Relationship Between Business Ethics and Corporate Social Responsibility of Listed Manufacturing Companies in Nigeria

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Abstract. This study examines the impact of business ethics on corporate social responsibility. We have employed surveys conducted on 50 manufacturing companies listed on the Nigerian Stock Exchange. 236 employees participated in the study. The regression results suggest that ethical code, corporate image, ethical leadership and brand equity influences corporate social responsibility of sample manufacturing firms. Our results lend support to the role business ethics play in fostering corporate social responsibility in the emerging country context. Drawing on the stakeholder perspective, the study addresses business ethics and corporate social responsibility, thus adding to strategic management literature, especially in Nigeria. This study informs managers and stakeholders in the manufacturing sector on the importance of creating an enabling environment that encourages corporate social responsibility.

Keywords: brand equity, corporate image, corporate social responsibility, ethical code, ethical leadership.

JEL: M0, M10, M14

1 Introduction

The efficient utilisation of resources, the creation of human capital, and the implementation of appropriate management strategies are all factors in modern businesses' development and growth. Economic advantage is achieved by aggressive behaviour and the effective use of financial tools available to businesses (Nwachukwu, Žufan&Chládková, 2020). As such, business ethics and corporate social responsibility can foster competitive edge and sustainability of the corporation and as well add value to society. Society has questioned the existence of corporations because of the negative corporate behaviours of some of them (Davis, 1999). Besides, the notion that corporate activity is all about profit-making has become a major concern to stakeholders (Friedman, 1970, Jensen 2001). In developing countries, corporations have paid less attention to the ethical and social expectation of society. Business ethics focus on ethical principles and the moral conduct of corporations. It is a code of values and principles that governs corporate actions towards what is regarded as right or wrong. Firms need guidelines, rules, and procedures to support their strategic initiatives.
(Wanner, 2014). Business ethics provide a guideline on how a business should act in the face of ethical dilemmas and controversial situations. Corporate social responsibility suggests balancing social, environmental, and economic practices by acting ethically to sustain stakeholder satisfaction (Agyemang & Ansong, 2017; Feng, Wang & Kreuze, 2017; Pinto & Allui, 2020). Firms can use CSR strategies to enhance their reputation, brand, customer loyalty, and improve business performance (Soewarno, Tjahjadi & Fitriyah, 2021; Zahari et al., 2020). The 2002 event on corporate scandals involving Enron, Tyco, Worldcom, and their accounting firm Arthur Andersen received global concern. Unethical practice, manipulations, and malpractices led to the death of these companies. These scandals propelled business and stakeholders to scrutinize company ethics and operations, making the ordinary investors understand the value of ethical behavior in organizational frameworks. Unethical business or a lack of corporate social responsibility will destroy a company's image and make it less attractive to relevant stakeholders (Daft, 2001). While recent research has focused on business ethics and corporate social responsibility (e.g., Falola et al., 2018; Feng, Wang & Kreuze, 2017; Hebe, 2018), a study of the business literature shows that there are very few studies in the field of business ethics and corporate social responsibility in terms of their importance to business operations and stakeholders. Prior studies examined ethical leadership and employees' creativity (Hebe, 2018), ethics in corporate social responsibility (Singh & Singh, 2013), corporate standard and corporation moral responsibility (Abun, 2015), corporate image and customers' behavioral outcome (Falola et al., 2018; Adda, Azigwe & Awuni, 2016; Milenkovska, Petrovska & Stoikovsk, 2019) and performance (Agyemang & Ansong, 2017; Lee, 2020; Porter & Kramer, 2007; Miller, Eden & Li, 2017). Most of these studies were not done in developing economies such as Nigeria. In Nigeria, very few indigenous companies have a life span of 50 years due to weak institutions which hardly carry out reforms. There is a gap in the literature in terms of understanding how ethical norms, values, code of conduct, and ethical practice influence corporate social responsibility. This study attempts to narrow this knowledge gap. The aim of this paper is to investigate the relationship between business ethics aspects (ethical code, corporate reputation, ethical leadership, and brand equity) and manufacturing firms' corporate social responsibility initiatives in Nigeria. We contribute to the theoretical understanding of ethical norms, values, code of conduct, and ethical practice in organizations, by examining the effect of major components of business ethics on corporate social responsibility of manufacturing firms. Since ethical norms, values practices of ethical principles in developing nations differ from the developed world, the present study is relevant.

2 Literature review

The stakeholder theory encompasses the study. Stakeholders continue with the presumption that principles are clearly a part of doing business, according to Freeman, Wicks, and Parmar (2004). Stakeholder theory suggests that companies are obligated to show concern for the environment and social problems of stakeholders (Famiyeh, 2017; Freeman & Reed, 1983; Mahrani & Soewarno, 2018). The stakeholder principle of corporate social responsibility is based on economic principles and asserts that, rather than its stockholders, a company is socially liable to look after the interests of a broader number of stakeholders, including owners, vendors' workers, and the environment (Rodin, 2005). We argue that the means of meeting the expectations and needs of stakeholders is by implementing ethical behavior. A
A socially responsible corporation must consider the impact of its decision on a wider range of stakeholders. Innovative strategies can enable organizations to meet and surpass the expectations of divergent stakeholder and enhance competitive advantages (Vu, 2020). A corporation business ethics goes beyond trust and complying with the laws but include several other important stakeholders whose lives can be affected by the corporation decisions. Ebitu and Beredugo (2015) study the role of codes of ethics in leading the service industry’s corporate success and enforcement in Calabar, Nigeria. The produced data revealed that successful organisational success was built on a code of ethics, and the degree of enforcement was strong, according to the Chi-square review. Ethical behaviour contributes to employees’ performance and improves social and corporate performance (Saeed, Shekeel & Lodhi, 2013) and Adda, Azigwe and Awuni (2016) observe that ethical code is important for customer and employee relations as well as business growth. Razaq et al. (2013) examine the effect of ethical principles and codes on corporate social responsibility in Pakistan’s public sector. The findings suggest that ethical principles and codes have a positive impact on corporate social responsibility. In other commercial affairs, good corporate ethics act on data ethically. In the minds of the public, a company's reputation is described as an overall appraisal of the company (Aydin & Ozer, 2005). Customers' thoughts, emotions, and perceptions shape a company's image. Al Mubarak, Ben Hamed, and Al Mubarak (2019) investigate the effect of corporate social responsibility on company profile. Customers saw corporate social responsibility as the most important factor when dealing with businesses, according to the findings. When businesses engage in those practices, their public profile improves. In the banking sector, Vazifehdust, Mojoudi, and Jalalian (2014) examine the impact of corporate social responsibility on business reputation, customer retention, and loyalty. They discovered that corporate social responsibility improves a company's reputation. Ethical leadership entails modelling normatively appropriate behaviour through personal decisions and interpersonal relationships, as well as promoting it through two-way contact, encouragement, and decision-making (Trevino, Brown & Hartman, 2003). Externalities synonymous with ethical leadership include trust and loyalty (Berrone, Sureroca & Tribo, 2007). In corporate social responsibility, ethical leadership refers to how ethical leaders, or workers, perceive their responsibility or obligation to make choices that protect and encourage the health and well-being of stakeholders and community. Financial crises, economic poverty, climatic change, societal insensitivity, workforce ethnic and sexual harassment, and periods of corporate financial irregularities all need ethically sensitive officials (Bello, 2012). Training on ethical leadership conduct, according to Walumbwa et al. (2011), encourages organizational business practices and relationships. Piccolo et al. (2010) examine the importance of mission autonomy and task relevance in the relationship between ethical leadership and organizational success. The findings show that ethical leadership increases mission significance, which improves organizational efficiency. Corporate social responsibility has a direct effect on a company's brand equity and profitability. (Lai, Chiu, Yang & Pai, 2015). Tuan (2014) observes that ethical leadership and brand equity are important predictors of legal, economic and moral responsibility in Vietnam. Based on the literature review the following research hypotheses are formulated.

$H_1$. There is significant relationship between the ethical code and corporate social responsibility.

$H_2$. There is significant relationship between corporate image and corporate social responsibility.

$H_3$. There is significant relationship between ethical leadership and corporate social responsibility.
H4. There is significant relationship between brand equity and corporate social responsibility.

3 Methodology

The study applied a cross-sectional research approach. Primary data has been obtained from fifty (50) listed manufacturing companies that have been in operation in Nigeria since 1980 in (5) subsectors. Food-beverage-tobacco, breweries, chemical and paint, consumer and domestic goods, conglomerates-building materials, and pharmaceuticals are among these subsectors. The facts that these are the most environmentally visible and responsive subsectors of the manufacturing industry influenced the selection of these subsectors. Moreover, the manufacturing industry was selected because they are known to engage in corporate social responsibility in their locality. We selected employees who had more work experience for at least 15yrs to ensure that participants had been exposed to a considerable period of corporate social responsibility and had observed the model of business operation of these companies to ascertain their compliance with ethical and best practices. The total population of the study is 576 comprising of top management employees who have spent 15yrs and above in these various manufacturing companies. The sample size of the study was determined by the use of the TARO Yamane formula.

\[ n = \frac{N}{1 + N(e)^2} \]

Where: \( n \) = sample size, \( N \) = population of study and \( e \) = error margin 5%. Thus, \( n = \frac{576}{1 + 576(0.05)^2} \) and the sample size of the study is 236.

236 questionnaires were sent to workers at different industrial firms who had worked for 15 years or more. The distribution of the copies of the questionnaires was done on equal representation of these manufacturing companies to be able to capture all the various dimension of business ethics and corporate social responsibility. Only 200 questionnaires were found suitable for our analysis. Questions were developed using the five-point Likert scale ranging from “strongly disagree” to “strongly agree”. The Ethics Position questionnaires (EPQ) was developed by Forsyth to measure ethical ideologies, codes and morals conduct held by employees. However, the ethics position Questionnaires was re-modified for appropriateness of the independent variable. It has a high degree of internal accuracy (Forsyth, 1980; Schlenker & Forsyth) and has been included in a number of trials, including Singhapakdi and Vitell (1994) and Rawwas, Patzer, and Klasseh (1994), (1995). The 5-item leadership at work (ELW) questionnaire created by Kalshoven, Den Hartog, and De Hough was used to test ethical leadership (2011). Fairness, honesty, legal advice, task clarity, and respect for sustainability are among the factors measured in the questionnaires. A five-item corporate social responsibility scale was used to test attitudes about stakeholders' support and beneficial management activities (Valentine & Fleischman, 2008; Valentine & Godkin, 2009). Data were analyzed using OLS regression, canonical correlation analysis techniques and descriptive statistic. To certify the regression analysis fit before generalisation, the Jacque Bera normality test, correlation, and OLS regression analysis, as well as the post regression diagnostic test (PRDT) were used. The VIF test, a test for heteroskedasticity, and the Ramsey regression specification-error test for omitted variables are among the tests (Ramsey Reset). The mathematical package for data processing in this thesis was STATA version 13.0.

Thus, the model Specification is established as follows:

\[ CSRA = \alpha_0 + \beta_1 ECOD + \beta_2 COP + \beta_3 ELSH + \beta_4 BREQ + Ui \]
Where:
ECOD = Ethical Code,
COPI = Corporate Image,
ELSH = Ethical Leadership
BREQ = Brand Equity
CSRA = corporate social responsibility, activities
α0 = Constant
β1 – βn = Regression coefficient.

4 Results

The Cronbach alpha statistic index test was used to determine reliability, and a pilot test was conducted with 20 copies of the questionnaires distributed at random to workers of the manufacturing firms. The pilot test reveals that the questionnaire is relevant and reliable because the Cronbach’s alpha for business ethics (0.78) and CSR (0.87) is higher than the minimum threshold of 0.70. Using STATA version 13.0 programme, data was obtained and the questionnaire’s reliability was calculated. Participants’ answers were handled with anonymity to avoid traditional process prejudice (Conway & Lance, 2010; Podsakoff et al., 2003), which minimized apprehension. Further respondents were informed that the independent variable (ethical codes, corporate image, ethical leadership and brand equity) is not linked to the dependent variable (corporate social responsibility). Since there is no heteroscedasticity problem, the heteroscedasticity test (table 3) assumes that the difference between the dependent and independent variables is homoscedastic. The model is free of unequal variance at 1.27(0.2631), implying that the regression findings are sufficient to evaluate the hypotheses. The mean VIF value in the variance inflation factor test is 2.67, which is smaller than the reference value of 5. (Ringle et al., 2015). This means that multicollinearity is not present. The probability value of 0.3479 derived from the Ramsey regression equation definition error test indicates that there are no omitted variables in the formula.

Table 1. Descriptive statistics

<table>
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<td>copI</td>
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<td>5</td>
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<tr>
<td>elsh</td>
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<tr>
<td>breq</td>
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<td>4</td>
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<td>200</td>
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<tr>
<td>csra</td>
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<td>4</td>
<td>5</td>
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The following hypotheses were tested using OLS Multiple Regression in Table 1 below.

Table 2. Correlation results

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The descriptive features of the data collection used in the study as seen in Table 1. The constructs have a higher value of 5, meaning that the respondents are strongly in agreement with all of the questions posed at some point, while the constructs have a lower limit of 2, indicating that the respondent disagrees with some query. The sample size is 200 respondents, according to the descriptive statistics. Based on the average findings, we can deduce that participants agree with the following statements: ethical code (4.21), corporate image (4.25), ethical leadership (4.33), and market equity (4.33). (4.26). Regression result in table 3 reveals that ethical code, corporate image, ethical leadership and brand equity $R^2 = (.733)$ jointly accounts for 73.3% variation in corporate social responsibility in manufacturing companies in south-south Nigeria. Other variables not included in the present study explain 26.7% variation in corporate social responsibility in manufacturing companies. The standard coefficients (beta) were used to evaluate the strength of ethical code corporate image, ethical leadership and brand equity. The regression results in table 3, $(t = 3.86, \beta=0.286, \ p < .05)$ supports $H1$ there is a significant relationship between ethical codes and corporate social responsibility. This result is consistent with other related studies (e.g., Ebitu & Beredugo, 2015;
Razaq et al., 2013; Obara&Paelttie, 2017; Preuss & Brown, 2012) that concluded ethical codes fosters positive behaviour, integrity, and resourcefulness. The mission statements communicate the strategic posture of firms to their stakeholders (Nimwegen, Bollen, Hassink&Thijssens, 2008). Strategically, a mission statement must communicate a firm’s ethical codes and values. The removal of ethical code and values can lead to failure and collapse of firms. We infer that organization that is committed to implementing ethical codes and values tends to engage more in corporate social responsibility. H2 (t = 1.98, β = 0.136, p < .05) there is a significant relationship between corporate image and corporate social responsibility is affirmed. This result provides support to the notion that corporate image influences corporate social responsibility (Al Mubarak, Ben Hamed&Al Mubarak, 2019; Vazifehdust, Mojoudi&Jalalian, 2014). H3 (t = 7.92, β = .481 p < .05) there is a significant relationship between ethical leadership and corporate social responsibility is supported. This result aligns with related studies that ethical leadership strengthen moral responsibility and corporate social responsibility (e.g. Tuan, 2014; Walumbwa et al., 2011, Piccolo et al., 2010). Strategic leaders need to conduct business ethically to ensure business sustainability (Nwachukwu & Vu, 2020). Arguably, ethical leaders that are committed to their job may experience a high quality of relationship with various stakeholders. Our result also supports H4 (t = 1.98, β = .109, p < .05) there is a significant relationship between brand equity and corporate social responsibility. This finding agrees with extant literature (e.g., Lai, Chiu, Yang &Pai, 2015; Saeednia&Sohani, 2013; Ebitu&Beredugo, 2015) that implementing brand equity helps to identify and deal with ethical misconduct, an initiative to support quality corporate social responsibility. All the predicted hypotheses are supported. Given the scarcity of study on management practises in Nigeria’s manufacturing industry, (Nwagu, 2019), particularly business ethics and corporate social responsibility, the present study contributes to strategic management and business policy literature. By recognizing the positive impact of ethical codes, corporate image, ethical leadership and brand equity, organizations can gain legitimacy. Developing and executing robust policies (e.g. human resources) can promote positive organisational outcome, strategic performance (Vu & Nwachukwu, 2020). In this context, strengthening, elaborating, and constantly improving policies framework in the sphere of ethical codes, leadership quality, brand equity and corporate image can foster corporate social responsibility.

Conclusion

Firms’ resources and managerial processes can foster an ethical business environment. This study enriches our understanding of ethical code, ethical leadership, corporate image, brand equity and corporate social responsibility of manufacturing companies, in south-south Nigeria. Our result suggests that corporate social responsibility is influenced by ethical codes, corporate image, ethical leadership and brand equity. We observed that ethical leadership has the greatest effect on CSR compare to ethical codes, brand equity and company image. It becomes imperative for companies to set their priorities rights and give attention to host community stakeholders in terms of their corporate social responsibility activities. These findings are highly critical for the competitiveness and efficiency of Nigerian manufacturing companies. Improving and engaging in corporate social responsibility will lead to positive organizational outcomes. This study informs managers and stakeholders in the manufacturing sector on the importance of creating an enabling environment that encourages corporate social
responsibility. Doing this would promote a harmonious relationship between the companies and their stakeholders. Given the stated discussion, finding and conclusion, the author proposes the following suggestions that could assist managers to implement business ethics and enhance corporate social responsibilities activities of organizations.

- Ethical code should be used to foster positive behaviour, attitude and preservation of corporate culture. This could help to prevent failures and collapse of intended or established social responsibility activities.
- Manufacturing companies should give attention to their corporate image it helps to speak on their behalf.
- Manufacturing companies must ensure that managers in the helm of affairs possess ethical leadership skills this would help in strengthening moral responsibility, commitment and loyalty of managers in executing corporate social responsibility activities.
- Manufacturing companies should pay attention to their brand equity since they serve as a non-paid form of advertisement.

The current thesis has some flaws that should be addressed in future research. Our research centred on Nigeria's manufacturing industry. Then, to some extent, restrict the study's generalizability outside this sense. Patel, Kohtamäki, Parida, &Wincent, 2015; Parida&Ortquist, 2015) found that a single market analysis decreases the difficulty of multiple business surveys. More studies can be conducted in various sectors, with a large sample size, and across countries to get a better understanding of the phenomena.

References


