International Journal of Business Marketing and Management (IJBMM)
Volume 5 Issue 6 June 2020, P.P. 48-54
ISSN: 2456-4559
www.ijbmm.com

Effect of Corporate Social Responsibility on the Financial Performance of Construction Companies in Nigeria

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Abstract - *The study analyzed the effect of corporate social responsibility on the financial performance of organizations in Nigeria with emphasis on the construction companies. The population constitutes four construction companies who are the leaders in the business. A census approach was adopted. Data used were for the years 2014 to 2018 for the companies as extracted from the dossiers of these companies. The study used Multiple Regression Model as the techniques of analysis. The theory of stakeholders was adopted as the theoretical framework. In line with the findings of the study, it concluded that corporate social responsibility has a significant effect on the profitability of corporate organizations, especially, the construction companies in Nigeria. It then recommends among other things that organizations should render more of social responsibility as this could enhance their profitability. Government agencies should enact clearly defined laws on how to go about social responsibility issues of corporate organizations and such laws should be fully implemented.*

Keywords: *Corporate Social Responsibility, Finance, performance, Construction firms.*

I. Introduction

Corporate organizations help to provide goods and services for the satisfaction of human needs for profits. However, in their quests to break even, they are expected to operate with the environments at heart. They are to be socially responsible. Corporate social responsibility is as germane in organizational management as it was at the onset of the corporate social responsibility concept. The motive behind corporate social responsibility initially started gaining ground few decades ago. Moskowitz (1972) observed the necessity to carry out a study to find out if issues of social concern do indeed influence investment decisions of an organization. At a point in time, there was a rising awareness of the effect of social issues on corporate organizations. Scholars have opined that there was no concrete evidence to affirm social performance influencing capital markets. For instance, towards the end of 1990’s the idea of corporate social responsibility had developed into its current form and is now embraced by organizational stakeholders, including governmental and non-governmental organizations as well as corporate bodies (Lee, 2008).

Several meanings have been given to corporate social responsibility as pushed forward by Dahlsrud (2008). Specifically, Gossling and Vocht (2007) asserted that the responsibility of corporate entities to be charitably accountable for their environment and general stakeholders in a way that goes beyond mere financial obligation. This spotlights the need for consistent evaluation of corporate social responsibility of firms like construction companies as the variables that are involved are also invariably changing. For example, the environment and stakeholder attitudes are two of such variables that have changed considerably over the past few decades (Peloza and Papania 2008).

Corporate entities are usually large and multinational corporations or organizations that are involved in various types of business activities. In Nigeria, these conglomerates are usually under the control and regulation of the Nigerian Stock Exchange (NSE). They are majorly established to create synergy, economic diversification and growth of earnings per share. In the early 1960s organizations of business concerns were very well known in developed societies, but due to the challenges associated with handling unrelated business entities effectively and efficiently they are now less popular. In emerging economies like Nigeria, aside from the problem of handling dissimilar ventures, organizations also face the problem of handling conflicts situation with the environment in which the organizations are established. In a bid to addressing such conflict situations, most organizations embark on what is called corporate social responsibility. This encourages that, in the cause of carrying out business activities to satisfy the drive of profit maximization, organizations should also take into cognizance the impacts of their activities on the members of the society and the environment in which they operate.

Corporate social responsibility in the Nigerian business terrain can be traced back to the presence of unchecked oil companies in the Niger Delta of the country. Members of the oil producing communities are agitating against environmental degradation those results to various types of socioeconomic hardships. As a result of the oil companies indisposition to accept responsibility for the environmental degradation and health problems faced by the citizens of those communities; the conflict of interest metamorphosed into the emergence and implementation of corporate social responsibility; with the general objective to protect human rights against abuses by corporate entities. In that regard, several laws were enacted to regulate business and industrial activities in Nigeria.

Divergent views and opinions have been expressed on corporate social responsibility. Scholars like Friedman (1962) opined that the focus of business organizations should be profit making and any activity to deter that should be kept aside by business organizations like the construction companies in Nigeria. Freedman and Liedtka (1991) expressed that corporate ventures are responsible for all their stakeholders and should thus take greater responsibility for the society at large and attempt to solve social and environmental challenges in their market place.

Currently, most corporate entrepreneurs believe that business ventures should go out of the simple objective of profit maximization. Thus, they should try as necessarily possible to integrate the interest of the workers, investors, clients/customers and the society as a whole into their decision making which provides the best guarantee for consistent financial profitability. This creates a huge gap on ascertaining the real effect of the implementation on consistent financial profitability of organizations even with the existence of the various key performance indexes. To this end, this paper attempts to analyses the effect of corporate social responsibility on the financial performance of construction companies in Nigeria.

II. Statement of the Problem

The success of corporate organizations is premised on the quality and quantity of goods or services they present to the public as well as the amount the public is willing to part with in acquiring such. Profit making by organizations is an outcome of so many variables, some of which are internal and others external to the organization. While the internal factors are within the control of the organization, the external ones are outside the confines of it. Among the external factors are incidences of operational interruption occasioned by host communities. This is usually caused when the members of a community raise concern over negative and potential negative impacts that businesses imported to their community. The effect includes environmental degradations and societal conflicts caused by the business activities or operations. In an attempt to overcome the existing unrests between organizations and the host communities, the phenomena corporate social responsibility was advocated by the stakeholders. Though, the advent of corporate social responsibility is perceived as a great development that creates an avenue for conflict resolution between corporate entities and its stakeholders; it creates more concerns over the actualization and measurement of the benefits to both the community and the organizations.

Despite, several postulations based on empirical findings are found in research reports as to the relevance of corporate social responsibility on the hosting community, there is no general agreement on the subject matter, due to the uniqueness of settings and the differences of methodology adopted by the researchers. Some of the arguments favor corporate social responsibility as it leads to increase in organizational profitability, social balance and environmental stability. Others have argued that it is a waste of resources that is highly unnecessary; which leads to diversion of organization’s resources to ventures that have no particular influence on profitability. This therefore necessitates the need for studying specific settings in order to ascertain the consequential effect of adopting corporate social responsibility by organizations like the construction companies in Nigeria. In what ways has corporate social responsibility affected the financial performance of organizations in Nigeria?

III. Objective of the Study

The following is the objective that this paper intends to achieve:

I. To analyze the extent at which corporate social responsibility affect the financial performance of organizations like the construction companies in Nigeria

IV. Research Hypothesis

The following research hypothesis has been formulated for testing:

H_0- corporate social responsibility has no significant effect on the financial performance of construction companies in Nigeria.

V. Literature Review

One of the earliest publicized arguments made in favor of corporate social responsibility was written in 1927 by Wallace Donham of the Harvard Business School. Donham (1927) opines that corporate social responsibility has become a necessary aspect of responsible business practices all over the world. Large corporate organizations are becoming more interested in business stability and performance over immediate profits.

Corporate social responsibility is viewed from different perspectives and opinions by scholars, analyst and opinion leaders of varied backgrounds as well as leanings. The views vary from individual scholar to organizations and as such there is no generally acceptable definition ascribed to the concept. Nevertheless, on empirically assessing the various meanings given it could be observed that they are centered on tripartite themes as stressed by Wissink (2012). These themes include corporate relations as regard societal, economic and environmental sustainability. On this basis, several terms such as good corporate citizenship, corporate conscience, business citizenship, social performance, community relations, business responsibility, responsible business and sustainable responsible business are used to refer to corporate social responsibility.

Corporate social responsibility is however closely linked to the maxim of sustainability, which proposes that organizations should make corporate decisions based not only on financial considerations like profits and dividends but should also consider the short and long terms social and environmental effects of their activities where they operate (Tilt, 2009).

Notable definitions of corporate social responsibility given by various authors are Carroll (1979) who defined corporate social responsibility as the social responsibility of business to society at a point in time that encompasses the economic, legal, ethical, and philanthropic expectations.

Corporate social responsibility is basically the capacity of an organization or business entity to associate itself with ethical activities and carry out its daily operations in a transparent manner while conforming to stipulated legal requirements of the community in which its operations are domiciled. Nonetheless, if the community in which the corporation operates does not have clearly spelt out legal requirements, it is the responsibility of the corporation to operate in a socially responsible manner. Similarly, definition Hill, Ainscough, Shank, and Manullang (2007) affirmed that, corporate social responsibility is the legal, moral, economic and philanthropic actions of organizations that affect the quality of life of their relevant stakeholders. In a very apt definition put forward by Baker (2004), corporate social responsibility is conceived as the ability of the organizations to manage the business activities to make an overall positive impact on society where they operate.

The European Commission (2001) opined that corporate social responsibility is a concept which makes corporate entities to decide willingly to contribute to a better society and a healthier environment by incorporating social and environmental interests in their business activities and in their relationships with their stakeholders. In another development, the University of Miami (2007) asserted that corporate social responsibility is regarded as a process of assessing the interdependent relationships that take place between businesses organizations and the communities within which they operate. On its part, the World Business Council for Sustainable Development (1998), conceives the corporate social responsibility to be a continuous show of commitment by business entities to behave ethically and add to economic development while bettering the quality of life of the employees and their families and also of the local community and society at large. From the foregoing definitions, it is apt to see corporate social responsibility as the act of making business organizations to be socially responsible in the course of pursuing business objectives.

5.1 Corporate Social Responsibility (CSR) and Organization's Financial Performance (FP)

There have been hot debates by scholars on the relationship between corporate social responsibility and the financial performance of organizations. As a matter of fact, many theoretical postulations about the linkage between social performance of firms and financial performance which were put forward, running from a predicted negative effect of corporate social responsibility on organizations' financial performance to a positive correlation between financial performance to organization social performance. More so, many of these theories and postulations were put to the empirical test and results from these assessments were much contradictory. In part, this is due to divergences in the adopted research methodology and dissimilar ways of operationalizing and conceptualizing the variables of interest (Wissink, 2012). Consequently, the study results on the corporate social responsibility and organization financial performance have never been in tandem as so many examiners found different results. While some studies showed negative, positive relationship, others revealed no relationship at all between the two variables.

The application of the principles of corporate social responsibility shows that organizations somewhat benefit from it. Several studies from advanced economies and a few from third world countries reveal that being socially responsible can aid an organization's financial standing, putting into cognizance the interests of other stakeholders in the organization can have a positive impact on an organization's long-term work relations, access to credit, product perception as well as customer/client and supplier loyalty. More often than not, it is an integral part of the general business plan and strategy to ensure that economic and political interest is at the heart of this cause. Organizations can gain substantially from adopting the concept of social responsibility. Specifically, construction companies' productivity may increase when new and more environmentally favorable technologies are adopted. In the same vein, a construction company's reputation and image are now viewed as an important intangible asset that must be protected and promoted. A company's reputation may give it an edge over the competitors. Also, businesses sometimes have no choice but to apply the concept of social responsibility (Committee on public finance May, 2002).

In a research carried out by Price water Coopers (2002) which was on global Chief Executive Officers (CEOs), it was discovered that 70 percent of opinions agreed that corporate social responsibility is critical to the profitability of any corporate organization. In the same vein, a fifty country study of Chief Executive Officers in that same year by Environics International (2002) revealed that 80 percent of respondents believe corporate social responsibility increases product innovation and profitability of corporate entities.

A study by Ojo (2007) focused on the social responsibility of business organizations in Nigeria by examining the extent of involvement of organizations toward the concept of CSR with a view of recommending the strategic importance of being socially responsible to all stakeholders. The survey utilized the annual reports and statements of accounts of selected 40 limited liability companies out of 209 of them as at the middle of 2007 by using secondary data within the range of 2002 - 2006 and by the statistical methods of regression and Analysis of Variance (ANOVA); comparison was made of their turnover with the total investment in social responsibility; and the result proved that the selected companies contributed a negligible amount of their annual earnings in social responsibility.

5.2 Theoretical Framework

There are many theoretical frameworks that come to mind when discussing corporate social responsibility and financial performance of organizations like construction companies. One of such theories is the theory of stakeholders. Furthermore, the concept of stakeholders was introduced first in a 1963 internal memorandum at the Stanford Research Institute. Stakeholders could be defined as those groups of individuals without whose support an organization would reach its end of life. The stakeholders' theory was later developed and defended by Freeman in the 1980s. Subsequently, the theory gained wide acceptance in the business world and in the development of theories related to corporate governance, business purpose, strategic management, and of utmost importance, corporate social responsibility.

Hawke (2000) asserted that stakeholder theory is relevant if and only if stockholder theory is reliable and the only way that a business manager can optimally serve the interests of shareholders is by serving the interests of all stakeholders. Organizations are spurred to become more socially responsible since their critical stakeholders want them to understand and address the community and social issues that are of interest to them. Knowing what causes are germane to employees is normally the first priority step; as the many interrelated business opportunities that can be derived from improved employee engagement such as higher productivity, improved recruitment, more loyalty, increased retention among others. Basically, this theory affirms that the governmental institutions, political movements, trade unions, trade associations, sociocultural groups and the general public at large are also among the stakeholders, aside the other aforementioned parties. Although, Freeman (1984) was opposed to neo-classical economy, to him stakeholders are bodies and individuals who can impact or are impacted by activities of an organization. Branco and Rodrigues (2007) stressed that the stakeholder position of corporate social responsibility as the accommodation of all groups or constituents in the decision making process of management as it relates to the organization's portfolio of socially responsible engagements.

The stakeholder's theory is relevant because it is a theory of organizational management and business ethics that addresses morals and values in organizational management. Stakeholder's theory tries to cover the principle of whom or what really matters to an organization like a construction firm in Nigeria. It is also a relevant theory of the corporation that integrates the resource-based view as well as the market-based view and adding socio-political level. According to Werhane and Freeman (1999), stakeholder is anyone or group of people whose relationship with an organization helps to explain the organization concerning its goals, objectives and plans to the functioning, development, survival and wellbeing of the corporate body and its services. It can be conceived as whatever that is affected by the organization and its activities. Stakeholder's theory embraces not only the investors, suppliers and customers but also governmental bodies, trade associate, political groups, trade unions, communities, prospective customers, prospective employees and the public at large.

VI. Test of Hypothesis

A sample size of four (4) construction companies namely Julius Berger Nigeria Plc, Reynolds Construction Company, Setraco Nigeria Limited and Dantata & Sawoe Construction Company (Nigeria) were selected. Four (4) were selected because the ranked higher than others in terms of their coverage and social responsibilities. The selected construction companies represent those that engaged in corporate social responsibility and the sampling technique was judgmental

There is one independent variable corporate social responsibility and one dependent variable financial performance. A regression analysis is used to test the hypotheses

H_0- corporate social responsibility has no significant effect on the financial performance of construction companies in Nigeria.

H_1 - corporate social responsibility has significant relationship on the financial performance of construction companies in Nigeria

Decision Rule: If the coefficient estimate of corporate social responsibility has a positive sign and its probability less than 0.05, the null hypothesis is rejected and the alternate hypothesis is accepted. However, if the coefficient estimate of corporate social responsibility does not have a positive sign and its probability greater than 0.05, the null hypothesis is accepted and the alternate hypothesis is rejected.

Analysis of regression results
Corporate social responsibility and financial performance of organizations
Least square method
Sample (adjusted): 2 20
Included observations: 19 after adjusting end points
Net Profit Margin (NPM): this is an indicator of how profitable an organization is

$$NPM = \frac{\text{Net Income}}{\text{Turnover}}$$

Return on Assets (ROA): This shows how profitable an organization is in relation to its total assets.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on Equity (ROE): this measures an organization's profitability by showing the amount of profit the organization generates with the investments of shareholders

$$ROE = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

T-Statistical test was used to conduct the test of individual regression coefficient. The justification of the t-statistical is that it was employed to analyze the statistical significance of the individual regression coefficient. A two-tailed test was conducted at 5% level of significance. The two hypotheses were tested against each other.

S/N	Year	Ave. Change in Corporate Social Responsibility	Average in return on investment
1	2014	0.20	29.76
2	2015	0.25	37.20
3	2016	9.95	65.38
4	2017	17.05	58.82
5	2018	2.21	29.30

Source: Author's compilation

The above table depicts the outcome of the simple regression analysis of the implication of CSR on FP of construction companies for the period 2014 – 2018 in Nigeria. The coefficient of determination R^2 which evaluates the goodness of fit of the model shows that 72% of the variations detected in the dependent variable were explained by the independent variable. This was however moderated by the Adjusted R^2 of 61%. Furthermore, the result shows that CSR has a positive and significant effect on the financial profitability of Nigeria based construction companies ($a = 0.008$, $p = 0.005 < 0.05$).

As the coefficient estimate of corporate social responsibility is positive, null hypothesis is rejected and alternate accepted. Therefore, Corporate Social Responsibility has positive and significant effect on financial profitability of construction companies in Nigeria.

VII. Discussion of Findings

The findings of this paper show that the variable of CSR has a positive effect on the FP of Nigeria based construction companies. The T-Statistical test appeared significant at 5% but all the others appeared to be significant only at 10%.

In totality, the findings of the paper provide support to the initial submissions of Becker and Huselid (1998) that high performance in employee relations has an economic and statistical positive effect on organizations financial performance. In essence, community support improves corporate organization's profitability due to the fact that it ensures a hide acceptability of corporate organizations by the members of the society or community they operate in.

As the discoveries of the study reveals that variables used in the paper have statistical effect though at different regression levels of significance; which indicate that both government institutions and corporate organizations must take CSR issue as an important aspect of corporate activities. On the part of the construction companies under review, they need to be providing more social services as this could lead to more profitability for the corporations. Furthermore, this could be achieved by making CSR part of the policy statement of organizations and backed up by an enhanced objective budgetary plan. In addition, the regulatory authorities need to come up with clearly defined and well spelt out regulatory framework for corporate organization in respect of social responsibility; nonetheless, the regulatory authorities ought to ensure full compliance by the corporate organizations.

VIII. Conclusion

In conclusion, this paper analyzed the nature of the existing relationship between corporate social responsibility and organization's financial profitability within the Nigeria based construction companies. Since there is no business that exists in a vacuum, the environment serves as the field on which businesses operate or carry out their day to day business activities; the business environment deserves the duty of care and adoration of the companies operating on it. The environment and the people need to be taken into deep consideration while carrying out the business of construction by these construction companies.

IX. RECOMMENDATIONS

The paper makes the following recommendations from the findings above:

I. Government should to put machinery in place to monitor corporate organizations' investment in corporate social responsibility as this will serve as motivation for their engagement in social responsibility activities in the environment they operate.

II. There is need for corporate social responsibility projects to be well structured and implemented for optimal effect on the lives of the community members so that they can enhance the wellbeing of the beneficiaries.

III. Construction companies should liaise with community leaders to identify areas available to them to improve the lives of the members through the provision of social amenities.

IV. Corruption in all its ramifications in the discharge of corporate social services must be fought to the barest minimum by all the stakeholders.

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