

Corporate Social Responsibility and Profitability in Nigeria Telecommunication Industry: A Case Study of MTN Nigeria

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Abstract

In Nigeria, the telecom sector has a tremendous history of engaging themselves in different social activities which is known as CSR (Corporate Social Responsibility). The present paper examines the relationship between CSR and profitability of Nigeria telecommunication industry. The study assessed the impact of CSR practices using secondary data collected on social responsibility expenditure and profit after tax from MTN Nig. Ltd annual reports (2002-2012). The data were analysed using the Ordinary Least Square (OLS) model of regression using SPSS 20. To assess the impact as well as test the hypothesis of the study whether there is a relationship and the extent of the relationship between the independent variable (corporate social responsibility) and the dependent variable (profit after tax). Results revealed that CSR impacted positively on profitability and the environment. The analysis showed that 79% of the variance of profit after tax of MTN has been explained by the benefit accrued from corporate social responsibility. The hypothesis formulated was tested and the result shows that there is significant positive relationship between corporate social responsibility and profitability in MTN Nigeria Ltd. The study concluded that CSR expenditure provides good returns for the company in short run and in long run it will provide better return surely.

Keywords: Corporate Social Responsibility, Profitability, Financial Performance, Nigeria Telecommunication Industry

Introduction

In developing economies, the concept of business is gaining new focus from profit making activities to social welfare activities where businesses are not only responsible to its shareholders but also to all of its stakeholders (Islam, 2012). In this era of industrialisation, most of corporations focus only on profitability, leaving their contribution to society limited only to available field-work for society and providing goods and services. Nowadays, society demands corporation to do more as there is economy imbalance between owners and society. CSR (corporate social responsibility) refers to relationships between corporation and all stakeholders, suppliers, government, and even their competitor. This concept is also known as 3P (profit, people, planet), introduced by Solihin (2009). Business objective is not merely for profit, but also for welfare of people and ensure sustainability of this planet.

In Nigeria, the telecommunication sector is not excluded from social responsibility. As a matter of fact, since the advent of mobile telecommunication into Nigeria arising from deregulation and liberalisation of the economy in 2001, the global system for mobile communication (GSM) industry has been responsible for the employment of millions of Nigerian citizens, either as distributors or retailers of GSM phones, recharge card sellers or GSM phone repairers. This sector has in no mean way boost the country's economy. The mobile telecommunication sector has performed tremendously in promoting CSR activities which are expected from operators as part

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of sustaining growth and development in the country. According to Altschuller and Smith (2011), stakeholders expect companies to manage the social and environmental impacts of their operations. In response to these agitations, many organisations have adopted corporate social responsibility (CSR) programmes. Many of such programmes are not integrated into the organisation's operations but are merely taken as philanthropic gestures, public reporting through newspaper and television media so as to give the notion that they are practicing CSR. Occasionally, some apply environmental and labour standards that suit them to satisfy basic requirements of the laws of the land.

Many organisations in Nigeria are driven by the need to make more and more profits to the detriment of all the stakeholders. Some do not adequately respond to the needs of host communities, employees' welfare (cheap labour often preferred), environmental protection and community development. Research has shown that CSR can increase profitability, sustainability, integrity and reputation of any business that includes it in its policy. Nkanga (2007) posited that CSR involves the commitment shown by companies to contribute to the economic development of a local community and the society at large.

This paper is basically focused on the CSR activities of the telecommunication industry and how it is related with profitability and in what extent this industry are eager to involve in these sort of CSR activities. Telecommunication industry constitutes profit based organisations, so in this perspective they surely want to spend money in those sectors which will directly or indirectly bring money for them. Obviously there are some positive relationships between CSR and telecoms profitability. To analyse how much impact CSR create on profitability MTN Nig. has been chosen.

Literature Review

CSR is one of corporation's responsibilities to its stakeholder and also a voluntary contribution by corporation to sustainable development (Crane & Matten, 2007). In the period of increasing corporate financial scandals CSR has become an important strategy for companies worldwide to improve their image as these activities can potentially create a brand image for companies and develop positive relations with stakeholders (Yoon, Giirhan-Canli, & Schwarz, 2006).

Corporate social responsibility may be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change. The term generally applies to company efforts that go beyond what may be required by regulators or environmental protection groups. The recent globalisation demand companies to be more engaged in CSR activities (Chapple & Moon, 2005). The concept of corporate social responsibility has been gaining importance in the past two decades. Recent studies suggest that corporate social responsibility is an instrument to increase firms' legitimacy in the eyes of their stakeholders and to develop positive social responsibility images to burnish their reputations (Maignan & Ralston, 2002).

CSR has the capacity and potential to impact and contribute positively to the development of society and businesses. Helg (2007) averred that several definitions of CSR are formed to fit any organisation in question. The definitions mainly are formed to integrate economic, environmental and social aspects. Carroll (1991) indicated that CSR embraces for social responsibilities which are economic, legal, ethical and philanthropic. The economic aspect is responsibility to profit; the legal component deals with the society's expectation from companies to comply with the laws and regulations of the land; ethical deals with society's expectation from companies to embrace value and norms; philanthropic responsibilities entail companies being good corporate citizens.

The United Nation (1987), on its report to the world commission on environmental and development sees corporate social responsibility as the development that meet the present generation needs without compromising the ability of the future generations to meet their own needs. Prior to the Nigeria civil war, companies in Nigeria tend to exercise their corporate social responsibility by the way of creating job opportunity to Nigerians; little or none was known about companies' contribution towards other aspects of corporate social responsibility (Oguntade & Mafimisebi, 2011). Three dimension definition by Lohman and Steinholtz (2004) views CSR as a combination of three separate agendas, namely sustainability, corporate accountability, and corporate governance. Sustainability implies balancing the social, economical, and environmental areas in the world to avoid threatening long term survival. Corporate accountability

deals with organisation's credibility and ability to manage resources properly while corporate governance deals with the manner an organisation is run with transparency and trustworthily.

In as much as the telecoms industry is affecting the lives and Nigerian economy, there is the need that their activities do not compromise Nigerians lives and environment.

Implementation of Corporate Social Responsibility in Nigeria

Annually, limited liability companies in Nigeria give reports of their social responsibility efforts. These are in four major identifiable areas, viz:

- a. The immediate environment of the company where the interest of the neighbours of the given company is taken care of as much as is practicable (Bello, 1988).
- b. Locating worthy national or state activities to support in this respect, educational, sporting and cultural activities are sponsored by companies as forms of social responsibility. Also, scholarship, training facilities and other form of support are often provided for students.
- c. Responding to major disasters.
- d. Diversification of activities to areas of importance in the nation's economic development.

There is no doubt the committee saddled with the responsibility of developing a corporate social responsibility policy for Nigeria will learn from the countries (especially developing one) that have adopted and are implementing such policies successfully. Prior to the above declaration of the federal government, Nigeria did not have a corporate social responsibility policy. Several companies operating here took the initiative to develop a corporate social responsibility guideline or code for themselves. It is not out of place for a study to have found that indigenous firms perceive and practice corporate social responsibility as corporate philanthropy aimed at addressing social economic development challenges in Nigeria. The findings confirm that corporate social responsibility is a localised and socially embedded construct, as the waves, 'issues' and 'modes' of corporate social responsibility practice identified amongst indigenous firms in Nigeria reflect the firms responses to

the socio-economic context (Amaeshi, Bongo, Chris, & Olufemi, 2006).

One of the leading telecommunication companies in Nigeria, MTN Nigeria, developed a corporate social responsibility policy direction document in 2004 in conjunction with a consulting outfit. The company has since gone ahead to establish MTN Foundation to lead its corporate social responsibility policy implementation locally. Whether in the question of taxes and levied paid; employment; health service, sports, arts and culture, or other community development activities etc., Nigeria telecommunication industry has continued to make enormous contributions to the development of the economy and society. But all these have remained largely using or noticed. Over the years, many businesses in Nigeria especially telecommunication companies have spent millions of naira as their contribution towards protecting the environment, provision of infrastructures in host communities, Outright charities such as donations of relief materials to refugees or disaster victims, as well as scholarship schemes and sponsorship of sport programmes. Although, most of these companies try to publicise these contributions, their main stakeholders, namely the host communities, local, state, and federal government are usually not aware of their effort.

Going forward, corporate social responsibility among telecommunication industries will continue to be an instrument of competition, product branding and success measures. Factors within and outside telecommunication industries will continue to drive and influence the variety and level of corporate social responsibilities exposure among the telecommunication industries. Corporate social responsibilities are considered to be an important aspect of business success through efficient resource management, environmental protection, employment, economic-friendly atmosphere etc. to impact the society and the company which leads to the progress of both.

Benefits of Incorporating CSR to an Organisation

Quite a number of benefits may accrue to any organisation that incorporates CSR. Some of these are increased brand value; greater access to finance; a healthier and safer workplace; stronger risk management and corporate governance; motivated people and community; customer loyalty; enhanced confidence and trust of stakeholders;

an enhanced public image and economic success (EFMQ, 2004; Asa, 2007; Reimers, 2009; Andrew, 2009; Tuodolo, 2009; Elizaveta, 2010).

Any organisation that incorporates CSR as a core business is not doing any special favour to the society but is indirectly creating more avenues for a greater growth, success and profitability for its business. Reputational damage may occur for failure to incorporate CSR. Mirfazli (2008) discovered in his research that failure to carry out social responsibilities will cause more harm to a business than any good. Unethical business practice is no longer fashionable even in a country as poverty-ridden as Nigeria. Such can only attract negative feedback to any organisation due to increased media attention, responsive and investigative journalism as well as increased social media in Nigeria. Ethical responsibilities do attract and retain the best workers in an organisation. Researches also revealed according to Diffey (2007) that consumers prefer to patronise who are alive to CSR practices. The author went further to say that with the coming of knowledge economy; corporate behaviour has no hiding place. Human rights cannot be infringed upon anyhow and business reputation must be guarded jealously due to quick information flow through various media such as mobile telephoning, newspapers and magazines, television, radio and internet.

Elizaveta (2010) claimed that CSR business attracts the best workers and bring more customers to any organisation. She went further to add that companies without CSR most often fail sooner or later and that big organisations appear to understand this, thereby they set up strategies to assure stakeholders of being socially responsible. Companies with CSR policies get the best workers, shareholders, customers, and a happier community and society. The economy and the capital market also recognise that sustainable companies are businesses of the future.

Many African countries, including Nigeria are highly dependent on foreign aids and grants. Pederson and Huniche (2006) observed that economic responsibilities are accorded the highest priority by organisations in Africa.

Others such as philanthropic, legal and ethical follow respectively. The socio-economic needs in Nigeria are so enormous that companies must come to the aid of people and environment where government has failed. Amaeshi *et al.*, (2006) averred that indigenous perceive CSR as

corporate philanthropy to address the socio-economic challenges in Nigeria. The failure of the federal government controlled economy (despite the super abundance of natural and human resources) to develop the country is a major driver of CSR. The mobile telecommunication industry in Nigeria comprises MTN, Globacom, Airtel, Etisalat, Multilinks, Starcomms, Vodaphone, Zoom mobile and Visaphone. Nigeria, so far has maintained the lead as Africa's largest telecoms market (Mathew-Daniel, 2012). This is not surprising given Nigeria's population of over 160 million people. The deregulation of the telecommunication sector was as a result of the failure of the Federal government – controlled NITEL (the only telephone service provider until 2001). NITEL had only about 500,000 subscribers in a country of about 140 million people as at then. Telephone lines in homes were not for the poor, it used to be a sign of affluence or wealth in Nigeria. The active subscribers of GSM in Nigeria have hit 127.2 million people. The GSM services have brought in a lot of benefits to the economy such as ease of business transaction, communication, e-banking services, among others. This is not to say it did not come with other demerits as well such as health and safety issues related to base stations and radio frequency, emissions, noise, air and ground pollution (MTN Annual Report, 2005).

Methodology

In Nigeria, there are nine (9) operators in the telecoms industry, which constitute the population of the study. Since the focus of this study is the impact of CSR on profitability, as well as the benefits and implementation of CSR activities on Nigeria environments, it was decided in the study examine the CSR of one of the fastest growing telecom operator in Nigeria which is MTN Nig. The study collected secondary data on corporate social responsibility (CSR), and profitability (PAT) of MTN Nigeria Limited from the period of 2002–2012.

Data relating to corporate social responsibility expenditure and profitability was used to construct ordinary least square (OLS) model for regression to which was analysed using SPSS 20. To evaluate if there is a relationship and the extent of the relationship if any between the dependent variable (profit after tax) and the independent variables (corporate social responsibility expenditure).

For this purpose the following hypothesis is tested:

H₀: There is no significant relationship between corporate social responsibility and profitability.

H₁: There is significant relationship between corporate social responsibility and profitability.

Model Specification

Regression model was used to examine the relationship between the dependent variable PAT and the independent variable CSR which is shown in equation (1):

$$PAT = f(CSR)$$

$$PAT = \alpha_0 + \beta_1 CSR + u \tag{1}$$

where,

PAT = Profit After Tax

CSR = Corporate Social Responsibility

α_0 = Intercept

β_1 = Coefficient of the Independent Variable

u = Error Term

This study also attempted to use the Pearson correlation analysis method, this is consistently in line with previous studies and regression analysis to understand the CSR and Profitability link and its relational degree and direction. Inferential statistics of multiple regression analysis and analysis of variance (ANOVA) were employed to evaluate the impact CSR on profitability and test the

formulated hypotheses using a specified model at 1% level of significance.

Data Presentation and Analysis

Table 1: MTN Data on CSR Expenditure and Profit after Tax

Year	CSR (N million)	PAT (N million)
2002	14072.00	2618
2003	28153.10	1146
2004	57406.70	2366
2005	59406.70	5866
2006	120402.6	10610
2007	225820.0	10608
Year	CSR (N million)	PAT (N million)
2008	262935.8	17135
2009	470253.8	17161
2010	1076020.	16827
2011	1679144	23787
2012	685717.3	24068

Source: Annual Reports (2002-2012)

Table 2: Correlation between CSR and profit after tax

	PAT	CSR
PAT Pearson Correlation	1	.790
Sig. (1-tailed)	11	.002
N		11
CSR Pearson Correlation	.790	1.000
Sig. (1-tailed)	.002	11
N	11	

Correlation is significant at the 0.01 level (1-tailed).

Table 3: Regression Result on the Impact of Corporate Social Responsibility on Profitability Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.790a	.624	.582	5413.15359	.624	14.923	1	9	.004	1.133

Predictors: (Constant), PAT

Dependent Variable: CSR

Table 2 establishes the relationship between CSR expenditure and PAT was found to be significant at 0.01 or 1%. To evaluate the impact of corporate social responsibility on profitability in Nigeria telecoms revealed (Beta= 0.790, $P < .01$), the results of the Ordinary Least Square regression analysis are shown in Table 3. This hypothetical means that for every unit change increment the CSR expenditure will lead to .790 or 79% increase in the profit after tax of the company. It also shows that R-square was 0.624 which accounted for about 62.4% of the variation in the profit after tax of MTN Nig. It is also indicating that corporate social responsibility is important in achieving effective financial performance of the telecoms companies in Nigeria. The overall significance

of the model is showed in Table 3 (F-statistics = 14.923%, $p < .01$) and the Durbin-Watson shows no auto correlation in the variables. Over all, the model revealed that 62.4% of the variance of profit after tax of MTN has been explained by the benefit accrued from corporate social responsibility.

From Table 3, the value of ("r"= 0.790, $p < .01$) which stand for "r" calculated. This shows that there is positive correlation between corporate social responsibility expenditure and the profit earned by the company which is significant at the 0.01 level (1-tailed). This means that the null hypothesis is rejected and leading to the acceptance of the alternate hypothesis.

Table 4: ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.373E8	1	4.373E8	14.923	.004 ^a
	Residual	2.637E8	9	2.930E7		
	Total	7.010E8	10			

a. Predictors: (Constant), PAT

b. Dependent Variable: CSR

Table 5: Regression Coefficients^a

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.	95% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant) CSR	6720.723	2131.616		3.153	.012	1898.672	11542.773
	.012	.003	.790	3.863	.004	.005	.020

Dependent Variable: PAT

Table 5 shows the (unstandardised) and standardised regression weights for the regression analysis of corporate social responsibilities and profitability. The standardised regression coefficient (beta weight) for CSR is .790. What this weight means is that for every unit change in CSR, profitability will increase by a multiple of .790 standard deviations. Note that the beta coefficients are significant at $p < .001$. The columns headed "95% confidence intervals" shows confidence intervals around the unstandardised regression coefficients. Thus it can be said that, with 95% confidence the value of the constant lies somewhere between 1898.6 and 11542.7 and the value of the regression coefficient *b* (un standardised) lies somewhere between .005 and .020).

Discussion of Findings

The results of the ordinary least square regression analysis as showed the impact of corporate social responsibility expenditure on profitability in MTN Nig. which revealed (Beta= 0.790, $p < .01$). This means that for every unit change increment the CSR expenditure will lead to .790or 79% increase in the profit after tax of the company. The R-square was 0.624 which accounted for about 62.4% of the variation in the profit after tax of MTN Nig. It is also indicating that corporate social responsibility is important in achieving effective financial performance of corporate organisation in Nigeria. The overall significance of the

model is showed in Table 3 (F-statistic= 14.923, $p < .01$). Above all, the model revealed that 62.4% of the variance of profit after tax of MTN Nig. has been explained by the benefit accrued from corporate social responsibility. The hypothesis that was formulated was tested and the result shows that there is significant relationship between corporate social responsibility and profitability.

Conclusion and Recommendations

Businesses are an integral part of the communities in which they operate. Due to highly competitive nature of today's market, companies must maintain high moral integrity in order to survive since strength in ethical values have drastic impact on employees, consumers, and society ratings, which will affect reputation and business. Good executives know that their long term success is based on continued good relations with a wide range of individuals, groups and institutions. Moreover, the general public has high expectations of the private sector in terms of responsible behaviour. Consumers expect goods and services to reflect socially and environmentally responsible business behaviour at competitive prices.

From the above analysis it is clear that CSR has significant impact on the profitability of MTN Nig. So the CSR expenditure provides good returns for the company in the short run and in the long run it will provide better return surely. The study concludes that there is a significant relationship between CSR and profitability and the null hypothesis is rejected.

Recommendations for the study therefore include that:

- i. There should be interactive sessions on regular basis between the multinational companies and their customers to proliferate understanding and enhance harmonious business relationship especially on moral and ethical ground. Such interactions would impact positively on the ethical performance of both the companies and the customers thereby improving transparent business transactions.
- ii. The companies should fully integrate themselves with the host communities, this can be realised through performing their social responsibilities adequately and to the best of their abilities. The need for harmonious relations between the companies and host communities is absolutely inevitable for smooth business operations and reciprocation of gesture.
- iii. Representative of all stakeholders (employees customers, society, government etc.) should be appointed as member of the board of directors of the companies for direct representation and participation in the decision making process of the companies.
- iv. The companies should subject themselves to the dos and don'ts of their host communities, and see to the consistent growth and development, and wellbeing of these communities while doing their business operations and recording stable profit as well.
- v. Government should set up functional mechanism that will constantly check the state of customer's and community management equally, the publication of ethical/ social responsible companies by a government institution charged with the responsibility should be done annually.

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