

Corporate Social Responsibility and Firm Performance: Evidence from Nigeria

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Abstract

The fundamental objective of this research was to investigate the relationship between corporate financial performance and corporate social responsibility in Nigeria. Time series data from 1991 to 2010 were computed from the financial statements of the samples studied. The period was assumed long enough to capture the effect of the dependent variable on the regressors of the model. Co-integration and error correction modeling techniques were used to obtain the empirical results. We found a statistically significant positive relationship between corporate financial performance and corporate social responsibility. Against the above backdrop, it was recommended that corporate entities that are doing well should channel more resources to affecting their host communities and their operating environment in general.

Keywords: Corporate social responsibility, firm performance, corporate financial performance, performance measurement, stakeholders' model, moral manager.

1. Introduction

Reporting the social impact of business activities is fast becoming a global practice. Neglecting social impact could lead to high risk and poor relation with corporate stakeholders, which can translate into reduction in firm value. In Nigeria, to be precise, the unending crisis in the Niger- Delta region may be attributable to the total neglect of social corporate practices and the implication of this action has manifested in the monumental loss of men, material resources and loss of public confidence on the part of the culprits. Apart from the inherent risk associated with the neglect of corporate social responsibility, it has been discovered that a relationship exists between corporate social responsibility and corporate financial performance even though this supposition is shrouded in serious controversy.

Generally, management responsiveness to issues of corporate social impact has been viewed from three dimensions: Moral managers, amoral managers and immoral managers (Carrot, 1987). The term immoral, means a conscious attempt at violating what is wrong or right. A decision by this group of managers is seen as a deliberate attack on ethical practices or principles. This group of managers sees corporate legislation as obstruction to corporate gains. In Nigeria, the bank executives who completely grounded their banks to enrich themselves and their families could be described as immoral managers. The amoral managers are either moral or immoral. Amoralism is the believe that morality is invalid. This group of managers is completely insensitive to the implications of their actions on other corporate stakeholders. They view ethical issues as relating to individual life and have no place in

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business or corporate activities. When the Nigeria mobile police force was designed, it was strictly male affair to the disadvantage of the female folks. It was a discriminatory policy. Fortunately, the Nigeria government has responded to this equity problem and today, we now have women mobile police. The moral managers are those who operate within a sound legal and ethical environment. Morality is concerned with the distinction of good and evil. Moral managers see corporate regulations as a minimum requirement and strive to operate above the legal minimum. They are guided by strong ethical principles, follow due process and provide a level playing field for all stakeholders. For example, just recently, First Bank of Nigeria PLC, Guinness Nigeria PLC and Guarantee Trust Alliance were selected from a pool of 229 companies as the best place to work in Nigeria. The award was a confirmation of their sensitivity to workers' welfare, which is a characteristic of moral managers (Ventures Africa, 2010).

Empirical literature is replete with studies on the CSR-CFP nexus with emphasis on the developed nations. The focus of this study is to investigate whether it is financially beneficial for firms to practice and report on corporate social activities with Nigeria as a reference point. The unending agitation in the Niger-Delta region of Nigeria, which has resulted in monumental loss of material and human resources, may be ascribed to total neglect of corporate social responsibility. This crisis has brought to the fore, the importance of social impact of corporate activities. However, not much empirical work has been achieved in this regard.

Statement of the Research Problem, Objectives and Justification for the Research

Nigeria prides itself as the giant of Africa with enormous influence transcending the Africa continent, with a vast amount of human and material resources. In spite of all these, it hardly features in any world-wide cross-cultural studies (Jackson, 2004). Save for some few studies (Uadiale & Ogbemi, 2011; Ngwakwe, 2009; Amaeshi, Achi, Ogbechie & Amao, 2006), issues of corporate social responsibility has not received serious empirical consideration in Nigeria. In the developed economies, studies on social impact and corporate financial performance have always reported mixed results. Even though the inconclusive nature of the results may be traceable to variations in perspectives, choice of sample size and statistical techniques, and the lack of standard-measure of corporate social responsibility. Against the above backdrop, this study was designed to address some of the issues raised above.

In this study, we attempt to stretch and complement existing body of knowledge by examining some of the following questions. Is there a significant relationship between corporate social responsibility and corporate profitability in Nigeria? Is there a significant relationship between corporate social responsibility and corporate liquidity in Nigeria? Does corporate social responsibility have a significant impact on corporate growth in Nigeria?

The fundamental objective of this study was to investigate the relationship between corporate social responsibility and corporate financial performance in Nigeria against the backdrop of the inconclusive nature of the issue globally and the paucity of empirical literature in Nigeria and other developing entities.

This study contributed to existing literature in several ways. To the best of our knowledge, this study may be the first attempt at addressing this topical issue using the Error Correction Mechanism and Co-integration instead of the usual Ordinary Least Square (OLS) technique. OLS does not usually test for stationarity of time series data, which may lead to spurious regression results. Secondly, the fifteen years period is considered significantly long enough

to capture the impact of corporate social responsibility on the firm performance. The study, no doubt has helped to bridge the knowledge gap arising from the paucity of empirical studies on the social responsibility- firm performance dynamics in Nigeria.

The remainder of this paper is organized as follows: following the introduction, is section 2, which addressed the theoretical and empirical literature while section 3 focused on the research methodology with emphasis on the data, model specification technique and analysis of result. Section 4 presented the conclusion and policy implications of the research.

2. Literature Review

Conceptualisation and Empirical Evidence:

Conceptualisation:

The concept of corporate social responsibility is shrouded in controversy hence it has become extremely impossible to distinctively define it. Davis (1960) described corporate social responsibility as business decisions and actions taken for reasons at least, partially beyond the firms' direct economic or technical interest. While this description may be seen as accurate, it did not clearly outline the beneficiaries of the "extra-corporate" decisions. A year latter, Eells and Walton (1961) identified society as a beneficiary of the extra-corporate decision of the firm; they described corporate social responsibility as the problems that arise when corporate enterprises cast its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and the society. Thereafter, different writers have viewed the issue from different perspectives.

McWilliams and Siegel (2001) view corporate social responsibility as actions on the part of a firm that appears to advance the promotion of some social goods beyond the immediate interest of the firm/shareholders and beyond any legal framework. For purposes of this study, we described corporate social responsibility as policies and procedures, which help to equilibrate the trio of economic ecology, social imperatives, and stakeholders' interest without jeopardizing shareholders' wealth.

The exact origin of corporate social responsibility is not certain even though it is said to be traceable to the 19th century. Modern corporate social responsibility came to the fore through Bowen (1953). However, the concept became fashionable through the agitations of environmental scandals, creative accounting and ecological disasters such as BP oil spillage, Chernobyl nuclear disaster, Bhopal and Serses chemical catastrophe, the Enron, World com corporate malfeasance and the Nigeria, Niger-Delta ecological ruins. In Nigeria, formal corporate social responsibility started with the multinationals in the oil and gas rich Niger-Delta region. Even though during that period, CSR was practiced in a half-hazard manner. Subsequently, the Obasanjo administration through NEEDS – National Economic Empowerment and Development strategy, formalized corporate social responsibility in Nigeria. Thereafter; the issue has become a front burner in public discuss and academic fora.

Theoretically, corporate social responsibility has evolved through three movements: the social responsibility movement; social responsiveness movement and the social performance movement. These different movements, metamorphosed into different clumsy theories of social responsibility. Lee (2008) traced the evolution of the theories and he classified them as:

Social responsibility of businessman (1950-1960): Bowen (1953) established the first link between the society and the business. Even though Bowen recognized the relevance of corporate social responsibility, he also gave a *caveat* that CSR was not designed to solve the ills of the society but to provide a framework for business and society to coexist without the action of one becoming inimical to the other. The “Bowenican movement” resulted in different legislation in the United State to regulate the conduct of business activities Principal among which were the Clean Air Act of 1970, National Environmental Policy Act of 1969 and the Equal Pay Act of 1963. The Bowen concept of corporate social responsibility was however attacked by Friedman (1972) when he argued that the social responsibility of business was to maximised shareholders profit. The Friedman argument sparked a lot of debate and polarised researchers into two extremes of, those who supported the concept and others who were opposed the concept of corporate social responsibility.

Enlightened self-interest of the seventies: Wallick and McGowan (1970) provided reconciliation between the proponents of economic interest of CSR and their social interest counterpart. They supported corporate social responsibility without eroding the interest of shareholders. Against the backdrop of the new rationale for CSR, Davis (1973) posited that a firm has a duty to balance its decision making to achieve both social benefits and the conventional economic benefit. The focus of the enlightened self-interest model was that the company could only survive if there was a conducive environment. Therefore, it was in the interest of business to support the environment to be able to stay in business and make profit.

The corporate social performance model: The model was popularised by Carroll (1979) in his three-dimensional model of corporate social responsibility. It was a combination of corporate social responsibility, social issues and corporate social responsiveness. The work helped to conceptualise the different approaches to corporate social responsibility. He argued that the economic and social goals of the organisation were both compatible and achievable and should be enshrined into the broader social responsibility philosophy of the business.

Strategic management model of the 1990s: The stakeholder model of corporate social responsibility evolved from the strategic management movement. The model identified other interest group beyond the conventional shareholders of the organization. These were the customers, government and employees, which Donaldson and Preston (1995) referred to as the non-shareholding stakeholders. The relation between the stakeholders’ model and mainstream corporate social responsibility was revealed by the work of Jones (1995). Jones was determined to construct a stakeholder theory that was capable of predicting the outcome of economic relationships.

Firm Performance

Financial Performance can simply be described as the ability of the firm to generate earnings by efficiently and effectively utilizing available resources over a given period. There exist a number of performance measurement tools, which may be aggregated into two broad categories as the conventional measures of financial performance and the non-conventional measures of financial performance.

The conventional measures of financial performance helps to capture the strength, opportunities, weaknesses and threats of the organisation. Useful tools for this type of measurement are return on investment, return on equity, residual income, growth in sales, earnings, per share, dividend per share and market capitalisation. These ratios collectively help to measure the profitability, liquidity, growth and market value of the organisation. The non-conventional measures of financial Performance includes economic value-added and

balanced scorecard. The balanced score card is an accounting report that integrates the firm's critical success factors in four areas of financial performance, customers satisfaction, internal business process, and innovation and learning (Blocher, Chen & Lin, 1999). For purposes of this study, we emphasised the conventional measures of corporate financial performance.

Empirical evidence on the CSR – CFP dynamics

There exists a robust empirical literature on the relationship between corporate social responsibility and corporate financial performance. Surprisingly, the result of these studies did not coincide. Without being very exact, these findings were grouped into three as the positive relation, neutral relation and the negative relation studies.

The positive relation group consists of studies, which reported a positive relationship between social impact and financial performance. In a study of environment and financial performance, Ruso and Fouts (1997) found a positive and significant relationship between corporate social responsibility and firm performance. Schuler and Cording (2006) established a strong and complex link between corporate social responsibility and corporate financial performance from the standpoint of consumer behaviour. In the same vein, Waddock and Graves (1997) found a significant positive correlation between index of corporate social impact and financial indices of return on assets. Preston and O' Bannon (1997), Stanwick and Stanwick (1998), both reported a positive correlation between corporate social responsibility and firm performance. Using a sample of banking firms, Simpson and Kohers (2002) reported a positive significant relationship between social impact and corporate financial performance. Ngwake (2009), using 60 selected companies in the Nigerian manufacturing sector from 1997 to 2006, found a positive significant relationship between environmental responsibility and corporate financial performance. Uadiale and Fagbemi (2011) using a sample of 40 companies listed on the Nigeria Stock Exchange market, excluding Banks and insurance companies, used the Pearson correlation to established a significant and positive relationship between financial performances and corporate social responsibility.

The neutral relation group consisted of studies, which reported no significant relationship between measures of corporate social responsibility and financial performance. McWilliams and Siegal (2001), observed that the financial indices of the Domini-index constituents, where not significantly different from that of the control sample in a test of social impact and corporate financial performance. Other studies, which reported the same result, were those of Freedman and Jaggi (1986) and Aupperle *et al* (1985).

The negative relation group consisted of studies, which found a negative relationship between corporate financial performance and corporate social responsibility. Crisostomo, Desouza and Vasconcellos (2010), analysed the CSR – CFP relationship in Brazil using financial and CSR data for non-financial listed companies in the period 2001 to 2006. They created a three-dimensional measure of corporate social responsibility together with different business performance measures. Using some econometric models, the result of the research tends toward a negative correlation between corporate social performance and firm value. Other studies in this direction were those of Ingram and Frazier (1983) and Waddock *et al* (1997)

3. Methodology

The population of the study was drawn from the consumer goods section of the Nigerian manufacturing sector. The study sample was drawn using the random sampling technique which gave each company equal chance of selection. Four companies listed on the Nigerian Stock Exchange were selected. These are Guinness Nigeria PLC, Nigeria Breweries PLC, Nigeria Bottling – Company PLC and Nestle Foods Nigeria PLC. The manufacturing

companies were selected because of the effect of their activities on the host communities and their operating environment in general. In addition, since they were quoted companies, their published accounts were considered a reliable source of information.

Theoretical Framework and Model Specification

Companies whose activities have beneficial effects on the society are likely to generate more profit compared to those, who believe that social responsibility is a distraction from the economic objective of the business. The profit function of moral businesses according to Siegel and Vitaliano (2006) will thus appear as:

$$\pi_{CSR} = \beta NX_{CSR} + \varepsilon_{CSR} \quad (i)$$

Where the X vector is input and output prices and other explanatory variables, ε_{CSR} is an error term.

The immoral firm profit function will appear as:

$$\pi_{NCSR} = \lambda NX_{NCSR} + \varepsilon_{NCSR} \quad (ii)$$

Since moral businesses are expected to generate more profit arising from the positive effect of their activities on other stakeholders, the expected net profit is the difference between equation i and equation ii. This is given as

$$ENP^* = \beta NX_{CSR} - \lambda NX_{NCSR} + (\varepsilon_{CSR} - \varepsilon_{NCSR}) = \sigma NX + \varepsilon \quad (iii)$$

However you will observe that $ENP^* = 1$ for moral forms while immoral firms will exhibit $ENP^* = 0$. This means $\pi_{CSR} > \pi_{NCSR}$. The X vector in equation (iii) includes all independent variables that determine the social responsibility decision of the business.

From equation (iii) above, the functional form of the model for this study was presented as:

$$CSR = f(ROAM, ROE, GPM, NPM, CR, DPS, EPS) \quad (iv)$$

The econometric form of the model was specified as:

$$CSR_t = \beta_0 + \beta_1 ROAM_t + \beta_2 ROE_t + \beta_3 GPM_t + \beta_4 NPM_t + \beta_5 CR_t + \beta_6 DPS_t + \beta_7 EPS_t + U_t \quad (v)$$

Where:

CSR = Corporate social responsibility proxied by investment in corporate social responsibility (dependent variable).

$ROAM$ = Return on assets managed

ROE = Return on equity

GPM = Gross profit margin

NPM = Net profit margin

CR = Current ratio

DPS = Dividend per share

EPS	= Earnings per share
U	= Stochastic error term
t	= Time dimension of the variables
β_0	= Constant
β_{1-7}	= Coefficient of the explanatory variables

It is expected that $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7 > 0$

The data for the research were purely secondary in nature. Financial indices were calculated from the annual financial statements of the four selected companies, spanning the period from 1991 to 2010. The period was assumed long enough to capture the effect of the dependent variable on the regressors of the model. Corporate social responsibility (dependent variable) was proxied by the companies' investment in corporate social activities as contained in the director's report in the annual accounts. According to Waddock and Graves (1997), CSR measurement is a constant problem in the CRS research. This according to Margolis and Walsh (2003) may have accounted for the lack of uniformity of result in the empirical literature. For purposes of this study, the companies investment in social actions over the period covered were used to proxy corporate social responsibility. Knox and Maklan (2004) also used the investment in corporate social responsibility as the dependent variable in their work.

The explanatory variables were:

- (a) **Return on Equity.** The return on book value of equity was considered here. It is the ratio of Net Profit after interest, tax, minority, interest and preference dividend to equity capital. The ratio is usually expressed in percentage. This variable have been used earlier by different writers such as Bowrran and Haire (1975), Spicer (1978), Waddock and Graves (1997), and Preston and O'Bannon (1997).
- (b) **Return on Assets Managed.** The ratio is also a measure of corporate profitability. It is expressed in percentage. It is the ratio of Net profit before interest and tax to total assets. The ratio reveals the extent to which companies utilise their assets in the production process. It is a combination of the Net Profit Margin (NPM) and the Total Asset Turnover. In relation to the research, the parameter has been widely used by earlier writers such as: Aupperle *et al* (1985), Belkaoui and Karpick (1989), Waddock and Graves (1997), Preston and O'Bannon (1997) and McWilliams and Siegel (2001)
- (c) **Earnings per Share.** An earnings per share is the single most important accounting value in published financial statement. It is calculated as Net Profit after interest, tax, preference dividend, but before extraordinary items, divided by the number of ordinary shares ranking for dividend. The ratio was earlier used by Parket and Eilbirt (1975), and Bragdon and Marlin (1972).
- (d) **Current ratio.** This is a measure of corporate liquidity. Liquidity is simply described as the ability for the firm to pay short-term manufacturing obligations and still have sufficient cash to sustain operations. Current ratio is calculated as current assets divided by current liabilities.
- (e) **Dividend Per Share.** This ratio is calculated by dividing total ordinary dividend by the number of ordinary shares ranking for dividend. Dividend per share is a measure of return on shareholders investment. It is expressed in kobo.
- (f) **Net Profit Margin.** This is a measure of profitability, which relates Net Profit before interest and tax to turnover. Like all profitability ratios, it is expressed in percentage.

The Net Profit Margin measures the value of each naira of sales available to cover the business overhead cost. It has a direct relationship with turnover.

- (g) **Gross Profit Margin.** This is a measure of the amount of profit generated from trading activities it relates gross profit to turnover and it is expressed in percentage.

4. Data Estimation Procedure

The estimation procedures adopted in this study were the Co-integration and Error Correction Mechanism (ECM). The choice of these techniques was premised on the limitations of the ordinary least square econometric technique. Macroeconomic variables are known to have unit roots. Therefore, using the ordinary least square estimation technique for non – stationary data will lead to spurious results. Even the procedure of applying ordinary least square to the differences of the variables is fraught with the problem of loss of relevant information. Against this backdrop, the Co-integration and Error Correction procedures were employed for the study.

The unit root test was used to verify the time series properties of the variables. The test was adopted to avoid the estimation of a specious relationship emanating from using non-stationary time series data to estimate a long-run relationship. The Augmented Dickey Fuller (ADF) approach was employed for the test of stationarity of the variables.

The long-run relational structure of the dependent and the independent variables was tested using co-integration. Co-integration involves a stationarity test for the residuals. The study adopted the Engle – Granger two-step co-integration procedure. Finally, the error correction mechanism was used to capture the short-run dynamics of the variables. In this study, the Auto regressive Distributed Lag (ARDL) approach was used in estimating the error correction mechanism. The choice of the ARDL was based on the fact that it has the conventional benefit of yielding consistent estimates of the long-run coefficients that are asymptotically normal irrespective of whether the explanatory variables are integrated of order one or zero. The parsimonious model was selected using the R – bar squared criterion.

5. Estimation Result

Properties of the Variables

5.1. Order of Integration

To establish the time series attributes of the variables, they were all tested for unit root. Table 1 below shows the result of the unit root test for the variables.

Table 1: Result of order of integration in level and first difference

	Variables	level	Remark	1 st Difference	Remark
1.	CSR	-2.5875 -2.8986	Non Stationary	-6.6495 -2.8991	Stationary
2.	<i>ROAM</i>	-3.1012 - 2.8991	Stationary	-6.6780 -2.8996	Stationary
3.	<i>ROE</i>	-6.9171	Stationary	-8.4042	Stationary

		-2.9001		-2.9012	
4.	<i>GPM</i>	-2.1043 -2.8991	Non Stationary	-6.9864 -2.8996	Stationary
5.	<i>NPM</i>	-2.4105 -2.9029	Non Stationary	-7.4953 -2.8996	Stationary
6.	<i>CR</i>	-2.3401 -2.8991	Stationary	-6.6586 -2.8996	Stationary
7.	<i>DPS</i>	-1.6061 -2.9029	Non Stationary	-6.9106 -2.9042	Stationary
8.	<i>EPS</i>	-2.5978 -2.8991	Non Stationary	-5.2646 -2.8996	Stationary

Source: Author's Computation 2013

5.2. Co-integration Test

Having estimated the stationarity of the variables, tested the long-run relational structure between measure of corporate social responsibility and the explanatory variables. The Engle – Granger two-steps approach was adopted. Table 2 shows the result of the co-integration test.

Table 2: Result of the Engle-Granger two-step co-integration test

Variable	ADF test statistic	95% ADF Critical value	Remark
Residual	- 3.6376	-2.9001	Stationary

Source: Author's Computation 2013

5.3 Error correction mechanism

The error correction mechanism captures the short-run dynamics of corporate social responsibility in terms of temporary changes in the independent variables provided a long-run relationship exists between the variables. The result of the error correction model is presented in table 3 below.

Table 3: Result of the ECM for the short-run behaviour

Variables	Coefficient	Std.Error	t. statistic	Probability
C	20.15212	1.558132	12.93351	0.0000
<i>LROAM</i>	0.378566	0.330950	1.143876	0.2567
<i>LROE</i>	0.742121	0.203963	3.638506	0.0005
<i>LGPM</i>	-3.097616	0.512356	-6.045828	0.0000
<i>LNPM</i>	0.161697	0.216424	0.747134	0.4576
<i>LCR</i>	-3.698044	0.711404	-5.198233	0.0000
<i>LDPS</i>	-0.066107	0.398932	-0.165711	0.8689
<i>LEPS</i>	0.466732	0.069094	6.755068	0.0000
<i>ECM (-1)</i>	-0.514980	0.120398	-4.277310	0.0001
R-squared	0.721448	Mean dependent var		15.06870
Adjusted R-squared	0.688188	S.D dependent var		1.974059
S.E. of Regression	1.102316	Akaike info criterion		3.143508
Sum squared Residual	8141180	Schwarz criterion		3.419514
Log likelihood	-110.4532	F-statistic		21.69123
Durbin Watson statistic	1.946964	Prob (F – statistic)		0.00000

Source: Author's Computation 2013

5.4. The long run relationship

Since the time series data are co-integrated, we established the long run relationship using the least square estimation technique. The result of the model is presented in table 4 below

Table 4: Long-run estimation result.

Variable	Coefficient	Std. Error	t. statistic	Probability
C	19.50972	2.284489	8.540078	0.000
<i>LROA</i>	0.452082	0.384286	1.176420	0.2437
<i>LROE</i>	0.384461	0.201109	1.911702	0.0603
<i>LGPM</i>	-2.760145	0.696927	-3.960450	0.0002

<i>LNPM</i>	0.235245	0.270588	0.869382	0.3878
<i>LCR</i>	-2.808365	0.780525	-3.598045	0.0006
<i>LDPS</i>	0.061996	0.382973	0.161882	0.8719
<i>LEPS</i>	0.412111	0.098368	4.189464	0.0001
R squared	0.754603	Mean dependent var		15.06591
Adjusted R-squared	0.724857	S.D dependent var		1.988977
S.E. of Regression	1.043299	Akaike info Criterion		3.034819
Sum Squared Residual	71.83916	Schwarz Criterion		3.312917
Log likelihood	-104.8057	F-statistic		25.36894
Durbin Watson stat	1.840356	Prob (F – statistic)		0.000000

Source: Author's Computation 2013

6. Discussion of Findings

The unit root test as presented in table 1 above, revealed that LCR, LROAM and LROE are not time dependent (stationary in levels) as their individual ADF test statistic exceeded the 95% critical value in absolute terms, e.g. LCR (3.3401>2.8991); LROAM (3.1012>2.899); and LROE (6.9171>2.9001). While LCSR, LGPM, LNPM LDPS and LEPS have unit root (non-stationary,) To address the non-stationarity of some of the explanatory variables, we took the first difference of the respective variables. The result of the difference as contained in table I above, shows that the ADF statistic of all the variables exceeded their respective 95% critical values in absolute terms. For example, DCR (6.6495>2.8991), DGM (6.9864>2.8996) and DCR (6.6586>2.8996).

Table 2 shows the result of co-integration test. It was discovered that the ADF test statistic of -3.6376 exceeded the 95% critical ADF value of -2.9001 in absolute terms. The implication of this is the presence of co-integration between corporate social responsibility and the regressors of the model. It shows stationarity of the residuals. This gives us the opportunity to estimate the long-run relationship. The result of the error correction model as presented in table 3 shows that the regressors of the model influence the dependent variable. The R-square value of 0.721 is high and gives an impressive goodness of fit.

The F-value of 21.69 is very high and it easily passes the significance test at the 1% level since it exceeds the 1% critical F-value of 2.82. Thus, we accept the proposition of a significant linear relationship between corporate social responsibility and the explanatory variables. In addition, the coefficients of GPM and DPS both had signs that are in disagreement with our *a priori* expectation. The t-test analysis revealed that the variables of ROE, GPM, CR and EPS all passed the significance test at the 1% level because their respective t-ratios exceeded the 1% critical t-value in absolute terms. The coefficients of the other explanatory variables failed the test at 5% level and were considered not significantly different from zero. Against the above findings, we concluded that short-run changes in a firm's behaviour in terms of corporate social responsibilities might be influenced by temporary changes in its ROE, GPM, CR and EPS. The implication of the above is that the

variables helped to predict temporary behaviour of the firm's social responsibility. The profitability ratios of ROA and NPM had no impact on the dependent variable in the short run. The error correction term had the expected sign and magnitude ($ECM < 1$). This means that any short-term deviation of CRS from the equilibrium state would be restored in the long run.

The long-run result shows that the model had explained above 75% of any systematic variation in corporate social responsibility in the long-run. The F-value of 25.37 shows a significant overall performance at the 1% level. This means the null hypothesis that the variables of the error correction model were jointly insignificant was rejected. From Table 4 it was obvious that the same variables that critically affected the behaviour of CSR in the short-run were also relevant in the long-run. Only the GPM was wrongly signed. The DW statistic of (1.84) was highly indicative of the absence of serial correlation in the model. In addition, since all the variables in the error correction model were stationary, which means absence of spurious correlation, the model was therefore considered reliable and useful for policy formulation.

7. Summary and Conclusion

The fundamental objective of this study was to investigate the effect of financial performance on corporate social responsibility. The driving force behind the study was the weak form of corporate social responsibility in Nigeria. It was discovered that only one variable GPM was not appropriately signed in the long run. Two of the profitability ratios were significantly different from zero and the current ratio, a measure of liquidity did very well in both the long run and short run. So also the variable of EPS. Therefore, we rejected our null hypothesis and reported a positive and statistically significant relationship between corporate social responsibility and financial performance in Nigeria. Having estimated a positive and significant relationship between social and financial performance, the study expanded existing empirical literature in this regard. Some earlier studies which established a positive and statistically significant relationship between corporate financial performance and corporate social responsibility in the same direction are Preston and O'Bannon (1997); Ngwakwe (2009); Uadiale and Fagbemi (2011); Hull and Rothenberg (2008); Schuler and Coding (2006); Ruso and Fouts (1997); Stanwick and Stanwick (1998).

The findings of this research will no doubt influence management strategies, government policies and the decision makers in corporate organizations in this regard. Appropriate disclosure of social responsibility investments by companies should be encouraged. This will not only help in profit maximization, it will also provide opportunity for potential investors to compare the social impact of different companies in terms of investment decisions. The positive relationship implies that customers and other stakeholders recognize the social impact of such companies and this will ensure peaceful co-existence between the firm and the host communities. Furthermore, the result will also reveal to management that the more investment on corporate social responsibility the more value for the organization in Nigeria.

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