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COMPARATIVE ANALYSIS OF EFFECT OF COMMUNITY DEVELOPMENT DISCLOSURE ON PROFITABILITY OF IN FINANCIAL AND NON-FINANCIAL FIRMS IN NIGERIA

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ABSTRACT

The study comparatively analysed the effect community development disclosure, while firm profitability was indexed by return on invested capital. Ex-post facto research design was adopted for the study, on a population of 154 listed firms on the Nigerian Exchange Group. The sample size was selected using a random sample technique, which yielded a sample of twenty financial firms and twenty non-financial firms. The study gathered data from annual reports spanning 2013 to 2022 (10 years) from selected firms as secondary sources. The effect of social sustainability disclosure on firm profitability was estimated using the panel least square regression technique, facilitated by Eviews Version 12. However, to compare the difference between the effects in both sectors, Paired Sample T-test was conducted, using Statistical Package for Social Sciences version 23. The test of hypotheses showed that: there is no statistical significant difference in the effect of community development disclosure on return on invested capital between financial and non-financial firms in Nigeria. In conclusion, tailoring social sustainability strategies to the specific needs and operational contexts of the different sectors is important in order to maximise the benefits of social sustainability disclosure. The study recommends that Financial and non-financial firms should evaluate the cost-benefit ratio of their community development initiatives to ensure alignment with their overall business objectives.

Key words: *Social Sustainability Disclosure, Community Development Disclosure, Return On Invested Capital, Form Profitability.*

INTRODUCTION

As the business environment in Nigeria experiences notable transformations, social sustainability reporting is gaining paramount importance for firms. The heightened expectations of stakeholders regarding transparency and accountability, coupled with increasing pressure for addressing social and environmental impacts responsibly, underscore the significance of sustainability reporting (Ahmad, Wong, & Butt, 2023). In this changing terrain, sustainability reporting has emerged as a vital mechanism for firms to showcase their dedication to sustainable practices and foster meaningful engagement with stakeholders (Amacha & Dastane, 2017). Indeed, the impetus for a shift towards a more comprehensive reporting framework stemmed from concerns and critiques surrounding conventional corporate reporting. Experts in the business domain began advocating for the adoption of a reporting framework that provides a holistic view of a company, prioritizing its fundamental operational considerations (Odum & Obiano, 2023). Consequently, organizations are augmenting traditional financial reporting practices by integrating non-financial data, such as sustainability performance reporting, to present a more meticulous and comprehensive depiction of their operations (Osisioma & Emeka-Nwokeji, 2019).

Furthermore, social sustainability reporting equips both financial and non-financial service companies to address the escalating investor expectations for Environmental, Social, and Governance (ESG) considerations (Ndum, 2022). A growing number of institutional investors and asset managers are placing emphasis on ESG factors when making investment choices, aiming to align their portfolios with sustainable and responsible business practices (Gaio & Henriques, 2020). Through furnishing comprehensive and substantiated data on their social and environmental performance, firms can appeal to socially conscious investors and ensure access to sustainable capital sources. In addition to its role in investor relations, social sustainability reporting assumes a pivotal position in fostering engagement with local communities. It serves as a platform for companies to communicate their involvement in community development, infrastructure projects, and initiatives aimed at enhancing the well-being of local residents (Krisztina, Yahya & Lentner, 2020).

In terms of social sustainability disclosure, financial firms may emphasize initiatives related to financial inclusion, responsible lending practices, and corporate governance, given the nature of their business. They may also prioritize transparency in reporting financial performance and compliance with regulatory requirements. On the other hand, non-financial firms may focus on areas such as environmental stewardship, community engagement, and product safety, reflecting the unique social and environmental challenges associated with their operations. While both financial and non-financial firms have an incentive to disclose their social sustainability efforts to enhance stakeholder trust and reputation, the specific areas of emphasis and the strategies employed may vary based on sector-specific considerations. Therefore, a comparative analysis of social sustainability disclosure and its impact on firm profitability between financial and non-financial firms in Nigeria can provide useful hints into the effectiveness of sustainability practices across different sectors and inform strategic decision-making for businesses and investors alike. Through the adoption of sustainability reporting practices, these companies can foster trust, elevate their reputation, appeal to socially responsible investors, and establish meaningful and mutually beneficial relationships with local communities (Amacha & Dastane, 2017). With sustainability's increasing significance, social sustainability reporting will persist as a crucial mechanism for firms to showcase their dedication to responsible business conduct and make positive contributions to society and the environment.

A prevalent reluctance among firms to fully engage in social sustainability reporting has been found by a number of literature such as Iliemena, Amedu, and Uagbale-Ekatah (2023). The firms tend to offer scant or inconsistent disclosures concerning their social impact initiatives, community development projects, and strategies to mitigate negative social repercussions (Amahalu & Okudo, 2023). This dearth of comprehensive social sustainability reporting poses challenges for stakeholders, notably investors, who grapple with assessing the genuine social performance and ethical conduct of both financial and non-financial firms (Amacha & Dastane, 2017).

Failing to prioritize social sustainability reporting may result in missed opportunities for fostering shared value and cultivating enduring relationships with communities and other stakeholders. As a result, the absence of transparent disclosure hampers stakeholders' capacity to appraise the social performance of firms, rendering it challenging for investors to gauge the associated risks and opportunities (Odum & Obiano, 2023). This informational deficiency could foster heightened investor skepticism, diminish investor confidence, and potentially exert adverse impacts on the firms' stock market valuation. More also, these firms risk being excluded from accessing sustainable and responsible capital, thereby constraining their growth prospects and competitiveness in the global market. Moreover, the lack of thorough social sustainability reporting may lead to reputational harm (Feng, Akram, Hieu & Hoang Tien, 2022), strained community ties, and heightened social license risks for the firms. Collectively, these outcomes impact the profitability, reputation, and enduring viability of listed financial and non-financial firms in Nigeria, affecting both their financial standing and their societal authorization or legitimacy to operate.

There have been a vast amount of literature examining the effect of social sustainability disclosure on firm profit, some of which include: Iliemena, Amedu, and Uagbale-Ekatah (2023); Odum and Obiano (2023); Amahalu and Okudo (2023); Feng, Akram, Hieu and Hoang Tien (2022); Oladutire and Aiyesan (2022); Umar, Mustapha and Yahaya (2021); Okafor, Adeleye and Adusei (2021); Gaio and Henriques (2020); Krisztina, Yahya, and Lentner (2020); Muraleetharan, Velnamby, and Nimalathasan (2020); et cetera. However, to the best of the researcher's knowledge, none of the existing studies have undertaken a

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comparative analysis to determine whether the effect of social sustainability disclosure on firm profit differs between financial and non-financial sectors within the Nigerian Exchange Group. It is in recognition of this gap that the current study is being conducted.

Objectives

The objective of the study is to carry out a comparative analysis of the effects of community development disclosure on the return on invested capital in financial and non-financial firms in Nigeria.

Research Questions

What is the difference between the effects of community development disclosure on the return on invested capital in financial and non-financial firms in Nigeria?

Hypothesis

H_{01} There is no significant difference between the effects of community development disclosure on the return on invested capital in financial and non-financial firms in Nigeria.

LITERATURE LITERATURE

Social Sustainability Disclosure

Bikon, Abdul, and Zubair (2017) defined social sustainability disclosure as a voluntary commitment by companies to engage in socially responsible activities that extend beyond meeting legal and financial obligations, aiming to foster growth and development within their local communities. Madugba and Okafor (2016) perceive it as a practice that pursues commercial success while upholding ethical values and demonstrating respect for individuals and communities. This concept stems from an ethical framework that underscores a company's duty to conduct its operations in a manner that benefits society. Maintaining a balance between economic progress and societal well-being is crucial, with social sustainability reporting serving as a vital tool in preserving this equilibrium (Ahmad, Wong, & Butt, 2023). Social sustainability disclosure serves as a platform for firms to effectively communicate their endeavors, initiatives, and advancements in promoting social well-being and environmental stewardship (Iliemena, Amedu, & Uagbale-Ekatah, 2023). This type of disclosure signifies a company's continual dedication to acting ethically and enhancing the welfare of its employees, their families, as well as the broader community and society.

Ogunjimi (2020) characterizes social sustainability disclosure as a comprehensive framework of mandatory programs, practices, and policies woven into a company's supply chains, operations, and decision-making processes to support and positively impact their local communities. Essentially, social sustainability disclosure pertains to a company's adeptness in conducting its operations in a manner that generates positive societal impacts. This entails a voluntary commitment by companies to contribute to societal betterment and environmental health by embedding social concerns into their business frameworks and operations, while also prioritizing stakeholder interests (Ajayi & Ovwarhe, 2016). Akubo, Ekpah, Ochepa, Ochidi, and Elaigwu (2017) propose that social sustainability disclosure entails the incorporation of social considerations into a company's ethos, values, decision-making processes, and operations in a transparent and accountable manner. It surpasses mere profit maximization by advocating for firms to adopt socially responsible programs aimed at safeguarding the environment and addressing societal issues. Despite potential additional expenses, involvement in social sustainability disclosure can yield long-term benefits such as enhanced corporate reputation, increased customer loyalty, competitive advantages, strengthened relationships, and expanded market share.

Community Development Disclosure

Community development disclosure encompasses reporting both the monetary and non-monetary contributions that a company undertakes to enhance the welfare of the community (Yekini & Jallow, 2012). It extends beyond mere financial donations to encompass various forms of assistance, such as volunteerism, skill-building programs, infrastructure enhancements, and community involvement initiatives (Mamun, Shaikh & Easmin, 2017). The aim is to generate a positive societal impact in the vicinity where the company operates. This type of disclosure involves a thorough assessment and reporting of business activities that have social implications for the community (Wirth, Kulczycka, Hausner & Koński, 2016).

Companies must evaluate and disclose the effects of their operations on the local community, encompassing environmental impacts, labor practices, and engagement with community members. By transparently communicating these aspects, companies can underscore their dedication to social responsibility and community welfare. Community development disclosure also entails focusing on the firm's engagement with its stakeholders, including customers and the local community (Sobhani, Amran & Zainuddin, 2012). It necessitates actively involving these stakeholders and taking their needs and concerns into account during business decision-making processes. This may involve conducting regular surveys, hosting town hall meetings, or seeking consultations to gather feedback from the community.

According to Ehioghiren and Eneh (2019), the responsibility for community development includes communicating a company's adherence to its social and ethical objectives through corporate social disclosures. These disclosures serve as a platform to highlight the company's endeavors in supporting the community and contributing positively to its advancement (Bhatia & Chander, 2014). When companies actively engage in community development efforts and transparently disclose their initiatives, it fosters trust and goodwill among stakeholders, thereby enhancing the company's reputation. However, in Nigeria, the documentation of community development services remains predominantly voluntary and lacks strict regulation (Odum & Obiano, 2023). Unlike financial reporting, which is legally mandated, community development disclosure lacks a standardized framework, leaving it to the discretion of companies to divulge relevant information.

Nevertheless, evidence indicates that engaging in community development responsibilities can significantly enhance a company's image, reputation, accountability, and legitimacy in the eyes of stakeholders (Nworie & Aniefuna, 2024). Furthermore, integrating community development objectives into a company's overarching business strategy and mission statement can signify a genuine dedication to societal well-being (Yekini & Jallow, 2012). This demonstrates that the company perceives community development as an integral component of its long-term success, rather than just a superficial public relations endeavor. Consequently, community development disclosure emerges as a potent tool for companies to exhibit their commitment to social responsibility and community welfare. By openly sharing their endeavors, companies can cultivate stronger relationships with stakeholders, bolster their reputation, and contribute positively to societal advancement. Although the reporting of community development initiatives may lack strict regulation in certain regions, companies that prioritize such disclosures showcase their willingness to transcend mere profit-making and actively contribute to the betterment of the communities they serve.

Firm Profitability

Firm profitability denotes the effectiveness with which a company leverages its assets to generate revenue through regular business operations (Moedu, Amahalu & Nworie, 2023). The primary objective of financial management is to optimize the economic well-being of investors, compelling firm managers to enhance shareholders' wealth by generating ample profits to sustain and expand the business in the future. Profitability encompasses various facets of a corporate entity, including its financial soundness and its ability and willingness to fulfill long-term financial obligations (Liu, Zhen, Changhui & Zhang, 2020). It serves as a gauge of both the effectiveness and efficiency of the firm (Krisztina, Yahya & Lentner, 2020).

According to Ibida and Emeka-Nwokeji (2019), evaluating corporate performance involves assessing multiple dimensions, such as profitability, firm growth, market value, social performance, customer satisfaction, employee satisfaction, and environmental performance. Profitability stands out as a pivotal dimension of corporate performance, reflecting the adeptness with which a firm employs its assets in its primary business to generate revenue and add value. It signifies the overall financial well-being of the firm within a specific timeframe (Nyamiobo, Muturi, Okibo & Olweny, 2019). Assessing firm profitability is crucial for gauging how efficiently a company's assets have bolstered shareholder wealth within a defined period. It offers useful hints into the company's effectiveness in utilizing its resources to generate revenue.

Companies gauge their corporate performance by utilizing a range of financial and non-financial indicators to evaluate their financial health over specific periods of interest. Various accounting metrics, such as return on invested capital, return on assets, return on equity, and net profit margin, are commonly utilized to assess profitability. These metrics reveal the company's net profitability post-taxation and serve as crucial indicators of financial success.

Return on Invested Capital

Return on invested capital (ROIC) is the ratio of earnings before interest to the total capital employed by the firm (Ogbodo & Akabuogu, 2018). It is alternatively called return on capital employed (ROCE) since it is a financial ratio that measures the profitability of a company's investment in the fund borrowed from long-term lenders or from equity investors. Return on invested capital is calculated by dividing the company's earnings before interest and taxes (EBIT) by its total capital employed (TCE). The total capital employed includes all the long-term funding sources used by the company, including equity and noncurrent debt. This includes the company's shareholders' equity, long-term debt, and any other long-term liabilities. By including both equity and debt in the calculation, ROIC provides a more complete picture of the company's profitability and financial health.

ROIC is a key financial metric that investors and analysts use to evaluate the efficiency and effectiveness of a company's operations (Ogbodo & Akabuogu, 2018). A high ROIC indicates that the company is generating a significant return on its invested capital, while a low ROIC may indicate that the company is not using its assets efficiently (Nworie, Mmadubuobi & Muojekwu, 2023). ROIC is particularly useful for comparing the performance of companies in the same industry or sector, as it provides a standardized measure of profitability that takes into account the level of investment required to generate those profits. Thus, ROIC is an important metric for evaluating the financial health and performance of a company. By carefully managing its total capital employed and generating a high return on its investments, a company can maximize its profitability and create long-term value for its stakeholders.

Theoretical Framework

Stakeholder Theory

The term "stakeholder" was initially coined by the Stanford Research Institute in the 1960s. However, it wasn't until Richard Edward Freeman expanded upon the concept in 1984 that it gained broader recognition. Freeman's perspective on the stakeholder concept extended beyond the traditional shareholder-manager relationship, incorporating additional groups such as customers and suppliers. The core tenet of Stakeholder Theory emphasizes that companies should prioritize fulfilling the interests of all stakeholder categories, with particular emphasis on shareholders who contribute resources and expertise (Ibida & Emeka-Nwokeji, 2019). This theory advocates for companies to integrate practices that align with the interests of various stakeholders, including employees, suppliers, customers, host communities, financiers, trade unions, political groups, governmental bodies, and trade associations.

A fundamental principle of Stakeholder Theory is the acknowledgment that firms bear responsibilities beyond mere profit maximization (Odum & Obiano, 2023). Consequently, companies are encouraged to engage with both financial and non-financial stakeholders, actively participating in corporate sustainability endeavors that hold significance to these stakeholders. This approach suggests that a balanced consideration of both stakeholder groups is imperative for sustainable long-term performance, as well as for the survival and growth of the company. Before the emergence of stakeholder theory, Freeman and Reed (1983) divided stakeholders into two main groups: those who affect and are affected by the firm, and those who provide financial backing to the firm.

Stakeholder theory recognizes the enduring impact stakeholders can wield on firm performance, acknowledging that corporate success hinges not only on profits but also on adept management of relationships between the firm and its stakeholders (Odum & Obiano, 2023). The theory posits that companies embracing sustainability disclosure often attain superior corporate performance, as dedication to socially responsible initiatives can yield financial advantages such as heightened customer loyalty, patronage, and goodwill. Consequently, these companies gain a competitive edge over those perceived as socially irresponsible. Thus, the theory underpins the hypotheses in the present study, which investigates the correlation between sustainability disclosure and corporate financial success. Grounded in stakeholder theory, the study posits that engagement in social sustainability disclosure initiatives augments firms' profitability.

METHODOLOGY

The researcher opted for an ex-post facto research design to explore the impact of social sustainability disclosure on the profitability of listed financial and non-financial firms in Nigeria The population of the study comprised all the financial and non-financial firms in Nigeria, which according to Nigerian Exchange Group (2024) are 154. Among this 154 firms, financial firms are 47 while non-financial are 107. Appendix A of this research shows the study population. The study gathered data from annual reports spanning 2013 to 2022 from selected firms as secondary sources. The data included variables such as community development disclosure, education support, health support, and return on invested capital. Utilizing secondary data collection was chosen due to the external auditing of financial statements, ensuring their

For data analysis, a set of statistical techniques were employed, including the utilization of a central tendency measure (specifically, the mean) and a dispersion measure (specifically, the standard deviation). Moreover, the effect of social sustainability disclosure on firm profitability was estimated using the panel least square regression technique, facilitated by Eviews Version 12. The mean was adopted as a central tendency measure to ascertain the average value of the collected data, while the standard deviation served as a measure of dispersion, revealing the extent to which the data deviated from the mean. Additionally, the panel least square multiple regression technique, a well-established statistical approach, was employed to unveil the relationship between the variables. The use of panel least square enabled the researcher to estimate the effect of sustainability disclosure on both financial and non-financial firms. However, to compare the effects in both sectors, Paired Sample T-test was conducted, using Statistical Package for Social Sciences version 23.

P-values were employed to assess the statistical significance of the analysis at a 5 percent significance level (0.05 alpha level). If the p-value is lower than the 5% significance level, the null hypothesis is rejected in favor of the alternative hypothesis. Conversely, if the p-value is greater than or equal to the 5% significance level, the null hypothesis is accepted, and the alternative hypothesis is rejected.

RESULTS AND DISCUSSION

Two regression equations were estimated to establish the extent to which the indices of social sustainability disclosure influence firm profit among financial and non-financial firms in Nigeria. The outputs of the panel least square regression are shown in Tables 1 and 2 for both sectors.

Table 1 Regression Results for financial firms

Dependent Variable: ROIC for financial firms
Method: Panel Least Squares
Sample: 2013-2022
Periods included: 10
Cross-sections included: 20
Total panel (balanced) observations: 200

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CDD	-0.015506	0.013340	-1.162369	0.2465
HSD	0.019129	0.010423	1.835188	0.0680
ESD	0.008720	0.011557	0.754458	0.4515
C	0.030816	0.008225	3.746700	0.0002

R-squared	0.026079	Mean dependent var	0.035750
Adjusted R-squared	0.011172	S.D. dependent var	0.056875
S.E. of regression	0.056556	Akaike info criterion	-2.887366
Sum squared resid	0.626927	Schwarz criterion	-2.821399
Log likelihood	292.7366	Hannan-Quinn criter.	-2.860670
F-statistic	1.749468	Durbin-Watson stat	1.042841
Prob(F-statistic)	0.158231		

Source: Eviews 12 Output (2024)

In the regression estimation for financial firms as shown in Table 4.3, the coefficients indicate the extent of effect which social sustainability disclosure variables (CDD, HSD, ESD) have on return on invested capital (ROIC) in the financial sector. The coefficient for Community Development Disclosure (CDD) is -0.015506, suggesting a negative but statistically insignificant effect on ROIC, as indicated by the probability value of 0.2465, which is greater than the significance level of 0.05

Table 2 Regression Results for non-financial firms

Dependent Variable: ROIC for Non-financial Firms
Method: Panel Least Squares
Date: 03/27/24 Time: 00:13
Sample: 2013 2022
Periods included: 10
Cross-sections included: 20
Table 2. Total panel (balanced) observations: 200

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CDD	-0.183151	0.100361	-1.824927	0.0695
HSD	0.088800	0.129585	0.685261	0.4940
ESD	0.144922	0.141038	1.027539	0.3054
C	0.062854	0.052680	1.193119	0.2343
R-squared	0.032133	Mean dependent var		0.081853
Adjusted R-squared	0.017319	S.D. dependent var		0.355860
S.E. of regression	0.352765	Akaike info criterion		0.773765
Sum squared resid	24.39079	Schwarz criterion		0.839732
Log likelihood	-73.37655	Hannan-Quinn criter.		0.800461
F-statistic	2.169077	Durbin-Watson stat		1.192732
Prob(F-statistic)	0.092961			

Source: Eviews 12 Output (2024)

In the regression estimation for non-financial firms as shown in Table 4.4, the coefficients represent the degree of influence which social sustainability disclosure variables (CDD, HSD, ESD) have on return on invested capital (ROIC) in the non-financial sector. The coefficient for Community Development Disclosure (CDD) is -0.183151, indicating a negative effect on ROIC. However, this relationship is not significant with a probability value of 0.0695, which is just above the significance level of 0.05. Additionally, the probability associated with the F-statistic is 0.092961, suggesting that the overall model is not statistically significant at the significance level of 0.05, indicating that the combined effect of the independent variables on ROIC is not significant in non-financial firms.

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Test of Hypothesis

H_{01}: There is no significant difference between the effects of community development disclosure on the return on invested capital in financial and non-financial firms in Nigeria.

Table 3. Paired Samples Test for Hypothesis

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference: Lower	Upper			
Pair 1 CDDf - CDDnf	.0403120	.1800761	.1273330	-1.5776072	1.6582312	.317	1	.805

Source: SPSS 23 Output (2024)

For Test of Hypothesis I (H01), the null hypothesis states that there is no significant difference between the effects of community development disclosure (CDD) on the return on invested capital (ROIC) in financial and non-financial firms in Nigeria. The paired samples test results in Table 4.5 show that the mean paired difference (CDDf - CDDnf) is 0.0403120. The corresponding p-value is 0.805, which is greater than the significance level of 0.05. Therefore, we fail to reject the null hypothesis, indicating that there is no statistically significant difference in the effects of community development disclosure on ROIC between financial and non-financial firms in Nigeria. However, the regression analysis in Table 4.3 and 4.4 revealed that community development disclosure has a negative but non-significant effect on Return on invested capital between financial and non-financial firms in Nigeria. Although the negative effect is more for non-financial firms, this difference is not significant.

Discussion of Findings

The study found that community development disclosure has a negative effect on the profitability of both financial and non-financial firms in Nigeria. In both financial and non-financial sectors, community development initiatives often incur costs without immediate direct financial returns. Therefore, even though firms may disclose their community development efforts, the impact on financial performance might not be immediate or significant. Both firms, however, might engage in community development activities as part of their corporate social responsibility (CSR) initiatives, potentially explaining the negative effect observed, as these activities might divert resources away from profit-generating activities. The negative effect contradicted the findings by Amahalu and Okudo (2023);

Akhand, Hamid, Islam, and Akter (2024) but agreed with that of Bariweni (2024); Oladutire and Aiyesan (2022) and Odum and Obiano (2023).

CONCLUSION AND RECOMMENDATION

The findings from the tests of hypotheses regarding the effects of community development disclosure (CDD), health support disclosure (HSD), and education support disclosure (ESD) on return on invested capital (ROIC) between financial and non-financial firms in Nigeria shed light on the comparative impact of social sustainability practices in these sectors. While there was no statistically significant difference in the effects of community development disclosure on ROIC between financial and non-financial firms, the analysis showed a negative but non-significant effect for both sectors. This suggests that although community development disclosure might not significantly impact ROIC, it tends to have a slightly more negative effect on non-financial firms, albeit not significantly so.

The study therefore concludes that:

Financial and non-financial firms should evaluate the cost-benefit ratio of their community development initiatives to ensure alignment with their overall business objectives. Corporate Social Responsibility (CSR) activities should be strategically planned to maximize societal impact while minimizing negative effects on profitability.

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