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THE IMPACT OF PROFITABILITY ON CORPORATE SOCIAL RESPONSIBILITY (CSR) SPENDING ON HOST COMMUNITIES BY CEMENT MANUFACTURING COMPANIES

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Abstract

This study is on the impact of profitability on corporate social responsibility (CSR) spending on host communities by cement manufacturing companies. The main objective of this study is to assess the impact of profitability on CSR spending on cement companies` host communities. The study made use of secondary data obtained from the annual financial statements of the companies from2014 t0 2018. All the cement companies quoted on the Nigerian stock exchange were sampled and linear regression analysis was used to analyze the data collected. The study found that profit has no any significant impact on the CSR spending of cement companies studied. It was concluded that there are other important factors that plays significant roles in the decision on CSR spending by cement companies.

Key words: *Corporate social responsibility, Profitability, Host communities, Cement manufacturing companies, Spending*

INTRODUCTION

Company's sustainability has recently become a major area of discussion and debates in academia, corporations globally are trying to adjust to a new role, which entail meeting the needs of the present generation without compromising the ability of the next generation to meet their own needs (Babalola, 2013). This role can only be attained, if the corporations are able to cater for the differing need of its various stakeholders. Which is supported by strategic thinking that company's need to add activities that expand out from the company into the society (Awan and Akhtar, 2014).

One of the simplest way to achieved this expansion is for companies to embraced the recent call for companies to embarked on the social responsibilities activities to their host communities and to all stakeholders (Gololo, 2019; & Uwalomwa, Olubukunola and Anijesushola, 2011). This emanates from increasing pressures from various stakeholders that companies must address social and environmental issues with respect to their host communities (Gololo, 2019).

Corporate Social Responsibility (CSR) as observed by Uwuigbe (2011) is an assertion by corporations to consider the interests of customers, employees, shareholders, government, communities, as well as the ecological "footprints" in all aspect of their operations. These uncontrolled impacts of industrial activities on the environment have created critical ecological challenges on the planet; which has aggravated phenomena like climate change, ozone depletion, over-exploitation of natural resources, air pollution and increase in radioactive water pollution that has resulted to the continues destruction of water marines thereby, disrupting the sustainable development of such environment.

Corporate Social Responsibility goes beyond the old-fashioned and altruistic philanthropy of the past, instead now it is an all year round responsibility for business. In spite of mixed evidence on the financial impact of corporate social responsibility, the largest and most powerful global corporations embrace it as their core business principles. And many of them sees it as the holy grail to invigorate the business, only if they can discover it.

Fodio, Abdullahi and Oba (2013) defines corporate social responsibility as a mechanism that constitute and envelopes all the stakeholders which includes employees, customers, investors (existing and potentials), communities and governments. The most comprehensive and all-inclusive definition of corporate social responsibility is the one given by World Business Council for Sustainable Development as "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 the local community and society at large." (Aminu, H. A., Harashid, H. and Azlan, A., 2015).

Companies operation have come under a lot of scrutiny, especially those in the extractive industry with cement manufacturing not an exception. Cement production has had a significant impact on the environment, especially on biodiversity, air and water quality, pollutions levels as well as land degradation and health hazards. Communities are exposed to loss of farm lands for crop production and animal grazing, loss of means of livelihood, decline in health status and exposures to other communicable and contagious ailments. To compensate for these losses, companies are expected to provide some basic amenities which covers a wide spectrum and may include education, health care, water supply and infrastructure supply. This act is corporate social responsibility of the company (Ita, 2013; & Otukpa and Usoroh, 2018).

This paper intends to explore the impact of profitability on corporate social responsibility spending on host community of cement manufacturing companies in Nigeria from 2014-2018.

Objectives of the Study

The main objective of this paper is to examine the impact of profitability on corporate social responsibility spending on host community of cement manufacturing companies in Nigeria. Other specific objectives are

i. To find out what are expenditures of cement companies on education and health in the host communities
ii. To find out what are expenditures of these companies on infrastructural facilities among others in the host communities
iii. To find out the role of profitability in financing these CSR projects

Statement of Hypothesis

To achieved the objectives stated in this study, the following null hypothesis was formulated

Ho_1: there is no significant impact of profitability on corporate social responsibility (CSR) spending on host communities by cement manufacturing companies

Literature Review

Conceptual Framework: the major concepts that underpins this study would be reviewed.

Corporate Social Responsibility Concepts: Keffas and Olulu-Briggs (2011), defines CSR as "CSR is a term describing a company's obligation to be accountable to all its stakeholders in all its operations and activities. Socially responsible companies will consider the full scope of their impact on communities and the environment when making decisions, balancing the need of stakeholders with their need to make a profit". While Asumah (2015) posited that corporate social responsibility policy function as a built-in, self-regulating mechanism whereby business would monitor and ensure their adherence to law, ethical standards and international norms. It could be argued that the motivation for engaging in CSR is always driven by some kind of self-interest regardless of whether the activity is strategically driven for commercial purposes alone, or whether it is also partly driven by what appears, at least superficially, as altruistic concern (Moon, 2011). According to Forbes (2010), corporate social responsibility works in two ways. The company gives back to the society in turn, people get to know about the company who helped them most and cater to their products and services. Idowu (2008) argues that Corporate Social Responsibility practice is about how corporate entities in different political settings, economic contexts and cultural circumstances around the world understand, perceive and are indeed practicing the field of social responsibility.

Lei (2011) in his analysis on evolution of CSR definitions maintained that the area of focus to all analysed definitions are; sustainability and social obligations like economic, legal, ethical and discretionary responsibilities. Finally, Shafiq (2011) gave a ten dimensional points on CSR definitions, which gives a full summary of all issues mentioned in various definitions of CSR, they are; Obligation to the society, stakeholders' involvement, improving the quality of life, economic development, ethical business practice, law abiding, voluntariness, human rights, environmental protection, transparency and accountability.

The Pyramid of Corporate Social Responsibility: Asumah (2015) citing Carroll (1996) suggested that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic.

Economic Responsibilities: Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. The idea of the profit motive was transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations.

Legal Responsibilities: Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by federal, state, and local governments as the ground rules under which business must operate. As a partial fulfilment of the social contract between business and society, firms are expected to pursue their economic missions within the framework of the law.

Ethical Responsibilities: Although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders" moral rights.

Philanthropic Responsibilities: Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes which form the basis for this study. On the other hand, they do not regard the firms as unethical if they do not provide the desired level.

Core characteristics of CSR: Aminu, H.A. et.al (2015) said that the core characteristics of CSR are the essential features of the concept that tend to be visible in CSR practice. Six core characteristics are summarised below:

(i) Voluntary: Scholars define CSR to be a representative of all set of corporate initiatives which are discretionary and extend beyond what the law has prescribed. The views of government and other stakeholders in all developing countries emphasise this characteristic (Crane et al, 2008).

(ii) Internalizing or managing externalities: Externalities in CSR refers to all sort of factors that has impact on different stakeholders' rights are not directly taken care of in the decision making process of a business organisation. Environmental degradation is typically regarded as an externality since the general public feel the impact of the production process. Regulation can force firms to internalise the cost of the externalities, such as pollution fines, but CSR remain as a viable discretionary approach of managing externalities like taking more safety measures and reduction of pollution by going green.

(iii) Multiple stakeholder orientation: The central theme of stakeholder management is to identify stakeholders' orientations based on the three attributes which defines their power, legitimacy of claim and urgency. Subsequently, defining stakeholder orientations helps in identification and prioritisation of stakeholders through the adoption of a step by step approach starting with internal preparations, appointing the internal leadership team of internal stakeholders for marketing, communication, operational unit, human resources, investor relations and environmental/government affairs etc, limiting expectations to a realistic level, training on communication skills, stakeholder research, collective bargaining and good industrial relations, adequate knowledge on crisis and risk management, public relations, adopting a suitable technique of managing multiple stakeholder orientations, accommodations for possible unavoidable mistakes and finally comparing stakeholder expectations with organisational performance (Ahmad et al, 2014).

(iv) Alignment of social and economic responsibilities: This balancing of different stakeholder interests leads to another core feature. Whilst CSR may be about going beyond a narrow focus on shareholders and profitability, many also believe that it should not, however, conflict with profitability. Although this is much debated, many definitions of CSR from business and government stress that it is about enlightened self-interest where social and economic responsibilities are aligned.

(vi) Beyond philanthropy: In some regions of the world, CSR is mainly about philanthropy – i.e. corporate discretionary responsibility or voluntarism towards the general public. CSR is currently a mandatory practice backed by regulations and accepted international standard which is shifting from altruistic to instrumentality or strategic CSR. It is no longer altruistic in nature only but more than just philanthropy and community development projects, because of the impacts it has on profitability, human resource management, marketing, and logistic support which are all part of the core functions of business organisations.

Empirical review of related literature

Gololo (2019) carried out a study on corporate social responsibility disclosure and financial performance of quoted Nigerian cement companies. Using secondary data obtained from published annual reports of 3 (three) companies sampled out of population of 5 (five) using purposive sampling, it was found that CSR disclosure have a significant positive impacts both performance (return on equity and return on capital employed) and control (leverage and company size) proxies used in the study.

Otukpa and Usoroh (2018) conducted a studies on corporate social responsibility (CSR) and community development (CD); a case study of the United Cement company (UNICEM) in Cross-rivers state of Nigeria, by identifying three variables of community development (Education; Health services; and Water provision) as the independent variables and CSR as the dependent variable. Administrating questionnaire through a survey research, they found that the community development effort of the company significantly influences the development of the host community.

Ojo and Akande (2014) carried out a work on societal perception of the corporate social responsibility of Lafarge cement Nigeria PLC. The study intends to measure disparity between what Ewekoro community (Host community) expects from the company and what the company perceived to be its CSR. Using questionnaire, the study disclosed a significant relationship between the cement company social responsibility and the community expectations.

Amole, Adebiyi and Awolaja (2012) carried out study on corporate social responsibility and profitability of Nigerian bank industry using First Bank of Nigeria (FBN) Plc as their case study. The study found out that there is positive relationship between banks corporate social responsibility activities and profitability. Ahamed, Almsafir and Al-Smadi (2014) examine the relationship between corporate social responsibility and Corporate Financial Performance for a Malaysia firms. The result of the study shows a positive relationship between corporate social responsibility and Corporate Financial Performance practices. Aras, Aybars and Kutlu (2010) investigated the relationship between corporate social responsibility and Corporate Financial Performance by performed regression analysis with profitability as dependant variable and corporate social responsibility and firm size as independent variable. The study discovered that there is no significant relationship between corporate social responsibility and company profitability.

Theoretical Framework: The theories that underpin this study are legitimacy and stakeholders theories.

(i) Legitimacy Theory: Suchman (1995) stated the definition of legitimacy as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." Dowling & Pfeffer (1975) defined legitimacy as "a condition or status which exists when an entity"s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential exists between the two value systems, there is a threat to the entity"s legitimacy." A business organisation throughout its survival needs to fulfil what the society expect from it, by doing so the business organisation is considered as an entity that deserve to be in the same environment with the society it serves, this notion gives the essence of been part of the society and have a legitimate right of survival. Legitimacy theory expresses how a business reacts to the pressures and expectation of its stakeholders to survive. Legitimacy deals with two major concepts, the perception of the general public and the efficiency of the communication channels used by the corporation. Legitimacy theory require organisation to continuously check whether their survival is serving the public as they expect regarding the values they uphold and cherish (Mobus, 2005). Legitimacy theory is built upon the idea that business organisations operates in a community through an implied or perceived agreement to perform some socially responsible acts in order to survive within the community and achieve its objectives. It is the community that determines how useful and worthy an organisation is to them based on the congruency between what they expect and what they get from the business organisation (Haron et-al 2007).

(ii) Stakeholders Theory: This theory focuses on the relationship between the business organisation and any single individual or group of people or functional bodies that are involved in the process of achieving organisational objectives. Stakeholders can be defined as any group or individual that can affect or be affected by the process of achieving business objectives (Freeman, 1984). A stakeholder as defined by (Clarkson, 1995) is any person or group of people that are having an ownership right or any form of interest or claim on an organisation.Jones (1999) classified stakeholders into two groups; primary and secondary groups. The primary group consist of those who influence the survival of the organisation in a direct manner, their continuous participation keeps the organisation surviving. The organisation depends solely and directly on the participation of its primary stakeholders. The organisation can only survive if its managers utilise their skills in creating valuable products to satisfy its shareholders, customers, suppliers, investors, employees, and government. Secondary stakeholders are the group that does not have a direct impact on achievement of organisational objectives, their role is less in importance, impact and the survival of the organisation does not depend on their participation.

Methodology

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REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT CSR
  /METHOD=ENTER PROFIT.
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Regression

[DataSet0]

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	PROFIT[b]	.	Enter

a. Dependent Variable: CSR

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.088[a]	.008	-.069	322595186.3

a. Predictors: (Constant), PROFIT

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.057E+16	1	1.057E+16	.102	.755[b]
	Residual	1.353E+18	13	1.041E+17		
	Total	1.363E+18	14			

a. Dependent Variable: CSR

b. Predictors: (Constant), PROFIT

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	241094299.7	86145378.65		2.799	.015
	PROFIT	.005	.015	.088	.319	.755

a. Dependent Variable: CSR

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Research design employed in this work is the ex-post factor research design. This entails studying the variables the way they are without any manipulations. Population of this study is made up of all quoted cement manufacturing companies in Nigeria, which are currently three due to the mergers and acquisitions witness in the cement manufacturing industry in Nigeria and have submitted their accounts and reports with Nigeria Stock Exchange from 2014 up to the year ended 31st December, 2018. The study employed census method of enumeration.

Result and discussion

In a regression analysis, the goodness of fit statistics is usually referred to as R square (R) or adjusted R square (R^2) which evaluates the explanatory power of the independent variable in the regression equation. The R shows approximately 6.9% the extent to which the independent variable of profit was able to affect the dependent variable of CSR of the cement companies. The overall goodness of fit of the regression equation employed is assessed by the probability value of the F-statistics estimate. If the estimated probability value of the F-statistic result is significant ($p < 0.05$), the equation is considered a good regression equation. Consequently, the F statistics value of $.0775 > 0.05$ is highly insignificant. This indicates that the determinants of CRS are majorly determined by other factors, while the profitability of the cement companies played an insignificant role in this aspect. The null hypothesis of this study which states that " there is no any significant impact of profitability on corporate social responsibility (CSR) spending on host communities by cement manufacturing companies " is hereby upheld.

Conclusion

This study found that profitability of cement companies has little impact in the determination of the companies` corporate social responsibilities (CSR) towards the host communities of their operations which is in line with some previous studies (Aupperle, Carroll and Hatfield (1985), Keffas and Olulu-Briggs (2011), Amole, Suliaman and Awolaja (2012), Fodio, Abu-Abdissamad and Oba 2013). It also further established the theories of legitimacy and stakeholders. Cement companies have being able to prove and earned their rightful place legitimately in their host communities as corporate citizens that take active participation in communal growth and development as stakeholders and partners.

The study has also being able to prove that cement companies not only participant actively in communal efforts, but they also have an actives mechanism that give them feed backs on the communal essential needs for their prompt interventions.

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