Impact of Corporate Social Responsibility on Firms’ Profitability: Evidence from Nigeria and Sierra Leone

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INTRODUCTION

Business organizations until recently were established with the main aim of creating economic values for their owners through profitable business activities and as such, profit is seen both as the means of fulfilling the financial satisfaction of the business owners and as compensation for the owners’ risk to invest their capital in business enterprise. Over time, this profit motive created a wider gap between business owners and the society in which they operate resulting in agitation by pressure groups and even government for a fair play.

Tremendous economic and social changes that occurred in developing countries particularly over the past decades had made business environment to be more complex and demanding. Given that the contract between the firm and its host community typically does not define such expanded responsibility, justification for this added burden, at best, remains arguable (Babbie, 1990). This is so especially in view of the fact that actions taken to protect the environment and/or promote the interest of host communities expectedly come with substantial underlying costs and for most firms, cost are decisive in corporate performance. Therefore, as pressure to behave in a socially responsible way heightens, its effect on the financial performance of firms continues to generate intense debate.

Key words: CSR, Profitability, Leverage, Corporate Social Responsibility
The big corporate scandals of Enron, British Petroleum, and Parmalat was a worldwide shock as they revealed lack of social, ethical and environmental corporate concern. Subsequently, business organizations according to Babalola, (2012) were compelled to develop a variety of strategies for dealing with this interaction of societal needs, the natural environment and corresponding business imperatives with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide. This approach is called corporate social responsibility (CSR) and it helps firms to extend aid to societies needs, use business resources to promote the interests of all stakeholders affected by a company’s operations and to respond to changing public needs and expectations while it helps in the correction of some problems caused by the business, (environmental degradation and pollution (water, air or land pollution). All these have adversely affected agriculture and environment leading to shortage of food, unemployment and reduction in standard of living and per capital income. Lack of Petroleum Company’s sensitivity to these CSR concepts led to crisis in the Niger Delta areas of Nigeria with resultant effect of loss of lives, properties, disruption of petroleum operations as well as kidnapping of oil sector staff and negative consequences on the economy. The economic implication is a form of revenue loss and diversion of government attention from developmental objectives (For instance, government of Nigeria had spent billions of naira in intervention scheme such as establishment of Niger Delta Development Commission (NDDC). Ministry of Niger Delta as well as granting of amnesty to the militants that were involved in the kidnapping and economic disturbances. More so, a number of money have been spent on overseas training of these militants with the sole aim of rehabilitating them and make them economically useful instead of disrupting the developmental activities.

The experience was not different in Sierra Leone as the country derives over 50% of its revenue in form of taxation from multinational companies which carry out mining of minerals such as Diamond, Rutile, Bauxite, Iron ore and fishing. This made the government to heavily protect these firms since 1932 when diamond was first discovered in Kono District, Eastern Sierra Leone. Invariably, over time their activities made the host communities vulnerable to water borne and other communicable diseases and their farmlands have been flooded by abandoned trenches. Many people have relocated with little or no incentive resulting in so many vices in these host communities.

All these troubles could have been averted if the oil companies have been environmentally responsible and practice some levels of CSR. They were only concerned with profit generation and repatriation with the notion that spending on CSR will reduce their returns/ profit. This believe is not at variance with theoretical and accounting translation, which generally held that CSR could reduce firms’ profits the same way other expenditures would. However, in the literature, there seems to be agreement as to the effect of CSR on corporate performance. For instance, (Ajide and Aderemi, 2014) pointed out that CSR could promote respect for firms in the market place which can result in higher sales, enhance employees’ loyalty and attract better personnel to the firms. Also, CSR activities focusing on sustainability issues may lower costs and improve efficiencies and serves as an added advantage for public companies who wish to gain a possible listing on the Stock Exchange or other similar listing (Robins, 2011). This may enhance the firm’s stock price, making executives and stock options more profitable and shareholders happier (Chek, Mohamed, Yunus and Norwani, 2013). Going by these experiences, one may be tempted to say that being CSR compliant might enhance corporate performance, but then, why are firms running away from CSR activities?. Investigating into such relationship is a worthy academic exercise which untaken in this study.

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This supposition of ours is also in line with Jo and Harjoto (2011) who find a strongly positive impact for firms that engage in CSR activities on their values but contrast with that of Nelling and Webb (2009) which concludes that CSR is driven more by unobservable firm characteristic rather than financial performance. At the extreme, Mulyadi and Anwar (2011); Apria (2011) conclude that there is no significant impact of CSR on firm’s value. Other studies with contradictory conclusions on the relationship between CSR and corporate performance include Friedman (2008); Babalola (2012); Erkalchi and Osikov (2014).

The observable inconclusive results calls for a more recent, an academic ingenuity in establishing the relationship between CSR and profitability. This study answer the call and is distinct from other ones as it examines the impact of CSR activities and their disclosure on firm’s profitability in Nigeria and Sierra Leone, (being countries that are oil and mineral dependent respectively and have suffered from CSR failure) considering differences in their legal and reporting environment since firms cannot ignore the problems of the environment in which they operate. In addition to resolving this heating could among researchers, this study comparatively analyzes the effect of CSR disclosure on firms’ profitability in Nigeria and Sierra Leone in order to establish whether there is any similarity and/or difference between Nigerian and Sierra Leonean firms operational impact on their host communities.

This effort is closer to non-existent and it will serve as a useful source of information for: managers for making prudent and financial decision, business stakeholders in their relations with firms, government agencies and some other interested bodies (like NGOs and International agencies) for knowledge expansion and policy direction. The above scenarios led to the following research questions:

(i) Does firm involvement in CSR reduces or increase their profit level?
(ii) Is there any difference in the effect of CSR on firms’ performance among sectors in Nigeria and in Sierra Leone?
(iii) What is the effect of the major components of CSR activities undertaken by the selected firms in Nigeria and Sierra Leone on their profitability?

To achieve these objectives and address the research questions raised, the study hypothesized as:

H₀: effect of CSR on firms’ performance do not differ significantly among company sectors in Nigeria and in Sierra Leone.
H₁: There is no significant relationship between CSR activities/ disclosure among sector in Nigeria and Sierra Leone.
H₀: There is no significant effect of CSR activities on profitability of sampled firms in Nigeria and Sierra Leone.

LITERATURE REVIEW

Conceptual Framework

In 1953 Howard Bowen coined the concept of CSR in its modern form and is thus recognized as the father of CSR. Since the 1950s different academics and institutions all around the world have tried to define CSR. For instance, Carroll (1989) states that the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations placed by society at a given point in time while Balza and Radojcic, (2004) revealed that these four part models are still use as a reference in almost every CSR discussion.

Gray, Owen and Adams (1996) define corporate social responsibility disclosure (CSRD) as the process of communicating the social and environmental effects of organization economic actions to particular interest groups within the

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society and to the society at large (Dowseh and Pferrer, 1975) pointed out that (CSR) assists to evaluate the congruence between the social value implied by corporate activities and social norms. The European Foundation for Quality Management (EFQM) presents some common characteristics of CSR which are:

i. Meeting the need of current stakeholders without compromising the ability of future generations to meet their own demand.

ii. Adopting CSR voluntarily, rather than as legal requirement because it is seen to be in the long-term interests of the organization.

iii. Integrating social, environmental and economic policies in day to day business; and

iv. Accepting CSR as a core activity that is embedded into an organization's management strategy.

However, the membership Organization, EQFM (The EQFM Framework for Corporate Social Responsibility, 2004) presents a number of direct benefits for the organizations for engaging in CSR activities diligently to include: increased brand value, a healthier and safer workforce, stronger risk management and corporate governance, motivated people, customer loyalty, enhanced confidence and trust of stakeholders and an enhanced public image. Consequently Solhijn (2009) presents five key benefits of CSR a firm achieve for being socially responsible to stakeholders and the environment in general. These benefits are: increase in sales and market share, strengthen brand position, increase image of corporate, decrease in operation cost and increase appeal of corporation for investors and finance analysts.

Summarily therefore, social responsibility of firms is necessary for the following reasons: it helps firms to extend aid to societies need; it helps firms to use business resources to promote the interests of all stakeholders affected by a company’s operations.

Corporate Social Responsibility and Profitability Measurement

Developing countries which have been greatly affected by the hazardous activities of firms especially multinationals have not benefited immensely from their profits. This is due to the fact that while regulations guiding their operations exist in their developed countries of origin, such are normally not available and even if they exist they are inadequate, vague and incomplete in the developing countries where they carry out their operations. As a result, these firms circumvent these structures for their personal gains. At the wake of 1990s, pressure groups canvassed and was able to draw the attention of the international community to these unprecedented operations. For instance, the Movement for the Survival of Ogoni People was able to launch a massive campaign against Shell in the early 1990s forcing Shell to close operations in the Niger Delta area of Nigeria. Similarly, in Sierra Leone was the 2012 uprising of Labour Union against African Minerals for their bad labour policy.

The history of formalized corporate social responsibility in Nigeria can be traced back to the corporate social responsibility practices in the oil and gas industry with the focus on remediating the effects of their extraction activities on the local communities. The companies were forced to provide pipe-borne waters, hospitals and schools but these initiatives were ad hoc and not always sustained. However, firms have realised that operating in an environmentally friendly society yields favourable results. Nevertheless, many executives are not aware of these benefits while some are even unwilling since it comes with costs and for many firms costs are decisive in major decisions. In response, the

Governments of Nigeria and Sierra Leone signed and enacted the Extractive Industry Transparency Initiative (EITI) in 2006 which mandate firms and governments to respectively publish amounts incurred or received on CSR and taxes and royalties.

Corporate Social Responsibility Issues in Nigeria and Sierra Leone

Nigeria CSR experience is the common story that happened in many newly independent African nations. Almost all of them have been transformed into corrupt and ineffective dictatorships that usually heavily rely on Western or Soviet subsidies and that are often plagued in guerrilla fighting and civil wars whenever the changes of governments happen. These changes of governments are usually done by means of a coup d'état (Mabry, 2002). For instance, Nigeria produces around 2 million barrels daily of crude oil and has estimated huge reserves of oil (over 22 billion barrels), mostly found in the coastal areas of Niger Delta (the land of Ogoni people with over 500,000 natives and their habitants that include fishing, hunting, and farming) have been destroyed by extraction of oil. Unfortunately, Ogoni received no compensation for the environmental damage done by oil companies (Johansen, 2002).

Unfortunately, going by Nigeria's constitution all minerals, gas and oil belong entirely to the federal government who negotiate the exploitation contracts with international oil companies. However, oil exploration by Shell, Mobil, Texaco, Chevron, Elf and Agip which started in 1956 resulted to an average of 190 oil spills per year happened in this Ogoni area with resultant pollution of the lakes, rivers and ponds. Consequently, almost all of the land became unusable for agriculture, canals and the fragile ecosystem have been permanently damaged. Moreover, polluted water has brought cholera and death. Severe respiratory problems and other kinds of illness are related with the constantly gas flaring that Ogonis have been exposed to (Johansen, 2002).

In 1990 Ogoni's protests of such conditions were met with an atrocious and brutal repression by Nigerian authorities. According to Gedikis (2002), more than 2000 people were killed and 37 villages were substantially destroyed. About 30,000 Ogonis were displaced from their homes forced by troops that have secured the area in order to protect Shell's assets. In 1995 nongovernmental organization “The Movement for the Survival of the Ogonis People” (MOSOP) was founded in order to protest the violation of Ogonis human rights. This organization demanded that the local control should be established regarding the political and environmental issues and its activists blamed Shell for full responsibility in the Ogonis genocide. However, their leaders, Ken Saro-Wiwa (the most notable leader) and eight prominent leaders were hung in the 1990s. While the group continued their operations, the government never took measures to protect them until recently when President Mohammadu Buhari ordered all participating parties in oil business to contribute $10 million to CSR fund.

Conversely, in Sierra Leone in 1955, the monopoly that allows only the Imperial Sierra Leone Selection Trust Ltd (SLLST) to mine until 1958 and in 1956 the Alluvial Diamond Mining Scheme (ADMS) was enacted which gave provision for Sierra Leenans to mine and sell diamonds. In the case of gold, practically the entire production from 1950-1951 came from artisanal miners. However, these multinationals through government agencies acquired almost all the mining areas leaving little for artisanal miners by 1980s. Consequently, severely border conflicts ensued between the large scale miners and the local poor artisanal miners who were already out of work.

Adverse environmental impacts of unsustainable mining activity in Sierra Leone include deforestation, land degradation, and water and air pollution from waste dumps and tailings disposal. In many cases, environmental problems are a legacy
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of past mining operations that require funds to restore degraded lands or compensate affected communities. Artisanal and small-scale mining (ASM) activity, an important source of livelihood for many people especially in the mining areas, is characterized by poor technological practices, with adverse environmental and social impacts. 80,000 to 120,000 hectares of land have been mined out in different parts of the country, with almost no efforts of reclamation. This kind of diamond mining has caused massive deforestation, health problems and significant loss of bio-diversity (FIAS, 2006).

In localized areas, large pieces of arable land have also been destroyed by miners. In another case Koidu Holdings (KH), a joint venture of Branch Energy Ltd and Magna Diamond Resources Ltd opened their Kimberlite mine in Kono in 2003. They have another Kimberlite mine in Koidu as well as three additional exploration properties elsewhere in Sierra Leone the operation of which led to destruction of several houses and use of harmful dynamite in their operation with its consequences on human life.

Profitability according to Hackston and Milne (1996), is the company’s ability to produce a profit that would sustain long term and short term growth. The higher the level of corporate profitability, all things being equal the greater should be the level of social disclosure, he concluded.

Poddi and Vergali (2009) classified profitability in the context of CSR into three (3):

i. Market variables market capitalization (MKTCAPI).

Accounting Variables- Profit After Tax, Return on Capital Employed (ROCE), Return on Assets (BOA), Return on Investment (ROI), Return on Equity (ROE); and

iii. Mixed variables- Market Value Added (MVA).

Although one might have expected a certain diversity of measures of corporate social responsibility disclosures, Uwuigbe and Egbe (2012) opined that there is no real consensus on the proper measures of corporate financial performance either. However, most of the measures of firms’ financial performance fall into the three broad categories that are considered according to the following axes and (ii) Market based:

The literature in this study area including (Johnson and Greening, 1999; Mahoney and Thorne, 2005; Orlitzky, Schmidt and Rynes, 2003; Wu, 2006; Babalola, 2012; Kanwal, Kharam, Naureen and Hameed (2013), Poddi and Vergali (2009) and Uwuigbe and Egbe (2012) reveal that the accounting based variables are often used as proxies for profitability due to the following advantages:

i. It enjoys popularity among researchers and academia over considerable period of time due to its simplicity;

ii. Accounting data are easily available from published annual reports of companies; and

iii. There is little effect of personal judgment leading to its reliability to some extent.

Each of these variables however provides a credible measure and as such most research preferred accounting variables as proxy for firm’s profitability. For profiting testing, many studies used the following accounting indicators: ROCE, ROE, ROA, and Profit after Tax and Net Profit Margin (Mulyadi et al., 2014; Ventilla, 2013; Cyrus and Oyenje, 2013).

Theoretical Background

Should companies seek only to maximize shareholders value or strive to serve the often conflicting interest of all stakeholders? Guidance can be found in exploring exactly what theory does and does not say (Smith, 2003). Thus, the Shareholders, Stakeholders, Social Contract and legitimacy theories are relevant to the concept of CSR and profitability.

Shareholder Theory purports that corporations are established to make profit for their shareholders such that the only entire social responsibility of business is to make profits by using the companies’ resources in legal activities. Thus, profit was considered as the reward to the people that take the risk of investing their capital necessary to run the company. However, the theory according to (ii) Investor’s view, Orlitzky, Schmidt and Rynes (2003) has been criticized by adversaries on three grounds: (i) Shareholder view overvalues management executives to do anything in order to achieve profits (ii) it promotes short-term goals for businesses and (iii) it forbids spending money in charitable projects or investing in improvement of employee’s self-confidence. Smith’s conclusion however was that although shareholder theory supports the idea of profitability as the company’s only goal, it has to be achieved by performing legal activities, thus, it encourage firms to engage their goals both in short and long term.

Stakeholder Theory believes that beyond the shareholders, a firm has a number of stakeholders such as employees, customers, suppliers, creditors, host communities and the government and the performance and success of the firm depends on how well is able to manage its relationship with these stakeholders (Freeman and Philips, 2012). Generating a positive relationship with these group naturally include the provision of social projects and other actions that are normally costly for the firm at least in the short run. Profits may however be the assumed outcome of this association once value is created. The positive association between CSR and financial performance by Orlitzky, et al. (2003); Preston and O’Donnell (1997); Spencer and Taylor (1987); Babalola (2012); Eragbhe and Oshodin (2014) partly reinforce and justify the logic of the stakeholder theory.

Social Contract Theory underpins the fact that external societal laws form the basis of the social contract between the firm and the society. In the absence of express or clear requirement for firms to act in socially responsible ways, the social contract therefore becomes the basis upon which the relationship is anchored. Mathew (1993) states that voluntary disclosure is indicative of firm’s commitment to this relationship and it represents a credible way to subtly pressuring firms to act in socially responsible way. Social reporting has been the major driving force of firms’ recent activity and it continued emphasis will lead to practice that facilitate sustainable development of better accountability and stakeholder democracy (Hess, 2008). Consequently failure to report such activities leads to costs like fines and penalties, increased voluntary reporting and unfavorable corporate image, customers’ loss and boycott (Adams, 2002; Deegan andетод, 1996).

Legitimacy Theory proposes that in order to survive, the firm must perform those socially desirable actions which the society imposes on the firm as an obligation. By doing this credibly, the firm becomes required with favorable outcomes such as acceptance and approval and by extension patronage and loyalty to the firm’s products and even attraction of high quality staff (Duke and Kanngpang, 2013). However the firm must disclose these critical information needed to rate or assess its social performance if it is to succeed.

Empirical Evidence

The apparent conflict between corporate social responsibility and firm objectives was noticed early by the Nobel Laureate Milton Friedman who averred that any effort to use corporate resources for purely altruistic purposes would constitute socialism. In fact Friedman recommended that corporation law should be modified to discourage corporate social responsibility (Babalola, 2012). Yet, more than thirty years after Friedman made his declaration, CSR has become the norm.

Surprisingly empirical evidences have indicated positive, neutral and even negative impacts of CSR on firms’ financial performance. Among such studies is Griffin and Mahorns (1997) that examine the relationship between CSR and Corporate Financial Performance (CFP). They mapped studies
on the relationship between CSR and CFP for the periods of 1970s (16 studies), 1980s (27 studies) and 1990s (8 studies) totaling around 51 articles. In the 1970s, out of the 16 studies, 12 revealed a positive direction of the relationship between CSR and CFP. Similarly in 1980s and 1990s the positive association had been accounted for 14 out of 27 studies and 7 out of the 8 studies respectively. Negative results were supported by 1 study in the 1970s, 17 studies in the 1980s and 3 studies in the 1990s while 4 and 5 studies in the 1970s and 1980s respectively provided inconclusive (neutral) findings.

Furthermore, Babalola (2013) examines the relationship between CSR and Firms’ profitability in Nigeria with the use of secondary data sourced from ten (10) randomly selected firms’ annual reports and financial summary from 1999-2008. The study make use of ordinary least square method of analysis and finds that the sampled firms invested less than 10% of their annual profit on CSR. The coefficient of determination of the result obtained shows changes in the selected firms financial performance (PAT) are caused by changes in CSR in Nigeria and recommends that laws and regulations that will obligate firms to recognize and pay adequate attention to social accounting should be enacted.

FIAS (2006) looks at CSR of mining and tourism firms in Sierra Leone as industry based solutions. Using a descriptive analysis, FIAS observed a trend in Sierra Leone referred to as an emerging “clash of expectations” about the benefits that will accrue to the government, local communities and business respectively, following the reactivation and expansion of Large Scale Industrial Mining (LSM) operations. It is also this clash of expectations that provides the rationale for corporate social responsibility and explains why it should be considered as a factor that will help promote and sustain foreign investment in the mining sector. Simply stated, CSR practices such as stakeholder identification and engagement, adequate community relations, capacity building, sustainable community development and measurement of social and environmental impacts can help prevent or minimize such clashes. Creating awareness of CSR among local businesses and international investors by including CSR issues in SLEDIC strategy, information-sharing, and stakeholder engagement with strong private sector participation were recommended.

Although a large body of literature generally exists on the concept of CSR, there is observably scant empirical evidence emanating from countries in sub-Saharan Africa that have become most vulnerable to ecological degradation problems as a result of environment related business activities (Duatu and Kankpang, 2013). This study therefore seeks to contribute to closure of this gap with its examination on a comparative basis of the impact of CSR activities on selected firms’ profitability in Nigeria and Sierra Leone. This type of study is novel, nonexistent and inadequate due to similarities of environment such as high poverty rate, high illiteracy rate, high interest rate, poor governance system, inadequate infrastructure, energy crises among others of these two countries.

**METODOLOGY**

**Analytical Technique**

The relationship between CSR activities/disclosures and profitability is such that profitability is the dependent variable while CSR activities/disclosures are the explanatory/independent variable and is represented by:

\[ \text{PAT} = \beta_0 + \beta_1 \text{ENV} + \beta_2 \text{HR} + \beta_3 \text{PQC} + \beta_4 \text{CI} + \mu \]

When specified, it becomes:

\[ Y_{rot} = \beta_1 + \beta_2 \text{ENV} + \beta_3 \text{HR} + \beta_4 \text{PQC} + \beta_5 \text{CI} + \mu \]

Where:

- **Y** = Profit after Tax and total assets as proxy of firm’s profitability;
- **\( \beta_i \) = Intercept parameter (constant);**

**Data type and Sources**

Five sectors: banking, manufacturing, construction, mining and oil and gas that mostly impact on the environment are covered in this study. Using panel data methodology, ten firms in all (five each) from Nigeria and Sierra Leone were judiciously selected from industries whose activities impact mostly on the host communities (Table 1). This study model is amenable to secondary data which on firms CSR disclosure and financial performance were sourced for ten (10) years 2004-2013 from the selected firms’ annual audited accounts and reports. Bruno and Rodrigues (2006) CSR Disclosure Scoring System (Appendix B & III) was adopted to measure CSR activities/disclosure by the selected firms (1 for disclosure of a particular component of the scoring system by a firm and 0 for non-disclosure) while total assets and profit after tax are measures of firm size and profitability respectively.

**Data Presentation and Analysis**

The first segment of this analysis explains the behavior of the variables used in the study as to whether the trend or movements differ significantly or are in similar pattern between Nigeria and Sierra Leone.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Banking</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Mining</th>
<th>Oil and Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sierra Leone</td>
<td>UBA Sierra Leone</td>
<td>Sierra Bottling Co.</td>
<td>Jiremond SL</td>
<td>Sierra Rutte</td>
<td>Unpetrol (SL)</td>
</tr>
</tbody>
</table>

**Table 1: Selected Companies in each sector for Nigeria and Sierra Leone**

**Impact of Corporate Social Responsibility on Firms’ Profitability: Evidence from Nigeria and Sierra Leone**
Figure a: Profit after Tax (PAT) by Sectors for Nigeria and Sierra Leone (2004-2013)

Source: Author's Analysis, (2015).

Figure b: Nigeria and Sierra Leone Banks' PAT Over the Ten Years

Source: Author's Analysis, (2015).

Figure c: Nigeria and Sierra Leone Construction Firms' PAT Over the Ten Years

Source: Author's Analysis, (2015).

Figure d: Nigeria and Sierra Leone Mining Firms' PAT Over the Ten Years

Source: Author's Analysis, (2015).
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While holding differences in value of money constant, as evident from (Figure a) in Nigeria, banking sector tends to be more profitable than in Sierra Leone whose commercial banking services revitalized in 2004 after the civil war ended in 2002. Similarly, as shown in (figures b and c), Nigerian manufacturing and construction firms outperformed the Sierra Leonean counterpart. However, the situation is quite different in the mining and oil/gas industries where Sierra Leonean firms tend to be more profitable than the Nigerian firms as reflected in (figure d and e) respectively. This is due to the diversion of the little infrastructure to these sectors by government of Sierra Leone as the country is mineral dependent.

Conversely, in Nigeria the banking's consolidation in 2005 led to emergence of mega banks enabling them avert risks in interests, exchange and market rates that affect other sectors in the economy. At the other extreme, the construction firm reported the lowest profits since its profits are mainly from one-off contracts.

It can be seen from (figure f) that on the average, the construction sector in Nigeria and Sierra Leone, is highly geared though in different magnitudes. This is followed by oil and gas, manufacturing, and banking sectors respectively. The banking sector has to be low geared at least in the long run so as to easily sustain the market shocks mainly from external markets and also for meeting the strict regulations by the apex banks in both countries. Specifically, the banking sector (UBA Nig. Plc.) in Nigeria has been able to diversified operations to other countries since 2005 banking consolidation exercise enabling it to easily absorb any risks posed in one or few of its operating markets. Comparatively, firms in Nigeria appears to be more risky (highly geared) than Sierra Leonean firms.

Presentation of Regression Results

The result of the multiple regression analysis for Nigerian and Sierra Leonean firms between CSR disclosure variables (CSR Activities) and profitability is shown in (tables 1 and 2) respectively.

Table 1: Multiple Regression Result for Nigerian Firms

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>41.05417</td>
<td>186.1128</td>
<td>0.220588</td>
<td>0.8341</td>
</tr>
<tr>
<td>ENV</td>
<td>0.111512</td>
<td>0.103275</td>
<td>0.107975</td>
<td>0.3296</td>
</tr>
<tr>
<td>HR</td>
<td>1.578338</td>
<td>1.837787</td>
<td>1.654897</td>
<td>0.4316</td>
</tr>
<tr>
<td>PQC</td>
<td>0.423327</td>
<td>2.398582</td>
<td>0.168066</td>
<td>0.8666</td>
</tr>
<tr>
<td>CI</td>
<td>3.096636</td>
<td>4.700034</td>
<td>0.657948</td>
<td>0.5397</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.707952</td>
<td>Mean dependent var</td>
<td>8.591970</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.588067</td>
<td>5.0. dependent var</td>
<td>6.782134</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>7.052033</td>
<td>Akaike Info criterion</td>
<td>7.051483</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>248.6749</td>
<td>Schwarz criterion</td>
<td>7.052731</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>30.25719</td>
<td>Hannan-Quinn criterion</td>
<td>6.883471</td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>4.812542</td>
<td>Durbin-Watson stat</td>
<td>2.158397</td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.046747</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author's Analysis, (2015).
Involvement of Sierra Leonean firms' profitability leading to the rejection of the null hypothesis. This implies that a unit (1N) change in environmental cost, human resource, product quality and community involvement will lead to increase in profit by 2.29%, 1.22%, 2.04% and 0.27% respectively. When pooled together, the impact of CSR activities/disclosures on profitability amounted to 5.82% which can be translated to be significant. However, if firms do not engage in any CSR activities, their profits will increase by 40.4%.

The R² of 82.5% shows how much change in profit is accounted for by the independent variables (CSR disclosure variables). The remaining 17.5% was not accounted for by the model and therefore was represented by the stochastic error term. This high value of R² did not occur by chance as F-statistic of 5.906 was on the high level too. This therefore confirms that the model has high predictive power and as such can be used to forecast financial performance fairly.

In nutshell, the two models depict that there is an significant effect of CSR activities/disclosure on firms’ annual audited reports in Nigeria and Sierra Leone on the profitability of these firms. Hence, the null hypothesis is rejected in favor of the alternative hypothesis. By extension, this implies that the more CSR activities Nigerian firms undertake, the more profits were earned. This suggests that these organisations’ survival and growth in the long run could be threatened by various stakeholders particularly host communities if they do not undertake one form of CSR activities or the other and disclose same in their annual audited accounts. The results of earlier empirical studies of Cochran and Wood (1984), Spencer and Taylor (1987), Freeman (2012), Bodi (2009), Babalola (2012), Duke II and Kansipung (2013), Kanwal, Khanam, Naureen and Hameed (2013) that found positive association between CSR and the financial performance of firms as well as stakeholders theory corroborate this finding.

Other analysis in form of CSR disclosure by the two countries (Nigeria and Sierra Leone) are presented in figure (g and h) on a comparative basis for easy understanding as follows:

---

### Table 2: Multiple Regression Result for Sierra Leonean Firms

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>0.214017</td>
<td>0.8416</td>
</tr>
</tbody>
</table>

- R-squared: 0.852342
- Adjusted R-squared: 0.885915
- S.E. of regression: 2.522877
- Sum squared resid: 130.6935
- F-statistic: 5.909641
- Durbin-Watson stat: 1.719718

Source: Author's Analysis (2013).
As shown in (figure g), in Nigeria 30%, 22%, 13% and 25% of the CSR disclosure of the bank relate to environment, human resource, product quality and community costs respectively. Similarly 30%, 34%, 14% and 22% of CSR disclosure of Sierra Leonean banks relate to environment, human resource, product quality and community costs respectively. For the Nigerian manufacturing companies, 28%, 34%, 15% and 23% of their CSR disclosure relate to environment, human resource, product quality and community costs respectively. The other results for the other sectors are as shown in the figure.

Summarily therefore, it can be deduced from the figure g that in Nigeria and Sierra Leone, companies CSR disclosure or expenditure are highest on human resource followed by environment, community involvement and lowest and maybe none on product quality/consumer relation.

From (figure h), on the average, oil and gas, mining and construction firms in both Nigeria and Sierra Leone disclosed more CSR activities in their audited financial statements than other companies/sectors. The implication of this is that stakeholders are more concerned about the impact of these companies on their host companies as non-disclosure is often met with increased fines and penalties as enshrined in the various regulatory laws (e.g. Sierra Leone Mining Act 1994).

The sharp fall in CSR disclosure and expenditure in the Sierra Leone banking sector compared to Nigeria is due partly to the hostile and immature nature of the industry followed by inefficient management. Sufice to say that on several occasions the apex bank in Sierra Leone, (Bank of Sierra Leone) has to take over the management of highly indebted banks (e.g. Sierra Leone Commercial Bank) with the latest takeover being Rokel Commercial bank after consecutive three years’ massive loss reporting.

Test of Hypotheses

Here, the hypotheses of the study are subjected to validation and testing using Pearson Product Moment Correlation of ordinary least square techniques in tables 3 and 4 for the two countries respectively.

Table 3: Correlation between Firms’ Total Assets (Size) and CSR Disclosure

<table>
<thead>
<tr>
<th>Country</th>
<th>TA</th>
<th>CRS</th>
<th>p-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>1.00000</td>
<td>0.800114</td>
<td>0.0002</td>
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<tr>
<td>Sierra Leone</td>
<td>0.800114</td>
<td>1.000000</td>
<td>0.0002</td>
</tr>
</tbody>
</table>

Source: Author’s Analysis, (2015).

Table 4: Correlation between Firm’s Financial Leverage (Gearing) and CSR Disclosures

<table>
<thead>
<tr>
<th>Country</th>
<th>LEV</th>
<th>CRS</th>
<th>p-values</th>
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</thead>
<tbody>
<tr>
<td>Nigeria</td>
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<tr>
<td>Sierra Leone</td>
<td>-0.70402</td>
<td>1.000000</td>
<td>0.0004</td>
</tr>
</tbody>
</table>

Source: Author’s Analysis, (2015).

The test of whether or not a significant relationship exist between firm size and CSR Activities/ disclosures by Nigerian and Sierra Leonean firms is shown in table 3 and is better explained in terms of p-values. As the table reveals, the associated p-value with the correlation between firm size and CSR disclosure by Nigeria firms 0.0002 which is statistically significant. Similarly, for Sierra Leonean firms, the p-value is 0.0004 which is also statistically significant. Thus, the null hypothesis is rejected for the acceptance of alternative hypothesis.

Hence, there is a statistically significant relationship between firm size and CSR Activities/ disclosures by Nigerian and Sierra Leonean firms. However, the dimension of the relationship as measured by correlation coefficients was 0.80 and 0.78 respectively for Nigeria and Sierra Leonean firms. By reference therefore, as firm increases in size, its CSR expenditure, activities/ disclosure also increases both in Nigeria and Sierra Leone. It can also be said that big companies are more socially responsible than small firms in Nigeria while in Sierra Leone, corporations see CSR activities and disclosure thereof as a priority due to high expectations from stakeholders than small firms, who are always scared of undertaking heavy CSR due to their small asset base.

This finding is in tandem with the legitimacy theory which states that for firms to survive; they must perform and disclose those socially desirable actions which the society imposes on them as obligation. This result is also in agreement with the findings of Chek, Mohamed, Yunus and Norwari (2013) and Ventila (2013) who assert that larger and higher income companies disclosed higher level of CSR in their reported audited financial statements than smaller companies.

Hypothesis 2: Financial Leverage does not significantly influence firm’s CSR Activities/ Disclosure in Nigeria and Sierra Leone

With respect to financial leverage and CSR activity disclosure among Nigeria and Sierra Leonean firms the respective p-values are 0.0004 and 0.0005 which are statistically significant. By inference therefore, the null hypothesis is rejected for the acceptance of alternative hypothesis. However, the dimension of this relationship is negative (0.71) and -0.696 respectively for Nterian and Sierra Leonean firms. As such, the higher the financial leverage of a firm, the lower its CSR disclosure and vice versa or as firms borrowing increases, its CSR disclosure and activities decline.
Thus, financial leverage exerts a significant influence, precisely, an opposing relationship on firms CSR activities disclosure in Nigeria and in Sierra Leone. This result may be due to the fact that highly levered firms incur more expenses in servicing debts through finance charges leading to inadequate funds left /available to meet other commitments such as CSR activities. In other words, since firms with high debt to equity ratio tends to have difficulties in their long term solvency, inherently, they will be unwilling to devote any extra cost to CSR and their commitment and compliance level to creating a sustainable environment in which they operate is greatly hampered. These results are in tandem with the findings of Mulyadi and Anwar (2012; Uwudigne and Eghide (2012) that a significant negative relationship exists between financial leverage and CSR disclosure.

**CONCLUSION**

Based on the findings of this study, it can be concluded as follows:

i. On the average, Oil and Gas, Mining and Construction companies invest in and disclosed CSR activities more than Manufacturing and Banking sectors both in Nigeria and in Sierra Leone.

ii. These companies invest more on human resource development followed by environment, community involvement but spend less on socially responsible products and consumer relation since developing countries consumers are powerless.

iii. Firm size (asset base) and financial leverage (gearing) are important determinants of CSR such that big firms (multinationals) invest and disclosed more CSR activities than smaller companies while highly geared companies spend most of their funds servicing their debts leaving with little to invest in CSR activities than lowly geared companies.

iv. Undertaking and disclosing CSR activities by firms in their audited financial statements may enhance their profitability greatly partly due to positive association between CSR and profitability and partly due to savings of such costs like fines, penalties, sanctions, threats, loss of goodwill associated with non-disclosure. Compliance also reduces the clash of expectations among interest groups and cost of resolving such clashes in Nigeria and Sierra Leone.

v. While community involvement disclosure impacts more on Nigerians, in Sierra Leone, environmental cost has the least effect on profitability. However, the opposite is the case for Sierra Leone. This implies that the profits of Sierra Leonean firms are influenced more by their environmental expenditure while community involvement has the least impact.

**RECOMMENDATIONS**

The following recommendations are put forward as policy guide for all the stakeholders in firms profitability and CSR movement:

i. Firms should invest more on CSR as they will get more financial benefits/profitability enhancement (manifestation based) and reputation enhancement by creating good image in the mind of customers, suppliers and other stakeholders than what is invested in CSR since CSR is now considered as an investment not as expenditure. It will also help firms in retaining their stakeholders and protect firms from complaints, objections, and lawsuits which occur if the environment is destroyed and employees are injured as a result of firms’ hazardous operating activities.

ii. Additionally, companies should not only invest on CSR but also disclose its spending on CSR to all stakeholders as to how, where and what amount they have invested in CSR. Companies invest a lot of money on advert to create a good image in the mind of customers but if they also invest a little portion of this amount on CSR, this can build better image.

iii. Policy framework should be designed for corporate social responsibilities in Nigeria and Sierra Leone by the governments and ensure compliance by setting mechanisms and institutions for their implementation. This may be achieved by entrenching social accounting and social costs in their listing and registration requirements to enlist voluntary compliance.

**REFERENCES**


Impact of Corporate Social Responsibility on Firms’ Profitability: Evidence from Nigeria and Sierra Leone


BRIEF PROFILE OF THE AUTHORS

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Jolihoh Abdul Mahmoud is a Research Assistant to the lead author. A vibrant scholar with First Class honours in Bachelor of Science (B.Sc.) Degree in Accounting from University of Ilorin, Nigeria. He is currently working on his Masters Degree Programme.


APPENDIX I: The Corporate Social Responsibility Disclosure Scores

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APPENDIX II: NIGERIAN FIRMS CRS SCORES

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APPENDIX III: SIERRALEONEAN FIRMS CSR SCORES

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