Effect of Corporate Social Responsibility on the Financial Performance an Organisation

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Abstract

The study examined the effect of corporate social responsibility in the listed oil and gas companies in Nigeria for the period of (2010-2020). The study uses secondary sources of data. E-view version 9 statistical package was use to analysize and test the relationship between the independent variable (corporate Social responsibility proxy by ROA) and dependent variable(financial performance) Findings from the study indicates that there is a positive relationship between the research and development and financial performance proxy by return on asset. Also there is significant relationship between the social responsibility and return on equity. Based on the findings the study recommends that firms should reserve funds from return on equity as corporate social responsibility, firms are also to establish research and development funds for corporate social responsibility purposes since the result is positive.

Keywords: Corporate Social Responsibility, Financial Reporting, Performance, Organization

INTRODUCTION

Corporate social responsibility relates to defining unilaterally and voluntarily social and environmental policies through alternative instruments which are collective agreements. Organizations operate in an environment that harbors human beings that make up that society. The survival of any organization depends largely upon the successful interaction with the critical elements of that environment. The speed at which the organization responds to the needs of that society is called Social responsibility (Inegbenebor & Osaze, 1999). To sacrifice profit for social interest is social responsibility as opined by Echauge (2005). The sacrifice is ethical so as to remedy some unexpected social qualms that may hinder the smooth operation of the firm in that society. Firms operate in ways that are consistent with the profit motive while simultaneously ensuring maintenance of a wholesome relationship with the host community it operates. Social responsibility is important as it helps firms to remedy social and environmental crisis, productivity loss, drop in sales, health hazards and other anomalies that may stand against the firm's current activities in the future

Firms are the socio-economic agents that have the greatest impact on the environment; they accordingly have a significant role to play in actualizing the environtal sustainability objectives. To actualize this, the firm would voluntarily integrate this additional role and execute social oriented programmes that serve to increase the net benefit of the relationship between the firm and the community European commission(2006) Given that the contract between firm and its host community does not define such expanded responsibility, justification for such added burden, remains arguable Babbie (1990). This is in view of the fact that actions taken to protect the environment and promote the interest of the host community comes with substantial underlying cost and for most firms costs are decisive in corporate performance. Therefore, as pressure to behave in a socially responsible way heightens, its effects on the financial performance of firms continue to generate debate Jensen (2002). Corporate social responsibility is defined as achieving commercial success in ways that honor ethical values and respect people, communities and the natural environment by a leading Global partner in a forum in 2006. CSR means addressing the legal, ethical, commercial and other expectations society has for business and making decisions that fairly balance the claim of all key stakeholders. It is defined as other stated objectives by business which are significant relations between corporate social responsibility and a firm's risk adjusted return on assets. Narrowing the focus of this CSR in this context, the research explores the avenue in which environtal problems within a host community is considered a point of interest to the firms

understanding. To be presize, environmental degradation that forms ecological problem in a large scale is a concern to firms within the community. Environmental degradation constitutes issues not only to the host community but also to the firms operating life, as well as affecting the financial performance of the organizations. In search of the remedy, firms establish research and development cost/fund to enable them find solution to the environmental degradation as part of Corporate Social Responsibility. This paper is interested in finding out whether the research and development project of firms contribute to the corporate financial performance. Recognizing that solving environmental degradation problems can both serve as corporate social responsibility and enable firms operate in a higher capacity that will enhance financial performance.

This research is conducted to find out how firms manages environmental degradation and the effect of this action on the financial performance of the firm. The precise nature of this relationship is a subject of argument and conflicting interpretations. Corporate Social responsibility (CSR) affecting environmental degradation and what are the social and environmental solutions resulting into avoidance and amendments into degradation anomalies. However, firms have put efforts in the same vein. Researchers, authors have been writing on social and corporate responsibilities affecting environmental management. But this paper focuses on environmental degradation This study is interested in liking into research and development efforts of some registered oil firms in talking environmental degradation management. Many researchers have written on corporate social responsibilities. This study is to look at the management of environmental degradation and the effects on the financial performance of some listed oil firms in Nigeria. The hypothesis underlying this study is stated thus;

HO1: Research and Development (R&D) has no significant impact on the environmental degradation management and financial performance.

HO2: Return on Equity (ROE) has no significant impact on financial performance.

LITERATURE REVIEW

Conceptual Framework

Corporate Social Resposibility

This is a responsibility of-profit and non-for-profit organizations for their impact their impact on stakeholders, natural environment and wider accountability and transparency of corporate actions that include social,ethical,environmentaland economic efforts, which are often voluntary and placed within and outside market and commercial transactions. Organisation for economic Co-operation and development views CSR as the business contribution to sustainable development. Corporate behavior must not only ensure returns to shareholders, wages to employees, and products and services to consumers, but they must respond to the social and environmental concerns and values. OECD (2001). The concept of CSR was born in discussion about the role of business in society (Bowen, 1953).

Return on Equity

Return on equity is a strong measure of how well the management of a firm creates value for its shareholders. It is the amount of net income returned as percentage of shareholders' equity. It is one of the all time favorites and perhaps most widely used overall measure of corporate financial performance.Rappaport (1986) which was also confirmed by Monteiro(2006).Return on equity is popular among investors because it links the income statement (net profit/loss) to the balance sheet (Shareholders equity).

Return on Asset

This is a measure of how efficiently a company uses the assets it owns to generate profit' managers, investors and analysts use return on asset to evaluate a company's financial health. It is used to how a company's asset is in generating revenue. It measures how efficient a firm's management is in earning a

profit from their economic resources or asset on their statement of financial position. ROA is shown as a percentage, and the higher the number, the more efficient a company's management is at managing its balance sheet to generate profits.

Firm's Financial Performance

This refers to work well done in financial matter. How effective and efficient has a firm performed financially. Liquidity refers to the firm's ability to convert its short-term assets into cash in order to meet their current maturing liabilities (Okwoli & Kpelai, 2006).

Environmental Degradation

This talks about the deterioration of the environment through depletion of resources such as quality of air, water and soil. The destruction of eco-systems, habitat destruction, the extinction of wild life and pollution. It is defined as any change or disturbance to the environment perceived to be deleterious or undesirable. Environmental degradation is one of the ten threats officially cautioned by high level on threats. It comes in many types. When natural habitats are destroyed or natural habitats are depleted, the environment is degraded. Efforts to counteract this problem include environmental protection and environmental resources management. Mismanagement that leads to degradation can lead to environmental conflict where communities organize in opposition to the forces that mismanaged the environment.

Empirical Review

Some researchers have been conducted relating to corporate social responsibilities and organizational performance in developing countries as enunciated by Makk (Makk, 2004, Krishnan and balachandran, 2005; pohle and hittner, 2008). Much of the work on relationship between corporate social responsibilities and organizational performance has been done by and is being applied to industrialized nations. Within the Nigerian context, Corporate Social Responsibilities and organizational performance refers to business contributions to the immediate community and the economy as a whole, for development and progress though extraneous to their normal business activities (Dandago, 2008). The research conducted in Africa has come to a general conclusion that, the proportion of resources committed to corporate social responsibilities expenditure rises with the firms' sales Adeolu and Afolabi, (2010). The expenditure on corporate social responsibilities development initiative are greater as observed by Eweje (2007).

Theoretical Framework

Stakeholders Theory

The stakeholders' theory suggests that since people voluntarily associate in a firm, their cooperation towards achieving organizational goals when they successfully develop quality relationship with these stakeholders .Generating this positive relationship will naturally include the provision of social projects and other actions that are normally costly for the firm, at least in the short run. Profits may be the outcome of this association, once value is created (Freeman, Wicks & Parmar, 2004). The positive association found between corporate social responsibility and financial performance by Cochran and wood(1984)Preston and O'Bannon (1997) and Spencer and Taylor (1987) partly serve to reinforce and justify the logic of the Stakeholder's theory.

Social Contract Theory

Social contract is of the view that it is someone's political/moral responsibility to improve the society in which he lives whether written contract or by agreement. This theory is as old as the philosophy itself. Jean-Jaques Rousseau, John Locke and Thomas Hobbes are the best known proponents of this theory, which has influenced the development of several other philosophical, economic and political arguments

in the ancient and recent past. It is one of the dominant theories within moral and political theory throughout history.

METHODOLOGY:

The study makes use of Annual financial reports of some listed oil firms for its secondary data. The sample period is for ten (10) years from 2010-2020. The data are amounts of expenditure on corporate social responsibilities activities, management of degradation activities.

The study assess whether there is a relation between the two variables.

Model specification

$$ROA = \beta 0 + \beta 1 RD + \beta 2 ROE + \epsilon \ldots \ldots \ldots \ldots .1$$

ROA = Return of Asset
ROE = Return on Equity
RD = Research & Development

RESULT AND DISCUSSION

Descriptive Statistics

TABLE ONE: Descriptive Statistics
Date: 03/28/22
Time: 16:17
Sample: 2011 2020

	ROA	ROE	R_D
Mean	1.558250	17.20900	42022.03
Median	2.750000	9.710000	5593.200
Maximum	173.5100	938.5900	364814.0
Minimum	-144.3800	-256.2100	100.0000
Std. Dev.	23.93954	109.0869	78296.30
Skewness	0.877520	6.224127	2.458276
Kurtosis	35.37284	50.95832	8.388292
Jarque-Bera	5255.406	12274.80	266.0309
Probability	0.000000	0.000000	0.000000
Sum	186.9900	2065.080	5042643.
Sum Sq. Dev.	68199.07	1416094.	7.30E+11
Observations	120	120	120

The descriptive statistical result presented in table 1.0 above indicates that Return on Asset (ROA) during the period under study has minimum and maximum percentage values of -144.3800% and 173.5100% respectively. The average amount of mean to ROA disbursed during the period is 1.558250% with standard deviation of 23.93954%, implying that, the data deviated from the both sides of the mean by 23.93954%. This suggests that, the data on ROA is quite widely dispersed from the mean during the sample I period, as the standard deviation was also found to be high. The co-efficient of skewness of 0.877520 suggests that the ROA data is positively skewed and did not comply with the symmetrical distribution assumption. With a kurtosis value of 35.37284, it implies that, ROA is platykurtic (fat or short-tailed), suggesting that the distribution for ROA is flat relative to normal distribution. The p-value of 0.000000 for Jarque-Bera implied that the Gaussian distribution assumption of normality was met for ROA at 5%. Also, as it can be observed from Table 1.0, the descriptive results for ROE showed that it has minimum and maximum values of -256-2100% and 9.710000% respectively. The average value of the

RSV during the period is 9.166203% with standard deviation of 17.20900%, implying that the data deviate from the both sides of mean value of 17.20900%. This suggests that, the ROE in Nigeria is not widely dispersed during the period under study, as the standard deviation was found to be more than the mean value. The skewness co-efficient value of 6.224127 suggests that the data on ROE is positively skewed and did not comply with the symmetrical distribution assumption. The kurtosis value of 50.95832 (which is greater than three) implied that, ROE is leptokurtic (slim or long tailed) implying that, the distribution peaked relative to the normal distribution. The probability value of Jaque-bera captured to be 12274.80, also implied, that the Gausian distribution assumption of the normal data on ROE was not met; and thus, indicates that, the data on ROE did not follow the normal curve.

More so, with regard to R&D to ROA, it could be observed from the descriptive results that R&D has a minimum and maximum percentage values of 100c.0000% and 364814.0% respectively. The mean value of R&D during the period is 42022.30% and with a standard deviation of 78296.30% (which is relatively high); implying that, the data deviated from both sides of the mean. This suggests that the data for the R&D variable is relatively widely dispersed from the mean of the sample. The skewness co-efficient value of 2.45876 indicates that the data is slightly skewed (or tailed) to the right of the mean, and did not comply with the asymmetrical distribution assumption. It implied that, the R&D data, deviated from normal distribution. The kurtosis value of 8.388292 showed that R&D is leptokurtic (slim or long tailed) which implied that R&D distribution is peaked relative to the normal distribution. The p-value of 0.000000 for Jarque-Bera implied that the normal distribution assumption was also not met for R&D.

Correlation Analysis

TABLE TWO: CORRELATION MATRIX ANALYSIS
Covariance Analysis: Ordinary
Date: 03/28/22   Time: 16:21
Sample: 2011 2020
Included observations: 120

Correlation Probability	ROA	ROE	R_D
ROA	1.000000 -----		
ROE	0.726756 0.0000	1.000000 -----	
R_D	0.058697 0.5242	0.023691 0.7973	1.000000 -----

Correlation analysis is used to describe the strength and direction of the linear relationship between two or more variables. Correlation, like covariance, is a measure of the degree to which any two variables vary together. In other words, two variables are said to be correlated if they tend to simultaneously vary to the same direction. If both the variables tend to increase (or decrease) together, the correlation is said to be direct or positive, for example, the length of an iron bar will increase as the temperature increases. If one variable tends to increase as the other variable decreases, the correlation is said to be negative or inverse. For example, the volume of gas will decrease as the pressure increases. It is worth remarking that in correlation, the econometrician assumes the strength of the relationship (or interdependence) between two variables; both the variables are random variables, and they are treated symmetrically, that is, there is no distinction between dependent and independent variable. In **r**egression, by contrast, the econometricians are interested in determining the dependence of one variable that is random, upon the other variable that is non-random or fixed, and in predicting the average value of the dependent variable by using the known values of the other variable. Correlation analysis between two variables is called

simple correlation, while the correlation analysis between three or more variables is known as multiple correlations. The square of equals for a regression where one of the two variables is the dependent variable and the other is the only independent variable. Correlation can take on only values from +1 to -1, and the closer the absolute value of *r* is to 1, the stronger the correlation between the two variables. The sign at the front (that is, + or -) indicates whether there is a positive correlation (as one variable increases, so too does the other) or a negative correlation (as one variable increases, the other decreases). Thus, the sign indicates the direction of the correlation between two variables. The size of the absolute value (ignoring the sign) provides an indication of the strength of the relationship.

The result in Table 2.0 indicates that negative and signifies correlation exists between ROA and ROE. This relationship was also found to be *moderate* as indicated by the correlation coefficient value of 0.726t56, and with a p-value of 0.0000. The inverse correlation between ROA and ROE implies that an increase in ROE would lead to a corresponding increase in ROA. Furthermore, positive and strong correlation was found to exist between ROA and R&D. This was captured by the correlation coefficient value of 0.58697; which was also found to be statistically significant. However the p-value is o.5242.
Lastly, the correlation between ROE and R&D is found an insignificant and positive as indicated by the correlation coefficient value of 0.023691 (with a p-value of 0.7973). Therefore, among the three correlations of interest, using ROA as the outcome variable, the correlation between ROA and R&D was found to be the strongest; and in summary showed that environmental disclosure cost on financial performance of listed 0.1 companies in Nigeria has a relatively strong and significant correlational association.

Regression Result

TABLE THREE: REGRESSION ANALYSIS
Dependent Variable: ROA
Method: Panel Least Squares
Date: 03/28/22   Time: 16:25
Sample: 2011 2020
Periods included: 10
Cross-sections included: 12
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.715935	1.730691	-0.991474	0.3235
R_D	1.27E-05	1.94E-05	0.654559	0.5140
ROE	0.159274	0.013915	11.44656	0.0000

R-squared	0.529896	Mean dependent var	1.558250
Adjusted R-squared	0.521860	S.D. dependent var	23.93954
S.E. of regression	16.55363	Akaike info criterion	8.475770
Sum squared resid	32060.64	Schwarz criterion	8.545457
Log likelihood	-505.5462	Hannan-Quinn criter.	8.504070
F-statistic	65.94060	Durbin-Watson stat	2.067986
Prob(F-statistic)	0.000000		

Regression Result in this table, the research is interpreting R-square and Adjusted R-square which were used to show explanatory power of the model and the reliability of the estimates. It indicates how the model was reasonably fit in prediction. The coefficient of determination (R-Square) gave a value of 0.529896 and for adjusted-R-squared has a value of 0.521860. The R-square which measures the goodness of the estimated model, indicates that the model is reasonably fit for prediction. The R-squared showed that 52.98% changes *or* variations in R&D were *collectively* due to ROE and R&D; while 52.18%, which is the unaccounted variations was captured by the (white noise) error term.
The ANOVA (F-statistic) was used to examine the overall significance of regression model. The finding further confirms that the overall regression model is significant for the data, and this was captured by the F-statistic value of

65.94060 and its associated probability value of 0.000000 (F =65.94, p<0.05) that was found to be significant at 5% level.

Durbin-Watson (DW) statistic was used to test for the presence of autocorrelation or serial correlation among the error terms. The closer the DW is to 0, the greater the evidence of positive serial correlation, and the closer the DW is to 4, the greater the evidence of negative serial correlation (and the acceptable DW range of none serial correlation is between 1.45 and 2.44). Thus, the fitted regression line result showed that there is no evidence of autocorrelation as indicated by DW statistic of 2.067986. Statistical Significance. The three hypotheses were tested by using p-values of the t-statistics (or t-value) generated from the regression results in Table 3.0. The level of significance for the study is 5% (or 0.05), for a two-tailed test The rejection or acceptance criteria were that, if the p-value is less than 0.05 (p<0.05), reject the null hypothesis, but if it is greater than 0.05 (p > 0.05), the null hypothesis is not rejected.

Test of Hypothesis One

H_{01}*:* Research and Development (R&D) has no significant impact on the environmental degradation management and Financial Performance (ROA)

From regression result in Table 3.0, the calculated t-value for the relationship between Research and Development (R&D)and performance Return on Asset(ROA) is given as 0.654559, with an associated probability value of 0.5140. Since the probability value (pv) is greater than 0.05 at 5% level of significance, it therefore falls in the acceptance region and hence, the first null hypothesis (Hoi) was accepted. The result thus showed that research and Development (R&D) have significant impact on financial performance proxied by Return on Asset(ROA)

Test of Hypothesis Two

H_{02}*:* Return on equity (ROE) has no significant impact on financial performance.

The estimates from the regression result in Table 3.0 revealed that, the calculated t-value for the relationship between Return on equity (ROE) and Return on asset(ROA) was found to be 11.44656 and its probability value was 0.0000. Since the probability value (pv) is less than 0.05 or 5percent (pv < 0.05) level of significance (and fell in the rejection region), the second null hypothesis $H0_2$: was rejected. It also concludes that return on equity(ROE) has significant impact on social responsibility proxy by ROA

CONCLUSION AND RECOMMENDATION

The estimates from the regression result, recognizing the level of significance, the research and development, return on equity reflects significant effect on the financial performance of the firms while the test shows that return on equity does not have significant relationship with the return on asset which represents firm's financial performance. The estimate shown above is for the t-statistical value but the probability value display significant level between ROE and ROA with the probability valu of 0.0000 which is below the significant level of 0.05 by so doing return on equity have a significant relationship with return on asset. Therefore the two variables representing corporate social responsibility as independent variables have a significance with dependent variables which is return on asset proxy firm's financial performance.

The study found out that corporate social responsibilities perform by oil and gas firms through establishing research and development fund research on return on equity can contribute in the construction and management of environmental degradation perform to host community as CSR. Given the foregoing, below are the specific recommendations:

i. Firms should reserve funds from return on equity for corporate social responsibility for it has been tested and yield positive result.
ii. Also firms should establish research and development funds for corporate social responsibilities purposes.

iii. Consequently, Firms should continue to undertake Corporate social responsibility to have a friendly environment to operate for better financial performance.

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