OWNERSHIP AND CORPORATE SOCIAL RESPONSIBILITY: AN EMPIRICAL INVESTIGATION ON DATA FROM THE NIGERIAN INDUSTRY

By

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ABSTRACT

The impact of ownership structure on corporate decisions to allocate resources to Corporate Social Responsibility (CSR) has assumed renewed significance in the burgeoning literature of developing economies given the exigency for corporate executives to allocate firm specific resources to other social objectives that may detract from profit maximization. The central issue underpinning this growing international literature is that different ownership types have varying implications for firm’s CSR engagements. This study compliments evolving literature in looking at the effect of different degrees of ownership structures on CSR practices of firms in the Nigerian industry. This paper differs markedly from the methodologies of previous studies which used composite CSR indices. Since the aggregation of various forms of CSR into a composite index may blur the nature of the exact relationship between ownership structure and each category of CSR contained in the index, this work deconstructs CSR expenditure into five categories - public goods, socially desirable goods, corporate philanthropy, women on board used to proxy employee-relations and environmental conservation - and estimate the effects of government ownership, high levels of government and foreign shareholding, board independence, institutional investors and politically affiliated directors on CSR variables controlling for such factors as firm size, return on assets and capital intensity.

Using new data on listed Nigerian firms, this paper carries out its empirical investigation with panel data estimation in order to deal with heterogeneity and endogeneity issues. I control for further endogeneity bias via the treatment effect and Two-Stage Least Squares. To control for possible correlation between the error terms of different CSR equation given the multivariate nature of our CSR dependent variables, I also conduct seemingly unrelated regression model. Since the impact of firm-specific trend is not usually captured in Fixed-effect estimation, this work also controls for specific growth-variations that may confound the relationship between CSR and ownership structure via the Fixed-effect and Firm-specific Trend model. The findings of this paper reveal that government ownership has a significant and positive effect on CSR expenditure on corporate philanthropy and percentage of women on board used to proxy employee relations. I also find that high levels of government shareholding have a significant and positive effect only on CSR expenditure on social goods, while high levels of foreign shareholding have a significant and positive effect only on CSR expenditure on corporate philanthropy and percentage of women on board. Board independence has statistically insignificant effect on all the categories of CSR save for CSR expenditure on social goods, while institutional investors have a significant and positive effect only on CSR expenditure on social goods and corporate philanthropy. Politically affiliated directors have no significant impact on all the forms of CSR investigated in this work. The findings of this study suggest the need to institute incentives schemes and regulatory constraints that will compel different ownership structures to commit resources to CSR especially the core-CSR issues like environmental conservation and employee-relations.

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List of Abbreviations

2SLS	Two Stage Least Squares
AIG	American International Group
ADSR	Analysts Data Services and Resources
BC	Before Christ
BPD	Barrel Per Day
CAMA	Company and Allied Matters Act
CEO	Chief Executive Officer
CG	Corporate Governance
CSR	Corporate Social Responsibility
FINGOV	Financial and Governance Database
FE & FT	Fixed-Effect and Firm-Specific Trend
GDP	Gross Domestic Product
HAC	Return on Assets
HRW	Heteroskedasticity and Autocorrelation Consistent
ILO	International Labour Organization
IV	Instrumental Variable
JOA	Joint Operating Agreement
JVP	Joint Venture Partnership
MNCS	Multinational Companies
MOU	Memorandum of Understanding
NEPD	Nigerian Enterprise Promotion Decree
NGO	Non-Governmental Organization
NNOC	Nigerian National Oil Company
NNPC	Nigerian National Petroleum Company
NSE	Nigerian Stock Exchange
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
OPEC	Organization of Petroleum Exporting Countries
PLC	Public Limited Company
PPTB	Petroleum Profit Tax Bill
PSC	Production Sharing Contract
RBV	Resource Based View

SEC	Security and Exchange Commission
SOFS	State-Owned Firms
SPDC	Shell Petroleum Development Company
SSCG	Social Sensibility of Corporate Governance
SUR	Seemingly Unrelated Regression
TCF	Trillion Cubic Feet
UK	United Kingdom
US	United States
WAPCO	West African Portland Cement
WBCSD	World Business Council for Sustainable Development
WW2	World War 2

1 INTRODUCTION

1.1 Statement of the Problem

Globalization, the information technology revolution and the complexities of world politics have created exigencies which make it more urgent than ever, that businesses accept social responsibilities transcending mere profit-maximization (Carroll, 1991; Idemudia, 2009a; Freeman, 1984; Chami et al., 2002; Marom, 2006; Chen et al., 2008). The increased demand for firms to be responsive to the needs of their host environment becomes more pronounced with the nature of the firms and how their productive activities impact on the host communities. Thus, firms operating within industries that are environmentally and socially challenging, face questions of moral and social legitimacy with regards to the incorporation of corporate social responsibility (CSR) in their business strategy (Campbell et al., 2003; Wheeler et al., 2002).

The last three decades have witnessed a substantial increase in the CSR undertakings of firms in both developed and emerging economies. This is not unrelated to the various corporate scandals and unethical practices that have elicited not only stringent regulatory controls for firms by government and industry regulators, but also consumer activism through boycotts of firm's products and media campaigns. For instance, in the early 1980s, Nestlé Food industry was constrained to incorporate CSR practices in its business strategy in order to avert a great decline in its revenue streams, owing to the threat of massive boycott of its products by consumers (Singer et al., 2011). Similarly, in the mid-1990s, Nike supplier factories also faced public outcry and condemnation for its poor corporate governance practices (Burns, 2000; Harrison and Scorse, 2010), while the Katie-Lee Gifford child-labour [1] scandal exposed the sweatshop labour and other

[1] In 1996, the National Labour Committee in the US accused Kathie Gifford of being responsible for the sweatshop labour used in the apparel supplier factory of clothes sold in Wal-Mart with Kathie Lee label on them. Kathie denied these sweatshop allegations and later collaborated with the Federal authorities in the US to investigate the poor working conditions in the supplier factory. She later mobilized the movement that led the

unethical business practices in the apparel supplier factory located in Honduras (Harrison and Scorse, 2010; Strom, 1996). More recently, corporate scandals and unethical business practices have led to the demise of many established firms. The collapse of Enron Corporation, the largest bankruptcy in US history, was tied to the fact that Enron executives devised complex corporate governance strategy to defraud Enron and its shareholders through off-the-books transactions that showed the apparent profitability of the firm (Mclean and Elkind, 2003; Swartz and Watkins, 2003; Deakin and Konzelmann, 2004; Clarke, 2005).

The collapse of this large corporation suggests a possible linkage between poor corporate governance and unethical business practices, as misguided business decisions or fraudulent practices by corporate executives were largely responsible for the demise of this large firm. Similar unethical practices of executive directors were also responsible for the collapse of WorldCom, American-International Group-AIG, Cadbury Nigeria Plc and Halliburton Nigeria Plc (see for instance Clarke, 2005; Idemudia and Ite, 2006). This connection between poor corporate governance and unethical business practices, as noted by Jamali et al. (2008) and Kolk and Pinkse (2010), conversely suggests a possible positive relationship between good corporate governance and ethical business practices in the form of CSR. Along this view, it is argued that the ownership structure of the firm determines its CSR strategy (Jamali et al., 2008). This establishes the need to investigate the relationship between ownership structure and CSR.

The impact of ownership structure on corporate decisions to allocate resources to CSR has assumed renewed significance in the burgeoning literature of emerging economies. The central issue underpinning this growing international literature is that different ownership types have varying implications for firm's CSR engagements (Hoskisson et al., 2002; Zahra, et al., 1993; Oh et al., 2011). It is the purpose of this dissertation, amongst other things, to complement this evolving literature by investigating the effects of different degrees of ownership structures on CSR for the specific case of industries in Nigeria.

Federal Legislative and executive branch agencies to enact laws that would protect children against dehumanizing working conditions (see for instance Strom, 1996; Duke, 2005).

Existing studies maintain that Nigeria has a chequered history of corrupt and unethical business and government practices (Ite, 2004; Erondu et al., 2004; Idemudia and Ite, 2006; Idemudia, 2009a). Based on this, Nigerian industry presents an interesting study since most firms in the major sectors of its economy, particularly in oil & gas and manufacturing sectors have either substantial government ownership or shareholding stake spread between government, foreign and institutional shareholders (Ahunwan, 2002; Kone, 2006; Edoho, 2008; Idemudia and Ite, 2006; Idemudia, 2009a).

In Nigeria, most state-owned firms (SOFs) and Multinational firms (MNCs) in oil and gas sector are localized in the Niger- Delta region[2], which is characterized by poor infrastructural amenities and environmental degradation owing to negative externalities of oil production (Idemudia and Ite, 2006; Edoho, 2008). Along the same view, there is increased incidence of local agitation and youth restiveness in the Niger-Delta region as shown in the numerous reports of kidnapping of domestic and foreign oil workers (Ite, 2004; 2005). The basis of the agitation of the host communities is informed by the fact that both SOFs and MNCs are polluting the local habitat as well as plundering their natural resources without giving back anything in return (Eweje, 2007; Idemudia, 2010). Media report also has it that due to the increasing incidence of violence in the Niger Delta region, Shell Petroleum Development Company (SPDC) has a terminal date of onshore oil production in Nigeria, and that Chevron Texaco accrued colossal loss of over $750 million due to community strife and oil pipeline vandalization (see for instance Idemudia, 2009a).

Moreover, the historical evolution of corporate governance (CG) code in Nigeria has been a post-colonial affair. This implies that, prior to the post-independence era; there was little or no interest in devising indigenous laws to govern the conduct of firms in Nigeria (Ahunwan, 2002). In line with this view, there was neither demand for independent and external supervision of the activities of top

[2] The Niger-Delta Region is the host community to over 18 domestic and multinational oil companies and has continually witnessed an increase in the number of oil fields, from 78 in 1980s to well over 606 in 1990s (see for instance Idemudia and Ite, 2006). The region is characterized by a systemic blend of varying ecological zones: coastal barrier islands, saline mangroves, freshwater swamp forests and lowland rain forest. Its geographical trajectory, which is well over 70,000.km^2, is third largest wetland in the world after Holland and Mississippi (see Edoho, 2008).

management, nor the need for transparency in the disclosure of firms' social and accounting information (Yakasai, 2001). It is argued that the basic ground for the resurgence of interest in promoting good corporate governance practices of firms in Nigeria is to avoid the recurrence of corporate scandals and to remove the unethical practices witnessed among large firms, here as in more developed economies (Adewuyi and Olowookere, 2009).

Another significant feature of firm ownership in Nigeria is the effect of the Indigenization Decree[3] promoting divestment of foreign shareholdings in some sectors of Nigerian economy. Given that private domestic capital was not sufficient then to absorb these divested shares (Yerokun, 1992), critics observed that these foreign divested shares were acquired by influential and wealthy political elites, who are incidentally and most frequently the top executives or Chief Executive Officers (CEOs) of firms (Hoogvelt, 1979; Akinsanya, 1983; Beveridge, 1991).

To date, I am not aware of any study for Nigeria that has investigated the relationship between various ownership structures and CSR practices of firms. There is an accompanying dearth of empirical research on the impact of various corporate governance variables used to proxy other ownership types on corporate decisions to commit resources to CSR. Furthermore, some empirical studies on other emerging economies used a composite CSR index to examine the relationship between ownership structure and CSR practices (Jamali, et al., 2008; Zahra et al., 1993; Graves and Waddock, 1994; Gao, 2009). Extant literature argue against the use of a composite index as a metrics for CSR practices on the ground that, the aggregation of various forms of CSR into a composite index may blur the nature of the exact relationship between ownership structure and each category of CSR contained in the index (Griffin and Mahon, 1997; Johnson and Greening, 1999; Huang, 2010).

This thesis aims to fill these gaps by investigating the effect of different ownership structures on CSR practices of firms in Nigerian industry. It also investigates how

[3] The Indigenization Decree is the Nigerian Enterprises Promotion Decree, No. 4 of 1972, enacted by the government. This decree seeks to promote the rise in economic nationalism and emphasized the need for domestic ownership of the productive sectors of the economy.

corporate governance mechanisms, like board independence and the presence of institutional investors impact on CSR practices. Given that most top management officers or CEOs of firms in Nigeria have political connections, I equally investigate the impact of politically affiliated directors on corporate decisions to allocate resources to CSR practices. Consistent with some empirical literature in developed economies which used specific variables as against CSR index to measure CSR practices like Johnson and Greening (1999), Marsigilia and Falautano (2005), Ho (2005), Elkington (2006) and Huang (2010), this dissertation deconstructs CSR expenditure in Nigeria into five categories - public goods, socially desirable goods[4], corporate philanthropy, employee relations and environmental conservation - in order to adequately investigate the effect of different ownership structures and corporate governance variables on these categories of CSR practices.

1.2 Purpose of the Study

The foregoing discourse on the need to examine the relationship between different ownership types and CSR practices raises some fundamental questions that will be investigated in this study:

Given that government has a substantial shareholding stake in some domestic firms in Nigerian industry, what is the effect of government's ownership on the CSR practices of firms in Nigeria? This is predicated on the fact that this ownership type might give rise to corporate governance bottlenecks like lack of appropriate strategy, management capability or institutional will that may undermine the incentive of managers of state-owned firms (SOFs) to credibly commit to CSR engagements in Nigeria. It is important to remark that the credible commitment of SOFs to some CSR practices may be subject to complex interpretations. This is

[4] The theory of Welfare Economics describes public goods as those goods that have two salient characteristics: jointness of supply and the impossibility of excluding other individuals from its consumption: it is simply non-rival and non-exclusive. This implies that each unit of pure public good can be consumed by all the individuals, and the consumption of each individual does not decrease its availability to another consumer (see for instance Sloman, 1998; Mueller, 2003). On the other hand, socially desirable goods are those social investments or projects undertaken by firms in order to provide infrastructural amenities and promote sustainable development of their host communities (see for instance McWilliams and Siegel, 2001; Idemudia and Ite, 2006; Kotchen, 2005; 2006). It is the view that firms may engage in the provision of social goods in order to gain social license to operate and maximize profit even if it is in the long-term (see also McWilliams and Siegel, 2001; Bagnoli and Watt, 2003; Baron, 2001).

based on the fact that the state has its own division of labour and may allocate the maximization of social welfare to different ministries. Hence, it may not support the use of its firm's resources in certain categories of social responsibility actions.

Appraisals of the ownership structure of Nigerian firms find that a mixed-ownership structure is the dominant ownership form (Ahunwan, 2002), where the shareholding stake is spread between government, foreign and domestic investors. Hence, the crucial issue is: what is the effect of different shareholding patterns, including the effects of government and foreign ownership of shares on firm CSR practices in Nigeria?

Moreover, it is the view of some existing literature on other emerging economies that a good or bad corporate governance practice may have positive or negative impact on the CSR strategy of firms (Jamali et al., 2008; Huang, 2010; Kolk and Pinkse, 2010). Consistent with this emerging literature, what is the effect of board independence and institutional investors on CSR practices of firms in Nigerian industry?

Finally, most firms in Nigeria are politically connected (Aburime, 2009; Adewuyi and Olowookere, 2009); and this may be related to the upsurge in economic nationalism which saw the government not only restrict the shareholding stakes of foreigners in the domestic economy, but also transferred these shareholding stakes to wealthy Nigerians with political clout. Given that most firms have executive directors with political connections, it is then germane to consider what the effect is of having politically affiliated directors on corporate decisions to commit resources to all the forms of CSR investigated in this work.

Hence, this dissertation has two major objectives:

First, to investigate the relationship between ownership structure and CSR practices. This involves the examination of the effect of government ownership on CSR practices and the impact of shareholding structure on CSR practices of firms, including the effects of government and foreign shareholding. The second is to investigate the impact of corporate governance mechanisms on CSR practices. In this study, I will use the corporate governance variables of board independence, institutional investors and politically affiliated directors for the empirical investigation. From the findings of these investigations, inferences and policy recommendations will be drawn that will inform future research on the relationship between ownership structure and CSR practices in emerging economies with particular reference to Nigeria.

1.3 Contributions and Originality of the Study

Most of the works written on CSR concentrate on investigating the relationship between CSR and Corporate Financial Performance (Pava and Krausz, 1996; Griffin and Mahon, 1997; Mill, 2006; Mishra and Suar, 2010; Peloza and Papania, 2008). A smaller number are interested in showing the need for the implementation of CSR in developing economies (Edoho, 2008; Idemudia and Ite, 2006; Eweje, 2007; Idemudia, 2007; 2009b). Only recently, has research interests shifted towards investigating the relationship between CSR and ownership structure in emerging economies (Huang, 2010; Jamali, et al., 2008; Zahra et al., 1993; Graves and Waddock, 1994; Gao, 2009). This work complements and enriches this recent trend both in methodology and data.

The novelty and originality of this work consist essentially in the fact that this is the first work to the best of my knowledge that seeks to econometrically investigate the relationship between ownership structure and CSR practices of firms in Nigerian industry. It seeks, unlike some literature like Idemudia and Ite (2006), Ite (2004; 2005) and Idemudia (2007), which concentrate their CSR studies on the need for firms in Nigeria to incorporate CSR in their business strategy, to examine the effect of different ownership structures on corporate decisions to allocate resources to CSR practices. Similarly, other previous CSR studies like Eweje (2007), Edoho, (2008) and Idemudia (2009a; 2009b; 2010), investigate the relationship between CSR and sustainable development in Nigeria, and limit CSR discourse to firms in oil & gas sector of Nigerian economy. This dissertation extends the horizon of CSR discourse to include an elaborate investigation of the impact of ownership structures on CSR practices in all the major sectors of Nigerian economy ranging from oil & gas, manufacturing, consumer-goods, health-care and communication & information sectors.

This study is also particularly unique in its investigation of the effect of corporate governance on CSR practices of Nigerian firms and to date, I am not aware of any empirical study in Nigeria that has investigated this relationship. I incorporate an in-depth investigation of an important characteristic of top executives of Nigerian firms - political affiliation; thus, this work seeks to investigate the impact of politically affiliated directors on firms' CSR strategy.

Our model of analysis is an extension of the empirical works by Johnson and Greenings (1999), Marsiglia and Falautano (2005), Ho (2005), Elkington (2006) and Huang (2010), which not only argued against the use of composite index as a metrics for CSR, but also used specific variables to denote CSR practices. This study is nevertheless unique in using multiple CSR variables by deconstructing CSR into five categories in order to ensure that the exact impact of ownership structure on each CSR variable is vividly captured.

Moreover, some of the empirical results of extant literature on the relationship between CSR and ownership structure on other emerging economies are not as robust as the result of this study given that these earlier works failed to control for endogeneity bias (Kochhar and David, 1986; Barnea and Rubin, 2010; Harrison and Coombs, 2012; Johnson and Greening, 1999; Huang, 2010). This thesis circumvents this problem by controlling for endogeneity bias through the econometric methods of Fixed- effect and Firm-specific trend (FE & FT) models. I also control for further endogeneity issues like reverse causality or simultaneity bias by using instrumental variable estimation via the treatment effect and Two-Stage Least Square (2SLS) models.

1.4 Structure of the Dissertation

The structure of this dissertation is as follows:

Chapter 1 gives a general background to the problem under investigation. It delineates the crucial research questions and specifies clearly the aims and objectives of the research work. This chapter also justifies the originality and basic contributions of the research.

Chapter 2 deals with evolutionary trends in the concept of CSR, corporate governance and ownership structure in developed and emerging economies. It also explores the multi-dimensional construct of CSR and examines the corporate governance and ownership structure of Nigerian firms. This chapter concludes with an overview of CSR practices of firms in Nigerian industry.

Chapter 3 presents the theoretical models of CSR-ownership structure relationships, including agency and stakeholder-management models, business ethics theory, legitimacy and eco-efficiency models, offering comparisons and contrasts as a prelude to empirical work.

Chapter 4 explores the micro-economic implications of CSR as a corporate strategy for achieving competitive advantage. This chapter discusses the major responsibilities of the state and private sector, and why the private sector may detract from its fiduciary responsibility of maximizing shareholders' wealth. It explores extensively CSR as provision of public goods, in the stricter economic sense of the term, and socially desirable goods more generally. It also discusses why and how the private sector may complement the state in the maximization of social welfare via CSR practices. This chapter equally presents the sustainability argument for CSR and the alignment of CSR practices with long-term profit-maximization. It concludes with broader ethical and philosophical arguments to support the view that CSR may be positively related to competitive advantage and long-term profitability.

Chapter 5 discusses the development and formulation of hypotheses to be tested in this work. In this section, I examine how the various ownership structures and corporate governance mechanisms will impact on corporate decisions to devote resources to CSR in line with standard theoretical models - agency, stakeholder management, business ethics, legitimacy and eco-efficiency - and other empirical literature. Based on these developments, I formulate the hypotheses to be investigated in this work.

Chapter 6 outlines the methodological framework of the study and the empirical specification of the models to be investigated. The econometric method of panel data estimation is chosen as the major framework for the empirical investigation. To control for further endogeneity issues, this work uses instrumental variable estimation via the treatment effect and 2SLS models. Since there are five dependent CSR variables giving rise to five equations for each model, this study employs the Seemingly Unrelated Regression (SUR) model to control for the contemporaneous relationships between the error terms of the five CSR equations which may confound the relationship between ownership and CSR practices. Dependent and independent variables are described as well as study control variables.

Chapter 7 concentrates on the econometric issues and analyses of empirical results on the effects of ownership variables (government ownership, government and foreign shareholding) on the five forms of CSR. In this chapter, I extensively discuss the tables of the descriptive statistics and correlation matrix of all the variables used in the study. I equally present the tables of empirical results and the analyses of the empirical findings of the panel data estimation, FE & FT and SUR models.

Chapter 8 presents the analyses of the empirical results on the relationship between corporate governance variables (board independence, institutional investors and politically affiliated directors) and the five categories of CSR practices examined in this work. The empirical results of this chapter are also based on the findings from panel data estimation, FE & FT and SUR models.

Chapter 9 shows the empirical model specification, econometric issues and analyses of empirical results of instrumental variable estimation via the treatment effect and 2SLS models. This section undertakes this task in order to ensure that further endogeneity issues are controlled for and also to determine both the robustness of the results and their consistency across the different estimation methods used in the previous chapters.

Chapter 10 presents a general discussion of the results obtained from all the empirical estimations of the four specified models testing hypotheses 1 to 4 in this work. This chapter evaluates the empirical results of this work in line with the basic theoretical models and existing literature, and also discusses why the empirical results are peculiar to the Nigerian industry.

Chapter 11 gives the summary of the major findings of the study and based on these findings, some policy recommendations are proposed. I also present the gaps for future research in this area. This is followed by the concluding remarks.

2 EVOLUTIONARY TRENDS IN CSR, CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

2.1 Introduction

In this section, I explore the evolutionary trends in the various conceptualizations of CSR practices. This involves a discussion of the two opposing views in economics with regards to the relevance of using CSR practices as a strategic means of achieving competitive advantage. In exploring these different definitional constructs according to extant literature (Carroll, 1979; 1999; Johnson, 1979; Pendleton, 2004; Blowfield and Frynas, 2005; Cochran, 2007; Welford et al., 2007), this work elaborates more on the generally acclaimed four-part conceptualization of CSR advanced by Carroll (1979), and also discusses CSR as a multidimensional construct.

Since corporate governance and ownership structure are so crucial to our study, I discuss the corporate governance practices and ownership structures of Nigerian firms. This study undertakes this task in order to explore how different ownership structures of firms in Nigerian industry may be alternatively opposed to or incentive compatible with CSR engagements.

2.2 Paradigm Shift from 'Business-For-Profit' to the Evolution of the Concept of CSR.

Over three decades now, corporate executives have been concerned with the issue of the firm's social responsibility to its host environment and other external stakeholders (Carroll, 1991). The central thesis informing this concern is the traditional economic view, championed by Milton Friedman, that the sole responsibility of business is the maximization of shareholders' wealth. It is apparent that this drive for profit maximization must be confined within the laws of the land (Carroll, 1991). This is against the background that environmental piracy and sheer neglect of the negative externalities of business activities on other external stakeholders, which has remained an intrinsic part of business activity, has been largely challenged in the last decade of the 20th century (Matten and Crane, 2005; Scherer and Palazzo, 2011). Along this view, it is argued that corporate neglect of environmental conservation, unethical business practices and insensitivity to the demands of host communities may negatively impact on firms' profitability and competitiveness (Ledgerwood, 1998; Freeman, 1984; Chami et al., 2002; Marom, 2006; Chen et al., 2008).

The fact that economic organizations are built and operated in a normative value-giving environment or are linked in an input-output nexus with other subsystems such as family, church, government and school, implies that the firms' responsibility extends beyond mere productive efficiency and the maximization of shareholders' wealth (Johnson, 1979). In the same vein, the concept of "sustainable development" was introduced and publicized in the corporate strategy of notable world organizations, prominent among which is the World Business Council for Sustainable Development (WBCSD). This organization maintains that in addition to the sole aim of maximizing profit, firms should broaden their horizon to benefit the wider community, namely, the stakeholders in the modern society (Lo, 2010).

Hence, a firm according to Shen and Chang (2009), is not only beholden to the interests of shareholders' maximization of financial returns, but also should incorporate in its strategy, the interests of employees and consumers, environmental protection, ecological conservation and the maintenance of working opportunity for the less privileged minority. The emergence of this socio-economic model has elicited the acceptance of CSR as a corporate tool of business strategy (Baron, 2001). Thus, CSR is increasingly incorporated as an integral part of a firm's corporate governance strategy (Choi et al., 2010).

According to the online survey by The Economic Intelligence Unit in October 2004, 85% of executives and institutional investors conceded to the fact that corporate responsibility was central and important to investment decisions, compared to the previous opinion poll of 44% five years before (The Economic Intelligence Unit, 2005). In its 2007 survey, over 30% of interviewed global executives consider CSR as the highest priority concern for the success of their organizations (The Economic Intelligence Unit, 2008). In the same vein, the proliferation of a new corporate title such as chief 'responsibility officer' or 'chief sustainability officer' with the creation of separate department to oversee CSR issues, underlines the growing importance attached to this paradigm shift (The New York Times, 2007).

Frynas (2005) notes that the oil & gas sector has been among the prominent sectors championing the course of CSR especially in emerging economies like Nigeria. This is based on the fact that the productive activities of firms located within this industry generate a lot of negative externalities for the host communities. It is further argued that this paradigm shift is demonstrated by the unprecedented growth in codes of corporate conduct and disclosure of social performance (Frynas, 2005).

The discussion above does not undermine the importance of profit maximization in modern day business organizations; the crux of the matter is that judging a firm's performance based only on the parameter of profitability is no longer sufficient given the significant nature of social influences exerted by modern firms (Okamoto, 2009). Thus, a firm that seeks only to maximize profit at the expense of the interests of the host communities and other external stakeholders may no longer be regarded as a 'good' firm (Paine, 2003; Shimizu, 2000).

These two conflicting views about the responsibility of firms, ranging from the likes of Milton Friedman on the one hand to supporters of a broader view of the firm and the need for a paradigm shift on the other, have been extensively discussed in the neo-classical and heterodox economic traditions.

2.2.1 The Traditionalist View of the Firm

Friedman's (1962; 1970) contributions in promoting the traditional view of the firm has been popularly acclaimed in several works (see for instance Johnson, 1979; Carson, 1993). Friedman (1962) argues that managers have fiduciary responsibility as agents of the shareholders to maximize their wealth. Thus, they have no business with engaging in socially responsible projects that are inconsistent with profit maximization. It is also argued that the firms' CSR engagements not only detract from the managers' fiduciary obligation to the shareholders, but also amount to mere waste of shareholders' wealth (Friedman, 1970; Henderson, 2001; Harrison and Coombs, 2012). In the same vein, allocating resources to other social objectives may be incentive compatible with fuelling managerial opportunism and may accelerate the agency problem between managers and shareholders. This is predicated on the fact that managers may use CSR investments to boost their opportunistic goals like promoting their public image and competitiveness in managerial market; that may not be consistent with maximization of shareholders' wealth (Reinhardt et al., 2008).

Moreover, it is argued that investment in CSR may not be determined by what Kotler (1989) calls the law of demand and supply; and may lead to distorted prices and input-output decisions (Margolis and Walsh, 2003; Wang et al., 2008). Hence, Friedman (1962) maintains that CSR doctrine is fundamentally subversive, and managers' attempt to engage in such practices would simply be unjustified taxation on shareholders' profit (Friedman, 1962; 1970; Pava and Krausz, 1996).

A similar view was expounded by Johnson (1979), who maintains that the relationship between the firm and its environment is structured in terms of market transactions. In a market environment, what determine exchange transactions are the principles of pure markets[5], prices and profits. Hence, he succinctly remarks that "social responsibility is seen an altruistic aberration, as the self-aggrandizement of managers of monopoly enterprises" (Johnson, 1979 p. 4).

The basic economic assumptions underpinning this traditional view of the firm's responsibility are that the state is very efficient in the provision of public goods and in the redistribution of income; and that otherwise there is little or no market failures. This naturally brings the concept of externality into the ambience of our discourse.

[5] Pure market simply refers to a perfect competitive market where there is freedom of entry and exit, perfect information on market clearing equilibrium and absence of externalities (see Johnson, 1979).

The discussion on market failures and externality effects, so central to this paper, will be explored in subsequent chapters.

2.2.2 The Heterodox View of the Firm

An alternative conceptual framework perceives business enterprises as operating within a larger social network than that of market transactions, with the complex interconnectedness of all the supra-system (Monsen, 1974; Jonker and Foster, 2002; Birch and Jonker, 2006). This heterodox view of the firm widens the ambience of economics to incorporate the complex interface between the firm and other elements of the society. This is the central issue underpinning stakeholder management theory, which extends the horizon of managers' responsibility to include not only the maximization of shareholders' wealth, but also the interests of the host communities and other external stakeholders of the firm (Freeman, 1984; Jonker and Foster, 2002).

Polyani (1957) had long before maintained that the traditional view of the economy as a self-regulating system of exchange governed and sustained by individual choice, scarcity and prices is based on an impoverished and asymmetric conception of the workings of an economy. This distorted view assumes that the marketplace will assure macroeconomic equilibrium (Klein, 2009); as long as the inbuilt 'invisible hand' propounded by Smith (1776) regulates the market forces of demand and supply. In the real world, market clearing equilibrium may not always be attained (Sloman, 1998; Lopez and Galinato, 2007), and this may not only elicit the need for government's intervention in the free market economy, but may also extend the web of firms' duties to include social responsibility issues (Goodin, 1988; Matten and Crane, 2005; Scherer and Palazzo, 2011).

Along this view, it is argued that the concentration of firms' responsibility in the economic matrix of profit maximization alone leads to what Monsen (1974) calls the "Friedman Misconception". The Friedman Misconception is the view that the firm is solely an economic unit that is unconnected with host communities, and has the sole responsibility of making as much profit as possible for the principal - shareholders. Several works argue against this traditional view of the firm and maintain that firms may have an enlarged responsibility to contribute, not only in solving social problems of the global macro-economy (Monsen, 1974; Idemudia and Ite, 2006; Ite, 2004; 2005), but also in correcting the negatives externalities of their productive activities via investments in CSR practices (Matten and Crane, 2005; Scherer and Palazzo, 2011). Thus, it is argued that there is need for a new paradigm shift in the context of firms' responsibility as mere profit maximizers to a more organic social responsibility that extends to their host communities and other external stakeholders (Birch and Jonker, 2006).

2.3 Various Perspectives in CSR Conceptualizations

While CSR is a recent term, the idea informing its emergence in the business world, which is the relevance of business ethics and social dimensions of business activity, has always been recognized from the earliest times. Business practices based on 'ethical principles' and 'controlled greed' were advocated by famous Western scholars like Cicero in the first century BC, and Eastern scholars like India's Kautilya in the fourth century BC (Blowfield and Frynas, 2005). The modern prototype of CSR can be traced back to the nineteenth century boycotts of foodstuffs produced with slave labour and the post-Second World War's Nuremburg prosecution of German directors, who were convicted of mass murder and exploitation of slave labour (Ciulla, 1991). Hence, from a historical viewpoint, CSR is simply the re-emergence of debates about the role of business and the interplay with its socio-cultural setting. What is new by Fabig and Boele (1999), is that modern day CSR debates are based on more global issues like environmental conservation, sustainable development, human rights' protection, employee welfare, the provision of public goods, socially desirable goods and fair trade campaigns.

Existing literature like Cochran (2007), also traces the concept of CSR back to the 1930s' debate between two American professors - Adolf Berle and Merrick Dodd - on the fiduciary responsibility of managers to their principals. Seminal works by Bowen (1953), Carroll (1977; 1979), and Porter and Kramer (2002), extend the burgeoning interest in the evolving case for CSR practices, thereby giving CSR its deserved place in the history of thought.

However, it is important to note that there is no concise definition of the concept of CSR (Carroll, 1979; Welford et al., 2007; Pendleton, 2004). One of the factors exacerbating the controversy that trails CSR definition is the lack of consensus on the meaning of the term. Welford et al. (2007) explain that it is difficult to define CSR because of its location-specific-context[6]: implying that the definition of a firm's CSR must take into account, the needs and priorities of its stakeholders at large. For Davis (1960), social responsibility refers to corporate decisions and actions that go beyond firm's direct and immediate economic interest. Preston and Post (1975) introduce the notion of public responsibility to this discourse, arguing that the idea of mutual interdependence between society and business underpins the concept of CSR. This mutual interdependence relates to positive externality issues wherein the effects of business transactions benefit the society, and the society in turn provides an enabling environment for business enterprises to thrive. This mutual interface between firms and society is consistent with the definition of Drucker (1982), who maintains that the social responsibility of business consists essentially in turning social problems into economic opportunities. This suggests that devoting resources to these social issues may create competitive advantage for firms (Bagnoli and Watt, 2003; Baron, 2001; 2008; McWilliams and Siegel, 2001).

From the ethical perspective as opposed to the commercial opportunity approach, CSR is conceptualized as "the degree of fit between society's expectations of the business community and the ethics of business" (Zenisek, 1979 p. 362). Pendleton (2004) widens the horizon of this concept to include corporate-driven initiatives that are entirely voluntary and altruistic. This definition clearly suggests that there may be other conceptualizations of CSR, where firms may be constrained to commit resources to social causes. This view maintains that firms may commit resources

[6] The fact that the definition of CSR may be location-specific in terms of taking into account the needs and priorities of its stakeholders does not detract from the view that they may be other global CSR issues like conservation of the natural environment and employee welfare that may underpin its definition. These global issues may naturally arise as externality effects of firms' productive activities (see for instance, Fabig and Boele, 1991; Matten and Crane, 2005).

to CSR in compliance to strict regulatory constraint, and as such may undermine their CSR in the absence of legal and regulatory pressure (Engle, 2007).

It is exigent to note that some notable world organizations have attempted to give CSR a clear-cut definition. For the World Business Council for Sustainable Development (WBCSD), CSR refers to firms' commitment to behave ethically and contribute to sustainable economic development, while at the same time impacting positively on firms' employees and the larger society (WBCSD, 2000). Similarly, the World Bank (2002) sees CSR as a new channel for economic and community development, disaster relief, environmental protection, health promotion and a host of other welfare schemes that used to be the sole responsibility of the government.

Finally, the definition of Carroll (1979) serves as the mediating factor in reconciling the different interests reflected in various CSR conceptualizations. He suggests a multi-layered concept that can be differentiated into four interconnected dimensions of economic, legal, ethical and discretionary responsibilities. This four-part conceptualization of CSR, which is not mutually exclusive, underlines the fact that business has not only economic and legal aspects, but also ethical and discretionary (philanthropic) responsibilities (Carroll, 1979). I briefly analyse these different perspectives below.

2.3.1 Economic Import of CSR

Historically, business organizations were established as economic enterprise designed to provide private goods to society as well as generate profit as a reward for entrepreneurship (Davidson and Spong, 2010; Pinto, 1998). Given that business organization is the basic economic unit of the society, it has the primary and ultimate responsibility of producing goods needed by the society; its modus operandi means it has to sell them at a profit (Carroll, 1979). Carroll (1991) argues that all other responsibilities of business are firmly anchored on the economic motive and without it, the others “become moot considerations” (Carroll, 1991 p. 41).

Accordingly, Chen et al. (2008) and Bakan (2004) maintain that if a business reneges on its profit-seeking role, it will neither have sufficient resources to accomplish other interconnected responsibilities nor survive long enough to have other positive social impacts. This is what Graafland and Van de Ven (2006) call the positive strategic view of CSR.

2.3.2 Legal framework of CSR

Society not only mandates business to pursue its profit maximization motive, it also expects it to conduct its operation within the framework of the law stipulated by the government in its area of operation. Carroll (1991) sees this as a partial fulfilment of the nexus of contract between business and society. Thus, legal responsibility is the second part of his definition, and reflects “a view of codified ethics in the sense that they embody basic notions of fair operations as established by our lawmakers” (Carroll, 1991 p. 41). Chen et al. (2008) subscribe to this view, but remark that the line between economic and legal responsibilities of business is not easily discernible. For instance, product safety and the impact of the production processes on the health and safety of employees would each be considered in the domain of both economic and legal responsibility.

2.3.3 Ethical Perspective of CSR

Although ethical norms are embodied in economic and legal responsibilities, ethical responsibilities concern those behaviour and activities that are expected or prohibited by the society even though they may not be necessarily codified into law. The moral argument is further reinforced by the fact that firms exist in mutual interaction with their host communities, and that their productive activities usually inflict harm on the environment (Eweje, 2007; Fort and Schipani, 2004). Ethical responsibility therefore requires that firms be committed to alleviating the social problems arising from their productive activities even if such CSR engagements may affect their profit margins (Strand, 1983; Whetten et al., 2002), and even if not codified into law.

Hence, it is argued that ethical responsibilities require firms to operate in a manner that is in congruent with societal values (Chen et al., 2008). Issues of fair employment, ecological conservation, pollution abatement technology and just remuneration of labour, would constitute the major concerns of business ethics. Carroll (1979) remarks that because ethical responsibilities are not well-defined and are often involved in legitimacy conflict with the public; they are the most difficult responsibilities for business to deal with.

The concept of legitimacy conflict is based on the fact that there is no general consensus on what constitutes the domain of ethics. Against this backdrop, ethical responsibilities may be seen as encompassing newly emerging values and norms which society expects firms to conform to: these values may require higher standard of performance than that currently stipulated by law. Thus, Carroll (1979) maintains that the recognition of the ethical dimension of CSR reflects the fact that societal expectations of what constitutes appropriate business practice transcends mere economic and legal requirements. Hence, it is argued that profit motive may not be a sufficient reason to engage in CSR (Paine, 2003; Marom, 2006).

2.3.4 Discretionary/Philanthropic View of CSR

Discretionary responsibilities are socially desirable actions undertaken by business entities that exceed their economic, legal and ethical responsibilities (Chen et al., 2008). They are discretionary because business may decide or exert discretion with the type, timing and extent of their involvement in such practices (Carroll, 1979). Carroll (1991) opines that the distinguishing trait between ethical and philanthropic aspect of CSR is that the latter is not expected of business in an ethical or moral sense. This implies that they are purely voluntary, and the decision to engage in such activities is based on firms' desire to undertake such roles that are not explicitly mandated by law (Carroll, 1979). Along the same view, Murphy (2009) regards this voluntary mechanism of CSR as the distinguishing feature of modern day business against the backdrop of formal regulatory mechanism on which business was hitherto governed.

Finally, Carroll (1991) notes that, these responsibilities are not mutually exclusive and are not intended to conflict with the firm's fiduciary responsibility to the shareholders. This proposition is premised on the fact that social responsibility is not separate and distinct from economic performance of the firm, as the inability of managers to incorporate legal, ethical and discretionary responsibilities may impact negatively on the financial performance of the firm (Carroll, 1979; 1999). He further notes that the consideration of the different components of this pyramid enables the manager to appreciate the interconnected role of business in the society as well as recognise the constant but dynamic tensions between these responsibilities. It is equally important to note that the hierarchical structure of this pyramid presents the economic responsibility as the major foundation on which the legal, ethical and discretionary responsibilities are built; for without this economic role, it may not be possible to fulfil the other responsibilities (Carroll, 1991).

2.4 Multi-dimensional Construct of CSR Practices

At this point, it is relevant to discuss explicitly the various dimensions involved in CSR practices. This analysis is very important as a proper exposition of the various components of CSR would enable us understand why a particular type of CSR may be preferred by either the private or the public sector. It would also enable the formulation of hypotheses on how a particular ownership pattern would affect a specific type of CSR practice in subsequent chapters.

The difficulty of classifying a firm as socially responsible is based on the fact that there are various dimensions of CSR; such that a firm that qualifies as socially responsible in one dimension may be found wanting in other aspects of CSR. For instance, a firm that gives corporate donations to the host community while polluting the physical environment may be socially responsible in corporate philanthropy but not in environmental concerns. CSR ratings clearly show that environmental concerns are more highly rated than corporate philanthropy (Chen et al., 2008). Hence, a firm that pollutes the environment while being renowned for corporate philanthropy may not be regarded as socially responsible in the strict sense. Similarly, a firm that delivers high quality products while neglecting the welfare of its employees by paying lower wages and harbouring poor working conditions or the use of child labour in the production of its goods, may be socially responsible in customer-relations but not in employee or community relations.

Information asymmetry plays a big role in depicting such firms as socially responsible; the issue is that the consumers of the product have no perfect information with regard to the working conditions of employees, and cannot observe this irresponsible action by mere consumption of the goods. Feddersen and Gilligan (2001) present a model where the role of the activists and labour unions is to provide information to consumers on firm's social responsibility thereby mitigating the information asymmetry and market failure that result due to incomplete information about CSR.

Some studies like Simon et al. (1972) and Idemudia and Ite (2006), classify the various dimensions of CSR into two broad categories: the Negative Injunction duties and Affirmative duties. The Affirmative duties refer to the pursuit of moral and social good, which is akin to the ethical and discretionary responsibilities of Carroll's (1979) four-part conceptualization of CSR. Thus, corporate philanthropy and the provision of socially desirable goods as proposed by Bagnoli and Watt (2003), Baron (2001; 2008), Besley and Ghatak (2007) and Ghosh and Shankar (2013), would be classified as merely affirmative duties. Negative Injunction duties refer to firms' obligation of preventing and correcting the negative externalities of their productive activities to the society. It is argued that fulfilling the Negative Injunction duties[7] is central to CSR practices and may be regarded as the moral minimum which must be observed by all firms (Simon et al., 1972; Idemudia and Ite, 2006). In this perspective, the fulfilment of affirmative duties may be discretionary, as all firms may not be expected to commit to it; but no firm is exempted from observing the Negative Injunction duties (Idemudia and Ite, 2006).

Basing on this dual classification, the Negative Injunction duties would include: environmental concerns, employee-relations and consumer relations while the

[7] It is important to note that negative injunction duties are not absolute with regards to correcting the negative externalities of firms' productive activities, but firms may be expected to commit to preventing the negative externalities of their productive activities (see for instance Idemudia and Ite, 2006).

Affirmative duties include community relations. This classification is similar to Melo and Garrido-Morgado's (2012) multidimensional view of the nature of CSR. They deconstruct CSR into a primary stakeholder domain and social issues: here the stakeholder domain is strategic and simply includes concerns already stated above in Negative Injunction duties, while social issues are regarded as altruistic and encompass all the concerns listed under Affirmative duties.

Environmental concerns refer to a firm's record with regards to conserving the natural environment. The conservation of the natural environment is increasingly being regarded as the major foundation of CSR (Montiel, 2008; Babiak and Trendafilova, 2011). Here, the performance of a firm is assessed by the level of air and water pollution emission, and its ability to recycle wastes. Hence, a firm would be seen as socially responsible, if there is existence of pollution abatement technology, conservation of natural resources, voluntary environmental restoration or recycling, and the systematic reduction of waste and emission from factory operations (Portney, 2008; Montiel, 2008).

Employee-relations refer to the positive relationship which a firm maintains with its employees via CSR. This would include an extensive evaluation of a firm's union relations, labour policy, equal opportunity action plan, health and safety at work, social equity, employee benefit and compliance with labour-related codes like abstaining from the use of child labour (Chen et al., 2008; Jamali, 2008; Rettab et al., 2009; Mishra and Suar, 2010). When a firm is highly rated in these attributes, it may be regarded as socially responsible in employee-relations.

Consumer-relations concern the positive consumer perception of a firm's product quality and safety. This also includes consumer protection and the ability of firms to release vital product information to the public. This is a very important aspect of CSR as it directly impacts on the firm's bottom line. It is argued that when consumers are dissatisfied with the product quality or associated service, it may lead to decreased patronage, and may negatively impact on the firm's profit (Berman et al., 1999). Firms are therefore given product-strength ratings when they have excelled consistently in producing quality products or when they have recognised research and development programs directed at quality improvement[8].

Finally, community-relations would include provision of public goods in a welfare economic sense like public roads without toll-gate, public drainage, dams, public parks, street lights, public monuments and other socially desirable goods like provision of hospitals, education, scholarship award, promotion of human rights, corporate philanthropy and other projects that maximize social welfare and bring about sustainable development in the community. One of the prominent CSR practices in this group is corporate donation or philanthropy: it is argued that this form of CSR tends to be over-emphasized at the expense of other important dimensions of CSR (Keim, 1978; Chen et al., 2008; Murphy, 2009; Idemudia and Ite, 2006). It is equally the case that some countries' corporation codes have mandated firms to compulsorily commit a certain percentage of their profits to philanthropic causes (Keim, 1978, Watson, 1973; Matten and Crane, 2005; Scherer and Palazzo, 2011; Roper and Schoenberger-Orgad, 2011).

Nevertheless, we have to note that the recent emphasis placed on corporate philanthropy may not be consistent with its position in the hierarchical structure expounded in the works of Carroll (1991). Carroll's (1979; 1991) four-part conceptualization of CSR regards philanthropic donation as a discretionary responsibility because business may decide or exert discretion with the type, timing and extent of their involvement with it. Some scholars have raised concerns about corporate philanthropy being merely used as a tool of corporate legitimatization: they argue that rather than being a purely altruistic donation of gift to the society, it is now being used to promote social legitimacy as a result of poor ratings in other CSR domains (Chen et al., 2008). Hence, I argue that a meaningful evaluation of the positive effects of a firm's corporate philanthropy must take into considerations the performance of the firm in other CSR dimensions.

[8] By quality improvement we refer to when firms produce goods that are adjudged as safer and in line with the requirement of Consumer Product Safety Commission. It is usually argued that the price-quality trade-offs which may undermine the incentive to improve product quality may be offset by the increase in profit over a period of time (see for instance, McWilliams et al., 2006; Hoppe and Lehmann-Grube, 2001).

2.5 From a North-Centred (Western) CSR Practices to an Emerging Southern Perspective of CSR

One of the major criticisms advanced against the postulates of mainstream CSR agendas is that they are underpinned by the concerns and priorities of the Western countries, which may be largely inappropriate and inapplicable to sustainable livelihoods in emerging economies and insensitive to local priorities in the regions where implemented (Idemudia, 2011). This divergence between local priorities and the supposedly universal principles of CSR is established on the fact that contemporary CSR debates have been very much promoted by Western stakeholders, such that the concerns and priorities of Southern stakeholders are seldom represented (Ward and Fox, 2002; Fox et al., 2002). Ward and Fox (2002) and Fox et al. (2002) further argue that CSR practices are undermined by the fact that Southern stakeholders rarely inform and influence corporate policies and practices, as these policies are more often superimposed on them by Western economies.

Consistent with this view, Frynas (2005) and Kemp (2001) opine that mainstream CSR has diverted attention away from the real political, economic and social problems prevailing in developing countries. For instance, the tendency for firms in the oil & gas industry in the Niger-Delta region of Nigeria to concentrate their CSR investments mainly in the provision of social infrastructures, such as roads, hospitals and electricity, is seen as a substitute for their concern to attend to the real problems exacerbating community underdevelopment like environmental degradation, corruption, lack of accountability, and what is generally regarded as shirking on their negative affirmative duties (Idemudia, 2009a; 2011). Jenkins (2005) further remarks that contemporary CSR agendas suffer from selective bias, in that issues like employee relations, poverty reduction, tax avoidance, unsustainable investment projects and conservation of the natural environment are not clearly emphasized. Synckers (2006) observes that notwithstanding the fact of poor tax compliance in Africa, with the difference between the tax collected and paid totalling over 40 percent, and the majority of the profits of tax evasion repatriated abroad to the detriment of the host communities, tax evasion is not emphasized in the CSR agenda of Multinational corporation (MNCs) and other foreign firms operating in developing countries.

Similarly, Idemudia (2011) repudiates the contemporary North-centred CSR debate because it tends to undermine the wider ambience of CSR demands for the host communities. For instance, despite the good intentions underpinning international pressure to end child labour in countries like Bangladesh and Indonesia, it has been argued that the failure to incorporate such demands within a bigger picture of poverty alleviation and sustainable development has culminated in an inadvertent escalation of poverty (Utting, 2002). Hence, critics are of the opinion that the legitimacy of the Northern NGOs and consumers in determining what is good for Southern stakeholders should be re-appraised; and that CSR pressures from the North might be informed by selfish interest, and are a disguised form of neo-protectionism[9] (Nielsen, 2005; Utting, 2002).

Moreover, the cultural differences between the North and South make another case against the postulates of contemporary CSR agendas. Granted that there might be cultural similarities between Western societies and people in the developing countries, there may also still be myriad differences in basic cultural values and environments. Consequently, these differences in environment underpin not only the nature of obligations which business is expected to undertake in developing countries, but also determine the success or failure of socially responsible investments embarked upon by foreign and domestic firms in their host communities (Idemudia, 2011). Khan and Atkinson (1987) undertook an empirical comparative study of managerial attitudes to CSR in India and Britain respectively. In trying to identify the major constraints to CSR commitments, managers in Britain identified the frequently changing legal requirements with regards to CSR practices as their major constraint. On the other hand, corporate managers in India maintained that the marginal cost implication of CSR practices is one of the major constraints to committing firm resources to CSR. This goes to support the fact that cultural and environmental differences present varying

[9] Neo-protectionism in this sense refers to the use of CSR as a corporate strategy by multinational firms and other foreign investors to reduce reputational damage caused by their productive activities and also to gain social license to operate in their host communities (see for instance, Nielsen, 2005).

challenges for CSR implementations in developed and developing countries respectively.

Thus, the increased efforts to devise a CSR agenda that would incorporate the differences and similarities between the demands of Northern and Southern countries, have elicited calls for a more South-centred CSR agenda, a more development-oriented and a more critical CSR initiative (Idemudia, 2011). Fox et al. (2002) argue that the evolvement of this Southern perspective for CSR is necessary in order to shed light on how and where CSR can best contribute to poverty eradication and sustainable development in emerging economies. In the same way, Idemudia (2011) maintains that the emergence of this critical perspective to CSR has not only facilitated the universal application of CSR principles to varied economies, but has also provided rich insights with regards to the strengths and weaknesses of promoting CSR initiatives within developing countries and Africa in particular.

2.6 Conceptualizations of Corporate Governance and Ownership Structure

Discussions on Corporate governance (CG) are usually a corollary of the problems created by the separation of a firm's ownership from its management or control (Rossouw et al., 2002; Adegbite et al., 2012). It is often argued that the incentive alignment of managers to maximization of shareholders' wealth is premised on the proportion of firm shares which managers hold personally (Bradley et al., 2000). Hence, CG can be defined as the legal and practical system that enables the exercise of power and control in the regulation of the conduct of the firm's operation, including the relationship among shareholders and management, the board of directors and other relevant constituencies of the firm (Grienenberger, 1995). CG has also been described as a way in which the shareholders and institutional investors are assured of getting maximum returns on their investments (Shleifer and Vishny, 1997). This view supports the traditional agency-based notions of corporate governance.

Cadbury (2000) further defines CG as “the system by which companies are directed and controlled” (p. 8). The control aspect of CG incorporates the principles of compliance, transparency and accountability (Macmillan et al., 2004). Hence, the importance of CG consists essentially in refining the laws, regulations, and contracts that underpin firm operations, as well as ensuring that a transparent environment is created for the maximization of shareholders’ wealth (Page, 2005). CG therefore dictates the functional structure of the firm, determining how corporate decisions are reached, and defining how managerial power is exercised (Jamali et al., 2008). A narrow view of CG regards it as a system of enforcing law and financial accounting, where the socio-cultural impact of firm’s operation may be considered least in the pyramid (Saravanamuthu, 2004).

However, for Daily et al. (2003), CG is not only concerned with the use of firm resources in a way that maximizes shareholders’ wealth, but also involves how firm resources are deployed to benefit other external stakeholders of the firm. This definition takes a different perspective from previous research on CG which concentrates primarily on the control of executive self-interest in firms where ownership and control are separated (Kolk and Pinkse, 2010). This new perspective resonates in the works of Maier (2005), who succinctly maintains that “corporate governance defines a set of relationships between a company’s management, its board, its shareholders and its stakeholders” (p. 5). The horizon of this relationship is further extended to include directors, managers, employees, shareholders, suppliers, creditors, customers, government and the wider community (Monks and Minow, 2004). This broader view of CG, which incorporates the interests of not only shareholders and executive directors, but other stakeholders, informs the theory of social sensibility of corporate governance.

2.7 Social Sensibility of Corporate Governance (SSCG)

Over the past two decades, stakeholder literature emphasizes the need to broaden the horizon of corporate governance to include not only shareholders’ interests, but also the concerns of other stakeholders (McGuire et al., 2003; Luoma and Goodstein, 1999; Graaf and Herkströter, 2007). Stakeholder theory - which will be discussed in the next chapter - stresses the need for firms to manage relationship with a wider range of persons who have legitimate interests in their affairs (Carroll, 1979; Freeman, 1984; Donaldson and Preston, 1995). This approach further maintains that managers have the moral obligation to consider and balance the interests of other stakeholders of the corporation (Schrenck, 2006).

Thus, it is argued that if a firm's corporate governance strategy has a stakeholder orientation, then the concept of social sensibility is implied (Sanchez et al., 2011). Hence, social sensibility of corporate governance (or SSCG) is defined "as the capacity of a corporate governance structure for responding to the different stakeholders' claims or interests, [for which purposes it can also be] considered an unobserved or latent variable" (Sanchez et al., 2011 p. 92). The dimensions of SSCG are determined by board composition and ownership structure and power (Donaldson and Preston, 1995; Sanchez et al., 2011).

2.7.1 Ownership Structure and Power

SSCG can be estimated using ownership structure and power (Sanchez, et al., 2011). This is premised on the fact that the success of a firm's management of its wider stakeholders is determined by the structure of its ownership, and the power which this ownership structure wields in executing the firm's social and financial obligations (Li and Zhang, 2010). Estrin and Perotin (1991) support the relevance of ownership structure in determining corporate performance of firms by examining the complex relationship between ownership structure and enterprise performance. They delineate between three types of ownership structures: direct state management, public corporations and partly state-owned or 'mixed economy' corporations. They conclude that the efficiency of state-owned firms depends on a number of factors, such as governance structure, the clarity of objectives and managers' careers, amongst others.

Similarly, Bai et al. (2006) recognise the importance of ownership regime in determining the success of firm's CSR, and arguing that state-owned firms, where government is the largest shareholders, may have the incentives to divert wealth to secure social stability and credibility, thereby impacting positively on CSR practices.

In the same way, high levels of government ownership may create incentives for executive managers to pursue non-financial motives that are aligned to government policies in socio-economic development, infrastructural development and employment generation (See, 2009). Hence, it is argued that these non-financial motives will exert pressure on the firm to engage in CSR practices (See, 2009).

Along the same view, ownership power enables shareholders to dictate the social responsiveness of firms by imposing their own criteria on corporate managers (Li et al., 2008b). This is based on the fact that a large block of foreign or institutional shareholdings may require firms to attain a level of public credibility (good-will) and realisation of social ethical goals that transcends mere profit maximization objectives (Huang, 2010). This is substantiated by the view that foreign institutional shareholders, domestic governments and financial institutional stockholders are most likely to invest in firms with proven records of corporate credibility; and may therefore have more incentive to support CSR practices (Beurden and Gössling, 2008).

To further highlight the impact of ownership power in corporate decisions to commit resources to CSR practices, Sanchez et al. (2011) argue that the more concentrated the ownership structure of the firm, the greater the power it wields in influencing corporate decision. Thus, if ownership is concentrated on shareholders who value CSR investments, they may encourage firms to undertake CSR investments; the reverse could equally arise if ownership is concentrated in shareholders who regard CSR as a waste of resources.

2.7.2 Board Composition: Independence and Pluralism of the Board

The measure of SSCG can also be determined using the degree of independence and diversity of the company's board (Sanchez et al., 2011). Company boards are instrumental in ensuring that firms conform to CSR standards (Mackenzie, 2007). The UK companies Act 2006 recommends that board of directors align the impact of firm operations with the interests and values of the host communities, while maintaining credibility for high standards of business conduct. The Board of

Directors is an internal control system designed to govern firms in their decisions on behalf of the shareholders (Li et al., 2008b). Recently, good corporate governance ensures that the Board is accountable to the shareholders as well as protect the interests of other stakeholders while making board decisions (Welford, 2007). Even when there is conflict between shareholder and stakeholder interests, it is argued that the stakeholder orientation of outside or independent directors enables them to play an effective direction-setting role (Hung, 2011); and ensure that there is alignment of interests of shareholders and other external stakeholders (Zahra and Pearce, 1989; Petra, 2005).

The concept of pluralism is advanced in corporate governance strategy because diverse/pluralist boards of directors are believed to improve CSR compared with manager-dominated boards (Wang and Dewhirst, 1992). Several works on corporate governance literature support the view that independence and pluralism of the board are necessary to improve not only CSR policy, but also the overall corporate financial performance of the firm (Johnson and Greening, 1999; Wang and Coffey, 1992). In order to promote greater efficiency in the quality of decision making, especially in CSR-related initiatives, it is exigent to include independent directors at board level (Strandberg, 2005). Independent or outside directors are not only experienced[10] in the structural organization of the firms, but also have less incentive to engage in opportunistic behaviour (Huang, 2010). Huang (2010) further argues that, given the numerous opportunities to exploit in modern day markets, directors with more versatile experiences would suggest innovative ideas that would enhance firm performance adding that "appointing independent outside directors [with diverse knowledge, expertise and background] to the board may positively affect a firm's CSR" (Huang, 2010 p. 643).

However, some scholars like Kassinis and Vafeas, (2002), Kesner and Johnson (1990), Coffey and Wang (1998), Johnson and Greening (1999) and Wang and Coffey (1992) find negative relationship between the presence of independent directors and CSR. These studies suggest that appointing independent directors to

[10] However, several studies noted that independent directors in Bangladeshi and Nigeria were appointed not on account of their expertise in firm management but on the grounds of their personal connections with the management of the firm (see for instance, Ahunwan, 2002; Khan et al., 2013; Uddin and Choudhury, 2008).

the board may actually serve in screening and eliminating certain CSR practices. Moreover, as these directors are hired because of their financial expertise (Fligstein, 1991), they are more likely to support financial and profitability concerns of the firms at the expense of other uncertain strategic issues like CSR (Arora and Dharwadkar, 2011, Baysinger and Hoskisson, 1990; Deutsch, 2005).

2.8 Corporate Governance Practices in Nigerian Firms

There are diverse opinions with regards to the content, boundaries and relevance of corporate governance (CG) in emerging economies: this is further worsened by the under-developed, unstructured and informal nature of these developing economies (Yahaya, 1998). Yet, the issues of CG and its relevance in developing economies have assumed renewed significance owing to the recent spate of corporate scandals that have rocked large corporations like (for example) Enron Corporation America, WorldCom and American International Group- AIG. In this connection, the numerous corporate scandals among large firms in developed economies have put the spotlight on the poor or even dearth of sound corporate governance practices in Africa, Asia and South America (Okpara and Kabongo, 2010). The basic ground for the resurgence of interest in promoting good corporate governance practices of firms in Nigeria is to obviate the recurrence of such scandals and unethical practices witnessed among large firms (Adewuyi and Olowookere, 2009).

The historical evolution of the concept of CG in the management of Nigerian firms was a post-colonial affair. This implies that right from the colonial period up to the post-independence era, there was little or no interest in management prerogatives vis-à-vis the organization and direction of corporate enterprise in Nigeria; there was neither demand for independent and external supervision of management activities nor for transparency in the disclosure of firms' accounting and social performance information (Yakasai, 2001). This deficit is further aggravated by the fact that the concept of a "firm", as denoting the nexus of contracts between owners and managers, was completely foreign to the indigenous business climate of pre-colonial Nigeria (Ahunwan, 2002).

This is premised on the fact that the pre-colonial era was replete with the dominance of British companies who conducted their business transactions based on British laws, albeit operating in the Nigerian business environment (Adegbite and Nakajima, 2011; Ola, 2002). The aftermath of the dominance of British firms in corporate Nigeria during the colonial era was the incorporation of British Company legislation into the nascent Nigeria legal system, which hitherto had no indigenous laws guiding the conduct of corporations (Ahunwan, 2002). Consequently, CG guidelines for the conduct of firms in Nigeria, as contained in the provisions of company legislation, are predicated on the country's colonial past (Okike, 2007), and simply mirrored the CG practices of British firms. Hence, the rules governing the conduct of firms operating in Nigeria are inherited merely from the British corporate law and governance system (Adegbite and Nakajima, 2011; 2012).

Following Nigeria's independence in 1960, a review of company legislation, firmly grounded in British corporate law, was not only inevitable (Okike, 2007), but was also a pointer to the surge in economic nationalism which sought to align the recently gained political independence with economic independence and control (Adegbite and Nakajima, 2012). Thus, it can be argued that the dominant ideology of the post-colonial era, which facilitated the burgeoning interest in CG practices of Nigeria firms, was based on economic self-dependence. This was also expressed by the Nigerian government's decision to foster indigenous ownership and control of the means of production and the private sector (Ahunwan, 2002; Akpotaire, 2005). This resulted in the repealing of Companies Ordinance of 1922, which was replaced by the Companies Act of 1968. However, since the Companies Act of 1968 had obvious vestiges of the UK Companies Act of 1948, it was further repealed and replaced with the Companies and Allied Matters Act (CAMA) 1990 (Okike, 2004; 2007; Adegbite et al., 2012). The CAMA 1990 is therefore the major legal framework for CG practices of firms located in Nigerian industry (Okike, 2007), and the primary statute underpinning shareholders' power to intervene in the operation of firms in Nigeria (Adegbite et al., 2012).

To further reinforce the powers of shareholders in influencing corporate decision-making processes, the Security and Exchange Commission (SEC) Code was introduced in 2003: among its core focal points, the SEC Code delineates the rights and responsibilities of shareholders, the need for shareholder activism and regular general meetings of the board, which avails the shareholders of opportunity to exercise their powers in the governance of the firm, and the need for outside or independent directors, who represent the interests of minority shareholders (Amao and Amaeshi, 2008; Adegbite et al., 2012). Against this backdrop, it is argued that CG practices, which ensure that the agency problem between owners and managers is mitigated, and which also protect the rights of minority shareholders from the opportunistic behaviour of majority shareholders, are prevalent in the Nigerian context (Amao and Amaeshi, 2008).

It is pertinent to remark that while there are concerted effort to ensure that the newly enacted CG codes bring about sound CG practices in Nigerian firms, the major obstacle lies in the weak and ineffective mechanisms for enforcement and compliance to the codes contained in CAMA 1990 and Sec 2003 (Nmehielle and Nwauche, 2004; Wilson, 2006; Oyejide and Soyibo, 2001). This is further accelerated by the weak, inefficient and underdeveloped Nigerian capital market, as characterised by low market capitalization, lesser liquidity, low level of turnover, and thinness of trading (Adelegan, 2004). Thus, it is the view that the role of the capital market as a mechanism for corporate control may be distorted, with poor or more credible performance of managers in Nigeria seldom reflected in the movement of firms' share prices (Adegbite and Nakajima, 2011). Hence, it is not surprising that despite the introduction of CG codes, Nigeria has experienced a fair share of corporate scandals ranging from failed and distressed banks in the late 1990s, fraudulent financial statements by Cadbury Nigeria Plc directors in the early 2000s and the corrupt practices of Halliburton Plc in the late 2000s (Olusa, 2007; Adekoya, 2011).

Moreover, it is important to note that CAMA 1990 seems to emphasize shareholders' supremacy and maximization of shareholders' wealth as the essential goals of the firm (Fannon, 2003). Albeit that it is based on the UK company law, which has evolved over time to stress the need for 'enlightened shareholders' values and the requirements that firms be responsive to the demands of other external stakeholders (Williams and Conley, 2005), CAMA 1990 seems to suggest that the interests of stakeholders may be relegated to the background as firms are entities to be run exclusively in the interests of shareholders (Amaeshi et al., 2006). Hence, it is argued that some of the statutory requirements of CAMA 1990 may have deleterious implications for the implementation of Western conception of CSR: for instance, CSR expenditures on employee-relations, environmental conservation and fair-trade issues may be inconsistent with managerial goals stated in CAMA 1990 (Amaeshi et al., 2006).

The above problems notwithstanding, there is continuous effort by SEC 2003 and the Corporate Affairs Commission (which are the bodies delegated by CAMA 1990), to oversee the regulation and supervision of firms operating in Nigeria, and also to promulgate laws and policies to foster good CG practices (Adewuyi and Olowookere, 2009). There is also increased demand by private sectors, foreign and institutional shareholders for good CG practices which will serve as a buffer to the fraudulent activities orchestrated by directors and managers of Nigerian firms (Adegbite et al., 2012). The results have been successful with some firms in the financial and oil sectors receiving international recognition as operating sound CG practices: thus, Guaranty Trust Bank and Diamond bank have been listed in the London Stock Exchange, while Oando Plc has been listed in the Johannesburg Stock Exchange (Adegbite and Nakajima, 2011). Since ownership structure is one of the main mechanisms of CG (Karaca and Eksi, 2012), I further review below the ownership structure of Nigerian firms.

2.8.1 Ownership Structure of Nigerian Firms

The rise in economic nationalism, which came in the aftermath of Nigerian Independence in 1960, brought about the emergence of the indigenization program that emphasized the need for domestic ownership of the productive sectors of the economy. This indigenization program restricted significant foreign ownership of shares in domestic firms and paved the way for state participation and majority ownership in the core sectors of the economy (Nmehielle and Nwauche, 2004). Against this backdrop, it is argued that many foreign corporations divested their shareholding stakes in line with the requirements of the nascent indigenization program (Ahunwan, 2002). These stocks were eventually largely acquired by the government, given the dearth of domestic investment funds (Yerokun, 1992); the remaining ones were purchased by small minority of wealthy Nigerians and politicians (Akinsanya, 1983).

Consequently, the government became proactively involved in the productive sectors of the economy, owning substantial stakes in the industrial, commercial, and service-provision firms, either solely through the establishment of state-owned-firms (SOFs) or in joint ventures with foreign or domestic investors (Ahunwan, 2002). To further consolidate its monopoly powers on the core sectors of the economy, the state even restricted private or domestic ownership of firms in some areas, especially in the oil & gas sector (Nmehielle and Nwauche, 2004), while activities in the power and energy distribution, telecommunications, airline services, shipping and port services became the exclusive preserve of SOFs (Ahunwan, 2002).

In order to further show its commitment to the indigenization of the ownership structure of Nigerian firms, the government enacted the Nigerian Enterprises Promotion Decree, No. 4 of 1972 (also known as the Indigenization Decree - NEPD). The NEPD clearly delineates the ownership patterns of Nigerian firms by creating three schedules of enterprises: (i) enterprises exclusively owned by the government or domestic residents; (ii) enterprises where foreign ownership was restricted to 40% of the shares, and (iii) enterprises where foreign ownership could not hold more than 60% of the shareholding stake of the firm (Ahunwan, 2002). To promote the growth and development of domestic enterprise, a more stringent version of the NEPD was enacted in 1977 as a substitute to the 1972 version. This later enactment restricted foreign ownership to those enterprises in which Nigerians lacked the requisite skills and competence like in the healthcare industry, or the iron and steel industry; yet, even here this meant that domestic ownership in such enterprises was required by law to be not lower than 40% (Imoisili, 1978).

Based on the details enunciated in the NEPD 1977, Ahunwan (2002) classifies the ownership structure of Nigerian firms using the following categories: Category 'A' involves firms strictly owned by federal and state governments. Category 'B' comprises joint venture firms between the federal government and foreign oil multinational corporations, albeit that the state has other joint venture partnerships with foreign or domestic investors in other sectors of the economy; I will briefly return to this point and discuss the reason for the peculiarity of this category. Category 'C' consists of publicly listed firms, where foreign investors, who are usually multinational enterprises, operate in joint venture with either the government or domestic investors in the commercial and industrial sectors of the economy. Category 'D' involves privately-owned corporations not listed on the stock market, usually family-owned.

Leaning on the above, it can be inferred that majority (or substantial minority) ownership is a dominant characteristic of the ownership structure of Nigerian firms (Adegbite and Nakajima, 2011). This implies that, apart from the full ownership concentration in the government (SOFs) in group A, in groups B, C, and D, ownership concentration in either majority or (strong minority) holders is also a peculiar feature. For instance, in group B comprising joint ventures, majority ownership is vested in the government; in group C, involving publicly listed firms, majority ownership may be wielded by the state, foreign or domestic investors; in group D, consisting of privately-owned corporations, ownership concentration in the strong minority (family-control) is the norm for domestic firms (Ahunwan, 2002).

Consequently, and unlike the traditional agency problem stressed in literature on developed economies, it is the view that the major principal-agent problem prominent in developing countries – and especially in Nigeria - is of the type-II agency problem[11], where there is conflict of interests between majority and minority shareholders (Adegbite and Nakajima, 2011; Nmehielle and Nwachue, 2004;

[11] Type-I agency problem arises as a result of divergence of interests between the shareholders as principals and managers as agents. It is argued that principals' attempt at monitoring the activities of agents, given their proclivity to engage in opportunistic behaviour, constitutes the agency problem (see for instance, Jensen and Meckling, 1976; Wang and Coffey, 1992; Fama and Jensen, 1983; Fama, 1980; Jensen, 1986).

Ahunwan, 2002). This form of agency problem is predicated on the fact that majority shareholders may exploit their informational advantage vis-à-vis the financial status of firms at the expense of information-deficient minority shareholders; they may thus use firm resources to promote their private gains (Adegbite and Nakajima, 2011; Amao and Amaeshi, 2008).

At this juncture, it is important to note that the classification of firms in group B as a separate category involving oil enterprises only, despite the fact that Nigerian government still has other joint venture partnerships in other sectors of the economy, is not only significant because of the importance of oil & gas sector to Nigerian economy, but also very crucial for this discourse. A clear instance of the relevance of this sector to Nigerian economy is that Nigerian state is an oil-dependent one, and derives close to 80% of its total revenue from this sector (Kone, 2006; Idemudia and Ite, 2006). Similarly, the need for CSR practices is overtly emphasized in the operations of firms in oil & gas sector, owing to the huge impact of the negative externalities generated by their productive activities to the host communities. Thus, I discuss below, the place of oil in Nigerian economy.

2.8.2 Nigerian State and the Oil Economy

The territorial boundary of Nigeria was first defined in 1907, but became a sovereign government in 1914 by the amalgamation of two British colonial protectorates (Human Right Watch-(HRW), 1999). Although the country was theoretically ruled as a homogenous unit, in practice, the Northern and the Southern parts of the country were loosely administered by the British colonialists as heterogeneous units with little attempt at integrating their indigenous politico-cultural divergences. This administrative structure was politically expedient for then Governor-General Lord Lugard, as the colonial policies of indirect rule facilitated the complex regional style of administrative autonomy, and ensured that revenues generated from the region were transferred to the central government (Rwabizambuga, 2005).

These policies were nevertheless inimical to fashioning a united front for the nascent nation. Forrest (1995) corroborates this view by noting that the British indirect rule system in the nascent Nigeria not only accelerated the cultural and linguistic differences, but also heightened the economic disparities and division of communal sentiments between the Northern and Southern parts of Nigeria. The corollary of this loosely knit federation was vividly captured thus: “the emerging fragmented political structures and the overall political scene of the nascent state of Nigeria was characterised by patronage, and the inter-regional competition for the control of the national government” (Rwabizambuga, 2005 p. 84), a problem that has remained till date.

In 1954, Nigeria assumed the status of a true federation with a central government vested on the federal level and large autonomous powers devolved to the three major regions: the Northern, Western and Eastern Regions[12]. HRW (1999) notes that two-thirds of the demography of each of these regions is largely dominated by a majority ethnic group: the Yoruba in the West, the Igbo in the East and the Hausa-Fulani in the North; while the remaining third is constituted of various minority groups totalling over 250 tribes. Interestingly, these ethnic minorities, with their multifaceted languages and dialects, largely populate the oil-producing communities of the Southeast region.

Nigeria has been unanimously acclaimed as the largest oil producer in Africa with about 32% and 34.2% of Africa’s oil and gas reserves respectively: it is also the world’s seventh largest exporter of oil, the fifth largest oil exporting country to the US and the fifth largest oil exporting country in the Organization of Petroleum Exporting Countries (OPEC) (Reuters, 2010; HRW, 1999; Oyefusi, 2007; Okpanachi, 2011). Since the discovery and production of commercial quantities of oil in the Oloibiri area of Bayelsa state in the Niger Delta in 1956 and 1958 respectively, oil has progressively become the backbone of Nigerian economy. This is substantiated by the fact that the oil & gas sector accounts for 90-95% of Nigeria’s export revenues, generates over 90% of foreign exchange earnings, constitutes over 80% of all government revenues, contributes 40% of the GDP and

[12] It is important to remark that the Western and Eastern regions constitute the Southern part of Nigeria, so that there is no separate Southern region.

accounts for 4% of employment generation (Usman, 2007; Okpanachi, 2011; Edoho, 2008; Kone, 2006).

In 2006, Nigeria's crude oil production was 2.22 million barrels per day (bpd) as against 2.5 million (bpd) in 2005 and 2.15 million bpd in 2007: proven oil reserves were estimated at 37 billion barrels (Usman, 2007; Reuters, 2010). Recent statistics show that the average crude oil production from 2008 to date is within the range of 2.27 and 2.4 million bpd (Okpanachi, 2011; Reuters, 2010). Similarly, statistics also show from 2010, that natural gas reserves are estimated at over 185 trillion cubic feet (tcf) of proven natural gas reserve; this places the country as the eighth largest holder of natural gas reserves in the world, and the largest in Africa (U.S. Energy Information Administration, 2010).

2.8.3 Ownership structure of Firms in the Nigerian Oil Industry

The discussion above shows the relevance of oil revenue to the growth and sustenance of Nigerian economy. Al-Attar and Alomair (2005) remark that the oil industry is not only the foundation of Nigerian economy, but also the fulcrum on which the country's economic development pivots. Despite this fact, the social and political instability which has been the bane of Nigerian state, has not favoured the implementation of a consistent oil policy; this is clearly manifested in a frequent change of petroleum officials as each new administration comes to power (Frynas, 2000; HRW, 1999). Three phases vividly characterize the development of oil policy with regards to the ownership structure of firms in Nigerian oil industry.

The first phase extended from the colonial era until the end of the 1960s. This period was characterised by minimal state participation in the oil industry, as the role of the state was simply consigned to collecting taxes, rents or royalties from the oil companies: revenues derived from the sale of oil were equally shared between the state and foreign or domestic oil companies after they deducted their operating costs (Rwabizambuga, 2005). This sharing formula had a negative impact on the real worth of oil revenue transferred to the state treasury, because oil companies had the incentives to expropriate part of the oil proceeds by exploiting the information asymmetry existing between the oil MNCs who actually managed the oil firms, and the state as the principal owner of the firms. This view is taken for instance by Rwabizambuga (2005), who estimates that the revenues returned from oil sales by the oil MNCs to the state are less than half of the total revenue generated from oil sales.

The military coup of 1966 elicited the exigency of amending the Petroleum Profit Tax Bill[13] (PPTB) in 1967; with the aftermath of the Nigerian civil war, came the realization of the strategic importance of oil to the sustenance of Nigerian economy. Hence, the second phase was directed at indigenization policy which precipitated an increased control of the oil sector by Nigerian state: the nation modified its Petroleum Profit Tax Bill (PPTB) in order to increase its royalty dividends (Khan, 1994). Consequently, the state increased its participation from simply collecting oil rents to a direct intervention in the administrative affairs of oil industry (Rwabizambuga, 2005). Recognising the huge importance of oil revenue to the sustenance of Nigerian economy, the state appropriated the oil industry as its exclusive domain of accumulation (Edoho, 1992). The Land Use Act of 1978[14] and the Petroleum Act of 1969[15] (which abrogated the Colonial Mineral Oils Ordinance of 1914), reflected this vested interest of Nigerian state in the affairs of oil industry.

The third phase marked a turning point in the development and acceleration of the indigenization policy. Nigeria not only joined OPEC, but also increased its PPTB from 50% in 1973 to 67.75% in 1974, which rose further to 84% of total oil revenues in 1975: royalties increased from 12.5 to 16.6% in 1974 and then to 20% in 1975 (Khan, 1994). Moreover, this phase saw Nigerian state acquire over 60% ownership stake in all the major oil MNCs operating in the country, and to consolidate this majority shareholding, the State created its own representative, Nigerian National Oil Company (NNOC) in 1971 to partner with the foreign firms in a joint-venture partnerships and Production Sharing Contract (PSC) (Rwabizambuga, 2005). In 1977, a new government subsidiary - Nigerian National

[13] Petroleum Profit Tax Bill is the tax levied on the profits accruing from the proceeds of the exploration, mining and drilling of petroleum products by the Nigerian government. In other words, it is simply the tax bill levied on the profit of the upstream sector of the petroleum industry in Nigeria.
[14] The Land Use act of 1978 stipulates that all lands and minerals resources are the sole preserve of the Nigerian state.
[15] The Petroleum Act of 1969 vests the Nigerian state with the power to acquire, seize or annex any land needed for oil exploration or production purposes (see for instance Edoho, 2008)

Petroleum Corporation (NNPC) emerged with the merger that took place between NNOC and the Ministry of Petroleum Resources. This new company was charged with the responsibilities of not only running the affairs of oil industry in partnership with oil MNCs, in both crude exploration and production, but also with overseeing and regulating the activities of oil industry on behalf of Nigerian government (Frynas, 2000). As government's proxy in oil industry, NNPC has a major shareholding stake (57%) in this joint-venture (JV) partnership agreement with MNCs (Edoho, 2008; Idemudia and Ite, 2006; Idemudia, 2009b).

The activities of NNPC enable us to understand how JV and PSC are structured. The two major instruments that underline a joint venture are: (a) a Joint Operating Agreement (JOA) between NNPC and the oil companies and (b) a Memorandum of Understanding (MOU) between NNPC and oil firms. In the JOA, NNPC provides between 55% and 60% of operating costs of the JV while the oil firms contributes between 40% and 45% of the remaining cost (Akpan, 2006). In the same vein, the profit-sharing-ratio follows the same structure, wherein the government takes a greater part of the proceeds as owner of the resources.

In the PSC, the multinational oil firms finance the operation of the firm and distribute the accruing profit, according to the contractual terms, only after the company has recouped its operating costs (Al-Attar and Alomair, 2005). It is important to remark that despite the creation of NNPC, which increased the state's negotiating and bargaining power in oil industry, the multinational oil companies actually manage the operation of the joint venture in lieu of Nigerian government and oversee the control of this partnership arrangement (Biersteker, 1987).

2.9 Overview of CSR Practices in Indigenous Nigerian Firms

It is the general consensus of some scholars like Ojo (2008) and Adewuyi and Olowookere (2010) that very few works have been written on the practice of CSR in indigenous Nigerian industry. Most of the literature written on CSR in Nigeria centre mainly on the activities of MNCs, especially in oil & gas sector, with little or no attention to the CSR practices of indigenous Nigerian firms in other sectors of the economy (Frynas, 2000; 2001; Boele et al., 2001; Wheeler et al., 2002; Ite, 2004; 2005). Idemudia and Ite (2006) argue that the national CSR scheme of both foreign and domestic firms operating in Nigeria is an offshoot of historical and cultural factors that have developed according to the prevailing socio-economic and political priorities of the country. Thus, in Nigeria, credible evidence suggests that until recently the evolution of CSR practices among indigenous Nigerian firms has a historical antecedent not unconnected with a traditional communitarian ideology (Limb and Fort, 2000). This ideology, premised on the concept of ‘extended kinship’, enunciates a communal philosophy of life and concern for the less privileged, and is common to all the local groups despite the heterogeneity underpinning Nigerian state (Limb and Fort, 2000).

Along this view, Amaeshi et al. (2006) maintain that the family network is highly priced in all the ethnic groups in Nigeria; and that there is strong belief that individual responsibility transcends the boundaries of one’s immediate family affiliations, a trend that may have implications for firms’ CSR practices. This implies that in establishing a firm, the directors and managers protect and represent not only the firm’s interest but also that of the immediate and extended family (Limb and Fort, 2000); thus, there is the need to align the demands of business with the demands of the extended family which, in some cases, could be the demands of the whole community. Based on this, Amaeshi et al. (2006) argue that CSR among Nigerian firms may not necessarily reflect the Western concepts of CSR (like consumer protection, fair trade, socially desirable characteristics of private goods or environmental conservation), but may be borne out of this communitarian ideology, and the need to address the prevailing socio-economic developmental challenges of the nation like poverty alleviation and sustainable development.

A few studies like Ojo (2008) and Babalola (2012), which investigate the extent of firms’ commitment of resources to CSR practices in Nigeria as a share of their profits, conclude that Nigerian firms on average devote a very insignificant proportion of their profits to CSR practices. In a study of the financial, telecommunications and manufacturing sectors of Nigerian economy, Adi (2006) finds that corporate philanthropy is the dominant CSR practices of indigenous

Nigerian firms. This is established on the fact that corporate philanthropy may be the quickest and least cost-intensive medium through which firms can demonstrate their legitimacy and social responsibility (Adi, 2006; Eweje, 2007).

Similarly, from web-based reporting and conducted interviews presented by Amaeshi et al. (2006), Idemudia (2009) and Ite (2004; 2005), it is found that CSR practices of indigenous Nigerian firms are centred mainly on corporate philanthropy and community involvement: there is less emphasis on socially responsible employee relations, while the notion of CSR as green marketing, socially responsible investments, human rights protection or environmental conservation is non-existent. Phillips (2006) notes that most CSR practices of Nigerian firms consist essentially in community involvement, like promotion of culture and arts and corporate sponsorship of fashion shows, music festivals and theatre presentations; and that these practices detract in Phillips' view from what constitutes the core foundations of CSR.

2.9.1 CSR Practices of Firms in Nigerian Oil Industry

There has been mutual consensus that the history of organized CSR in Nigeria is most pronounced in the practices of MNCs in oil & gas sector of the economy, particularly in the Niger Delta region (Ite, 2004; Frynas, 2005; Amaeshi et al., 2006; Adegbite and Nakajima, 2011). Scholars argue that the deployment of CSR policies by oil MNCs in the Niger Delta was a defensive strategy to reduce not only the increasing cost of their operation owing to the incidence of community strife, but also to minimize reputational damage and maximize their 'goodwill' (Idemudia and Ite, 2006). Against this backdrop, the proactive pursuit of CSR practices in Nigeria, and its incorporation in the governance strategy of oil firms, is to some extent, a novel and emerging concept (Okafor, 2003; Ite, 2004). Mirvis clearly reflects on this fact: "It has been claimed that, following the Brent Spar and Ogoni Crisis[16], recognition dawned that 'the old Shell would have to die and a new culture [CSR] be birthed" (Mirvis, 2000 p. 69).

[16] Ogoni crisis refers to the agitation by the Ogoni residents, a community in Niger-delta region, over the environmental degradation arising from Shell oil exploration and production. In 1995, this crisis led to the

In 2003, an executive officer of African operations for Shell confirmed a fundamental policy shift in the way the firm built social partnerships with host communities. The officer maintained that Shell is now more stakeholder salient given its increased attention to issues of sustainable community development, biodiversity conservation and the protection of the natural environment (Shell Petroleum Development Company - SPDC, 2003). In the same vein, Chevron-Texaco Corporation Chairman and CEO, Dave J. O'Reilly, noted that the interests of other external stakeholders of the firm could no longer be neglected as the firm's survival might not solely be dependent on the traditional financial metrics (Williams, 2002).

Consequently, the increased agitation for Nigerian firms in oil & gas sector to correct the negative externalities of their productive activities, has precipitated a paradigm shift from business-as-usual, based as it were on profit maximization, to the incorporation of the interests of external stakeholders. Many domestic and oil MNCs have adopted different strategies to pursue CSR practices. These strategies have evolved over time, and can be grouped into three phases.

The first was the community assistance (pay-as-you-go) approach to community relations, which began as early as 1956. During this phase, the idea was to isolate local communities as much as possible by giving them gifts, while at the same securing the local right-of-way (Idemudia, 2009b). This stage therefore emphasized mere corporate philanthropy and engendered the psychological conditioning of the host communities as helpless victims of firms' activities, ranging through pollution, deforestation and loss of farmland (Ite, 2005; Bird, 2002). It also elicited a dependency culture wherein host communities saw the oil firms' philanthropy not as charity, but as a rent for the firms' use of their resources (Ite, 2005). This strategy was largely unsustainable because of increased community agitation over governmental neglect and the sheer environmental degradation inflicted by the activities of oil firms.

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gruesome state execution of Ken-Saro Wiwa and other human-right activists who publicly decried the irresponsible activities of Shell in the Nigeria.

In response to this, the second phase, commencing from the 1990s, was based on the acceptance of the principles of CSR by oil companies; it can be referred to as the community development approach (Ite, 2004). This phase seeks to incorporate the principle of sustainable development in its strategy. Thus, it emphasized the empowerment of host communities, with a view to making them less reliant on oil companies for socio-economic development. It has also been argued that because of poor community participation, lack of project sustainability and intra- and inter-community violence, this is also proving unsustainable (Idemudia, 2009b).

The last phase is anchored on the idea of partnership between oil firms and local communities. This strategy promotes the partnership and multi-stakeholder approaches to poverty alleviation and infrastructural development in the oil producing regions, especially in the Niger Delta area (Shell Petroleum Development Company – SPDC - (2003; 2004).

2.10 Conclusion

In this section, I explored the various arguments for and against CSR practices which are vividly captured in the traditional and heterodox views of the firm. I traced the evolutionary trends in CSR conceptualizations culminating in Carroll's (1979; 1991) four-part conceptualization of CSR as consisting in business, legal, ethical and discretionary responsibilities of the firm. Along this view, this section also discussed the multi-dimensional construct of CSR and based on this, argued that the concerns and priorities of Western economies with some constructs of CSR may differ from what really constitutes core-CSR concerns for developing economies.

This chapter also discussed the conceptualizations of corporate governance and various variables used to proxy good corporate governance practices ranging through ownership structure, board independence and pluralism of the board. This is followed by a discussion of the corporate governance practices and ownership structures of Nigerian firms. This section also reviewed the CSR practices of indigenous Nigerian firms, and since oil is central to Nigerian economy, it equally examined the CSR practices of firms in the oil industry. Most of the CSR studies concluded that the dominant form of CSR in Nigeria is corporate philanthropy, and that there is less emphasis on socially responsible employee relations and environmental conservation. Similarly, it is observed that the percentage of firm resources committed to CSR practices, as share of profits, may be insignificant in Nigerian industry.

3 THEORETICAL FOUNDATIONS OF CSR-OWNERSHIP STRUCTURE RELATIONSHIPS

3.1 Introduction

In this part of the study, I review the basic theoretical models that support the possible relationship that may exist between CSR and various ownership structures. These models are essentially based on how the varying incentives of corporate managers and shareholders converge/diverge to either promote or discourage the commitment of firm-specific resources to CSR practices. Similarly, these theories also discuss how the alignment of interests of external stakeholders of the firm with the maximization of shareholders' wealth may be a strong determinant in corporate decisions to engage in CSR practices. I hope to formulate, based on the postulates of these models, the theoretical arguments and the hypotheses to be tested subsequently.

3.2 Agency Model

Since 1970, most economic research in corporate governance and in the domain of finance has been framed by the agency framework (Aguilera and Jackson, 2003; Wang and Coffey, 1992). Pivotal to the development of agency model is the separation of ownership from management, and the view that shareholders, because of the growing size of corporations, have lost effective control: this is now left to the discretionary management of professional managers (Muth and Donaldson, 1998). The reference to professional managers suggests that they have specialized knowledge needed for effective coordination of firm's operations (Mizruchi, 1983). This implies that managers as agents may naturally use this delegated power and privileged position to maximize their own utility at the expense of the principals' (or shareholders') welfare (Letza et al., 2004). This is in line with the general hypothesis that individual agents are self-interested optimisers who can and will engage in opportunistic behaviour to maximize their own welfare.

Agency theory offers a useful theoretical framework for understanding not only the conflictual relationship between owners and managers, but also proffers possible solutions to this problem. Eisenhardt (1989) argues that “agency theory provides a unique, realistic, and empirically testable perspective on problems of cooperative effort” (p. 72). Jensen and Meckling (1976), in their influential paper, attempt to denote the terms of agency theory clearly. They define the agency relationship as “a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent” (p. 308). This principal-agent relationship is anchored on the fact that both principals and agents have their own and (in non-trivial cases) different self-interests: principals are profit-oriented, given the direct residual claims they have on the firms’ earnings, while agents are not profit-driven as they depend on the remunerations from the principals (Wang and Coffey, 1992). In addition to remuneration, they can also engage in on-job consumption at the principal’s expense.

Fundamentally, this model assumes that principals and agents have different attitudes to risk. The principals are often assumed risk neutral on grounds that they have more liquidity for diversification of investment in the events of takeover, reduction of firm value as shown in declining stock prices or liquidation of the firm; while agents are more risk averse given their more constrained liquidity position. This divergence in principal-agent attitudes to risk underscores the fact that they have conflicting goals, wherein agents might engage in opportunistic or shirking behaviour, like free lunches, unprofitable projects, excessive use of free cash flow (Fama and Jensen, 1983; Fama, 1980; Jensen, 1986; Jensen and Meckling, 1976). Concomitantly, principals will attempt to monitor the activities of their agents, given their proclivity for opportunistic behaviour (Jensen and Meckling, 1976; Wang and Coffey, 1992).

Moreover, since firms are “a nexus of contracts between principals and agents” (Berle and Means, 1932), agency problem may arise “because contracts are not costlessly written and enforced” (Fama and Jensen, 1983 p. 327). This implies that solving the agency problem has costs, and these costs are the sum of the monitoring expenditures incurred by the principal, like the use of board of directors and bonding expenditures[17] incurred by the agent (Jensen and Meckling, 1976). As a solution to this problem, Eisenhardt (1989) suggests the use of the board of directors as an effective monitoring mechanism to curb the excesses of executive managers. Another proffered solution is the alignment of the interests of agents with that of principals by using appropriate incentive systems to reward managers (Fligstein and Freeland, 1995; Letza et al., 2004).

An alternative view to agency theory which essentially suggests that there may be no agency problem between managers and shareholders has been proposed in the stewardship theory. Stewardship theory draws on psychology and sociology, and depicts firms as the pivot of relationships between principals and stewards (Donaldson and Davis, 1991). Donaldson and Davis (1991) maintain that "the executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets" (Donaldson and Davis, 1991 p. 51). The stewardship theory is therefore based on denoting managers as stewards rather than as entirely self-interested rational agents, as proposed in the agency model (Muth and Donaldson, 1998). This view suggests that top managers should be seen as co-operative stewards who are intrinsically motivated to engage in altruistic conduct that will enhance the performance of the organization (Davis et al., 1997). Hence, top managers will naturally eschew opportunistic and harmful behaviour, and work instead to promote and protect the interest of the firm and that of the shareholders (Knapp, et al., 2011; Muth and Donaldson, 1998; Donaldson and Davis, 1991). The level of altruism of managers as depicted in the stewardship theory is such that when presented with a course of action that seems personally unrewarding, they may comply as long as it is in alignment with shareholders' interests (Etzioni, 1975).

This theory also encompasses non-financial motives in assessing managerial behaviour. These non-financial motives include: the need for achievement and

[17] Bonding expenditures refer to the cost incurred by agents in a bid to reduce the agency conflict; these costs are usually undertaken at the expense of agent's utility and are meant to guarantee that the agents would maximize the utility of the principals or to ensure that principals would be compensated if agents engage in opportunistic behaviours (see for instance Jensen and Meckling, 1976).

recognition; job satisfaction arising from successful performance; due recourse to authority; and the dictates of sound work ethics (Argyris, 1964; Herzberg, 1966; McClelland, 1961). The premise of stewardship theory is also anchored on the fact that the structural framework of the firm determines how effective the managers can be in fulfilling their duty to the organization (Elsayed, 2007). It has to be noted that stewardship theory is more of a recommendation for a new kind of corporate culture that proposes that far from engaging in managerial opportunism, agents may actually ensure that their interests are aligned with maximization of shareholders' wealth.

Agency model is relevant in the broad discourse of the relationship between CSR and ownership structure in Nigerian industry. The agency theoretic framework could be relevant in two ways. First, the incentive schemes for executive managers of firms are a factor determining corporate decisions to commit resources to CSR practices. When shareholders perceive CSR expenditures as detrimental to maximizing returns on their investments, then shareholders may constrain managers to refrain from CSR engagements (Morsing, 2011; Roper and Schoenberger-orgad, 2011). A variant of this position is that managers may engage in opportunistic behaviour through expending resources on CSR practices motivated out of the need to boost their self-image and to enhance their competitiveness in the managerial market, even if such expenditure may impact negatively on the firm's profit margin in the long-term (Himmelberg et al., 1999; Reinhardt et al., 2008; Wang et al., 2008). This argument is premised on the fact that managers, who are motivated by short-termism,[18] may commit to short-term CSR practices even if the benefits were to be recouped over a period of time. It is the view that expending resources on short-term CSR practices may boost their competitiveness in the managerial market by presenting them as managers of firms adjudged as socially and ethically responsible especially by ethical and

[18] Short-Termism is used to describe firm's excessive concentration on short-term results at the expense of long-term interests. Such short-term strategies are often predicated on accounting-driven metrics and profit maximization that do not factor in the complexities of corporate management and its associated risks (see also Christodoulakis, 2012).

institutional investors (Butler and McChesney, 1999; Reinhardt et al., 2008; Wang et al., 2008).

Along this view, it is argued that engaging in CSR practices may actually exacerbate the agency problem between managers and shareholders, because corporate managers may use executive perks to engage in opportunistic behaviour vis-à-vis spending shareholders' wealth on CSR investments (Reinhardt et al., 2008). In the same vein, stewardship theory would imply that the interests of shareholders would not constitute incentive compatibility constraints with managerial goals. Hence, if shareholders' objectives are in alignment with CSR practices, then, managers will be more likely to insist that firms commit resources to CSR practices.

Second, in a literal sense, it can be argued that an agency relationship of some sort can be transposed in the relationship that exists between key firms especially in the extractive/oil & gas industries and Nigerian society. Various host communities will be regarded as the principals whereas the firms are the agents. The host community entrusts its resources, natural and human, to these agents by giving them the social license[19] to operate with the expectation that firms will not only make profit, but also commit back part of the proceeds of their activities for socio-economic and infrastructural development of the region. Thus, the firms should be seen as having a social contract with Nigerian society. Using this agency-stewardship theoretical framework, we intend to analyse how the dynamics of principal-agent/principal-steward relationships impact on CSR practices in Nigeria.

[19] It has to be noted that various host communities especially in the oil producing areas do not give this social licence in a commercial sense but it is assumed to be implicit in their relationship with firms operating in the area. Hence, cases of withdrawal of this social license are amply demonstrated in hostage-taking of employees of oil firms by aggrieved youth of the region and oil pipeline vandalization (see for instance, Edoho, 2008; Eweje, 2007) or boycott of the firm's product in consumer-goods industries (see Spicer, 1978; Brammer and Millington, 2005).

3.3 Stakeholder Management Model

The recognition that business, government or society especially the host communities where firms are localized, cannot provide solutions to complex socio-environmental concerns precipitates the need for securing partnership formation and stakeholder management, as a useful strategy for businesses to fulfil developmental obligations (Idemudia, 2009b). This is based on the fact that corporations' approach to CSR has shifted from mere sensitivity towards social concerns to being responsive to the constituents in the local environment in which firms are situated: these constituents, known as stakeholders, can to a great extent accelerate or decelerate corporate performance (Mishra and Suar, 2010). Carroll (1991) stresses that the concept 'stakeholder' personalizes social or societal responsibilities, by showing the specific groups that should be considered in firms' CSR practices. He succinctly puts it: "Stakeholder nomenclature puts 'names and faces' on the societal members who are most urgent to business, and to whom it must be responsive" (Carroll, 1991 p. 43).

Freeman's (1984) work helps delineate the web of external stakeholders, going beyond the traditional pool of shareholders, customers, employees and suppliers (see also Jonker and Foster, 2002). Thus, a stakeholder "is any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984 p. 46). Indeed, in a later robust defence of stakeholder theory, Freeman (2000) offers a vision of 'stakeholder capitalism'[20] which is built on the notion of win-win outcomes for both internal and external stakeholders. For Carroll (1991), stakeholder "constitutes a play on the word 'stockholder' and is intended to more appropriately describe those groups or persons who have a stake, a claim, or an interest in the operations and decisions of the firm" (p. 43).

From this perspective, the set of claimants on a firm's operation and resources shifts from the stockholders and bondholders to include those with whom the firm has made explicit contracts – like the wage contract - and implicit contract - quality

[20] Stakeholder capitalism is a theory that argues that utilities should be created for all stakeholders, and that corporate managers should be constrained to pursue this value creation process for both internal and external stakeholders (see for instance Freeman, 2000; 1984)

service for customers and social responsibility (Cornell and Shapiro, 1987). Along this view, it is argued that a firm can incur costs if it reneges in fulfilling its implicit contract as such contracts can be transformed into explicit agreements (Cornell and Shapiro, 1987). For instance, there is ample evidence of governments passing laws to constrain firms to be socially responsible (Cornell and Shapiro, 1987; Roper and Schoenberger-Orgad, 2011; Li and Zhang, 2010). Lee (2008) supports this point, noting that when stakeholders are dissatisfied with a firm's performance, the firm loses its customer loyalty and its critical social support framework.

The above discussion then informs the need for an efficient stakeholder management strategy. Stakeholder management deals with how firms should continuously adapt to the demands and expectations of stakeholders (Morsing and Majken, 2006). Mishra and Suar (2010) note that effective management of stakeholders serves as the pivot on which the efficiency of corporate social and financial performance turns, thereby ameliorating stakeholder-inflicted cost. Morsing and Majken (2006) present three strategies of stakeholder management model: the information strategy, the stakeholder response strategy and the stakeholder involvement strategy.

Information strategy keeps the general public informed of the firm's activities with the view to gain legitimacy in the society, while stakeholder response strategy integrates the concerns of the stakeholders and how they respond to corporate actions (Morsing and Majken, 2006). Stakeholder involvement strategy equally involves a two-way symmetric path in which stakeholders participate and suggest corporate actions (Kumar and Tiwari, 2011; Morsing and Majken, 2006).

Included in stakeholder management issues is the stakeholder alignment strategy, which if not well addressed, gives rise to what Wood and Jones (1995) call 'stakeholder misalignment' problem. Stakeholder alignment ensures that a firm carries out those CSR practices that are perceived to be important to its stakeholders (Choi et al., 2010). The issue of stakeholder power and legitimacy clearly determines the level of this alignment. This is consistent with the views of Neill and Stovall (2005) which find that stakeholder power is a key determinant of firm’s responsiveness to the demands made by stakeholders. Hence, Peloza and Papania (2008) argue that high levels of stakeholder power positively correlate with firm’s CSR agendas.

Following on from this discussion, I argue that Nigerian society should then in principle constitute an important stakeholder in the corporate strategic decisions of firms located within its industry. The relevance of this debate to the study is that adequate (inadequate) management of the interests of external stakeholders of the firm may have positive (negative) impacts on firms’ profitability and performance. Similarly, a good stakeholder management model may have positive effect on firm reputation and long-term survival. Hence, different ownership structures have to ensure that there is an alignment of firms’ interests with the objectives of other external stakeholders; and this can be attained through adequate incorporation of their needs in the firms’ strategic decisions via CSR investments.

3.4 Business Ethics Theory

Ethics as a science deals with the reflective study of “oughtness”; that is, with the rightness or wrongness of an action (Ekennia, 1998). It relates to choices and judgements that underlie acceptable standards of behaviour, which serve as a guide for the conduct of individuals and groups in the society (Erondu et al., 2004). As individual societies evolve various economic, social and religious systems, a sense of right and wrong also emerges in the activities of these three spheres (Ledgerwood and Broadhurst, 2000). The crucial question at this juncture is, has business – economics - anything to do with the domain of ethics?

Proponents of ethics in business argue that it is in the interests of business organizations to recognize the moral and ethical aspects of managerial decision-making, as these will in the long run benefit the firm (Chami et al., 2002; Marom, 2006; Ola, 1998). That a firm has moral duty to behave responsibly in the society in which it operates is supported by several ethical theories such as Virtue ethics (Solomon, 1992), and Kantian ethics (Evan and Freeman, 1988; Bowie, 1999). Virtue ethics is the branch of ethics that stresses the impact of one’s character on the other party. This would imply how firm activities impact either positively or negatively on other external stakeholders of the firm (see for instance, Solomon, 1992). Kantian ethics is firmly based on the Categorical Imperative. According to the second formulation of Kant's Categorical Imperative, each stakeholder group wields the moral right to be treated not as an instrument – means to an end (maximization of shareholders' wealth), but as an end in itself (see for instance Evan and Freeman, 1988; Bowie, 1999).

The implication of Kantian and Virtue ethics for this study is that management is not only accountable to shareholders, but also to the web of other stakeholders impacted by their productive activities (Graafland and Van de Ven, 2006), as previously described and discussed. Along this view, it is argued that society may actually constrain recalcitrant or unethical businesses to adopt ethical codes through boycotts of firm products (Spicer, 1978; Coffey and Fryxell, 1991; Brammer and Millington, 2005). Similarly, unethical firms may be subject to legal sanctions and punishment from governments and other powerful stakeholders (Agle et al., 1999; Erondu et al., 2004).

Hutton (1995) proposes the theory of a 'moral economy' against the backdrop of what he called a 'fundamental amorality' in developed societies. He argues that lack of trust, commitment and co-operation is a major factor impeding successful business organizations. He further notes that this imbalance can be rectified by "the recognition that firms are formed by human beings with human as well as contractual claims upon each other, and behind this social world lies the moral domain" (Hutton, 1995 p. 23). To this end, Welford (1995) maintains that we need a new ethics centred on stakeholder accountability.

Consequently, the role of ethics in business, viewed as something more than an oxymoron (Donaldson and Preston, 1995), has been integrated into the corporate governance structures of at least some corporations (Trevino and Nelson, 1995). Lately, we hear phrases like "bad ethics is bad business", and "good ethics is good business", implying some perceived correlation with either improved (good ethics) or poor (bad ethics) financial and social performance or poor financial and social performance (Burton and Goldsby, 2009). Similarly, contemporary issues like the need for morality in business and concept like ‘ethical investors’[21] are suggestive of the renewed importance attached to the application of ethical principals in the domain of business.

Extant literature maintains that Nigeria has a chequered history of corrupt and unethical business and government practices (Ite, 2004; Erondu et al., 2004; Idemudia and Ite, 2006; Idemudia, 2009). Similarly, it has been argued that the business climate in Nigeria may not be amenable to endorsing sound ethical principles in the conduct of firms’ activities (Erondu et al., 2004). This is significant for this study, which seeks to investigate how the adoption of ethical principles in the business activities of firms varies under different ownership structures; the adoption of these ethical principles may have varying implications for the CSR practices of firms in Nigerian industry.

3.5 Legitimacy Theory

Legitimacy theory is a corollary of the business ethics theory: whereas business ethics stresses the need for firms to be morally responsible to their host communities, legitimacy theory accords recognition to those firms that fulfil their ethical responsibilities to the society. Hence, it is a key concept in the conceptualization of CSR (Palazzo and Scherer, 2006). Legitimacy is a generalized perception that an organization’s actions are desirable or appropriate, and consistent with the norms, beliefs and value systems of the host communities (Rodriguez-Dominguez et al., 2009; Suchman, 1995). Clearly put, “a corporation is legitimate when it is judged to be just and worthy of support by the community” (Dowling and Pfeffer, 1975 p. 125)**.**

This model seeks to explain how firms realign their ideals to the changing structure of a society; and more specifically, it argues that financial performance and

[21] Ethical Investors are shareholders whose incentives are not only determined by firm’s financial returns, but also by other social factors, such as firm’s employee-relations record, the level of its responsiveness to environmental conservation and the quality of its product. Thus, ethical investors factor into their investment decisions, other social performance indices of the firm that may detract from, or fail to add to, financial returns on their investments (see for instance Cowton, 1994; Huang, 2010).

efficiency are necessary but not sufficient conditions for business survival (Chen et al., 2008). Based on this, there is a popular opinion that the continued existence and development of business is not dependent only on profitability, but also upon social legitimacy (Shocker and Sethi, 1974; Jensen, 2002; Lee, 2009; Harjoto and Jo, 2011). Firms assume legitimacy when their goals, operational framework and outputs are aligned with the needs and expectations of those who confer legitimacy – namely, the society within which they operate (Lindblom, 1994). This stance is corroborated by Long and Driscoll (2008), who maintain that legitimacy may be attained by a firm when its set goals are incentive compatible with accepted social morals, or when its operational framework is consistent with the society's expectations.

Legitimacy theory derives from the social contractual agreement between the firm and community, and is underpinned by the assumption that firms will adopt strategies to conform to societal expectations (Jenkins, 2004). It is therefore not endogenously determined within the firm, but by factors - exogenous to the firms - like community perceptions of the adequacy (inadequacy) of corporate behaviour. Hence, Rodriguez-Dominguez et al. (2009) state that "Legitimacy is granted and controlled by people outside the organization" (p. 191). It is usually argued that a 'legitimacy gap'[22] may result when firms fail to operate in line with society's expectations (Sethi, 2005), which can be redressed by modifying firms' goals, operational framework and corporate performance to better conform to societal expectations (Dowling and Pfeffer, 1975).

Legitimacy theory would be a useful theoretical framework for examining the dynamism of obtaining the social license to operate by firms located in Nigerian industries, especially in the extractive and manufacturing sectors. This theory is very relevant in this study as it suggests the need to investigate how different ownership structures will devote resources to CSR practices bearing in mind the exigency of obtaining social legitimacy from the host communities. Hence, this

[22] Legitimacy gap is the divergence between corporate manager's perception of their legitimacy status and societal perception of corporate behaviour (see for instance, Sethi, 2005).

work seeks to investigate how legitimacy concerns strongly influence corporate decision to commit resources to CSR engagements.

3.6 Eco-Efficiency Model

The measurement of corporate contributions to economic, social and ecological sustainability has been a central theme underpinning the theory of eco-efficiency as expounded by (for example) Figge and Hahn (2001) and Karvonen (2001). This approach, in line with business-environment 'win-win' debates (see Porter and Van der Linde, 1995; Walley and Whitehead, 1996), has gained ascendancy in the literature on sustainable development, environmental and ecological economics, and business environmental strategy (Korhonen, 2003).

Eco-efficiency model postulates that firms must efficiently manage the relationship between environmental performance and economic performance such that nature and business benefit simultaneously. In line with this view, Korhonen (2003) argues that "when the same amount of product output can be produced with less natural resource inputs and less waste and emission output than before, the eco-efficiency has increased" (p. 26). Accordingly, he proposes that the environmental benefits of eco-efficiency and 'win-win' position is only feasible if production processes not only employ less natural raw materials and virgin energy inputs, but also generate less waste and fewer negative externalities for the environment (see ibid).

Arguments for and against eco-efficiency theory can be classified into two models: the 'conventional approach' and the Porter hypothesis (Hontou et al., 2007). According to the conventional approach, Hontou et al. (2007) state that environmental management impacts negatively on the competitiveness of firms by imposing additional costs which might not be incurred by those firms operating in countries with less strict environmental regulation. Consequently, it is argued that there is a trade-off between economic activity and environmental quality, in that the social benefits accruing from sound environmental performance is offset by the compliance costs incurred by firms, which may give rise to losses in firm competitiveness (Wagner et al., 2002; Ite, 2005; Idemudia and Ite, 2006; Hontou et al., 2007).

On the other side of the divide, the Porter hypothesis projects a more dynamic view of markets and gives preference to the role of technological change and innovation capacity: the key concept is that pollution is suggestive of poor technology, bad management, and inefficient utilization of resources (Porter and Van der Linde, 1995). Hence, it is argued that environmental management, as for instance with pollution reduction, may lower production cost while at the same time offsetting the environmental compliance costs (Porter and Van der Linde, 1995; Baron, 2001; Jensen, 2002). This implies that better designed environmental policy may expose the inefficiencies in environmental management and may enable firms to not only identify sources of comparative advantage, but also promotes innovation and creative thinking (Jaffe et al., 1995).

With the increasing emphasis on environmental management, firms have no option than to be responsive to environmental issues, which in the long run creates innovative opportunities and promotes competitive advantage (Bagnoli and Watt, 2003; Baron, 2001; 2008; McWilliams and Siegel, 2001; McPeak et al., 2010). Lately, research on CSR and environmental sustainability are closely related because of the interplay of economic, environmental and social concerns: Montiel (2008), for example, while making this point, lists a host of variables for assessing environmental responsibility. These variables include pollution abatement programs, level of firm's conservation of the natural resources, participation in voluntary environmental restoration and eco-design [23] practices. From this perspective, the conservation of the natural environment is now being viewed as a sound foundation for CSR (see Babiak and Trendafilova, 2011).

It is important to remark at this point that the theory of eco-efficiency stresses the need for firms to correct the negative externalities of their productive activities for

[23] Eco-design practices is described as "designing products with the environment in mind and assuming some responsibility for the product's environmental consequences as they relate to specific decisions and actions executed during the design process" (see Lewis et al., 2001 p. 16). Eco-design is therefore the point of intervention in the lifecycle of a product in order to ensure that the product has no negative environmental impact (see for instance Deutz et al., 2013).

the host environment. This theory becomes extremely relevant in this study as it enables us to examine how the conservation of the natural environmental is aligned with the interests of firms as a corporate strategy for competitive advantage, and how the various ownership structures may be incentive compatible with CSR expenditure on environmental conservation.

3.7 Conclusion

This study reviewed the basic theoretical models of the relationship between ownership structure and CSR practices. The relevance of Agency model shows that the diverging interests of shareholders and executive managers may have varying implications for CSR practices. Engaging in CSR practices may also accelerate the agency problems wherein the managers engage in opportunistic behaviour via committing resources to wasteful social investments with a view of enhancing their career prospects. Since the influence of external stakeholders may affect the long-term success and survival of the firm, stakeholder-management model demonstrates the need for different ownership structures to align their interests with the objectives and demands of external stakeholders via CSR investments.

Business ethics theory underlines that a firm is intrinsically connected to its society of operation, and has a moral duty to behave responsibly in the society of its operation. Undermining these moral and ethical responsibilities may have negative implications for firms in the long-run. Similarly, the needs to conserve the natural environment and obtain the social license to operate are the central themes of eco-efficiency and legitimacy models respectively. Legitimacy theory enables us to examine how the host communities' approval or disapproval of firms' operations may strongly influence corporate decision to commit resources to CSR engagements, while eco-efficiency model enables us to investigate how different ownership structures will incorporate the conservation of the natural environment as a corporate strategy for achieving competitive advantage.

4 CSR AS A CORPORATE STRATEGY FOR COMPETITIVE ADVANTAGE

4.1 Introduction

Most scholars generally concur with the view that CSR is of strategic importance to the firms and their stakeholders (Donaldson and Preston, 1995; Peters and Mullen, 2009; Freeman, 1984). This is consistent with the discussion in the previous chapter, which maintains that the theoretical foundation for legitimacy, business ethics, eco-efficiency and stakeholder models is premised on the interdependence between the firm and society in which the firm is localized. This implies that the firm's relationship extends to a broader set of individuals and organizations over and above its shareholders. In this perspective, firms are now seen as moral agents who have a responsibility not only to the shareholders, but also a moral obligation to the entire society (Donaldson and Preston, 1995).

Similarly, the view of CSR as a tool for achieving competitive advantage, which ensures that firms maximize profit even if it is in the long term, has occupied the interests of economists for over two decades now (Carroll, 1991; 1999; Waddock and Graves, 1997; Bagnoli and Watt, 2003; Baron, 2001; 2008; McWilliams and Siegel, 2001). Scholars defend the strategic importance of CSR, arguing that CSR can be used as a means of enhancing firm financial performance (McWilliams and Siegel, 2001; 2011; McWilliams et al., 2006; Siegel and Vitaliano, 2007). Along this view, McWilliams and Siegel (2001) maintain that CSR could be used as a profit maximizing strategy when it involves the inclusion of social attributes in the production of private goods; for them, CSR simply refers to the socially desirable output of private (and possibly redesigned) goods. At the same time, some scholars like Bagnoli and Watt (2003) and Baron (2001; 2008), supporting the strategic importance of CSR, argue that CSR involves the private provision of those goods that exhibit at least some of the characteristics that economists identify with 'public goods', of being non-rivalrous and non-excludable in consumption. In this perspective, CSR clearly refers to the private provision of public goods (Bagnoli and Watt, 2003; Baron, 2001).

A rival view suggests that firms' involvement with CSR practices through provision of public goods or socially desirable output of private goods may be of no strategic importance and may actually impact negatively on firms' competitive advantage (Friedman, 1970; Henderson, 2001; Wagner et al., 2002). In line with the 'Traditionalist' view of the firm, this opposing view maintains that it is either the sole responsibility of the government to provide pure public goods and ensure that there is conducive environment for profit-maximizing firms to thrive (Mueller, 1989; 2003; Samuelson, 1954; Meyer, 1996; Putterman, 1993), or the responsibility of not-for-profit organizations and/or the state to provide goods with socially desirable characteristics (Cavaliere and Scabrosetti, 2008; Hart et al., 1997, Shleifer, 1998). Against this backdrop, it is argued that if firms commit their scarce resources to CSR, and bear the differential costs of CSR investments, then, CSR will not only undermine firm's competitive advantage, but also will be negatively correlated to firm's financial performance (Barnett, 2007; Peters and Mullen, 2009; Henderson, 2001; Wagner et al., 2002). Committing resources to CSR would then be tantamount to unjust and involuntary redistribution of wealth from shareholders, who are the residual claimants of firms' profits, to other stakeholders who have no legitimate claim to these profits (Barnett, 2007). In line with this thought, Bagnoli and Watt (2003) maintain that corporate managers should only spend resources on CSR if such expenditure could be a corporate strategy for profit enhancement; that is, if such expenditure could be recouped in the form of improved firm financial performance (Bagnoli and Watt, 2003).

This raises concerns about the real motivation underpinning firms' engagement in CSR practices. The intriguing issues are: is the practice of CSR borne out of firm altruism or is it merely a strategy for enhancing firm profitability, even if it is in the long-term? Similarly, even if a firm has slack resources, why would a profit-maximizing firm devote resources to CSR and to what extent can such firms be responsive to the provision of public goods and socially desirable outputs? If profit-maximizing firms expend resources on socially desirable outputs and in the provision of public goods through their CSR practices, what then would be the role of government or public sector?

In order to address these intriguing issues, I clearly delineate the roles of the state and private sector in the provision of public and private goods; this necessitates, amongst other things, a review of the basic fundamental welfare theorems concerning the first-best and second-best optimality conditions for the attainment of Pareto-efficiency. I undertake this task in order to set a normative benchmark of what should essentially be the primary roles of the government and private sector, and what constitutes CSR obligations for private firms in their host communities. The dual perspectives of CSR as both a socially desirable output of private goods, and a public good in the welfare economic sense, will in this connection, be discussed drawing in particular on the seminal works of McWilliams and Siegel (2001; 2011) and Bagnoli and Watt (2003).

This chapter further examines the efficiency effects of private and public provision of CSR and then deduce the social welfare implications of CSR. It equally highlights the all-important issue of why CSR may be an attractive strategy to profit-maximizing firms and then discusses the sustainability argument of CSR, exploring whether it always pays off to be socially responsible. In order to build a firmer basis for why firms should be CSR compliant even if it may negatively impact on their profit margins, I present the broader ethical and philosophical reasons which may support the need for firms to respond to the needs of their employees and other external stakeholders even in the absence of regulation or legislative pressure.

4.2 Fundamental Welfare Theorems and Theory of Second-Best

The need to understand the primary roles of the state and responsibilities of the private sector has necessitated the exigency of reviewing the basic fundamental welfare theorems and the theory of the second-best. I intend to explore via this review what should be the roles of the state and private sector in both the first-best and second-best world.

The standard view of economic theory is predominately premised on the idea that economic outcomes of market economies, ranging from the role of price mechanisms, allocation of commodities, investment and production plans and the distribution of welfare, are determined subject to the preferences, endowments and extant technologies of the agents who constitute the economy (Foley, 2010). This view is summed up in the two fundamental theorems of welfare economics.[24]

It is the view that an equilibrium condition ensures that the market attains a Pareto optimal allocation of resources where 'there can be no other arrangement which will leave someone better off, without worsening the position of others' (Musgrave and Musgrave, 1980, p. 67). This implies that it is impossible to reallocate input and outputs that improves better the welfare of an individual without making at least one person worse off. The conditions for the attainment of this Pareto-optimality within the free market are perfect information, perfect competition and the absence of market failures in the form of externalities and public goods (Pennington, 2000; Blaug, 2007). Hence, it is argued that if all economic agents, in response to the quoted price vectors, are price takers in accordance to competitive behaviour rules, and if each firm has perfect information that enables it to exchange a net supply bundle that maximizes its profits, and if each consumer demands goods which maximize utility subject to these prices as relayed by a budget constraint, and given the absence of externalities, then a competitive allocation which is Pareto-optimal will result (Mcfadden, 1969; Foley, 2010). These assumptions are the basic foundations on which the proof of the first fundamental theorem of welfare economics is built (Mishan, 1962; Mas-colell et al., 1995; Blaug, 2007; Foley, 2010). Thus, the first theorem corroborates the 'invisible hand' of Adam Smith (1776), and seems to suggest that unregulated market exchange will

[24] The first fundamental theorem states that subject to certain conditions - such as perfect information and the absence of externalities - public goods and economies of scale – every competitive equilibrium will generate a Pareto-optimal allocation of resources such that there is alignment of social and marginal costs (see for instance Mishan, 1962; Davis and Whinston, 1965; Rakowski, 1980; Blaug, 2007; Foley, 2010). These conditions iterated above are generally considered to be 'in the nature' of things, and vary markedly from constraints like taxes and subsidies - upon which the theory of the second best is established (Lipsey and Lancaster, 1956).

facilitate market clearing equilibrium ensuring as it were the Pareto-efficient allocation of resources.

The debate sparked off by the seminal paper of Hotelling (1938), on the application of marginal cost pricing to public enterprises like natural monopolies gave rise to the emergence of the second welfare theorem (Blaug, 2007). Hotelling (1938) argues that in order to offset the deficit[25] of natural monopolies which arises as a result of the application of marginal cost pricing, there is the exigency of financing these deficits via ‘lump-sum taxes’ - taxes that do not affect the pre- and post-tax income of economic agents. These lump-sum transfers are a mode of redistribution that ensures a Pareto-efficient allocation of resources[26] (Blaug, 2007). For the definition of the second welfare theorem[27], see for instance Foley (2010) and Blaug (2007).

Similarly, it is well known that the attainment of Pareto-optimality requires that all the optimum conditions be fulfilled simultaneously, such that any movement away from any of the top-level conditions leads to Pareto improvement which ensures that some are made better off while others are made worse off (Lipsey and Lancaster, 1956; Mishan, 1962). As a corollary to the failure of the ‘invisible hand’ to bring about market-clearing equilibrium, it is argued that the attainment of top-level conditions for Pareto-optimality is not achievable in the real world (Mishan, 1962; Davis and Whinston, 1965; Rakowski, 1980). The fact that it is not possible in the real world to attain an unadulterated competitive equilibrium (Rakowski, 1980), or to achieve the top level conditions necessary for Pareto-optimality in the first-best world has elicited the exigency of the theory of the second-best (Lipsey and Lancaster, 1956; Baumol, 1991; Mishan, 1962, Blaug, 2007).

[25] By deficit we mean accounting loss for instance. A simple example which yields an accounting loss would be constant marginal costs and a non-zero fixed cost: the loss will equal fixed cost.

[26] This Pareto-efficient allocation of resources through lump-sum transfers would be feasible provided that the conditions for Pareto-optimality are satisfied in all other parts of the economy.

[27] Second welfare theorem states that in an economy underpinned by convex preferences and technology, where there is alignment of social and private marginal valuation, a Pareto-optimality condition can be achieved by the redistribution of endowments to ensure the attainment of Pareto-efficient allocation of resources (Foley, 2010).

The general theorem of the second-best optimum states that the conditions for Pareto-optimality change when a new constraint is introduced into the equilibrium system which prevents the attainment of at least one of the Paretian conditions: given this constraint, it is argued that albeit that the other Paretian conditions are still attainable, in the general, they are no longer desirable (Samuelson, 1947; Lipsey and Lancaster, 1956; Mishan, 1962). In other words, since this constraint prevents the fulfilment of one of the Paretian optimum conditions, then an optimum can be attained by a movement away from the other Paretian conditions. The new optimum finally achieved can be designated as second-best optimum to show that it is derived subject to at least one additional constraint that undermines the attainment of first-best optimality (Lipsey and Lancaster, 1956).

Interestingly, Lipsey and Lancaster (1956) note that the set of constraints which prevents the attainment of the first-best Pareto-optimum is usually policy-related; and include taxes and subsidies. Along the same view, it is argued that taxes and incomplete markets are included amongst the basic constraints that may prevent the efficient allocation of resources in the first-best world (Albanesi and Armenter, 2012).

There are two general deductions from the theory of the second-best that are of invaluable significance for this discourse. First, the removal or the correction of this constraint which prevents the attainment of first-best Pareto-optimality may either raise or lower welfare or efficiency in the second-best world (Lipsey and Lancaster, 1956; Bohm 1967). Second, the basic purpose of ‘second-best’ argument is to discover other corrective measures that would enhance the overall performance of the economy as against relying on the rules underpinning the first-best optimum (Lipsey and Lancaster, 1956).

In this study, similar to the views of Lipsey and Lancaster (1956) and Mishan (1962), I argue that when the attainment of the top-level conditions for the Pareto-optimal allocation of resources via the market mechanism is not feasible due to the introduction of certain constraints in the equilibrium system, then, the actions that are needed to achieve ‘second-best’ optimum may be different from those that are implied when all the conditions of a first best world hold in every other part of the economy. Thus, in this context, the idea of the second-best is used to discuss other corrective measures and policies that may lead to an arrangement that is more consistent with optimality; a set of second-best conditions that may give an overall better performance of the economy (Bohm, 1967). These corrective measures could be the use of CSR investments to achieve Pareto-efficient allocation of resources through firms' provision of public goods and other socially desirable output. In line with the views of Lipsey and Lancaster (1956) and Rakowski (1980), I argue that the second-best condition may be positively correlated with social welfare maximization.

4.3 The Roles of the State and Responsibilities of Private Sector

For the traditional stream of standard economists, the self-regulating behaviour of the marketplace assures that macroeconomic equilibrium is always attained (Klein, 2009). As long as the inbuilt-invisible hand propounded by Smith (1776) regulates the market forces of demand and supply, then, the market will always clear; disequilibrium for them results due to the fiscal policies of government and actions of trade union which interfere with the self-regulatory behaviour of the marketplace (Grampp, 2000). In this ideal world, where the Paretian conditions [28] for the attainment of Pareto-optimality are satisfied, the primary duty of the firm or the private sector is the provision of private goods and maximization of shareholders' wealth (Mueller, 1989; 2003; Pinto, 1998; Samuelson, 1954).

The assignment of this role to the market or firm is premised on the assumptions that if the first-best Pareto-optimality conditions prevail, it is widely believed that the market would provide an efficient mechanism for signalling not only the correct valuation of the relative prices of inputs and outputs of a given productive activities, but also the forgone opportunity cost of utilising the inputs (Pearce et al., 1989). Similarly, the efficient market theory postulates that market has an in-built spontaneous but continually changing equilibrium between demand and supply for

[28] This Paretian conditions are perfect information, perfect competition and the absence of market failures in the form of externalities and public goods (see for instance, Mueller, 1989; 2003; Pinto, 1998).

goods, ensuring in the long run that the utilities of consumers are maximized. This implies that individual consumers maximize their preferences subject to the prices at which goods are exchanged or bargains are struck (Self, 1993). Thus, in the first best world, where market-clearing prices are attained, firms should concentrate not only in the provision of private goods and services but also in the maximization of shareholders' wealth (Pinto, 1998).

In the real world, this equilibrium situation does not always prevail, and markets may fail to achieve Pareto-efficiency[29]. In line with Lopez and Galinato (2007), it is argued that the existence of these disequilibrium and the need to correct market failures in general provide the case for government intervention in the economy in what is known as the first best world. This is premised on the fact that since no extra constraints is factored into the equilibrium condition, and given that government's provision of public goods and correction of externalities may restore the top-level conditions for first-best Pareto-optimality, then, the allocative function of the government, which consists essentially in the provision of public goods and services, is not only the legitimate function of the government (Mueller, 1989; Brennan and Buchanan, 1980; Self, 1993), but also their primary responsibility in the first best world.

Moreover, it is the view that the incentive for social welfare maximization makes the state responsive to this primary duty in the first best world. Hence, Samuelson (1954) opines that it is in the interest of traditional welfare economics to assign the provision of the public goods to the state in that the state, unlike profit maximizing firms, has clear incentive to maximize social welfare. This argument is established on the fact of a benevolent government. A benevolent government is that in which bureaucrats and political agents who represent the government are intrinsically motivated by the incentive of social welfare maximization (Cavaliere and Scabrosetti, 2008; Lafont and Tirole, 1991). For Matten and Moon (2008), a benevolent government is typified by a strong state with proper functioning regulations that not only curbs, but also compensates for market failures. Along

[29] Market may fail to achieve Pareto efficiency partly because of lack of perfect competition, the existence of externalities, and the fact that market re-adjustment to any disequilibrium, given the short-run immobility of factors, usually takes a long time (see for instance Sloman, 1998).

this perspective, it is argued that in a well-functioning market, with strict regulatory framework and efficient capital market, all private goods may be provided by the market - private sector, while the state is assigned the task of providing pure public goods (Davidson and Spong, 2010; Pinto, 1998).

When extra constraint is factored into the system such that one of the Paretian conditions is no longer attainable (Lipsey and Lancaster, 1956), then, there may be reversal of roles for the firms and the state in what is known as the second-best world. In the second-best world, the state has the responsibility to ensure the maximization of social welfare via constraining firms through strict regulatory framework, taxes, and adequate definition of property rights to be socially responsible for correcting the negative externalities of their productive activities (See, 2009; Huang; 2010). In this perspective, See (2009) argues that a benevolent government has clear incentives to persuade firms to allocate resources efficiently by undertaking in redistribution of income via CSR practices. Given that the second-best optimum may still give rise to an arrangement that is more consistent with optimality (Bohm, 1967), the state's duty in the second-best world may still ensure the Pareto-efficient allocation of resources by enacting laws that would propel firms to respond more to external stakeholders' demand for CSR (Huang, 2010; Wang and Coffey, 1992).

Similarly, when government is no longer benevolent such that there is incentive compatibility constraint with social welfare maximization, the firms or private sector may assume a new responsibility in the second-best world (Matten and Crane, 2005; Scherer and Palazzo, 2011). It is argued that when the state is malevolent[30] and inefficient, and when there is inadequate regulatory framework to ensure an arrangement that is more consistent with Pareto-optimality conditions, the private sector may complement the state in the provision of public goods and redistribution of income (Goodin, 1988; Matten and Crane, 2005; Scherer and Palazzo, 2011). Moreover, it is the view that governments' failures[31] may give rise to governments'

[30] In situations where the state is well intentioned but inefficient, perhaps the remedy is to improve state efficiency and direct resources to that end.
[31] Governments' failures arise when they are either malevolent (corrupt and have incentive misalignment with social welfare maximization) or their attempts to correct market failures result in productive inefficiencies.

contracting of the provision of public goods to the private sector or the need for the private sector to engage in the provision of those goods that were considered the exclusive preserve of the state (Beck, 2000). The need for firms to support the government in the provision of public goods and other socially desirable outputs through CSR practices is further heightened in developing economies which are usually characterised by failed states, dearth of basic amenities and inefficient regulatory framework (Idemudia and Ite, 2006; Ite, 2004; 2005).

I reminisce that these corrective measures advanced in the second-best world may either impact positively or negatively on Pareto-efficient allocation of resources (Lipsey and Lancaster, 1956). Hence, it is assumed that the role of firms in this second-best world may raise efficiency or accelerates social welfare maximization (Matten and Crane, 2005; Scherer and Palazzo, 2011; Idemudia and Ite, 2006). Since CSR may be seen as one of the ways through which firms can complement the government in the provision of public goods and amelioration of other social problems especially in failed states, it is exigent that I delineate the various ways through which firms can incorporate CSR practices in their corporate strategy. Thus, I explore the notion of CSR as socially desirable characteristics of private goods as expounded by McWilliams and Siegel (2001; 2011), McWilliams et al. (2006), Kotchen (2005; 2006); and CSR as private provision of public goods as proposed by Bagnoli and Watt (2003) and Baron (2001; 2007).

4.4 CSR as Socially Desirable Characteristics of Private Goods.

Attempts to understand the provision of private goods with socially desirable attributes have been the interest of researchers for well over ten decades (McWilliams and Siegel, 2001; 2011; McWilliams et al., 2006; Link and Siegel, 2007; Siegel and Vitaliano, 2007). The general assumption underpinning theoretical research in this area is that firms' production of private goods and individual's consumption of private good may generate either positive or negative externality (Cornes and Sandler, 1994; 1996).

Externality as a source of market failures shows the problem of resource allocation in those markets where price system and market forces do not reflect the marginal benefits and costs associated with production and consumption (George and Shorey, 1978; Papandreou, 1994). Hence, when the consumption or the productive activity of an individual or firm has an unintended positive or negative impact on the utility or production function of another individual or firm not immediately connected to the production process, an externality or what Meade defines as an external economy (diseconomy) is said to arise (Mueller, 1989).

Along this perspective, it is argued that when the production and consumption externality of private goods is positive, then, the private good is assumed to be bundled with socially desirable characteristics (McWilliams and Siegel, 2001), and when it is negative, a ‘public bad’ or an undesirable output is jointly produced with the private good (Link and Siegel, 2007; Chung et al., 1997). To buttress the externality implications of the socially desirable attributes of private goods, it is argued that the welfare economic conception of CSR rules out the provision of strictly private goods, that is, goods the consumption of which has no spill-over effect or which only factors the utility of its direct recipient (Blomgren, 2011). This implies that the welfare economic approach to CSR recognises the provisions of private goods bundled with public characteristics. Thus, it is remarked that “much of what is generally considered ‘public goods’ is in fact provisions of private goods with consumption externalities” (Blomgren, 2011 p. 496).

A robust discourse of the model of provision of private goods with socially desirable output is advanced in the seminal works of McWilliams and Siegel (2001; 2011) and McWilliams et al. (2006). In the model proposed by McWilliams and Siegel (2001), they explicitly introduce CSR connections in the provision of private goods. McWilliams and Siegel (2001) describe CSR as incorporating social characteristics or features into private goods and the manufacturing processes like using aerosol products devoid of fluorocarbons or using environmentally friendly technologies in its production. They maintain that CSR-resources simply refer to using environmentally friendly inputs (like naturally occurring insect inhibitors and organic fertilizer) in the production process of private goods. This implies that CSR outputs entail merely embodying private goods with CSR attributes such as pesticide-free or non-animal-tested ingredients (McWilliams and Siegel, 2001).

Premised on the resource-based-view-of-the-firm[32] (RBV) which originates from the work of Wernerfelt (1984), and reinforced by Barney (1991), McWilliams and Siegel (2001) propose a simple theoretical model in which two firms produce and sell identical goods but are differentiated by the fact that one firm decides to add additional ‘social’ attribute or feature to its product. The basic assumption is that this social attribute is valued by some consumers or potentially, by other stakeholders as they are willing to pay a premium price for this product. In this theory of the firm-based model, it is argued that managers should conduct a cost-benefit analysis in order to determine the level of firm resources to be committed to the production of CSR attributes; thus, firm should determine the optimal level of CSR provision by simultaneously assessing the demand for CSR and the cost of satisfying this demand (McWilliams and Siegel, 2001; McWilliams et al., 2006).

In this perspective, CSR is then incorporated in the firm’s integral business strategy, and is seen as a product differentiation strategy used to enhance demand for the firm’s product or constrain consumers to pay a premium price for an existing product (McWilliams and Siegel, 2001; Siegel and Vitaliano, 2007; McWilliams et al., 2006). Similarly, with regards to CSR-related production processes, McWilliams and Siegel (2001) cite instances with natural food companies which place labels on their products to show that these products are made of organic and pesticide-free ingredients; and Ben and Jerry’s differentiation strategy which consists essentially in promoting diversity in the workplace and using unique flavours and high-quality ingredients in the production of their ice-cream products. Further examples of CSR attributes used as product differentiation strategy include fair-trade coffee, dolphin-free tuna and non-animal tested cosmetics (McWilliams and Siegel, 2001; 2011).

[32] The theory of RBV opines that firms are composed of heterogeneous resources and capabilities that are not perfectly mobile across firms. This implies that these resources are peculiar to each firm, and if they are valuable, inimitable and non-substitutable, can be a veritable source of sustainable competitive advantage.

In the model of ‘green goods’ presented by Kotchen (2005; 2006), it is argued that the consumption of such goods enables the consumer to jointly enjoy the private and public characteristics of the good. He cites example with the burgeoning market for ‘green electricity’ which is electricity generated with renewable sources of energy, and opines that consumers value this green product and are willing to pay a premium price for it; in return, the production of green electricity generates positive externality as it offsets the pollution emission from conventional electricity generated with fossil fuels. Hence, when consumers opt for green electricity, they enjoy a joint product[33] (Kotchen, 2006).

Moreover, Kotchen (2005) cites an instance with the increased demand for shade-grown coffee, which is coffee grown under the natural protection offered by tropical forests relative to that grown in unprotected or deforested fields. Consistent with eco-efficiency model, the socially desirable characteristics of this varied cultivation method is that shade-grown plantations conserve the ecosystem and avails important refuge, for instance, to migratory birds. Thus, it is maintained that consumers of shade-grown coffee purchase both the private good - coffee consumption - and conservation of tropical biodiversity - socially desirable characteristic (Kotchen, 2005).

A basic corollary from the model proposed by McWilliams and Siegel (2001) is that CSR involves not only the inclusion of social characteristics in the private goods, but also the reduction of undesirable output or ‘public bad’ jointly produced with the private good. Several economists argue that, since undesirable outputs are often produced together with the private goods, firms’ CSR should also incorporate their ability to reduce the ‘public bads’ and increase the production of goods which confer socially desirable characteristics (Chung et al., 1997; Ball et al., 2005; Chapple et al., 2005). This is in line with the view that firms’ productive activities may have detrimental environmental impact (Ball et al., 2005): it then makes sense to credit them for their provision of private goods with socially desirable

[33] The joint product here refers to electricity as a private good and reduced emission as the socially desirable output: hence, the emphasis is on the utility derived from enjoying electricity as a private good and also the utility derived from the reduced emission which is a socially desirable output.

characteristics and penalize them through fines and taxes for their provision of undesirable outputs (Färe et al., 1989).

In order to underscore how firms can reduce the production of public bad that comes with private good, Ball et al. (2005) present a model of joint production of good and bad outputs: they argue that the reduction of undesirable output can either be effected by reducing the level of the private good (wherein some inputs must now be diverted from the production of the private good to abatement of the bad) or by increasing input use (this time to reduce the bad output) while keeping constant the initial level of private good produced. Thus, similar to other forms of CSR, it is argued that pollution abatement technology or elimination of public bad should reduce output given the jointness of private good and undesirable output, as well as increase costs, costs incurred from the additional inputs or higher quality inputs needed to offset the public bad (Chapple et al., 2005).

Along this view, pollution is then seen as a classic instance of negative externality as it generates a 'public bad' (Link and Siegel, 2007); while pollution abatement technology, which enables the firm to achieve an environmental standard beyond that stipulated by the law, is the medium through which firms show their commitments to CSR (McWilliams and Siegel, 2001). McWilliams and Siegel (2001) cite example with a "hybrid version" of a Honda Accord car which generates less negative externality in the form of reduced pollution emission compared to conventional Honda Accord. The basic issue here is that consumers will have preference for the "hybrid version" because of its reduced negative externality, and may be more willing to pay a premium price for the hybrid car given the increased value of "less pollution" generated by the addition of the social characteristics.

In order to determine the degree to which consumers are willing to pay premium price for a given product social attributes, the method of hedonic pricing, was proposed by McWilliams et al. (2006). This method involves analysing data on actual purchases of two identical products with one imbued with CSR attributes in order to determine the implicit price and worth of a specific attribute. For instance, in order to determine consumers' demand of a social attribute like 'non-tested on animals', researchers can compare sales data on different shampoos with and without the CSR attribute, and then calculate how much the product with CSR-attributes sell relative to the neutral product (McWilliams et al., 2006).

Two basic analytical points of references can be deduced from the propositions of McWilliams and Siegel (2001): CSR-attributes generate consumption and production externalities and these externalities bring about demand enhancement (despite increasing the production cost) which ensures that firms maximize profit. Profit maximization may be accelerated by the increases in the demand-side (from consumers and other stakeholders) and supply-side equations (from producers) respectively, ensuring the sustainability of firm's provision of private goods with CSR-attributes. A major implication of this is that the inclusion of CSR-attributes in private goods brings about a dynamic effect on the supply-side and demand-side of private goods bundled with social characteristics.

The basic issue here is to distinguish between the demand-enhancing effects of CSR-output and the effects of socially responsible input on production costs. This is against the backdrop that the marginal cost of CSR-input would be more than offset by the demand enhancement effect which may not impose an incentive compatibility constraint to firm's profit maximization (Siegel and Vitaliano, 2007). This view is among the major propositions of McWilliams and Siegel (2001), which maintains that the inclusion of CSR-related input and output modifies the production and cost functions as additional capital are required to generate CSR characteristics; to the extent that additional cost is incurred in the production of this social attribute, production cost will be higher for firms that provide private goods linked with CSR features. This implies that socially responsible input will be more expensive at all levels of output for firms using this differentiation strategy relative to firms producing without this social characteristic.

Based on the assumption that consumers are aware of the value of CSR-attributes, and are willing to pay a premium price for the CSR-linked private goods, the shift in the demand curve may generate profit which may offset the higher cost of producing the social attributes (Siegel and Vitaliano, 2007; McWilliams and Siegel, 2001; Paul and Siegel, 2006). McWilliams and Siegel (2001) further buttress this view and using the example of smokestack scrubber[34], which once installed has a substantial fixed cost, argue that the cost of the scrubber could be amortized over the unit of output produced by the firm, such that with higher level of output, the unit cost per scrubber reduces giving rise to economy of scale. They equally argue that with scale economies, large firms may have more competitive advantage to produce CSR-attributes than smaller firms. This implies that CSR-attributes may not generate uniform returns to firms within industries; as socially responsible firms operating at a relatively small scale may not earn enough profit to offset the marginal cost of CSR-attributes even if it is believed that over time, economies of scale will make it cost competitive with larger firms that engage in CSR practices within the industries.

The conclusions of the demand and supply model of CSR proposed by McWilliams and Siegel (2001) is that in equilibrium, the returns on investment for both CSR and Non-CSR firms will equalize. This is because firms offering CSR attributes would generate higher profits from the increased demand of their products, and this will be offset by the increase in the production cost arising from the inclusion of the social characteristics of the product. Conversely, firms which are not CSR-compliant will incur lower production cost but with lower profits as the absence of these social characteristics may reduce the demand for their products (McWilliams and Siegel, 2001).

The views of McWilliams and Siegel (2001) present several stylized facts that are useful to consider. The basic concern is: whether there are circumstances in which socially desirable output may impose incentive compatibility constraints to firm profit maximization. Reminisce that socially desirable output maximizes profit for firms when such outputs are known and valued by consumers, and when consumers are willing to pay premium price for the product. Hence, an important

[34] Smokestack scrubber is essentially one of the pollution abatement technologies. The inclusion of scrubbers in the smokestacks is meant to serve as purification device where smoke is passed through water to remove pollutants.

assumption made here is that there is no information asymmetry, as consumers have perfect information concerning the private good and the associated socially desirable characteristics, and are willing to pay higher for this product on the grounds that firms produce this private good jointly with the social attribute (McWilliams and Siegel, 2001; Baron, 2001; Bagnoli and Watt, 2003). The relevance of this assumption is based on the basic distinction between experience goods and search goods[35]. McWilliams and Siegel (2001) argue that the problem of information asymmetry may be mitigated for search and experience goods through the firm's strategic means of advertisement which raises the awareness of consumers interested in buying products with CSR attributes.

Conversely, it is argued that experience goods are more susceptible to information asymmetry, albeit firms' commitment to communicate the quality of such goods via advertisement (Haddad, 2007). Fedderson and Gilligan (2001) support this view, and maintain that firms may deliberately decide to communicate deficient or fraudulent information through advertisement or disseminate those information that do not correctly reflect the true value of the private goods. Thus, they argue that the role of social activists and media coverage of firms' activities are vital in providing consumers with access to the true value and quality of private goods with CSR attributes. Accordingly, McWilliams and Siegel (2001) maintain that the activities of labour union and other social activists may increase public awareness of CSR, which not only reduce information asymmetry on CSR attributes, but also enhance demand for CSR.

Along this view, I argue that, since the quality of some goods - experience goods - cannot be verified ex-ante consumption, and given that some firms may engage in opportunistic behaviour like fraudulent advertisement, which may exaggerate the quality of the private goods or fail to reveal adequate information on the product, then, the assumption of no information asymmetry becomes a very important

[35] Search goods are those products whose quality and other attributes can be overtly determined via observation prior to the actual purchase of the product, for instance furniture and clothing; while Experience goods are those products that must be consumed after purchase in order to determine the quality or the true value of the product: food is an instance of experience goods (see for instance, Nelson, 1970; 1974; McWilliams and Siegel, 2001).

foundation on which the model of McWilliams and Siegel (2001) is based. Thus, absent these assumptions, socially desirable output may not be compatible with firm profit-maximization incentives. Consequently, when information asymmetry is factored into the model such that consumers are not aware of the value of the social attributes, and assuming that similar products without CSR-attributes are sold for lower price in the market, then, consumers may opt for the lower-priced product (McWilliams and Siegel, 2001).

I also maintain that assessing the compatibility of socially desirable output with firm profit-maximization incentives will be contingent on certain elasticity considerations; that is, how the shift in the demand curve is dependent on the inclusion of social attributes of the private goods. Thus, if the demand is perfectly inelastic or slightly elastic to the inclusion of CSR-attributes, then, the higher cost of CSR would constitute a competitive disadvantage for the firm relative to its counterpart firms who produce the goods without social characteristics.

Note that, issues like inimitability and non-substitutability, which are premised on the resource-based theory of the firm, may have varying implications for firms interested in embodying their products with CSR attributes. Theoretical studies like Dutta et al. (1995) and Hoppe and Lehmann-Grube (2001), argue that the advantage enjoyed by firms in including social characteristics in the production of private goods may be offset once rival firms are able to imitate this same strategy. In the same vein, Kotchen (2005) and Cornes and Sandler (1994), opine that private goods with socially desirable output will be demand-enhancing as long as they are no alternative means for consumers to contribute to the provision of socially desirable output of the private goods. But, when substitutes to green products exist, for instance, when consumers decide to purchase the strictly private goods and then donate via philanthropy to the provision of CSR, then, individual philanthropy may crowd out demand for green products: this is the central discourse expounded in the model of provision of private goods that factors in the availability of substitutes for the green products (Kotchen, 2005).

4.5 CSR and Public Goods

Private provision of public goods has occupied the interests of economic literature for over 25 years (Kotchen, 2006). In the theory of welfare economics, pure public goods are distinguished from private goods by the fact that they combine two salient characteristics: jointness of supply and the impossibility of excluding other individuals from its consumption; it is simply non-rival and non-exclusive. This implies that each unit of pure public good can be consumed by all economic agents, and the consumption of each individual does not decrease its availability to another consumer. These characteristics ensure that the production costs of such goods are fixed and that the marginal cost of providing pure public goods to another consumer is zero (Sloman, 1998; Mueller, 1989; 2003). For instance, goods like national defence or security, public radio, national parks, public monument or seaside illumination, cleaner air resulting from pollution abatement technology, road network[36], control dams, public drainage qualify as public goods as they are both non-rivalrous and non-excludable.

At this point, I distinguish pure public goods from impure or ‘price-excludable’ public goods in what Samuelson (1954) delineates as ‘joint-goods’. Joint-goods are those goods that combined the jointness of supply or non-rivalness in consumption with “excludability” which is a feature of a pure private good: this implies that an individual consumption of all the units produced does not detract from its availability to other consumers, but individuals can be excluded from its consumption if they are not willing to pay for it (Walsh and Brennan, 1981; Mueller, 2003; George and Shorey, 1978). For instance, health services, transportation and entertainment services have traits of jointness of supply and possible excludability, and may be provided directly by the government either through its specialized agencies (like Ministries or Parastatal) or through state-owned firms. These goods may also be provided by the private sector-privatized corporations: hence, the marginal cost of providing this good to an extra consumer would be positive (Mueller, 1989; 2003; Samuelson, 1954). This implies that direct pricing can be

[36] Road Network can be classified as public goods provided it is not congested and that there is absence of toll-fees.

used to exclude consumers in the consumption of impure public goods or 'price-excludable' public goods (Walsh and Brennan, 1981).

The seminal work of Bagnoli and Watt (2003) establishes a direct parallel between CSR and the traditional model of private provision of public goods. In this paper, they model strategic CSR as the private provision of public goods. They distinguish between explicit and implicit linkage of the provision of private goods with CSR. In the former case, they argue that firms can explicitly link the provision of private goods to CSR by donating a percentage of the firm's profit to charities responsible for the provision of public goods. This implies that consumers' purchase of the linked private goods increases marginally the amount of public goods provided (Bagnoli and Watt, 2003). Conversely, firms may implicitly link the provision of private good with CSR through outright investments in the provision of public goods via community projects financed from the firm's profit.

This implicit linkage is more consistent with the welfare economic sense of public goods, and arises as a consequence of the product-market competition between firms (Bagnoli and Watt, 2003). The basic idea underpinning the model of Bagnoli and Watt (2003) is that consumers may have increased incentive to purchase the products of firms associated with these socially responsible activities rather than the products of rival firms that do not engage in CSR activities. Similarly, in their preference for CSR-linked goods, consumers are assumed to place a higher participation value in contributing to the public goods (Kotchen, 2009; Bagnoli and Watt, 2003). Moreover, the degree of competition in the industry determines the level of provision of public goods via CSR. The crucial issue here is to determine how the socially responsible activities proposed by Bagnoli and Watt (2003) satisfy the basic characteristics of public goods in the welfare economic sense.

Bagnoli and Watt (2003) argue that firms can implicitly link the sale of their private goods to CSR via expending resources on community projects like corporate sponsorship of public radio or television programs, sponsorship of artistic performance that is aired in an open arena, voluntary corporate expenditures on pollution abatement technology in order to provide cleaner air and road network.

These goods satisfy the basic requirements of public goods in the welfare economic sense given that they are non-rivalrous and non-excludable. This view was equally reinforced by McWilliams and Siegel (2011), who argue that cleaner air, which is a by-product of firm's pollution abatement technology, presents a classic example of public good jointly provided with private good. They opine that when the air is cleaner, consumer's consumption of it does not limit its availability to others (non-rivalrous) or prevent others from breathing it (non-excludable). Bagnoli and Watt (2003) conclude that there is an inverse relationship between the degree of competition among firms and the provision of CSR. Hence, when there is more competition in the market, less of the public good would be provided via strategic CSR; and when the degree of competition is less, more of the public goods would be provided (Bagnoli and Watt, 2003). This implies that when greater degree of competition in the market reduces the margin of profit derived from CSR investments, then, there is less ability and incentive to provide marginal social activity. Conversely, less competition may generate higher margins which provide the incentive and capacity to engage in additional CSR.

Similarly, the view of CSR as a corporate transfer of profits to the provision of public goods is equally discussed in the works of Ghosh and Shankar (2013), which argue that firms can link the sale of their private goods to the public good such that each unit of the firm's product sold automatically contributes a fixed percentage of the product price to the linked public good. In the same vein, Besley and Ghatak (2007) model CSR as the provision of public goods and the curtailment of public bads jointly with the production of private goods. The exigency of jointly linking the provision of CSR with the private goods might be dependent on the widespread evidence of consumers' preference for CSR firms. For instance, in the survey data of sales of coffee conducted in the UK, it was found that fair-trade coffee such as Café-direct, had well over 5% market share of ground coffee sold in the UK (Besley and Ghatak, 2007).

The major conclusion of the model proposed by Besley and Ghatak (2007) is that even in markets with intense competition, CSR may be consistent with profit-maximization; and in equilibrium, firms can sell CSR brand and neutral brands;

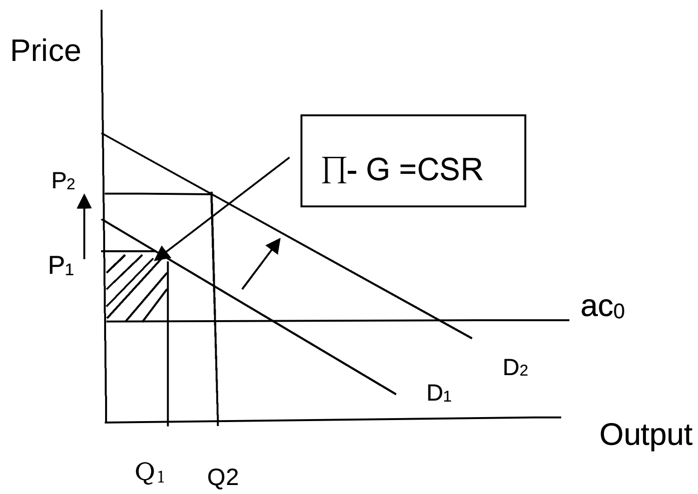
such that consumers self-select their preferences for either CSR or neutral brands based on their valuation of the public good. They further maintain that the premium price paid for 'green goods' is used to finance the provision of public goods and the curtailment of public bad, while the long-term profit enhancement may sustain firms' commitment to CSR activities.

Recently, there has been increased support for private firms to address externalities and social problems by provision of public goods beyond the confines of regulatory requirements (Baron, 2008; Lyon and Maxwell, 2008). In his model, Baron (2001; 2007) regards CSR as a form of redistribution of wealth by the private sector which occurs when firms contribute a portion of their profits to charities and solve social problems. Baron (2008) establishes a direct parallel between public good and redistribution of wealth by maintaining that firms may tackle externalities issues and social problems beyond the mandates of governments by redistributing their profits to the provision of public goods. In this perspective, firm's corporate contribution to social investments or redistribution of wealth is simply "to privately provide public goods" (Baron, 2008 p. 269), and is usually funded from the financial returns of shareholders. He opines that these goods provided by firms may include community projects like road networks, public drainage, control dams and other socially desirable outputs like environmental conservation, training and promotion of employees' right. It is equally argued that, if corporate social expenditure enhances demands for firm's product, then, there is incentive compatibility between financial performance and social expenditure on CSR (Baron, 2001).

Several stylized facts from the private provision of public goods via strategic CSR as expounded by Bagnoli and Watt (2003) demands useful consideration. First, the warm-glow preference by consumers for products of socially responsible firms may bring about demand enhancement as consumers may be willing to pay a premium price for the firm's product. Since these projects and corporate donations are funded from firm's profit, there may be additional fixed cost incurred for the provision of CSR which is not factored in the marginal cost of producing the private goods (Bagnoli and Watt, 2003). This implies that the production costs of the private goods are not usually affected even if profit may be affected in the short-term.

Second, the gains from the shift in the demand curve as a result of increased demand for firm's product may give rise to long-term profit enhancement. I graphically illustrate below these demand and profit-enhancement effects:

Figure 4.1: Demand of private goods linked with public goods



The shift from D_1 to D_2 shows the increase in demand as a result of firms' CSR activities while the shift from P_1 to P_2 shows the increase in price as a result of the willingness of consumers to pay a premium price for the products of socially responsible firms. This shift in price will also bring about profit enhancement in the long term. The average cost curve (ac_0) remains unchanged as the additional cost of providing the CSR is simply funded from the firm's profit. Hence, CSR in the views proposed by Bagnoli and Watt (2003), Baron (2001) and Ghosh and Shankar (2013) can simply be represented as profit less gift transfers (∏- G) to community developments and charities.

It may be argued that modelling CSR as a mere provision of public goods by firms via investments in community projects or donations of corporate profits to non-profit firms responsible for provision of public goods may circumvent the many real issues underpinning CSR activities (Blomgren, 2011). This is based on the fact that

CSR is a multi-dimensional term that involves other important issues over and above mere community investment and corporate philanthropy as already expounded in the beginning chapter of this study.

At this point, it may make sense to argue that firms may commit resources to the provision of private goods with CSR-attributes, as this may be consistent with the incentive of profit-maximization through the demand-enhancement effects (McWilliams and Siegel, 2001; Kotchen, 2005). When CSR is now depicted as private provision of public goods, it becomes interesting to investigate why firms should detract from their primary role of profit maximization. The crucial issue is to examine the incentives underpinning either public or private provision of public goods and whether the state or private sector may be more suited to engage in the provision of such goods. This would then involve investigating the efficiency implications of public versus private provision of CSR via public goods.

4.6 Public versus Private Provision of Public Goods

Some scholars in economics widely share the assumption that firms should concentrate on profit maximization and the provision of private goods, while it is the sole task of the state to ensure efficient provision of public goods (Friedman, 1970; Samuelson, 1954; Pinto, 1998; Scherer and Palazzo, 2011). Their views are based on what essentially constitutes the nature of private and public goods, that is, to the extent to which either private or public goods are amenable to excludability and subtractability.

Putterman (1993) argues that pure public goods belong to the categories of those goods and services that should be supplied primarily by the government or non-profit organization. He opines that the private sector or for-profit entities would under-provide public goods, and that government can correct this market failure by providing these goods through fund generated from compulsory taxation. His argument is premised on the fact that the average cost of production of pure public goods per consumer exceeds by far the marginal cost of providing this good to an additional consumer; thus, the zero price to consumers which achieves efficient use of the good, fails to generate the revenue needed to offset the production cost if it were to be undertaken by the private sector. In line with this view, Meyer (1996) maintains that the jointness of supply of pure public goods and its non-excludability quality create little or no incentive for its provision by the private sector.

Similarly, Sloman (1998) notes that public goods ranging from lighthouses, streets, seaside illumination, pavements, control dams, public drainage, roads, national parks, public services like the police force and national defence, are replete with large external benefits relative to private benefits such that without government provision and regulation, the 'free-riding' problem would arise as consumers would understate the values of the goods and may refrain from contributing to the cost of their production. This may exacerbate the problem of information asymmetry and opportunism between the provider and the beneficiaries of public goods: it is argued that this problem may favour its provision by the state or non-profit organization (Ben-Ner and Van Hoomissen, 1991).

In the same vein, the huge external benefits derived from public goods is also associated with huge capital outlays; such external cost crowds out any private benefits that would result from its provision if it were undertaken by the private sector (Meyer, 1996). Along the same view, Megginson and Netter (2001) maintain that profit-maximizing firms in competitive market have ample incentives to minimise costs and use resources efficiently to maximize profit, while benevolent government may not maximize profit but rather social welfare, and may have no incentive to minimise costs. In the same line of thought, Easley and O'Hara (1983) remark that because government may not be motivated by profit maximization, they are more equipped to engage in huge capital expenditure involved in the provision of public goods.

Albeit the preponderance of evidence in favour of government's provision of public goods, there are obvious difficulties involved in the determination of the right level of public good to satisfy the efficiency test; as government would then have to estimate the values which all economic agents would place on various units of the goods (Koplin, 1971; Stretton and Orchard, 1994). This means that if government wants to finance the production of public goods, it has to levy taxes on individual to the point where the taxes would be proportional to the marginal value or benefit derived from the consumption of the goods. The agents on the other hand, may have the incentive to conceal or understate their true preferences for the pure public goods if they are aware that taxes would be imposed on them according to government's estimate of the benefits they derive from the consumption of the goods. This situation makes it more difficult for the government to determine the benefits accruing from its provision of public goods, and may discourage the production of such goods (Putterman, 1993; Sloman, 1998). Hence, the main issue is to examine the efficiency implications of public versus private provision of public goods.

4.6.1 Efficient Provision of Public Goods: Public or the Private Sector?

Cavaliere and Scaboresetti (2008) remark that there is no clear-cut conclusion with regard to the superiority of private over public provision of public goods from the efficiency point of view. The inability to determine the superiority of private or public provision of public goods is predicated on the fact that cost minimization and quality improvement may be higher or lower in both public and private ownership (Hart et al., 1997; Cavaliere and Scabrosetti, 2008).

It is the view that, when there are non-contractible elements of public goods provision, private firms are incentivised to engage in non-verifiable cost reduction, which may be detrimental to the quality of the provision: this implies that private firms can deliver public goods at a relatively lower cost (Hart et al., 1997). On the other hand, when these goods are provided by the state, under the assumption that government representatives - bureaucrats and managers of state-owned firms (SOFs) - are benevolent, then, there is no incentive for quality and cost reduction (Hart et al., 1997; Francois, 2000). This would seem to suggest that the public sector can deliver public goods of better quality albeit the huge cost implication.

Conversely, if the provider of the public goods is a private contractor, he can improve on the quality or cut cost without the approval of the government given that he has the residual claims to the gains arising from the goods. However, if the private contractor provides public goods and services[37] when the government is the buyer of the goods or services, the private contractor must still negotiate a deal with the government in order to obtain commensurate compensation for higher quality services (Hart et al., 1997; Shleifer, 1998; Cavaliere and Scabrosetti, 2008). In this scenario, the privatized firm has high-powered incentive to both reduce cost and improve quality as well or better than SOFs. This implies that cost may be lower or higher under private ownership. It is argued that without this renegotiation with the government when they are the beneficiaries of the goods or services, private firms have stronger incentive to engage in cost reduction and abstain from quality improvement (Cavaliere and Scabrosetti, 2008). For instance, when public goods like road, national parks, lighthouses, street lights, seaside illumination, pavements, control dams, public education, public health, public drainage are privately provided, the strong incentive to reduce cost might lead to inefficient outcomes. Private providers might prefer to use cheaper materials to construct national parks, public drainage, control dams, road network etc.

In the same vein, when public education is provided by the private sector, the management may employ half-baked teachers at the expense of well-qualified teachers in order to cut cost; and even if qualified teachers are recruited, they may restrict their provision to the wards of wealthy citizens who can pay for their highly-priced services, and may not be ready to incur huge costs involved in educating students with learning disabilities (Hart et al., 1997; Shleifer, 1998). The outcome of this situation may be socially undesirable and may not be aligned with social welfare maximization. But, the potential for ex-post competition between public and private provision of education may improve the quality of education. Hoxby (1994) remarks that competition between the private and public provision of public education is positively correlated with higher quality of education. Hence, competition would significantly reduce the incentive for private providers to cut quality and increase cost as they have to compete for students by improving the quality of their services. Given this ex-post competition, it is suggested that private

[37] Public goods and services like national parks, lighthouses, street lights, seaside illumination, pavements, control dams, public drainage, road network without toll-fees; and services like police force and national defence.

provision of public education might be more superior or efficient than public provision (Hart et al., 1997; Shleifer, 1998).

I then argue that private provision may be preferred when the reduction in quality brought about by cost reduction is infinitesimal - small or when there are fewer opportunities for cost reduction in the provision of public goods and services. On the other hand, public provision may be superior when the deterioration in quality caused by cost reduction is huge and when the improvement in quality of the goods supplied is not an essential factor. It is also clear that costs may always be lower when public goods are provided by the privatized sector given their incentive for profit maximization, but quality may be lower or higher depending on the buyer of the goods. Moreover, when there is ex-post competition among private providers and when consumers have perfect information about service quality, then, the chance of opportunistic behaviour and moral hazards of private providers would be undermined; in which case, private ownership may give the optimal solution to the provision of public goods.

The dynamism above leading to various outcomes of optimal provision of public goods then suggests on the average, that the superiority of public over private provision of public goods and vice-versa cannot be clearly underlined. If firms' contribution to the provision of public goods is through their CSR practices (Bagnoli and Watt, 2003; Baron, 2001; 2008), and if the efficiency of private provisions relative to public provisions cannot be clearly underscored, it becomes exigent to study why a firm would complement the government in the provision of public goods thereby deviating from its primary role of maximizing profits for shareholders. The crux of the matter is: why would the private sector assume these redistributive roles which rightly belong to the state? In the same vein, why is it relevant for firms to commit their scarce resources in the alleviation of social problems instead of maximizing wealth for their shareholders? What motives really underpin the practice of CSR by profit maximizing firms or is it merely a strategic tool to enhance firm's competitive advantage thereby increasing its financial performance? Attempts to answer these questions would inform the discussion in the next sub-section.

4.7 CSR as a Corporate Strategic Tool for Competitive Advantage

The value of CSR (both as socially desirable output of private goods and as private provision of public goods) as a strategic tool for creating competitive advantage has been the central thesis of many existing research (Bagnoli and Watt, 2003; Baron, 2001; 2008; McWilliams and Siegel, 2001). These studies conclude that CSR can be deployed as a strategic tool to improve not only the firm's financial performance in the long-run[38] but can also be used to build firm reputation and attract a superior quality workforce. Premised on this fact, it is maintained that firms could engage in the redistribution of wealth via provision of those goods that were the exclusive preserve of the state as this would feed into increasing their social legitimacy as well as enhancing their profit (Baron, 2001; 2008). In the already reviewed theoretical model proposed by McWilliams and Siegel (2001), the addition of "social" attribute to the private goods in order to create extra demand for the products is simply referred to as Strategic CSR. Husted and De Jesus Salazar (2006) model the cost-benefit analysis of CSR provision under three conditions in order to determine the underpinning motivation for firm's engagement in CSR: altruism, coerced egoism and strategic CSR.

Altruism describes the case where firms are motivated to engage in CSR as a result of their genuine interest to contribute to social welfare without counting the cost implications to the bottom line. Reinhardt et al. (2008) describe this type of CSR as firms sacrificing profits in the social interest. Ample evidence suggests that profit-maximizing firms would not actually sacrifice their profit in the social interest (Lyon and Maxwell, 2008; Reinhardt et al., 2008). Coerced egoism occurs when firms are constrained either by strict regulation or stakeholder activism to be socially responsible, while strategic CSR occurs when firms engage in CSR as a strategy for enhancing firm profitability even if it is in the long-run.

[38] By making reference to short and long-run distinctions, we do not refer to its microeconomic implications in price-taking or perfectly competitive firms, where the short-run refers to when one factor of production is at least fixed and the long-run refers to when all factors are variable. In this discourse, our usage of these terminologies will be restricted to inter-temporal decisions made by profit-maximizing firms which simply compare period by period returns of investments on CSR.

In their microeconomic analysis of these three scenarios, McWilliams et al. (2006) demonstrate that strategic CSR yields a win-win situation for both firms and society, than when firms are constrained to contribute to CSR practices. Thus, when a profit-maximizing firm engages in redistribution in form of strategic CSR, it may be regarded merely as tool of appealing to stakeholder group for the singular purpose of increasing demands for its product or promoting its corporate reputation and social legitimacy (Baron, 2001). At this juncture, it is argued that the whole idea of firms incorporating CSR as a strategic tool for competitive advantage is based on its positive correlation with maximization of shareholders' wealth: this implies that CSR may be incentive compatible with profit maximization, and may actually feed into the long-term enhancement of firm financial performance (Mitchell et al., 1997; Margolis and Walsh, 2001, 2003; Jensen, 2002). Consistent with the view of Baron (2001), CSR merely amounts to a profit-maximizing strategy. I now examine the possible linkages between CSR and firm profitability.

4.7.1 Profit-Maximization Incentives and CSR Practices: Any Nexus?

As a default position, profit-maximizing rule states that firms cannot undertake CSR for purely altruistic reasons (Friedman, 1970; Baumol, 1991). Profit-maximizing firms can only engage in CSR if such activities can tangibly enhance the firm's bottom-line profits (Friedman, 1970; McWilliams and Siegel, 2001; Easterbrook and Fischel, 1991). This rule further requires that corporate managers' concern should be focused on maximizing profits for the shareholders, and returning these profits in form of dividends or new investments that have the potential to generate future profits. This reinforces the idea according to Crowson (2009) that firms' (be it domestic or Multinational) capital expenditure on CSR and its associated operating costs are motivated by an ulterior objective - profit maximization. Along this view, it is argued that any positive externality of this resource project to the wider community is usually an appendix rather than the prime motivation for the capital expenditure (Idemudia and Ite, 2006; Ite, 2004; 2005; Crowson, 2009). Thus, managers can only engage in CSR activities if the anticipated benefits of such practices far outweigh the cost of compliance (Bagnoli and Watt, 2003; McWilliams and Siegel, 2001; Baron, 2001). Similarly, it is the view that the benefits of engaging in CSR must offset the higher cost associated with allocating marginal resources to it (Siegel and Vitaliano, 2007).

Moreover, the long-term profit enhancement of CSR investments simply imply that subsequent period-by-period profit stream, after the initial investments on CSR, will show an increase in the profit in the later periods further away from the time of the initial investment. Nevertheless, the discount factor, so important for firms' resource allocation decisions concerning discounting the future profits relative to the short-term profit, is not considered in most CSR papers. Existing research by Bagnoli and Watt (2003), McWilliams and Siegel (2001) and McWilliams et al. (2006), simply present anecdotal evidence to support the fact that over a period of time, investments in CSR will pay off via increased profit and social legitimacy.

The involvement of the private sector in CSR practices has various economic implications. CSR-complaint firms may face a trade-off between firm financial performance and social responsible actions. This results due to the increased cost of compliance arising either from firms' engagement in the provision of public goods or socially desirable output of the private goods, which may create competitive disadvantage relative to other firms that are not CSR-complaint. In the absence of strict regulatory framework, firms in the extractive industry, for instance, may have more incentive to increase their corporate irresponsibility like environmental pollution, as the cost of pollution abatement technology far exceeds the cost of irresponsible actions (Idemudia and Ite, 2006; Ite, 2005).

This situation is further exacerbated, for instance, when the penalty for exceeding the pollution permit is lower than the cost of pollution abatement technology as firms prefer to pay the fine while deriving the excess gains from pollution. In this type of industry, firms which are socially responsible may have increasing marginal cost as the predicted cost of pollution abatement measures increases the production cost, and are assumed to have decreasing marginal net benefits (Wagner et al., 2002).

Furthermore, CSR may not be dependent on market signals as it is not usually determined by the law of supply and demand (Kotler, 1989). This can lead to distorted prices and input and production decisions (Margolis and Walsh, 2003; Wang et al., 2008). Similarly, when firms seek to satisfy the conflicting objectives of varied stakeholders, this may lead to inefficient allocation of resources and may have deleterious effects on firm financial performance. CSR can further accelerate the agency problem as corporate managers may desire to use executive perks to satisfy their own opportunistic goals by committing shareholders' wealth to CSR investments (Reinhardt et al., 2008).

Consequently many economists (Henderson, 2001; Friedman, 1970) have berated the involvement of business with CSR activities that are not in consonance with the economic role of business proposed in the fundamental theory of the firm - "a nexus of contracts between principals and agents" (Berle and Means, 1932; Jensen, 2002; Sundaram and Inkpen, 2004; Griffin and Mahon, 1997; Berman et al., 2006). For Baumol and Blackman (1991), if CSR is motivated by corporate altruism, it poses a threat to firm's survival in both the short- and the long-term. This is because the market automatically interprets any expenditure on CSR as an unmitigated act of wastefulness: such wastefulness depletes the firm's resources (Baumol, 1991). He argues that in market characterised by intense competition, a firm which engages in altruistic CSR (wasteful activities) will lose out market shares to more efficient rival firms. In this vein, some scholars regard CSR expenditure as a waste of shareholder's money (Joyner and Payne, 2002; Moneva and Ortas, 2008; Harrison and Coombs, 2012). The fact that firms can engage in voluntary CSR not motivated by profit-maximization may be due to some market power or excessive slack resources, which fundamentally should have been returned to shareholders who have the residual rights to the profits.

In order to justify firms' investment in CSR activities, the business-case argument for CSR is advanced in several studies (Margolis and Walsh, 2001, 2003; Vogel, 2005; Mitchell et al., 1997). Their argument is established on the fact that there is a positive relationship between CSR and corporate financial performance. Jensen (2002, p. 235) recognises the value-creating contribution of CSR in what he proposes as the "enlightened-value maximization" strategy. In this, he opines that firms who engage in CSR obtain the social license to operate and maximize profit in the long-term. Although in the initial period, CSR expenditure exert huge financial burden on the firm; over a period of time, firms will maximize profit and will experience low risk of operating in the host communities as result of more stable relations attained over time. Along the same view, Mitchell et al. (1997) argue that the consideration of the interests of powerful stakeholders, who are able to influence the profit of the firm, underpins firms' interests in CSR obligations. Furthermore, a firm that has high CSR ratings may have easy access to sources of capital from abroad and may be preferred by ethical investors (Reinhardt, 1998; Spicer, 1978).

Most of the supporting arguments for the profitability of CSR seem to suggest that the effect of CSR will vary in the short versus the long-term. The trend of the argument supposes that the short-term reduction in profits as result of provision of public goods, socially desirable characteristics of private goods and other forms of CSR expenditure would be followed by a more-than-compensatory increase in profits over a period of time.

This may immediately blur the distinction if any between altruistic and strategic CSR, and may make it more difficult to demonstrate that firms can really sacrifice profits in the interest of provision of public goods and other socially desirable output (Lyon and Maxwell, 2008; Reinhardt et al., 2008). This implies that CSR, whether it is motivated by sheer altruism or self-interest, may be beneficial for the firm in the long-run; since profits sacrificed today may yield greater returns in the future. This presents another interesting discourse for this work: if CSR is to be incorporated in the firm's business strategy, how sustainable will the provision of public goods via CSR and other socially desirable output be in achieving competitive advantage, and do they always pay off in the long-run?

4.7.2 Sustainability Argument: Does CSR Always Pay Off in the Long-Run?

There is consensus among some scholars on the sustainability of CSR as a strategy for achieving firm competitive advantage (Reinhardt, 1998; McWilliams et al., 2006; Hoppe and Lehmann-Grube, 2001; Dutta et al., 1995). It has been argued that CSR–compliant firm can only reap excessive profit if it can prevent its competitors from replicating its CSR practices (Reinhardt, 1998). In market characterised by many competitors, and given the public nature of CSR practices, it is highly unlikely that firms would continue to exploit the huge gains of engaging in CSR practices. This corroborates the earlier conclusions of Bagnoli and Watt (2003) who argue that when there is increased competition among firms in a specific industry, firms will reduce their provision of public goods through CSR. Other theoretical studies like Dutta et al. (1995) and Hoppe and Lehmann-Grube (2001), also maintain that the first mover advantages enjoyed by firms through linking the sale of their products to the provision of CSR will be undermined once rival firms are able to imitate this same strategy.

A closely related argument concerns the market structure of the firm's industry. In their study, McWilliams and Siegel (2001) conclude that in equilibrium, the level of profit earned by firms who allocate resources to CSR will be directly proportional to the level of profit earned by firms who do not engage in CSR. This is what they regard as the neutrality result. The reasoning underpinning this argument is that if the market structure is a monopolistic competition for instance, characterized by both vertical and horizontal differentiations, very low entry barriers and a fragmented industry structures; then, it will be impossible for firms in such industry to use CSR to drive their rivals out of the market. Similarly, the unsustainability of CSR may be consistent with a market equilibrium in which firms invest in CSR until the decline in the marginal returns equal the overall rate of market return: at this point, profit-maximizing firms would discontinue the deployment of CSR as a strategic tool for competitive advantage (Reinhardt, 1998).

Moreover, firm's responsiveness to CSR may be determined by the nature of the industry, and the structure of the environment in which the firm operates. It is evident that firms located within certain industries like communication, software development or retailers of finished goods, will have less incentive to invest in environmental issues (relative to firms in the extractive, manufacturing and oil & gas industries), as the nature of their operation has little or no environmental impact. Thus, investing in environmental conservation via CSR, may not boost the sale of their products, and may impact negatively on their bottom line profit. Hence, committing the firm scarce resources to environmental protection in the name of CSR would be highly unlikely. When firms engage in costly CSR practices, there is bound to be some adjustments: the firms will have to raise prices, receive smaller profits or pay smaller dividends, and reduce employees' wages (Reinhardt et al., 2008).

Given the seemingly unfavourable argument with regards to the sustainability of CSR as a competitive strategy, I argue that CSR may or may not pay off in the long-run. There are several reasons to support the fact that firms may not make socially optimal decision with regards to CSR investments. It is important to note that it is the corporate managers not the firm who make CSR decisions. Hence, their strategic decisions with regards to CSR will be premised on their personal preferences, ethical beliefs, nature of their contracts and their incentive schemes and constraints (Reinhardt et al., 2008). Based on agency theory, managers who are motivated by short-termism may commit to short-term CSR practices, even if the benefits were to be recouped over a period of time. Accordingly, Butler and McChesney (1999) argue that the idiosyncratic trait of personal preference of managers would be reinforced when the principle-agent problem drives CSR decision. And because there is usually information asymmetry between shareholders and managers given the classic agency situation, the real motivations and preferences of the managers are not easily observable (Fama and Jensen, 1983; Fama, 1980; Jensen, 1986; Jensen and Meckling, 1976; Wang and Coffey, 1992). Hence, managers may expropriate their private benefit from CSR engagements at the expense of the shareholders' wealth. Moreover, managers may misjudge the potential profitability of CSR practices leading to misallocation of firm resources to useless and unprofitable projects (Margolis and Walsh, 2003; Wang et al., 2008; Brown et al., 2006). This is further worsened by the fact that such projects may be beneficial to the society, but may have deleterious impact on the firm's bottom line.

Similarly, firm's strategic decisions with regards to CSR are determined by a lot of factors ranging from the nature of the industry, firm size, geographical location, extant regulatory constraints, technical abilities and relevant expertise (Reinhardt et al., 2008). These factors are not related to social benefits and costs of CSR practices, yet, they exert their own specific influence on CSR decisions. Thus, when these influences are factored into CSR decisions, they may result in Pareto-inefficiency. For instance, a firm may have limited technical abilities and expertise to evaluate the social benefits of CSR or appraise alternative mechanisms of achieving a social goal; this may lead to choosing an inefficient level of environmental protection measures for instance, or investing in unrewarding provision of public goods. The immediate economic consequences of CSR may be loss of market share, increased leveraging and insurance costs, and even loss of reputation: over a period of time, these may culminate in the firm facing shareholders' litigation and corporate takeover (Reinhardt et al., 2008).

From these observations, it does seem that CSR may or may not always pay off in the long run. If I assume that CSR may not always be sustainable and profitable in the long-run, why then must corporate managers still waste shareholders' wealth by committing resources to such an unprofitable investment? In order to discuss this issue, I present arguments from ethical and philosophical perspectives.

4.7.3 Ethical Justification for CSR Practices

The importance of the role of ethics in the corporate governance strategy of firms has been emphasized following the spate of corporate scandals that has rocked many corporations over the past decades, and the increased demand by the society for firms to incorporate ethical behaviour in their codes of business conducts (Haddad, 2007). The burgeoning literature on business ethics therefore reflects an evolutionary shift in public opinion on the moral responsibility of the firms (Paine, 2003). Here, the principle of business and ethical responsibilities of the private sector, as expounded in Carroll's (1979) four-part conceptualization of CSR, becomes relevant.

Ethical responsibilities include the broader responsibility to do what is right and refrain from evil or what is harmful. This duty requires corporations to operate in a manner that is in congruent with societal values: issues of fair employment, ecological conservation, pollution abatement technology, provision of socially desirable output and just remuneration of labour would characterize the considerations of business ethics (Chen et al., 2008). In this perspective, it can be argued that firms have a moral responsibility to show commitment to higher ethical standard by engaging in those activities that would benefit their host communities. Marom (2006) argues that firms engage in socially responsible activities not only for economic motives, but also for reasons of moral rectitude.

The moral argument claims that firms exist in mutual interaction with their host communities, and that their productive activities usually inflict harm on the environment. Ethical responsibility therefore requires that firms be committed to alleviating the social problems arising from their productive activities even if they may affect their profit margins. This is the central thesis underpinning the 'stakeholder theory' advanced by Freeman (1984), which maintains that firm's responsibility should not only consists in maximizing wealth for shareholders, but should also take into consideration, the welfare of other stakeholders of the firm. The reasoning behind this theory is that protecting the interests of other stakeholders of the firm may translate to long-term profitability for the firm (Chami et al., 2002).

Several studies argue that firms, especially multinational corporations operating in oil industries, have a huge moral obligation to assist in the infrastructural development of their host communities as well as protect their host environments (Strand, 1983; Whetten et al., 2002; Fort and Schipani, 2004; Matten and Crane, 2005; Eweje, 2007). Despite the provision of public goods, these firms have the duty to avoid polluting the rivers, lakes and seas, to prevent the depletion of ozone layers, to preserve the rain forest and mostly to refrain from depleting the source of livelihood (farmland) of the local community (Idemudia and Ite, 2006; Ite, 2004; 2005; Eweje, 2007). It is equally argued that firms have a moral duty to protect the environment over and above the legal requirements. This brings to mind the contributions of Carroll (1979), who maintain that the recognition of the ethical dimension of CSR depicts that the society's expectation of business transcends mere economic and legal requirements. He further opines that the distinguishing trait between ethical and philanthropic aspect of CSR is that the latter is not expected of business in an ethical or moral sense.

The major problem of justifying CSR practices based on ethical consideration is the lack of consensus of what ethics is all about. It is the view that there is a general ambiguity of what constitutes ethics or ethical behaviour or the essential characteristics of the ‘rightness’ or ‘wrongness’ of choices and decisions made by economic agents (Grace and Cohen, 2001; Haddad, 2007; Chami et al, 2002). This ambiguity may feed into the problems of aggregating the preference of various stakeholders based on ethical considerations. Thus, it is argued that it may be impossible to deduce a voting system that weighs the interests of consumers and other stakeholders based on a consistent ethical ordering of choices (Grace and Cohen, 2001).

Despite these problems, it is more generally agreed that ethics is about choosing or doing the right thing; it is about making the right business decisions bearing in mind that business impacts on the global community over and above protecting the interests of shareholders (Carroll, 1979; 1991; Matten and Crane, 2005). Anchored on this fact, firms must adopt transparent and democratic decision-making procedures in order to arrive at the set of ethical codes that may represent very closely the preferences of individuals in the society (Haddad, 2007; Harsanyi, 1996). Hence, “decisions [corporate] must not only be right but the way in which they are reached must be also right” (Haddad, 2007 p. 60).

To further ensure that firms do the right things or represent an arrangement that is consistent with ethical preference orderings of consumers, it is argued that the democratic system may institutionalize ethical behaviour via effective means of incentives and disincentives (Haddad, 2007). This implies that the need to be ethically irresponsible or engage in opportunistic behaviour that detracts from ethical standard can be reduced, if not completely eliminated through an incentive scheme that aligns the self-interest of firms to both ethical and financial performance (Harsanyi, 1996). Hence, ethical considerations may still provide an important leverage for the justification of firms' CSR engagement (Cunningham, 2011).

4.7.4 Philosophical Arguments

Philosophically, it can be argued that business decision does not only involve the economic domain; for if it were to be so, then the morality of business decisions would be entirely irrelevant. In this line of thought, consumers and activists in the marketplace will not be bothered by the ethical impact of business decisions, and this, as we know, is not the case (Burton and Goldsby, 2009; DeGeorge, 1995). Thus, it is neither possible nor desirable to dissociate business from ethics as ethics is not an option, but an integral part of business (Haddad, 2007). In line with this, I argue that when corporate managers make business decisions, the consequences are both economic and ethical in nature. Hence, it is clearly stated that "to pretend otherwise, is to deny business people their humanity or their moral nature" (Woller, 1996 p. 325). For instance, the executive decisions which gave rise to the Exxon Valdez disaster in the US, the collapse of Enron in the United States, Rupert Murdoch-empire's complicity in the phone-hacking scandal in the United Kingdom, Shell's indictment in the Kangaroo prosecution and killing of human right activists - Ken Saro Wiwa and his eight colleagues - in Nigeria, the Halliburton and Cadbury plc financial scandals in Nigeria, and the recent collapse of Primark factory in Bangladesh, have both economic and moral nature.

Friedman (1970) stoutly defends the view that business decisions have nothing to do with morality as the only business of firms is the maximization of profits for shareholders. In appraising his popular dictum, where Friedman (1962 p. 132) explicitly states that: "The really important ethical problems are those that face an individual in a free society", I tend to recognise with him that surely individuals face ethical problems in the society. But, when I consider the fact that these firms do not exist in a vacuum, and that they are also managed by individuals, then, it becomes exigent and credible to state that ethical problems would be faced by individuals-managers, within the corporate context.

Moreover, it has been argued that managers lack the expertise to engage in CSR investments and may not be versed in the art of evaluating ethical issues (Friedman, 1962; Pava and Krausz, 1996). This was explicitly supported in this citation: “If businessmen do have social responsibility other than maximizing profits for stockholders, how are they to know what it is?” (Friedman, 1962 p. 133). Advocates of this view therefore argue that managers should refrain from engaging in the pursuit of personal goals in the form of CSR, as such would violate their contracts with the principals. Philosophical arguments show that recognition of the diversity of opinions and practice with regards to ethical issues does not undermine the relevance of ethics, and cannot imply ethical relativism[39].

Granted that philosophers do not intend to achieve uniformity of belief, yet, there are credible reasons to suggest that there can be ethical truths and objective values (Nozick, 1974). If the argument against managers’ involvement in making ethical decisions is based on the inability to reach a consensus on the many factors underpinning the moral obligations of the firm, then, there might a point to consider. But, if this view goes further to suggest that because of this ambiguity surrounding decisions on moral obligations, CSR (as suggested by Friedman, 1962; 1970) should be disregarded; then, I shall not readily concede to this position. The fact that CSR is difficult to execute in practice does not imply that it cannot be implemented. This difficulty also cannot undermine its relevance for a harmonious co-existence between the firms and society.

Similarly, there seem to be a consensus in economics that the special duty of corporate managers is to maximize as much profit as possible for shareholders: this could almost be the moral duty of managers and may not be detracted from (Friedman, 1970). However, some universalistic theories like Kantianism[40] and

[39] Ethical relativism is the theory that holds that morality is dependent on the norms of one's culture. Hence, the rightness or wrongness an action is determined by the prevailing standard of moral norms in that particular society. For the ethical relativist, there are no universal moral standards and there can be no universal framework for judging whether an action is good or bad.

[40] Kantianism is an ethical theory propounded by the philosopher Immanuel Kant that emphasizes the moral obligation to perform one’s duty.

utilitarianism[41] could shed an interesting insight into the assignment of special duties. In these theories, it is argued that everyone has the same general duties to everyone else despite the assignment of special duties to some agents (Kolstad, 2007). However, these general duties could be more efficiently carried out if they are assigned to specific agents out of the subset of the total population: this assignment translates to a division of moral labour which ensures the effective fulfilment of the general duties (Goodin, 1985; 1988).

The economic implication of this theory is that there is a division of moral labour in which the firm is charged with the duty of maximizing profits, while the state is assigned the responsibility of redistributing income and providing public goods. This division of moral labour is nevertheless established on the assumption that the state is benevolent, and has the resources to execute the duty assigned to it. When the state is inefficient and has no resources to perform its duty, they become in the words of Goodin: “the residual responsibility of all” (Goodin, 1988 p. 684).

Since profit maximization is a derivative principle for corporate action, assigned to specific agents known as managers, it will be subject to exception; and thus, may sometimes have to be deviated from in order to fulfil other tasks within the framework of fulfilling the same general duties to everyone else (Kolstad, 2007). Hence, I propose that to the extent that the special duties of managers are based on this ethical theory, they may sometimes have to be deviated from. This implies that CSR practices may have to be executed by managers in order to further other ends that transcend mere profit maximization.

4.8 Conclusion

Finally, I remark that even though profit-maximization does not constitute the entirety of a firm’s obligations, yet, there is a point to which a firm would execute other objectives that are not related to profits. It is clear that a firm’s profit does not increase indefinitely in the number of public goods and social investments it

[41] Utilitarianism is a normative ethical theory propounded by Jeremy Bentham and John Stuart Mill which stresses that actions are adjudged as good relative to how such actions maximize utility: in other words, actions that increase happiness and reduce suffering may be regard as good.

undertakes: this conclusion has already been explored in the sustainability arguments. For if it were so, then, the sole responsibility of the provision of social welfare would be left entirely to the private sector.

In line with ethical and philosophical arguments, and based on the conclusions of some existing literature (Margolis and Walsh, 2001, 2003; Vogel, 2005; Mitchell et al., 1997) which find a positive relationship between CSR and firm financial performance even if it is in the long term, I argue that when the state is both inefficient and malevolent, and when CSR can be employed as a corporate strategy for achieving competitive advantage, then, there may be reversal of roles for the private sector and state. Hence, the private sector may now complement the state in the redistribution of wealth through the provision of public goods and other forms of CSR practices. I further suppose that the public and the private sector ought to be responsible to the citizens in both the first and the second best world. In the first best world, government should provide public goods and engage in the redistribution of wealth through lump-sum transfers and subsidies: they should also create sustainable environment for economic growth and development with efficient regulatory framework. In the first-best world, firms should concentrate on the provision of private goods and maximization of shareholders' wealth.

In the second-best world, firms could complement the government in the provision of public goods and other socially desirable output through their CSR activities, while the state should further correct market failures through taxation, income transfers, subsidies and adequate definition of property rights. The state should ensure that firms perform their primary task of provision of private goods and the maximization of profit subject to strict regulatory constraints.

5 DEVELOPMENT AND FORMULATION OF HYPOTHESES

5.1 Introduction

The discussions in the previous chapter maintain that despite the fact that CSR may be used as strategic tool for competitive advantage and profit enhancement in the long term, there may still be ethical and philosophical reasons for firms to respond to the demands of other external stakeholders even if CSR expenditure may impact negatively on firm profitability. It is important at this point to examine how the different ownership structures would value and incorporate CSR practices as a corporate strategy.

Firms' ownership structure and its effect on CSR practices have been the subject of intense research (Oh et al., 2011; Barnea and Rubin, 2010; Harjoto and Jo, 2011; Wang and Coffey, 1992). The central issue underpinning these studies is that different ownership types have varying implications for firm's CSR engagements. This is against the backdrop that different ownership structures may have different objectives and preferences with regards to corporate strategic decisions about CSR practices, (Hoskisson et al., 2002; Zahra, 1996; Oh et al., 2011). Thus, in this section, I set out to examine how various ownership structures and some corporate governance indicators will impact on firms' disposition to devote resources to CSR. Consistent with the objective in this section, I develop theoretical arguments underpinning the hypotheses to be tested in this study in line with agency, stakeholder, business ethics and legitimacy and eco-efficiency models. Based on the hypotheses development, I formulate the hypotheses to be investigated in this work.

This study disaggregates owners into two separate ownership categories: government ownership and mixed-ownership (involving the interplay of government and foreign shareholding). In line with corporate governance literature (Huang, 2010; Arora and Dharwadkar, 2011; Jamali et al., 2008; Coffey and Wang, 1998;

Faccio, 2006; Fan et al., 2007), I also explore how other ownership types like board independence, institutional investors and politically affiliated directors impact on firm decisions to commit resources to CSR practices.

5.2 Government Ownership and CSR Effects

A firm's conduct vis-à-vis its social and environmental contexts is not only determined by the utility-maximizing decisions of corporate managers, but also by ownership structure which largely underpins firm's interaction with the host community of its operation (Lee, 2009). This is based on the standard agency model which argues that principal and agent may have different self-interests, and may have different objectives and preferences with regards to corporate strategic decisions about CSR practices. This implies that divergence in the pursuit of CSR practices is determined by how different ownership structures respond not only to social pressures and the external environment, but also to how they resolve the agency conflict within the firm (Lee, 2009). Mascarenhas (1989) underscores the importance of ownership structure in determining the CSR of firms, insisting that an understanding of the relationship between ownership type and strategic orientation of the firm would be invaluable in appreciating the underlying logic of the organization's corporate social performance index.

More than half a century ago, economists generally agree on the relevance of government ownership of firms as a means of correcting market failures such as monopoly power or externalities, and ensuring efficient provision of public goods (Shleifer, 1998; Allais, 1947; Atkinson and Stiglitz, 1980). Concerned with mitigating the allocative inefficiency of monopolistic firms, Lewis (1949) argues in favour of nationalization of some service sectors including telephone service, insurance, mineral deposits and the motor car industry. For related reasons, Meade (1948) favours government's take-over of the chemical, steel and iron industries. This paradigm shift from private to state ownership was seen as inevitable and fuelled by the apparent success of Soviet industrialization, the failures of competitive markets, and the inability of the invisible hand to regulate the proper functioning of the capitalist economy during the great depression era of the

1930s. Consequently, the post-WW2 states would become productive machines and assume prominent roles in productive processes throughout the world, owning practically everything from land and mines to industrial firms, banks, hospitals, schools and the service sectors even in market economies (Shleifer, 1998).

Most empirical evidence suggests that the relationship between state ownership and CSR is mixed in that state ownership is found at some point to be either positively or negatively correlated to CSR depending on the governance structure, career objectives of managers of state owned firms (SOFs) (for instance government bureaucrats or professional managers employed by the state), and the alignment of the firm's objectives with the maximization of external stakeholders' interests (Freeman, 1984; Harjoto and Jo, 2011; Stranberg, 2005; Huang, 2010). It is argued that the negative relationship between State ownership and CSR may be based on severe agency problem which arises as a result of the separation of ownership and control in SOFs (McConnell and Servaes, 1990; Zahra, 1996). This argument is further supported by the fact that there may be huge bureaucratic bottlenecks involved in taking decision in SOFs. Hence, there may be politicization of decision making (Shleifer and Vishny, 1994), which may delay or even undermine strategic decision to commit resources to CSR.

Along this view, Estrin (2002) argues that the state as principal owner of the firm may have multiple objectives (for instance increasing employment, meeting an output quota and ensuring employees' satisfaction through provision of quality-of-life benefits), and may not have a clear metrics for prioritising these objectives whenever they conflict. These different objectives, as noted by Estrin and Pérotin (1991), can give rise to setting of inconsistent targets, which in the absence of adequate performance monitoring and governance structure; increase the tendency of managers to engage in opportunistic behaviour. Hence, SOFs managerial incentive to appropriate firm-specific rent for the gratification of their political supporters may crowd out the resources that would have been invested in CSR practices (Wang and Coffey, 1992).

Similarly, Shleifer and Vishny (1998) maintain that private ownership is preferable to state ownership because the government has a “grabbing hand” that exploits the resources of the firm to the advantage of politicians and bureaucrats. A critical factor underpinning the drive to privatization is the documented poor performance of some SOFs particularly in some developing countries and transition economies (Estrin, 2002; Cavaliere and Scabrosetti, 2008). Along this view, it argued that public enterprises may seek to maximize the objectives of state at the expense of efficiency; and this may provide strong reason for the privatization of SOFs (Boycko et al., 1996). A corrupt and malevolent government is not only less able to regulate or contract in the public interest, but also less able to manage enterprise in a way that would maximize social welfare (Shleifer, 1998).

Early theories of public ownership simply assumed that government would be interested in social welfare maximization and could utilise SOFs for the maximization of social welfare (Thiemeyer, 1993). In real situation, managers of public firms operate in complex hierarchical set-up, as several government agencies (for instance, legislature, ministries) could serve as principals with their heterogeneous demands on management (Estrin and Pérotin, 1991). This may not only generate conflicting demands on management but also exacerbate bureaucratic bottlenecks in decision-making process (Bauer, 2005; Aharoni, 1986).

Unlike private firms, SOFs are exempt from the pressures of capital and take-over markets, and by the same fact denied access to equity market: this reduces their leveraging options compared with private firms (Vickers and Yarrow, 1988). The politicization of decision making in SOFs may also make such firms susceptible to lobbying and unproductive rent-seeking (Shleifer and Vishny, 1994; 1997). This enables SOFs managers to tunnel resources away from the firm; thus, crowding out the slack resources that would have been invested in CSR practices (Oh et al., 2011).

Again, the fact that SOFs have low leveraging options as they rely on government subsidies and grants, and are not affected by the pressures of private capital market and take-over markets (Tian and Estrin, 2008), make them unresponsive to the basic principle of good stakeholder management model, which argues that firms must adequately incorporate the demands of other external stakeholders in its corporate governance strategy (Wang and Coffey, 1992; Freeman, 2000).

Moreover, government's inability to face credible commitment concerns has been regarded as one of the issues that support the privatization strides (Cavaliere and Scabrosetti, 2008). It is generally argued that due to bounded rationality and high cost of listing specific rights over the firm's assets, contracts are usually incomplete (Shleifer, 1998; Grossman and Hart, 1986; Cavaliere and Scabrosetti, 2008). Thus, property rights become important as they give the owner the residual right to control and bargaining power in situations of contractual incompleteness.

The issue here hinges on how the different ownership structures affect the incentive to deliver the non-contractible quality[42.] This view was reflected by Hart et al. (1997), who maintain that the choice of determining the efficiency of public versus private provision depends on how the ownership patterns affect the incentives to deliver this non-contractible quality. They argue that ownership is not neutral, and that the ability of the agent who has the residual right to cut cost and/or quality when uncontracted-for circumstances arise, determines the efficiency of either public or private provision.

Contract incompleteness also exacerbates credible commitment issues on the part of public ownership as it prevents the full description of production and future technology[43] ex ante (Cavaliere and Scabrosetti, 2008); and government cannot commit ex ante to improve quality or cut cost when uncontracted-for circumstances arise. The inability of state as principal to face credible commitment issues is based on the fear of SOFs managers that their non-contractible investments may

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[42] Hart, Shleifer and Vishny (1997) describe non-contractible quality as the characteristics of the product with respect to which a contract is considered incomplete. They noted that this non-contractible quality, provided in the areas not fully specified in the contract is observable but not verifiable. This quality can signify for instance, how well prison officials treat inmates, the efficiency of schools in inculcating patriotism in their students, how automobile makers can be innovative.

[43] Since contracts are usually incomplete, full description of the production and future technology may not be specified. Consequently inter-temporal commitment on these issues may be undermined (see for instance Cavaliere and Scabrosetti, 2008).

be expropriated ex-post by the state (principal) for other political goals that may detract from maximizing returns on investments (Lafont and Tirole, 1991). Accordingly, Cavaliere and Scabrosetti (2008) argue that due to contract incompleteness, and based on the fact that government has the residual rights to the assets of the firm, they cannot commit ex ante not to use the firm's investments at their own discretion ex post[44]. This is further underpinned by the fact that managers of SOFs have no residual rights of control, and may be subject to hold-up problem by the state if they undertake quality improvement or cost reduction that arises ex-post the commencement of the contract (Hart, 2003).

Along the same view, some CSR practices like provision of public and social goods, environmental concerns and corporate philanthropy, which are usually not included in the firm's initial contract, albeit that they may be contractible, may improve the social legitimacy and quality of services provided by firms. And since these ethical and discretionary obligations of the firms are not an intrinsic part of the economic motives of the firm's contract (see Carroll, 1979; Chen et al., 2008), SOFs may not readily commit to business contingencies or uncontracted-for-circumstance[45] that arise in the form of CSR practices. This is further exacerbated by the separation of ownership and control in SOFs (see Estrin, 2002), which makes it difficult for managers to take strategic decisions concerning investments in CSR practices (Lee, 2009; See, 2009).

Moreover, some scholars are of the view that SOFs may be technically inefficient as the government may be biased towards labour surplus[46]: this is against the backdrop that managers of SOFs are usually constrained to hire excess capacity at often inefficient level of output while ensuring that their job security and adequate

[44] For instance, after building a new plant, the state may decide to use this investment to fulfil other social goals by constraining managers to hire excess labour. This may negatively impact on returns to this investment. The re-deployment of firm's investment to satisfy this social goal may be socially optimal ex post but managers' aversion about investment expropriation by the state may undermine corporate decisions to invest at all ex ante: this is the foundation of the credible commitment concerns in SOFs (see for instance Laffont and Tirole, 1991; Cavaliere and Scabrosetti, 2008).

[45] Uncontracted-for-circumstances in this discussion could refer to the immediate need to compensate for the negative externalities of firms' productive activities like investment in pollution abatement technology, building of dams, road networks, etc. Firms may exploit these uncontracted-for-circumstances in order to gain social legitimacy or reduce reputational damage.

[46] By labour surplus, we refer to the employment of too many workers than is necessary in order to fulfil social goal that may be inconsistent with maximizing returns on investments.

remuneration are guaranteed (Schmidt and Schnitzer, 1993; Cavaliere and Scabrosetti, 2008). Thus, they may receive higher salary, enjoy more slack, and employ excessive labour; this may have negative implication for productive efficiency. In this line of thought, Putterman (1993) notes that the collective-action problem of free-riding, when state is the supplier of goods and services, has deleterious implications for productive and allocative efficiency. These efficiency problems affect corporate strategic decisions with regards to SOFs' responsiveness to other forms of CSR practices. Oh et al. (2011) argues that when production quotas are determined by bureaucratic decisions, and when managers' emolument are not based on returns to investments, stakeholder salience may not matter; and firm's corporate reputation among the local community, consistent with legitimacy model, is usually not factored into firm's corporate strategy. Hence, it is argued that CSR may not be a priority concern for these firms (Oh et al., 2011). In the same vein, SOFs are less likely, for instance, to engage in philanthropic donations to communities in response to areas affected by natural disaster (Zhang et al., 2009). In the same sense, committing firm resources to corporate philanthropy may not be incentive compatible with managers of SOFs, as they may be aware that state has other specialized agencies to cater for victims of natural disasters (Xiaodong, 2013).

In the study of corporate governance structure of Nigerian firms, Ahunwan (2002) argues that the security of senior management's job and potential compensation packages in SOFs are premised not on the measure of executive performance, but on their loyalty to political godfathers and administrative patrons. Similarly, Bai and Xu (2005) maintain that managers of SOFs align their actions with government objectives that may usually detract from stakeholder salience. In their study, they find empirical evidence from CEOs' contracts that supports the fact that government sets non-financial objectives for SOFs, and if these objectives are not aligned with CSR engagements, then, top management in order to align their incentive with the state, may not commit resources to CSR.

In his study of the performance of SOFs, See (2009) remarks that the high-handedness of Chinese government, and the ample evidence of suppression of freedom of expression for journalists and human rights activists, may allay any doubt that SOFs may not commit resources to CSR. The voices of human right activists and journalists who report on the social costs and negative externalities of SOFs' productive activities on their host communities have being silenced by the Chinese state (Wang et al., 2003); while 'citizen journalists' who use online media channels such as blogs to report the incessant abuses of SOFs, have been arrested and quizzed (See, 2009). The crucial issue is that this censorship undermines the bargaining power of human right activists in championing social responsibility of SOFs. See (2009) further argues that SOFs that collude with the state in undertaking socially and environmentally unfriendly investments are shielded from media coverage which would have mitigated this information asymmetry exploited by top management. This implies that where this informational advantage is not checked, managers of SOFs may have no incentive to incorporate the interests of other external stakeholders in their corporate strategy.

5.2.1 The Case of a Benevolent Government and CSR Practices

Note that the hypothesized negative relationship between state-ownership and CSR is based on the assumption of an inefficient or incapable government whose inability to correct market failures, maximize social welfare, reduce slack and implement more efficient production technologies, brings about the need for privatization (Lulfesmann, 2007). Interestingly, economic theory has more controversy justifying the merits of private ownership and the current privatization debate when the government is assumed to be benevolent[47]. Thus, it is argued that when a government is benevolent, it may be regarded as the ultimate corrective mechanism in society: government employees whether managers of SOFS, bureaucrats or politicians are also assumed to be altruistic as they act on behalf of the society (Hart, et al., 1997).

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[47] The conceptualization of a benevolent government fits the notion of a government that maximizes social welfare, and has a responsibility to ensure through fiscal policies, the efficient allocation of resources to the people (see for instance Wagner, 1997).

Some literature on political economy maintain that when government is benevolent, politicians who are connected with management of SOFs are forced to relinquish their tendencies to maximize personal objectives when they vie for votes for possible re-election (Hart et al., 1997; Wagner, 1997). Similarly, Nowotny (1982) argues that when state officials are directed by a benevolent government, they are more likely to negotiate social objectives with the management of SOFs without impairing their social responsibilities to the society.

Along the same view, Lee (2009) argues that a benevolent government has clear incentives to persuade firms to undertake in CSR practices: since such a state seeks to maximize social objectives, it is likely that it would exert pressures on managers of SOFs to be responsive to CSR. Given that contracts of CEO in SOFs may incorporate non-financial objectives (Bai and Xu, 2005); See (2009) argues that actions taken by top management of SOFs, like maintaining high employment, in alignment to these non-financial objectives, could be classified as CSR. In the same vein, Mako (2006) notes that Northeast SOFs in China employed excessively large workforces (higher number of workers per unit of output), and have an exerting wage bills accruing from their provision of social services as they manage close to 7183 childcare centres, schools, hospitals and other social investments.

The incentive alignment of SOFs' goals with social objectives is also established on the effective governance mechanism prevalent in such firms when the state is benevolent. Hence, it is argued that when there is effective governance mechanism in SOFs, the managers are likely to be committed to expending resources in the community-relations dimension of CSR: they may thus utilize CSR engagements to resolve conflicts among stakeholders which may have the long-run effect of not only maximizing shareholders' wealth, but also enhancing social legitimacy of the firm (Harjoto and Jo, 2011). In the same vein, SOFs, because of their concentrated social structure and greater sensitivity to legitimacy, may more likely be responsive to the demands of other external stakeholders (Lee, 2009).

In their study of Chinese economy, Zu and Song (2009) note that the inseparable relationship between enterprises and state prior to the economic reforms generated some social roles for SOFs which remained effective even after the reform. Since managers of SOFs are usually appointed by state party leaders; and if their remuneration and promotion are dependent on how well they execute the will of the state, they would naturally concede to the demands of these party leaders in using firm resources to achieve social objectives that are aligned with the interests of the state (Zu and Song, 2009). To further demonstrate the social roles executed by SOFs, Li and Wang (1996) maintain that SOFs firms may be responsive to employee relations and provision of social goods in the communist state of China: they note that the state sector always had a tradition of being responsive to the employee-relations dimension of CSR, by ensuring that the welfare of all workers are protected via providing adequate safety nets and social protection through its work-unit system known as 'Danwei'[48]. Similarly, Bo et al. (2009) opine that SOFs in China have credible commitment to good employee relations as this serves as an incentive scheme to align the interests of employees with the firm.

It is important to remark that the theory of intrinsic motivation of employees in the public sector may positively impact on some CSR practices of SOFs. It has been argued that better quality may be provided by SOFs if the managers and employees are more intrinsically motivated: thus, they may prefer to work for firms that would allow the social benefits of their work to trickle down to the larger society (Besley and Ghatak, 2003). Intrinsically motivated employees may also insist that their firms be committed to quality improvement: there were instances where SOFs employees were highly rewarded for quality innovation and improvement (Pérotin et al., 2013). The implication of intrinsic motivation for CSR is based on the fact that intrinsically motivated SOFs' managers and employees have better incentive to insist that firms be responsive to the demands of community-relations and employee-relations aspects of CSR: since they are not profit-driven, they are more likely to support corporate decisions that will maximize the welfare of their host

[48] Danwei was a specialized form of work-unit that thrived in the People's Republic of China. It is specifically a term used to denote the place of employment during the period when Chinese economy was highly dependent on socialist ideology; that is, when the productive sectors of the economy was solely managed by state-owned enterprises. In this work-unit, each employee is linked with the central Communist Party, and their welfare is collectively provided by the state. Thus, each 'danwei' provided housing, child care, schools and hospitals for its employees (see for Instance Li and Wang, 1996).

communities through embarking on social and environmentally friendly projects (Strandberg, 2005; Huang, 2010). Hence, intrinsic motivation provides a channel through which CSR may not only reduce costs,[49] but also increase the incentive for improved worker productivity through the alignment of corporate goals and employee motivation (Becchetti et al., 2012).

Having considered opposing theoretical arguments on the nature of relationship between state ownership and CSR based on agency, stakeholder, legitimacy and eco-efficiency models, I remark that given the multi-dimensional nature of CSR practices, it may be argued that SOFs may not readily commit resources to CSR practices via corporate philanthropy. Since SOFs managers have no residual right to allocate the resources of public firms to social or discretionary goals that may detract from maximizing profit for the firm, it seems unlikely that managers of SOFs will have the incentive to devote resources to community developmental projects or undertake in philanthropic donations to the society. Moreover, expending firm scarce resources on conservation of the natural environment and provision of public and social goods would seem to be inconsistent with the heterogeneous demands of the principals on management, which usually consists in using the firm to achieve their political objectives or to placate the whims of their political supporters. Similarly, I argue that SOFs may not perform well in consumer relations as managers of SOFs have little or no incentive to engage in cost reduction or quality improvement given that the state, as principal, cannot credibly commit to reward the managers. Thus, they may not appropriate wholly the gains for engaging in cost reduction or quality innovation. Therefore, managers of SOFs may not have the incentive to be responsive to these types of CSR.

On the other hand, I remark that if the state is biased towards labour and consumer surplus thereby constraining SOFs managers to hire excess capacity, it would seem likely that the basic metric of employee-relations like good working conditions, social equity and compliance with the demands of the labour unions will be

[49] The view that intrinsic motivation may promote cost reduction is underpinned by the fact that intrinsic motivation may ensure the availability of workers who are willing to accept lower wages and even voluntary work; and can then serve as substitutes for pecuniary transfers (see for instance Frey and Oberholzer-Gee, 1997; Kreps, 1997).

consistent with the incentives of SOFs. Similarly, if the compensation and promotion of SOFs managers are dependent on their ability to execute the will of the state with regard to the provision of adequate safety nets and social protection for its employees, then, it is more likely that SOFs may perform well in the treatment of their employees when the state is benevolent. Based on these arguments, I hypothesize that:

Hypothesis 1(a):

Government-ownership has no significant impact on all the forms of CSR with the exception of employee relations in the Nigerian industry.

5.2.2 Private Ownership and CSR Effects

Several studies document that there is a significant and positive relationship between private ownership and CSR (Zhang et al., 2009; Liu and Ambumozhi, 2009). This direct relationship is premised on the gains of privatization, as some empirical studies show that privatization played a strong role in the growth of stock market capitalization and trading in all the economies where it is supported with legal and functional institutional framework (Megginson and Netter, 2001; Estrin et al., 2009). The assumption is that privatization brings about efficiency increases as an outcome of diverting resources from government to market control: managerial incentives are now positively affected by market for capital control (Cavaliere and Scabrosetti, 2008). This argument is in line with Morck et al. (1989), who maintain that privatized corporation may impose effective constraints on the discretionary behaviours of managers through the alignment of managerial incentives with the goals of the firm. This incentive alignment can also be executed through market for corporate controls (Shleifer and Vishny, 1997), and if the management board is disposed to social investments, then, CSR practices would be aligned with the goals of the firm (Zhang et al., 2009).

Tian and Estrin (2008) argue that shareholders of privatized firms may favour investments in firms that have good corporate reputations as such may affect rates of return, in turn reflected in increasing share prices over time. Becchetti et al.

(2012) provide empirical evidence to support this contention, and argue that any substantial change or announcement that lowers CSR ratings of a firm may bring about abnormal negative returns in the capital market. Using an event study analysis from the social reporting of the Domini Social Index from 1990-2004, they measure the net effect of CSR entry and exit from the Domini Index,[50] and find a significant negative correlation between exit from Domini index and financial returns. This negative relationship is consistent even after controlling for stock market seasonality and asymmetric shocks. For instance, consider the allegation of sweatshop practices made against suppliers' factories for Nike footwear company, and the massive campaign by media, NGOs and activists in support of the boycott of Nike's products; the share prices of the firm plummeted in response to the disclosure of damaging information (Burns, 2000; See, 2009). Fombrun and Shanley (1990) also argue that when the corporate reputation of a firm is undermined by issues of social irresponsibility, there is bound to be fluctuation in the movement of its stock prices as investors tend to divest or suspend future investments in the firm.

The argument above is nevertheless dependent on the time horizon of investors in privatized firms. Against this backdrop, Shleifer (2000) argue that the stock market is imperfectly efficient such that it cannot correctly value CSR investments; but even if the financial markets were perfectly efficient (Fama, 1970), the uncertainties involved in the future make it impossible for the capital markets to predict how CSR investments will affect long-term profitability. Hence, long-term investors in privatized firms may favour investments in community and environmental-concerns of CSR relative to short-term investors (Oh et al., 2011). Similarly, Coffey and Fryxell (1991) argue that the divestment of stocks by shareholders of private firms engaged in business transactions in South Africa is for instance a clear indication of their aversion to risk associated with doing business with socially irresponsible firms. In the same vein, there is a growing cadre of investment funds that are risk-

[50] The Domini Index is an index that measures the social performance of firms based on their strength and weakness with regards to their responsiveness to CSR practices. Hence, when firms exit or are deleted from this index, it shows that their CSR performance is poor.

averse to investing in companies that have a poor record of treating employees or are notorious for polluting the environment.

Consistent with legitimacy theory, Porter and Kramer (2006) argue that firms need a ‘social license’ from the society in order to operate effectively and maximize returns on investments: they argue that when firms with private ownership conform to societal demands, they are more likely to avoid increased regulation or censure from the government. Consequently, investors are constrained to base their portfolio investments’ decisions not only on financial returns, but also on the social performance record of the firm (Spicer, 1978). Thus, there is “a seemingly widespread view within the investment community that a moderate to strong association does exist between the risk of a corporation and its attention to issues of social responsibility” (Shane and Spicer, 1983 p. 96). It is also the view that firms with private ownership have a comparative advantage relative to the public sector in being responsive to social investments and the demands of external stakeholders: hence, they may be better placed to assist in alleviating human misery[51] (Dunfee and Hess, 2000). Accordingly, Dunfee and Hess (2000) outline three features of private firms that make this possible. First, Dunfee and Hess (2000) suggest that the structure of operation in private firms reduces the internal influence of corruption, and makes it less likely for employees of private firms to accept bribes. Second, they maintain that because private firms can easily engage in cost reduction and quality improvement as they have the residual right of control, they may be easily amenable to tackling new social challenges more effectively. Finally, private firms have unique competencies and expert knowledge in solving social problems.

In the study of corporate philanthropic donations after the Sichuan earthquake in China, Zhang et al. (2009) conclude that non-state-owned firms are strategically

[51] Firms’ alleviation of human misery may be in the form of provision of socially desirable investments or the inclusion of social attributes in the provision of private goods (Dunfee and Hess, 2000). For instance, Merck’s development and distribution of Ivermectin to control onchocerciasis (the cause of river blindness), provision of relief materials to victims of natural disasters by Johnson and Johnson, UPS airlifting food shipments to assuage the hunger of Kosovo refugees and provision of solar-powered refrigerators by British Petroleum to doctors in Zambia in order to store anti-malaria vaccines. They nevertheless argue that private firms may under-provide these goods as they may be constrained by limited resources and capabilities. Hence, governments should complement the efforts of private firms in alleviating human misery and improve their own performance in the provision of these basic amenities.

motivated to engage in philanthropic donation relative to SOFs: they are attracted to philanthropic donation in order to demonstrate legitimacy and good gestures which would also favour their future investments. Hence, firms with private ownership have huge incentive to maximize their corporate reputation, and may be more disposed to commit resources to social investments and disclosure of social information as they would want to secure the social legitimacy which is also good for firms' profitability (Qian, 2003). This is underpinned by the fact that stakeholders hold in high esteem social responsibility information disclosed to them, and use them as a major criteria for measuring an organization's reliability and legitimacy (Kuo et al., 2011). In addition to securing a good corporate image, private firms may also undertake to engage in environmental friendly investments in order to show their support for government policies and also lobby for favours from governments in the form of subsidies and awards of state contracts (Liu and Ambumozhi, 2009).

On the other hand, some existing works find a negative relationship between CSR and private ownership (Stretton and Orchard, 1994; Bai et al., 2004). This is established on the ground that privatization failures have not improved productive and allocative efficiency as earlier supposed (Megginson and Netter, 2001; Svejnar, 2002), and also have some deleterious implications for firm social performance (Stretton and Orchard, 1994). In the same sense, Estrin et al. (2009) maintain that the success of privatization depends on the efficiency of the capital market and the functional legal and institutional framework underpinning this market: thus, they argue that privatization makes no difference in the absence of a well-functioning market. Similarly, in their studies of transition economies, Lipton and Sachs (1990) note that privatization on its own may not suffice to bring about improved performance as there is the need to necessarily complement it with systemic changes and policy reforms (see also Svejnar, 2002). In the short to medium run, privatization may not guarantee improved firm performance (Estrin et al., 2009).

Critics of widespread privatization argue that private ownership does not necessarily give rise to improved efficiency and external stakeholder salience (Lee, 2009). The main caveat against the efficiency of private ownership and its effects on CSR concerns the welfare dilemma that arises when private firms simultaneously provide socially desirable goods and services, and have monopoly power (Laffont and Tirole, 1993). This argument is hinged on the fact that monopolists, who make supernormal profit, may have good corporate performance records, yet, have poor human rights' records and undesirable employee-relations index (Stretton and Orchard, 1994). Against this backdrop, it is argued that a profit-maximizing firm for instance, may have an undesirable social performance rating with regards to employee-relations and environmental conservation: it may cut its own costs by unloading them onto its employees and the society respectively in form of pay cuts or negative externalities not accounted for (Stretton and Orchard, 1994).

Moreover, firms with private ownership have been accused of engaging in CSR as a form of social legitimization or means of compensating for the past harm inflicted on the society (Burns, 2000; Idemudia and Ite, 2006; Eweje, 2007; Edoho, 2008; Reinhardt et al., 2008). This view is supported by See (2009), who argues that private firms might use CSR activities as a reactive driver to avoid public pressure and compensate for their socially irresponsible actions in the past. For instance, and further to the example above, since 1992, Nike has been hugely criticised for operating with poor health and safety standards at the work-place, and using child labour in its suppliers' factories. Nestles' marketing practices of selling substandard infant formula to developing countries and Exxon's handling of the Valdez oil spill equally received wide condemnation. Similarly, Shell Plc in Nigeria was criticised for colluding with the military regime in the gruesome execution of the human rights activist - Ken Saro Wiwa. In a bid to assuage the public outcry against the dehumanising working conditions in Nike suppliers' factories, the management decided to resort to CSR practices (Burns, 2000). In the same vein, Shell Plc publicly declared their commitment to CSR as a strategic means of regaining the social license from their host community (Edoho, 2008; Idemudia and Ite, 2006; Ite, 2004; Eweje, 2007). All in all, it is argued that top managers of private firms may not value the importance of CSR as an integral corporate strategy and as a means of creating valued-added, but merely as a means of deflecting or reducing public pressure (See, 2009).

It is important to recollect that it is the corporate managers not the firm who make CSR decisions. Hence, their strategic decision with regards to CSR will be premised on their personal preferences, ethical beliefs, nature of their contracts and their incentive schemes and constraints (Reinhardt et al., 2008). When managers' compensation is designed to align their incentives with those of the owners of the firm, which is usually premised on the observed measures of firm financial performance (Prendergast, 1999), then, committing resources to CSR may be less likely as such would impact negatively on their own compensation. Hence, it is argued that privatized firms may not sacrifice profits in the interests of social investments (Reinhardt et al., 2008).

Considering the opposing theoretical arguments on the relationship between private ownership and CSR, I argue that private ownership may perform well in philanthropic dimension of CSR, which is usually motivated by the incentive of social legitimization and garnering good corporate image. With regards to environmental concern and employee-relations, managers of firms with private ownership may have little or no incentive to commit resources to environmentally or work-place friendly investments given the cost implication. It is usually the case that the cost of pollution abatement technology for instance, far exceeds the penalties imposed on non-CSR compliant firms, and this information is usually not available to regulatory bodies; hence, managers of privatized firms can exploit this information asymmetry to continue to pollute the environment, which imposes less cost on the firm than the cost of pollution abatement technology. Consistent with resolving the agency conflict, managers' incentive contracts are usually tied to financial performance of the firm; hence, managers know that their remuneration is not dependent on social performance but on financial returns to shareholders' wealth. Thus, it is likely that they may not be interested in devoting firm resources to correcting externalities arising from their productive activities, and may not be incentivised to compensate through CSR for the huge hazard inflicted on the host environment as a result of, for instance, air and water pollution.

Furthermore, managers can engage in moral hazards through committing resources to what is described as CSR. This is underpinned by the fact that managers can expropriate corporate resources for personal gains under the guise of CSR, especially when there is divergence between the interests of managers and owners of the firm. Hence, when interests of managers are not aligned with that of the shareholders, managers may act egoistically; by concealing their ulterior motive and self-interests under the claims that they are motivated by the desire to promote the social good or propelled by business ethics theory.

In the same vein, cases of sweatshop allegations against firms in the private sector like Nike, Primark factories in Bangladesh and a host of others, show that privatized firms may have poor performance in employee-relations dimension of CSR. The working conditions in these factories are usually not observable from the quality of the product; thus, private firms can exploit this informational advantage at the expense of their consumers and the entire society. Cases abound of private firms doling philanthropic gifts to the community, while paying low wages to employees and employing slave and child-labour. I argue that a firm which performs well in the affirmative duties like corporate philanthropy and socially desirable goods, while abnegating on its negative injunction duties, which is the essential foundation of CSR, may not be regarded as socially responsible in the strict sense. Basing on these arguments, I propose that:

Hypothesis 1(b):

Private-ownership has a significant and positive effect on CSR when it is seen as corporate philanthropy and investments in socially desirable goods.

5.3 Shareholding Structure and CSR

Following the seminal paper of Berle and Means (1932), the conflict between managers and shareholders has occupied the interests of scholars seeking to establish the relationship between shareholding structure and CSR (Himmelberg et al., 1999; Jia and Zang, 2012; Margolis and Walsh, 2003). The central thesis of this argument is that when shareholders are too dispersed to monitor the activities of managers, corporate assets can be diverted to the benefit of managers at the expense of maximizing shareholders' wealth (Himmelberg et al., 1999) on the one hand, and at the expense of the interests of other external stakeholders of the firm on the other (Bai et al., 2004). Thus, when managers have small levels of shareholding stakes in the firm, they may fail to maximize shareholders' wealth because they may have an incentive to consume perquisites (Jensen and Meckling, 1976); and may use CSR investments as means of expropriating private benefits at the detriment of shareholders' wealth (Reinhardt et al., 2008). A generally accepted solution to this problem is to give managers an increased equity stake in the firm as these help in reducing the problem of moral hazards by aligning the interests of managers with that of shareholders (Himmelberg et al., 1999; Jensen and Meckling, 1976; Demsetz and Lehn, 1985). And since the scope of moral hazards may be greater for riskier firms, it is argued that those managers should have greater shareholding stake in order to align incentives (Demsetz and Lehn, 1985).

Conversely, ownership concentration, where the shareholding structure is largely centred on the government, private-owner or foreign-owner managers, could have positive or deleterious implications for a firm's financial and social performance depending on the alignment of incentives of controlling shareholders with the interests of managers and external stakeholders of the firm (Jiang et al., 2010). This is against the backdrop that when there is misalignment of interests, concentrated equity ownership gives the controlling shareholders unlimited discretionary powers to expropriate firm resources at the expense of other minority shareholders especially in economies where the capital market is not functioning efficiently (Bai et al., 2004). Bai et al. (2004) further note that this expropriation can be in the form excessive executive compensations, loan guarantees for related companies and tunnelling[52] (Jiang et al., 2010; Bai et al., 2004). Similarly, Fama and Jensen (1983) argue that that the combination of ownership and control increases the risk that the majority shareholders pursue their own interests at the expense of minority shareholders, allowing them to exchange profits for private rents. Moreover, controlling shareholders might have an incentive to cover up their

[52] Tunnelling is the term used by Johnson et al. (2000), to describe the transfer of resources out of firms for the personal gains of the controlling shareholders.

opportunistic behaviour by either withholding unfavourable social information or promoting information asymmetry by disclosing only social information that would boost the confidence of the market, and hide their self-serving behaviour (Gul et al., 2010).

In empirical literature, the hypothesized relationship between large government shareholdings and CSR is varied and complex (Bai et al., 2004; Oh et al., 2011; Ba et al., 2006). McConnell and Servaes (1990) and Zahra (1996) hypothesize a marked difference between government shareholding and non-government shareholding, arguing that government's pursuit of political objectives negatively affects social performance of the firm. This argument is based on the assumption that the government is not benevolent, and has no interest in the maximization of social welfare. Thus, when government is the majority shareholder, public sector resources may be expropriated by an incumbent government to satisfy its short-term political advantage; it may further use such resources to settle political scores and patronise political supporters (Estrin and Pérotin, 1991; Shleifer and Vishny, 1994). This may give rise to arbitrary and unsystematic intervention of government shareholders in the management of nationalised corporations (Littlechild, 1981; Estrin and Pérotin, 1991), and may lead to distorted corporate governance structures that may not readily favour committing resources to corporate philanthropy and the provision of public and social goods (Zhang et al., 2009). The crucial issue is that government's expropriation of firm-specific rents, crowds out the resources that would be invested in pursing socially responsible activities, thereby creating a deficit in its social responsibility roles (Morsing, 2011; Roper and Schoenberger-orgad, 2011).

Moreover, it is the view that government is one of the major external stakeholders of the firm, and when ownership is also concentrated on the state as the largest shareholder, there is usually a conflicting interest between the state's position as a major shareholder and external stakeholder of the firm respectively (Roper and Schoenberger-orgad, 2011). The conflicting interests are usually between the economic and political motives of the state; as government's shareholding is also expected to return profits to its owners.

In their study of the operations of the oil MNCs in the Niger delta region of Nigeria, Idemudia and Ite (2006) opine that there is usually a trade-off between the roles of the state as a major shareholder and stakeholder in oil MNCs; and this has given rise to instances where the state preferred economic returns over insisting that oil MNCs be responsive to their social responsibilities to the host communities. Accordingly, Roper and Schoenberger-Orgad (2011) argue that when the equity stake of the government is large, it is likely that government may prioritize profit over committing resources to CSR practices.

Conversely, ownership concentration on government may bring about a significant and positive relationship with CSR (Zu and Song, 2009; See, 2009; Bai and Xu, 2005). This is premised on the fact that the emergence of government as the controlling shareholder may mitigate the free-rider problems which arise in the course of shareholders' attempt to monitor corporate managers (Bai et al., 2004). This, according to Shleifer and Vishny (1986), has a positive effect on firm financial and social performance. Moreover, as the ownership stake becomes fully concentrated on the government, the incentive to tunnelling is removed as it may result to waste of resources (Tian and Estrin, 2008). Along this view, the state, as the controlling shareholder, may have sufficiently enormous stake for interest alignment with the firm thereby enhancing the social legitimacy of the firm (Bai et al., 2004). This positive relationship between government shareholding and CSR practices is based on the fact that government is now benevolent, and is interested in the maximization of social welfare (Hart et al., 1997; Nowotny, 1982).

Since tunnelling results to waste of resources that would have been committed to CSR engagement like investments in pollution abatement technology, socially desirable goods, philanthropic donations and employee-relations, high levels of government shareholding, which is opposed to tunnelling, can affect strategic corporate decision to enhance CSR practices (See, 2009; Bai and Xu, 2005). The large government shareholding also gives it the power to affect corporate decisions through appointing directors on the board (Boyd, 1994), and through Shareholder activism, that may have significant positive impact on CSR (Admati et al., 1994; Lee and Lounsbury, 2011). Similarly, when CSR expenditure improves firm value and reputation, as proposed in legitimacy and stakeholder management theories, government as the majority shareholder, could appoint socially responsible managers to pursue value-creating[53] CSR activities (Bai and Xu, 2005). This is underpinned by the fact that high levels of government ownership create incentives for CEOs to pursue other social objectives that are aligned to government policies like infrastructural development, conservation of the natural environment, and resolution of fiscal and unemployment problems; these social objectives may constrain management to be responsive to CSR (Qian, 2003; See, 2009; Bai and Xu, 2005).

Moreover, governments, as long-term shareholders, are more likely to promote social investments relative to short-term shareholders, as investments in CSR may pay-off in the long-run; while it may impose large financial burdens in the short-run (Oh et al., 2011). Given that financial markets are not always perfectly efficient (Shleifer, 2000), the capital market may not give accurate valuations of social investments even if it is known that high CSR ratings are positively correlated to improved financial performance (Margolis and Walsh, 2003), and are good for business. Even if the stock markets were perfectly efficient (Fama, 1970), they may not correctly value social investments because of future contingencies and the impossibility of predicting the level of the specific returns on a firm's social investment. Hence, short-term investors may be risk-averse to all forms of CSR, while long-term investors like government, may be more supportive of CSR as long as it increases firm reputation, legitimacy and profitability (Li and Zhang, 2010; Oh et al., 2011).

In line with this reasoning, Huang (2010) underscores that those firms where government has the majority shareholding significantly enhance a firm's social performance because the government shareholders, in their interaction with the wider stakeholders, are more likely to insist that firms address and engage in more

[53] Value-creating CSR activities are those activities that can tangibly improve the firm's reputation and enhance its bottom-line profits (see for instance McWilliams and Siegel, 2001; Easterbrook and Fischel, 1991). The benefits of engaging in such CSR practices must offset the higher cost associated with allocating marginal resources to them (Siegel and Vitaliano, 2007).

socially responsible behaviour like investments in socially desirable goods. Moreover, when firms are socially irresponsible, they are subject to legal sanctions and punishment from governments and other powerful stakeholders (Agle et al., 1999). Consequently, these sanctions impair the firm's reputation and chances of long-term survival and profitability: it would therefore be optimal for socially irresponsible firms to improve their social performance in the host communities through compliance with the regulatory standards, ensuring harmonious relations with the host communities and being proactive with environmental issues (Oh et al., 2011).

To date, I am not aware of any governmental regulations explicitly proscribing firms from engaging in socially desirable investments. Rather ample evidence abounds of state laws mandating firms to commit some percentages of their resources to CSR (Roper and Schoenberger-Orgad, 2011), and governments have consistently pressured firms to engage in the provision of socially desirable goods and environmental conservation (Matten and Crane, 2005; Scherer and Palazzo, 2011). This is further supported by the fact that the incentive for interest alignment of high levels of government shareholdings with the demands of other external stakeholders is more pronounced in mixed ownership structure unlike in full state ownership (Lee, 2009). In the same vein, Bortolotti and Faccio (2004) and Cavaliere and Scabrosetti (2008) find that in mixed ownership, where government stake averaged a total of 62.4% for instance, government restricted restructuring in such firms so as to preserve excess capacity that would continue to yield social benefits.

Thus, I argue that if government is the controlling shareholder, then it is more likely to ensure that firms engage in environmental conservation, good treatment of employees and the provision of public and social goods; and may not support the use of firm resources for corporate philanthropy. Against this backdrop, high levels of government shareholding would likely constrain management to align their incentives with the goals of the state in committing resources to these four types of CSR. Based on these, I hypothesize that:

Hypothesis 2(a):

High levels of government shareholding are positively related with all forms of CSR practices with the exception of corporate philanthropy in the Nigerian industry.

Furthermore, it is argued that high levels of foreign ownership stakes in domestic firms will be underpinned by increased influence of foreign practices (Jeon et al., 2011; Yoshikawa et al., 2010). Since firms with high levels of foreign shareholding are usually characterised by good management practices where CSR implementation forms part and parcel of firm's corporate strategy, it is believed that increased foreign ownership in domestic firms will positively favour firms' commitment of resources to CSR engagements, and may be more responsive to the demands of other external stakeholders (Jeon et al., 2011).

In his study of Nigerian firms, Okike (2007) notes that many domestic firms retained large block of foreign institutional shareholding after the end of the colonial administration, and that this shareholding structure remained to date. The effectiveness of CSR practices of firms largely owned by foreign shareholders especially in the oil & gas sectors of developing economies has been increasingly undermined, as there is ample evidence of disparity between the stated intentions of these firms and their actual practices and impact in the real world (Frynas, 2005; Idemudia, 2009a). Akpan (2006) argues that the social and environmental performance of firms, in the guise of CSR, is riddled with contradictions as it has become expedient for firms with large foreign shareholding to use CSR as a useful tool to create favourable image and an atmosphere in which business can exploit the resources of the host communities. Thus, it is not surprising that many CSR practices of firms with greater percentage of foreign shareholdings do not go beyond mere philanthropic gestures, without attempting to fashion projects that would address developmental issues and ensure transfer of technical skills (employee-relations) and long-term sustainable development in the community (Blowfield and Frynas, 2005; Ite, 2004).

Supporting this stance, Idemudia (2010) argues that the CSR of oil MNCs especially in the Nigerian oil industry is constrained by the logic of capitalist production and profitability. This implies that profit incentive is the overriding factor underpinning firms' CSR engagements: given the financial costs associated with CSR practices, oil MNCs would prefer profitability at the expense of making a meaningful contribution to sustainable development in their host communities (Frynas and Mellahi, 2003). This problem is particularly accelerated in firms whose productive activities exert negative externalities on the communities, like firms in the oil industry. The reason is that there are limited opportunities for competitive advantage in such industries dominated by foreign owners, as they have the exclusive preserve of requisite skills and technology needed to survive in the industry. Hence, profitability is greatly enhanced by the ability of such firms to externalise the cost of production (Frynas, 2005). For instance, oil MNCs minimise cost by using obsolete oil pipelines and drilling equipment at the expense of new and sophisticated ones, which result in oil pollution (Idemudia, 2010).

Furthermore, the negative relationship between CSR and firms with greater percentage of foreign shareholding is based on the fact that such firms' CSR agenda is largely devoted to pursuing micro-level CSR activities at the expense of macro-CSR issues (Idemudia, 2010). It is argued that such firms may engage in affirmative duties like corporate philanthropy, provision of schools, hospitals and electricity in the host communities, but tend to be less involved in the fight against corruption or addressing the problem of resource curse which is the root causes of under-development and local grievances (Idemudia, 2010). Based on these arguments, Frynas (2005) notes that while such firms may engage in philanthropic practices, they may not have the incentive to engage in pollution abatement technology and employee-relations; and may not take responsibility for the effects of resource curse [54] such as Dutch-disease, corruption, poverty and bad

[54] The resource-curse theory advances that some resource abundant economies have weak economic performance in the long-run (Sarraf and Jiwanji, 2001; Auty, 1993; Auty, 1998; Ite, 2005). Several explanations have been given as the reason for this theory. It is argued that this theory can be attributed to sheer neglect of the productive sectors and investment structures of the economy as a result of the endowed natural resources (Ite, 2004; 2005). Moreover, weak economic performance of such nations can also be attributed to the volatility of price of international primary products exported by these nations (see for instance, Corden, 1984; Akindele, 1988).

governance. Firms with large proportion of foreign ownership usually argue that such macro-CSR issues like the provision of sustainable public goods, environmental conservation, poverty alleviation and protection of human rights are the traditional preserve of the state on the grounds that their interference in such political issues lacks legitimacy and would be tantamount to interfering in the domestic affairs of sovereign states (Idemudia, 2010).

Albeit that such concerns may be true, yet, it is also argued that the non-involvement of firms with large foreign ownership, especially oil MNCs, in addressing macro-CSR issues; is a deliberate business strategy to obtain favour from the incumbent government whose support is needed to promote their business interests (Eweje, 2007; Edoho, 2008; Idemudia, 2010).

Against this backdrop, I argue that when public relations and the need to present a good image of the firm underpin firms' CSR engagements at the expense of sustainable development and other negative injunction duties, then, media-friendly projects such as philanthropic donations to schools or construction of a new hospital, may be preferred to slow and long-term capacity building or training projects. Moreover, it would be economically expedient for such firms to operate in a state where there is no proper regulatory framework, and where corruption and failed state agencies thrive. Firms operating in such countries have the incentive to over-produce negative externalities like pollution for instance, in return for payment of a minimal fine. The absence of a minimum standard to be observed by such firms with regard to pollution emission, feeds into the abnegation of negative injunction duties, as firms would profit from reducing operational cost of pollution control while improving their profitability. Based on these arguments, I propose that:

Hypothesis 2(b):

High percentage of foreign shareholding is only positively related to CSR when it is viewed as corporate philanthropy and socially desirable goods

5.4 Effect of Board Composition on CSR Practices.

Board composition and its influence on the firm's CSR practices have been the subject of intense debate: a debate that has been exacerbated by the ambiguity over the benefits of CSR to firms who incorporate such practices in their corporate strategy (Wang and Coffey, 1992; Coffey and Wang, 1998). While some argue that firms incur unnecessary large costs arising from giving away shareholders' money (Ullmann, 1985), others maintain that companies actually benefit from CSR in terms of enhanced employee morale and productivity (Parket and Eilbirt, 1975), improved corporate reputation and image (McGuire et al., 1988), satisfaction of the wider stakeholders of the firm (Cornell and Shapiro, 1987), and long-term profitability of the firm (Margolis and Walsh, 2003). Since, CSR may offer financial benefits to shareholders only in the long-run, the agency theory perspective suggests that boards, as effective guides and monitors of top managements' opportunistic behaviour, would differ in CSR engagement by the proportion of insiders to independent directors, and by ownership structure (Wang and Coffey, 1992; Singh and Davidson, 2003; Jensen and Meckling, 1976; Lipton and Lorsch, 1992). By ownership structure, I denote the absolute and the relative percentage of shares owned by institutional investors like banks, insurance companies, foreigners and Pension funds.

5.4.1 Outside or Independent directors and CSR Effects

Some extant empirical literature favour a positive relationship between board composition and CSR when the board is dominated by independent directors (non-management directors) or outside directors (Johnson and Greening, 1999; Fama and Jensen, 1983; Hermalin and Weisbach, 1991; Strandberg, 2005). Outsider-dominated boards are preferred to insider-dominated boards (management), in that inside directors are themselves agents whose interests are not usually aligned with the shareholders and the wider stakeholders of the firm. It is argued that the stakeholder orientation of outside or independent directors enables them to play an effective direction-setting role (Hung, 2011), which consists essentially in strengthening the board by monitoring management, and ensuring that the interests of shareholders and other external stakeholders are protected (Petra, 2005).

In their empirical study of 2,300 American directors, Wang and Dewhirst (1992) investigate the stakeholder orientation of outside directors and conclude that there are majority of independent directors who are interested in large stakeholder groups, and that these directors are positively disposed to CSR practices in order to protect their interests. In a similar study of 3,268 board members representing 250 firms, Hillman et al. (2001) observe that the presence of outside directors chosen from the wider stakeholder groups ranging from customers, employee, community representatives and suppliers positively impact on CSR practices of the firm. Evidence from CSR-compliant firms shows that their boards, which are usually dominated by outside directors, tend to revise their corporate strategy to incorporate social issues of citizenship and sustainability (Strandberg, 2005).

Based on the above view, Hung (2011) and Pfeffer and Salancik (1978) maintain that outsider-dominated board can be seen as an efficient strategy of promoting firm’s stakeholder salience, and this may invariably improve the reputation and credibility of the firm. In the same vein, Johnson and Greening (1999) note that outside directors, because of the many constituencies they represent, and being versed in the critical contingencies affecting the firms; are more inclined to comply with environmental rules and standards in order to avoid fines, penalties and negative media publicity, which are detrimental to the reputation of the firm.

Accordingly, Zahra and Pearce (1989) argue that in addition to curbing opportunistic behaviour of executive directors, the appointment of independent directors is often used to increase the racial, ethnic and gender diversity of the firm: such broader representation of a more diverse stakeholders on the boards may increase the attention to CSR practices. This broader representation, consistent with legitimacy and stakeholder management models, may also include employees of the firm. Thus, Wang and Coffey (1992) argue that when outside directors are representative of the broader stakeholders of the firm, they would be disposed to relay important information about societal demands to inside directors; and this enables the firm to map organizational strategies and policies that would respond to changing demands of various stakeholders. It is also argued that because outside directors serve as proxy and protectors of the broad trajectory of stakeholders, their roles should not be limited to maximization of shareholders' wealth, but should most importantly be concentrated on promoting the corporate social performance of the firm (Wang and Dewhirst, 1992). Hence, Wang and Coffey (1992) maintain that boards, with high concentration of outside or independent directors, are positively related to both CSR practices and disclosure of social performance information (see also Harjoto and Jo, 2011; Khan et al., 2013).

While it is believed that independent directors could bring a breadth of diversity, knowledge, experience and objectivity to the board, they are often criticised for "their ceremonial or rubber-stamping role and ineffective functioning" (Wang and Coffey, 1992 p. 774). Classic agency theory maintains that outside directors are better positioned to curb opportunistic behaviour of top management, and also ensure that there is alignment of managements' goals with shareholders' interests (Jensen and Meckling, 1976; Baysinger and Butler, 1985; Dalton and Kesner, 1987). Based on this theoretical model, outside directors may then perceive social expenditure on CSR as not only wasteful, but also deleterious to shareholders' returns: they may then use their influence to terminate or minimize the level of firm resources devoted to CSR practices (Harrison and Coombs, 2012). This is in line with Jensen and Meckling (1976), who argue that boards with greater percentages of outside directors are more likely to support shareholder's interests at the expense of other stakeholders.

Moreover, some scholars like Chaganti et al. (1985), Cochran et al. (1985) and Kesner et al. (1986), question the superiority of outside directors on the board. They argue that despite the fact that independent directors have fiduciary responsibility to shareholders, they may in turn control the behaviours of inside directors when they own a higher percentage of stock compared to managerial directors. This broader power base may enable them to monitor and influence the activities of inside managers to their own selfish motives. Hence, they may not be disposed to engage in strategic decisions that would support CSR investments. Coffey and Wang (1998) further note that far from improving social performance of the firm, increasing the number of independent directors may actually be detrimental to CSR.

In Nigerian context, independent directors are usually bureaucrats, appointed for the sole purpose of obtaining social license or as a compensation for previous favours received from the bureaucrats while in power: their skills and expertise are not the underpinning criteria for their appointment (Ahunwan, 2002; Adewuyi and Olowookere, 2009; 2013). This is consistent with existing research by Khan et al. (2013) who find that independent directors in Bangladesh are appointed not on the reasons of their expertise in firm management, but on the grounds of their personal connections with the management of the firm. Thus, they conclude that the influence of outside directors on the board is questionable, and may be negatively related to CSR practices.

Similarly, as some outside directors are usually appointed by inside or managerial directors, they may not engage in formulating strategies that would detract from profit maximization: they are simply co-opted by the incumbent management such that their presence on the board would only be to further the objectives of management even if it is not beneficial to other stakeholders (Edoho, 2008; Idemudia and Ite, 2006). This is further exacerbated when outside directors have low levels of shareholding stake in the firm. When the stake of outside directors is significantly small, they may have no incentive to quiz top management for their opportunism, and may not influence them to commit resources to CSR practices (Weisbach, 1987).

Considering opposing arguments supporting both a positive and negative relationship between outside directors and CSR, I observe that the basic condition underpinning the appointment of outside directors, and who actually appoints them, determine to a great extent how effective they would be in monitoring top management. Hence, if they are appointed by inside directors, agency model would suggest they may not be incentivised to oppose or remove under-performing managers, and may well be content with receiving their remuneration package. Along the same view, they may be appointed merely as ceremonial figures or simply in compliance with statutory requirements, in which case, their effectiveness in monitoring top management may be undermined. Thus, they may not have the incentive to insist that firms be responsive to their social obligations to other stakeholders, and may rather insist on implementing only those practices that maximize shareholders' wealth. Moreover, if their shareholding stake is relatively small, their voting rights may not be sufficient to influence decisions that would promote the interests of other stakeholders. Hence, I argue that outside directors may have little or no incentive to support CSR practices especially in emerging economies. Based on these arguments, I propose the hypothesis that:

Hypothesis 3(a):

Appointing independent or outside directors on the board has no positive impact on all the five forms of firm's CSR practices in the Nigerian industry.

5.4.2 Institutional Investors and CSR effects

Jensen (1983) observes that internal control systems like managerial incentives and a board of directors may not sufficiently provide an effective means of monitoring and curbing managerial opportunism. Consequently, there has been the exigency of external monitoring by institutional investors who own large blocks of shares in the firm (Harjoto and Jo, 2011). The need for institutional investors is premised on agency, stakeholder, legitimacy, business ethics and eco-efficiency models: it is argued that pressures from external investors who are ethically conscious and who may value firms with proven records of social legitimacy, may constrain managers to maximize shareholder's wealth at the expense of pursuing their self-serving objectives (Jensen, 1986; Shleifer and Vishny, 1986). As institutional investors may not be susceptible to free-riding behaviours given their large shareholding relative to smaller or more diffused investors, they have a strong incentive to monitor managers (Demsetz and Lehn, 1985; Shleifer and Vishny, 1986); and may use shareholder activism to shift the balance of power in favour of the board (Donker and Zahir, 2008; Gavin, 2012). Thus, there is now a burgeoning trend in the emergence of institutional investors which includes mutual fund, pension fund, investment bankers, insurance firms and foreign investors (Chaganti and Damanpour, 1991; Pound, 1992).

Several studies argue that there is a negative relationship between institutional investors and CSR (Kochhar and David, 1986; Barnea and Rubin, 2010; Harrison and Coombs, 2012). Barnea and Rubin (2010) argue that if CSR expenditure reduces firm value, then, institutional investors would have the incentive to monitor management and reduce these non-value creating CSR practices. Some scholars also maintain that the burgeoning rate of institutional holdings is negatively correlated with firm’s responsiveness to the needs of diverse stakeholders such as employees, communities, environment and consumers (Kochhar and David, 1986; Johnson and Greening, 1999). This view is premised on the argument of short-termism which makes it difficult for institutional investors to support CSR engagements.

It is argued that the time horizon of investments vary according to the different Institutional investors (Bushee, 1998; Neubaum and Zahra, 2006). Hence, professional investment fund managers like mutual fund and investment bank managers may have a short-term orientation (Bushee, 1998; Johnson and Greening, 1999), wherein they may demand quick returns on investment, while pension fund and foreign investors may have long-term orientation (Kochhar and David, 1986; Johnson and Greening, 1999). The primary objective of fund managers with short-term orientation is to ensure that the firms they invest in adopt policies and practices that would maximize profit in the short-term. This is because institutional fund managers are usually evaluated on short-term fund performance (Zahra et al., 1993), and their remuneration scheme is closely tied to quarterly performance (Johnson and Greening, 1999), and may be replaced or fired when their performance in the short-term is poor (O’Barr and Conley, 1992) .

Again, it is known that short-term institutional investors like mutual fund and investment banks hold large blocks of stock that may be difficult to sell (Johnson and Greening, 1999). Hence, the potential difficulty of off-loading a large block of shares, coupled with the pressure for short-term profitability, may incline fund managers to opt for projects associated with short-term returns (Johnson and Greening, 1999; Harrison and Coombs, 2012). Since the pay-offs of social investments usually take a long time, such investors may regard resources spent on CSR as unnecessary, and a waste of shareholders' wealth (Harrison and Coombs, 2012). Hence, they are more likely to be opposed to investments in CSR practices (Kochhar and David, 1986).

On the contrary, some studies document a significant and positive relationship between institutional investors and CSR (Graves and Waddock, 1994; Siegel and Vitaliano, 2007; Zahra et al., 1993). It is argued that the increase in the shareholding stake of institutional investors in firms makes it difficult to divest their holdings without affecting the share price (Pound, 1992), or damaging their values (Ryan and Schneider, 2002). Even if the stock has lost favour, the large holdings of institutional investors prevent quick divestment of such holdings and may compel them to be actively involved in the governance of the firm (Graves and Waddock, 1994). Thus, they may have the incentive to influence top management to pursue shareholders' interests that are aligned with long-term profitability (Hoskisson et al., 1994). Along this view, Graves and Waddock (1994) argue that since the long-term performance of firms can be enhanced by good management practices, then, institutional investors are more likely to be supportive of CSR-related actions. In the same vein, the long-term orientation of institutional investors, like pension funds, means that they are more likely to be attentive to firm's strategic decisions that would improve its CSR rating (Oh et al., 2011).

Unlike investment managers, pension fund managers are usually evaluated on long-term basis (Johnson and Greening, 1999); and their reward schemes are not closely associated with fund performance (McGinn, 1997). This implies that they are spared the pressures of short-termism[55], as they have longer time-horizons in which their investments are assessed (Johnson and Greening, 1999). In line with

[55] Short-Termism is used to describe firm's excessive concentration on short-term results (usually maximization of shareholders wealth) at the expense of long-term interests. Such short-term strategies are often predicated on accounting-driven metrics and profit maximization that do not factor in the complexities of corporate management and its associated risks (see also Christodoulakis, 2012).

this view, it is argued that unlike mutual fund that frequently move in and out of stocks, pension fund may hold stock in designated firms for well over ten years (Gilson and Kraakman, 1991). Leaning on this, Hill and Snell (1988) opine that the long-term focus of institutional investors may be positively related to higher CSR practices. For instance, institutional investors with long-term orientation will likely emphasize product quality, employee-relation, avoidance of environmental pollution or the costly fine accompanying it (Silverstein, 1994), and may insist that firms devote resources to corporate philanthropy (Schwab and Thomas, 1998).

Similarly, institutional investors such as pension funds, insurance companies, banks and securities firms offer services that require credibility and social legitimacy despite the fact that their services are characterised by huge information asymmetry (Siegel and Vitaliano, 2007). Thus, investing in socially responsible firms and supporting the CSR ratings of such firms, are ways through which institutional investors signal to their clients, their responsibility and reliability; thereby differentiating their services (Oh et al., 2011). Along the same view, Sethi (2005) notes that investors in public pension funds tend to factor into their considerations, based on eco-efficiency model, the long-term effect of firm's performance on the environment, sustainability issues, and corporate citizenship. In the same line of thought, Teoh and Shiu (1990) remark that institutional investors look favourably at firms with high CSR ratings, and are more likely to invest heavily in firms with improved corporate social performance.

Moreover, Spicer (1978) argues that institutional investors consider investments in firms with poor CSR records as a riskier investment: this risk is premised on the likelihood of costly sanctions or fines that may be imposed on the firm by legislative or regulatory bodies or by consumer retaliation through boycott of the firm's products. In lieu of this, the 'social standard criterion[56]' has been established by institutional investors which enables them to select target firms to invest in; firms that meet the globally accepted standard of CSR (Huang, 2010). Hence, some institutional investors have declined from holding shares in firms that manufacture

[56] Social standard criterion refers to complete set of indicators used in metering the sustainability and ethical impact of firms' investment activities. It is usually a useful instrument employed by ethical investors in making investments decisions (see for instance Huang, 2010; Hutton et al., 1998).

products like tobacco, alcohol, gambling products or are notorious for poor employee treatment or environmental pollution (Coffey and Fryxell, 1991). Based on this, Brammer and Millington (2005) maintain that the presence of significant amount of institutional investors and their shareholder activism are meant to show a clear signal to other stakeholders that poor corporate social performance is unacceptable.

Having analysed the various strands of theoretical arguments on the possible nature of relationship between CSR and institutional investors, I argue that based on agency theory, institutional investors are more likely to align the goals of top management with shareholders' interests in long-term profitability. Given the burgeoning rate of large block shareholding of institutional investors, and consistent with stakeholder management model, it is assumed that the interests of other stakeholders of the firm would be prioritized in strategic investment decisions of institutional investors. Moreover, the 'social standard criterion', consistent with eco-efficiency theory[57], shows that irresponsible firms would constitute a risky investment for institutional investors. Even if short-termism may undermine the incentive for long-term orientation of institutional investors like mutual fund and investment banks, yet, the need for credibility and legitimacy of the services they offer might still pose an incentive compatibility constraint that may align institutional investors to support CSR practices like corporate philanthropy, investments in social goods and environmental conservation. Hence, I hypothesize that:

Hypothesis 3(b):

The percentage of firm's shares owned by institutional investors is positively related to CSR expenditures on socially desirable goods, corporate philanthropy and environmental conservation in the Nigerian industry.

[57] Eco-efficiency theory postulates that firms must efficiently manage the relationship between environmental performance and economic performance such that nature and the business would benefit simultaneously (Korhonen, 2003). Central in this theory is the ability of firms to contribute to environmental and ecological sustainability (see for instance Figge and Hahn, 2001; Karvonen, 2001).

5.5 The Effect of Political Affiliation on CSR.

Several works investigate the effect of political connections on both the financial and social performance of the firm (Shleifer and Vishny, 1994; Faccio et al., 2006; Wu et al., 2012; Li and Zhou, 2005). A firm is identified as politically connected when one of its largest shareholders or top officers like CEO, president or chairman is a member of the Senate, House of Representatives, a Minister; or is closely related to a top politician or party (Faccio, 2006). It is argued that when politicians are connected with the management of firm, there is usually a conflicting interest between their dual roles as social welfare providers and profit-maximizers in both state-owned firms and privatized enterprises (Roper and Schoenberger-orgad, 2011). The crucial issue at this point is to examine whether the 'social responsibility deficit'[58] is exacerbated when a firm is politically connected.

The relationship between CSR and politically affiliated directors is underpinned by the incentive alignment of politically connected managers with the interests of external stakeholders (Li and Zhou, 2005). It is the view that managers of politically connected SOFs have the power and more incentive to commit resources to social investments as their career prospects and promotion are largely dependent not only on the firms' profit maximization, but on their abilities to promote social goals that are aligned with the interests of the state (Li and Zhou, 2005; Wu et al., 2012; Wang and Qian, 2011). This is made possible by the fact that firms with political affiliations are usually spared the burdens of higher tax rate and market-regulation rigidities: they also have soft incentive schemes, easier access to bank loans and greater market access (Siegel, 2007; Li et al., 2008a; Claessens et al., 2008; Wu et al., 2012). These underlying benefits of political ties avail firms with excessive slack resources to commit to CSR engagements (Jia and Zang, 2012).

In their study of the corporate performance of managers of politically connected SOFs and privatized firms in China, Wu et al. (2012) maintain that the corporate performance of managers in politically connected SOFs are suboptimal as they

[58] Social Responsibility Deficit is a term used to describe a firm's proven record of poor CSR performance or the absence of CSR practices in firm (see for instance Roper and Schoenberger-orgad, 2011).

need to implement other social and political objectives of government that may detract from profit maximization. They further note that managers in politically connected SOFs are more concerned about fulfilling government's goals rather than maximizing profit for the firm, and have the added duty of solving political and social problems, such as over-investing in unemployment reduction and raising the Gross Domestic Product (GDP). This view is also consistent with the proposition that politicians derive political benefits when firms engage in excess employment (Shleifer and Vishny, 1994).

In the same vein, firms that have political affiliations may engage in socially responsible projects as they would like to be seen as responsible firms, and this has the advantage of soliciting votes for such politicians or for possible re-election bid in the future (Wang and Qian, 2011). It is equally argued that social irresponsibility is unacceptable for firms with political affiliation given its negative impact on the firm's intangible corporate assets; thus, managers of politically connected firms may have the incentive to better satisfy the demands of external stakeholders in order to avoid the risks associated with social irresponsibility (Jia and Zang, 2012).

Moreover, given agency and expropriation issues, Chang and Wong (2004) opine that political control of the firm may enhance firm's CSR when politicians ensure that there is interest alignment between managers and the external stakeholders. Accordingly, Brada (1996) maintains that despite the fact that politicians have social and political objectives which may not be aligned with profit-maximization, politicians have incentive to curb the opportunistic behaviour of controlling shareholders and managers. Thus, if the politicians regard investment in socially responsible activities as a way of fulfilling their campaign promises, they may convince managers through bribes and grants to deliver these political benefits (Li and Zhou, 2005; Wu et al., 2012; Aburime, 2009).

On the other hand, some recent studies suggest that the relationship between political affiliation and CSR is inversely related (Boubakri et al., 2008; Wang and Qian, 2011). These studies argue that firms with political connections enable politically affiliated directors to extract political benefits at the expense of maximizing social welfare and demonstrating stakeholder salience. This is underpinned by the fact that politically connected firms are more likely to have boards dominated by incumbent or former government bureaucrats: these boards are characterised by low degrees of professionalism and may have less incentive to incorporate the interests of other external stakeholders in their corporate governance strategy (Fan et al., 2007).

Researchers who found this non-positive relationship are of the view that corporate decisions of politically connected firms may be detrimental to CSR: this is against the backdrop that politicians who are members of firm's board may use firm-specific resources to pursue political objectives (Boycko et al., 1996; Shleifer and Vishny, 1993; 1994; 1998), that may not be aligned with CSR. Hence, it is argued for instance, that firms with political connections may be motivated by the incentive to transfer wealth to interest groups in return for votes in election (Stigler, 1971). Along the same view, Aburime (2009) observes that politically connected firms in Nigeria are more concerned with gaining the support of senators or members of the House of Representatives relative to being responsive to the demands of their employees and other external stakeholders: the crux of the matter is that this support is extremely important for the minimization of transaction cost of politically affiliated firms. Similarly, it is argued that politically connected firms may act against the public interest and the median voter, and may not look favourably on environmental concerns and socially desirable investments that would not maximize their re-election bid (Olson, 1965).

In their study of philanthropic donations, Wang and Qian (2011) maintain that political influence on firms is negatively related to firms' CSR: they argue that firms which are politically connected and have political resources have little or no incentive to engage, for instance, in environmental conservation, provision of socially desirable goods and philanthropic donations. This is underpinned by the fact that such CSR engagements are meant to attract government's preferential treatment and gain social legitimacy; hence, the need for CSR in the form of corporate philanthropy, provision of social goods and environmental concerns would be vitiated as SOFs are already politically connected.

Thus far, I argue that politically connected firms may have little or no incentive to engage in any form of CSR. In developing economies, it is usually the case that politicians are corrupt (Faccio, 2006; Idemudia and Ite, 2006), and may have political objectives that are not aligned with the maximization of social welfare. It is more likely that in an emerging economy like Nigeria, politically connected firms may have no incentive to devote resources to CSR engagements; and may likely constrain top management via subsidies, relaxed regulatory constraints and political patronage to use firm resources in funding political negotiations in the Senate or House of Representatives. Based on these propositions, I hypothesize that:

Hypothesis 4:

Political affiliation of firms has no significant effect on all the five categories of CSR practices in the Nigerian industry.

5.6 Conclusion

This section of the study presented the development of theoretical arguments for the hypotheses to be tested based on agency, stakeholder, business ethics, legitimacy and eco-efficiency models. I equally supported the hypotheses development with various empirical literature that hypothesize on the possible nature of relationships between different ownership structures and CSR practices. Based on the hypotheses development, I formulated four major hypotheses to investigate the relationship between government ownership and CSR practices; the impact of government and foreign shareholding in a well-structured mixed ownership on CSR, the effect of board independence and institutional investors on CSR and the impact of politically affiliated directors on CSR practices.

Leaning on the exacerbated agency conflict between state (principal) and managers of SOFs on issues, (for instance, like credible commitments of the principal, managers' lack of residual right to profits, social protection of employees of SOFs amongst other factors), and based on the relatively little or no incentive for SOFs to incorporate the interests of external stakeholders, I proposed that: "government ownership has no significant impact on all the forms of CSR with the exception of employee relations in Nigerian industry". I also argued that: "private ownership has a significant and positive impact on CSR when it is seen as corporate philanthropy and investment in social goods".

Premised on eco-efficiency and good stakeholder management models, the incentive for interest alignment of high levels of government shareholding with the demands of other external stakeholders may be more pronounced in environmental conservation, employee-relations and socially desirable investments compared to corporate philanthropy especially when the state is benevolent. Thus, I hypothesized that: "high levels of government shareholding are positively related with all forms of CSR practices with the exception of corporate philanthropy in Nigerian industry. On the other hand, the need to gain social legitimacy via corporate philanthropy and social investments underpins CSR engagements of firms with greater dominance of foreign shareholders. Such firms have argued that the provision of public goods and environmental conservation is the sole responsibility of the state. Hence, I proposed that: "high percentage of foreign shareholding is only positively related to CSR when it is viewed as corporate philanthropy and socially desirable goods".

Since independent directors may be appointed merely as ceremonial figures or in fulfilment of statutory requirements in which case, their effectiveness in curbing managerial opportunism is undermined; thus, they may not have incentive to protect the interests of external stakeholders. I presented the hypothesis that: "appointing independent or outside directors on the board has no positive impact on all the five forms of CSR practices in Nigerian industry". Consistent with eco-efficiency and stakeholder management models, institutional investors may have more incentive to commit resources to social goods and environmental conservation. Hence, I argued that: "the percentage of firm's shares owned by institutional investors is positively related to CSR expenditures on socially desirable goods, corporate philanthropy and environmental conservation in the Nigerian industry”.

Politically connected firms may more likely constrain top management to use firm resources in funding political negotiations in the Senate or House of Representatives, and may have no incentive to commit resources to CSR practices. Thus, I hypothesized that: “Political affiliation of firms has no significant effect on all the five categories of CSR practices of in Nigerian industry”.

6 METHODOLOGICAL FRAMEWORK OF THE STUDY

6.1 Introduction

In the previous chapter, this study presents the hypotheses development based on the theoretical foundations and other empirical literature. Premised on the hypotheses development, this work formulates four major hypotheses to be tested in three empirical chapters of this work. This chapter discusses the general specification of the empirical models and based on this, presents the methodology of the study. I also present the empirical specification for each of the four hypotheses to be tested, and discuss the data sources for the empirical investigation.

6.2 General Specification of the Empirical Model

The empirical estimation is to investigate the relationship between ownership structure and various forms of CSR expenditures on the one hand, and the effect of some corporate governance mechanisms used to proxy other ownership types on CSR practices. Thus, this study estimates how government ownership, government shareholding and foreign shareholding impact on firms' CSR expenditure. It equally estimates how board independence, institutional investors and politically affiliated directors impact on firms' CSR expenditure controlling for firm characteristics and performances.

To carry out this empirical estimation, I made use of panel data on 66 firms listed on the Nigerian Stock Market. This sample is selected from firms located within the major sectors of Nigerian economy ranging from oil & gas, manufacturing, consumer-goods, health-care and information & communication industry. These industries are used in the sample because firms located within them are more likely to devote firm-specific resources to CSR practices either because of consumer activism and regulatory constraints, or the need to reduce the reputational damage of their productive activities owing to negative externalities.

6.2.1 Methodology of the Study

Panel data estimation controls for heterogeneity and endogeneity issues. Endogeneity issues may arise because certain firms may be better managed than others, and may more likely spend more on CSR as a strategy for attaining competitive advantage. This is an unobserved and persistent effect which may confound the relationships of interest. Along the same view, endogeneity problem may also result when there are varying effects that are firm-specific but unobserved, which may give rise to consistent coefficient but biased inference (Verbeek, 2008; Greene, 2003; Kyereboah-Coleman, 2007). For instance, some firms may have varying growth pattern that may align them to spend more on CSR practices compared to other firms. Similarly, endogeneity problems can also occur in the form of reverse causality where the Y and X variables are simultaneously determined in a system. This implies for instance, that government ownership may exert causal impact on CSR expenditure in environmental conservation, while the need to conserve the natural environment may also elicit government ownership of firms. To control for endogeneity bias, this work uses panel data estimation. I also control for further endogeneity bias by using instrumental variable estimation via the treatment effect and Two-Stage Least Squares (2SLS). The discussion of the model specification for the instrumental variable estimation, choice of instruments and its empirical results is treated in a separate empirical chapter – chapter 9.

The basic framework for panel data regression takes the form:

$$Y_{it} = \boldsymbol{X'}_{it}\beta + \mathbf{Z'}_{\mathrm{i}}\alpha + \boldsymbol{W}_t\delta + \varepsilon_{\mathrm{it}} \tag{1}$$

Where Y_{it} represents a series of measures of CSR expenditure; X' is matrix of observations on ownership measures; $\mathrm{Z'}_{\mathrm{i}}$ is a set of firm-specific variables; $\boldsymbol{W}_t$ is a vector of aggregate time variables. The heterogeneity or individual effect is $\mathrm{Z'}_{\mathrm{i}}$which may represent a constant term and a set of observable and unobservable variables. When the individual effect $\mathrm{Z'}_{\mathrm{i}}$ contains only a constant term, Ordinary Least Squares (OLS) estimation provides a consistent and efficient estimates of the underlying parameters (Greene, 2008); but if $\mathrm{Z'}_{\mathrm{i}}$ is unobservable and correlated with X_{it} , then, emerges the need to use other estimation method because OLS will give rise to biased and inconsistent estimates (Verbeek, 2008; Kyereboah-Coleman, 2007). Similarly, when the columns of the parameters X_{it} and $\mathrm{Z'}_{\mathrm{i}}$ are correlated with the disturbance term ε_{it}, endogeneity problems may also arise, suggesting that there may be persistent unobserved correlated effects that may confound the relationship between the dependent and independent variables (Kyereboah-Coleman, 2007; Verbeek, 2008; Wooldridge, 2002; Johnston, 1984). Endogeneity issue would suggest that Fixed-effect is the preferred way to deal with it. Hausman specification test confirms that Fixed-effect is the preferred model. The results of Hausman specification tests are shown in the tables in Appendices 33 - 36.

It is the case that even in panel data estimation where the X and Y variables vary over time, the error term that is correlated with the endogenous X variables may also vary over time giving rise to a dynamic unobserved heterogeneity; in which case the use of Fixed-effect model may no longer be reliable (Zhou, 2001). Premised on this fact, Brown et al. (2009) argue that the empirical method of Fixed-effect estimation alone may not account for the impact of firm-specific trend over time in explaining the relationship between the dependent and the explanatory variables in panel estimation. Not controlling for the differing growth rates that are peculiar to various firms used in the study may actually confound the exact relationship between ownership structure and CSR expenditure. Thus, the aim here is to assess the robustness of the estimated Fixed-effect model to alternative econometric methods, and to ensure that time varying factors captured in the firm-specific trend are adequately controlled for. Consistent with the works of Brown et al. (2009), this work uses Fixed-effect & Firm-specific trend model (FE & FT) to control for possible correlations between firm-specific growth rate via change of ownership structures and various forms of CSR expenditures. To carry out this estimation, I first all detrend all the variables for each firm separately and then, estimate the Fixed-effect model on these detrended data. The data are detrended by subtracting the mean or the best-fit line from the data. This is done by applying the detrend-command via STATA software which performs a linear fit to the original data and then, removes the trend specific to each data series.

A potential problem in panel data estimation is the tendency to overstate information contained in micro-econometric panel on the assumption that the data contained in such panel do not display temporal dependencies (Hoechle, 2007; Wooldridge, 2002; Greene, 2008). It is the case that erroneously ignoring possible correlation of the regression residuals over time and the existence of non-constant error variance can lead to biased statistical inference (Agunbiade and Adeboye, 2012; Hoechle, 2007). The data used in this study may also be subject to heteroskedasticity because the sample is drawn from firms in different sectors where the size of the firm may vary according to different industries. Since the time dimension of my panel is 10 year series, and to ensure the validity of the statistical results, I adjust the standard errors of the coefficient estimates in order to correct for possible heteroskedasticity and autocorrelation in the residuals of the regression. Moreover, since there is no spatial dependence given that the firms in the sample are selected from different industries, this study assumes that there is no need for spatial correlation correction.

Hence, in order to compute what is often termed heteroskedasticity and autocorrelation-consistent (HAC) standard errors, I use Newey-West standard errors. Newey-West standard errors both in time series and cross-sectional panel (balanced or unbalanced) are robust to both arbitrary heteroskedasticity and autocorrelation (Wooldridge, 2002; Verbeek, 2008). Newey-West standard errors are usually calculated based on the choice of maximum lag: the maximum lag length must not exceed the periodicity of the data (Wooldridge, 2002; Hoechle, 2007; Brooks, 2008), which in this study is ten years. The panel is an unbalanced one, but I made sure that each firm investigated has at least data for five years. Hence, I choose the maximum lag of 5 for computing Newey-West HAC standard errors. I also compare the results by using other lag lengths particularly lag 2 through lag 4 and the results are not significantly different from the results obtained by using lag 5.

Although the dependent CSR variables may seem unrelated across the five equations for each model, yet, a closer examination suggests that these equations may actually be correlated by their disturbances (Brooks, 2008; Wooldridge, 2002; Greene, 2008). To control for the contemporaneous relationships between the error terms of the five equations of CSR expenditures in each model, this study uses Seemingly Unrelated Regression (SUR) model. This model enables the estimation of all the regression equations with Y_1-Y_5 variables simultaneously in a system, taking into account the co-variances between the error terms of the different equations. It is a popular view that this model improves the efficiency of estimation in multi-equation system by capturing part of the common structure in the error terms of different equations, compared to when the equations are estimated separately (Greene, 2008; Wooldridge, 2002). Therefore, SUR model is conducted for each of the four specified hypotheses.

6.2.2 Description of the Variables and Controls used for the Study

6.2.2.1 Dependent Variables

The choice of CSR dependent variables is based on the fact that CSR is a multi-dimensional construct that involves both affirmative[59] and negative injunction duties[60]. Thus, I did not use a composite index as a metric for CSR expenditure as the aggregation of various forms of CSR into a composite index may blur the nature of the exact relationship between ownership structure and each category of CSR contained in the index (Johnson and Greening, 1999).

Hence, this work deconstructs CSR expenditure into: expenditure on public goods, expenditure on socially desirable output, expenditure on corporate philanthropy, percentage of women on the board used to proxy employee-relations and expenditure on environmental conservation. The following aggregations are made

[59] As we saw in chapter 2, Affirmation duties refer to the pursuit of moral and social good which is akin to the ethical and discretionary responsibilities of Carroll's (1979) four-part conceptualization of CSR (see for instance Idemudia and Ite, 2006).

[60] Negative Injunction duties refer to firms' obligation of preventing and correcting the negative externalities of their productive activities to the society (see for instance Simon et al., 1972; Idemudia and Ite, 2006).

from the data available on Nigerian companies in order to obtain each component of CSR expenditure.

CSR on public goods is the sum of firms' annual CSR expenditures on roads and security. CSR on socially desirable output is measured by total firms' annual expenditures on education, water, electricity, health, youth's development, sports and entertainment. CSR on corporate philanthropy is measured by total monetary donations of firms to communities and charitable organizations. Percentage of women on the board is used to proxy employee-relations, and is measured by percentage of women on the company's board. Existing studies suggest that percentage of women on the board is positively correlated with good employee-relations: it is the case that women on the board of directors are more likely to promote CSR practices like good employee-relations and philanthropic donations (Terjesen et al., 2009; Erkut et al., 2008). My choice of this measure is further supported by the declaration of International Labour Organization (ILO), which maintains that good employee-relations are positively related with the presence of women on the board of firms. The ILO document on gender equality[61] maintains that fair treatment of employees involves a gender-specific action which includes "establishing quotas for women's participation, or reserving places for women in representative bodies of firms, particularly at decision-making levels" (ILO, 2004 p. 11). CSR on environmental conservation is measured by total annual expenditures on ecological conservation, control of oil spillage and pollution abatement technology.

Since the panel of this study is an unbalanced one, with the exception of employee relations which is measured by percentage of women on board, all the other CSR dependent variables are computed by using Log(x + 1) in order to avoid the problem of missing values and its potential consequence of sample selection bias. All the financial variables are measured in constant USD at 2001 base year prices

[61] This document is known as "Gender Equality and Decent Work Place: Good Practices at the Work Place" and also emphasizes non-discrimination and gender equality as some of the ways through which firms may signal how well they treat their employees (see for instance ILO, 2004).

using the exchange rate of 1 US dollar to 106 Naira[62]. We deflate these financial variables using consumer price index.

6.2.2.2 Independent Variables

This work also selects various ownership structures and corporate governance mechanisms as explanatory variables and these include: government ownership, government shareholding, foreign shareholding, board independence, institutional investors and politically affiliated directors. The choice of government ownership, board independence and institutional investors as explanatory variables is consistent with the hypotheses discussed in chapter 5 (see for instance Huang, 2010; Lee, 2009; See, 2009), which argue that these types of ownership may have more incentive to maximize social welfare through committing resources to CSR practices.

The choice of government and foreign shareholding is in line with Himmelberg et al. (1999), Demsetz and Villalonga, (2001), Tian and Estrin, (2008) and Bai et al. (2004), who maintain that firms with high levels of government shareholding are more likely to constrain management to find alternative employment for employees in times of economic bust. Moreover, firms with high levels of foreign shareholding may be more likely to replicate good management practices of their parents firms by incorporating CSR practices in their corporate governance strategy (Jeon et al., 2011; Yoshikawa et al., 2010; Ahunwan, 2002). Similarly, the selection of politically affiliated directors is in line with the alternative hypothesis (see for instance Wu et al., 2012; Li and Zhou, 2005), which opines that politically affiliated directors may have more incentive to devote resources to socially responsible projects since this may have positive impact on their possible re-election bid in the future.

Along the same view, the Nigerian Enterprises Promotion Decree, No. 4 of 1972 (also known as the Indigenization Decree-NEPD), appears to favour the choice of government and institutional ownership. This decree restricted the shares of foreign ownership in domestic firms to 40%, and promoted substantial government

[62] Naira (₦) is the local currency of Nigeria.

and institutional ownership on the grounds that state-owned firms (SOFs) and institutional investors may perform better in both financial and social investments compared to foreign ownership of Nigerian firms (Ahunwan, 2002; Adegbite and Nakajima, 2011).

6.2.2.3 Control Variables

Scholars like Ullman (1985), Waddock and Graves (1997), McWilliams and Siegel (2001), Elsayed and Paton (2005) and Konar and Cohen (2001), indicate the need to control for industry effects, firm size and profitability. Consistent with these studies, I control for total sales revenue, return on assets and capital intensity. Since large firms may have slack resources to engage in CSR practices, I use total sales revenue in the period under investigation as a proxy for firm size. The choice of this variable as a proxy for firm size follows the literature which maintains that large firms may have more abundant resources to commit to provision of socially desirable goods (Fahlenbrach et al., 2010; Osamah and Zoubi, 2005; Huang, 2010). In line with Waddock and Graves (1997), McWilliams and Siegel (2001) and Elsayed and Paton (2005), who support the view that more profitable firms may have more incentive to commit resources to CSR practices, I use return on asset (ROA) which is measured by (profit after tax/total assets) to control for firm profitability. Following the works of Reinhardt et al. (2008) and Fahlenbrach et al. (2010), which argue that committing resources to CSR practices may be dependent on the nature of the industry, I equally include capital intensity which is measured by (total assets/sales) to control for industry effects. A detailed description of all the variables used in this study is contained in Appendix 1.

6.3 Empirical Model Specification

Various empirical models are specified for each of the hypothesized relationships contained in the four models investigating the relationship between CSR and ownership structure. The relevant estimation models under each of the hypotheses for OLS, Fixed and Random-effects are given below. This section also shows the empirical model specifications for SUR estimations for the four models investigated in this study.

6.3.1 Government-Ownership and CSR Effects

Hypothesis 1: *Government-ownership has no significant impact on all the forms of CSR with the exception of employee relations in Nigerian industry*. This hypothesis is based on the fact that all the forms of CSR practices examined in this study, with the exception of employee-relations, may not be compatible with the incentives of government bureaucrats or professional managers who manage state-owned firms (SOFs). It is argued that since managers' compensations are usually determined by the state and are largely dependent not only on their capacity to maximize returns on investments or satisfy the demands of other external stakeholders, but on their ability to execute the will of the state, managers of SOFs may not commit resources to most forms of CSR practices (Bai and Xu, 2005). It is also the view that managers of SOFs may be constrained by the state to hire excess capacity and provide adequate safety nets and social protection for its employees (Li and Wang, 1996).

The OLS, Fixed and Random effect models to address hypothesis 1 are given below respectively:

$$\mathrm{lnCSREXP_i} = \alpha_\circ + \alpha_1 \mathrm{GOVT\_OWN}_i + \alpha_2 \mathrm{lnTOTAL\_SALES}_i + \alpha_3 \mathrm{ROA}_i + \alpha_4 \mathrm{CAP\_INT}_i + \varepsilon_{1i} \quad (2)$$

$$\mathrm{lnCSREXP_{it}} = \beta_\circ + \beta_1 \mathrm{GOVT\_OWN}_{it} + \beta_2 \mathrm{lnTOTAL\_SALES}_{it} + \beta_3 \mathrm{ROA}_{it} + \beta_4 \mathrm{CAP\_INT}_{it} + \sum_{i=1}^{65} \beta_i idum + \varepsilon_{1it} \quad (3)$$

$$\mathrm{lnCSREXP_{it}} = \delta_\circ + \delta_1 \mathrm{GOVT\_OWN}_{it} + \delta_2 \mathrm{lnTOTAL\_SALES}_{it} + \delta_3 \mathrm{ROA}_{it} + \delta_4 \mathrm{CAP\_INT}_{it} + \mu_i + \varepsilon_{1it} \quad (4)$$

Where CSREXP means expenditure on CSR and GOVT_OWN is government ownership. The latter is a dummy variable that takes the value of "1" when government is a substantial shareholder in a firm and "0" otherwise. It should be noted that government had divested its ownership of many firms as a result of its various privatization exercises and therefore, its holdings of Nigerian firms during the period of this study is small. However, substantial shareholding is defined here as when government still has at least 30% of the ownership stake of a firm[63]. I did not include the default variable of private ownership in the model testing hypothesis 1. The control variables included in this model are as described above. It should be noted that both CSR expenditure (CSREXP) and total sales revenue (TOTAL_SALES) are expressed in natural logarithm while return on asset (ROA) and capital intensity (CAP_INT) are in percentage forms.

Moreover, the SUR model testing hypothesis 1 is specified below:

$$\begin{aligned}
&\mathrm{lnCSR_public_i} = \alpha_\circ + \alpha_1\mathrm{GOVT_OWN}_i + \alpha_2\mathrm{lnTOTAL_SALES}_i + \alpha_3\mathrm{ROA}_i + \alpha_4\mathrm{CAP_INT}_i + \varepsilon_{1i}\\
&\mathrm{lnCSR_social_i} = \beta_\circ + \beta_1\mathrm{GOVT_OWN}_i + \beta_2\mathrm{lnTOTAL_SALES}_i + \beta_3\mathrm{ROA}_i + \beta_4\mathrm{CAP_INT}_i + \varepsilon_{2i}\\
&\mathrm{lnCSR_philanthropy_i} = \delta_\circ + \delta_1\mathrm{GOVT_OWN}_i + \delta_2\mathrm{lnTOTAL_SALES}_i + \delta_3\mathrm{ROA}_i + \delta\alpha_4\mathrm{CAP_INT}_i + \varepsilon_{3i}\\
&\mathrm{Women_board_i} = \gamma_\circ + \gamma_1\mathrm{GOVT_OWN}_i + \gamma_2\mathrm{lnTOTAL_SALES}_i + \gamma_3\mathrm{ROA}_i + \gamma_4\mathrm{CAP_INT}_i + \varepsilon_{4i}\\
&\mathrm{lnCSR_envt_i} = \lambda_\circ + \lambda_1\mathrm{GOVT_OWN}_i + \lambda_2\mathrm{lnTOTAL_SALES}_i + \lambda_3\mathrm{ROA}_i + \lambda_4\mathrm{CAP_INT}_i + \varepsilon_{5i}
\end{aligned} \tag{5}$$

Where lnCSR_public is the log of CSR expenditure on public goods, lnCSR_social is the log of CSR expenditure on social goods, lnCSR_philanthropy is the log of CSR expenditure on corporate philanthropy, Women_board measures the percentage of women on the board, lnCSR_envt is the log of CSR expenditure on environmental conservation. The explanatory variables on the right hand side are as described in equation (2) above.

6.3.2 Shareholding Structure and CSR Practices

Hypothesis 2: *High levels of government shareholding are positively related with all forms of CSR practices with the exception of corporate philanthropy in Nigerian industry.* This hypothesis is based on the fact that in a well-structured mixed-ownership, the incentive for interest alignment of high government shareholding with the demands of other external stakeholders may be more pronounced in environmental conservation, employee-relations and socially desirable investments

[63] Oil firms listed on the NSE only list their downstream sector and government ownership is almost nil in their downstream activities. This contrasts with government ownership of approximately 60% (joint-ventures) in their upstream sector. In line with the works of Meyer et al. (2014), I carried out a little simulation to estimate government ownership in the downstream sector by assuming that government has 60% of ownership of oil firms in the downstream sector. For instance, if an oil company owns 50% of its downstream sector, government ownership is computed as 30% (0.6 x 50%).

compared to corporate philanthropy (Lee, 2009; Li and Zhang, 2010). Huang (2010) underlines that large government shareholding significantly enhances a firm's social performance because the government shareholders, in their interactions with the wider stakeholders, are more likely to insist that firms address and engage in more socially responsible behaviour like investments in socially desirable goods.

The OLS, Fixed and Random effect models to address hypotheses 2 are:

$$\mathrm{lnCSREXP_i} = \alpha_\circ + \alpha_1\mathrm{GOVT\_SHARE}_i + \alpha_2\mathrm{FOREIGN\_SHARE}_i + \alpha_3\mathrm{lnTOTAL\_SALES}_i + \alpha_4\mathrm{ROA}_i + \alpha_5\mathrm{CAP\_INT}_i + \varepsilon_{1i} \quad (6)$$

$$\mathrm{lnCSREXP_{it}} = \beta_\circ + \beta_1\mathrm{GOVT\_SHARE}_{it} + \beta_2\mathrm{FOREIGN\_SHARE}_{it} + \beta_3\mathrm{lnTOTAL\_SALES}_{it} + \beta_4\mathrm{ROA}_{it} + \beta_5\mathrm{CAP\_INT}_{it} + \sum_{i=1}^{65}\beta_i idum + \varepsilon_{1it} \quad (7)$$

$$\mathrm{lnCSREXP_{it}} = \delta_\circ + \delta_1\mathrm{GOVT\_SHARE}_{it} + \delta_2\mathrm{FOREIGN\_SHARE}_{it} + \delta_3\mathrm{lnTOTAL\_SALES}_{it} + \delta_4\mathrm{ROA}_{it} + \delta_5\mathrm{CAP\_INT}_{it} + \mu_i + \varepsilon_{1it} \quad (8)$$

Where the dependent variable is as described in equation (2), GOVT_SHARE is government shareholding and measures the actual percentage of shareholding of a company that is owned by government. FOREIGN_SHARE is foreign shareholding and measures the actual percentage of shareholding of a firm that is owned by foreigners in the domestic economy. The rest of the variables on the right hand side are as described in equation (2). It should be noted that a shareholding is considered to be high when either government or foreign shareholders have at least up to 20% shareholding stake of the firm (Nigerian Stock Exchange, 2003; Amao and Amaeshi, 2008).

The SUR model testing hypotheses 2 is specified below:

$$\mathrm{lnCSR\_public_i} = \alpha_\circ + \alpha_1\mathrm{GOVT\_SHARE}_i + \alpha_2\mathrm{FOREIGN\_SHARE}_i + \alpha_3\mathrm{lnTOTAL\_SALES}_i + \alpha_4\mathrm{ROA}_i + \alpha_5\mathrm{CAP\_INT}_i + \varepsilon_{1i}$$

$$\mathrm{lnCSR\_social_i} = \beta_\circ + \beta_1\mathrm{GOVT\_SHARE}_i + \beta_2\mathrm{FOREIGN\_SHARE}_i + \beta_3\mathrm{lnTOTAL\_ASSETS}_i + \beta_4\mathrm{ROA}_i + \beta_5\mathrm{CAP\_INT}_i + \varepsilon_{2i} \quad (9)$$

$$\mathrm{lnCSR\_philanthropy_i} = \delta_\circ + \delta_1\mathrm{GOVT\_SHARE}_i + \delta_2\mathrm{FOREIGN\_SHARE}_i + \delta_3\mathrm{lnTOTAL\_SALES}_i + \delta_4\mathrm{ROA}_i + \delta_5\mathrm{CAP\_INT}_i + \varepsilon_{3i}$$

$$\mathrm{Women\_board_i} = \gamma_\circ + \gamma_1\mathrm{GOVT\_SHARE}_i + \gamma_2\mathrm{FOREIGN\_SHARE}_i + \gamma_3\mathrm{lnTOTAL\_SALES}_i + \gamma_4\mathrm{ROA}_i + \gamma_5\mathrm{CAP\_INT}_i + \varepsilon_{4i}$$

$$\mathrm{lnCSR\_envt_i} = \lambda_\circ + \lambda_1\mathrm{GOVT\_SHARE}_i + \lambda_2\mathrm{FOREIGN\_SHARE}_i + \lambda_3\mathrm{lnTOTAL\_SALES}_i + \lambda_4\mathrm{ROA}_i + \lambda_5\mathrm{CAP\_INT}_i + \varepsilon_{5i}$$

Where the dependent variable on the left hand side is as described in equation (5), the explanatory variables are as described in equation (6) above, and the control variable are as described in equation (2).

6.3.3 Effect of Board Composition on CSR Practices.

Hypothesis 3: *Appointing independent or outside directors on the board has no positive impact on all the five forms of CSR practices in Nigerian industry.* This hypothesis is premised on the fact that independent directors may be appointed merely as ceremonial figures or simply in compliance with statutory requirements (Wang and Coffey, 1992); in which case, their effectiveness in monitoring top management may be undermined (Coffey and Wang, 1998; Harrison and Coombs, 2012). Hence, they may not have the incentive to insist that firms be responsive to their social obligations to other external stakeholders (Harrison and Coombs, 2012; Khan et al., 2013).

The OLS, Fixed and Random effect models to address hypotheses 3 are:

$$\mathrm{lnCSREXP_i} = \alpha_\circ + \alpha_1\mathrm{BOARD\_IND_i} + \alpha_2\mathrm{INSTN_i} + \alpha_3\mathrm{lnTOTAL\_S_i} + \alpha_4\mathrm{ROA_i} + \alpha_5\mathrm{CAP\_INT_i} + \varepsilon_{1i} \quad (10)$$

$$\mathrm{lnCSREXP_{it}} = \beta_\circ + \beta_1\mathrm{BOARD\_IND_{it}} + \beta_2\mathrm{INSTN_{it}} + \beta_3\mathrm{lnTOTAL\_SALES_{it}} + \beta_4\mathrm{ROA_{it}} + \beta_5\mathrm{CAP\_INT_{it}} + \textstyle\sum_{i=1}^{65}\beta_i\mathrm{idum} + \varepsilon_{1it} \quad (11)$$

$$\mathrm{lnCSREXP_{it}} = \delta_\circ + \delta_1\mathrm{BOARD\_IND}_{it} + \delta_2 INSTN_{it} + \delta_3\mathrm{lnTOTAL\_SALES}_{it} + \delta_4\mathrm{ROA}_{it} + \delta_5\mathrm{CAP\_INT}_{it} + \mu_i + \varepsilon_{1it} \quad (12)$$

Where the dependent variable is as described in equation (2) and BOARD_IND is board independence and measures the percentage of independent directors on the board of a company. INSTN is institutional investors and measures the percentage of shares of institutional investors. The rest of the variables on the right hand side are as described in equation (2).

Moreover, the SUR model testing hypotheses 3 is specified below:

$$\mathrm{lnCSR\_public_i} = \alpha_\circ + \alpha_1\mathrm{BOARD\_IND}_i + \alpha_2 INSTN_i + \alpha_3\mathrm{lnTOTAL\_SALES}_i + \alpha_4\mathrm{ROA}_i + \alpha_5\mathrm{CAP\_INT}_i + \varepsilon_{1i}$$

$$\mathrm{lnCSR\_social_i} = \beta_\circ + \beta_1\mathrm{BOARD\_IND}_i + \beta_2 INSTN_i + \beta_3\mathrm{lnTOTAL\_SALES}_i + \beta_4\mathrm{ROA}_i + \beta_5\mathrm{CAP\_INT}_i + \varepsilon_{2i} \quad (13)$$

$$\mathrm{lnCSR\_philanthropy_i} = \delta_\circ + \delta_1\mathrm{BOARD\_IND}_i + \delta_2 INSTN_i + \delta_3\mathrm{lnTOTAL\_SALES}_i + \delta_4\mathrm{ROA}_i + \delta_5\mathrm{CAP\_INT}_i + \varepsilon_{3i}$$

$$\mathrm{Women\_board_i} = \gamma_\circ + \gamma_1\mathrm{BOARD\_IND}_i + \gamma_2 INSTN_i + \gamma_3\mathrm{lnTOTAL\_SALES}_i + \gamma_4\mathrm{ROA}_i + \gamma_5\mathrm{CAP\_INT}_i + \varepsilon_{4i}$$

$$\mathrm{lnCSR\_envt_i} = \lambda_\circ + \lambda_1\mathrm{BOARD\_IND}_i + \lambda_2 INSTN_i + \lambda_3\mathrm{lnTOTAL\_SALES}_i + \lambda_4\mathrm{ROA}_i + \lambda_5\mathrm{CAP\_INT}_i + \varepsilon_{5i}$$

Where the dependent variables are as described in equation (5) and the explanatory variables are as described in equation (10) above. The rest of the control variables are as stated in equation (2) above.

6.3.4 The Effect of Political Affiliation on CSR.

Hypothesis 4: *Political affiliation of firms has no significant effect on all the five categories of CSR practices in Nigerian industry.* This hypothesis is underpinned by the view that politically connected firms may have no incentive to devote resources to CSR engagements, and may more likely constrain top management via subsidies, relaxed regulatory constraints and political patronage to expend firm resources in funding of political negotiations in the Senate or House of Representatives (Wang and Qian, 2011; Boubakri et al., 2008). Similarly, it is argued that since CSR engagements may be undertaken by firms in order to attract government's preferential treatment and gain social legitimacy, firms whether private or SOFs, that are already politically connected and have political resources, may have little or no incentive to engage for instance in environmental conservation, provision of socially desirable goods and philanthropic donations (Wang and Qian, 2011).

The OLS, Fixed and Random effect models to address hypothesis 4 are given respectively below:

$$\mathrm{lnCSREXP_i} = \alpha_\circ + \alpha_1 POLF_i + \alpha_2 \mathrm{lnTOTAL\_SALES}_i + \alpha_3 \mathrm{ROA}_i + \alpha_4 \mathrm{CAP\_INT}_i + \varepsilon_{1i} \quad (14)$$

$$\mathrm{lnCSREXP_{it}} = \beta_\circ + \beta_1 POLF_{it} + \beta_2 \mathrm{lnTOTAL\_SALES}_{it} + \beta_3 \mathrm{ROA}_{it} + \beta_4 \mathrm{CAP\_INT}_{it} + \sum_{i=1}^{65} \beta_i idum + \varepsilon_{1it} \quad (15)$$

$$\mathrm{lnCSREXP_{it}} = \delta_\circ + \delta_1 POLF_{it} + \delta_2 \mathrm{lnTOTAL\_SALES}_{it} + \delta_3 \mathrm{ROA}_{it} + \delta_4 \mathrm{CAP\_INT}_{it} + \mu_i + \varepsilon_{1it} \quad (16)$$

Where the dependent variable is as described in equation (2) and POLF is political affiliation which is a dummy variable serving as a proxy for when at least one of the firm's largest shareholders or top directors is a member of Senate (Parliament), House of Representative, Minister or is a member of the ruling political party (see for instance Faccio, 2006). The rest of the variables on the right hand side are as described in equation (2).

The SUR model testing hypothesis 4 is specified below:

$$lnCSR\_public_i = \alpha_\circ + \alpha_1 POLF_i + \alpha_2 \mathrm{lnTOTAL\_SALES}_i + \alpha_3 \mathrm{ROA}_i + \alpha_4 \mathrm{CAP\_INT}_i + \varepsilon_{1i}$$

$$lnCSR\_social_i = \beta_\circ + \beta_1 POLF_i + \beta_2 \mathrm{lnTOTAL\_SALES}_i + \beta_3 \mathrm{ROA}_i + \beta_4 \mathrm{CAP\_INT}_i + \varepsilon_{2i}$$

$$lnCSR\_philanthropy_i = \delta_\circ + \delta_1 POLF_i + \delta_2 \mathrm{lnTOTAL\_SALES}_i + \delta_3 \mathrm{ROA}_i + \delta_4 \mathrm{CAP\_INT}_i + \varepsilon_{3i} \quad (17)$$

$$Women\_board_i = \gamma_\circ + \gamma_1 POLF_i + \gamma_2 \mathrm{lnTOTAL\_SALES}_i + \gamma_3 \mathrm{ROA}_i + \gamma_4 \mathrm{CAP\_INT}_i + \varepsilon_{4i}$$

$$lnCSR\_envt_i = \lambda_\circ + \lambda_1 POLF_i + \lambda_2 \mathrm{lnTOTAL\_SALES}_i + \lambda_3 \mathrm{ROA}_i + \lambda_4 \mathrm{CAP\_INT}_i + \varepsilon_{5i}$$

Where the dependent variables on the left hand are as described in equation (5), the explanatory variable is as described in equation (14) above and the rest of the control variables are as stated in equation (2).

6.4 Sample and Data Sources

The sample for this study is taken from 66 firms listed on the Nigerian Stock Exchange (NSE) during the period of the study. These firms cover major sectors such as oil & gas, manufacturing, consumer-goods, healthcare and information & communication sectors. These sectors are the major forces driving Nigerian economy; and most of the discussions on CSR issues in Nigeria should be concentrated around these sectors. The Financial sector is excluded not only due to its different debt structures and operations balance sheet reporting (Kyereboah-Coleman and Biekpe, 2006); but also because of the instability in the sector arising from numerous mergers and acquisitions which have taken place in the decade under study.

The sample period is ten years ranging from 2001 to 2010, and it is ensured that each of the firms has data for at least five years during this period. Hence, the study is an unbalanced panel analysis as it enables the examination of the behaviour of these firms across each other over a long period of time. Data of firms listed on NSE are relied upon because these firms are mandated to make their information public, and this may be a solution to the problem of paucity of data in an emerging economy like Nigeria. Thus, this study relied substantially on firms' annual reports for the years covered by the work. It should also be noted that information from companies' annual reports can be relied upon as they are audited by external auditors, majority of who are of international repute.

Some data on CSR practices are not disclosed in the annual reports of all the firms I visited. Hence, I conducted interviews with some high level management officers of these firms in order to obtain data on their CSR expenditures. These high management officers provided information on their CSR expenditures on the ground that they remain anonymous.

Since CSR reporting may be subject to information asymmetry, given that most firms may report non-existent or unverifiable CSR engagements just to boost their public image, I also collected data from an independent data source known as Financial and Governance (FINGOV) Database. This database is solely managed by a resource based firm in Nigeria known as Analysts Data Services and Resources (ADSR), and contains the most comprehensive data across all sectors of Nigerian economy. This FINGOV Database is particularly rich in data spanning over corporate governance issues, CSR practices, board structure, shareholders information, financial and capital market data. I made use of data on CSR expenditure and corporate governance issues from this dataset in order to support the data on those firms that failed to provide us with the relevant information needed for the study. I equally compared the CSR and corporate governance data collected from annual reports and firms, with that contained in this database. This independent data source has also been able to integrate, update and validate relevant data from annual reports of companies through their field-based research network spanning across all the six geo-political zones[64] in Nigeria.

6.5 Conclusion

This section of the study discussed the general specification of the empirical model and based on this, presented the analytical framework of the study. It also outlined panel data estimation comprising Fixed and Random effect models as the basic

[64] Six Geo-political zones in Nigerian refer to the geographical stratification of Nigeria for easy redistribution of wealth by the Federal government. They include the following zones: South-south, South-east, South-West (all in the Southern part of Nigeria), and North-central, North-east, North-west (all in the Northern part of Nigeria).

empirical method for this study. Panel estimation is preferred because it not only enables an in-depth analysis of cross-sectional time series, but also makes provision for broader set of data points. It is equally good in controlling for endogeneity issues. To ensure that the empirical analysis is consistent and robust to further endogeneity bias, variations in the firm-specific trend and correlations in the error terms of different CSR equations, I proposed the use of treatment effect and 2SLS, FE & FT and SUR models. I also described the entire variables used for the study and the sample and data sources for the empirical investigation.

7 ECONOMETRIC ISSUES, ANALYSES AND DISCUSSION OF EMPIRICAL RESULTS OF THE EFFECTS OF OWNERSHIP STRUCTURES ON CSR

7.1 Introduction

This chapter focuses on the presentation and discussion of empirical results of the relationship between CSR and ownership variables (government ownership, government and foreign shareholding), and is divided into two major parts. The first part comprises the analysis of the descriptive statistics and correlation matrix of all the variables used in the study. The second is the presentation of the tables of empirical results and analyses of the regression results based on the Fixed-effect, Fixed-effect & Firm-Specific Trend (FE & FT) and Seemingly Unrelated Regression (SUR) models. The results presented in this section only show the effect of different ownership structures (government ownership, government and foreign shareholding) on CSR practices.

7.2 Descriptive Statistics and Correlation Matrix

This section is further divided into 2 subsections. First is the presentation of the table of descriptive statistics. I discuss in details each of the CSR dependent variables; comparing mean expenditure by firms on the different forms of CSR practices. I equally compare expenditure on CSR as a share of profit across different ownership types and industries. The second is the presentation of the table of correlation matrix of all the variables used in the empirical estimation.

Table 7.1: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Dev
Public Goods	493	.00	397,323	2,783	20,305
Social Goods	493	.00	1,401, 221	32,595	132,725
Philanthropy	493	.00	1,092,366	21,221	117,183
Women_Board	493	.00	33.33	4.7311	6.99338
Environment	493	.00	119,083	772	6,847
Govt_Own	493	0	1.00	0.2475	0.43198
Govt_Share	493	.00	68.00	6.3396	12.67407
Foreign_Share	493	.00	88.5	34.551	25.2775
Board_Indep	493	.00	88.89	42.2822	22.86723
Instu_ Investors	493	.00	94.18	53.6511	18.11233
Political_Dummy	493	0	1	0.65	0.478
Total_Sales	493	2,923	2,892,560,534	185,161,313	343,878,557
Roa_Percent	493	-172.93	42.71	2.7445	15.85394
Cap_Intensity	493	0.159	164,015.2	1,304.4	7,434.7

Table 7.2: Mean CSR Expenditure across Industries over the period from 2001 - 2010

Sectors	Public	Social Good	Philanthropy	Environment	Women_Board
Manufacturing	6083	32344	59489	526.6	5.09
Oil & Gas	1557	57450	15137.4	2283.2	8.33
Consumer Goods	4057	62578	26809.1	386	2.5
Healthcare	1382	8649.14	2793.9	460	4.99
Information & Comm	836	1954.2	1876	205	2.59
Total Mean	2783	32595	21221.3	772.3	4.7

(Source: Author's computations based on data from companies' annual reports from 2001 to 2010)

7.2.1 Presentation and Discussion of Descriptive Statistics on Public Goods.

The data for public goods is computed from Firms' annual CSR expenditures on Road and Security within the period of the study. From table 7.1 above, CSR expenditure on public goods ranges from zero US dollars[65] to $397,323 with an average expenditure of $2,783. This simply means that the mean CSR expenditure of all firms on public goods as a percentage of their mean profit after taxation is 0.08%. I also find that firms devoted merely 0.02% of their total assets to CSR expenditure on public goods. This corroborates the view of Ojo (2008), who notes that Nigerian firms commit a very small portion of their revenues to CSR expenditure on public goods.

From the tables in Appendix 2-6, Firms in the oil & gas sector, which have government ownership in the majority, spent 0.01% of their profits on public goods; while the manufacturing sector, which is dominated by foreign ownership, spent 0.00% of their profits on public goods. I also find that firms in the consumer goods, health-care and information & communication sectors spent 0.01%, 0.04% and 0.01% of their profits on public goods respectively. Similarly, I observe that firms' total CSR expenditure on public goods simply accounts for only 0.09% of the Federal budgetary allocation of the Ministry of Works on the provision of public goods within the period of this study. The small amount spent by firms on public goods as a share of their profits suggests that firms may be aware that the provision of public goods is the exclusive preserve of the state, and may have little or no incentive to devote resources to the provision of public goods (Putterman, 1993; Sloman, 1998; Cavaliere and Scabrosetti, 2008).

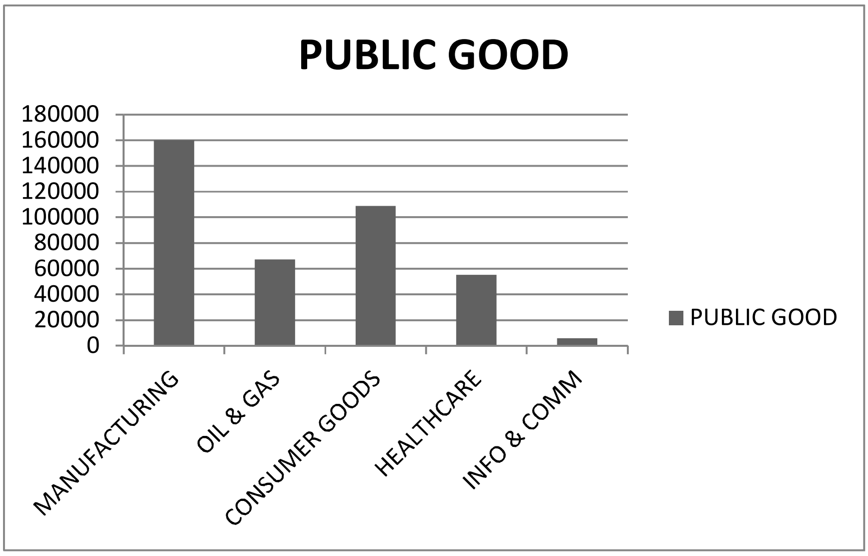
The standard deviation is $20,305. The high value of the standard deviation shows that firms' CSR expenditures are not bounded near the mean average expenditure, but are widely spread such that a firm may spend for instance, the sum of $3,725 on public goods, while another firm may spend $7,213. The reasons may be

[65] The real monetary values of CSR expenditure are indicated in the local currency-Naira (₦). I calculated the naira-dollar exchange rates over the period of the study, and used the mean exchange rate of ₦131 to 1 US dollar to calculate the values of these CSR expenditures in dollar terms as shown in the descriptive table (see for instance Central Bank of Nigeria, 2008; 2011; Oriavwote and Oyovwi, 2012).

attributed to the nature of the industry in which the firm is located, and the varying incentive schemes that may motivate firms to commit resources to expenditure in public goods.

The data as shown in Appendix 7 also indicate that firms, with non-government ownership, especially in the manufacturing and consumer-goods sectors, spent more on public goods by contributing 40.32% and 27.39% of the total CSR expenditure on public goods respectively; while firms owned by government, spent 16.94% out of the total CSR expenditure on public goods. Figure 7.1 below equally shows the total CSR expenditure on public goods by different sectors.

Figure 7.1: Total CSR Expenditure on Public Goods by different Industries



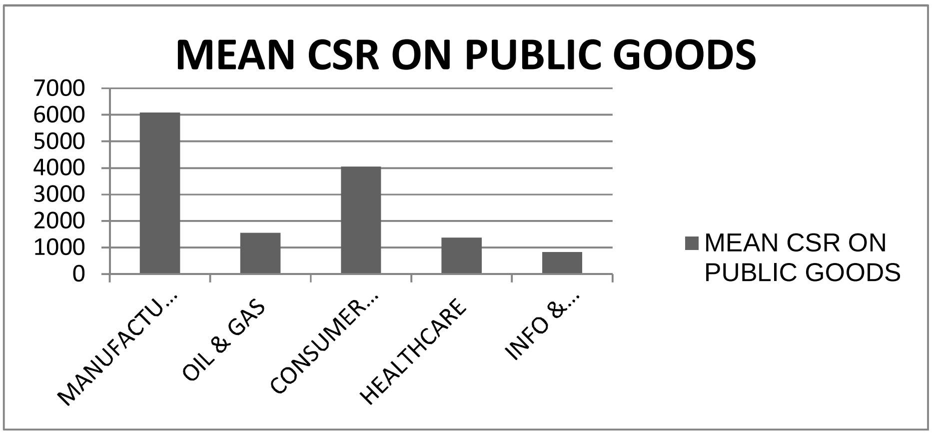
(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

From the figure above, I find that firms in the manufacturing and consumer goods sectors spent more on public goods with total expenditures of $160,195 and $108,814 respectively. The high performance of manufacturing and consumer goods sectors in CSR expenditure on public goods may be consistent with the view that in emerging economies, the private sector may be relied on to complement the state in the provision of public goods and redistribution of income given the incidence of failed state (Goodin, 1988; Matten and Crane, 2005; Scherer and

Palazzo, 2011). Moreover, the size of the firms in the manufacturing and consumer goods industries may be large relative to the size of the firms in other industries. Firms in oil & gas sector, dominated by government ownership, spent $67, 298; while firms in health care and information & communication sectors spent less on public goods with $55,138 and $5,878 respectively. The poor performance of firms in the health care and communication sectors may be due to the size of the firms located within these industries. Moreover, the information & communication sector is still regarded as an emerging industry in Nigerian economy (Mawoli, 2009).

I also trace the evolution of mean CSR expenditure on public goods across different industries. From table 7.2 above, I gather that manufacturing and consumer-goods sectors, dominated by foreign and domestic ownership, spent more on public goods relative to other industries with average expenditures of $6083 and $4057 respectively. This is equally consistent with the findings above on the total CSR expenditure on public goods across various sectors. The mean expenditures of firms in oil & gas, healthcare and communication sectors are $1557, $1382 and $836 respectively. Figure 7.2 below shows the mean CSR expenditure on public goods across different industries.

Figure 7.2: Mean Expenditure on Public Goods across Industries



(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

I also compare the mean CSR expenditure of firms on public goods across all the industries as a share of profit. From the table in Appendix 11, I find that the mean CSR expenditure of firms on public goods in the manufacturing and oil & gas sectors as a share of their profits is simply 0.00%, while the mean expenditure of firms in the consumer-goods, health-care and communication sectors as a share of their profits is 0.01%. I notice that though the mean expenditure of firms in manufacturing sector may be high compared to other firms [66], their mean expenditure as a share of profit is close to nothing. This suggests that firms in this sector, dominated by foreign ownership, devote a very insignificant amount of their profits to provision of public goods. This is in line with Idemudia (2010), who notes that firms with high levels of foreign ownership argue that it is the traditional preserve of the state to provide public goods, and that expending resources on these goods is tantamount to interfering in the domestic affairs of a sovereign state (Idemudia, 2010). Similarly, firms with high levels of government ownership may not have the incentive to devote a significant portion of their profits to public goods as government may have ministries and bodies charged with the responsibilities of providing public goods.

7.2.2 Descriptive Statistics on Socially Desirable Goods.

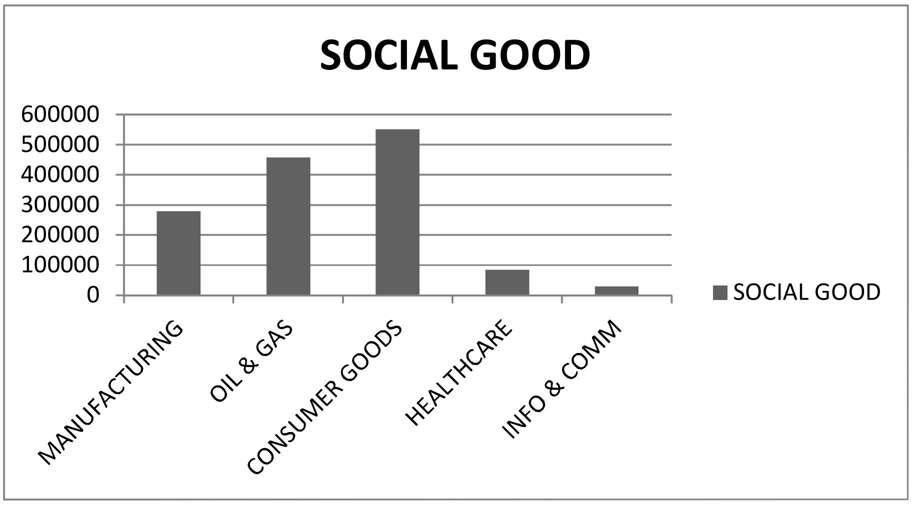
The data for socially desirable goods is computed from firms' annual CSR expenditures on Education, Water, Electricity, Health, Youths, Sports, and Entertainment within the period of the study. Firms' CSR expenditure on socially desirable goods ranges between $0 to about $1,401, 221, with an average expenditure of about $32,595. This implies that firms spent a total of 0.27% of their mean profit after taxation on socially desirable goods. Comparing this maximum expenditure with the firms' total assets within the period of this study, I observe that firms devoted only 0.06% of their total assets to CSR expenditure on social goods.

From the tables in Appendix 2-6, I find that firms in the Oil & Gas sector, with high levels of government ownership, spent 0.05% of their profits after tax on social goods, while firms in manufacturing sector, dominated by foreign ownership, spent 0.01% of their profits on social goods. I equally find that firms in consumer goods, health-care and communication sectors spent 0.05%, 0.07% and 0.04% on social goods respectively as a share of their profits.

[66] The fact that the mean expenditure of firms in the manufacturing sector is higher compared to firms in the other sectors may be attributed to the size of the firms in this sector.

From the data in the table shown in Appendix 8, I find that firms with government ownership, especially in oil & gas sector, spent a sizeable amount on social goods by contributing 32.65% of the total CSR expenditure on social goods. This study finds that firms with non-government ownership, especially in consumer goods and manufacturing sectors, also spent substantial amounts on social goods by allocating 39.29% and 19.91% of their resources to social goods respectively. Figure 7.3 below shows the total CSR expenditure on social goods by different sectors investigated in this work.

Figure 7.3: Total CSR Expenditure on Social Goods by different Industries



(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

From the figure above, firms in consumer goods sector, dominated by non-government or private ownership, spent more on social goods with the total expenditure of $550,545. Similarly, firms in the manufacturing sector with high levels of foreign ownership spent $278,999 on social goods; while firms in the oil & gas sector, with greater dominance of government ownership, spent a substantial amount on social goods to the tune of $457,504.

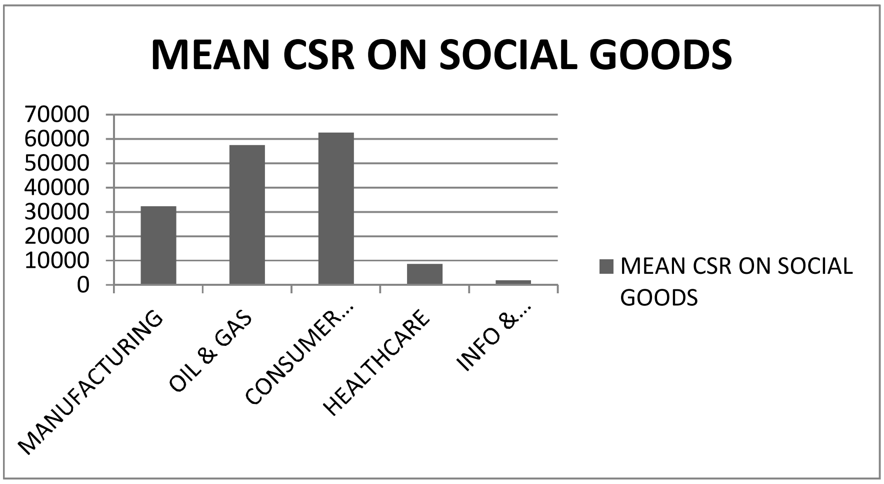
The significant amount of resources committed to the provision of social goods by both government and non-government owned firms is consistent with the fact that government in Nigeria and other emerging economies have always relied on the use of firm resources for provision of some social goods given their inability to execute their primary responsibility of providing these goods (Idemudia and Ite, 2006; Edoho, 2008; Eweje, 2007). This equally corroborates the views of Roper and Schoenberger-Orgad (2011), which maintain that governments have mandated firms to commit a certain percentage of their profits to the provision of socially desirable goods to their host communities.

As shown in figure 7.3 above, the low level of performance in CSR expenditure on social goods by healthcare sector may be attributed to the fact that firms in this sector may not have any incentive to commit to socially desirable goods as a form of public relations and social legitimization strategies (Lyon and Maxwell, 2008; Reinhardt et al., 2008). Similarly, the poor performance of information & communication sector on CSR expenditure on social goods may be explained by the fact that this industry is an emerging sector in Nigeria; and has relatively lower market share compared to other sectors (Mawoli, 2009). This confirms the view that firms' strategic decisions with regards to CSR may be determined by a lot of factors ranging from the nature and size of the industry (Reinhardt et al., 2008).

I also trace the evolution of mean CSR expenditure on social goods across different industries. From table 7.2 above, the mean CSR expenditure on social goods by firms in consumer goods and oil & gas industries were high with average expenditures of $62,578 and $57,450 respectively. This result corroborates our earlier findings on total CSR expenditure across industries, and shows that firms in consumer-goods and oil & gas sectors may use social investments as a form of public relations strategy not only to gain social legitimacy, but also to enhance the long-term profitability of their products (Edoho, 2008; Eweje, 2007). This work also finds that the mean CSR expenditures of firms in manufacturing, health-care and communication sectors were $32,344, $8,649 and $1954 respectively.

Figure 7.4 below shows the mean CSR expenditure on social goods across various industries.

Figure 7.4: Mean Expenditure on Social Goods across Industries



(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

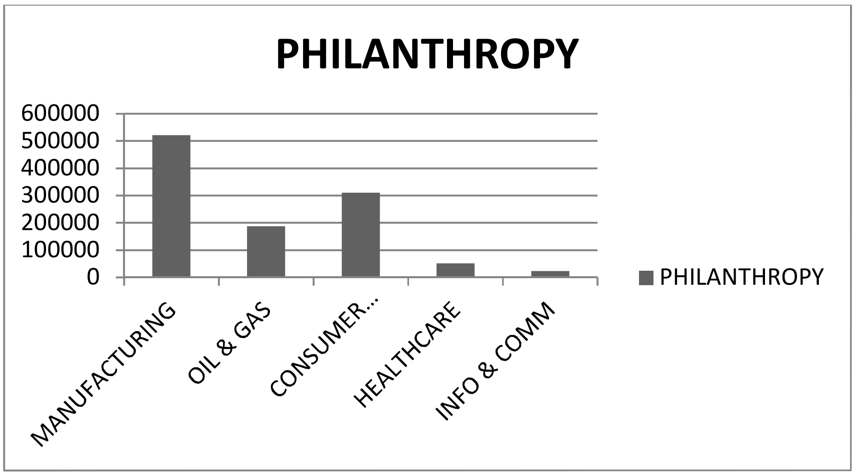
I equally compare the mean CSR expenditure of firms on social goods across all the industries as a share of profit. The table in Appendix 11 shows that the mean expenditure of firms in consumer-goods sector as a share of profit is 0.11%, while oil & gas, health-care and manufacturing sectors expended 0.06%, 0.06% and 0.02% of their profits on social goods respectively. The significant portion of profit devoted by firms in consumer-goods sector indicates that CSR may be used not only as a public relations strategy, but also as a medium for profit enhancement even if it is in the long-term (McWilliams and Siegel, 2001; Bagnoli and Watt, 2003). I also find that firms in other sectors devoted a large share of their profits to social goods, indicating that firms may use CSR investments to gain social legitimacy and enhance their corporate reputation.

7.2.3 Descriptive Statistics on Corporate Philanthropy.

The data for corporate philanthropy is computed from firms' monetary donation to communities and charitable organizations within the period of the study. The CSR practices of firms measured in terms of corporate philanthropy ranges from $0 to $1,092,366 with an average value of about $21,221. This suggests that the mean CSR expenditure of all firms on corporate philanthropy as percentage of their mean profit after taxation is 0.21%. This implies that firms only committed 0.04% of their total assets to corporate philanthropy.

From the tables in Appendix 2-6, I find that firms in oil & gas sector, with high levels of government ownership, spent 0.01% of their profits after tax on corporate philanthropy; while firms in manufacturing and consumer-goods sectors, dominated by non-government ownership, spent 0.02% and 0.03% of their profits on corporate philanthropy respectively. This study equally finds that firms in health-care and communication sectors spent 0.04% and 0.03% on corporate philanthropy respectively as a share of their profits. I observe from the table shown in Appendix 9 that firms with non-government ownership, especially in manufacturing and consumer-goods sectors, spent a sizeable amount on philanthropy by contributing 47.70% and 28.43% of the total CSR expenditure on corporate philanthropy. The study equally finds that firms with government ownership did not spend so much on corporate philanthropy relative to firms with non-government ownership, and contributed only 17.14% out of the total CSR expenditure on corporate philanthropy. Figure 7.5 below equally shows the total CSR expenditure on corporate philanthropy by different sectors.

Figure 7.5: Total CSR Expenditure on Philanthropy by different Industries



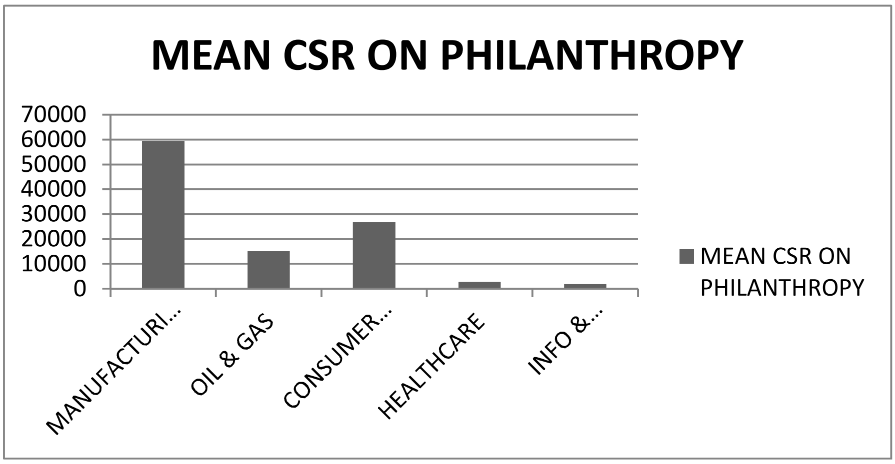
(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

The figure above indicates that firms in manufacturing and consumer goods sector, dominated by non-government ownership, spent more on corporate philanthropy with total expenditures of $521,045 and $310,522 respectively; while firms with high levels of government ownership spent less on corporate philanthropy with the total expenditure of $187,236 relative to other firms with non-government ownership. The fact that firms in oil & gas sector spent a meagre portion on corporate philanthropy compared to other sectors dominated by non-government ownership is expected, as government owned-firms may actually spend little of their resources on corporate philanthropy (Bai and Xu, 2005; Zhang et al., 2009). This is reinforced by the fact that governments may have specialized agencies or ministries responsible for providing welfare schemes, and may not encourage the use of state-owned firms' resources to fund philanthropic donations to the society.

On the other hand, the significant amount of resources devoted to corporate philanthropy as a share of profit for firms in manufacturing, consumer-goods, health-care and communication sectors is consistent with Adi (2006), who opines that corporate philanthropy is the dominant form of CSR practices among firms in Nigerian industry. One of the reasons for the increased engagement of Nigerian firms in philanthropic donations is premised on the fact that it is one of the quickest means of demonstrating legitimacy and social responsibility of firms (Amaeshi et al., 2006; Adi, 2006; Eweje, 2007). In the same sense, corporate philanthropy is a public relations strategy adopted by firms to demonstrate their stakeholder salience.

I also trace the evolution of mean CSR expenditure on corporate philanthropy across different industries. From table 7.2 above, I find that the mean CSR expenditure on corporate philanthropy is highest in manufacturing sector with an average expenditure of $59,489, and lowest in information & communication sector with an average expenditure of $1,876. The low levels of CSR expenditure in health-care and information & communication sectors may be attributed to the fact that these industries have the lowest market shares among all the sectors investigated. Figure 7.6 below shows the mean CSR expenditure on corporate philanthropy across various industries.

Figure 7.6: Mean CSR Expenditure on Philanthropy across Industries



(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

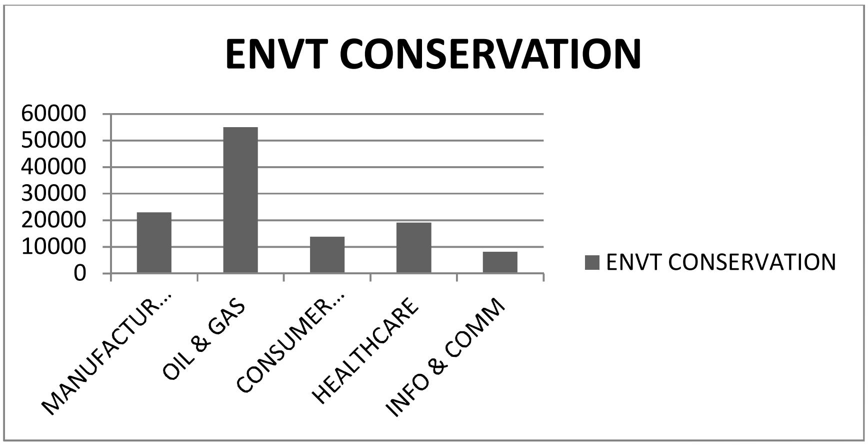
This study further compares the mean CSR expenditure of firms on corporate philanthropy across all the industries as a share of profit. From the table in Appendix 11, I find that the mean expenditures of firms in consumer-goods and manufacturing sectors as a share of profit are 0.05% and 0.03% respectively, while oil & gas, health-care and communication sectors expended 0.02%, 0.02% and 0.01% of their profits on philanthropic donations respectively. The significant portion of firms' profit committed to corporate philanthropy across consumer-goods and manufacturing sectors reinforces the view that corporate philanthropy is the dominant form of CSR practices among Nigerian firms (Adi, 2006).

7.2.4 Descriptive Statistics on CSR Expenditure on Environmental CSR

The data on environmental conservation is computed from firms' CSR expenditures on ecological conservation, control of oil spillage and pollution abatement technology within the period from 2001 to 2010. Firms' CSR expenditures on environment and its conservation range from $0 to about $119,083 with an average expenditure of $772. This means that the mean CSR expenditure of all firms on environmental issues as a percentage of their mean profit after tax is 0.02%. From the tables in Appendix 2-6, I find that firms in oil & gas sector, with high levels of government ownership, spent 0.01% of their profits after tax on environmental conservation, while firms in the manufacturing and consumer goods sectors, dominated by foreign and domestic ownership, spent close to nothing out of their profits on environmental issues. I equally find that firms in the health-care and communication sectors spent 0.02% and 0.01% of their profits on environmental conservation respectively.

This study observes, from the table in Appendix 10 that firms with government ownership, especially in the oil & gas sector, spent a substantial amount on environmental conservation by contributing 46.20% of the total CSR expenditure on environmental issues. The table also shows that firms with non-government ownership, especially in consumer goods and manufacturing sectors, spent less on environmental conservation compared to firms with government ownership by allocating 11.60% and 19.29% of their resources to environmental conservation respectively. The performance of health-care and communication sectors in environmental conservation relative to other types of CSR expenditure is equally significant as they allocated 16.02% and 6.90% of their resources to environmental CSR respectively. Figure 7.7 below shows the total CSR expenditure on environmental conservation by different sectors.

Figure 7.7: Total CSR Expenditure on Environment by different Industries



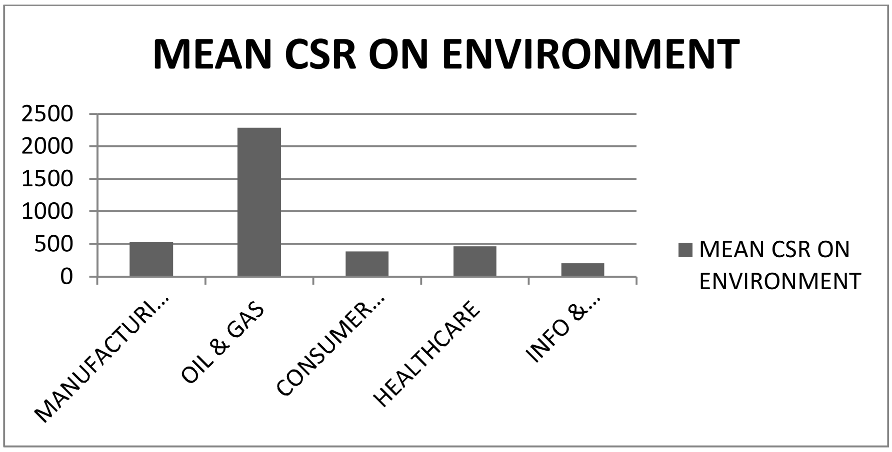
(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

From the figure above, I find that majority of government-owned firms, especially in oil & gas sector, spent more on environmental conservation with total expenditure of $55,014 relative to other sectors. The fact that firms in oil & gas sector spent more on environmental issues, confirms the view that firms operating within industries that are environmentally and socially challenging may face questions of moral legitimacy with regards to incorporating CSR in their corporate strategy (Campbell et al., 2003; Wheeler et al., 2002), and may have more incentive to correct and compensate for the negative externalities of their productive activities (Ite, 2005).

Moreover, the improved performance of health-care sector in environmental conservation compared to firms in consumer-goods and information & communication sectors is also remarkable; and may be in line with the works of McWilliams and Siegel (2001) and Baron (2001), which maintain that adopting CSR as a strategy for competitive advantage is dependent not only on the nature of the industry, but also on how firms' products impact on the host communities. On the other hand, the poor performance of information & communication sector is not surprising, as firms located within this sector, may have less incentive to invest in environmental issues (compared to firms in manufacturing and oil & gas industries): it is argued that the nature of their operations may have little or no environmental impact (Reinhardt et al., 2008).

I equally trace the evolution of the mean CSR expenditure on environmental conservation across different industries. This study finds from table 7.2 above that CSR expenditure on environmental conservation is highest in oil & gas sector with an average expenditure of $2,283. This result is not surprising, and follows existing research which maintains that firms whose productive activities impact on the natural environment may feel more pressure to commit to environmental conservation (Idemudia and Ite, 2006; Ite, 2004; 2005). The mean expenditure of firms in other sectors is relatively insignificant. Figure 7.8 below shows the mean CSR expenditure on environmental conservation across various industries.

Figure 7.8: Mean CSR Expenditure on Environment across Industries



(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Furthermore, this study compares the mean expenditure of firms on environmental conservation across all industries as a share of profit. The table in Appendix 11 shows that the mean expenditure of firms in all the sectors as a share of profit is 0.00%. This suggests that firms devoted a negligible amount of their profits to environmental issues. The insignificant amount of profit committed to environmental conservation by firms in consumer goods, health-care and communication sectors is consistent with the view that if their productive activities do not impact on the environment, they may not have incentive to expend resources on environmental issues (Reinhardt, et al., 2008). Similarly, the meagre amount of profits allocated to CSR in manufacturing and oil & gas sectors may be peculiar to Nigerian environment. It has been argued that the deployment of CSR practices on environmental conservation in Nigeria is relatively a recent development, and may be a defensive strategy adopted by firms (especially in oil & gas sector) to not only minimize reputational damage, but also gain social legitimacy (Idemudia and Ite, 2006; Ite, 2004; 2005; Adewuyi and Olowookere, 2010).

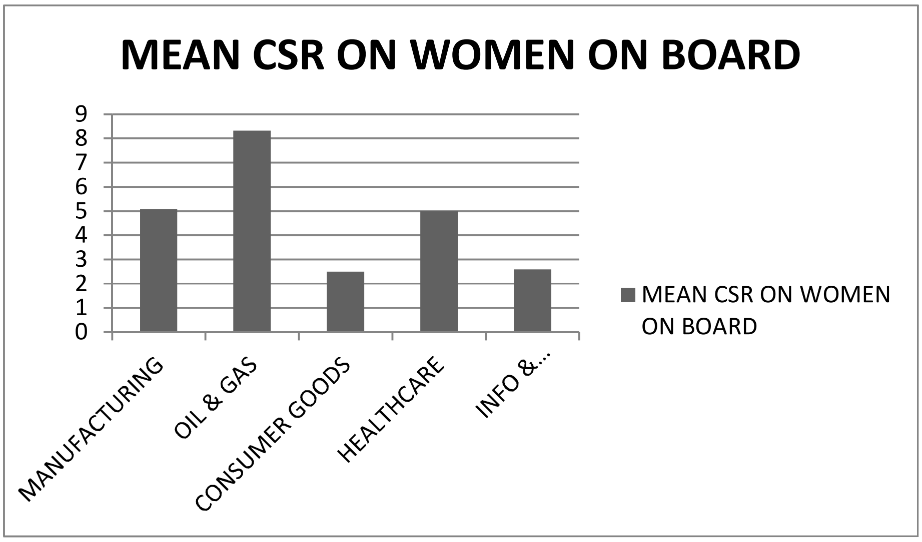
7.2.5 Descriptive Statistics on the Percentage of Women on the Board

The data for CSR on employee-relations is computed from the percentage of women on the board of firms. The percentage of women on board ranges from 0%

to 33.33% with an average of 4.73%. The standard deviation of this mean percentage is 6.9%. I trace the evolution of the mean CSR on women on the board across different industries. From table 7.2 above, I find that firms in oil & gas sector, dominated by government ownership, have the highest mean (8.33%) of the percentage of women on board. This is in line with the view that women may be more easily integrated on the board of firms with government ownership. Accordingly, Ahunwan (2002) argues that women are more often represented on the board of state-owned firms in Nigeria.

Similarly, this study finds that firms in manufacturing sector, with majority of foreign ownership, have a mean value of 5.1% for percentage of women on the board. This may be explained by the fact that firms with foreign ownership may more likely adopt good corporate management practices that may be opposed to gender discrimination (Yoshikawa et al., 2010; Jeon et al., 2011). Figure 7.9 below shows the mean CSR on women on the board across various industries.

Figure 7.9: Mean CSR on Women on the Board across Industries



(Source: Author’s computations based on data from companies’ annual report from 2001 to 2010)

7.2.6 Descriptive Statistics on Government Shareholding

The percentage of government shareholding ranges from 0 to 68% with an average percentage of 6.33. The standard deviation of this average percentage is 12.6%. I observe that most of the government shareholdings are concentrated in oil & gas sector with the mean percentage of 32.2%. This is consistent with the indigenization Decree of 1972, which stipulates that Nigerian government must hold between 55-60% of the shareholding stake of firms in oil & gas industry (Ahunwan, 2002; Edoho, 2008; Idemudia and Ite, 2006; Idemudia, 2009).

In the study of the ownership structure of firms in oil industry, it is noted that government has 55% shareholding in oil industry; foreign shareholding amounts to 35% while the remaining 10% is owned by domestic investors (Akpan, 2006; Nmehielle and Nwauche, 2004). In the manufacturing and health-care sectors, government has close to 25% and 15% shareholdings respectively, while it has no significant shareholding stake in the communication sector. The high government shareholding stake in oil & gas sector, compared to other sectors investigated in this study, largely explains the fact that the State is a major player in Nigerian oil industry (Kone, 2006).

7.2.7 Descriptive Statistics on Foreign Shareholding

In the same vein, the percentage of foreign shareholding ranges from 0% to 88.5% with an average of 34.5%. The standard deviation, showing how close the data is to the mean, is 25.2%. This study finds that foreign shareholding is more predominant in the manufacturing sector of Nigerian industry with the mean percentage of 44.4 This is largely explained by the fact that majority of firms in Nigeria still retain over 40% of foreign shareholdings even after the indigenization policy of 1972, that restricted foreign ownership stakes to 40% (Ahunwan, 2002; Okike, 2007).

7.2.8 Descriptive Statistics on Board Independence

The percentage of firms' independent board of directors' ranges from 0% to 88.89% with an average value of 42.2%, and a standard deviation of 22.8%. The significant increase in the percentage of independent directors on the board is in line with the requirements of the new code of corporate governance that was released in 2003 by the Security and Exchange Commission in Nigeria. The new code, amongst other directives, insists that the percentage of board independence be increased so as to ensure that firms gain the expertise and improved performance that are associated with the presence of independent directors on the board (Adewuyi and Olowookere, 2013).

7.2.9 Descriptive Statistics on Institutional Investors and Political Affiliation

The percentage of firms' institutional investors equally ranges from 0% to 94.18%. The average percentage of firms' institutional investors is 53.7%, while the standard deviation from this mean is 18.1%. The significant percentage of institutional investors' shares in Nigerian firms is consistent with Hassan (2011) and Hassan and Ahmed (2012), who maintain that most block of shares in Nigerian firms are held by institutional investors ranging from mutual fund, investments banks and foreign investors.

Since political affiliation is a dummy variable, the maximum value is 1 with the mean value of 0.65, and standard deviation of 0.478. This work observes that 64.7% of the firms investigated had political connection, and 40% of these firms are located within the manufacturing and oil & gas sectors. The study equally finds that firms with government ownership had over 20% of political connections as expected in emerging economies (Wu et al., 2012).

7.3 Analysis of Correlation Matrix

Table 7.3 below summarizes the results of preliminary correlation analyses among all the variables used in this study. This exercise serves two important purposes. First, to determine whether there are bivariate relationships between each pair of the dependent and independent variables. The second is to ensure that the correlations among the explanatory variables are not so high to the extent of posing multicollinearity problems. However, I remark that the pair of government and foreign shareholding is included in model two (testing hypotheses 2), while the pair of board independence and institutional investors is included in model three (testing hypotheses 3). Thus, these pairs of explanatory variables will be of much interest to the correlation estimations.

As shown in the table below, the correlation between public goods and all the explanatory variables is statistically insignificant. The correlation analysis shows that public goods are negatively correlated with government ownership, government shareholding and political affiliation. This may be explained by fact that state-owned firms may regard the provision of public goods as the primary duty of the state and its relevant ministries (Eweje, 2007; Edoho, 2008, Ite and Idemudia, 2006). Similarly, the massive privatization program in the last three decades may have undermined the controlling influence of the state in determining corporate decisions with regards to CSR expenditure on public goods in mixed-ownership structure.

Moreover, CSR expenditure on socially desirable goods exhibits a significant correlation with foreign shareholding. This is due to the fact that investment in social goods may be a corporate strategy employed by firms with high levels of foreign owners; in order to acquire social legitimacy and enhance the firm's profit margin even if it is in the long-term (Lyon and Maxwell, 2008; Reinhardt et al., 2008). Similarly, the correlation between corporate philanthropy and most of the explanatory variables are also insignificant save for foreign shareholding. This is also consistent with the view that foreign shareholders may support philanthropic donations to their host communities in order to boost their public relations strategy (Ahunwan, 2002; Ite, 2005; Idemudia and Ite, 2006).

Moreover, this study observes that the correlation between employee relations and political affiliation is statistically insignificant. This is supported by the view that CSR issues like employee-welfare, fair wages, good working conditions and compliance with labour-codes may not be incentive compatible with politically connected managers (Boubakri et al., 2008). In the same vein, the correlation between CSR expenditure on environmental conservation and most of the explanatory variables are insignificant except for institutional investors. The fact that institutional investors have a significant correlation with environmental conservation follows the literature that institutional investors may regard investment in firms with proven poor environmental records as a risky investment; as such firms may be subject to costly sanctions or consumer boycott of their products (Spicer, 1978).

Concerning the pairs of explanatory variables that are included in models 2 and 3 respectively; I notice from the correlation matrix that the correlation between government and foreign shareholding is statistically insignificant. This ensures that there are no multicollinearity issues among the regressors testing hypothesis 2. Furthermore, I find that board independence has a positive and significant relationship with institutional investors with the correlation coefficient of 0.303. Given that the size of this coefficient is just moderate (not strong), it implies that there are no multi-collinearity problems among the regressors testing hypothesis 3.

Table 7.3: Correlation Matrix of all the Variables

	PUBLIC GOODS	SOCIAL GOODS	PHILANTHROPY	WOMEN ON BOARD	ENVT/CONSER	GOVT OWN	GOVT SHARE	FOREIGN SHARE	BOARD INDE	INSTU INVEST	POLITICAL DUM	ROA_PERCENT	CAP-INTE	TOTAL SALES
PUBLIC GOODS	1													
SOCIAL GOODS	.439***	1												
PHILANTHROPY	.543**	.670**	1											
WOMEN ON BOARD	.040	.123***	.103**	1										
ENVT/CONSERVATION	.183***	.220***	.150***	-.095**	1									
GOVT OWNERSHIP	- .017	.030	.071	-.044	-.070	1								
GOVT SHARE	-.042	.060	.089	-.083	-.083	.846***	1							
FOREIGN SHARE	.036	.140***	.136***	-.132***	.182***	-.101**	-.098**	1						
BOARD INDEPENDENCE	.053	.030	.076	-.139***	.011	.287***	.312***	.305***	1					
INSTU INVESTORS	.000	-.074	-.003	-.189***	.163***	.046	.025	.461***	.303***	1				
POLITICAL DUMMY	-.023	-.026	-.053	-.005	.125***	.099**	.013	.075***	.030	.160***	1			
ROA_PERCENT	.131***	.250***	.225***	.050	.089	-.030	-.076	.122***	-.011	.139***	.073	1		
CAPITAL INTENSITY	-.037	-.075	-.053	-.042	-.021	-.041	-.029	-.013	-.024	-.056	.033	-0.058	1	
TOTAL SALES	.176***	.231***	.214***	.012	.150***	.146***	.119***	.127***	.186***	.126***	.121***	.242***	-.111***	1

*** Correlation is significant at 0.01 level while ** shows that correlation is significant at 0.05 level

7.4 REGRESSION RESULTS AND ANALYSES ON THE EFFECT OF OWNERSHIP STRUCTURES ON CSR PRACTICES

In order to investigate the impact of ownership structure of firms on CSR practices, this study carries out various empirical estimations. I conduct panel data estimation on OLS, Fixed and Random effect models. In the models testing the two major hypotheses on the effect of ownership structure on CSR practices, this dissertation carries out five estimations for each of the models owing to the fact that there are five CSR dependent variables. As earlier explained in chapter six, this study equally conduct the Fixed-effect & Firm-specific trend (FE & FT) models to control for endogeneity bias and variations in firm-specific trend. I also employ the Seemingly Unrelated Regression (SUR) model to control for possible correlations in the error terms of different CSR equations.

7.4.1 Regression Results on Hypothesis 1: The Effect of Government Ownership on CSR practices

Hypothesis 1 states that: *Government-ownership has no significant impact on all the forms of CSR practices with the exception of employee relations in Nigerian industry*. This hypothesis is based on the fact that all the forms of CSR practices investigated in this study may not be compatible with the incentives of government bureaucrats or professional managers who manage state-owned firms (SOFs) with the exception of employee relations. Table 7.4 below presents the panel data estimation on OLS, Fixed and Random effect models. It also contains the test result for the FE & FT models.

Table 7.4: Impact of Government Ownership on all CSR Expenditure

Dep. Variable	OLS		Fixed Effect		Random		FE&FT	
Ln_Public								
Govt_Ownership	-0.650**	(-2.02)	0.526	(1.32)	-0.459	(-1.45)	0.521	(0.63)
Ln_total Sales	0.422***	(5.48)	0.350	(1.49)	0.389***	(4.40)	0.255	(0.52)
Return on Assets	0.002	(0.47)	0.004	(0.79)	0.005	(1.01)	0.001	(0.05)
Capital Intensity	0.001***	(3.70)	0.001	(1.52)	0.001***	(3.46)	0.002	(0.83)
R-Squared	0.117		0.108		0.124		0.101	
Ln_Social								
Govt_Ownership	-0.907	(-1.60)	2.856***	(3.18)	0.433	(0.65)	4.748***	(8.44)
Ln_total Sales	0.917***	(8.06)	0.570	(1.66)	0.753***	(4.90)	0.378	(1.12)
Return on Assets	0.024***	(2.37)	0.013	(1.46)	0.014	(1.61)	-0.012	(-1.59)
Capital Intensity	0.002***	(4.00)	0.001	(1.55)	0.001***	(3.77)	0.004***	(3.74)
R-Squared	0.264		0.120		0.245		0.105	
Ln_Philanthropy								
Govt_Ownership	-0.348	(-0.68)	1.255	(1.49)	-0.121	(-0.23)	-0.817	(-0.56)
Ln_total Sales	0.687***	(6.28)	1.149***	(3.98)	0.735***	(5.66)	1.788***	(4.24)
Return on Assets	0.020**	(1.98)	0.010	(1.34)	0.014*	(1.87)	0.013	(0.91)
Capital Intensity	0.002***	(4.32)	0.002***	(4.01)	0.002***	(4.87)	-0.001	(-0.56)
R-Squared	0.204		0.187		0.209		0.197	
Women_Board								
Govt_Ownership	-0.764	(-0.62)	3.812***	(3.72)	0.273	(0.22)	2.684**	(1.96)
Ln_total Sales	0.061	(0.20)	1.776***	(2.71)	0.630*	(1.66)	1.842*	(1.79)
Return on Assets	0.017	(0.72)	-0.035**	(-2.04)	-0.019	(-1.22)	-0.028	(-1.12)
Capital Intensity	-0.003	(-1.54)	0.004***	(2.61)	0.001	(1.08)	0.002	(0.81)
R-Squared	0.120		0.107		0.126		0.114	
Ln_Envt								
Govt_Ownership	-0.509**	(-2.06)	-0.105	(-0.41)	-0.357	(-1.63)	-0.721	(-1.03)
Ln_total Sales	0.199***	(2.82)	0.192*	(1.77)	0.181***	(2.60)	0.353	(1.51)
Return on Assets	0.003	(0.14)	-0.001	(-0.07)	0.001	(0.01)	-0.001	(-0.23)
Capital Intensity	0.001***	(2.64)	0.002*	(1.78)	0.001***	(2.50)	0.003	(0.59)
R-Squared	0.165		0.160		0.172		0.182	

Note: *, **, *** indicate significance at 10%, 5% and 1% levels of significance respectively. The figures in parentheses are t-statistics. The dependent CSR variables are in bold italics while government ownership is the explanatory variable. Log of total sales, return on assets and capital intensity are the control variables.

Table 7.4 above presents the impact of government ownership on all forms of CSR expenditure. The choice between Fixed and Random effect is determined by the Hausman specification test which has the following rule of thumb: the null hypothesis states that Fixed-effect and Random effect estimators do not differ substantially (Gujarati, 1995; Wooldridge, 2002). This implies that if the null is rejected, when the p-value is less than 0.05, then Fixed-effect estimation will be interpreted. The null hypothesis of Hausman is rejected in most cases, and this supports our choice of interpreting the Fixed-effect model. The choice of this model is further supported by the fact that there may be persistent unobserved correlated effects that may align government ownership to commit resources to CSR practices. I also observe that even when the null hypothesis is not rejected, there is no significant difference in the test results in both models. This study nevertheless prefers the Fixed-effect model because it provides a better treatment for endogeneity bias. The result of Hausman specification test for this model is shown in Appendix 33.

Our empirical results show that government ownership is not a significant determinant of CSR expenditure on public goods, corporate philanthropy and environmental conservation. From the comparison of the results of the different methods briefly discussed below, I observe that this finding is robust across all estimation methods. The significant impact of government ownership on public goods and environmental conservation, as observed in the OLS model, is entirely due to endogeneity bias which becomes insignificant once endogeneity is controlled for via the Fixed-effect model. However, this study finds that government ownership exerts a significant impact on CSR expenditure on socially desirable goods and percentage of women on board. The sign of the coefficient on the Fixed-effect model shows that government ownership is positively related with percentage of women on board and CSR expenditure on social goods respectively. The size of the coefficient therefore suggests that government ownership will increase the firm’s CSR expenditure on socially desirable goods by 286%. Similarly, government ownership will increase the percentage of women on the board by 381.2 percentage points.

The significant effect of government ownership on percentage of women on board may be related to the fact that women are more often represented on the board of SOFs in Nigeria (Ahunwan, 2002). Along the same view, the positive impact of government ownership on CSR expenditure on socially desirable goods is consistent with the view that governments in Nigeria and other emerging economies have relied on the use of firm resources for provision of some social goods given their inability to execute their primary responsibility of providing these goods (Ite, 2004; Eweje, 2007; Idemudia, 2010).

I also find that total sales revenue and capital intensity have significant positive impacts on CSR expenditure on corporate philanthropy, environmental conservation and percentage of women on board. This suggests that firm size and the nature of the industry may underpin firms' decision to expend resources on these three forms of CSR practices. The sizes of the coefficients on total sales revenues for CSR expenditure on corporate philanthropy, environmental conservation and percentage of women on board vary widely, suggesting that a 10% increases in firm size will increase CSR expenditure on philanthropy, environmental conservation by 11.5% and 1.9% respectively; while a 10% increases in firm size will increase women on board by 17.8 percentage points. This is in line with the view that large firms may more likely engage in CSR practices, as they have more slack resources to commit to other social objectives that may detract from profit maximization. It is also the case that larger firms may more likely incorporate women on their board in order to signal their good employee-relations record.

Moreover, return on assets is only statistically significant for women on board, but the sign of the coefficient shows that it is negatively related to firm profitability. This may be explained by the view that good employee relations, which are correlated with the presence of women on board, may actually impact negatively on the firm's profit. I equally find that firm size, return on assets and capital intensity are statistically insignificant in CSR expenditure on public goods and socially desirable goods. A major reason for this insignificant effect may be attributed to huge cost implications of expending marginal resources on public and social goods given their negative impact on firm's profit.

I compare the results of our regression across the various estimation methods. The results show that the effect of government ownership on CSR expenditure on social goods and percentage of women on board is statistically significant in Fixed-effect and FE & FT models. The signs on the coefficients on social goods and percentage of women on board are similar across these estimation methods, and show that there is a positive relationship between government ownership and these forms of CSR. The sizes of the coefficients have larger effects in FE & FT and Fixed-effect models for CSR expenditure on social goods with the test values of 4.748 and 2.856 respectively. Similarly, the positive effects of the coefficients are quite large for percentage of women on board across the Fixed-effect and FE & FT models with the values of 3.812 and 2.684 respectively. Despite the variations in the sizes of the coefficients, the substance of the result remains the same across various estimation methods. The study also finds that government ownership has no statistically significant effect on CSR expenditure on public goods, corporate philanthropy and environmental conservation across Fixed-effect and FE & FT models. This comparative study observes that the results are robust and very consistent across different estimation methods.

7.4.2 SUR Model: Impact of Government Ownership on all Forms of CSR

From table 7.5 below of the SUR estimation, I notice that the impact of government ownership on CSR practices is statistically insignificant in CSR expenditure on public goods, corporate philanthropy and environmental conservation. This result is consistent with my earlier findings from the various estimation methods. However, I find a significant and positive relationship between government ownership and CSR expenditure on socially desirable goods. This implies that government ownership will increase CSR expenditure on social goods by 91%. Similarly, there is a statistically significant and positive effect of government ownership on percentage of women on the board.

The size of the coefficient shows that government ownership will increase the number of women on the board of firms by 2.9 percentage points. This work equally observes that in SUR model, unlike the different estimation methods, the sizes of the coefficients are somewhat smaller in CSR expenditure on social goods and percentage of women on board with the values of 0.908 and 0.029 respectively. The smaller effect of the coefficient estimates may be related to the fact that the SUR model does not fully control for endogeneity issues as it only controls for the possible correlations between the error terms of CSR equations. Despite the differences in the coefficients, the general pattern of the significant and positive impact of government ownership on CSR expenditure on social goods and percentage of women on board is again robust across estimation methods.

Table 7.5 : SUR Model: Impact of Government Ownership on all CSR

Government Ownership on all CSR Expenditure			
Dependent variables	**coefficient**	**t-stats**	**R^2**
Ln_Public Goods	0.099	0.59	0.125
Ln_Social Goods	0.908***	2.52	0.270
Ln_Philanthropy	-0.348	-1.08	0.210
Women_Board	0.029***	2.47	0.118
Ln_Envt	-0.784	-0.69	0.160
Number of Observations	493		

Note: *, **, *** indicate significance at 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithm. The independent variable is government ownership while the control variables used are log of total sales, return on assets and capital intensity.

The R^2 of SUR model shows that the explanatory variables account for 12.5%, 27%, 21%, 11.8% and 16% variations in CSR expenditures on public goods, social goods, corporate philanthropy, percentage of women on board and environmental conservation. The models on social goods and corporate philanthropy give a better fit with higher R^2 of 27% and 21% respectively.

The full table of SUR model showing all the control variables used in the estimation is shown in Appendix 12.

7.5 Regression Results on Hypotheses 2: The Effect of Government and Foreign Shareholding on all CSR Expenditure.

Hypothesis 2 (a) states that: *High levels of government shareholding are positively related with all forms of CSR practices with the exception of corporate philanthropy in Nigerian industry.* This hypothesis is based on the view that when government is the controlling shareholder in mixed ownership, it is more likely to ensure that firms engage in environmental conservation and socially desirable investments, and may not support the use of firm resources for corporate philanthropy (Lee, 2009; Li and Zhang, 2010).

Hypothesis 2 (b) states that: *High percentage of foreign shareholding is only positively related to CSR when it is viewed as corporate philanthropy and socially desirable goods.* This hypothesis is premised on the view that firms with high levels of foreign ownership may more likely engage in corporate philanthropy and socially desirable investments as means of public relations; and may have no incentive to engage in environmental conservation and long-term sustainable development in the community, on the grounds that such macro-CSR issues are the traditional preserve of the state (Idemudia, 2010; Ite, 2004; Blowfield and Frynas, 2005). Table 7.6 below presents the effect of shareholding structure (measured by the percentage of government and foreign shareholdings in Nigeria) on CSR practices.

Consistent with the previous model, the null hypothesis of Hausman test is rejected in most cases suggesting the choice of interpreting the Fixed-effect model. I also find that even when the null hypothesis is not rejected, there is no significant difference in the test results in both models. I nevertheless prefer the Fixed-effect model because it provides a better treatment for endogeneity bias. The result of Hausman specification test for this model is shown in Appendix 34.

The regression results from the table below shows that high levels of government shareholding have no statistically significant effect on CSR expenditure on public goods, corporate philanthropy, environmental conservation and percentage of women on board. This result is robust and consistent across methods, as can be gleaned from the comparison of the various estimation methods discussed below.

The significant effect of high levels of government shareholdings on public goods, as observed in the OLS model, may be due to endogeneity bias, which becomes insignificant when endogeneity bias is controlled for via the Fixed-effect and FE & FT models. However, this study finds that high government shareholdings exert a significant and positive impact on CSR expenditure on socially desirable goods. The size of the coefficient on the Fixed-effect model suggests that a one unit increase in government shareholdings will increase CSR expenditure on social goods by 9.5%. The significant effect of high levels of government shareholdings on social goods may be consistent with the renewed emphasis by Nigerian government on the need for firms in public and private sectors to plough back part of their resources to the provision of socially desirable goods for the host communities.

Table 7.6: Effect of Government and Foreign Shareholdings on all CSR

Variables	OLS	Fixed Effect	Random	FE & FT
Ln_Public				
Govt_Share	-0.033*** (-2.99)	0.028 (1.60)	-0.023 (-1.87)	-0.007 (-0.14)
Foreign_Share	-0.007 (-1.46)	-0.008 (-0.43)	-0.008 (-1.32)	-0.013 (-0.46)
Ln_total Sales	0.478*** (5.69)	0.402 (1.49)	0.426*** (4.56)	0.296 (0.56)
Return on Assets	-0.002 (-0.19)	0.007 (0.81)	0.002 (0.32)	0.001 (0.06)
Capital Intensity	0.002*** (3.94)	0.001 (1.62)	0.001*** (3.61)	0.002 (0.80)
R-Squared	0.134	0.126	0.132	0.129
Ln_Social				
Govt_Share	-0.024 (-1.07)	0.095*** (2.60)	0.023 (1.16)	0.151*** (2.53)
Foreign_Share	-0.002 (-0.16)	-0.026 (-0.96)	-0.002 (-0.08)	-0.021 (-0.61)
Ln_total Sales	0.913*** (7.16)	0.634* (1.68)	0.733*** (4.44)	0.586 (1.58)
Return on Assets	0.025* (1.72)	0.017 (1.31)	0.013 (1.12)	-0.002 (-0.16)
Capital Intensity	0.002*** (3.79)	0.001* (1.74)	0.002*** (3.29)	-0.004*** (-5.63)
R-Squared	0.262	0.114	0.234	0.107
Ln_Philanthropy				
Govt_Share	-0.007 (-0.37)	0.003 (0.12)	0.007 (0.36)	0.099 (1.19)
Foreign_Share	0.002 (0.24)	0.084*** (3.26)	0.001 (0.09)	0.087*** (3.37)
Ln_total Sales	0.671*** (5.58)	1.247*** (4.04)	0.699*** (5.13)	1.951*** (4.14)
Return on Assets	0.022 (1.55)	0.021** (2.12)	0.028** (1.97)	0.019 (1.15)
Capital Intensity	0.002*** (3.85)	0.003*** (4.06)	0.002*** (4.31)	-0.001 (-1.46)
R-Squared	0.206	0.173	0.203	0.176
Women_Board				
Govt_Share	-0.070** (-2.07)	0.064 (1.38)	-0.040 (-1.31)	-0.048 (-0.41)
Foreign_Share	0.054** (2.33)	0.105*** (5.80)	-0.013 (-0.37)	0.102*** (5.45)
Ln_total Sales	0.322 (0.99)	2.072*** (2.79)	0.724* (1.78)	1.836 (1.63)
Return on Assets	0.013 (0.38)	-0.053*** (-2.63)	-0.031 (-1.47)	-0.036 (-1.44)
Capital Intensity	-0.002 (-0.90)	0.004** (2.28)	0.001 (1.22)	0.002 (0.82)
R-Squared	0.115	0.102	0.110	0.107
Ln_Envt				
Govt_Share	-0.018** (-2.26)	0.009 (1.19)	-0.011 (-1.26)	0.008 (0.24)
Foreign_Share	0.006 (1.39)	-0.018 (-0.98)	0.004 (0.61)	-0.034 (-1.09)
Ln_total Sales	0.193*** (2.69)	0.200 (1.59)	0.176*** (2.56)	0.408 (1.56)
Return on Assets	-0.002 (-0.47)	0.001 (0.40)	-0.001 (-0.36)	0.001 (0.07)
Capital Intensity	0.001** (2.35)	0.001** (1.94)	0.001** (2.35)	0.002 (0.49)
R-Squared	0.189	0.176	0.185	0.179

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The figures in parentheses are t-statistics. The dependent CSR variables are in bold italics while government and foreign shareholding are the explanatory variables. Log of total sales, return on assets and capital intensity are the control variables.

The result also shows that high levels of foreign shareholding are not a significant determinant of CSR expenditure on public goods, social goods and environmental conservation. The insignificant effect of firms with high foreign ownership on CSR expenditure on public goods and environmental conservation is expected, as firms with greater dominance of foreign owners may regard the provision of public goods and environmental conservation as the exclusive responsibility of the state (Blowfield and Frynas, 2005; Idemudia, 2010). Contrary to our expectation, firms with high levels of foreign shareholdings have no significant effect on the provision of socially desirable goods in Nigeria. This may be explained by the fact that profit incentive is the overriding factor underpinning foreign firms' business strategy in Nigeria. Hence, it is argued that firms with high levels of foreign shareholders may more likely oppose investments in social goods that may reduce the firm's profit on the margin (Idemudia, 2009; Frynas, 2005; Okoko, 1999).

I also find that high levels of foreign shareholdings exert a significant and positive impact on CSR expenditure on corporate philanthropy and percentage of women on board. The size of the coefficient on the Fixed-effect model shows that a one unit change in foreign shareholdings will increase CSR expenditure on corporate philanthropy by 8.4%. Similarly, a one unit change in foreign shareholdings increases the percentage of women on board by 11 percentage points. The significant impact of high levels of foreign shareholdings on corporate philanthropy is consistent with the view that foreign owners may more likely use philanthropic donations as a strategy to boost their public relations. Moreover, the credible performance of high foreign shareholdings on women on the board is supported by existing research like Jeon et al. (2011) and Yoshikawa et al. (2010), which argue that firms with greater dominance of foreign owners are more likely to incorporate good management practices like employee-relations in their corporate governance code.

In line with the earlier results in the model testing hypothesis 1 (the effect of government ownership on CSR), I find that total sale revenue is highly significant for CSR expenditure on corporate philanthropy and women on board, and only marginally significant on social goods in the model testing hypotheses 2. The sizes of the coefficients on total sales revenue in the Fixed-effect model show a large effect and vary widely in different forms of CSR expenditure suggesting that a 10% increases in firm size will elicit an increase in CSR expenditures on corporate philanthropy and social goods by 12.5% and 6.34%

respectively; while the same percentage increase brings about increases on women on board by 20.7 percentage points. This implies that large firms may more readily commit to these forms of CSR as they may have more disposable resources for CSR practices. Moreover, large firms may feel more consumer pressures to demonstrate their interests in external stakeholders via investments in social goods. The effect of capital intensity in this model is highly significant only for CSR expenditure on corporate philanthropy, significant for women on board and CSR expenditure on environmental conservation, and only marginally significant for social goods even though the coefficient estimates are very small. The small effects of the coefficient estimates on capital intensity are similar to the results in model 1. This significant effect of capital intensity in these forms of CSR practices supports the fact that firms operating in industry that are environmentally and socially challenging, may have more incentive to engage in corporate philanthropy and environmental conservation as forms of public relations not only to gain social legitimacy, but also to reduce reputational damage arising from the negative externalities of their productive processes.

In line with the results in the previous model, return on assets has a significant and negative relationship with percentage of women on board. This may be due to the fact that less profitable firms may appoint women to improve their financial and social performance in line with the revised corporate governance code in Nigeria (Adewuyi and Olowookere, 2009).

I also compare the results of the regression across various estimation methods. The results show that the effect of high levels of government shareholdings is only statistically significant and positive in CSR expenditure on social goods across the Fixed-effect and FE & FT models. The sizes of the coefficient estimates are large in the FE & FT models with the test value of (0.151) and marginally smaller in the Fixed-effect with the value of (0.095). Despite the variations in the sizes of the coefficients, I find that there is no case where the change in methods brought about a change in the substance of the results.

This comparative study also shows that high levels of foreign shareholdings have a significant and positive relationship only with CSR expenditure on corporate philanthropy and percentage of women on board across various estimation methods. The sizes of the coefficients on women on board have large effects in the Fixed-effect and FE & FT models with the values of (0.105) and (0.102) respectively. The effect of high levels of foreign shareholdings on corporate philanthropy has smaller coefficient estimates in Fixed-effect and FE & FT models with the values of (0.084) and (0.087) respectively. Notwithstanding these variations in the sizes of the coefficients, the substance of the results remains the same across methods. Hence, the result is robust and very consistent across various estimation methods.

7.5.1 SUR Model on the effect of Shareholding Structure on all CSR

The SUR estimation in table 7.7 below indicates that the impact of high levels of government shareholdings on CSR practices is statistically insignificant in CSR expenditures on public goods, corporate philanthropy, women on board and environmental conservation. This result confirms my previous findings in the different estimation methods discussed above. However, this study finds a significant and positive relationship between high levels of government shareholdings and CSR expenditure on socially desirable goods. This implies that a one unit change in government shareholding will bring about 2.4% increases in CSR expenditure on social goods. The coefficient estimate for the SUR model is smaller (0.024) compared to other estimation methods which have the following estimates (0.095 and 0.151) for the Fixed-effect and FE & FT models respectively. The marginally smaller estimate of the SUR model may be due to the fact that the potential endogenous variables are not controlled for in SUR model. Notwithstanding these variations, the significant and positive effect of high percentage of government shareholdings on social goods is robust across all methods.

I equally observe that high degree of foreign ownership has no significant effect on CSR expenditures on public goods, socially desirable goods and environmental conservation. This result is also in line with the previous findings from other estimation methods. This study equally finds that high levels of foreign shareholdings have significant and positive impact on CSR expenditure on corporate philanthropy and women on the board. This implies that a unit increase in foreign shareholdings increases CSR expenditure on corporate philanthropy by 92.7% and equally increases percentage of women on board by

3.1 percentage points. The significant impact of high levels of foreign shareholdings on corporate philanthropy and percentage of women on board is also consistent with the results in all estimation methods in this model.

The R^2 of SUR model shows that the explanatory variables account for 13.4%, 26.2%, 20.6%, 11% and 18% variations in CSR expenditure on public goods, social goods, corporate philanthropy, percentage of women on board and environmental conservation. Similar to the results obtained in model 1 (testing the hypothesis on government ownership), the models on social goods and corporate philanthropy give a better fit with higher R^2 of 26.2% and 20.6% respectively.

The full table of SUR model showing all the control variables used in the estimation is shown in Appendix 13.

Table 7.7: SUR Model: Effect of Government and Foreign Shareholding

Government Shareholding			Foreign Shareholding		
Dependent variables	**coefficient**	**t-stats**	**coefficient**	**t-stats**	**R^2**
Ln_Public Goods	-1.243	-1.20	0.015	0.61	0.134
Ln_Social Goods	0.024***	1.82	-0.002	-0.26	0.262
Ln_Philanthropy	-0.007	-0.58	0.927***	2.93	0.206
Women_Board	0.016	0.87	0.031***	4.08	0.110
Ln_Envt	0.018	1.11	-0.003	-0.56	0.180
Number of Observation	493		493		

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithms. The independent variables are percentage of government and foreign shareholding, while the control variables are log of total sales, return on assets and capital intensity.

7.6 Conclusion

In this section, I highlighted and discussed the descriptive statistics and the correlation matrix of the entire variables used in the study. I also presented the empirical results and analyses of the regression results on the effect of ownership variables (government ownership, government and foreign shareholding) on the five forms of CSR practices. The empirical results of this chapter are based on the regression results from the Fixed-effect, FE & FT and SUR models.

My empirical findings showed that government ownership has a significant and positive effect only on CSR expenditure on socially desirable goods and percentage of women on the board. I equally found that in mixed ownership, high levels of government shareholdings have a significant and positive effect only on socially desirable goods, while high percentage of foreign shareholdings has a significant and positive impact only for CSR expenditure on corporate philanthropy and percentage of women on the board used to proxy employee relations.

8 ANALYSES AND DISCUSSION OF EMPIRICAL RESULTS ON THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON CSR

8.1 Introduction

This chapter focuses on the presentation and discussion of empirical results on the relationship between some corporate governance mechanisms (board independence, institutional investors and politically affiliated directors) used to proxy other ownership types and CSR practices of firms in Nigerian industries. It is divided into two major parts: the first part presents the tables of empirical results and analyses of the effect of board independence and institutional investors on CSR practices. The second part centres on the analyses of the impact of politically affiliated directors on CSR practices.

In models 3 and 4 testing the two major hypotheses on the effect of corporate governance variables on CSR practices, this thesis carries out five estimations for each of the models owing to the fact that there are five CSR dependent variables. As earlier noted in chapter six, I equally conduct Fixed-effect & Firm-specific trend (FE & FT) model to control for endogeneity bias and variations in firm-specific trend. I also employ the Seemingly Unrelated Regression (SUR) model to control for possible correlations in the error terms of different CSR equations.

8.2 Regression Results on Hypotheses 3: The Effect of Board Independence and Institutional Investors on all CSR Expenditure

Hypothesis 3(a) states: *Appointing independent or outside directors on the board has no positive impact on all the five forms of CSR practices.* This hypothesis is based on the fact that independent directors may be appointed merely as ceremonial figures or simply in compliance with statutory requirements (Wang and Coffey, 1992); in which case, their effectiveness in monitoring top management and enhancing the social responsibility of the firm may be undermined (Coffey and Wang, 1998; Harrison and Coombs, 2012).

Hypothesis 3(b) states that: *The percentage of firm's shares owned by institutional investors is positively related to CSR expenditure on socially desirable goods, corporate philanthropy and environmental conservation in Nigerian industry.*

This hypothesis is underpinned by the fact that institutional investors may regard investments in firms with proven record of environmental pollution as riskier investment (Spicer, 1978). Hence, it is argued that institutional investors have declined from holding shares in firms that manufacture products like tobacco, alcohol or are notorious for environmental pollution (Coffey and Fryxell, 1991). Table 8.1 below presents the impact of board composition (measured by percentage of board independence and institutional investors) on CSR in Nigeria.

The null hypothesis of Hausman test is rejected in most cases, and this supports the choice of interpreting the Fixed-effect model. Endogeneity bias would also suggest that Fixed-effect is the preferred way to deal with it and this is because in Fixed-effect, the persistent unobserved correlated effects are adequately controlled for. The table of Hausman test is shown in Appendix 35. The result from the table below shows that independent directors have no significant impact on CSR expenditures on public goods, corporate philanthropy, percentage of women on board and environmental conservation. This result is robust across methods as will be seen from the comparison of the various estimation methods below. The significant impact of board independence on the percentage of women on board and the marginally significant effect on environmental conservation as shown in the OLS model may be explained by its positive relationship with the persistent unobserved firm characteristics like better managed firms for instance, which becomes insignificant when endogeneity is controlled for via Fixed-effect model.

I however find that board independence exerts a significant and positive effect for CSR expenditure on social goods. The size of the coefficient suggests that a unit increase in board independence will increase CSR expenditure on social goods by 1.3%. A possible reason for the significant effect of independent directors on CSR expenditure on social goods in Nigeria is firmly established on the fact that independent directors are more likely to support the use of firm

Table 8.1: Effect of Board independence and Institutional Investors on CSR

Dep. Variables	OLS		Fixed Effect		Random		FE&FT	
Ln_Public								
Board_Independence	-0.005	(-0.71)	-0.001	(-0.07)	-0.005	(-0.63)	-0.015	(-1.15)
Institutional	-0.008	(-1.08)	-0.015	(-1.41)	-0.010	(-1.60)	-0.031	(-1.57)
Ln_total Sales	0.411***	(5.11)	0.413	(1.58)	0.404***	(4.66)	0.486	(0.95)
Return on Assets	0.006	(0.34)	0.007	(0.72)	0.005	(0.83)	0.003	(0.17)
Capital Intensity	0.001***	(3.38)	0.001*	(1.69)	0.001***	(3.72)	0.002	(0.92)
R-Squared	0.114		0.111		0.113		0.101	
Ln_Social								
Board_Independence	-0.014	(-1.47)	0.013***	(4.04)	0.001	(0.01)	0.018**	(2.15)
Institutional	0.037***	(3.31)	0.028	(1.32)	-0.029	(-2.40)	0.036***	(4.90)
Ln_total Sales	0.961***	(8.25)	0.470	(1.29)	0.831***	(5.76)	0.456	(1.37)
Return on Assets	0.029*	(1.73)	0.011	(0.86)	0.015	(1.20)	-0.009	(-1.24)
Capital Intensity	0.002***	(3.90)	0.001	(1.11)	0.002***	(4.50)	0.004***	(3.30)
R-Squared	0.298		0.231		0.289		0.278	
Ln_Philanthropy								
Board_Independence	-0.006	(-0.63)	0.001	(0.09)	-0.004	(-0.49)	-0.013	(-0.87)
Institutional	-0.018*	(-1.63)	0.020***	(4.88)	-0.018*	(-1.79)	0.029***	(3.45)
Ln_total Sales	0.708***	(6.21)	1.143***	(3.90)	0.756***	(6.11)	1.978***	(4.54)
Return on Assets	0.023	(1.55)	0.017*	(1.74)	0.021**	(1.93)	0.015	(1.06)
Capital Intensity	0.002***	(3.98)	0.002***	(4.03)	0.002***	(5.21)	-0.001	(-0.57)
R-Squared	0.217		0.211		0.216		0.203	
Women_Board								
Board_Independence	-0.046**	(-2.14)	0.019	(0.86)	-0.004	(-0.24)	0.040	(1.28)
Institutional	-0.069**	(-2.34)	-0.008	(-0.16)	-0.033	(-0.98)	0.045	(0.52)
Ln_total Sales	1.288	(1.04)	1.787***	(2.53)	0.724**	(1.97)	1.644	(1.46)
Return on Assets	0.015	(0.41)	-0.050**	(-2.23)	-0.022	(-0.99)	-0.028	(-0.99)
Capital Intensity	-0.002	(-1.40)	0.004**	(2.19)	0.001	(1.38)	-0.001	(-0.57)
R-Squared	0.107		0.100		0.105		0.101	
Ln_Envt								
Board_Independence	-0.008*	(-1.66)	0.004	(0.92)	0.004	(0.09)	0.002	(0.30)
Institutional	0.013*	(1.87)	-0.005	(-1.14)	0.003	(0.68)	-0.008	(-0.76)
Ln_total Sales	0.180***	(2.67)	0.214*	(1.70)	0.164**	(2.36)	0.398	(1.46)
Return on Assets	-0.001	(-0.32)	0.001	(0.30)	0.006	(0.02)	-0.001	(-0.08)
Capital Intensity	0.001***	(2.46)	0.001	(1.61)	0.001**	(2.17)	0.003	(0.53)
R-Squared	0.178		0.136		0.160		0.135	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The figures in parentheses are t-statistics. The dependent CSR variables are in bold italics, while board independence and institutional investors are the explanatory variables. Log of total sales, return on assets and capital intensity are the control variables.

resources in social investments like construction of schools, hospitals and provision of clean water as ways of demonstrating their stakeholder salience.

The result equally shows that institutional investors have no statistically significant effect on CSR expenditures on public goods, environmental conservation and percentage of women on board. The observed significant effect of institutional investors on the percentage of women on board and the marginally significant effect on environmental conservation in the OLS model may be entirely due to endogeneity issues; which turn out insignificant when endogeneity is controlled for via the Fixed-effect and FE & FT models.

I however find that institutional investors have a significant and positive effect only on corporate philanthropy. This study finds that after controlling for further endogeneity bias through FE & FT model, institutional investors become significantly positive on CSR expenditure on social goods. The significant and positive impact of institutional investors on social goods and corporate philanthropy is in line with Adi (2006), who argues that corporate philanthropy and social investments are the dominant forms of CSR in Nigeria. Hence, it is more likely that institutional investors will use philanthropic donations and provision of social goods as the easiest ways of signalling to the public their commitments to the interests of other stakeholders of the firm.

In line with the insignificant effect of the control for firm size on public and social goods in the models testing hypotheses 1 and 2, I find that total sales revenue has no significant impact on CSR expenditure on public and social goods. This insignificant effect remains the same even after controlling for further endogeneity bias via the FE & FT model. This may be explained by the fact that independent directors and institutional investors in large firms may be more concerned with curbing managerial opportunism, and are more likely to oppose CSR expenditure on public and social goods given the huge cost implications. Similarly, large firms dominated by independent directors or institutional investors in Nigeria, may oppose the provision of public goods on the grounds that it is the sole responsibility of the state to provide such goods.

Consistent with the previous results in models 1 and 2, I find that total sales revenue is highly significant in determining CSR expenditure on corporate philanthropy and percentage of women on board, and only marginally significant in CSR expenditure on environmental conservation. The sizes of the estimated coefficients are quite large such that a 10% increases in firm size will increase

CSR expenditures on corporate philanthropy and environmental conservation by 11.4% and 2.1% respectively. Similarly, a 10% increases in firm size will increase women on board by 17.9 percentage points. This significant impact confirms the view that large firms, because of sufficient slack resources, may have more incentive to demonstrate their social responsibility via philanthropic donations, and may have more pressures to correct the negative externalities of their productive processes through investing in pollution abatement technology.

Similar to the results of the previous models, the control for firm profitability has no significant impact on CSR expenditure on public goods, social goods and environmental conservation. This result is expected, as expenditure on these forms of CSR may reduce the firm's profit on the margin. In line with the results obtained in models 1 and 2, return on assets has a significant and negative impact on percentage of women on board used to proxy employee relations. This shows that incorporating women on the board, to signal good employee relations, may actually impact negatively on firm's profit. The findings also show that capital intensity has a positive and significant effect in CSR expenditure on corporate philanthropy and women on board; even though the coefficient estimates are quite small with the values of 0.002 and 0.004 respectively. This result is similar to my observations in models 1 and 2, and shows that the effect of industry type in determining these two forms of CSR may be negligible.

I equally compare the results of the regression across the various estimation methods in order to ensure that they are robust across all estimation methods. This work finds that board independence has no statistically significant effect on CSR expenditures on public goods, corporate philanthropy, women on board and environmental conservation across the Fixed-effect and FE & FT models. However, board independence has a significant and positive effect on CSR expenditure on social goods across Fixed-effect and FE & FT models. The sizes of the coefficient estimates in the Fixed-effect and FE & FT models are quite similar with the values of (0.013 and 0.018) respectively. Despite the variations in the sizes of the coefficients, I find that there is no case where the change in estimation methods brought about a change in the substance of the results.

Institutional investors have no statistically significant impact on CSR expenditure on public goods, women on board and environmental conservation across the Fixed-effect and FE & FT models. Similarly, institutional investors have no significant and positive effect on CSR expenditure on social goods in the Fixed-effect model, but after controlling for endogeneity bias via the FE & FT model, they turn out significant and positive. Conversely, I find that Institutional investors have a statistically significant and positive effect on CSR expenditure on corporate philanthropy across all estimation methods. The coefficient estimates in Fixed-effect and FE & FT models are similar with the values of (0.020 and 0.029) respectively. Despite the variations in the coefficient estimates, the substance of the result remains the same across all methods. Hence, this comparative study observes that the result is robust and very consistent across various estimation methods.

8.2.1 SUR Model: Board Independence and Institutional Investors on CSR

From the SUR estimation in table 8.2 below, I deduce that the impact of Board independence is statistically insignificant in CSR expenditures on public goods, corporate philanthropy, women on the board and environmental conservation. This result is consistent with the earlier findings in the various estimation methods. However, this study finds a significant and positive relationship between board independence and CSR expenditure on social good. This means that a unit increase in board independence will lead to 3.4% increases in CSR expenditure on social goods. This result also supports my initial findings in all the estimation methods. The coefficient estimate for the SUR model (0.034) has larger effect compared to the following estimates (0.013 and 0.018) for the Fixed-effect and FE & FT models respectively. This may be due to the presence of endogenous variables in the model; as the SUR model only controls for the correlations between the error terms of different CSR equations.

On the other hand, I find that institutional investors have no significant impact on CSR expenditure on public goods, women on the board and environmental issues. Again, this result is supported by my earlier findings across the different methods. However, this study finds a significant and positive relationship between institutional investors and CSR expenditure on socially desirable goods and corporate philanthropy. This implies that a unit increase in the shares of institutional investors increases CSR expenditures on social goods and corporate philanthropy by 3.7% and 1.8% respectively. This result is also in line with the findings from various estimation methods. The size of the coefficient on social goods in the SUR model (0.037) is quite similar to the result obtained in the FE & FT model with the value of (0.036). Despite the differences in the coefficient estimates, the substance of the results remains the same across all estimation methods.

The R^2 of SUR model shows that the explanatory variables account for 11.4%, 30%, 22%, 10.2% and 17% variations in CSR expenditures on public goods, social goods, corporate philanthropy, percentage of women on board and environmental conservation. Consistent with hypotheses 1 and 2, the models on social goods and corporate philanthropy give a better fit with higher R^2 of 30% and 22% respectively. The full table of SUR model showing all the control variables used in the estimation is shown in Appendix 13.

Table 8.2: SUR: Board Independence and Institutional Investors on all CSR

	Board Independence		Institutional Investors		
Dependent variables	coefficient	t-stats	coefficient	t-stats	R^2
Ln_Public Goods	-0.005	-0.92	-0.008	-1.27	0.114
Ln_Social Goods	0.034***	1.87	0.037***	4.16	0.298
Ln_Philanthropy	-0.006	-0.85	0.018**	2.16	0.217
Women_Board	0.181	1.42	-0.002	-0.18	0.102
Ln_Envt	0.417	0.34	0.012	1.05	0.170
Number of Observations	493		493		

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithm. The independent variables are percentage of independent directors and shares of institutional investors, while the control variables used are log of total sales, return on assets and capital intensity.

8.3 Regression Results on Hypothesis 4: The Effect of Political Affiliation on all CSR Expenditure

Hypothesis 4 states that: *Political affiliation of firms has no significant effect on all the five categories of CSR practices in Nigerian industry.* This hypothesis is based on the view that politically connected directors may have no incentive to commit resources to CSR engagements, and may more likely constrain top management via subsidies, relaxed regulatory constraints and political patronage to use firm resources for funding political negotiations in the senate (Boubakri et al., 2008; Wang and Qian, 2011; Aburime, 2009). Table 8.3 below presents the effect of political affiliation on CSR in Nigeria.

Table 8.3: Effect of Political Affiliation on all CSR Expenditure

Dep. Variable	OLS		Fixed Effect		Random		FE & FT	
Ln_Public								
Political_Dum	-0.432	(-1.60)	0.212	(0.52)	-0.221	(-0.78)	0.358	(0.44)
Ln_total Sales	0.397***	(5.36)	0.320	(1.37)	0.377***	(4.39)	0.217	(0.40)
Return on Assets	0.005	(0.85)	0.005	(0.77)	0.005	(1.21)	0.001	(0.07)
Capital Intensity	0.001***	(3.75)	0.001	(1.42)	0.001***	(3.44)	0.002	(0.84)
R-Squared	0.119		0.103		0.117		0.105	
Ln_Social								
Political_Dum	-0.927**	(-2.20)	-0.307	(-0.42)	-0.580	(-1.08)	-0.723	(-1.00)
Ln_total Sales	0.894***	(8.10)	0.466	(1.35)	0.777***	(5.27)	0.358	(1.14)
Return on Assets	0.027***	(2.72)	0.012	(1.42)	0.014	(1.58)	-0.013*	(-1.79)
Capital Intensity	0.002***	(4.54)	0.001	(1.28)	0.002***	(4.03)	-0.004***	(-3.59)
R-Squared	0.274		0.272		0.271		0.229	
Ln_Philanthropy								
Political_Dum	-0.949***	(-2.75)	-0.090	(-0.18)	-0.551	(-1.58)	0.093	(0.12)
Ln_total Sales	0.702***	(6.96)	1.102***	(3.60)	0.746***	(5.91)	1.794***	(4.11)
Return on Assets	0.021**	(2.23)	0.010	(1.29)	0.015**	(1.93)	0.013	(0.91)
Capital Intensity	0.003***	(5.06)	0.002***	(3.71)	0.002***	(5.01)	-0.001	(-0.54)
R-Squared	0.227		0.206		0.223		0.194	
Women_Board								
Political_Dum	-0.091	(-0.09)	0.770	(0.51)	0.465	(0.37)	0.202	(0.10)
Ln_total Sales	0.018	(0.06)	1.587***	(2.49)	0.612*	(1.65)	1.783*	(1.74)
Return on Assets	0.020	(0.81)	-0.036**	(-2.02)	-0.020	(-1.23)	-0.028	(-1.14)
Capital Intensity	-0.002	(-1.62)	0.003**	(2.39)	0.001	(1.03)	0.002	(0.80)
R-Squared	0.120		0.107		0.116		0.102	
Ln_Envt								
Political_Dum	-0.277**	(1.83)	0.001	(0.01)	0.112	(0.67)	-0.060	(-0.17)
Ln_total Sales	0.155***	(2.77)	0.196*	(1.81)	0.165***	(2.63)	0.370	(1.58)
Return on Assets	0.002	(0.74)	-0.006	(-0.06)	0.003***	(0.23)	-0.001	(-0.25)
Capital Intensity	0.001**	(2.40)	0.001*	(1.80)	0.001***	(2.50)	0.003	(0.59)
R-Squared	0.116		0.108		0.112		0.104	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The figures in parentheses are t-statistics. The dependent CSR variables are in bold italics, while political affiliation institutional is the explanatory variable. Log of total sales, return on assets and capital intensity are the control variables.

Consistent with all the previous models, the null hypothesis of Hausman test is rejected in most cases suggesting the choice of interpreting the Fixed-effect model. Similarly, I find that even when the null hypothesis is not rejected, there is no significant difference in the test results in both models. Nevertheless, I prefer the Fixed-effect model because it provides a better treatment for endogeneity bias. The result of Hausman specification test for this model is shown in Appendix 36.

The results from the table above shows that political affiliation of directors does not significantly influence CSR expenditures on public goods, social goods, corporate philanthropy, women on board and environmental conservation. The significant impact of politically affiliated directors on social goods, corporate philanthropy and environmental conservation in the OLS model is again explained by its positive relationship with other persistent unobserved firm characteristics, which becomes insignificant when endogeneity bias is controlled for via the Fixed-effect and FE & FT models. The insignificant effect of political affiliation on CSR practices of Nigerian firms is expected; as politically affiliated directors may have no incentive to commit resources to CSR. It is argued that using the firm resources to fund political campaigns and re-election bid of senators or members of the House of Representatives is extremely more important for firms with political connections in Nigeria, compared to being responsive to the demands of other external stakeholders (Aburime, 2009).

In line with the earlier results in the model testing hypotheses 3 above, I find that total sales revenue has no significant impact on CSR expenditure on public and social goods. This shows that large firms, dominated by politically affiliated directors, may be opposed to expending resources on public and social goods given their negative impact on the firm’s profit that would have been committed to funding political campaigns or negotiations in the house of Senate or Representatives. However, total sales revenue is highly significant in CSR expenditure on corporate philanthropy and percentage of women on board, and only marginally significant on environmental conservation. This result is also supported by the initial findings in the previous models. The sizes of the coefficients are quite large suggesting that a 10% increases in firm size will bring about increases in CSR expenditure on corporate philanthropy and environmental conservation by 11% and 2% respectively; while the same percentage change will increase women on board by 15.9 percentage points. The significant impact of total sales revenue on women on board is explained by the fact that large firms, with greater dominance of managers with political clout, may more likely incorporate women on the board in Nigeria. Again, established firms may use philanthropic donations as the easiest way of signalling their social responsibility. The marginally positive effect of total sales revenue on environmental conservation in Nigeria is supported by the view that many large firms in Nigeria have not actually lived up to their social responsibility in environmental conservation (Idemudia and Ite, 2006;Idemudia, 2009; Ite, 2005).

Consistent with the previous findings in all the models, return on assets has no significant effect on CSR expenditure on public goods, social goods and environmental conservation. On the other hand, I find that return on assets has a significant and negative effect on women on board. This result is robust across all models, and shows that incorporating women on the board of firms may impact negatively on the firm’s profit or may be a strategy employed by less profitable firms to improve both their financial performance and social responsibility ratings. This study also finds that capital intensity has a positive and significant effect on CSR expenditure on corporate philanthropy and women on board; even though the coefficient estimates have smaller effects with the values of (0.002) and (0.003) respectively. This finding supports my results in the previous models, and shows that most industries in Nigeria may readily commit to CSR via philanthropic donations.

This work also compares the results of our regression across the various estimation methods. The results show that political affiliation has no statistically significant effect on all the five forms of CSR across the Fixed-effect and FE & FT models. This study equally finds that total sale revenue has a significant and positive effect on CSR expenditure on corporate philanthropy across different estimation methods. The sizes of the coefficients are quite large and varied, but the substance of the result remains the same. This suggests that contrary to political affiliation, firm size may be the major determining factor in firms’ decisions to devote resources to corporate philanthropy. This comparative study confirms that the findings are robust and very consistent across all estimation methods.

8.3.1 SUR Model on the Effect of Political Affiliation on CSR Expenditure

From the SUR model presented in table 8.4 below, I observe that political affiliation has no statistically significant effect on CSR expenditures on public goods, social goods, corporate philanthropy, women on the board and environmental conservation. This suggests that politically affiliated directors do not exert any impact on firms' decision to commit resources to all the forms of CSR expenditure investigated in this study. This result reinforces the findings in the various estimation methods, and shows its robustness across methods.

The R^2 of SUR model shows that the explanatory variables account for 12%, 27.4%, 23%, 11.3% and 12% variations in CSR expenditure on public goods, social goods, corporate philanthropy, percentage of women on board and environmental conservation. In line with all the hypotheses tested, the models on social goods and corporate philanthropy give a better fit with higher R^2 of 27.4% and 23% respectively.

The full table of SUR model showing all the control variables used in the estimation is shown in Appendix 12.

Table 8.4: SUR: Effect of Political Affiliation on all CSR Expenditure

Political Affiliation on all CSR Expenditure			
Dependent variables	**coefficient**	**t-stats**	**R^2**
Ln_Public Goods	-0.364	-1.35	0.119
Ln_Social Goods	-0.013	-0.51	0.274
Ln_Philanthropy	-0.029	-0.22	0.227
Women_on_Board	0.031	-0.05	0.113
Ln_Envt	0.513	0.89	0.120
Number of Observations	493		

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithm. The independent variable is political affiliation which is a dummy variable that takes the value of "1" if top management or CEO is politically connected or "0" otherwise. The control variables used are log of total sales, return on assets and capital intensity.

I also compare the performances of the control variables for each category of CSR expenditure across the different types of ownership investigated in this section and in chapter 7. I undertake this task in order to show that the performances of these variables are somewhat consistent across the different types of ownership.

From the results of the control variables used in models 1 to 4 (as shown in tables 7.4, 7.6, 8.1 and 8.3), I find that total sales revenue, used to proxy firm size, has a statistically significant and positive effects on CSR expenditure on corporate philanthropy and percentage of women on board across government ownership, government and foreign shareholdings, board independence, institutional investors and firms with political affiliation. This study also finds that firm size has marginal or no significant effect on CSR expenditures on public goods, social goods and environmental conservation.

Return on assets, used to control for firm profitability, has no statistically significant effect on CSR expenditures on public goods, social goods and environmental conservation across different ownership structures. Firm profitability has also an insignificant effect on corporate philanthropy across different ownership with the exception of firms with high levels of government and foreign shareholdings. This may be explained by the fact that the different specifications or some other variables, pick up the effect for the observed differences on the impact of firm profitability on corporate philanthropy across different owners. However, I find that return on assets is significant and negatively related with percentage of women on board across different ownership structures.

Capital intensity, used to control for industry type, has a statistically significant effect on CSR expenditure on corporate philanthropy and percentage of women on board across different owners, but only marginally significant on CSR expenditure on environmental conservation across different ownership structures, with the exception of board independence and institutional investors. Consistent with the performance of other control variables, I find that capital intensity has no significant effect on CSR expenditure on public and social goods across different ownership structures.

8.4 Conclusion

In this study, I extensively show-cased the empirical results and analyses of the impact of board independence and institutional investors on CSR practices. I also presented the regression results of the effect of political affiliation on CSR practices. The empirical findings of this chapter are based on the regression results from the Fixed-effect, FE & FT and SUR models.

The empirical results show that board independence has a significant and positive effect only on CSR expenditure on socially desirable goods, while institutional investors have a significant and positive effect only on CSR expenditure on social goods and corporate philanthropy. This study equally finds that political affiliation of executive directors has no significant impact on all the five forms of CSR practices.

I also summarized the performances of the control variables used in the estimation of the effects of ownership variables and corporate governance mechanisms (used to proxy other ownership types) on the five forms of CSR practices. Firm size exerts a significant and positive effect on CSR expenditure on corporate philanthropy across all ownership types, while return on assets has a significant and negative effect on percentage of women on board across all types of ownership structures. Capital intensity exerts a significant and positive effect in CSR expenditure on corporate philanthropy and percentage of women on board across different ownership types.

9 INSTRUMENTAL VARIABLE ESTIMATION ON THE EFFECT OF OWNERSHIP STRUCTURE ON CSR

9.1 Introduction

In this section, I use instrumental variable (IV) estimation to investigate the relationship between ownership structure and CSR practices. This study undertakes this task in order to not only ensure that further endogeneity issues are controlled for, but also to determine the robustness of the empirical results and their consistency with other estimation methods used in the previous chapters. In line with existing literature, this study uses the treatment effect model to investigate hypotheses 1 and 4 which have binary or dummy variables; while for hypotheses 2 and 3 which have continuous variables, I use the 2SLS model (Verbeek, 2008; Greene, 2008).

This section is divided into three parts: the first part presents the methodology of the study; the second shows the empirical specification of the models and the choice of instruments used in the regression, while the third is the presentation of the tables of empirical results and analyses of the regression results of the effect of ownership types on CSR practices.

9.2 Methodology of the Study

It is the case that the use of Fixed-effect model to control for persistent unobserved correlated effects may not always ensure that the endogenous right hand side explanatory variables are not correlated with the error terms of the regression model (Greene, 2008; Wooldridge, 2002); as endogeneity problem can also occur in the form of reverse causality where the Y and X variables are simultaneously determined in a system. This implies, for instance, that government ownership may exert causal impact on CSR expenditure on socially desirable goods, while the need to maximize social welfare through CSR practices may also elicit government ownership of firms. Given the incidence of this reverse causality, it is argued that estimating the causal impact of X on Y without controlling for this endogeneity issues may give rise to not only inconsistent estimates, but also erroneous conclusions and policies (Verbeek, 2008; Greene, 2008). To control for further endogeneity bias, I conduct IV estimation for the four specified models of the study.

9.3 Empirical Model Specification

I present the empirical specification of the IV model for each of the hypothesized relationships contained in the four models investigating the relationship between CSR and ownership structure. The relevant estimation models under each of the hypotheses are given below.

9.3.1 Treatment Effect Model on Government-Ownership and CSR Effects

The average treatment effect model is used to control for endogeneity bias and consists of two steps: the first step is a probit regression, where the first stage fitted probabilities, which are the predicted values for the binary endogenous variables, are obtained. The high correlation of these predicated probabilities with the binary endogenous right-hand side variable makes them an efficient and relevant instrument to predict X (Baltagi; 1995; Greene, 2008; Gujarati, 2003). The second stage is simply to substitute the predicted probabilities as instruments for the binary endogenous variable in the main structural model, and then estimate the resulting equation via OLS model. The treatment effect model specification for the effect of government ownership on CSR expenditure on public goods is shown below.

Main equation:

$$\mathrm{Ln\_public}_i = \alpha_\circ + \alpha_1 \mathrm{GOVT\_OWN}_i + \alpha_2 \mathrm{lnTOTAL\_SALES}_i + \alpha_3 \mathrm{ROA}_i + \alpha_4 \mathrm{CAP\_INT}_i + \varepsilon_1 \qquad (18)$$

Endogeneity Equation:

$$\mathrm{GOVT\_OWN}_i = \alpha_\circ + \alpha_1 \mathrm{FOREIGN\_SHARE}_i + \alpha_2 \mathrm{BOARD\_IND}_i + \alpha_3 \mathrm{ROA}_i + \alpha_4 \mathrm{CAP\_INT}_i + v_1 \qquad (19)$$

Where the main structural equation contains Ln_Public which is the log of CSR expenditure on public goods, GOVT_OWN is government ownership which is a dummy variable that takes the value of “1” if government is a substantial owner of the firm or “0” otherwise. LnTOTAL_SALES is log of total sales revenue, ROA is return on assets while CAP_INT is the capital intensity. The endogeneity equation contains GOVT_OWN meaning government ownership which is the dependent variable; FOREIGN_SHARE is an instrumental variable for government ownership and means foreign shareholding that measures the actual percentage of foreign shareholding; BOARD_IND is also an instrumental variable for government ownership and means board independence which measures the actual percentage of independent directors on the board.

For the choice of the instruments, this study conducts a basic correlation analysis of all the variables used in the study, and then selects the exclusionary restrictions that are strongly correlated with the main endogenous variables contained in each model; but not correlated with the dependent CSR variable through its non-correlation with the error term of the regression. Hence, an instrument is therefore valid when it is not correlated with the residual of the regression such that E $(z_1u) = 0$ (Greene, 2003; 2012; Wooldridge, 2002; Murray, 2006a).

The choice of foreign shareholding and board independence as instruments for government ownership is based on the results of the correlation analysis which shows that foreign shareholding and board independence are strongly correlated with government ownership with the test values of (0.101**) and (0.287***)[67] respectively, but are not correlated with CSR expenditure on public goods. I equally adjust the standard errors of the coefficient estimates using Newey-West standard errors.

To test the validity of the chosen instruments, this work uses Sargan test which is a test for over-identifying restrictions. The hypothesis being tested is that the instruments are uncorrelated with the regression residuals. Thus, if the p-value of the residual is not statistically significant (wherein the null hypothesis is not rejected), the instruments are considered as valid. The test result shows that the Sargan score for the chosen instruments of foreign shareholding and board independence is 0.3141 (P>0.05). This shows that the instruments are valid. The table of Sargan score test for the validity of the selected instruments in this model is shown in Appendix 37.

[67] Where **, and *** shows significance at 5% and 1% respectively. See also Table 7.3 in chapter 7 which shows the correlation matrix of all the variables used in the study.

The second stage of the treatment effect model showing the level of significance of the chosen instruments and performances of the control variables used in this model is shown in Appendix 14. These specifications are also conducted for the remaining four CSR dependent variables in the model testing hypothesis 1 and the same findings are observed for all the chosen instruments except where the instruments are just identified[68].

9.3.2 2SLS Model: Effect of Shareholding Structure on CSR Practices

The 2SLS model to control for endogeneity bias consists of two regressions: the first is the first stage regressions, where the predicted value for the endogenous right-hand side variable, is generated. The high correlation of the proxy variable with endogenous right hand side (X) variable makes it an efficient and relevant instrument to predict X (Baltagi; 1995; Greene, 2008; Verbeek, 2008). Along the same view, the chosen instrument must be valid meaning that it is not correlated with the residual of the regression. The second stage is simply to substitute the predicted values of the proxy variable as instruments for the endogenous variable, and then estimate the resulting equation via OLS. These stages are done simultaneously in the 2SLS model. The 2SLS specification for the effect of shareholding structure on CSR expenditure on public goods is shown below:

Main equation:

$$\mathrm{Lnpublic}_i = \alpha_\circ + \alpha_1 \mathrm{GOVT\_SHARE}_i + \alpha_2 \mathrm{FOREIGN\_SHARE}_i + \alpha_3 \mathrm{lnTOTAL\_SALES}_i + \alpha_4 \mathrm{ROA}_i + \alpha_5 \mathrm{CAP\_INT}_i + \varepsilon_1 \qquad (20)$$

Endogeneity equation

$$\mathrm{GOVT\_SHARE}_i,\ \mathrm{FOREIGN\_SHARE}_\mathrm{i} = \beta_0 + \beta_1 \mathrm{BOARD\_IND}_i + \beta_2 \mathrm{INSTN}_\mathrm{i} + \beta_3 \mathrm{ROA}_i + \beta_4 \mathrm{CAP\_INT}_i + v_1 \qquad (21)$$

The equation of the model to be estimated by 2SLS is derived by substituting the exogenous explanatory variables in equation (21) as instruments for the endogenous variables in equation (20). Thus, the resulting equation is:

$$\mathrm{Lnpublic}_i = \alpha_\circ + \alpha_1 \mathrm{BOARD\_IND}_i + \alpha_2 \mathrm{INSTN}_\mathrm{i} + \alpha_3 \mathrm{lnTOTAL\_SALES}_i + \alpha_4 \mathrm{ROA}_i + \alpha_5 \mathrm{CAP\_INT}_i + \varepsilon_1 \qquad (22)$$

[68] Test of over-identifying restrictions is used when the numbers of instruments used are more than the binary endogenous variables. When the number of instrument used is equal to the number of binary endogenous variable, the test of over-identifying restriction is no longer applicable (see for instance Wooldridge, 2002; Verbeek, 2008).

Where the dependent variable in the main equation is as described in equation (18) above, while GOVT_SHARE is government shareholding and measures the actual percentage of shareholding of a company that is owned by the government. FOREIGN_SHARE is foreign shareholding and measures the actual percentage of shareholding of a firm that is owned by foreigners in the domestic economy. The rest of the control variables are as described in equation (18). For endogeneity equations, GOVT_SHARE and FOREIGN_SHARE are dependent variables in equation (21). BOARD_IND is the explanatory variable in equation (22) and means board independence which measures the percentage of independent directors on the board. This variable is selected as an instrument for GOVT_SHARE because it is strongly correlated with government shareholding (0.312***), but is not correlated with the dependent variable of the main equation through its non-correlation with the error term of the regression. Similarly, institutional investor is selected in equation (22) as the instrument for FOREIGN_SHARE because it is significantly correlated with foreign shareholding (0.461***)[69], but is not correlated with the dependent variable of the main equation. Sargan's test of over-identifying restrictions cannot be used in this model because the numbers of the chosen instruments are equal to the numbers of the continuous endogenous variables; this implies that the instruments are just-identified.

It is exigent to remark that the 2SLS model has some shortcomings with regards to determining the validity conditions which states that the instrument is not correlated with the residual of the regression ($E(z_1u) = 0$). It has been noted that this validity condition cannot be tested in actual sense since it involves the unobservable residual (u) (Murray, 2006; Söderbom, 2009; Wooldridge, 2002; Stock et al., 2002). Another pitfall of the 2SLS model consists in the fact that having large number of instruments in finite sample size may generally bias downward the estimated variance of the 2SLS: hence, there is the tendency to always reject the null hypothesis based on its standard errors (Söderbom, 2009; Murray, 2006). This is further exacerbated when the instruments are weakly correlated with the endogenous explanatory variables. However, several studies have suggested that, over and above taking the

[69] See table 7.3 in chapter 7 for the correlation matrix of all the variables used in the study.

validity condition on faith based on sound economic theory, there is the need to conduct other post-estimation tests and ensure that the chosen instruments are significantly different from zero at the first stage of the regression (Baltagi, 1995; Wooldridge, 2002; Brooks, 2008; Murray, 2006).

Accordingly, this study conducts another post-estimation test known as the nominal 5% Wald specification test which tests the null hypothesis that the chosen instruments are weak**.** An instrument is strong and valid when the minimum eigenvalue exceeds the critical value of the Nominal 5% Wald test (Cragg and Donald, 1993; Stock et al., 2002). A rule of thumb to further demonstrate the strength of the chosen instrument is that the F-value in the test of the goodness of fit in the first stage of the 2SLS model must be greater than 10 (Baltagi, 1995; Wooldridge, 2002; Brooks, 2008). Along the same view, a good instrument should also be significantly different from zero at the first stage of the regression (Hsiao, 2003; Maddala, 2001). I equally adjust the standard errors of the coefficient estimates using Newey-West standard errors.

The nominal 5% Wald test shows that the null hypothesis of weak instrument is rejected as the minimum Eigenvalue of 17.40 exceeds the Wald test value of 13.43. The table of Nominal Wald specification test for the validity of the selected instruments in this model is shown in Appendix 38. From the first stage of the 2SLS, I find that the chosen instruments of board independence and institutional investors are statistically significant with the test values of (0.132***) and (0.175***), and have F-values of 15.90 and 26.22 respectively ($F > 10$). The first stage of the 2SLS model showing the level of significance of the chosen instruments and their F-values is shown in Appendix 19. These specifications are conducted for the remaining four CSR dependent variables in the model testing hypotheses 2 and the same findings are observed for all the chosen instruments.

9.3.3 2SLS Model on the Effect of Board Independence and Institutional Investors on CSR.

The empirical specification for controlling the endogeneity problems via the 2SLS model for the effect of board independence and institutional investors on CSR expenditure on public goods is shown below:

Main equation:

$$\text{Lnpublic}_i = \alpha_\circ + \alpha_1\text{BOARD\_IND}_i + \alpha_2\text{INSTN}_i + \alpha_3\text{lnTOTAL\_SALES}_i + \alpha_4\text{ROA}_i + \alpha_5\text{CAP\_INT}_i + \varepsilon_1 \qquad (23)$$

Endogeneity equation

$$\text{BOARD\_IND}_i,\ \text{INSTN}_i = \beta_0 + \beta_1\text{FOREIGN\_SHARE}_i + \beta_2 POLF_i + \beta_3\text{ROA}_i + \beta_4\text{CAP\_INT}_i + v_1 \qquad (24)$$

The equation of the model to be estimated by 2SLS is derived by substituting the exogenous explanatory variables in equation (24) into equation (23) as instruments for the endogenous variables. Thus, the resulting equation is given below:

$$\text{Lnpublic}_i = \alpha_\circ + \alpha_1\text{FOREIGN\_SHARE}_i + \alpha_2 POLF_i + \alpha_3\text{lnTOTAL\_SALES}_i + \alpha_4\text{ROA}_i + \alpha_5\text{CAP\_INT}_i + \varepsilon_1 \qquad (25)$$

Where the dependent variable in the main equation is as described in equation (18) while the explanatory variables are as described in equation (22). The rest of the control variables are as described in equation (18). For endogeneity equations, BOARD_IND which means board independence and INSTN which means institutional investors are the dependent variables in equation (24). FOREIGN_SHARE is selected as an instrument for board independence in equation (25) because it is very significantly correlated with board independence (0.305***), but is not correlated with the dependent variable in the main equation. Along the same view, political affiliation is chosen as an instrument for institutional investors because it is strongly correlated with institutional investors (0.160***)[70], but is not correlated with the error terms of the regression. The nominal 5% Wald test also shows that the null hypothesis of weak instrument is rejected as the minimum Eigenvalue of 13.39 exceeds the Wald test value of 7.03. The table of the Nominal Wald specification test for the validity of the selected instruments in this model is shown in Appendix 39.

The result of the first stage of the 2SLS model equally shows that Foreign_share and Political affiliation are statistically significant with the test values of (0.229***) and (0.303***); and have F-values of 20.09 and 27.97 respectively (F > 10). The first stage of the 2SLS model showing the level of significance of the chosen instruments and their F-values is shown in Appendix

[70] See table 7.3 in chapter 7 for the correlation matrix of all the variables used in the study.

24. These specifications are equally conducted for the remaining four CSR dependent variables in the model testing hypotheses 3 and the same findings are observed for all the chosen instruments.

9.3.4 Treatment Effect Model on the Effect of Political Affiliation on CSR.

The empirical specification for controlling the endogeneity issues via the treatment effect model for the impact of political affiliation on CSR expenditure on public goods is shown below:

Main equation:

$$\mathrm{Lnpublic}_i = \alpha_\circ + \alpha_1 \mathrm{POLF}_i + \alpha_2 \mathrm{lnTOTAL\_SALES}_i + \alpha_3 \mathrm{ROA}_i + \alpha_4 \mathrm{CAP\_INT}_i + \varepsilon_1 \quad (26)$$

Endogeneity equation

$$\mathrm{POLF}_{it} = \beta_0 + \beta_1 \mathrm{GOVT\_OWN}_i + \beta_2 \mathrm{ROA}_i + \beta_4 \mathrm{CAP\_INT}_i + v_1 \quad (27)$$

Where the dependent variable on the main equation is as described in equation (18) and POLF is political affiliation which is a dummy variable that takes the value of “1” when top management or CEO is a member of the Senate or House of Representative in Nigeria or “0” otherwise. The remaining control variables are as described in equation (18). The dependent variable in the endogeneity equation is political affiliation, while the selected instrument for political affiliation is GOVT_OWN which means government ownership. The choice of this instrument is equally consistent with its high correlation with political affiliation (0.099***)[71].

The tables of the second stage of the treatment effect model showing the level of significance of selected instruments, the performance of the control variables and Sargan score test for over-identifying restrictions are shown in Appendices 28 and 40 respectively.

[71] See table 7.3 in chapter 7 for the correlation matrix of all the variables used in the study.

9.4 Regression Results on Hypothesis 1: The Impact of Government Ownership on CSR practices

Table 9.1 below shows the treatment effect model of the impact of government ownership on all the forms of CSR investigated in this study. From the test results, this study finds that government ownership has no statistically significant impact on CSR expenditure on public goods, corporate philanthropy and environmental conservation. It equally finds that government ownership has a significant and positive relationship on CSR expenditure on social goods and percentage of women on board used to proxy employee relations. These findings are consistent with the results from the various estimation methods used in the previous chapters, and confirms the robustness of the results.

Table 9.1: Treatment Effect Model: Government Ownership on all CSR

Treat Effect Model: Government Ownership on all CSR Expenditure		
Dependent variables	**coefficient**	**t-statistics**
Ln_Public Goods	-0.445	-0.61
Ln_Social Goods	3.790***	2.31
Ln_Philanthropy	-0.787	-0.50
Women_on_Board	0.239***	6.38
Ln_Envt	-1.860	-1.19

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithms. The independent variable is government ownership. The control variables used are return on assets, capital intensity and log of total sales revenue.

The sizes of the coefficients therefore suggest that government ownership will increase CSR expenditure on social goods by 379% and percentage of women on board by 23.9 percentage points. The size of the coefficient on social goods has a slightly larger effect in this model (3.790), compared to Fixed-effect value of (2.856). This suggests that further endogeneity bias may have been controlled for via the treatment effect model.

The second stage of the treatment effect model showing the significant levels of the selected instruments and the performance of the control variables in the model investigating the impact of government ownership on all forms of CSR expenditure is shown in Appendices 14 - 18. Similarly, Sargan Test for the validity of instruments used in this model is shown in appendix 37.

9.5 Regression Results on Hypotheses 2: The Effect of Government and Foreign Shareholding on all CSR Expenditure.

Table 9.2 below shows the empirical results of 2SLS model on the relationship between government shareholding and all CSR expenditure. It equally shows the effect of foreign shareholding on all CSR expenditure. From the test results, this study finds that government shareholding has no significant impact on all the categories of CSR practices investigated save for CSR expenditure on socially desirable goods. This implies that a unit increase in government shareholding will increase CSR expenditure on social goods by 6.3%.

I also find that foreign shareholding has a significant and positive effect only on CSR expenditure on corporate philanthropy and percentage of women on board. This equally suggests that a unit change in foreign shareholding will increase CSR expenditure on corporate philanthropy by 3.3% and percentage of women on board by 14.5 percentage points. This finding corroborates the results obtained from the various estimation methods used in the previous chapters, and confirms the robustness of the empirical results across different methods.

Table 9.2: Effect of Government and Foreign Shareholding on all CSR

2SLS Model on Government and Foreign Shareholdings on all CSR				
Government Shareholding			Foreign Shareholding	
Dependent variables	coefficient	t-statistics	coefficient	t-statistics
Ln_Public Goods	-0.014	-0.33	-0.016	-1.57
Ln_Social Goods	0.063***	3.39	-0.527	-0.66
Ln_Philanthropy	0.001	0.02	0.033***	2.46
Women_Board	-0.165	-1.27	0.145***	4.67
Ln_Envt	-0.329	-0.62	0.112	0.54

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithms. The independent variables are percentage of government and foreign shareholding within the period of the study. The control variables used are return on assets, capital intensity and log of total sales revenue.

The first stage of the 2SLS regression showing the significant levels of the selected instruments, F-values and performances of the control variables in the model investigating the relationship between shareholding structure and CSR practices is shown in Appendices 19 – 23. Similarly, Nominal Wald test for the validity of instruments used in this model is shown Appendix 38.

9.6 Regression Results on Hypotheses 3: The Impact of Board Independence and Institutional Investors on all CSR Expenditure.

Table 9.3 below shows the 2SLS model on the impact of board independence and institutional investors on all CSR expenditures. From the test results, this work finds that board independence has a significant and positive impact only on CSR expenditure on socially desirable goods. This implies that a one unit change in board independence will bring about 16.7% increases in CSR expenditure on social goods. The size of the coefficient (0.167) is quite large in 2SLS model relative to Fixed-effect and FE & FT values of (0.013 and 0.018) respectively. This may be attributed to further endogeneity bias that is taken care of by 2SLS model.

Table 9.3: Impact of Board Independence and Institutional Investors on all CSR

2SLS Model on Board Independence and Institutional Investors on all CSR				
	Board Independence		Institutional Investors	
Dependent variables	coefficient	t-statistics	coefficient	t-statistics
Ln_Public Goods	0.061	1.23	-0.348	-1.07
Ln_Social Goods	0.167**	1.87	0.124**	1.90
Ln_Philanthropy	-0.041	-0.79	0.215***	2.17
Women_Board	-0.099	-1.24	-0.081	-0.55
Ln_Envt	-0.052	-2.81	0.039	1.07

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithms. The independent variables are percentage of independent directors and shares of institutional investors. The control variables used are return on assets, capital intensity and log of total sales revenue.

I equally find that institutional investors exert a significant and positive impact on CSR expenditure on social goods and corporate philanthropy. This suggests that a unit increase in shares of institutional investors increases CSR expenditures on social goods and corporate philanthropy by 12.4% and 21.5% respectively. The size of the coefficient estimate for 2SLS model on corporate philanthropy is quite large (0.215), compared to Fixed-effect and FE & FT values of (0.020 and 0.029) respectively. This may again be due to further endogeneity bias that is controlled for via 2SLS model.

The first stage of the 2SLS regression showing the significant levels of the selected instruments, F-values and performances of the control variables in the model investigating the impact of board independence and institutional investors on all CSR practices is shown in Appendices 24 - 27. Similarly, Nominal Wald test for the validity of chosen instruments used in this model is shown in Appendix 39.

9.7 Regression Results on Hypothesis 4: The Effect of Political Affiliation on all CSR Expenditure

Tables 9.4 below shows the treatment effect model of the effect of political affiliation on all forms of CSR practices. From the test results, I find that political affiliation has no statistically significant effect on CSR expenditure on public and social goods, corporate philanthropy, environmental conservation and percentage of women on board. This result is equally consistent with the earlier findings from Fixed-effect, FE & FT and SUR models, and confirms the robustness of the results across different estimation methods.

Table 9.4: Treatment Effect Model: Effect of Political Affiliation on all CSR

Treatment Effect Model: Political Affiliation on all CSR Expenditure		
Dependent variables	**coefficient**	**t-statistics**
Ln_Public Goods	-2.724	-1.19
Ln_Social Goods	0.288	1.04
Ln_Philanthropy	-0.308	-0.22
Women_on_Board	-0.192	-0.06
Ln_Envt	0.527	0.74

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. The five dependent variables are annual CSR expenditures on public goods, social goods, philanthropy, environmental conservation and percentage of women on board within the period of the study. The first three CSR variables and Ln_Envt are measured in natural logarithms. The independent variable is political affiliation which is a dummy variable that takes the value of "1" if top management or CEO is politically connected or "0" otherwise. The control variables used are return on assets, capital intensity and log of total sales revenue.

The second stage of the treatment effect model showing the significant levels of the selected instruments and performances of the control variables in the model investigating the impact of political affiliation on all forms of CSR expenditure is shown in appendices 28 - 32. Similarly, Sargan test for over-identifying restrictions of instruments used in this model is shown in Appendix 40.

9.8 Conclusion

This chapter presented the empirical results and analyses of IV estimation via the treatment effect and 2SLS models on the impact of ownership structure on all the five categories of CSR practices investigated in this study. I undertook this task in order to not only control for further endogeneity bias that may obscure the relationship of interest, but also to determine the robustness of the results across different estimation methods. The empirical results of the treatment effect and 2SLS models are not different from the results obtained from the Fixed-effect, FE & FT and SUR models. This confirms that the result of this study is consistent and robust across the various estimation methods.

10 GENERAL DISCUSSION OF THE EMPIRICAL RESULTS

10.1 Introduction

This section presents a general discussion of the results obtained from the empirical estimations of the four specified models (testing hypotheses 1 to 4). The aim of this part of the study is to evaluate the empirical results of this work in line with existing research and basic theoretical models on which this study is underpinned. This section provides a medium of not only assessing how the relationship between ownership structure and CSR practices in Nigerian industries detracts or is consistent with extant literature, but also enables the discussion on why the Nigerian case is peculiar.

It is important to note in general, that the empirical result of this work is consistent with the conclusions of emerging literature, that argue against the use of composite index as a parameter for measuring CSR practices (Blomgren, 2011; Mishra and Suar, 2010; Zhang et al., 2009; Chen, et al., 2008; Montiel, 2008; Wang and Coffey, 1992). The empirical findings show that various ownership structures will impact differently on corporate decisions to commit resources to each particular category of CSR. Thus, firms that may perform well in philanthropic aspect of CSR for instance, may not be socially responsible in environmental conservation and employee-relations.

10.2 The Effect of Government Ownership on CSR Expenditure

The empirical findings show that government ownership of firms in Nigeria has no significant impact on corporate decisions to commit resources to provision of public goods, corporate philanthropy and environmental conservation. The poor performance of state-owned firms (SOFs) in the provision of public goods and environmental conservation is consistent with the social and political instability of Nigerian state (Frynas, 2000). Several studies observe that Nigeria is a failed state; as the government has reneged on its primary duty of provision of basic amenities and other social welfare schemes (Edoho, 2008; Ite, 2005). Similar studies equally maintain that Nigeria is a state ruled by corrupt and malevolent government, who have no incentive to maximize social welfare (Eweje, 2007; Idemudia and Ite, 2006; Ite, 2004; 2005). This view is also supported by Ite (2004), who notes that the lack of national macro-economic strategy and the dearth of equitable resource allocation, impacts negatively on the overall performance of CSR practices of both state-owned and private firms in Nigeria. Against this backdrop, it is argued that if the macro-economy is not efficient owing to government failure, then, there is every possibility that SOFs may have no incentive to support the provision of CSR in the form of public goods (Ite, 2004; 2005).

In Nigeria, ample evidence abounds to suggest that firms with greater majority of government ownership have not lived up to their social and ethical responsibilities to their host communities. The deteriorating state of amenities in the Niger-Delta region of Nigeria and a host of environmental degradation ranging from gas flaring, pollution of rivers and farmlands strongly support the findings that SOFs have not performed particularly well, no worse than private firms, in the provision of public goods and environmental conservation.

Another reason why government-owned firms may have insignificant effect in the provision of public goods is that they may be aware from economic standpoint that the provision of public goods is not the basic duty of nationalized firms as this may distort the market mechanism. This confirms the view that CSR may cause resource misallocation, and can lead to distorted prices and input and production decisions (Margolis and Walsh, 2003; Wang et al., 2008). It is usually argued that the contracts of managers of SOFs may include the execution of other social objectives that may detract from profit maximization (Mako, 2006; Bai and Xu, 2005). Yet, these firms are also established to generate returns to its primary shareholders - the state. Hence, it is very likely that the provision of public goods may negatively impact on firms' profit and may constitute incentive compatibility constraints with the goals of managers of SOFs.

Moreover, the issue of corrupt practices by managers of SOFs may exacerbate the ability of SOFs to undermine repercussions of non-compliance with the basic regulatory standards of environmental protections; as such firms could easily bribe their ways through in cases of violation of environmental regulations (Idemudia and Ite, 2006; Edoho, 2008), or decides to pay a minimal pollution fine rather expend resources on pollution abatement technology. In Nigeria, there are recurring incidences of non-compliance to stipulated environmental standard among firms with greater dominance of government ownership. Such firms, especially in oil & gas and other extractive industries, have either exceeded the legal pollution permit for instance, or have destroyed the aquatic lives which usually constitute the basic source of livelihood of the local inhabitants (Eweje, 2007; Edoho, 2008; Idemudia and Ite, 2006). This situation is further worsened by the fact that these firms are exonerated from the requisite sanctions owing to the large sums of money expended by such firms on bribery issues (Edoho, 2008; Mbaku, 1992; 1998). The incentive for firms with government ownership to avoid the huge of costs of procuring pollution abatement technology, as well as evade the penal fine of exceeding pollution permit via payment of bribes to industry regulators, may offset the need for SOFs to demonstrate stakeholder salience; and is consistent with the observed insignificant impact of SOFs in the provision of public goods and environmental conservation in Nigeria.

Moreover, the insignificant relationship between government ownership and corporate philanthropy in Nigeria is supported by the fact that government may have specialized agencies charged with the responsibility of providing basic welfare like healthcare and pension scheme. Hence, it is unlikely that SOFs will have incentives to commit resources to corporate philanthropy; as such CSR practices may be the exclusive preserve of these government agencies. The empirical findings, on the insignificant impact of SOFs on corporate philanthropy, is further supported by extant research which argue that SOFs may not readily show credible commitment to allocating resources to corporate philanthropy (Zhang et al., 2009; Bai and Xu, 2005; See, 2009) .

Against the backdrop that managers of SOFs have no residual right to allocate firm resources to social or discretionary goals that may detract from profit maximization, it seems likely that managers of SOFs will have an incentive compatibility constraint with philanthropic donations to the society (Zhang et al., 2009). Along the same view, the emoluments of managers of SOFs firms are usually determined by the state and are largely based not only on their capacity to maximize returns for shareholders, but also on their abilities to align their incentives with the will of the state. This corroborates the view of Ahunwan (2002), who argues that the security of senior managements' jobs and potential compensation packages in Nigerian SOFs are not determined by the measure of financial and social performance, but on their loyalty to political godfathers and administrative patrons. Thus, it seems unlikely that managers of SOFs will be amenable to doling firm resources to charities and other philanthropic donations.

However, the findings of this study show that government ownership is significantly and positively related with CSR expenditure on socially desirable goods and percentage of women on the board used to proxy employee-relations. The credible performance of government ownership on employee-relations may be related to the fact that women are more often represented on the board of SOFs in Nigeria. This follows the findings of existing literature, which show that women constitute over 35% of state sector board directorship in New Zealand (Hawarden and Stablein, 2008). Similarly in Australia, there is a standing public policy which has thrived for thirty-years that ensures that women are well represented on the board of SOFs (Ross-Smith and Bridge, 2008). Another possible explanation for the good performance of SOFs on the percentage of women on the board may be in consonance with the requirement of the revised corporate governance code of 2003, which insists on the need for firms with government and private ownership to incorporate women on the board of Nigerian firms.

Similarly, governments in Nigeria and other emerging economies have also relied on the use of firm resources for provision of some social goods given their inability to execute their primary responsibility of providing these goods (Ite, 2004; Eweje, 2007; Idemudia, 2010). It is equally argued that Nigerian government promote the dependency culture; wherein the provisions of some basic socially desirable goods are now vested on firms in both public and private sector (Idemudia and Ite, 2006; Ite, 2004; 2005). Consequently, Nigerian government has renewed its emphasis on the need for firms in public and private sector to plough back part of their resources to the provision of social goods for the host communities.

The control for firm size has a significant and positive effect across the various estimation methods for CSR expenditure on corporate philanthropy, women on board and environmental conservation. This suggests that large firms may have more slack resources to devote resources to these forms of CSR. The empirical studies therefore indicate that with the exception of the significant and positive impact of government ownership on CSR expenditure on social goods and percentage of women on board, firm size may be the actual reason underpinning firms' decision to commit resources to corporate philanthropy, environmental conservation and incorporate more women on the board of firms.

10.3 Private Ownership and CSR Practices

As discussed above, government ownership has no statistically significant effect on CSR expenditures on public goods, corporate philanthropy and environmental conservation. Since private ownership is the default variable, its effect on CSR expenditure is inferred relative to government ownership. Deriving from the empirical results on the effect of government ownership on all CSR practices, this study deduces that the default variable of private ownership has equally no significant impact on CSR expenditures on public goods, corporate philanthropy and environmental conservation. This suggests that the performance of private ownership is not different from government ownership in these three forms of CSR practices.

The insignificant impact of private ownership on CSR expenditure on public goods is also expected, and may be attributed to the fact that managers of non-state-owned firms are aware that the provision of public goods is the exclusive preserve of the state. In the Model proposed by Bagnoli and Watt (2003), private firms may link the provision of public goods to the sale of their products; on the grounds that consumers have increased incentive to purchase their products compared to rival firms who do not engage in such CSR expenditure. This argument has a major setback when it comes to private firms who produce non-consumer goods especially in oil & gas and manufacturing sectors. Since goods produced by these firms may not be immediately consumed by the host communities, and since the firm's profitability is not largely dependent on such consumer patronage; private firms in these industries may be spared the threats of consumer boycotts and decreased demands for their products, even if they engage in business practices that are socially irresponsible. Hence, private firms located within these sectors in Nigeria, may have no incentive to link the sale of their products with the provision of public goods.

The insignificant impact of private firms on corporate philanthropy may be from private ownership with greater dominance of domestic investors; as I find that private ownership with high levels of foreign institutional shareholding has a significant and positive effect on corporate philanthropy. One of the possible reasons for this insignificant effect may be explained by the fact that managers of firms with private ownership are aware that doling philanthropic gifts and funding charities may impact negatively on the firm's profits. Moreover, these firms may not have enough slack resources, compared to private ownership with greater dominance of foreign institutional investors, to commit resources to CSR practices.

With regards to environmental conservation, private ownership may have little or no incentive to commit resources to environmentally friendly investments given the cost implications. It is usually the case that the cost of pollution abatement technology for instance, far exceeds the penalties imposed on non-CSR compliant firms; and this information is usually not available to regulatory bodies (Idemudia and Ite, 2006; Idemudia, 2010; Ite, 2004; 2005). Hence, managers of firms with private ownership can exploit this information asymmetry to continue to pollute the environment, which imposes less cost on the firm compared to the cost of pollution abatement technology. Moreover, it is argued that even when firms in the private sector, especially in the manufacturing, consumer-goods and health-care, engage in environmental conservation; it is not only superficial and unsustainable, but also underpinned by the incentive to curry favours from the government (Ite, 2004; Idemudia and Ite, 2006; Idemudia, 2009).

Furthermore, the empirical investigation shows that government ownership has a significant and positive relationship with CSR expenditure on social goods and percentage of women on board. Deriving from this empirical result, this study infers that the default variable of private ownership has a significant and negative impact on CSR expenditure on social goods and percentage of women on board used to proxy employee-relations. This result is supported by Amaeshi et al. (2006), who maintain that there are fewer emphases on CSR expenditure on employee relations and socially desirable goods in Nigeria. This equally corroborates the earlier works of Stretton and Orchard (1994) and Burns (2000), which note that some firms with private ownership like Nike and Primark, albeit doling large philanthropic gifts to the local communities, are notorious for operating poor health and safety standards at work place; and using child-labour in its supplier factories.

It is important to note that the poor performance of private firms in Nigerian industry on women on the board used to proxy employee-relations may be consistent with the few numbers of women incorporated on the board of firms with private ownership. My findings are in consonance with existing research in Australia, which finds that the percentage of women on the board of directors in the private sector is merely 7%; and that 63 of the top 100 firms in Australian private sector have no women on the board of directors (MacGregor and Fontaine, 2006).

It is also exigent to note that information asymmetry may play a major role in the poor performance of firms with private ownership in employee relations. It is usually the case that the working conditions in these factories are not immediately observable from the output of the firms: thus, firms in the private sector in Nigeria may exploit this informational advantage at the expense of their consumers, employees and the entire society. Hence, there are ample cases of sweatshop allegations against most multinational and domestic factories in the manufacturing and consumer goods sectors of Nigerian industries (Edoho, 2008; Eweje, 2007).

Finally, the significant and negative relationship between socially desirable goods and private ownership in Nigeria is consistent with the conclusions of extant literature on the CSR of private firms in Nigerian industry (Adi, 2006; Idemudia and Ite, 2006; Amaeshi et al., 2006). Most documented evidence of firms' CSR engagements in all the major sectors of Nigerian industries shows that investments in socially desirable goods, which may ensure sustainable development, were very few (Idemudia, 2009; Ite, 2004; 2005; Amaeshi, et al., 2006). A major reason for the poor performance of private firms in the provision of social goods might be attributed to the huge cost implications of expending marginal resources on these socially desirable goods given that they may reduce the firms' profit on the margin (McWilliams and Siegel, 2001; Siegel and Vitaliano, 2007). Idemudia (2010) further highlights this view by noting that given the cost-intensive nature of CSR investments in social goods, private firms, especially in the oil & gas and manufacturing sectors, may continually choose profitability over contributing meaningfully to poverty alleviation and other social investments that would enhance socio-economic development of the region.

Similarly, most domestic and multinational firms in Nigerian private sector, regard the provision of these social goods as the exclusive preserve of the state. This is in line with the view that the allocative function of the government, which consists essentially in the provision of public goods and other socially desirable goods, is not only the legitimate function of the government but also its primary duty in the first-best world (Mueller, 1989; Brennan and Buchanan, 1980; Self, 1993). Against this backdrop, private firms in Nigeria maintain that their CSR engagements in the provision of social goods can only be discretionary not statutory; thus, it cannot be a realistic substitute for the developmental duties and responsibilities of the state (Tavis, 1982; Idemudia and Ite, 2006).

10.4 High Levels of Government Shareholding and CSR

In Nigerian industry, the major principal-agent problem is the type-II agency problem[72] (Adegbite and Nakajima, 2011; Nmehielle and Nwachue, 2004), and the findings of this study indicate that high levels of government shareholdings have no statistically significant effect on all the categories of CSR save for CSR expenditure on socially desirable goods. The insignificant effect of firms with high levels of government shareholdings in Nigeria may be premised on the fact that government, as the majority shareholder, may more likely support the use

[72] Type-II agency problem arises between the controlling and non-controlling shareholders of the firm. This usually occurs when the controlling shareholders divert corporate resources for private gains at the expense of other non-controlling shareholders (see for instance Johnson et al., 2000; Shleifer and Vishny, 1997; Li and Zhang, 2010; Jiang et al., 2010).

of firm resources for the maximization of their political objectives compared to social objectives that are aligned to the interests of other external stakeholders. This view is consistent with extant literature which argues that public sector resources may be used to satisfy not only short-term political gains, but also for settlement of political scores (Estrin and Perotin, 1991; Tian and Estrin, 2008).

In Nigeria, it is usually the case that government uses its high shareholding stake in mixed ownership to constrain firms to be financiers of its future political campaigns (Mbaku, 1992). Thus, investments in public goods, environmental conservation, corporate philanthropy and employee-relations may not be aligned with the political objectives of the state as the controlling shareholder. This is in line with the views of Roper and Schoenberger-orgad (2011), which argue that there is usually a conflicting interest between the state's position as a major shareholder and external stakeholder of the firm respectively. This is further stressed by Idemudia and Ite (2006), who remark that there is always a trade-off between the roles of the state as a controlling shareholder and stakeholder in Nigerian industries especially in oil & gas sector. This conflicting interest between the government as a controlling shareholder and stakeholder in Nigerian oil industry may be based on the fact that government shareholders in Nigeria usually prefer economic returns relative to devoting resources to CSR expenditures on public goods, corporate and environmental conservation.

The dearth of infrastructural facilities in the Niger-delta region of Nigeria, and the reported cases of environmental degradation owing to oil spillage and air pollution by firms in oil & gas industries (Edoho, 2008; Eweje, 2007; Idemudia and Ite, 2006); where government is the controlling shareholder, reinforces the fact that firms, with high levels of government shareholding, may not commit resources to provision of public goods and environmental conservation in Nigeria. Similarly, the uncompensated negative externalities of other extractive industries especially in Ewekoro and Sagamu communities of Ogun State Nigeria, as shown in the numerous cases of residents suffering from eye problems and asthmatic attack owing to the dust-laden air resulting from air pollution (Abimbola et al., 2007; Aigbedon, 2005; Adekoya, 2003); is consistent with the documented poor CSR performance in environmental conservation of firms with government as the controlling shareholder in Nigeria.

Moreover, the incentive of the state as the controlling shareholder in Nigeria may not always be aligned with corporate philanthropy; as government is more likely to priotize profits and returns on its investments. This reinforces the view that government, as the controlling shareholder, is more likely to dissuade the use of firms' resources for charities and other philanthropic donations (Zhang et al., 2009). Along the same view, it is very unlikely that government shareholders would support the use of firm resources for philanthropic donation as the state may have specialized agencies or ministries charged with the duty of providing social welfare schemes. Furthermore, the insignificant impact of firms with high levels of government shareholdings on the percentage of women on board in Nigeria, may be attributed to the fact that the representation of women on the board of firms with mixed ownership is relatively small. Statistics from the Nigerian Security and Exchange Commission indicate that less than 5% of women occupy the corporate boards of both mixed and private corporations in Nigeria (Nigerian Stock Exchange, 2003).

Consistent with the empirical results of this work, I argue that the documented insignificant performance of Nigerian firms with high levels of government shareholdings simply suggests that ownership concentration in the government has little or no impact on corporate decisions to commit resources to CSR expenditure on public goods, corporate philanthropy, environmental conservation and percentage of women on board in Nigerian industries.

However, I find that high levels of government shareholdings have a significant and positive relationship only with CSR expenditure on socially desirable goods. This is supported by the view that Nigeria state has been deficient with the provision of basic infrastructural facilities (Frynas, 2000; Eweje, 2007; Edoho, 2008), and is more likely to encourage firms in which it has controlling shareholding stake to devote resources to CSR. This is also in line with the views of Ite (2004; 2005) and Idemudia and Ite (2006), which argue that the state has often relied on firms to fill the gap in the provision of basic infrastructural amenities in Nigeria. To date, I am not aware of any state laws explicitly prohibiting firms from engaging resources in CSR practices in Nigeria. Rather evidence abounds of recent laws in Nigeria mandating firms to commit some percentages of their resources to the provision of basic social goods and infrastructures in their host communities (Aigbedion, 2005). This equally reinforces the view that government has also the duty of making laws that would constrain firms to correct and compensate for the negative externalities of their productive activities on the host communities (Matten and Crane, 2005; Scherer and Palazzo, 2007; Roper and Schoenberger-Orgad, 2011).

10.5 High Levels of Foreign Shareholding and CSR

The empirical investigation equally shows that high levels of foreign shareholdings are statistically significant in CSR expenditure on corporate philanthropy and women on board. The significant and positive relationship of high levels of foreign shareholdings with corporate philanthropy in Nigeria is based on the fact that firms, with greater majority of foreign owners, use corporate philanthropy as a public relations strategy of gaining social license to operate. The result of this study corroborates the view of Akpan (2006), which maintains that the social and environmental performance of firms with foreign ownership, in the guise of CSR, is riddled with contradictions; as it has become expedient for firms with large foreign shareholdings to use corporate philanthropy as a useful tool to create favourable public image, and an atmosphere in which business can buy the support of its host communities.

Along this view, I argue that when public relations and the need to present a good image of the firm underpin firms' CSR engagements at the expense of sustainable development and other negative injunction duties, then, media-friendly projects such as philanthropic donations to schools or communities may be preferred to slow and long-term capacity building or training projects by firms with foreign owners. Thus, it is not surprising that many CSR practices of firms with a greater percentage of foreign shareholdings do not go beyond mere philanthropic gestures, without attempting to fashion projects that would address developmental issues and ensure transfer of technical skill and long-term sustainable development in the community (Blowfield and Frynas, 2005; Ite, 2004).

The significant and positive relationship between foreign ownership and percentage of women on the board used to proxy employee relations in Nigeria is expected; as firms with greater dominance of foreign shareholders are more likely to imitate the good management practices of their parents' companies that emphasize the need to incorporate women on the board of directors. Similarly, the incorporation of women on the board of directors of firms with high levels of foreign ownership may be a proactive strategy of not only pleasing ethical investors and signalling their commitment to employee-relations issues, but also a means of attracting continued inflow of capital from the domestic economy via public offering of shares. This is based on the fact that incorporating women on board is used to signal their stakeholder salience, which may elicit consumer patronage via subscription for the firms' public offerings.

On the other hand, I find that high levels of foreign shareholdings have no statistically significant impact on CSR expenditures on public goods, socially desirable investments and environmental conservation. This finding contradicts the popular view in some Western CSR literature which maintains that high levels of foreign ownership stakes in domestic firms will be positively related to CSR engagements in social investments and environmental conservation (Jeon et al., 2011; Yoshikawa et al., 2010). The rationale underpinning this argument is based on the fact that foreign shareholders will facilitate the implementation of good corporate governance practices which may be favourable to the demands of external stakeholders and other forms of CSR engagements (Jeon et al., 2011; Yoshikawa et al., 2010).

Moreover, the insignificant impact of firms with high levels of foreign shareholdings in CSR expenditures on public goods, social goods and environmental conservation is supported by the views of Frynas (2005) and Idemudia (2009), who opine that the effectiveness of CSR practices of multinational firms and firms with greater majority of foreign shareholders in Nigeria has been increasingly undermined; owing to the apparent disparity between their stated CSR objectives and their actual CSR practices. Okoko (1999) explicitly notes that the ecological and agricultural damage caused by gas flaring and oil spillage in the Niger Delta region of Nigeria is well documented and unambiguous. Studies like Idemudia and Ite (2006), Idemudia (2009a; 2010) and Okoko (1999) further enumerate the many negative impacts of these externalities as: the destruction of fish and crustaceans resulting in loss of livelihood, impairment of health and human nutrition, soil damage which has an adverse effect on agricultural productivity.

The peculiarity of the Nigerian case hinges on the fact that most firms with high levels of foreign shareholdings are concentrated in the manufacturing, oil & gas and health-care sectors [73]. These sectors offer limited opportunities for competitive advantage as the foreign owners usually have the requisite staff, skills and technology to survive in the industry. Profit incentive is the overriding factor underpinning firms' business strategy, and profitability is greatly enhanced by the ability of such firms to externalize the cost of production (Frynas, 2005). Along the same view, these firms, especially in oil & gas and manufacturing sectors, produce non-consumer goods such that firm profitability is not largely dependent on consumer patronage. Thus, Idemudia (2010) maintains that oil multinational firms in Nigeria prefer to use sub-standard or obsolete oil pipelines and drilling equipment at the expense of investments in pollution abatement technology, which is usually cost intensive. This is further worsened by the poor and inefficient regulatory framework alongside the dearth of incentives for such firms to engage in CSR. Consistent with the business environment thriving in Nigeria and other emerging economies, firms with foreign ownership in Nigeria find it expedient to exploit the lack of stringent regulation with regards to operating standards, tax liability and basic social investments expected of them by the host communities. This reinforces the view that most firms with high levels of foreign shareholdings in Nigeria, especially in manufacturing and oil & gas sectors, are left to operate at their own standards (Ite, 2004; Ite, 2005).

A pointer to this fact is the testimony given during the inquest in the Halliburton scandal that it bribed some officials of Nigerian government to the tune of US $2.4 billion in return for tax evasion related to its oil operation in the country (Adegbite and Nakajima, 2011; 2012). Similarly, Shell's repressive policy against opposition to its environmental degradation of the host communities in Niger-delta region of Nigeria, which culminated in the infamous hanging of the human right activist Ken-Saro Wiwa and his eight colleagues in November 10, 1995 (Wheeler et al., 2002; Edoho, 2008); clearly underlines the fact that firms

[73] The health-care sector in Nigeria oversees the production and marketing of hospital equipment and pharmaceutical products.

with high foreign shareholdings may not perform well in the provision of social goods and environmental conservation in Nigeria.

Along this view, it is argued that the CSR practices of firms with high levels of foreign shareholdings in Nigeria may not go beyond mere philanthropic gestures (Blowfield and Frynas, 2005; Ite, 2004). It is important to note that philanthropic gestures are simply regarded as mere affirmative duties,[74] and do not constitute core-CSR practices - negative injunction duties[75]. Hence, the crux of the matter is that despite the evolving CSR initiatives of firms with high levels of foreign shareholdings in Nigeria, as shown in their positive affirmative duties like corporate philanthropy and donation to charities; the inability to address the negative externalities arising from the processes of their productive activities completely obliterates any efficiency gains of their CSR practices (Idemudia, 2009a). Thus, Idemudia and Ite (2006) conclude that the non-observance of minimum standard by oil MNCs and other foreign firms operating in Nigeria facilitates the abnegation of negative-injunction duties on which the core-CSR practices are based.

Another reason for the documented poor-performance of firms with high levels of foreign shareholdings in Nigeria is the non-interference argument often advanced by these firms. This argument is based on the fact that it is the traditional preserve of the state to provide public goods, socially desirable goods and to be responsible for the conservation of natural environment. Hence, multinational firms and other domestic firms, with greater dominance of foreign shareholdings in Nigeria, argue that expending resources on these goods would then be tantamount to interfering in the domestic affairs of a sovereign state (Idemudia, 2010).

In line with the empirical results of this work, I argue that the documented poor CSR performance of Nigerian firms with high levels of foreign shareholdings indicates that the good corporate governance practices that are associated with high foreign shareholding, as expounded in some literature like Jeon et al., (2011) and Yoshikawa et al., (2010), may be non-existent in Nigerian industries.

[74] The Affirmative duties refer to the pursuit of moral and social good which is akin to the ethical and discretionary responsibilities of Carroll's (1979) four-part conceptualization of CSR.
[75] Negative Injunction duties refer to firms' obligation of preventing and correcting the negative externalities of their productive activities to the society.

This simply suggests that ownership concentration in foreign shareholders may not positively impact on corporate decisions to commit resources to CSR expenditures on public goods, social goods and environmental conservation in Nigerian industries.

Similar to the results obtained in model 1 (impact of government ownership on CSR), the control variable of total sales revenue has a significant and positive relationship with corporate philanthropy, environmental conservation and percentage of women on board. This suggests that larger firms may have more incentive to commit resources to these forms of CSR practices in Nigeria**.** Along the same view, the need to demonstrate stakeholder salience and solicit consumer patronage, may be more pronounced in large and well-established firms in Nigeria especially in the consumer-goods, healthcare and information & communication sectors. Similarly, in consonance with the results in model 1, the control for firm profitability has a significant and negative relationship with the percentage of women on the board. This shows that incorporating women on the board of Nigerian firms may negatively impact on firm profitability. It is likely, as noted by Ahunwan (2002) that less profitable firms may incorporate women on the board to improve their financial and social performance ratings in Nigeria. The performances of these control variables remain the same in models testing hypotheses 3 and 4.

10.6 Effect of Board Independence on CSR practices

The findings of this study on the impact of independent directors on CSR practices show that board independence has a significant and positive relationship only on CSR expenditure on socially desirable goods. A possible reason for the credible performance of board independence on CSR expenditure on social goods in Nigeria is based on the fact that independent directors may more likely support the use of firm resources on social investments like construction of schools, hospitals and provision of electricity as a means of legitimating the stakeholder-management theory. Since independent directors are better placed to curb managerial opportunism (Jensen and Meckling, 1976), and ensure alignment of interests between shareholders' goals and other external stakeholders (Hung, 2011); expending resources on social goods may be the easiest way of signalling their commitment to the needs of other external stakeholders of the firm. In the same vein, supporting social investments may also boost the confidence of ethical investors which may have positive effect on the long-term profitability of the firm. Hence, through promoting the use of firm resources for socially desirable goods, independent directors may not only gain the confidence of external stakeholders, but also may enhance their career prospects in Nigerian firms. Consistent with the theoretical model of firms creating market for managers (Fama, 1980), independent directors may use a well-managed stakeholder engagement model to create market for themselves in Nigerian industry.

Conversely, the finding of this study shows that independent directors have no significant impact on CSR expenditure on public goods, corporate philanthropy, percentage of women on board and environmental conservation; and is consistent with the hypothesis of this work. This finding is surprising given the standard view of existing literature like Hillman et al. (2001), Petra (2005) and Hung (2011), on the mediating role of independent directors in ensuring alignment of shareholders' goals with the interests of external stakeholders of the firm. My result is nevertheless supported by the view that though independent directors can bring a breath of diversity, knowledge, experience and objectivity to the board; yet, their roles on the board may be mere ceremonial or rubber-stamping roles, characterized by ineffective functioning (Wang and Coffey, 1992). Thus, far from encouraging firms' CSR practices, independent directors may actually be detrimental to CSR (Coffey and Wang, 1998; Khan et al., 2013).

The observed insignificant effect of board independence on these four categories of CSR practices in Nigerian firms may be explained by the classic agency theory which argues that independent or outside directors are better placed to check the opportunism of top management; and also to ensure that there is alignment of managements' goals with the interests of the shareholders of the firm (Jensen and Meckling, 1976; Baysinger and Butler, 1985; Dalton and Kesner, 1987). This implies that independent directors may actually not perceive CSR expenditure on public goods, corporate philanthropy, environmental conservation and percentage of women on board as being in the interests of shareholders. Along this view, it is more likely that independent directors may actually regard CSR expenditure as wasteful and deleterious to shareholders' return. This corroborates the view that independent directors may use their influence to oppose or minimize the levels of firm resources devoted to CSR practices (Harrisons and Coombs, 2012).

The peculiarity of Nigerian situation is such that independent directors are usually bureaucrats or persons appointed because of their personal affiliation or relationship to top management. These bureaucrats are usually appointed for the sole purpose of either obtaining the social license to operate [76] or as compensation to the bureaucrats for favours received from him while he was in power (Ahunwan, 2002; Nmehielle and Nwachue, 2004; Amao and Ameshi, 2008). Thus, it is argued that their technical skills and expertise in management are not the determining factors in their appointment on the board (Ahunwan, 2002). This is also in line with the studies of Khan et al. (2013) and Uddin and Choudhury (2008) which find that independent directors in Bangladeshi firms are appointed not for the reasons of their experience in firm management, but because of their personal affiliation with the management of the firms.

In Nigeria, independent directors are simply co-opted by the incumbent management not only to fulfil the statutory requirements of the revised corporate governance code, but also to further the interests and objectives of management even if it is detrimental to other stakeholders of the firm (Edoho, 2008; Idemudia and Ite, 2006). Hence, I argue that independent directors in Nigeria may be merely appointed as stooges of the incumbent management and may well be content with receiving their remuneration package rather than removing under-performing managers or insisting that firms expend their resources on these four forms of CSR practices.

This situation is further exacerbated by the fact that the percentage of the shareholding stake of independent directors is small in Nigerian firms, given that they constitute a minute part of the board of directors (Adewuyi and Olowookere,

[76] The term social license to operate first appeared in the seminal works of Joyce and Thomson (2000), Nielsen and Scoble (2006) and Thomas and Boutilier (2011), and refers to community's perception of the level of acceptance or approval of the firm's activities or its ongoing presence in the area. The social license to operate in this discussion is based on the fact that the host communities may regard such appointment as a sign of the firms' recognition of the external stakeholders, and may more likely ensure a conducive environment for the firm to thrive.

2013). It is usually the case that if their shareholding stake is relatively small, independent directors may have little or no incentive to curb the opportunistic behaviour of management; and may not have the sufficient voting rights to influence corporate decision to devote resources to CSR practices (Weisbach, 1987). The findings of this study confirm that independent directors have no significant impact on the core-CSR issues like provision of public goods, environmental conservation and other negative injunction duties.

10.7 Effects of Institutional Investors on CSR of Nigerian Firms

The result of the empirical investigation seems to support a positive relationship between institutional investors and CSR practices when CSR is seen as expenditure on socially desirable goods and corporate philanthropy. The possible reason that underlies the credible performance of institutional investors in these two forms of CSR practices may be due to the fact that philanthropic donations and social investments are discretionary aspect of CSR practices, and may not exert huge wage bill on the firms' profit margin compared to other forms of CSR practices examined in this work. Moreover, Institutional investors in Nigeria are more likely to promote CSR expenditure on social goods as it may be one of the ways of signalling to the public their commitment to the interests of other stakeholders of the firm. This result is reinforced in the views of Oh et al. (2011), who argue that investing in firms with proven records of providing social goods to the communities, is one of the ways through which institutional investors signal to their clients, their responsibility and reliability; thereby differentiating their services. Similarly, it is more likely that institutional investors will not miss out on the opportunity to promote corporate philanthropy as a way of demonstrating the social legitimacy and stakeholder salience of the firm.

On the other hand, the empirical results reveal that institutional investors have no significant impact on corporate decision to commit resources to CSR expenditures on public goods, environmental conservation and percentage of women on board in Nigerian industries. Studies like Kochhar and David (1986), Barnea and Rubin (2010) and Harrison and Coombs (2012), corroborate this empirical result even though their findings are not as robust as the results of this work; given that these studies failed to control for endogeneity bias. Kochhar and David (1986) and Barnea and Rubin (2010) note that large block of institutional holdings is negatively related with firms' responsiveness to the demands of diverse stakeholders like employees, communities and environments. Their arguments are based on the fact that the short-term orientation of institutional investors like mutual fund and investment banks may dissuade them from supporting CSR investments in environmental conservation and provision of public goods which usually take a long time to pay off.

In Nigerian industries, most blocks of institutional investors are held by mutual fund and investment banks (Hassan, 2011; Hassan and Ahmed, 2012). These mutual fund and investment bank managers are usually motivated by short-termism and may insist that the firms they invest in adopt policies and practices that will maximize profit in the short-term (Bushee, 1998; Johnson and Greening, 1999). Given the spate of corporate scandals that has rocked the Nigerian financial sectors in the last two decades, leading to the various reforms and consolidation in the financial sectors (Hassan and Ahmed, 2012); there has been increased need to evaluate the performance of these fund managers based on short-term fund performance such that their emolument package is closely tied to quarterly performance. Along the same view, these managers may be fired or replaced if their short-term performance is poor. Since the pay-off of most CSR expenditures usually takes a long time, institutional investors in Nigeria may have no incentive to support the use of firm resources on these three forms of CSR practices.

Moreover, the business climate in Nigeria is full of uncertainty and uninsured risks, and there is inherent weakness in the corporate governance practices that may make it difficult to align the interests of managers with the maximization of shareholders' wealth (Hassan and Ahmed, 2012). This is further worsened by the fact that large block of institutional holdings are also held by foreign investors who are aware that investment climate in Nigeria is riddled with uninsured business risks; as there are dearth of efficient regulatory framework and underdeveloped and inefficient capital market (Adelegan, 2004). Hence, the need for quick returns on investment given the risky investment climate, and the lack of costly sanctions or fines for socially irresponsible firms, are the underpinning incentives that may discourage foreign institutional investors from supporting CSR expenditures on public goods, employee-relations and environmental conservation in Nigeria.

The insignificant impact of institutional investors on the three categories of CSR practices equally contradicts the works of Teoh and Shiu (1990) and Huang (2010), which argue that institutional investors look favourably at firms with high CSR ratings, and are more likely to invest heavily in firms that meet the globally accepted standard of CSR. In Nigeria, CSR-compliant firms may not enjoy any competitive advantage arising from what Hoppe and Lehmann-Grube (2001) regard as the first-mover advantage[77], and there may be relatively little or no incentive schemes[78] for firms that are adjudged as socially responsible. Part of the reasons may be attributed to the fact that CSR is only an emerging concept in Nigeria (Okafor, 2003). Similarly, there are no established incentive schemes that may propel firms to credibly commit to CSR practices. The recently revised code of corporate governance in Nigeria seems to extol shareholders' primacy at the expense of the interests of other external stakeholders of the firm. Moreover, the long-term profit enhancement, which may offset the huge cost expended on CSR on public goods and environmental conservation; may be relatively non-existent in Nigerian industry due to lack of adequate regulatory framework. Consistent with the views of Idemudia and Ite (2006) and Ite (2005), I argue that in the absence of strict regulatory framework, institutional investors may more likely oppose CSR expenditures on environmental conservation and public goods; as the cost of pollution abatement technology for instance, may exceed the cost of polluting the environment.

Furthermore, the poor performance of institutional investors in these three forms of CSR practices in Nigeria may be related to the fact that firms' disclosure of good CSR information may not be positively reflected in the movement of stock

[77] The first mover advantage refers to competitive gains enjoyed by the first group of firms in a specific industry that are CSR-compliant like increased demands for firms' product and profit enhancement in the long run. Since CSR practices is in public domain and can always be imitated by rival firms, the reward of competitive advantage for subsequent firms may be diluted (see for instance Dutta et al., 1995; Hoppe and Lehmann-Grube, 2001).

[78] This incentive schemes could be in the form of easy access to loan capital to socially responsible firms, government patronage via subsidies, grants, award of contracts to greener firms, government's aid for research and development, and providing conducive business environment that ensures risk-free returns on CSR investments (see for instance Wang and Qian, 2011).

prices. This could again be largely attributed to the underdeveloped nature of the Nigerian capital market. Hence, I argue that the lack of incentive schemes, coupled with the insignificant impact of CSR disclosures on stock returns, feed into the abnegation of CSR engagements by institutional investors in Nigeria. Thus, it is not surprising that many firms with large blocks of institutional investors in manufacturing, healthcare and oil & gas sectors of the Nigerian industries (like Cadbury Plc, Shell Plc, WAPCO cement, Halliburton and a host of others), have been implicated in many corrupt and socially irresponsible practices ranging from environmental degradation, tax evasion, human rights abuses, poor health and safety standard and insensitivity to the provision of basic public goods in their host communities (Aigbedon, 2005; Abimbola et al., 2007; Olusa, 2007; Adekoya, 2011).

10.8 Impact of Politically Affiliated Directors on CSR Practices

Equally, the result of the empirical investigation demonstrates that politically affiliated directors have no statistically significant impact on firms' decision to devote resources to all the five categories of CSR practices. This result confirms the hypothesis of this study, and is also in line with the conclusions of some recent studies which find that political affiliation has an insignificant impact on CSR practices (Boubakri et al., 2008; Wang and Qian, 2011). These studies argue that politically affiliated directors may expropriate corporate resources from firms especially in economies where the capital market is not efficient, and may use firm-specific resources to pursue political objectives that may not be aligned with the interests of other external stakeholders of the firm.

The Nigerian evidence extends the conclusions of this extant literature, as I find that 64.7% of the firms investigated had political connection. 40% of these firms are located within the manufacturing and oil & gas sectors. This work also finds that firms with government ownership have well over 20% of political connection as expected in emerging economies, and have no significant effect on all the categories of CSR examined in this work.

One of the reasons for the documented poor performance of firms with political affiliation in Nigeria is that these firms may have no incentive for CSR expenditure; as such investments are usually used as public relations strategy directed at gaining social legitimacy or currying favours from the incumbent government. This reinforces the views of Wang and Qian (2011), which argue that politically connected firms have little or no incentive to engage in provision of social goods, environmental conservation and employee-relations. This is against the backdrop that investing resources in CSR may be done with the view to attract the patronage of the incumbent government (Ma and Parish, 2006); and gain social legitimacy. Since these firms are already politically connected, they may likely have no incentive to commit firm resources in CSR engagements.

Moreover, Nigerian politics and politicians have been adjudged as highly corrupt (Frynas, 2000; Eweje, 2007; Idemudia and Ite, 2006; Ite, 2004; 2005); and ample evidence suggests that Nigeria state, like other developing economies, has been deficient in the provision of public goods and other basic socially desirable goods (Edoho, 2008; Idemudia, 2009; 2010). It is likely that the political objectives of firms with politically affiliated directors may not be aligned with the maximization of social welfare. In line with this view, I argue that the support of senators or members of the House of Representatives are extremely very important for the minimization of transaction costs of firms with political connections in Nigeria compared to being responsive to the demands of other external stakeholders

It is equally the case that firms with political affiliation usually have less tax burden and are spared the rigidities of market-regulation (Siegel, 2007). Along the same view, such firms have easy access to leveraging options relative to firms without political connection (Johnson, 2003; Khwaja and Mian, 2005); and have also soft-budget constraints since they can easily be bailed out from financial crises (Faccio et al., 2006). The benefits of these political ties avail such firms with excess slack resources that are usually re-invested in political campaigns or used to solicit votes for possible re-election bid of the politicians in the future (Jia and Zang, 2010; Wang and Qian, 2011). This is true of most firms with political connections in Nigeria; as we find evidence to support the fact that politically connected firms donated huge sums of money for election campaigns and political negotiations in the Senate or House of Representatives, while at the same reneging on their social responsibilities to the local communities.

Similarly, since a large portion of the value-added of these firms are based on their political connections (Faccio, 2006; Fisman, 2001); they may not have the incentive to be responsive to the demands of external stakeholders, and may have no credible commitments to improving their employee-relations' records. Consistent with the empirical findings of this study, I conclude that political affiliation in Nigeria has no significant impact on firms' decision to engage in all the categories of CSR expenditure.

10.9 Conclusion

Premised on the outcome of the empirical investigation, this chapter highlighted some general discussions of the empirical results on the four specified models of the study, which underscore how the observed results detract or are in consonant with the basic theoretical framework of this work. The discussion equally underlines why the outcome of the empirical results are unique to Nigerian industry.

This discussion also confirms the view that positive affirmative duties like corporate philanthropy and provision of social goods may dominate CSR practices in Nigeria and other emerging economies. This equally reinforces the view that contemporary CSR agendas, as proposed by Western stakeholders, may suffer from selective bias; in that negative injunction duties or core-CSR issues like employee-relations, poverty reduction, sustainable investment projects and conservation of the natural environment may be de-emphasized in emerging economies.

11 SUMMARY OF MAJOR FINDINGS, POLICY SUGGESTIONS, GAPS FOR FUTURE RESEARCH AND CONCLUSION

11.1 Introduction

In this section, I present the summary of the major empirical results of this study and based on these findings, propose various policy recommendations that may provide useful tools for government and industry regulators in Nigerian economy. These policy suggestions may also be of invaluable assistance for policy makers charged with responsibility of revising and updating the corporate governance codes of firms in Nigerian industry. I equally highlight the possible gaps for future research in this area of study. This is followed by the concluding remarks.

11.2 Summary of Main Findings

The last three decades witnessed substantial increase in the CSR of firms in Nigerian industry, and is not unrelated with the various corporate scandals and unethical practices that have led to the demise of many established firms both in developed and emerging economies. The crucial issue in burgeoning economic literature has been the need to investigate the impact of ownership structure on corporate decisions to allocate resources to CSR practices. The need for this study is based on the fact that various ownership structures may have different implications for firms' CSR engagements. In an environment where business may no longer concentrate on its traditional role of maximizing profits for shareholders, the interests and demands of other external stakeholders may be incorporated in the corporate governance strategy of firms.

Hence, this thesis sets out to examine the impact of ownership structures on the different forms of CSR practices investigated in this work. To date, most literature on emerging economies, particularly Nigeria, failed to deconstruct CSR practices in their studies; as their empirical conclusions were based on the use of CSR as a composite index. To circumvent the possibility of biased empirical results that may arise from using composite CSR index, I deconstructed CSR into five categories: public goods, socially desirable goods, corporate philanthropy, women on board used to proxy employee-relations and environmental conservation.

As stated in Chapter 1, the purpose of this work has two major objectives: first, to investigate the relationship between ownership structure and CSR practices using the variables of government ownership, government and foreign shareholding. The second is to investigate the impact of corporate governance mechanisms on CSR practices using the corporate governance variables of board independence, institutional investors and politically affiliated directors. The main findings of this paper provide answers to the basic research questions of this work and are summarised as follows:

a) Impact of Government Ownership on CSR Practices:

The empirical results reveal that government ownership has no significant impact on CSR expenditures on public goods, corporate philanthropy and environmental conservation. However, I find that government ownership has a significant and positive effect on CSR expenditure on socially desirable goods and percentage of women on board. This result is robust given that I controlled for endogeneity issues via the Fixed-effect and IV estimation. This study equally controlled for firm-specific trend like growth variations that may confound the exact nature of the relationship between ownership and CSR through the Fixed-effect & firm-specific-trend model. I further ensured that the correlations of the error terms of the different CSR equations are controlled for via the SUR model. The use of robust standard errors (Newey-standard errors) ensured that our empirical results are valid in the face of arbitrary heteroskedasticity and autocorrelation issues.

From the empirical results, I observe that the agency model is not supported in the relationship between SOFs and CSR practices in Nigeria. This is premised on the fact that the divergence of interests between the principal - state and the managers of SOFs failed to account for any positive impact of government ownership on CSR. I however find that, consistent with resolving the agency conflict, managers of SOFs have more incentive to align their goals with that of the principal in promoting CSR on socially desirable goods and employee relations. Similarly, I find that when the principal's interests are not aligned with some forms of CSR practices, like environmental conservation, corporate philanthropy and provision of public goods, then, SOFs' managers had no incentive to commit resources to these types of CSR. The study equally finds that legitimacy and stakeholder management models are supported by the empirical results as government ownership exerts a significant and positive impact on the provision of social goods; which demonstrates the need for such firms to not only gain social legitimacy, but also signals their interests in other external stakeholders.

b) Effect of Government and Foreign Shareholdings on CSR Practices

In a well-structured mixed-ownership, I find that high levels of government shareholdings have a significant and positive effect only on CSR expenditure on socially desirable goods. I also find that high levels of foreign shareholdings have a significant and positive effect only on CSR expenditure on corporate philanthropy and percentage of women on board.

The significant and positive relationship between high levels of government shareholdings and CSR practices on socially desirable goods suggests that legitimacy and stakeholder management models are supported by the empirical findings. The insignificant effect of high levels of government shareholdings on environmental conservation shows that eco-efficiency model has no impact in the relationship between CSR practices and firms with high levels of government shareholdings in Nigerian industries. The empirical result shows that firms, with greater majority of government shareholders, were implicated in environmental degradation owing to incidences of oil spillage and pollution of the natural habitat.

Moreover, the significant and positive relationship between high levels of foreign ownership and CSR practices on employee-relations and corporate philanthropy gives credence to the legitimacy model; as foreign firms have more incentive to commit resources to corporate philanthropy as means of public relation with the intention of acquiring the social license to operate.

c) The Impact of Board Independence and Institutional Investors on CSR

Using the corporate governance mechanisms of board independence and institutional investors in the empirical investigation of the impact of board independence and institutional investors on CSR practices, I find that board independence has a statistically significant and positive impact only on CSR expenditure on socially desirable goods. I also find that institutional investors have a statistically significant and positive effect only on CSR expenditure on socially desirable goods and corporate philanthropy.

The significant and positive impact of board independence on provision of socially desirable goods is supported by legitimacy and stakeholder management models. Independent directors in Nigeria are more disposed to support the use of firm resources in the provision of social goods in order to signal their stakeholder salience, as well as securing the confidence of the local community.

Similarly, the positive and significant impact of institutional investors on the provision of socially desirable goods and corporate philanthropy equally finds support in legitimacy and stakeholder management models. The insignificant impact of institutional investors on environmental conservation is surprising, but may be attributed to the type of institutional holdings in Nigerian firms. Since, most institutional investors in Nigeria are investment banks and mutual funds, it is likely that they may not have incentive to commit resources on some CSR practices with long-term pay-offs. Thus, provision of social goods and doling philanthropic gifts are the quickest ways for them to demonstrate their social legitimacy and interests in other external stakeholders.

d) The Effect of Politically Affiliated Directors on CSR Practices

The empirical findings of the effect of politically affiliated directors on CSR practices clearly show that firms with political connections have no significant impact on all the five categories of CSR investigated in this work. The results show that firms with politically connected directors are more likely to devote significant resources in lobbying for political favours in the houses of Senates and Representative relative to CSR practices that may be aligned to the interests of external stakeholders. The results of the empirical investigation show that all the theoretical models are not supported as I find that politically affiliated firms in Nigeria have no statistically significant effect in all the five forms of CSR practices investigated in this work.

11.3 Policy Recommendations

The empirical findings clearly indicate that different ownership structures have varying implications for the five forms of CSR practices. The conclusions of my empirical results have several policy implications for good corporate governance practices in Nigeria and other emerging economies.

The findings of this study suggest the need for state to provide conducive environment that ensures that firms perform their fiduciary task of provision of private goods and maximization of shareholders' wealth subject to strict regulatory constraints. This study observes that the control variables for firm size and profitability (log of total sales and return on assets) are positively related to some forms of CSR expenditures. It is therefore necessary that government creates sustainable and stable business environment that will ensure risk-free returns on investments by firms with both government and foreign ownership. This enabling business environment will ensure that firms maximize profits; which in turn generates slack resources that will be allocated to CSR practices.

Along the same view, government should institute strict regulatory constraints that will compel firms to be socially responsive to the demands of other external stakeholders. Thus, the state must institute an efficient fiscal policy that ensures that adequate taxation are imposed on both state-owned, foreign and domestic firms in accordance with their pollution level or degradation of the natural environment. Similarly, SOFs, foreign and domestic firms must be held accountable for socially irresponsible actions through appropriate penalties that may not be susceptible to the dynamics of bribery and corruption. It is equally important to note that SOFs may have no incentive to commit resources to corporate philanthropy, but may be constrained via regulatory pressures to commit to core-CSR issues like environmental conservation and employee-relations.

Granted, that emerging economies like Nigeria, may need the influx of foreign investors; yet, government should not lower regulatory standards in order to boost domestic competitiveness for foreign investments; but should rather send clear signals of their commitment to environmental conservation, product quality, consumer protection and the responsibility of firms in contributing to sustainable community development. The state should also provide incentive schemes for firms who are adjudged as socially responsible. This could be in the form of government patronage via subsidies, grants, easy access to loan capital, awards of contracts to greener firms, government aid for research and development.

In Nigeria, Securities and Exchange Commission (SEC) and Companies and Allied Matters Act (CAMA) are the regulatory authorities charged with the responsibility of designing corporate governance code that should regulate firms in Nigerian industry. These regulatory bodies should ensure that listed Nigerian firms are mandated to credibly commit to different forms of CSR investigated in this study. Similarly, Nigerian firms should be constrained to disclose their CSR practices in their annual reports. To guard against the problem of information asymmetry, wherein firms may inflate or exaggerate their CSR expenditures, these social performance disclosures must be subject to adequate audit procedures.

It is also necessary that regulatory authorities design a corporate governance code that emphasizes not only the maximization of shareholders' wealth as the fiduciary responsibility of corporate managers, but also incorporates CSR practices as one of the essential metrics of good corporate performance. In this way, the CSR ratings of firms may provide an invaluable tool for ethical and prospective investors in evaluating portfolio investments. Moreover, there is the exigency of strengthening the Nigerian capital market via regulatory institutions to ensure the capitalization of firm-specific CSR information into the movement of share prices. In this way, social performance indicators may be factored in the overall ratings of corporate firm performance especially by institutional investors.

The poor performance of board independence in the core-CSR issues suggests that independent directors should be largely appointed from external stakeholders who have no previous allegiance with the firm or top management. This will ensure that independent directors live up to their monitoring role of aligning the interests of host communities and other external stakeholders with the goals of the shareholders. Along the same view, institutional investors with long-term orientation like pension fund should be encouraged to hold large block of shares in Nigerian firms. This will enable institutional investors to be spared the pressure of short-term profitability: thus, they will be more likely to support CSR expenditure even if the pay-off may be realised on a long-term basis.

I notice from the empirical results that politically affiliated directors have no significant impact on all the forms of CSR practices investigated in this work. Given the predominance of firms with political affiliation in all the major sectors of Nigerian industry as a result of the Indigenization Decree of 1972, I recommend that industry regulators should put pressure on firms with political connections via regulatory constraints to devote a significant portion of their profits to social investments and other core-CSR issues.

11.4 Gaps for Future Research

Out of the 119 firms listed on the Nigerian stock market, only 66 of them had the sufficient data needed for this study. Moreover, some of the firms in oil & gas sector, dominated by government ownership, are not listed on the Nigerian stock market. Future research should explore more avenues of obtaining data on listed firms in Nigeria despite the challenges and difficulties involved in gathering data from emerging economies; often characterised by dearth of efficient regulatory framework for their capital markets. Similarly, future research should expend more energy on gathering data from firms that are not listed on the stock market, as this may improve the result of this study.

In addition to using women on the board as a proxy for employee-relations, future research should explore the effect of ownership structure on employee relations by using other measures like health and safety at work places, welfare benefits for employees and compliance with labour-related codes like abstaining from the use of child labour

Similarly, future research in Nigeria should extend the conclusions of this study by investigating the behavioural dynamics and processes through which other corporate governance variables like board size, managerial directors, CEO-duality and board diversity will impact on CSR practices of firms in Nigeria and other emerging economies.

11.5 Conclusion

This study demonstrated that firms in our contemporary era may no longer insist that the only fiduciary responsibility of corporate managers is the maximization of shareholders' wealth. This thesis showed that there is an evolutionary trend in burgeoning literature on the need for firms to adopt a good stakeholder management model, as failure to incorporate the interests of other external stakeholders, may impact negatively on the long-term profitability and survival of the firm. Against the view that CSR practices may detract from profit-maximization, which is traditional role of the firm, this study presented business, ethical and philosophical arguments why CSR may still be positively related to firm competitiveness and long-term profitability.

This work equally outlined that corporate decision to credibly commit to CSR practices may be largely dependent on different ownership structures; and confirmed that different ownership structures have varying implications for different categories of CSR. Thus, I avoided the use of composite index in measuring CSR practices, but rather deconstructed CSR expenditures into five categories. I estimated the effects of government ownership, government and foreign shareholding, board independence, institutional investors and political affiliation on CSR variables controlling for such factors as firm size, return on assets and capital intensity.

The empirical findings reinforced the view that different types of ownership have different incentives to commit resources to some types of CSR practices, as I observed that firms with government ownership have more incentive to devote resources to the provision of social goods and employee-relations. I equally found that firms with foreign ownership are more likely to allocate resources to corporate philanthropy and employee-relations. Moreover, board independence or independent directors are more likely to support CSR expenditure on social goods, while institutional ownership may have more incentive to support CSR expenditures on corporate philanthropy and social goods. Firms with politically affiliated directors have no incentive to devote resources to all the forms of CSR practices investigated in this work.

Finally, I observed that all the ownership structures investigated in this study have no significant impact on CSR expenditure on environmental conservation. This may be explained by the fact that investments in environmental conservation may not always maximize profit in the long-term. Hence, it is the sole responsibility of government to put pressure on firms to be environmentally responsible via adequate fiscal policies and strict regulatory constraints to ensure, for instance, that firms do not their exceed pollution permits. Along the same view, it is important to note that not all types of CSR practices may be compatible with the incentives of different ownership structures; but there are Negative Injunction duties or core-CSR issues like environmental conservation and employee-relations, which firms are expected to observe (Idemudia and Ite, 2006; Simon et al., 1972). Hence, I argue that firms with different ownership structure must be mandated to credibly commit to some desirable and core-CSR categories in accordance with the declaration of the International Labour Organization (ILO) on the fundamental rights of employee at work place and the investment code of practice of Organization for Economic Co-operation and Development (OECD) (ILO, 2004; OECD, 2000; 2012). These two international organizations maintain that firms should commit significant resources to good treatment of employees and the conservation of the natural environment.

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APPENDICES

Appendix 1

Variables used in the Empirical Estimation

LN_CSREXP	**Natural logarithm of CSR Expenditure**
LN_PUBLIC	Natural logarithm of CSR Expenditures on Public Goods
LN_SOCIAL	Natural logarithm of CSR Expenditures on Social Goods
LN_PHILANTHROPY	Natural logarithm of CSR on Corporate Philanthropy
WOMEN_ON_BOARD	CSR on women on the board
GOV_OWN	Government Ownership
GOVT_SHARE	Government Shareholding
FOREIGN_SHARE	Foreign Shareholding
BOARD_IND	Board Independence
INSTN	Institutional Investors
POLF	Political Affiliation
LN_TOTAL_SALES	Natural logarithm of Total Sales Revenue
ROA	Return on Assets
CAP_INT	Capital Intensity

Appendix 2

CSR Expenditure as Share of Profit of Firms in the Manufacturing Sector

	MANUFACTURING SECTOR		
PROFIT AFTER TAX	VARIABLES	CSR EXPENDITURES	SHARE OF PROFIT
$3,455,795,959	Public Goods	$160,195	0.00%
	Social Goods	$278, 999	0.01%
	Philanthropy	$521,045	0.02%
	Environment	$22,968	0.00%

Source: Author's computations based on data from companies' annual report from 2001 to 2010

Appendix 3

CSR Expenditure as Share of Profit of Firms in Oil and Gas Sector

	OIL AND GAS SECTOR		
PROFIT AFTER TAX	VARIABLES	CSR EXPENDITURES	SHARE OF PROFIT
$923,326,419	Public Goods	$67,298	0.01%
	Social Goods	$457,504	0.05%
	Philanthropy	$187,236	0.01%
	Environment	$55,014	0.01%

Source: Author's computations based on data from companies' annual report from 2001 to 2010

Appendix 4

CSR Expenditure as Share of Profit of Firms in the Consumer Goods Sector

	CONSUMER GOODS SECTOR		
PROFIT AFTER TAX	VARIABLES	CSR EXPENDITURES	SHARE OF PROFIT
$1,143,138,612	Public Goods	$108,814	0.01%
	Social Goods	$550,545	0.05%
	Philanthropy	$310,522	0.03%
	Environment	$13,808	0.00%

Source: Author's computations based on data from companies' annual report from 2001 to 2010

Appendix 5

CSR Expenditure as Share of Profit of Firms in the Healthcare Sector

	HEALTH CARE SECTOR		
PROFIT AFTER TAX	VARIABLES	CSR EXPENDITURES	SHARE OF PROFIT
$124,367,488	Public Goods	$55,138	0.04%
	Social Goods	$84,333	0.07%
	Philanthropy	$50,589	0.04%
	Environment	$19,080	0.02%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 6

CSR Expenditure as Share of Profit of Firms in the Information and Communication Sector

	INFORMATION AND COMMUNICATION SECTOR		
PROFIT AFTER TAX	VARIABLES	CSR EXPENDITURES	SHARE OF PROFIT
$82,278,977	Public Goods	$5,878	0.01%
	Social Goods	$29,840	0.04%
	Philanthropy	$22,974	0.03%
	Environment	$8,213	0.01%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 7

CSR Expenditure by industries as a share of total CSR on Public Goods

TOTAL CSR ON PUBLIC GOODS	INDUSTRIES	AMOUNT	SHARE OF TOTAL CSR
$397,323	Manufacturing	$160,195	40.32%
	Oil and Gas	$67,298	16.94%
	Consumer Goods	$108,814	27.39%
	Healthcare	$55,138	13.88%
	Info & Comm	$5,878	1.48%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 8

CSR Expenditure by industries as a share of total CSR on Social Goods

TOTAL CSR ON SOCIAL GOODS	INDUSTRIES	AMOUNT	SHARE OF TOTAL CSR
$1,401,221	Manufacturing	$278,999	19.91%
	Oil and Gas	$457,504	32.65%
	Consumer Goods	$550,545	39.29%
	Healthcare	$84,333	6.02%
	Info & Comm	$29,840	2.13%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 9

CSR Expenditure by industries as a share of total CSR on Philanthropy

TOTAL CSR ON PHILANTHROPY	INDUSTRIES	AMOUNT	SHARE OF TOTAL CSR
$1,092,366	Manufacturing	$521,045	47.70%
	Oil and Gas	$187,236	17.14%
	Consumer Goods	$310,522	28.43%
	Healthcare	$50,589	4.63%
	Info & Comm	$22,974	2.10%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 10

CSR Expenditure by industries as a share of total CSR on Environment

TOTAL CSR ON ENVIRONMENT	INDUSTRIES	AMOUNT	SHARE OF TOTAL CSR
$119,083	Manufacturing	$22,968	19.29%
	Oil and Gas	$55,014	46.20%
	Consumer Goods	$13,808	11.60%
	Healthcare	$19,080	16.02%
	Info & Comm	$8,213	6.90%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 11

Mean CSR Expenditure as Share of Profit of Firms Across all Industries

	Public Goods	Share of Profit	Social Goods	Share of Profit	Phil	Share of profit	Envt	Share of profit
Manufacture	6083	0.00%	32344	0.02%	59489	0.03%	526	0.00%
Oil & Gas	1557	0.00%	57450	0.06%	15137	0.02%	2283	0.00%
Consumer	4057	0.01%	62578	0.11%	26809	0.05%	386	0.00%
Healthcare	1382	0.01%	8649	0.06%	2793.9	0.02%	460	0.00%
Comm	836	0.01%	1954	0.01%	1876	0.01%	205	0.00%

(Source: Author's computations based on data from companies' annual report from 2001 to 2010)

Appendix 12

SUR Models for Hypotheses 1 and 4

Dep. variable	coef.	t. stats	Dep. variable	coef.	t.stats
Model 1			Model 4		
Ln_Public			***Ln_Public***		
Govt_Ownership	0.099	0.59	Political_Dum	-0.363	-1.35
Ln_total Sales	0.422***	7.66	Ln_total Sales	0.397***	7.41
Return on Assets	0.002	0.43	Return on Assets	0.005	0.79
Capital Intensity	0.001	1.23	Capital Intensity	0.001	1.28
R-Squared	0.125		R-Squared	0.119	
Ln_Social			***Ln_Social***		
Govt_Ownership	0.908***	2.52	Political_Dum	-0.012	-0.51
Ln_total Sales	0.917***	11.6	Ln_total Sales	0.894***	11.69
Return on Assets	0.024**	2.36	Return on Assets	0.027***	2.75
Capital Intensity	0.002	1.42	Capital Intensity	0.002	1.56
R-Squared	0.270		R-Squared	0.274	
Ln_Philanthropy			***Ln_Philanthropy***		
Govt_Ownership	-0.348	-1.08	Political_Dum	0.029	-0.22
Ln_total Sales	0.687***	9.67	Ln_total Sales	0.702***	10.31
Return on Assets	0.020**	2.20	Return on Assets	0.021**	2.45
Capital Intensity	0.002***	1.55	Capital Intensity	0.001*	1.79
R-Squared	0.210		R-Squared	0.227	
Women_Board			***Women_Board***		
Govt_Ownership	0.029***	2.47	Political_Dum	-0.031	-0.05
Ln_total Sales	-0.001	-0.26	Ln_total Sales	0.042	0.26
Return on Assets	0.018	0.86	Return on Assets	0.021	1.00
Capital Intensity	-0.002	-0.74	Capital Intensity	-0.001	-0.77
R-Squared	0.118		R-Squared	0.113	
Ln_Envt			***Ln_Envt***		
Govt_Ownership	-0.784	-0.69	Political_Dum	0.512	0.89
Ln_total Sales	0.199***	5.59	Ln_total Sales	0.155***	4.48
Return on Assets	0.003	0.09	Return on Assets	0.002	0.41
Capital Intensity	0.001***	0.98	Capital Intensity	0.001	0.71
R-Squared	0.160		R-Squared	0.120	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that government ownership is the independent variable in model 1 and political affiliation is the independent variable in model 4. The five CSR dependent variables are highlighted in bold italics. In Model 1, Log of total sales is highly significant for all CSR expenditures except for percentage of women on board. In Model 4, log of total sales is highly significant for all CSR expenditures except for percentage of women on board.

Appendix 13

SUR Models for Hypotheses 2 and 3

Dep. variable	coef.	t. stats	Dep. variable	coef.	t.stats
Model 2			Model 3		
Ln_Public			Ln_Public		
Govt_Share	-1.243	-1.20	Board_independence	-0.005	-0.92
Foreign_Share	0.015	0.61	Institutional	-0.008	-1.27
Ln_total Sales	0.478***	7.85	Ln_total Sales	0.411***	6.94
Return on Assets	-0.002	-0.19	Return on Assets	0.003	0.38
Capital Intensity	0.001	1.43	Capital Intensity	0.001	1.15
R-Squared	0.134		R-Squared	0.114	
Ln_Social			Ln_Social		
Govt_Share	0.024***	1.82	Board_independence	0.034***	1.87
Foreign_Share	-0.002	-0.26	Institutional	0.037***	4.16
Ln_total Sales	0.913***	10.38	Ln_total Sales	0.960***	11.64
Return on Assets	0.025**	2.09	Return on Assets	0.029***	2.47
Capital Intensity	0.002	1.43	Capital Intensity	0.001	1.43
R-Squared	0.262		R-Squared	0.298	
Ln_Philanthropy			Ln_Philanthropy		
Govt_Share	-0.007	-0.58	Board_independence	-0.006	-0.85
Foreign_Share	0.927***	2.93	Institutional	0.018**	2.16
Ln_total Sales	0.671***	8.51	Ln_total Sales	0.708***	9.41
Return on Assets	0.022**	2.04	Return on Assets	0.023**	2.19
Capital Intensity	0.002	1.51	Capital Intensity	0.002	1.55
R-Squared	0.206		R-Squared	0.217	
Women_Board			Women_Board		
Govt_Share	0.016	0.87	Board_independence	0.181	1.42
Foreign_Share	0.031***	4.08	Institutional	-0.002	-0.18
Ln_total Sales	0.329*	1.76	Ln_total Sales	0.293	1.68
Return on Assets	0.014	0.55	Return on Assets	0.015	0.61
Capital Intensity	-0.001	-0.48	Capital Intensity	-0.001	-0.68
R-Squared	0.110		R-Squared	0.102	
Ln_Envt			Ln_Envt		
Govt_Share	0.018	1.11	Board_independence	0.417	0.34
Foreign_Share	-0.003	-0.56	Institutional	0.012	1.05
Ln_total Sales	0.192***	4.89	Ln_total Sales	0.180***	4.74
Return on Assets	-0.002	-0.37	Return on Assets	-0.002	-0.26
Capital Intensity	-0.001	0.95	Capital Intensity	0.001	1.05
R-Squared	0.180		R-Squared	0.170	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that government and foreign shareholding are the independent variables in model 2; while board independence and Institutional investors are the independent variables in model 3. The five CSR dependent variables are highlighted in bold italics. In Model 2, Log of total sales is significant for all forms of CSR. In Model 3, log of total sales is highly significant for all CSR expenditures except for percentage of women on board.

Appendix 14

Treatment Effect Model: Impact of Government Ownership on Public Goods

Treatment Effect Model: Second Stage Regression		
Govt_Ownership	coefficient	t-stats
Foreign_Share	-0.015***	-4.99
Board_Independence	0.019***	5.59
Return on Asset	-0.009**	-2.19
Capital Intensity	-0.001	-1.46
Ln_Total Sales	0.179***	4.53
Wald Chi2 (P-value)	92.57 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of foreign_ share and board independence are statistically significant. The control variables for firm size and profitability are also significant at 1% and 5% respectively.

Appendix 15

Treatment Effect Model: Impact of Government Ownership on Social Goods

Treatment Effect Model: Second Stage Regression		
Govt_Ownership	coefficient	t-stats
Board_Independence	0.014***	4.46
Return on Asset	-0.009**	-2.39
Capital Intensity	-0.006	-0.93
Ln_Total Sales	0.161***	4.23
Wald Chi2 (P-value)	181.72 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instrument of board independence is highly statistically significant. The control variables for firm size and profitability are also significant at 1% and 5% respectively.

Appendix 16

Treatment Effect Model: Impact of Government Ownership on Philanthropy

Treatment Effect Model: Second Stage Regression		
Govt_Ownership	coefficient	t-stats
Foreign_Share	0.010***	3.64
Return on Asset	-0.010***	-2.59
Capital Intensity	-0.003	-0.64
Ln_Total Sales	0.239***	6.38
Wald Chi2 (P-value)	175.25 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instrument of Foreign_Share is statistically significant. The control variables for firm size and profitability are also highly significant at 1%.

Appendix 17

Treatment Effect Model: Impact of Government Ownership on Women on Board

Treatment Effect Model: Second Stage Regression		
Govt_Ownership	coefficient	t-stats
Government_Share	0.033***	3.61
Political_Dum	0.086***	3.75
Return on Asset	0.004	0.32
Capital Intensity	-9.051	-0.81
Ln_Total Sales	0.403	1.49
Wald Chi2 (P-value)	184.21 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instrument of Government_Share is statistically significant. The control variables are not statistically significant.

Appendix 18

Treatment Effect Model: Impact of Government Ownership on Environmental CSR

Treatment Effect Model : Second Stage Regression		
Govt_Ownership	coefficient	t-stats
Board_Independence	0.014***	4.46
Return on Asset	-0.009**	-2.39
Capital Intensity	-0.002	-0.93
Ln_Total Sales	0.161***	4.23
F-Value/ Wald Chi2 (P-value)	55.03 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instrument of Board Independence is statistically significant. The control variables for firm size and profitability are significant at 1% and 5% respectively.

Appendix 19

2SLS Model: Effect of Shareholding Structure on Public Goods

2SLS Model: First Stage Regression				
	Government Shareholding		Foreign Shareholding	
	coefficient	t-stats	coefficient	t-stats
Board_Independence	0.132***	4.98	0.175***	3.49
Institutional	0.062**	-1.90	0.544***	8.83
Return on Asset	-0.141***	-3.35	0.089	1.12
Capital Intensity	0.001	0.97	0.001	1.13
Ln_Total Sales	1.844***	6.16	1.439***	2.53
No of Observations	493		493	
F-Value/ (P-value)	15.90		26.22	
R-squared/ pseudo R^2	0.1721		0.2553	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Board Independence and Institutional Investors are statistically significant. The F-values of 15.90 and 26.22 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variables for firm size and profitability are highly significant.

Appendix 20

2SLS Model: Effect of Shareholding Structure on CSR on Social Goods

2SLS Model: First Stage Regression				
	Government Shareholding		Foreign Shareholding	
	coefficient	t-stats	coefficient	t-stats
Govt_Ownership	0.032***	2.96	0.095***	2.79
Board_Independence	0.031***	2.17	0.355***	6.95
Return on Asset	-0.161***	-2.50	0.118	1.41
Capital Intensity	0.001	1.03	0.001	0.92
Ln_Total Sales	0.588***	3.19	2.415***	3.98
No of Observations	493		493	
F-Value/ (P-value)	24.41		20.27	
R-squared/ pseudo R^2	0.2265		0.1805	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Board Independence are statistically significant. The F-values of 24.41 and 20.27 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variables for firm size and profitability are highly significant for government shareholding, while firm size is only significant for foreign shareholding.

Appendix 21

2SLS Model: Effect of Shareholding Structure on Corporate Philanthropy

2SLS Model: First Stage Regression				
	Government Shareholding		Foreign Shareholding	
	coefficient	t-stats	coefficient	t-stats
Board_Independence	0.132***	5.02	0.178***	3.57
Institutional	0.062**	-1.94	0.537***	8.82
Return on Asset	-0.141***	-3.36	0.088	1.10
Capital Intensity	0.001	0.96	0.001	1.06
Ln_Total Sales	1.840***	6.20	1.385***	2.46
No of Observations	493		493	
F-Value/ (P-value)	19.12		31.38	
R-squared/ pseudo R^2	0.1720		0.2543	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Board Independence and Institutional investors are statistically significant. The F-values of 19.12 and 31.38 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variables for firm size are significant for government and foreign shareholding respectively.

Appendix 22

2SLS Model: Effect of Shareholding Structure on Women on Board

2SLS Model: First Stage Regression				
	Government Shareholding		Foreign Shareholding	
	coefficient	t-stats	coefficient	t-stats
Board_Independence	0.182***	4.92	0.174***	3.51
Institutional	0.058**	-1.83	0.542***	8.98
Return on Asset	-0.141***	-3.35	0.088	1.10
Capital Intensity	0.001	0.99	0.001	1.07
Ln_Total Sales	1.856***	6.27	1.406***	2.50
No of Observations	493		493	
F-Value/ (P-value)	18.95		31.81	
R-squared/ pseudo R^2	0.1705		0.2565	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Board Independence and Institutional investors are statistically significant. The F-values of 18.95 and 31.81 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. Firm size is also significant for both government and foreign shareholding.

Appendix 23

2SLS Model: Effect of Shareholding Structure on Environmental CSR

2SLS Model: First Stage Regression				
	Government Shareholding		Foreign Shareholding	
	coefficient	t-stats	coefficient	t-stats
Board_Independence	0.117***	4.62	0.304***	5.87
Political_Dum	0.038***	5.55	0.497***	4.00
Return on Asset	-0.150***	-3.59	0.171**	1.99
Capital Intensity	0.001	1.04	0.001	0.72
Ln_Total Sales	1.825***	6.08	1.608***	2.62
No of Observations	493		493	
F-Value/ (P-value)	18.25		13.60	
R-squared/ pseudo R^2	0.1655		0.1288	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Board Independence and Political Affiliation are statistically significant. The F-values of 18.25 and 13.60 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variables for firm size and profitability are both significant for government and foreign shareholding.

Appendix 24

2SLS Model: Impact of Board Composition on Public Goods

2SLS Model: First Stage Regression				
	Board Independence		Institutional Investors	
	coefficient	t-stats	coefficient	t-stats
Foreign_Share	0.229***	5.87	0.303***	10.5
Political_Dum	2.073***	4.56	4.763***	3.08
Return on Asset	-0.297***	-4.03	0.058	1.03
Capital Intensity	0.001	1.14	0.001	-0.92
Ln_Total Sales	3.365***	6.56	0.409	1.04
No of Observations	493		493	
F-Value/ (P-value)	20.09		27.94	
R-squared/ pseudo R^2	0.1792		0.2329	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Foreign_share and Political Affiliation are statistically significant. The F-values of 20.09 and 27.94 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. Note also that the same instruments were used for the impact of board composition on CSR on Social goods. Hence, the table of the first stage regression for social goods is identical to the first stage regression of CSR on Public goods above. The control variables for firm size and profitability are only significant for board independence.

Appendix 25

2SLS Model: Impact of Board Composition on Corporate Philanthropy

2SLS Model: First Stage Regression				
	Board Independence		Institutional Investors	
	coefficient	t-stats	coefficient	t-stats
Govt_Share	0.379***	4.62	0.019***	3.13
Political_Dum	0.192***	4.86	4.950***	2.89
Return on Asset	-0.207***	-2.73	0.078	1.24
Capital Intensity	0.001	1.13	0.001	-0.35
Ln_Total Sales	3.144***	5.81	1.337***	2.97
No of Observations	493		493	
F-Value/ (P-value)	17.10		15.95	
R-squared/ pseudo R^2	0.1567		0.1478	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Govt_share and Political Affiliation are statistically significant. The F-values of 17.10 and 15.95 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variable for firm size is significant for both board independence and institutional investors.

Appendix 26

2SLS Model: Impact of Board Composition on Women on Board

2SLS Model: First Stage Regression				
	Board Independence		Institutional Investors	
	coefficient	t-stats	coefficient	t-stats
Govt_Ownership	0.719***	4.13	0.176***	3.04
Political_Dum	0.006***	2.26	4.824***	2.80
Return on Asset	-0.234***	-3.08	0.088	1.40
Capital Intensity	0.001	1.25	0.001	-0.33
Ln_Total Sales	3.328***	6.22	1.316***	2.97
No of Observations	493		493	
F-Value/ (P-value)	15.90		20.98	
R-squared/ pseudo R^2	0.1471		0.1801	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Political Affiliation are statistically significant. The F-values of 15.90 and 20.98 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variable for firm size is significant for both board independence and Institutional Investors. Return on assets is equally significant for board independence.

Appendix 27

2SLS Model: Impact of Board Composition on Environmental CSR

2SLS Model: First Stage Regression				
	Board Independence		Institutional Investors	
	coefficient	t-stats	coefficient	t-stats
Govt_Ownership	0.033***	3.23	0.411***	5.11
Govt_Share	0.295***	1.99	0.037***	4.13
Return on Asset	-0.208***	-2.74	0.078	1.24
Capital Intensity	0.001	1.16	-0.001	-0.33
Ln_Total Sales	3.146***	5.81	1.338***	2.96
No of Observations	493		493	
F-Value/ (P-value)	14.31		14.97	
R-squared/ pseudo R^2	0.1576		0.1595	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Political Affiliation are statistically significant. The F-values of 14.31 and 14.97 respectively are greater than 10, and this ensures the goodness of fit of the selected instruments. The control variable for firm size is significant for both board independence and Institutional Investors. Return on assets is equally significant for board independence.

Appendix 28

Treatment Effect Model: Effect of Political Affiliation on Public Goods

Treatment Effect Model: Second Stage Regression		
Political_Dum	coefficient	t-stats
Govt_Ownership	0.029***	2.55
Return on Asset	0.003	0.83
Capital Intensity	0.001	1.96
Ln_Total Sales	0.116***	2.98
Wald Chi2 (P-value)	66.00 (0.000)	
No of Observations	493	

Note that *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instrument of Government Ownership is statistically significant. The control variable for firm size is highly statistically significant at 1%

Appendix 29

Treatment Effect Model: Effect of Political Affiliation on Social Goods

Treatment Effect Model: Second Stage Regression		
Political_Dum	coefficient	t-stats
Govt_Ownership	1.254***	4.08
Govt_Share	0.040***	3.96
Return on Asset	0.005	1.13
Capital Intensity	0.001***	2.53
Ln_Total Sales	0.130***	3.45
Wald Chi2 (P-value)	173.93 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Government Shareholding are statistically significant. The control variables of log of total sales and capital intensity are very statistically significant at 1%.

Appendix 30

Treatment Effect Model: Effect of Political Affiliation on Philanthropy

Treatment Effect Model: Second Stage Regression		
Political_Dum	coefficient	t-stats
Govt_Ownership	1.254***	4.08
Govt_Share	0.040***	3.96
Return on Asset	0.007	1.15
Capital Intensity	0.001***	2.53
Ln_Total Sales	0.129***	3.44
Wald Chi2 (P-value)	139.53 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Government Shareholding are statistically significant. The control variables of log of total sales and capital intensity are very statistically significant at 1%.

Appendix 31

Treatment Effect Model: Effect of Political Affiliation on Women on board

Treatment Effect Model: Second Stage Regression		
Political_Dum	coefficient	t-stats
Govt_Ownership	1.240***	4.07
Govt_Share	0.039***	3.96
Return on Asset	0.005	1.08
Capital Intensity	0.001***	2.51
Ln_Total Sales	0.129***	3.43
Wald Chi2 (P-value)	18.77 (0.008)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Government Shareholding are statistically significant. The control variables of log of total sales and capital intensity are very statistically significant at 1%.

Appendix 32

Treatment Effect Model: Effect of Political Affiliation on Environmental CSR

Treatment Effect Model: Second Stage Regression		
Political_Dum	coefficient	t-stats
Govt_Ownership	1.245***	4.08
Govt_Share	0.042***	3.97
Return on Asset	0.005	1.13
Capital Intensity	0.001***	2.53
Ln_Total Sales	0.130***	3.45
Wald Chi2 (P-value)	44.33 (0.000)	
No of Observations	493	

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that the instruments of Government Ownership and Government Shareholding are statistically significant. The control variables of log of total sales and capital intensity are very statistically significant at 1%.

Appendix 33

Hausman Specification Test for Model 1

	Government Ownership and CSR Practices			
Dependent variables	Fixed Effect	Random Effect	Hausman (P-value)	Rejection
Ln_Public Goods	0.526	-0.459	2.35 (0.503)	Not Rejected
Ln_Social Goods	2.856***	0.433	15.71 (0.001)	Rejected
Ln_Philanthropy	1.255	-0.121	6.89 (0.075)	Rejected
Women_on_Board	3.812***	0.273	23.41 (0.000)	Rejected
Ln_Envt	-0.105	-0.357	0.51 (0.916)	Not Rejected

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that even when the null hypothesis is not rejected, I find that the result in both models makes no difference. I nevertheless prefer the Fixed-effect model because it provides a better treatment for endogeneity bias.

Appendix 34

Hausman Specification Test for Model 2

Government Shareholding			Foreign Shareholding			
Dep. Variables	Fixed	Random	Fixed	Random	Haus (P-value)	Rejection
Ln_Public Goods	0.028	-0.023	- 0.008	-0.008	6.34 (0.275)	Not Rejected
Ln_Social Goods	0.095***	0.023	-0.026	-0.002	14.21 (0.014)	Rejected
Ln_Philanthropy	0.003	0.007	0.084***	0.001*	10.57 (0.021)	Rejected
Women_Board	0.064	-0.040	0.105***	-0.013	28.79 (0.001)	Rejected
Ln_Envt	0.009	-0.011	-0.018	0.004	7.12 (0.215)	Not Rejected

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that even when the null hypothesis is not rejected, I find that the result in both models makes no difference. I nevertheless prefer the Fixed-effect model because it provides a better treatment for endogeneity bias.

Appendix 35

Hausman Specification Test for Model 3

Board Independence			Institutional Investors			
Dep. Variables	Fixed	Random	Fixed	Random	Haus (P-value)	Rejection
Ln_Public Goods	-0.001	-0.005	-0.015	-0.010	1.28 (0.937)	Not Rejected
Ln_Social Goods	0.013***	0.001	0.028	0.029	12.08 (0.003)	Rejected
Ln_Philanthropy	-0.001	-0.004	0.020***	0.018*	11.75 (0.002)	Rejected
Women_Board	-0.019	-0.004	-0.008	-0.033	23.31 (0.003)	Rejected
Ln_Envt	0.004	-0.004	-0.005	-0.003	10.61 (0.051)	Rejected

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that even when the null hypothesis is not rejected, I find that the result in both models makes no difference. I nevertheless prefer the Fixed-effect model because it provides a better treatment for endogeneity bias.

Appendix 36

Hausman Specification Test for Model 4

	Political Affiliation and CSR Practices			
Dependent variables	Fixed Effect	Random Effect	Hausman (P-value)	Rejection
Ln_Public Goods	0.212	-0.221	3.41 (0.492)	Not Rejected
Ln_Social Goods	-0.307	-0.580	6.22 (0.184)	Not Rejected
Ln_Philanthropy	-0.090	-0.551	8.82 (0.006)	Rejected
Women_on_Board	-0.770	0.465	17.32 (0.000)	Rejected
Ln_Envt	0.001	0.112	11.90 (0.003)	Rejected

Note: *, **, *** indicate significance at the 10%, 5% and 1% levels of significance respectively. Note also that even when the null hypothesis is not rejected, I find that the result in both models makes no difference. I nevertheless prefer the Fixed-effect model because it provides a better treatment for endogeneity bias.

Appendix 37

Sargan's Test for Instrument Validity in Model 1

Model 1: Government Ownership and CSR					
Endogenous	Ln_Public	Women_Board	Ln_Social	Ln_Phil	Ln_Envt
Gov_Ownership					
Instruments	Foreign_Share & Board_Ind	Govt_share & Political_dum	Board_ind	Foreign Share	Board_ind
Sargan Score	0.3141	0.0067	Just Identified	Just Identified	Just Identified
P-Value	0.857	0.474			
Null Hypothesis	Not Rejected	Not Rejected			

Note that the Null hypothesis tests that the instruments are not correlated with the residuals, and the null is rejected when the p-value is statistically significant ($p<0.05$). Thus when the null is not rejected, it implies that the instruments are strong and valid. Just-identified shows that only one instrument is used for the endogenous binary variable and cannot be computed via the Sargan test.

Appendix 38

Nominal Wald Test for Instrument Validity in Model 2

Model 2: Government Shareholding and Foreign Shareholding					
Endogenous	Ln_Public	Ln_Social	Ln_Phil	Women	Ln_Envt
Govt_Share Foreign_Share					
Instruments	Board_ind & Instn	Gov_own & Board_ind	Board_ind & Instn	Board_ind & Instn	Board_ind & Political_dum
Eigenvalue Stats	17.40	26.22	11.13	10.76	16.78
Wald Test at 10%	13.43	16.38	7.03	7.01	7.38
Null Hypothesis	Rejected	Rejected	Rejected	Rejected	Rejected

Note that the Null hypothesis tests that the instruments are weak, and the null is rejected when the Eigenvalue statistics is greater than the Nominal Wald Test at 10% rejection level. Thus, when the null is rejected, it implies that the instruments are strong and valid.

Appendix 39

Nominal Wald Test for Instrument Validity in Model 3

Model 3: Board Independence and Institutional Investors					
Endogenous	**Ln_Public**	**Ln_Social**	**Ln_Phil**	**Women**	**Ln_Envt**
Board_Ind & Instn					
Instruments	Foreign_share & Pol_dum	Foreign_share & Pol_dum	Govt_share & Pol_dum	Gov_own & Pol_dum	Gov_own & Govt_share
Eigenvalue Stats	13.39	13.39	11.13	13.01	22.06
Wald Test at 10%	7.03	7.03	9.08	8.62	13.43
Null Hypothesis	Rejected	Rejected	Rejected	Rejected	Rejected

Note that the Null hypothesis tests that the instruments are weak, and the null is rejected when the Eigenvalue statistics is greater than the Nominal Wald Test at 10% rejection level. Thus, when the null is rejected, it implies that the instruments are strong and valid.

Appendix 40

Sargan's Test for Instrument Validity in Model 4

Model 4: Political Affiliation and CSR Practices					
Endogenous	**Ln_Social**	**Ln_Phil**	**Women_board**	**Ln_Envt**	**Ln_Public**
Political_Dum					
Instruments	Govt_own & Govt_share	Govt_own & Govt_share	Govt_own & Govt_share	Govt_own & Govt_share	Govt_own
Sargan Score	0.0037	0.0492	0.0020	0.0052	Just Identified
P-Value	0.826	0.131	0.405	0.205	
Null Hypothesis	Not Rejected	Not Rejected	Not Rejected	Not Rejected	

Note that the Null hypothesis tests that the instruments are not correlated with the residuals, and the null is rejected when the p-value is statistically significant (p<0.05). Thus, when the null is not rejected, it implies that the instruments are strong and valid. Just-identified shows that only one instrument is used for the endogenous binary variable and cannot be computed via the Sargan test.