

Causal Effect of Corporate Social Responsibility on Value Drivers in the Nigerian Manufacturing Sector

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Abstract

This study examined the causal effect of corporate social responsibility (CSR) on value drivers in the Nigerian manufacturing sector. This study is significant at this time in Nigeria when the rate social and environmental abuse have increased which have lead to intensified agitation by host communities for more socially responsible business practice among resident companies and this has now become a subject of concern to management of these companies because they have other stakeholders that also have legitimate right on them and their expectations have to be met also. The value drivers in this study are limited to the shareholders, management, employees, and government. The study covered 30 manufacturing firms that are listed in the Nigerian Stock Exchange. The unit root test, co-integration test and the Granger causality test were used to examine the causal effect of social responsibility on value drivers. The co-integration results show that there is long run relationship between CSR and the value drivers. The granger causality test show that the shareholders and employee have link with CSR. It was concluded that the involvement of firms in CSR activities leads to increased dividend payout which maximizes the wealth of the owners and which will also translate to increase in the benefits of the employee.

Keywords: corporate social responsibility, value drivers, agency-stakeholder theory, manufacturing sector.

INTRODUCTION

Corporate Social Responsibility (CSR) is described as the way in which business firms integrate environmental, economic and social concerns into their culture, values, strategy, decision making and operations in an accountable and transparent manner and, therefore, leading to better creation of wealth, an improved society and better practices in the business organization (Manescu 2010). This phenomenon is vital especially at this time when organizations are expected to carry out their business activities in a manner that would promote sustainable development in both the immediate and extended environment of the organization. In as much as the companies try to be responsible to their environment and host communities, the Nigerian case is peculiar because of the criminality such as kidnap of company personnel, bombings, disruption of business activities, and bombings among others which some of the host communities have put into their agitations for companies to be socially responsible to them. The actions of these communities have negated the opinion of Ocran (2011), who argued that it is a voluntary action, not a mandate because the purpose of all profit-making organizations is to maximize profit and in turn minimize cost, through optimal utilization of available resources to achieve the best results.

The arguments of scholars however is that since business organizations do not exist in isolation but exist within a society, business organizations need to contribute positively to the development of society in which they operate (Carroll 1979; Fodio 2013; Odetayo, Adeyemi & Sajuyigbe, 2014). This has led to situation whereby organizations are called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders (Van Marrewijk & Verre, 2003; Tsoutsoura 2004).

The cost of being socially responsible in Nigeria very high because of the provision of amenities such as construction of roads, provision of pipe borne water, electricity which are supposed to be the responsibility of government and provision of these most times, involves large funds. The increased cost is caused by the inability of the communities to differentiate between social amenities provisions that are the responsibility of governments in Nigeria and the ones that can be provided by companies to show responsibility to them.

Tsoutsoura (2004), submitted that CSR is necessary as it is a way by which companies give back to the society they operate; but adopting the CSR principles involves costs and the economic meltdown and non vibrancy of the capital market have made CSR to become difficult among Nigerian manufacturing firms. In as much as CSR is beneficial, businesses should also be aware that the inclusion of social responsibility objectives in the strategy of the organization must be triggered not only by the desire to build a positive image, operational efficiency or the prospect of competitive advantage, but as a condition of building sustainable businesses (Ganescu, 2012). Building sustainable development in the business environment require the consideration of some value drivers (stockholders, management, employee and government) who also have legitimate claim of the firm and their activities add value to the firm and provide a competitive advantage to the business (Krogger Highlights, 2015). It is important to consider these value drivers because they are also significant in the attainment of sustainable development and the neglect of these groups may pose risk to business survival in the long run.

The significance of CSR to firms' performance have been established both by theories and literatures but in as much as this is true, it is also proven that there are other groups that have stake in the organization because they have contributed their stake into the business and there are some economic requirements and expectations that the firm must oblige to (Reijo, 2014). For example the stockholder expects dividend, management expects retain earnings to continue to sustain business, employee expects salaries and wages and other benefit, and government expect tax. The managements of firms are faced with the problem of satisfying their host communities and also meeting its obligation to its value drivers without jeopardizing the overall objectives of the firm especially at this time when the Nigerian economy is experiencing depression. There is therefore, the need to critically examine the causal effect of corporate social responsibility role of the Nigerian manufacturing firms on the other value drivers in the long run so as to give the firms empirically tested prove for the justification their CSR actions.

THEORETICAL AND LITERATURE REVIEW

Agency versus Stakeholder Theory

Agency theory is primarily concerned with the relationship that exists between managers and stockholders. Jensens and Meckling (1976), define agency relationship is one in which one or more persons (the principal(s)) engages another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent.

It was stated that the owners contract the managers to perform the controlling tasks of a firm, and as both seek to maximize their own utility. The stakeholder theory is a generalization of the notion of stockholder, who themselves have some special claim on the firm. Just as stockholder have a right to demand certain actions by management, so do other stakeholders have a right to make claims. Freeman (1984), define stakeholders as group of individuals who benefit from or are harmed by; and whose rights are violated or respected by corporate actions. They are further referred to stakeholders as group of constituents who have legitimate claim on the firm. The legitimacy is however established through the existence of an exchange relationship that exists between them. The stakeholders, however the magnitude of their stake, form part of the nexus of implicit and explicit contracts that constitute the firm.

Charles and Thomas (1992) argued that this being as it may, there is need to explore the ability of the agency theory to explain the nature implicit and explicit contractual relationship that exist between a firm and its stakeholders; because in addition to managers and shareholders, the employees, customers, suppliers, creditors, communities and the general public can also hold legitimate claims on the firm. It is therefore suggested that principal – agent relationship as defined by agency theory, can be seen as a subset of the more general class of stakeholders- agent relationship. This study therefore seek to examine if this assertion among Nigerian quoted manufacturing firm since they form a large bulk of the composition of the Nigerian capital market and the effect of stakeholder- agent relation if negative may affect the overall Nigerian economic environment.

Concept of Corporate Social Responsibility (CSR)

CSR is an aspect of study that has gained attention in the academia. Much has been done in this area about the importance of corporate social responsibility to the company. Friedman (1962), says that social responsibility of business is to increase profit. This therefore means that any business that wants to survive must be socially responsible. According to Ghoula, Guedhamib, Kwok, and Mishrac (2011) as defined by World Bank Council for Sustainable Development that CSR is 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 of the local community and society at large. The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society (Odetayo, Adeyemi & Sajuyigbe, 2014; Van Marrewijk & Verre, 2003) and

the traditional views about competitiveness, survival and profitability are being swept away.

Corporate Social Responsibility (CSR) and Value Drivers

In Kroggers Highlight (2015), value driver is defined as anything that can be added to a product or services that will increase its value to consumers as this differentiate a product or services from those of a competitor and make them more appealing to consumers. In the context of this study, value drivers connote the stakeholders whose activities add value to the firm by increasing productivity, profitability, public image and overall business sustainability. Although value drivers in an organization run through a lot of factors, this study limits its scope to the value drivers shown in the value added statement of companies' annual reports which include; shareholders, management, employee and government. Literatures were explored to examine the relationship between CSR and value drivers

CSR and Shareholders

The focus of this study is the income that comes to the stockholder in the form of dividend received at the end of a financial year. Adrian, May and Jorg (2016), outlined and tested two CSR views of dividends. The first view argues that firms are likely to pay fewer dividends because CSR activities lower the cost of equity, thereby encouraging firms to invest or hoard cash rather than pay dividends. The second view suggests that CSR are positive NPV projects that increases earnings and hence dividend payouts. The first (second) view predicts that firm with stronger involvement in CSR activities should be associated with lower (higher) dividend payout. Becchetti, Giacomo & Pinnacchio (2012) opined that in relating CSR and Owners Income, it is polarized around two opposite perspectives. One considers CSR as a violation of manager's mandatory duties, when it materializes into arbitrary management of "free cash flow" and higher expenditures which reduce shareholders' wealth (Friedman, 1962).

CSR and Management

This is measured on the funds which the management retains in the business to continue its activities after other stakeholders have been satisfied in a given year. The fund retain is dependent on the profit made in the year which makes profitability an object of concern. Emilsson (2012) stated that in recent years CSR has come to focus on its link to profitability. There are mainly three contradictory views on the relationship between CSR and profitability: CSR is at odds with profitability, CSR can be profitable or that CSR does not have any impact on profitability. Those who believe

that there is a negative relationship between CSR and a profitability, stated that companies practicing CSR get a competitive disadvantage because they have higher costs, which they otherwise would not have had. Costs reduce profits and therefore reduce shareholder value (Waddock & Graves, 1997; McWilliams & Siegel, 2000). Some studies however stated that there is a positive relationship between CSR and profitability; and argued that the costs incurred are minimal and the benefits potentially large (Waddock & Graves, 1997; Orlitzky, Schmidt & Rynes 2003). The researchers therefore believe that CSR is a way for both companies and society to flourish and that the main benefits arise when the company is working with CSR in the long-term. Finally, proponents of the neutral relationship between CSR and profitability argued that there are too many variables between them and therefore there is no reason to believe that a relationship exists between the two, except possibly by accident (Waddock & Graves, 1997).

CSR and Employees Emolument

Employee emolument covers all expenses on the employee; wages and salaries, Burbano (2014), opined that empirical studies of the relationship between employee's salary and socially responsible jobs have resulted in mixed findings, and do not establish causal effects. A salary differential among Cornell graduates, with the jobs rated as more socially responsible offering lower wages, while Goddeeris (1998), found no correlation after controlling for individual characteristics by asking MBAs how much of their salary they would be willing to give up to work for a socially responsible firm. Generally, employees appreciate when their company engages in corporate social responsibility but when the practicing of the social activities affects their emolument they seem not to appreciate it anymore.

CSR and Government

This focus primarily on the tax paid to government at the end of a fiscal year. Many organisations have given a great deal of thought to their CSR in relation to social and environmental issues. Paying tax is considered to be an important part of a company's economic impact and contribution to society, as taxes fund social investment. Kumar and Kumar (2015), stated that most multinational companies in India have tax advantage with the tax authorities because of their CSR activities. Avi-Yonah (2014) stated in a study conducted on whether Corporations should Pay Tax. From the perspective of the corporation, if engaging in CSR is a legitimate corporate function, then corporations can also be expected to pay taxes to boost society as part of their assumption of CSR. If, on the other hand, CSR is

illegitimate, there is a question whether corporations should try to minimize their tax payments as part of avoiding CSR and maximizing the profits of their shareholders. The answer to the question of whether corporations should try to minimize their tax payments by any legally permissible means thus depends on our view of CSR.

EMPIRICAL REVIEW

Benlemlih (2014) conducted a study on why do socially responsible firms pay more dividend using a sample of 22,839 US firm from 1991-2012. It was discovered that high CSR firms pay more dividend than low CSR firms. It was also found that socially irresponsible firms adjust dividend quicker than socially responsible firms.

El-Ghoul, Guedhami, Kwok and Mishra (2011), also examined the effect of CSR on the cost of equity capital for a large sample of US firms. The study used several approaches to estimate firms' ex ante cost of equity. The finding of the study suggest that investment in improving responsible employee relations, environmental policies and product strategies contributes substantially to reducing firms' cost of equity. The study stated that its findings supports the arguments in the literature that firms with socially responsible practices have higher valuation and lower risk.

Hirigoyen and Poulain-Rehin (2015), examined the relationship between cooperate social responsibility and firms performance based on 329 listed companies in the United State, Europe and Asia-Pacific region for 2009-2010 using linear regression analysis and the granger causality test. The study used various definition of social responsibility which include; human resources, human rights in the workplace, social commitment, respect for the environment, market behavior and governance to proxy CSR. The finding of the study is that not only that greater social responsibility does not result in better performance; it negatively impacts corporate social responsibility.

Iya, Badiye and Faize (2015), conducted a study on corporate social responsibility and the performance of first bank plc, Adamawa state. The objective of the study was to investigate the impact of CSR expenditure on the performance of First bank Plc from 2001-2014. The study used ordinary least square technique (OLS), Augumented Dickey-fuller technique, Breush-Godfrey serial correction in test and Pair raise Granger causality test to analyze the data. The result of the test recorded for increase in CSR expenditure raised the performance of First bank Plc and the causality test show that CSR

causes the performance of First bank plc (PAT) but PAT does not cause CSR.

Fasanya and Onakeya (2013) examined the impact of CSR on financial performance of firms in Nigeria. The study utilized both primary and secondary data and the form of the study was to get information on how effective CSR has improved the financial inability of firm in Nigeria. The study revealed that proper and effective CSR goes a long way in improving the trend of firms' financial performance in Nigeria using Cadbury Plc on the study area. Keffas and Olulu-Briggs (2011) conducted similar study in banks in Japan, US and UK using thirty eight financial and economic ratios. The study revealed that the relationship between CSR and financial performance were positive. In a similar study conducted by El-Mosaid and Boutti (2012) in Islamic banks, it was found in the study that a statistically insignificant relationship existed between CSR and performance.

In a study conducted by Babalola (2012) on the impact of CSR on firms profitability in Nigeria using data for 10 randomly selected firms between 1999-2008 showed that a negative relationship exists between firm's performance and profit after tax. In a similar study conducted by Odetayo, Adeyemi and Sajuyibe (2014); Abdulraham (2013); and Hilda, Hope & Nwoye (2015) in Nigeria banks, it was discovered that there is a significant relationship between CSR and profitability, Abdulraham (2013) however found that it had a positive relationship. Folajin Ibitoye and Dunsin (2014), also studied CSR and organizational profitability using United Banks of Africa (UBA) as case study and it was found that CSR spending has a short term inverse effect on net profit but in the long run it will provide better returns.

Malik and Muhammed (2014) studied the impact of CSR on financial performance of banks in the service sector of Pakistan. The result showed that there is lack of CSR in Pakistan and the regression model showed that there is positive and insignificant relationship between profitability and CSR practices. Study conducted by Samura, Shualind and Farzana (2015) considering the oil and gas sector in Pakistan for companies listed in the Karadin stork exchange for period of 2006-2013 also showed an insignificant relationship.

METHODOLOGY

The study was conducted using data from secondary sources to determine the causal effect of corporate social responsibility on value drivers in the Nigerian manufacturing sector. The analysis was done using

analytical tools; unit root test, co-integration test and granger causality test. The data used was obtained from the annual reports of selected firms and factbook for 2004-2015. The base year was used due to increased interest in CSR, high level of awareness and pressure host communities and the public on company to give back to the society. This study captured companies that are quoted on the Nigerian Stock Exchange.

Model Specification

Following the empirical approach in dynamic panel study by Gaud, Hoesli and Bender (2005) and Nwachukwu (2009) among several other studies, this study settled for specifications with four-year lags for each explanatory variable that is $m=n=4$; this is represented in equations 1 and 2. The Granger causality test in equations 1 and 2 were estimated using four annual lags of corporate social responsibility (CSR) and value drivers. The two types of bi-variate regression models estimated for test of the existence and direction of causality between Corporate Social Responsibility (CSR), Employees Emolument (EME), Owners Income (OI), retained Earnings (RE), and Taxation (TAX) are represented in equations 1 to 4.

$$\text{EME} = f(\text{CSR}) \dots\dots\dots(1)$$

$$\text{OI} = f(\text{CSR}) \dots\dots\dots(2)$$

$$\text{RE} = f(\text{CSR}) \dots\dots\dots(3)$$

$$\text{TAX} = f(\text{CSR}) \dots\dots\dots(4)$$

We can specify equation (1 to 4) in an econometric form as

$$1n\text{EME}_t = a_0 + \sum_{j=1}^n a_j 1n\text{CSR}_t + U_t \dots\dots\dots(5)$$

$$1n\text{OI}_t = a_0 + \sum_{j=1}^n a_j 1n\text{CSR}_t + U_t \dots\dots\dots(6)$$

$$1n\text{RE}_t = a_0 + \sum_{j=1}^n a_j 1n\text{CSR}_t + U_t \dots\dots\dots(7)$$

$$1n\text{TAX}_t = a_0 + \sum_{j=1}^n a_j 1n\text{CSR}_t + U_t \dots\dots\dots(8)$$

Where, the parameters $j = 1, 2, 3, 4$, are the short-run dynamic coefficients, while the parameters $n = 1, 2, 3, 4$, function as the long-run multipliers of the underlying the causality model. Theoretically, it is expected that $a_1 \neq 0$; $a_2 \neq 0$; $a_3 = 0$; $a_4 = 0$. This means that with the exception of retained earnings and tax, the null hypothesis that CSR does not Granger Cause EME and that OI does not Granger Cause CSR cannot be accepted

DATA PRESENTATION AND DISCUSSIONS

Data Presentation

Unit Root Test

In order to test for stationarity, the Augmented Dickey – Fuller (ADF) and Philips Peron unit Root Test was used because it adjusts approximately for the occurrence of serial correlation. The result in table I show that all the variables are free from unit root tangle. The Augmented Dickey Fuller (ADF) unit root result shows that all the variables are stationary at first difference I(1) except for tax which is stationary at level I(0).

Table 1: Unit Root Test (ADF and Phillips-Perron)

	Level		1st Difference		Conclusion
	ADF	PP	ADF	PP	
LogCSR	0.205758	1.119486	-5.446616*	-6.494608*	1(1)
LogEME	-2.308864	-2.199904	-7.056167*	-8.585310*	1(1)
LogOI	0.392096	0.042732	-3.396268*	-7.044808*	1(1)
LogTAX	-3.672108*	-3.009489**	-6.459515*	-11.59783*	1(0)
LogRE	0.392096	1.252502	-3.396268*	-11.59783*	1(1)
Critical Values					
	1%	5%	10%		
ADF	-3.639407	-2.951125	-2.614300		
PP	-3.639407	-2.951125	-2.614300		

Source: Author's computation from E – Views 9.0

Co-Integration Test

Having discovered that most of the series are I(1), it therefore informs the need to difference them (series) before OLS can be used. The result shown in table IIa and IIb revealed that the trace statistics and the maximum Eigen values are greater than the critical values at 5% level of significance; while we also have three Co-integrating factors in the three cases (trace statistics and the maximum Eigen value). The implication of the above is that there is long run relationship between Corporate Social Responsibility, Employee's Emolument, Owners Income, Retained Earnings and Tax, as the null hypothesis of no co-integration cannot be accepted at 5% level of significance.

Table IIa: Unrestricted Co-integration Rank Test (Trace)

Hypothesized	Trace	0.05 Critical Value	Prob.**
No. of CE(s)	Eigenvalue	Statistic	
None	1.000000	1235.609	60.06141 1.0000
At most 1 *	0.597582	69.04271	40.17493 0.0000
At most 2 *	0.485552	39.00402	24.27596 0.0004
At most 3 *	0.297201	17.07020	12.32090 0.0075
At most 4	0.151763	5.431630	4.129906 0.0635

Table IIb: Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized	Max-Eigen	0.05 Critical Value	Prob.**
No. of CE(s)	Eigenvalue	Statistic	
None	1.000000	1166.567	30.43961 1.0000
At most 1 *	0.597582	30.03869	24.15921 0.0071
At most 2 *	0.485552	21.93382	17.79730 0.0113
At most 3 *	0.297201	11.63857	11.22480 0.0423
At most 4	0.151763	5.431630	4.129906 0.1235

Max-eigenvalue test indicates 5 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Granger Causality Test

Granger causality measures precedence and information content, The Granger (1969) approach to the question of whether a variable causes another is to see how much of the current value of a variable can be explained by past values of the same variable and then to see whether adding lagged values of another different variable can improve the explanation. The result in table III revealed that CSR granger cause employee emolument (EME) while owners income (OI) granger cause corporate social responsibility (CSR). The null hypotheses are rejected for employee emolument and owners income

while it is accepted for others because their P-value is above 5%. The indication of this result is that CSR makes approximately 3.71% prediction of Employees Emolument, Owners Income approximately predicts 1.10% of Corporate Social Responsibility.

Table III: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
LOGEME does not Granger Cause LOGCSR	11	0.08588	0.9179
LOGCSR does not Granger Cause LOGEME		1.02695	0.0371
LOGOI does not Granger Cause LOGCSR	11	5.31878	0.0110
LOGCSR does not Granger Cause LOGOI		1.88803	0.1701
LOGRE does not Granger Cause LOGCSR	11	1.38005	0.2682
LOGCSR does not Granger Cause LOGRE		0.00848	0.9916
LOGTAX does not Granger Cause LOGCSR	11	0.25340	0.7779
LOGCSR does not Granger Cause LOGTAX		2.16254	0.1339

Source: Author's Computation using E-Views 9.0

DISCUSSIONS

Corporate social responsibility has become the central focus in examining the relationship between business organizations and the society. If managers ignore the claims that stakeholders place on their organizations, the stakeholders are likely to withdraw their support which might impede the performance of those organizations. This study was conducted to determine the causal effect of CSR expenditures of firms on the other stakeholders with focus on the value drivers using the unit root test, co-integration test and granger causality test. The study purposively selected stakeholders that can be seen as value drivers and determinants of CSR (owners, employee, government, retained earnings) which were included in the model specified.

The empirical results of the co-integration test show that there is long run relationship between Corporate Social Responsibility, Employee's Emolument, Owners Income, Retained Earnings and Tax. This finding upholds the argument of the stakeholders theory. The pairwise granger causality test revealed that during the period of this study, CSR granger cause employee emolument (EME) and owners' income (OI) granger cause CSR. The implication of this result is that there is a link between owners' income and employee emolument and CSR. The findings of this study confirm the submission of Benlemlih (2014) who stated that high CSR firms pay more dividend than low CSR firms.

Deng, Kang and Low (2013) also stated that acquirers with high CSR ratings experience higher announcement returns and better post-merger performance arguably because these firms' reputation helps them retain key stakeholders after the merger. Regarding CSR and employee emoluments, the finding of this supports the assertion of Charles and Thomas (1992) as stated that there is a long run benefit for the firm if its link between CSR and EME is maximized. The result however negate the finding of Burbano (2014), as stated that empirical studies of the relationship between employee's salary and socially responsible jobs have resulted in mixed findings, and do not establish causal effects; because as evident in this study in relation to Nigerian manufacturing sector and the period covered in this study, there is a causal effect between employee emolument and CSR.

Evidence from the study show there as a significant link between CSR and value drivers in the Nigerian sector. The shareholders and employee however showed a significant effect. This study concluded therefore that the school of thought that suggests that CSR are positive NPV projects that increases earnings and hence dividend payouts because it has been confirmed in this study that firm with stronger involvement in CSR activities are associated high dividend payout. It is also revealed that employee of the CSR inclined firm will enjoy the long run benefit of higher remuneration. The study therefore recommends that companies continue to invest more in CSR activities as it is an avenue to maximize the wealth of its owners and also gain the trust and confidence of its employees which will result in increased productivity and then metamorphose to increased profitability.

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CONCLUSION AND RECOMMENDATIONS

This study concluded therefore that the school of thought that suggests that CSR are positive NPV projects that increases earnings and hence dividend payouts because it has been confirmed in this study that firm with stronger involvement in CSR activities are associated high dividend payout. It is also revealed that employee of the CSR inclined firm will enjoy the long run benefit of higher remuneration. The study therefore recommends that companies continue to invest more in CSR activities as it is an avenue to maximize the wealth of its owners and also gain the trust and confidence of its employees which will result in increased productivity and then metamorphose to increased profitability in the long run.

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