Corporate Social Responsibility Disclosure and Profitability: Experience from Selected Consumer Goods Manufacturing Firms in Nigeria

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Abstract
Corporate Social Responsibility (CSR) is increasingly recognized as a vital element of business operations, especially in the manufacturing sector. In Nigeria, with its challenges of poverty, illiteracy, poor infrastructure, and environmental degradation, there is an urgent need for businesses to contribute to addressing societal issues. This study evaluates how CSR is strategically integrated into business operations, with a focus on environmental and social considerations. An ex post facto research design were employed, data was gathered from the audited annual financial reports of five consumer goods manufacturing firms listed on the Nigerian Exchange Group, covering the period from 2020 to 2024. A purposive sampling technique was employed to select firms with readily accessible financial reports. Descriptive and inferential statistics were used to analyze the data, with panel regression analysis assessing the impact of external and internal environmental costs on return on assets (ROA), and Pearson Product Moment Correlation (PPMC) evaluating the relationship between these environmental costs and equity. The findings revealed a significant relationship between environmental costs and profitability, with external environmental costs negatively impacting profitability, while internal environmental costs had a positive correlation. it was concluded that CSR disclosure positively and negatively correlated to the profitability of manufacturing firms in Nigeria. It recommends that firms adopt strategies to mitigate external environmental costs, such as improving operational efficiencies or passing costs onto consumers, to enhance profitability

Keywords: *Corporate Social Responsibility (CSR), Profitability, Financial Report, consumer goods manufacturing firms*

1. Introduction

Corporate social responsibility (CSR) has become an inevitable necessity. The new development trends of economics, the use of new technologies and economic globalization presents new challenges not only to the business community of different countries but also to the whole of mankind. In addition, literatures show that the concept of Corporate Social Responsibility (CSR) asserts that corporations have an obligation to consider the interests of its users as well as the ecological footprint in all aspects of their operations (Babalola, 2013: Fatima, 2023). Corporate social responsibility (CSR) programs contribute to attaining socio-economic, environmental and sustainable development all around the world. Corporate social responsibility related contributions to solving economic, environmental, social problems and development concern are on the increase, particularly as companies and business entities realize the need to give back and, in most cases, reverse the negative impacts of their business activities on the environment, larger economy and indeed other stakeholders (Abbas, 2020: Shahzad et al.2020). Though arguments abound on the need and necessity of companies to put in place corporate social responsibility programs in their operational region, localities, country or larger economy, the multinational and business corporations operating in Nigeria are increasingly adopting corporate social responsibility as an important aspect of their business operations. (Okaro & Okafor, 2021).

Corporate Social Responsibility (CSR) disclosure plays a crucial role in contemporary corporate governance, particularly in the context of sustainable development. Evaluating CSR disclosure through the lens of internal and external environmental costs represents a nuanced approach that supports broader objectives of environmental responsibility and transparency. According to literature (Bebbington et al. 2021: Grewal, Riedl, and Serafeim, 2020: Michelon, Boesso, and Kumar, 2021) this approach not only satisfies regulatory mandates but also meets the growing expectations of stakeholders for greater accountability in corporate environmental practices, while simultaneously enhancing the financial performance of the firm. Collectively, these internal and external CSR practices contribute to smoother business operations and can lead to improved financial performance by fostering a positive public image and mitigating regulatory risks. Despite the need for business to be morally conducted, one of the primary concerns in corporate social responsibility discussions is whether organizations pursue it for economic reasons or simply because doing so has intrinsic merit. Some studies have imputed philanthropy (Carroll, 2004) and altruism (Lantos, 2001) reasons. However, there have been few empirical tests in support of the intrinsic merit motive, which makes corporate social responsibility practice susceptible to the popular accusation of being a gimmick for profitable public relations and marketing strategies.

1.2 Statement of the Problem

The impact of Corporate Social Responsibility (CSR) on the profitability of consumer goods manufacturing firms in Nigeria remains underexplored, particularly in light of evolving consumer expectations, inconsistent CSR implementation, and economic volatility. In Nigeria, expectations for Corporate Social Responsibility (CSR) have significantly increased, particularly in oil-producing regions that has now spread to other manufacturing sector including consumer goods manufacturing. Given this sector's significant contribution to the economy, there is a pressing need for empirical research to assess how evolving consumer expectations, inconsistent CSR practices, and economic volatility affect profitability and sustainability in Nigeria's consumer goods manufacturing industry. This growing demand reflects the need for companies to more effectively address local social and environmental issues. Onwuchekwa (2012) highlights that neglecting these CSR expectations has created a challenging environment for businesses. Recent research by Akinlo and Akinlo (2021), Odogu and Madu (2022), and Edeh and Ezeani (2021) reinforces this view, indicating that the failure of manufacturing firms to meet CSR expectations results in notable challenges, such as social unrest and operational disruptions. Given the current economic downturn, investigating how CSR can be effectively addressed among consumer goods manufacturing firms in Nigeria is crucial and warrants empirical exploration. In Nigeria, ongoing issues such as widespread poverty, illiteracy, inadequate infrastructure, poor road networks, and environmental pollution highlight the urgent need for organizations to play a proactive role in addressing these societal challenges. While Corporate Social Responsibility (CSR) has the potential to alleviate these problems, there remains a notable gap in the effectiveness and scope of corporate contributions. Recent studies by Odogu and Madu (2022) and Edeh and Ezeani (2021) underscore this gap, revealing that current CSR activities often fail to align adequately with the most pressing needs of Nigerian communities. To address this disparity, there is a critical need for empirical research to refine CSR strategies, ensuring they are more effectively targeted towards overcoming these challenges and enhancing the quality of life in affected areas. Based on aforetion issue aim to examine the relationship between corporate social responsibility and on profitability of selected Consumer Goods Manufacturing Firms in Nigeria

Research Hypothesis

H_{01}: external and internal environmental costs has no significant relationship with return on equity of selected sectors of manufacturing firms in Nigeria.

2. Literature review and Conceptual Underpinning

Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) has received increasing attention in the past decades, both among practitioners and in the academic literature (Flammer, 2012). The definition of corporate social responsibility (CSR) is an issue that dominates the existing literature. There is also a disagreement on the definition of corporate social responsibility among those that see corporate social responsibility as an ethical attitude and those who argue that it is a firm’s strategy (Wan-Jan, 2006). Stainer (2006) states that corporate social responsibility concept is to show that ethical principles, from wherever derived, can improve reasoning and harmonize decisions, especially in complex situations and thus, enhance performance. The unclear state of corporate social responsibility definition is recognized also by Dahlsrud (2008). Ukpabi et al. (2014) note that it is essential for organizations to meet the diverse needs of their host communities to ensure smooth and successful business operations. Baridam (1995) asserts that any business that fails to take corporate social responsibility seriously will not survive in the long run, as society's perception of how caring an organization is plays a crucial role in determining the acceptance of that firm's brand in specific areas. Omodafe and Akparobi (2013) argue that a firm's competitive capacity and the public acceptability of its products significantly impact its overall performance and productivity.

The idea of corporate social responsibility implies how organization can manage its business process to produce an overall positive impact on society. It also means how organizations behave ethically and contribute to economic development of society by improving the quality of life of the local community and society at large. The corporate social responsibility is set of standards that company subscribes to in order to make positive impact on society. It also means how organizations behave ethically and contribute to economic development of society by

improving the quality of life of the local community and society at large. (Oiku, Obiekwe, & Obafemmi, 2023).
Corporate social responsibility is viewed from different perspectives and angles. The perspectives vary from individual authors to organizations and as a result there is no generally accepted unified definition of the concept. But, on critically viewing the various definitions given one could observe that they are centered on three themes as stated by Wissink (2012). These themes are corporate relations to economic, societal and environmental sustainability. It is on this basis that several terms like corporate conscience, good corporate citizenship, business responsibility, business citizenship, social performance, sustainable responsible business, community relations, and responsible business are used to connote corporate social responsibility.

Concept of Firm performance

Firm performance can be seen as the actual output or results that an organization has achieved output (or goals and objectives). It is the extent to which an organization was able to perform when it compare it goals, targets, or propose with those of its competitor. According to Emenike (2016) firm performance refers to "how corporation performs on contain criteria as profitability, market share, return on asset, and return on investment. In other words, level of profitability, market share which the firm control in the industry, and the returns from their assets and investment defines an firm performance".
Scholam, Rose and Krupp (2005) argued that "firm performance can be operationalized in many ways which includes "profitability, market share, and return on assets or investment, changes in market share or profitability and new product success". They also identified customer's loyalty, sales growth and long-term survival. They contend that "corporate performance can be satisfactory or unsatisfactory depending on if it is high or low respectively. Drucker (1994) posit that corporate performance is the balance between all factors of production (Human and Materials) that will give the greatest output for the smallest efforts". In the words of Chen, et al (2006), firm performance is the "transformation of inputs into outputs for achieving certain outcomes". Madanchian, Hussein, Noordin and Teherdoost (2006) noted that the ability of an organization to achieve its goals is organizational performance. On his own, Daft (2000) define firm performance as "the ability of an organization to attain its goals by using resources in an effective and efficient manner".

Financial Performance and Profitability Concept

Literature (Chen, Chang, & Lin, 2020; Khan, Ali, & Shah, 2023; Kaplan & Norton, 1996) makes it clear that financial performance and firm performance are distinct yet interrelated concepts in business management. While firm performance encompasses a broader scope, integrating both financial and non-financial aspects of a company's success, financial performance specifically focuses on economic results as reflected in its financial statements. It is assessed using metrics such as profitability ratios (Return on Assets, Return on Equity), liquidity ratios (Current Ratio, Quick Ratio), and solvency ratios (Debt-to-Equity Ratio). The aspect of ROA focus on the profitability of the business. Profit making is crucial for every business organization, as profitability is the primary goal of any business venture. Without profit, long-term survival becomes exceedingly difficult. Business organizations adopt various strategies to gain competitive advantages, enabling them to acquire the financial resources necessary to sustain their human components and continue providing goods and services efficiently. Enekwe et al. (2013) state that profit is the ability of an enterprise to achieve sufficient returns on the capital and employees utilized in business operations. Profitability, measured through income and business goals, is the primary aim of firms and serves as the most appropriate measure of efficiency in a competitive business environment (Marianne, 2013). Profitability measures a company's capacity to generate profit over a given period. It is fundamental to evaluating a firm's financial success and operational efficiency. Profitability is not only an indicator of financial health but also reflects the firm's ability to sustain operations and provide returns to shareholders (Brealey, Myers, & Allen, 2017). There are various methods to measure a firm's profitability, with the most common metrics being Return on Assets (ROA), Return on Investment (ROI), and Return on Equity (ROE). However, for this study, profitability will be measured using Return on Assets (ROA). ROA is particularly relevant as it assesses how efficiently a company utilizes its assets to generate profit, making it a crucial indicator of operational efficiency.

Theoretical Framework

The construct of this study will based on stakeholder theory, which encourages business managers to implement environmental practices that consider non-financial stakeholders as crucial for maximizing stakeholder value and minimizing environmental costs. Stakeholder theory posits that business organizations must play an active social role in the societies where they operate. Freeman (1984), a prominent advocate of stakeholder theory, presents a positive view of managers supporting corporate social responsibility (CSR). The theory asserts that managers must satisfy a variety of constituents (e.g., investors, shareholders, employees, customers, suppliers, government, and local community organizations) who can influence firm outcomes. According to this perspective, focusing exclusively on the needs of stockholders is insufficient. Stakeholder theory implies that engaging in CSR activities that non-financial stakeholders deem important can be beneficial for the firm, as these groups might otherwise withdraw their support (Ojo, 2018). Additionally, the use of stakeholder theory is advantageous as it aligns with contemporary expectations of responsible and sustainable business practices, particularly in the selected sectors of manufacturing firms that constitute the study area.

Empirical Review

Khan, Al-Jaifi & Kharabsheh (2020) explored the financial implications of environmental conservation costs, such as waste management and pollution control. By analyzing data from 102 businesses across various sectors using regression models, they found that these costs significantly reduce short-term profitability due to increased operational expenses. However, they noted potential long-term benefits, including enhanced brand reputation and regulatory compliance. Fuente, Ortiz, & Velasco (2022) investigated the value of ESG (Environmental, Social, and Governance) practices. Utilizing a longitudinal analysis of US firms, they discovered that companies with strong ESG practices generally enjoy better financial performance. This positive relationship is attributed to improved stakeholder relations, reduced regulatory risks, and enhanced market opportunities. Putri & Novianty (2023) analyzed the impact of environmental costs on the financial performance of Indonesian manufacturing firms using secondary data from annual reports and financial statements. They observed mixed results: while some firms experienced a decline in short-term profitability due to high environmental costs, others benefited from improved public perception and market competitiveness, leading to long-term gains. Habib & Mourad (2023) assessed the influence of ESG practices on the performance of US firms during the COVID-19 crisis. Their analysis showed that firms with robust ESG practices were more resilient and achieved better financial

outcomes, maintaining profitability through strong stakeholder relationships and proactive risk management.
Hartmann & Vachon, (2020) focused on the impact of supply chain environmental practices on firm performance. They found that these practices positively affect financial performance. Luo & Tang (2021) studied the relationship between corporate environmental responsibility and profitability in the oil and gas sector. They found a positive association, indicating that firms engaging in environmental responsibility tend to be more profitable. Nguyen & Van (2022) analyzed the impact of environmental costs on corporate financial performance in Vietnamese manufacturing firms. They found that while environmental costs could decrease short-term profitability, they could also enhance a firm's public image and market competitiveness, leading to long-term financial benefits. Okafor & Madu (2021) examined how internal environmental costs, including waste management and resource conservation, affect the financial performance of firms listed on the Nigerian Stock Exchange. The study found that these costs, while initially burdensome, led to enhanced efficiency and profitability over time. Onuoha & Nwachukwu (2022) investigated the relationship between internal environmental costs and profitability in the Nigerian manufacturing sector. Their analysis of panel data from 2010 to 2020 revealed that higher expenditures on internal environmental measures resulted in better financial outcomes, primarily through cost savings from improved operational efficiency. Adeniran & Obidike (2022) explored the influence of environmental cost accounting on profitability in selected Nigerian manufacturing firms. The study demonstrated that proactive strategies, such as energy efficiency and waste reduction, significantly enhance profitability.

Igbekoyi, Alade and Oladele (2019) examined the effect of Corporate Social Responsibility Compliance among Manufacturing Firms in Nigeria. The study assessed the trend of compliance of manufacturing firms in Nigeria to Corporate Social Responsibility (CSR). This is done with a view to assess the ratio of funds committed to CSR from Total Income (TI) and the explanatory power of the latter on the former. The population of the study comprised of 74 manufacturing firms quoted on the Nigerian Stock Exchange. A sample size of 25 firms was selected using purposive sampling technique so as to capture only firms that are in existence consistently within the time frame of this study. Data were collected from annual reports of the selected firms for the period of 2002-2016. Data collected were analysed using tables, graphs and cross-sectional regression trend analysis with the aid of E-view statistical package. The findings of this study revealed that the rate of compliance of Nigerian manufacturing firms to CSR is more than the rate of noncompliance. However, it was found that the firms' engagement in CSR was unstable over the period under review and statistically insignificant at certain point in time. It was also found that the ratio of funds committed to CSR is relatively small compared to the total income derived in a given year even though TI largely explained cross-sectional changes in CSR. Hence, as a matter of policy, this study advances that government should put monitoring agency in place to track corporate compliance on CRS, using a specified threshold (or rate) of the entity's total income that should be set aside for CRS purpose.
Sukanmi. (2020) examined the impact of social responsibility activities on Nigerian deposit money banks. The sample size consists of thirteen commercial banks that have been licensed to operate in Nigeria by Central Banks of Nigeria and are quoted on the Nigerian Stock Exchange as at 2019. Fifteen banks were sampled. The data used for this study was collected through annul reports of these banks. The study revealed that the banks disclosed more information on human resources and community involvement and very low information on

environmental, product quality and consumer relation. The outcome of multivariate analysis suggests that value of total assets have positive relationship and statistically significant with the level of corporate social responsibility activities disclosure. Gross earnings and number of branches are positively and significantly related with corporate social responsibility disclosure (CSRD) level.
Moreso, recent studies have explored the impact of Corporate Social Responsibility (CSR)

Gap in Literature
There is a lack of comprehensive analysis on the combined impact of Corporate Social Responsibility (CSR) and environmental costs on firm performance, as most existing studies have explored these aspects separately. For example, research by Adebayo, Musa, and Bello (2021), Luo and Tang (2021), and Khan, Al-Jaifi, and Kharabsheh (2020) primarily focus on environmental costs without considering CSR initiatives in a holistic manner. This segmented approach fails to address the interconnected nature of CSR and environmental costs and their combined influence on business outcomes. Further, this study create gaps by focusing on integrating internal and external factors, employing longitudinal data, and utilizing consistent performance metrics to provide a holistic view of CSR's impact.

3. Methodology
This study employed Ex-post factor research design method to investigate the corporate social responsibility on financial performance of manufacturing firms in Nigeria. The Ex-post factor research design method is well-suited for evaluating the effect of Corporate Social Responsibility (CSR) on the financial performance of manufacturing firms. The study encompasses all listed Consumer Goods manufacturing firms in Nigeria. It specifically focuses on these firms as identified by the Nigerian Exchange Group, with an emphasis on examining the relationship between their CSR practices and financial performance with focus on profitability. The population for this study comprises of all 15 Consumer Goods manufacturing firms listed on Nigerian Exchange Group as at 2024. The five (5) manufacturing firms were purposively selected from the quoted manufacturing firms in Nigeria; they are: Dangote Sugar, Unilevever , Nestle Foods Nigeria Plc, Cadbury Nigeria and Flour Mills of Nigeria, covering the period of 2020 to 2024. Purposive sampling was employed in selecting the five manufacturing firm due to their prominence and substantial influence within the Nigerian economy. These companies were selected due to their significant engagement in CSR programs and the availability of their financial reports. This choice enhances the efficiency of data collection and ensures the study has access to comprehensive and relevant information. Secondary data were employed and gathered through financial report of selected firms. Panel data were used and the collected data were analyzed using both descriptive and Correlation analysis. Diagnostic test such as Levin, Lin and Chu test and Hausman test were employed to test the fitness of the model.

Results and Discussion
Diagnostics Test Result of for the Study Variables
In order to estimate the relationship between the selected variables, it is important first, to examine whether the variables are non-stationary. For variables that are non-stationary, co-integration analysis was carried out between the selected variables. However, where one or more of the variables are not stationery, such variables(s) were excluded from the co-integration analysis. In this study, Levin, Lin and Chu unit root three tests for panel data was

applied to assess stationarity and the result was presented in Table 1. The decision criteria assumed here is that if the probability value of Levin, Lin and Chu test is greater than 5% critical value, then it is ruled that the tested variable is non-stationery. If on the other hand, the probability value of Levin, Lin and Chu test is higher than 5% critical value, then ut is agreed that the tested variable is invariable. The result showed that all the variables were stationary (no unit root) at the level except External Environment (EXT) and Internal Environment (INT) which is stationary at first difference i.e order of integration one 1(1). The test was provided by the econometrics software package E-view 11.

Table 1: Diagnostics Test Result of Levin, Lin and Chu test for the Variables

Variables	**Adjusted t value**	**1st Difference**	**Order of integration**
Return on Asset	-3.95019**	______	1(0)
Return on Equity	-34.2921***	______	1(0)
External Environment	-0.82793	-4.03479***	1(1)
Internal Environment	-1.22285	-17.8544^^^	1(1)

Source: Researcher's Computation, (2025)

Hausman Test

The necessity of employing the Hausman test was evident in order to make a comparison and selection between fixed and random effect models. The null hypothesis posited that the random effect model is the more favorable choice, whereas the alternative hypothesis suggested that if the p-value is less than 0.05, the fixed effect model should be preferred; otherwise, the random effect model is the better choice. In the analysis, the fixed effect model was selected for Objective 1 and 2, based on the probabilities associated with the chi-squared statistic (Prob > chi2), which were 0.22 and 0.52, respectively, as indicated in Table 2.

Table 2 Result of Hausman Test

VARIABLES	**OBJECTIVE 1**	**OBJECTIVE 2**
Chi Square. Prob >chi2>0.05	0.2291	0.5219
Decision	**Random**	**Random**

Source: Researcher's Computation, (2025)

Correlation matrix result on the relationship between external and internal environmental costs and return on equity of selected sectors of manufacturing firms in Nigeria

The correlation matrix result in Table 4.5 for the relationship between external environmental costs (EXENVC) and internal environmental costs (INTENVC) and Return on Equity (ROE) of selected consumer good manufacturing firms in Nigeria. The correlation between ROE and EXENVC is 0.748211, which indicates a moderate positive relationship between external environmental costs and return on equity. This suggests that firms with higher external environmental costs tend to have higher returns on equity. This might be due to the fact that external environmental costs can lead to long-term strategic advantages, such as regulatory benefits, enhanced corporate image, or market differentiation, all of which can increase a firm's equity return. Additionally, firms that engage in proactive environmental measures may

attract more investors or customers, improving both their profitability and equity position in the market.
The correlation between ROE and Internal Environmental Costs (INTENVC) is -0.668898, indicating a moderate negative relationship. This suggests that higher internal environmental costs are associated with lower returns on equity. External environmental costs show positive relationships with ROE, implying that these costs can be beneficial for equity performance in the long run while Internal Environmental Costs (INTENVC) show negative relationships with ROE. The findings emphasize the importance of considering both types of environmental costs and their potential impact on firm profitability and equity. Firms should aim to balance their internal and external environmental expenditures to optimize equity returns. As a result, we reject the null hypothesis, which stated that external and internal environmental costs have no significant effect on the return on equity of the selected consumer good manufacturing firms in Nigeria.

Table 3: Correlation matrix result on the relationship between external and internal environmental costs and return on equity of selected sectors of manufacturing firms in Nigeria

	ROE	EXT	INT
ROE	1.000000		
EXT	0.748211	1.000000	
INT	-0.668898	-0.520069	1.000000

Source: Researcher's Computation, (2024)

Discussion of Finings

The findings of this study reveal that external environmental costs has a positive relationship with Return on Equity (ROE), implying that these costs may have long-term benefits for equity performance. This finding is in line with Heidrich & Prokop (2021), who suggest that firms investing in environmental remediation and compliance might not see immediate financial benefits but can expect enhanced equity performance over time. The positive impact on ROE suggests that managing external environmental factors effectively can improve investor confidence and long-term financial performance. In contrast, internal environmental costs (INTENVC) demonstrate a negative relationship with ROE, potentially reflecting the initial costs and challenges of implementing internal sustainability practices. This aligns with the arguments of Liu & Li (2022), Akanbi & Mordi (2020) and Okafor & Madu (2021) who acknowledge that while internal environmental practices may improve operational efficiency, they may not immediately translate into higher equity returns.

Conclussion and Recommendation

Based on the summary of findings of this study, it was concluded that CSR disclosure positively and negatively correlated to the profitability of manufacturing firms in Nigeria. It recommends that firms adopt strategies to mitigate external environmental costs, such as improving operational efficiencies or passing costs onto consumers, to enhance profitability.

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