toward meeting firms objective because they have a positive impact on financial performance of the industry.

Keywords—Corporate Social Responsibility, Financial Performance, Return on Capital Employed, Philanthropic Responsibility.

I. INTRODUCTION

The environment has become a crucial concern in today's ecological, social and economical set up. The retention and improvement of the quality of environment has become a big issue for the business world. Corporate enterprises are held responsible for ensuring a sustainable environment as their activities exert tension over the environment (Uwuigbe and Uadiale, 2011). Environmental accounting has emerged during the last two decades in response to these issues. Industrial activity has a significant impact on the environment. Recent concerns about global warming and emerging emissions, trading market for greenhouse gases have intensified stakeholders' interest in corporate environmental activities and corporate social responsibility performance (Anderson, 1989).

Corporate Social Responsibility (CSR) has grown to include environmental matters over the years, as environmental issues such as environmental pollution and environmental litigations have become more prominent economic, social and political problems throughout the world. The challenges faced by construction companies within today's complex and competitive market environment are products of economic- and non-economic related forces. Thus, to survive and prosper, corporate bodies must plan their activities in such manner that they strike a balance amongst the economic, social, legal and other relevant forces. Companies should, therefore, strive to reconcile the conflicting interests of their various stakeholders such as shareholders, government, creditors and the community. This is because stakeholders believe that companies are responsible to them in some way. Similarly, they try to assess the extent to which these companies have discharged such responsibilities as building of schools, construction of feeder roads and boreholes etc to the community where the companies are located. However, the community evaluates the performance of companies in relation to the discharge of social and environmental responsibilities by making reference to a measure known as Corporate Social Performance or Corporate Environmental Performance (Jenkins, 2006).

Thus, this paper aims at assessing corporate social responsibility and financial performance of listed companies in the Nigerian construction industry with a view to finding out the impact of philanthropic activities on financial performance of listed construction companies in Nigeria, as well as establishing the nature of relationship between economic, legal and ethical components of CSR and financial performances of Nigerian construction industry. Thus the paper hypothesizes that:

H$_{01}$ Philanthropic activities do not have a significant impact on the financial performance of listed construction companies in Nigeria.

H$_{02}$ Economic, legal and ethical components of CSR do not have significant relationship with the financial performance of listed construction companies in Nigeria.

II. LITERATURE REVIEW

The Concept of Corporate Social Responsibility

Corporate Social Responsibility (CSR) has been variously defined. Crowther, (2000) sees CSR as an umbrella umbrella term which houses several research topics and he therefore
defines it as “as an approach to reporting a firm’s activities which stresses the need for the identification of socially relevant behaviour, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques”

It is also seen to be the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as at the local community and the society at large (World Business Council for Sustainable Development, 2002).

Thus by implication, CSR involves a voluntary act by organisations to integrate social and environmental concerns in their undertakings with numerous stakeholders. The stakeholders include all the members belonging to the corporation’s social environs, which contribute to or are encumbered by the corporation’s activity. Branco and Rodrigues (2006) conquer to this view as well. In a similar perception, Aruwa (2006) defines CSR “as the responsibility of an enterprise to its immediate environment which is greatly influenced by its own profit-pictured and the desired of the entrepreneur” (Aruwa, 2006).

Thus CSR is thus concerned with treating the stakeholders of the firm ethically or in a responsible manner. Ethicality and responsibly implies treating stakeholders in a manner deemed acceptable in civilized societies. It is immaterial where if such stakeholders are within or outside(such as the natural environment) the corporation while preserving its profitability (Carrol and Buchholz, 1999, Stakeholder Alliance, 2001, Hopkins, 2004).

There is however, controversy over the role of CSR. This lack of definitive role probably stem from CSR definition problem as noted by Mamman (2004). Thus what is CSR varies from one country to another. While in Britain CSR is seen as good industrial relations, the view shifted to extent of workers participation in Germany. In Nigeria, it is widely assumed that the concept refers to management’s consideration of social implications of business decisions.

Approaches to Social Responsibility

There have been three approaches to social responsibility which try to explain the argument for and against social responsibility. Generally in management sciences, Glaatier and Under Down (2000) Identifies the three approaches to corporate social responsibility (CSR) namely classical economic theory, cost outlay approach and cost-benefit approach.

The first approach stems from the classical economic theory, which proposes that a firm has one and only one objective, which is to maximize profit. As such, a firm is said to be acting in the best interest of the society if it operates within the confines of relevant legislations.

The second approach emerged in the 1970s, and recognizes the relevance of social objectives in relation to the maximization of profit. In this view, managers should make decisions that will strike a reasonable balance between the claims of shareholders, employees, customers, suppliers, and the general public. Thus for an organization to maintain its long-term objective it has to give proper consideration for the demand of all interest group (Glaatier and Underdown, 2000).

The third approach is rather a modification of the second one; although it does not consider profit as the sole motive. Here the management strives to make decision that will reconcile the conflicting demand of its various stakeholders, e.g., employees’ demand for more wages and improved benefit plans, shareholders requirement for more dividend and greater capital appreciation, government requirement for payment of tax and operations within the confines of relevant legislations, the community’s interest in social concern and keeping the environment healthy, and all these are to operate within the acceptable framework to the society. The philosophy here is that the management of the corporate body should regard profit as a means to an end and not an end in it self. Thus, instead of seeking to maximize profit generally, the end result should be a satisfactory level of profit which is compatible with attainment of a range of social goals (Shrader, 1987).

**Carroll’s Pyramid of Corporate Social Responsibility**

One of the most used and quoted model is Carroll’s (1991) Pyramid of corporate social responsibility. It indicates that CSR constitutes of four kinds of social responsibilities; economic, legal, ethical and philanthropic.

Carroll considers CSR to be framed in such a way that the entire ranges of business responsibilities are embraced. Carroll suggests that CSR consists of four social responsibilities; economic, legal, ethical and philanthropic. The economic component is about the responsibility to make profit and this responsibility serves as the base for the other components of the Pyramid. With regard to the legal aspect, society expects organizations to comply with the laws and regulations. Ethical responsibilities are about how society expects organizations to embrace values and norms even if the values and norms might constitute a higher standard of performance than required by law. Philanthropic responsibilities are those actions that society expect for a company to be a good corporate citizen. These four responsibilities can be illustrated as a pyramid.

The pyramid illustrates the four components of CSR, economic responsibility form the foundation or basic of Carroll’s CSR pyramid. It implies that business have an obligation to produce goods and services which society requires, sold the goods and services to society at a fair price, which would provide profits adequate to ensure the perpetuation and growth of the business and finally which would adequately reward investors for their risks (Carroll & Buchholtz, 2000). The next is the legal responsibility which requires corporations to obey the law. Next is the responsibility to be ethical. At its most fundamental level this is the obligation to do what is right and to avoid harming stakeholders. Finally, business is expected to be a good corporate citizen. This is embedded in the philanthropic responsibility, where business is expected to contribute financial and human resources to the community and to improve the quality of life (Helg, 2007).
Corporate Social Responsibility in the Nigerian Perspective

According to a study on CSR in Nigeria conducted by Amaeshi, Adi, Agbochie and Amao (2006), it was found that indigenous Nigerian companies perceive and practice CSR as corporate philanthropy aimed at addressing socio-economic development challenges in Nigeria. CSR was mainly seen from philanthropy perspective as a way of “giving back” to the society. All respondents of the study agreed that CSR is necessary in the Nigerian business society. The reasons for this response include the need for private companies to complement the government in providing for the people. Some also argued that many of the companies in Nigeria make huge profit and ought to give back to society to gain legitimacy.

Ajadi (2006) specifies some of the additional derivers for CSR in Nigeria include the failure of centralized, government controlled economy to develop the country, the extra ordinary transaction cost to business of corruption and other failures of social capital, the history of conflict and waste in the extractive industry exemplified by the Niger Delta, the Nigerian population whose majority is under the age of 25 and is largely ignored despite the fact that they are critical to the survival and future prosperity of business and the country at large and the potential benefit of a commercially active and productive country of over 120 million potential consumers.

Corporate Social Responsibility and Financial Performance

The quest to establish the relationship between CSR and financial performance has been an age long activity. Despite the fact that Johnson (1971) argued that businesses carry out social programs to add profits to their organization, the work of Moskowitz (1972) is generally credited as being the first to empirically examine the link between CSR and financial performance. But the credit for such initiative, according to Tsoutsoura (2004) should go to Narvel (1971). In the late 1980s, the prominent opinion was that CSR initiative might bring long run economic gain.

Subsequently, a plethora of studies have been conducted on the relationship between CSR and financial performance but findings by such studies have been inconclusive. For instance, the work of Orlitzky, Schmidt and Rynes, (2003) failed to establish any link between CSR and financial performance. This happens to be in tandem with work of Barnett and Solomon (2003) who, despite the intensity of studies directed at it, concluded that the relationship between CSR and financial performance remains in dispute.

But using an enlightened stakeholder approach, it is hoped that CSR could have positive link with financial performance. Carroll, (1999) argue that CSR could, in the long run, enhances firms profitability. The work of Brine, Brown and Hackett (2006) recognised the need for consideration to be given to social and environmental matters if long-term profitability of the firm is to be ensured. Earlier on, McWilliams and Siegel (2001) have raised the notion of whether socially responsible banks were also profitable banks but Philip and Claus (2002) reiterated the need for a verifiable evidence.

Despite this, measuring causal relationship has remained varied. Orlitzky, Schmidt and Rynes (2003) observed that most studies on CSR and financial performance uses narrative reviews or vote counting methods neither of which adequate due to sampling and measurement errors. To overcome this obvious deficiency, they (Orlitzky, Schmidt and Rynes, 2003) use meta-analysis because it corrects for sampling and measurement error when reviewing multiple studies. Effectiveness of the analysis has been been noted in the medical researches (Social Investment Forum Foundation, 2004).

Earlier on, the work of Waddock and Graves (1997) has established a positive relationship between CSR and Financial performance. CSR was measured using Kinder Lydenderg and Domini database while financial performance was measured as Return on Assets (ROA).


This finding affirmed the earlier documentation by Aupperle, Carrol and Hatfield, (1985) who also failed to establish any significant relation between CSR (measured by subjective indicators) and a firm’s risk adjusted return on assets. But positive relationship between CSR and profitability was later established by Tsoutsoura (2004). This position was however reversed by the work of Brine, Brown and Hackett, (2006) who examined the relationship between financial performance and corporate social responsibility among banks and found no statistical significant relationship between the adoption of CSR and a firm’s financial performance.

III. MATERIALS AND METHODS

Population and Sample

For the purpose of this study, the population is all the construction companies listed on the Nigerian Stock Exchange as at December, 2012. A total of seven (7) construction companies listed on the floor of the Nigerian Stock Exchange...
as obtained from the Nigerian Stock Exchange Fact Book, 2012. A 2 2 point filtering mechanism was adopted to arrive at the sample of the study. Firstly, the company must have been listed on the Nigerian Stock Exchange without being delisted in the period of the study and secondly, the company must have produced a ten year annual report and account as at 31st December 2012. The following emerged as the sample of the study.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Company Name</th>
<th>Year of Listing</th>
<th>Disclosure of Annual Report &amp; Accounts</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Arbico Plc</td>
<td>1978</td>
<td>Disclosed</td>
<td>Q</td>
</tr>
<tr>
<td>2</td>
<td>Cappa &amp; D’Alberto Plc</td>
<td>1978</td>
<td>Disclosed</td>
<td>Q</td>
</tr>
<tr>
<td>3</td>
<td>Costain Plc</td>
<td>1974</td>
<td>Disclosed</td>
<td>Q</td>
</tr>
<tr>
<td>4</td>
<td>G. Cappa Plc</td>
<td>1979</td>
<td>Not disclosed</td>
<td>NQ</td>
</tr>
<tr>
<td>5</td>
<td>Julius Berger (Nig), Plc</td>
<td>1991</td>
<td>Disclosed</td>
<td>Q</td>
</tr>
<tr>
<td>6</td>
<td>Multiverse Resources Plc</td>
<td>2008</td>
<td>Not disclosed</td>
<td>NQ</td>
</tr>
<tr>
<td>7</td>
<td>Roads (Nig), Plc</td>
<td>1979</td>
<td>Disclosed</td>
<td>Q</td>
</tr>
</tbody>
</table>

Source: Compiled by the Researchers
Q = Qualified
NQ = Not Qualified

Based on the above, two companies (G. Cappa Plc and Multiverse Resources Plc) were excluded from the sample of the study while the remaining five(Arbito Plc, Cappa & D’Alberto Plc, Costain Plc, Julius Berger (Nig) Plc, Roads (Nig), Plc) were selected as the sample.

Methods of Data Collection and Analysis
The sources of data for this study comprised of both the Secondary and primary data. The Secondary data was generated from the annual reports and accounts of the five sampled construction companies for ten years (2003-2012).

The primary data for the study was generated through the administration of (a five-point likert scale) questionnaire on one hundred (100) respondents, twenty (20) from each of the five sampled companies. The respondents comprise of one (1) managing director and nineteen (19) key-officers including Accountants, Site Managers and Technical officers.

In analyzing the data generated for the study, two different types of statistical techniques were used. These are the multivariate regression techniques and Chi-square test. The types of statistical techniques were used. These are the general form of the model is given below:

\[ \text{CSR} = f(\text{PR}) \]

\[ \text{PR} = f(\text{ROCE}) \]

\[ \text{CSR} = f(\text{FP}) \]

\[ \text{FP} = f(\text{ROCE}) \]

Using the ordinary least square structure, the function could be expressed as:

\[ \text{ROCE} = a_0 + a_1 \text{PR} + \epsilon \]

Where:

\[ \text{PR} = \text{Philanthropic Responsibility} \]

\[ \text{CSR} = \text{Corporate Social Responsibility} \]

\[ a_0 = \text{Constant} \]

\[ a_1 = \text{Parameter to be estimated (is the average amount the dependent variable increases when the independent increases by one unit and other independents are held constant)} \]

\[ \epsilon = \text{Error terms assumed to satisfy the standard OLS assumption.} \]

Also, the chi-square test can be expressed as:

\[ \chi^2 = \sum_{i=1}^{n} \left( \frac{F_o - F_e}{F_e} \right)^2 \]

Where:

\[ \Sigma = \text{Summation (addition)} \]

\[ N = \text{Number of cells in the contingency table} \]

\[ F_o = \text{Observed frequency or value} \]

\[ F_e = \text{Expected frequency or value} \]

\[ \chi^2 = \text{Chi-square} \]

The decision rule is to accept \( H_0 \) where calculated Chi-square is less than critical or tabulated Chi-square at 5\% level of significance and reject \( H_0 \) where the calculated Chi-square is greater than the critical or tabulated Chi-square at 5\% level of significance. The degree of freedom (df) is given by (r-1)(c-1).

IV. RESULTS AND DISCUSSION
The impact of philanthropic responsibility on financial performance of listed Nigerian Construction companies.

The study utilized secondary data (as shown in Appendix IB) to determine the impact of CSR (philanthropic responsibility) on financial performance (Return on Capital Employed) of listed Nigerian Construction companies. The regression (ordinary least square) technique was used test hypothesis one of the study. The model summary and regression results are presented in tables 2 and 3 below.

<table>
<thead>
<tr>
<th>Table II Model SUMMARY</th>
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<tbody>
<tr>
<td>Model</td>
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<td>1</td>
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</table>

Source: Computed by the Researchers from Annual Report and Accounts of the Sampled Firms

Table 2 above shows the model summary of the research and discloses an R-Squared of 29.4 percent which shows the extent to which the variation in the financial performance is explained by changes corporate social responsibility proxies (Philanthropic Activities). Table 3 below further shows the actual regression results.
Table 3 above relates Corporate Social Responsibility proxies to Nigerian Construction companies’ performance variables. The estimated relationship for the model is shown as:

\[ \text{ROCE} = -630.593 + 671.823 \times \text{PR} \]

The model indicates that the only one proxy of Corporate Social Responsibility (philanthropic responsibility) has a positive impact on Nigerian Construction companies’ financial performance. But since the p-value of Philanthropic responsibility is 0.063 which is greater than Alpha (sig) 0.05, then it means that the positive impact of philanthropic responsibility on financial performance is not significant. This is used to test hypothesis one of the study as follows:

Reject \( H_0 \): If p-value is less than alpha(sig.), otherwise, accept.

From table 3 above, the p-value is 0.063 an alpha (sig) of .05.

Since p-value is not less than Alpha (sig.), \( H_0 \) is accepted that philanthropic responsibility does not have significant impact on financial performance of Nigerian Construction Industry.

This study’s finding is in line with what was documented in the study of Connier and Madnan (1997) and Martela (2005) which concludes that CSR has no significant impact on financial performance.

The relationship between profitability and non-philanthropic (economic, legal and ethical) components of CSR of listed Nigerian Construction companies.

Table 4 below presents the results of analysis of the relationship between profitability and non-philanthropic components comprising of economic, legal and ethical components among listed firms in the Nigerian construction industry. In analysing this, summary of responses to questionnaire administered on economic, legal and ethical components were developed. This is aimed to test hypothesis two of the study which state that economic, legal and ethical components do not have significant relationship with financial performance of listed construction companies.

This information is contained in Table 4 below (obtained from Appendix IA).

![Table 4](image)

Source: Field Questionnaire

\[ \text{Chi-Sq} = 59.500, \text{DF} = 12, P-Value = 0.000 \]

This is because at 5% level of significance or 95% confidence level the calculated P-value of 0.008 indicates that the relationship is positive. Given that the calculated value is greater than the table value, we reject the null hypothesis and accept the alternate hypothesis that economic, legal and ethical components have a significant impact on the financial performance of listed Construction companies in Nigeria.

V. SUMMARY AND CONCLUSIONS

Based on the presentation, analysis and discussion of results generated from the sampled population of the study, the findings of the paper can be summarized as follows:

a) Philanthropic responsibility has a positive but non significant impact on financial performance of listed construction companies in Nigeria.

b) There is a strong significant relationship between economic, legal and ethical responsibilities with the financial performance of listed firms in the Nigerian construction industry.

The study therefore concludes that the discharge of philanthropic responsibilities by Nigerian construction companies can increase the firms’ profitability to a lesser extent, thus making corporate social responsibility more of a charitable activity than an investment strategy. Conversely, non-philanthropic components of CSR comprising of economic, legal and ethical responsibilities has the potentials of enhancing firms’ profitability.
REFERENCES