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REVUE EUROPEENNE D ETUDES EUROPEAN JOURNAL OF MILITARY STUDIES
Social Science Journal

Are Corporate Social Responsibilities to Employees and Creditors of Nigeria's Manufacturing Firms Enhancing or Destroying Value?

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Abstract

There are definitely numerous studies on the effect of a company's social responsibility on corporate value. However, in Nigeria's industrial goods manufacturing sector, researchers have paid less attention to how social responsibilities to employees and creditors influence corporate performance. This study attempted to fill the foregoing gap. The researchers adopted the causal-comparative design and obtained financial data from the annual reports of the industrial goods producing enterprises while regression analysis was done using the Durbin Watson test, cross-section dependence test, Hausman test and fixed and random effects estimators. The study revealed that firms in the industrial goods manufacturing sector of Nigeria were not rewarded when they attempted to fulfil corporate social responsibilities to their employees and creditors. Choosing the appropriate social responsibility agenda that enhances corporate performance is the current argument among Nigerian firms. We consider these findings as an insight for corporate managers to behave ethically and responsibly towards the employees and creditors of their respective firms.

Keywords: corporate performance, return on assets, social responsibility, social responsibility to employees and social responsibility to creditors.

Introduction

Social initiatives of corporate institutions are required by stakeholders who primarily help companies to make profit. This demand comes from community members, employees, creditors, suppliers, and the media. According to Robbins (2011), many large corporations participate in corporate social responsibility, since it may boost their financial success. CSR can also be seen as the process by which companies carry out their various activities in a fair manner in order to promote a healthy society. In today's business environment, stakeholders have given serious attention to corporate social responsibility. Comcowich (2018) asserts that measuring corporate social responsibility can assist in making better CSR investment decisions and can convince even the most sceptical shareholders.

In this competitive business environment, firms experience intensive pressure from stakeholders and they are increasingly forced to satisfy the high demand for CSR (Dizik, 2018). Dizik further asserted that in a competitive business environment like ours, the cost of acquiring resources for CSR activities is always a management's responsibility. Bauer (2014) disclosed that there is no definite set of principles for determining the right amount of funds that should be invested on corporate social responsibility. Corporate social responsibility investment decisions are made at the discretion of company's management. How this discretionary decision is made has become a serious cause for concern. Management pays what it feels like paying for CSR and it is difficult to know when this discretional release of funds for CSR investment can either lead to corporate success or failure. Problems usually arises when CSR investment is made to achieve personal benefits or made at the detriment of shareholders and other key company's stakeholders.

Wijesinghe and Senaratne (2011) has shown that not all aspects of CSR enhance corporate performance. Cheers (2011) has cautioned that any CSR investment that is not value-enhancing should not be embarked upon so that the shareholder value theory is not undermined. Any expenditure on CSR that short-changes shareholders is therefore, deemed to irresponsible and illegitimate.

Between 2003 and 2021 i.e. nineteen (19) years to be precise, the annual reports of four (4) industrial goods manufacturing CSR firms revealed that corporate social responsibility relationships with employees and creditors have respectively given rise to unjustifiable employees' welfare packages as evidenced in inexplicable increases in personnel costs without corresponding increases in personnel numbers and employee related welfare programmes and abnormal increases in creditor settlement periods leading to consistently high gearing ratios. The aforementioned scenarios constitute serious threats to profit maximization objective and create situations which are not usually acceptable to corporate business owners and other concerned stakeholders.

If the foregoing inefficiencies and dissatisfactions are not addressed, conflicts situation will arise between management and shareholders which oftentimes lead to agency costs and agency risks. Shareholders and other key stakeholders may be compelled to withdraw their investments from these companies. Dissatisfied creditors might also take these companies to court to recover their moneys which might also lead to high litigation and interest expenses.

It is in the light of the foregoing agency costs related issues that we carried out this study to determine how corporate social responsibilities to employees and creditors influence corporate value. We are not aware of the existence of any study that has investigated the effects of social responsibilities to employees and creditors on corporate value in the industrial goods

manufacturing sector of Nigeria using a 19-year period scope and a firm-year-observations of 228. To what extent have industrial goods producing enterprises in Nigeria used the fulfilment of their financial obligations to employees and creditors to influence corporate performance? This study's main purpose was to determine how corporate social responsibility to employees and creditors influence the corporate performances of listed manufacturing enterprises in the industrial goods sector of Nigeria.

Review of Literature and Development of Hypotheses

Corporate social responsibility to employees and corporate value

Workers' salaries are tied to workers' and firm performances by most employers but workers do not see any reasonable association between salaries, incentives and corporate value (Umar, 2010).

Employing and rewarding employees and providing a conducive and non-discriminatory work environment are duties which firms owe their employees (Responsibilities to Stakeholders, 2020). Minimum staff turnover, loyalty of customers, safety at work, increased production and growth in overall revenue are performance measures which show that workers of corporate institutions are satisfied with their jobs (Anindita & Yadav, 2018).

Companies have suffered from huge financial losses for failing to reward, recognize and empower their employees. Osborne and Hammoud (2017) reported that corporate organizations in the U.S. lose $350bn every year for failing to properly engage their employees. Employee that is effectively engaged or satisfied works towards the achievement of the overall organizational performance and so a company's productivity is directly influenced by employee satisfaction (Patro, 2013).

Corporate success is determined by workers' productivity which is principally derived from the commitments of these workers towards their organizations (Sarangi & Nayak, 2016). Corporate success is therefore made possible by satisfied employees and satisfaction of workers are what critically drives improved business performance (i.e. long-term high productivity and profitable customers' retention) particularly in service oriented firms (Al Kurdi et al., 2020).

Workers become satisfied when corporate organizations are ethically and socially responsible to their employees. Zaim et al. (2012) established that workers satisfaction had a direct positive relationship with performance of corporate institutions employees.

Karundeng and Tambunan (2021) affirmed that total rewards approach, quality work environment, integration of work and home, administration of performance and career and benefits revealed significant positive effects on revenue generated by companies' employees.

Isabelle et al. (2012) in their study of stock returns-stakeholders relationship discovered that investors punished firms that behave unethically and irresponsibly towards workers, suppliers and customers categorized as direct non-financial stakeholders. The connection between CSR and corporate value (market-based and accounting-based) was examined by Rogers et al. (2013) and the authors discovered that responsibility to employees positively and significantly influenced corporate performance. We propose the hypothesis below:

H1: Corporate social responsibility to employees positively influences the corporate performances of listed manufacturing companies in the industrial goods sector of Nigeria.

Corporate social responsibility to creditors and corporate performance

DPO is time or number of days taken to pay creditors while CCC is the time or number of days taken to convert inventory and other resources into cash. DPO and CCC are measures of the level of responsibility of a firm to its creditors. A firm is ethically responsible to creditors when DPO and CCC are low. i.e. prompt settlement of creditors while a firm is not ethically responsible to creditors when DPO and CCC are high. Ibrahim et al. (2021) discovered that firm value declined when CCC increased.

DPO or days payable outstanding will be low when CCC is low. A study conducted by Ibrahim and Dengel (2022) revealed that the cash conversion cycles of food and beverages and Oil and Gas firms had significant negative effects on profitability and in the same vain, Murugesu (2013) discovered that CCC had negative effects on return on equity (-48.5%), return on assets (-61.6%) and profit-after-tax (-60.2%).

It is risky for any business not to settle its creditors on time. But some business enterprises deliberately delay creditors' payment in order to enhance profitability. The study carried out by Ibrahim et al. (2021) affirmed that business performance is lowered by longer CCC and longer debtors' collection days. On the contrary the authors concluded that longer creditors' payment period helps to enhance profitability. A leverage ratio of less than 1 suggests that firms are fulfilling their debt obligations to lenders and creditors i.e. debt is less than equity which fosters a good relationship with creditors.

Accounts payable positively and significantly influenced corporate performances of Keyan's supermarkets (Muia & Ibrahim, 2019). Prompt payment of bills is a duty which every business organization owe its creditors. Same as other working capital components, trade creditors or accounts payable significantly influences profitability, Return on equity and size of firm correlated directed with trade credit (Barbuta-Misu, 2018) while trade creditors positively and significantly influenced growth of sales suggesting that trade credit can be used to enhance revenues (Aslam & Hussain, 2017).

In Kenyan petroleum companies, days taken to settle creditors ($r=0.24$, $p>.05$) and days taken to convert inventory into cash ($r=0.2$, $p>.05$) had non-significant positive effect on return on assets (Kundu, 2014). Leverage or debt/equity ratio which measures the degree of responsibility to lenders or creditors, had a non-significant positive effect on profitability and shareholder value (Venugopal & Reddy, 2016). Moodley et al. (2016) found that changes in payable days had significant positive effect on shareholder return. On the basis of the foregoing discussions and literature survey, the following hypothesis is proposed:

H2: Corporate social responsibility to creditors positively influences the corporate performances of listed manufacturing companies in the industrial goods sector of Nigeria.

Methodology

Causal-comparative design was used by the researchers. What informed this choice was the fact that the two independent variables studied could not be manipulated as this researcher did not have any direct control over them (Isangedighi et al., 2004). These two independent variables were corporate social responsibility to employees and corporate social responsibility to creditors. Before, the researcher got there; the foregoing variables had already exerted their influences on corporate performance. Therefore, we only studied how the predictor variables affected the criterion variable.

This study's population was made up of Nigeria's industrial goods producing firms listed as at 31st December, 2021. Our target population however, consisted of 12 industrial goods companies that regular corporate social responsibility relationships with their employees and creditors. The population sample was derived using the purposive sampling method. We used the foregoing sampling method because it makes it convenient for the researchers to select firms based on the annual and consistent disclosure of research problem information relating to employee salaries, wages and other benefits and creditor settlement days. Consequently, the population sample consisted of 4 industrial goods companies that met the foregoing criteria for inclusion in the study sample.

This research utilized data obtained through secondary sources. The information from financial statement was gathered from the companies' websites and from the websites of the Nigerian Exchange Group, AfricanFinancials, Investing.com, African Markets and Wall Street Journal covering the period between 2003 and 2021.

CSR to employees and CSR to creditors were the predictor variables for this study. CSR to employees was measured by welfare policy of the firm like employee salaries and wages and health insurance policy for the employee, while CSR to creditors was measured based on the days used by the firms to settle or pay their creditors. Corporate performance was the criterion variable represented by return on business assets proxy by firms' earnings prior to interests and company tax and total business assets ratio. The foregoing steps were informed by the need to prevent biased results. The sampled companies were heterogeneous in terms of sizes and corporate risks. The estimation of the study model was consequently subjected to the fixed and random effects treatments, stationarity tests, cross section dependence test, Durbin Watson and the Hausman tests in order to select the right model for the study.

Results

The nineteen years' panel data collected in respect of the sampled companies were analysed using a single equation panel regression model. The implicit form model is:

$$ROA_{it} = B_{0i} + B_1CSRTE_{it} + B_2CSRTC_{it} + e_{it}$$

Where:
i= firms
t = years covered by the study i.e. 19 years.
ROA_{it}= return on assets
B_{0i}= intercepts
B_1-B_2= regression coefficients
$CSRTE_{it}$= corporate social responsibility to employees
$CSRTC_{it}$= corporate social responsibility to creditors
e_{it}= error terms

The diagnostic tests results showed that the three key study variables and the model residual were stationary at 1st difference and at level respectively while there was no cross-section dependence in the panel data regression model. The robustness of the research and validity and reliability of the regression model were therefore confirmed by the foregoing diagnostic tests results. (see table 1). There was no autocorrelation and serial correlation in the model as indicated by a Durbin Watson test statistic of 1.739975.

Table 1: *Diagnostic Tests For The Validation Of Study Variables And Panel Data Regression Model*

Variables And The Panel Data Regression Model	Test Method	Test Statistic	P Value	Null Hypo	Decision Criteria	Remarks
Stationarity Tests Results Of Study Variables						
Roa (Return On Assets)	Adf - Fisher Chi-Square Adf – Choi-Z Stat	55.6966 -6.10561	0.0000 0.0000	There Is Unit Root	Reject H_o If P Value < 0.05	Stationary At 1st Difference Stationary At 1st Difference
Csrte (Corporate Social Responsibility To Employees)	Adf - Fisher Chi-Square Adf – Choi-Z Stat	49.5885 -5.73177	0.0000 0.0000	There Is Unit Root	Reject H_o If P Value < 0.05	Stationary At 1st Difference Stationary At 1st Difference
Csrtc (Corporate Social Responsibility To Creditors)	Adf - Fisher Chi-Square Adf – Choi-Z Stat	18.5823 -2.15410	0.0173 0.0156	There Is Unit Root	Reject H_o If P Value < 0.05	Stationary At Level Stationary At Level
Stationarity Test Results Of Residual Of The Panel Data Regression Model						
$Roa_{it} = B_{0i} + B_1 csrte_{it} + B_2 csrtc_{it} + E_{it}$	Adf - Fisher Chi-Square Adf – Choi-Z Stat	21.6640 -1.89317	0.0056 0.0292	There Is Unit Root	Reject H_o If P Value < 0.05	Stationary At Level Stationary At Level
Cross-Section Dependence Test Results Of The Panel Data Regression Model						
$Roa_{it} = B_{0i} + B_1 csrte_{it} + B_2 csrtc_{it} + E_{it}$	Breusch-Pagan Lm Pesaran Scaled Lm Pesaran Cd	6.271958 -1.076193 1.146117	0.3934 0.2818 0.2517	No Cross-Section Dependence (Correlation)	Accept H_o If P Value > 0.05	No Cross-Sect Dependence No Cross-Sect Dependence No Cross-Sect Dependence

Source: *Researcher, (2022) and Eviews 9*

Table 2: *Random Effects Panel Regression Model Results After Allowing For Heteregoneity (Time Invariant Attributes That Correlate With The Key Predictor Variables)*

Dependent Variable: LOG(ROA)
Method: Panel EGLS (Cross-section random effects)
Date: 12/29/22 Time: 08:56
Sample: 2003 2021
Periods included: 19
Cross-sections included: 4
Total panel (balanced) observations: 76
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.777297	0.167113	16.61925	0.0000
LOG(CSRTE)	-0.333526	0.059403	-5.614615	0.0000
LOG(CSRTC)	-0.586890	0.061844	-9.489900	0.0000

Effects Specification

	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	0.188455	1.0000

Weighted Statistics

R-squared	0.941897	Mean dependent var	-1.484393
Adjusted R-squared	0.940305	S.D. dependent var	0.771725
S.E. of regression	0.188552	Sum squared resid	2.595286
F-statistic	591.6948	Durbin-Watson stat	1.739975
Prob(F-statistic)	0.000000		

Source: *Eviews 9 – Regression Output, 2022*

Table 3: *Hausman Test Results Showing That The Appropriate Model Is Random Effects*

Correlated Random Effects - Hausman Test
Equation: REGOUTPUT2
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.785699	2	0.2484

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
LOG(CSRTE)	-0.309096	-0.333526	0.000230	0.1075
LOG(CSRTC)	-0.607571	-0.586890	0.000318	0.2464

Source: *Eviews 9 – Hausman Test Results, 2022.*

After trying the fixed and random effects estimators, hausman test revealed that the appropriate model of choice was random effects model ($p = 0.2484$. please see table 3). The regression output indicated that the joint contributions of the independent variables was very high while the linear relationships among the variables were significant ($R^2 = 0.941897$, $F = 591.6948$, $p<.05$. The expected value (the intercept) of the criterion variable (ROA) when the predictor variables equal to zero was positive and significant ($B_0 = 2.777297$, $p <.05$), i.e. p value of 0.0000). Durbin-Watson of 1.739975 was between 1.5 and 2.5 and was greater than R^2 of 0.941897 and this was considered appropriate for the panel data. It was revealed by Hausman test (see table 3) that the individual effects in the model were independent of the explanatory variables namely corporate social responsibility to employees {CSRTE} and corporate social responsibility to creditors {CSRTC}.

Hypothesis one stated that corporate social responsibility to employees positively influences the corporate performances of listed manufacturing enterprises in the industrial goods sector of Nigeria. This hypothesis was not supported because the regression output showed that corporate social responsibility to employees influenced return on assets significantly and negatively ($B_1 = -0.333526$, $p<.05$, i.e. p value of 0.0000 as table 2 clearly shows). This implies that as corporate social responsibility to employees increases by 1 percent, return on assets of the listed firms decreases by 33 percent at an alpha level of .0000. We were therefore unable to accept hypothesis one.

Hypothesis two stated that corporate social responsibility to creditors positively influences the corporate performances of listed manufacturing enterprises in the industrial goods sector of Nigeria. This hypothesis was not supported because the regression output showed that corporate social responsibility to creditors influenced return on assets significantly and negatively ($B_2 = -0.586890$, $p < .05$, i.e. p value of 0.0000 as table 2 clearly shows). This implies that as corporate social responsibility to creditors increases by 1 percent, return on assets of the listed firms decreases by 59 percent at an alpha level of 0.0000. We were therefore unable to accept hypothesis two. We can say with certainty that the listed industrial goods were not rewarded by their creditor days.

Discussion and limitations

This analysis shows that the relationship between CSR to employees and return on assets of listed industrial goods producing enterprises in Nigeria is negatively significant. Corporate social responsibility to employees or expenditures incurred on employee welfare-related programmes had major negative effects on return on assets. ROA represents the level of the companies' corporate performance. Employees increase corporate performance when they are carried along in the scheme of things. This finding has also proved that corporate social responsibility to employees is not value enhancing. This outcome aligns with the findings of Osborne and Hammoud (2017) where it was discovered that corporate organizations in the U.S. lose $350 bn every year for failing to properly engage their employees. Isabelle et al. (2012) in their study of stock returns-stakeholders relationship discovered that investors punished firms that behave unethically and irresponsibly towards workers. In the same vain, the industrial goods manufacturing firms' relationships with their creditors was not value enhancing. For instance, the study revealed that the relationship between CSR to creditors and return on assets of the listed firms was negative and significant. Consequent upon the significant negative effect of corporate social responsibility to creditors on return on assets, we were also able to conclude that corporate social responsibility to creditors is value destroying. This outcome aligns with the findings of the study carried out by Ibrahim et al. (2021) where it was discovered that firm value declined when cash conversion cycle (a determinant of creditor days) increased. This finding is also supported by the study conducted by Ibrahim and Dengel (2022) where cash conversion cycles of food and beverages and Oil and Gas firms had significant negative effects on profitability and further supported by Murugesu (2013) where it was revealed that CCC had negative effects on return on equity (-48.5%,), return on assets (-61.6%) and profit-after-tax (-60.2%).

The sectoral consideration and focussing our investigation on employees and creditors of the industrial goods companies placed limitations on the sample size. More manufacturing companies would have been included in the sample if other related manufacturing companies were considered. We could not also manipulate our independent variables 'corporate social responsibility to employees' and 'corporate social responsibility to creditors' since it was not possible to carry out this study before the industrial firms fulfil their corporate social responsibilities. An in-depth study of each of the 24 listed industrial goods manufacturing companies was not possible and this inevitably produced a sample population of 4 companies taken from 12 accessible companies listed on the Nigerian Exchange Group. Another drawback noticed in this study was the non-inclusion of other CSR and corporate performance related variables. Differences in economic status, lifestyle and culture may make the study's findings differ between Nigeria, a developing economy and other underdeveloped, developing and developed economies. A multi-dimensional corporate social initiatives-corporate performance study should be conducted in this research area by including more corporate performance related variables and corporate social initiatives in the models of future studies.

Conclusion and Recommendations

This study investigated the effects of corporate social responsibilities to employees and creditors on the corporate performances of listed manufacturing enterprises in the industrial sector of Nigeria. The study made use of 19 years (2003 to 2021) periodic scope and revealed that corporate social responsibility to employees decreases the corporate performances of the selected listed industrial goods manufacturing firms suggesting that this CSR investment is not enhancing firm value.

Corporate social responsibility to creditors also decreases the corporate performances of the selected listed industrial goods manufacturing firms suggesting again that this CSR investment is not enhancing firm value.

Managements of the listed companies should focus on promoting employees' related benefits and development as this area of CRS activity seems to be an unrewarding venture i.e. is not value-enhancing.

Managements of the selected listed companies should be fair in their dealings with creditors by embarking on a CSR agenda that ensures that payment obligations to creditors are not delayed.

Acknowledgements

This work was based on Nnamdi Azikiwe University PhD Dissertation financially supported by Tetfund (Tertiary Education Trust Fund), Nigeria. We are therefore thankful to the University of Calabar for using its Tetfund platform to fund the PhD programme that served as basis for the current paper.

Competing interests

We declare that no competing interests exist.

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