IMPACT OF COMMUNITY DEVELOPMENT ON FINANCIAL PERFORMANCE OF SOME LISTED CONSUMER GOODS FIRMS IN NIGERIA

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ABSTRACT

There has been diverse view regarding the nature of relationship between community development and financial performance of companies worldwide. This is due to different need of stakeholders and lack of clarity if company's corporate social responsibility will affect their financial performance. This study investigates the effect of community development on financial performance of listed consumer goods firms in Nigeria over the period 2013 – 2023.The study adopts longitudinal panel research design and secondary data were collected from the company's annual reports. The population of this study consists of 21 listed consumer goods firms with a sample size of seventeen (17) listed companies. The selection was made using purposive sampling technique. The independent variables are community development expenditure while dependent variable is financial performance proxied by Net Profit Margin. Firm Size used as a control variable. Also, descriptive statistics, correlation and regression analyses were conducted with the aid of E-views 12. The result reveals that community development expenditure has significant and insignificant effect on net profit margin of listed consumer goods firms in Nigeria respectively. The study concludes that both community development expenditure have a positive impact on net profit margin of listed consumer goods firms in Nigeria. The study recommends that companies should improve on Corporate Social Responsibility activities and pay more attention to their environmental cost for sustenance of environment, thereby increasing their financial performance.

Keywords: *Community Development Expenditure, Net Profit Margin, Stakeholders Theory*

INTRODUCTION

In the current business landscape, financial performance (FP) has become increasingly vital as companies tackle complex and diverse challenges in their daily operations (Danson & Monica, 2017). For most organizations, the main goal is to improve financial performance and maximize shareholder wealth. However, achieving this goal depends on the overall effectiveness of the organization. A company's financial performance reflects its level of efficiency or inefficiency. As companies become more aware of the negative impacts their activities have on people, communities, the economy and the environment, they are taking steps to reduce these effects and boost their efficiency (Olowolaju & Adelola, 2020).

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How well a company utilizes its resources to achieve its goals is a key measure of its performance (Mulika, 2015) including how effectively it meets targets such as market share, revenue, productivity, profitability, and customer satisfaction.

Corporate social responsibility (CSR) has gained increasing recognition as an important supplement to financial statements in assessing a company's financial performance. Recently, many scholars and stakeholders have criticized the sole reliance on financial metrics to measure a company's performance (Danson & Monica, 2017). The role of corporate responsibility in business operations is crucial. As businesses function within a broader environment, they must contribute positively to society and support its development (Olowolaju & Adelola, 2020). CSR as defined by Ogunode (2022) involves integrating the social, environmental, and economic interests of all stakeholders into corporate decision-making. In essence, CSR is about considering the needs of all stakeholders social, environmental and financial when making business decisions. CSR includes voluntary actions, ethical duties, legal responsibilities, and societal expectations placed on organizations (Sameer, 2021). The importance of ethical conduct and CSR has been highlighted by factors like globalization, technological advancements and increased access to information. CSR has become a strategic tool for businesses to enhance their public image, improve customer satisfaction and gain greater stakeholder acceptance (Aziz &Haron, 2021), thereby contributing to long-term performance improvements.

The increasing concern over environmental degradation has prompted governments, NGOs, and various sectors to adopt sustainability strategies, shifting the traditional view that separated environmental concerns from economic systems (Olowolaju & Adelola, 2020). Historically, businesses overlooked the environmental and social impacts of their operations unless these directly affected profits, leading to growing shareholder criticism. In response, companies, especially in consumer goods, are now incorporating environmental, social, and governance (ESG) factors into their strategies amid rising attention to CSR (Ogunode, 2022). However, the impact of these efforts on financial performance remains uncertain. Methodologically, past studies often relied on time-series data and OLS methods, which may not capture company-specific nuances. This study improves upon that by using panel data and adopts net profit margin as a more direct and relevant measure of financial performance compared to broader profitability proxies used in earlier research.

The differences in outcomes across existing studies can be attributed to variations in research methodologies, time frames, variables examined, data availability, study jurisdiction and sector, sample composition, and the measures of environmental accounting disclosures used. Therefore, this study aims to assess the effect of community development on the financial performance of listed consumer goods companies in Nigeria. This is the knowledge gap that drives this study. The study outlines its specific hypotheses as follow:

Ho_1: Community development expenditure has no significant effect on the net profit margin of listed consumer goods firms in Nigeria.

This study is divided into five main sections: Introduction, Literature Review, Methodology, Results and Discussion, and Conclusion. The Introduction provides the background, identifies the research problem, and states the hypothesis. The Literature Review critically analyzes previous studies related to the topic, offering a foundation for the current research. The Methodology section outlines the research design, data collection processes, and methods of analysis. The Results and Discussion section presents the study's findings and interprets them in light of existing literature. Finally, the Conclusion summarizes the key outcomes, draws relevant conclusions, and proposes directions for future research.

2.0 CONCEPTUAL FRAMEWORK

2.1.1 Community Development Expenditure

Community Development Expenditure refers to a comprehensive approach based on the principles of empowerment, human rights, inclusion, social justice, self-determination, and collective action. This expenditure encompasses costs related to health institutions, schools, and community services, which can be measured by the total spending on these areas. According to Ogunode (2022), and Olowolaju and Adelola (2020), the goal of community development is to empower individuals and groups with the skills necessary to bring about change in their communities. These skills are often developed through the establishment of social groups working towards shared objectives. Community developers must understand how to collaborate with individuals and influence the positions of communities within the context of larger societal structures (Olowolaju & Adelola, 2020).

2.1.2 Financial performance

In a broader sense, financial performance refers to the degree to which financial objectives are being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, return on equity, net profit margin and so on (Okudo et al, 2022). This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Lawrence & Bernard, 2023). According to Nwaiwu and Oluka (2018), performance measures are the life blood of economic units, since without them no decisions can be made. Financial performance measure is one of the important performance measures for economic units which financial performance measures are used as the indicators to evaluate the success of economic units in achieving stated strategies, objectives and critical success factors (Oladele & Mokuolu, 2020).

There are various stakeholders who are interested in a company's performance due to leverage. These include the equity holders, who are owners of the firm, and they carry the highest risk in the business since they are the last to be paid upon winding up of the firm after all the debt holders' claims are settled. They gain through the value of their shares appreciating and through pay out of dividends. The debt holders are also interested since they gain through repayment of their principal amount with some interest. Their debt is secured by the company's assets and are first to be paid if the company winds up or is unable to pay its debtors (Amahalu & Ezechukwu, 2017). There are various reports used to rely financial performance across the board which include income statement, statement of financial performance, statement of cash flow and notes to the account. From these statements, concise financial ratios can be computed to examine corporate performance. Most entities use combination of measures in order to succinctly get to understand the financial health of entities (Christopher & Joseph, 2024). This study used net profit margin (NPM) to measure financial performance.

2.1.3 Net Profit Margin

Net Profit Margin (NPM) is a financial metric used to assess the percentage of profit a company generates in relation to its total sales (Nnamani, et al., 2017). A higher net profit margin indicates that the company is more efficient in generating substantial profits, improving the ratio of net profit to net sales. A significant NPM shows that the company has the capacity to grow its operations by consistently generating operational profits. If a company achieves a high NPM, investors are likely to view it favorably and expect significant returns on their investments, potentially leading to increased earnings (Ejeje, et al., 2021). An established firm should aim for a steady increase in its net profit margin. The net profit margin is the ratio of a company's net earnings to its total sales, and it represents the portion of sales that results in net income. Net income is calculated by subtracting all the company's expenses, including operating costs, product purchases (such as raw materials), and taxes, from total income. **Formula:** NPM = Net income / Total sales × 100%

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2.1.4 Firm Size

Firm size is defined as a company's capacity to make investments and accelerate growth in order to achieve its organizational goals (Akinleye & Olaoye, 2021). Widiastari and Yasa (2018) argued that firm size can be measured using metrics such as total assets, total sales, and share value. Ponziani and Azizah (2017) explain that a firm's size is often reflected by its total assets. Companies with smaller assets are more likely to face financial distress, as larger assets typically signal that a company has reached maturity, enjoys positive cash flow, and has favorable long-term prospects. Larger firms are generally considered more stable because they attract more investors and have better access to capital. Their size enables them to diversify revenue streams, invest in innovation, and better withstand economic downturns (Akinleye & Olaoye, 2021). Furthermore, larger firms might be more sensitive to market changes and may experience larger wealth transfers than smaller firms (Mohammad, et al., 2023).

2.2 Empirical Review

Oladele and Tedekon (2024) examined the relationship between Corporate Social Responsibility (CSR) activities and the financial performance of commercial banks in Nigeria, with a focus on Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). The study adopts ex-post facto research design and secondary data from published annual reports of ten selected prominent banks in Nigeria was used from 2014 to 2023. panel data analysis techniques, the research uncovers significant variability in financial outcomes and CSR efforts among the banks. The Pearson correlation matrix reveals strong positive relationships between financial metrics and CSR activities, suggesting that investments in Community Development (CD), Corporate Donations and Charity (CDC), and Stakeholder Engagement (SE) positively impact financial performance. Furthermore, the Hausman test results consistently favor the fixed effects model, emphasizing the substantial influence of individual bank attributes on observed relationships. The panel regression analysis focusing on EPS demonstrates that increased investments in community development positively impact EPS, while higher corporate donations and charity expenditures are associated with a decrease in EPS. The results underscore the importance of strategic CSR initiatives in enhancing both financial performance and social impact within the Nigerian banking sector, providing valuable insights for policymakers, regulators, and banking institutions aiming to foster sustainable development. The focus of the study is specifically on commercial banks. While this study focusses on consumer goods firms in Nigeria.

Abdullahi, et al., (2023) investigated the impact of environmental cost on the financial performance of listed industrial goods firms in Nigeria. The study employed explanatory research design to collect panel data. The source of data was extracted from the annual reports and accounts of the 11 sampled listed firms, for a period of ten (10) years (2012 -2021). The sample firms were drawn from a total population of the thirteen (13) listed firms on the floor of Nigeria exchange group. Environmental cost is independent variables proxied by firm administrative cost (AC) and community development costs (CDC), while financial performance is a dependent variable proxied by Returns on Asset (ROA) and Tobin's Q. The regression results obtained from the study's models indicates that the firms' environmental cost (Community Development cost and administrative cost) affects their accounting-based financial performance (ROA) significantly and positively. Also environmental cost affects the market-based financial performance indices (Tobin's Q) insignificantly and negatively. The study recommends that the management of the firms should employ effective and right balance investment on environmental cost components that will cater for all the stakeholders' interest.

Lawrence and Bernard (2023) carried out research on the moderated regression analysis approach to environmental costs and financial performance of Nigerian industrial goods firms for the period of eleven (11) years from 2010 to 2020. Environmental costs are independent variables proxied by waste management costs (WMC) and community development costs (CDC) with the moderated variable of firm size (FS), while financial performance is the dependent variable proxied by net profit margin (NPM). The ex-post facto research design and panel data were used for the data collection. The panel estimates of generalized least square and unit root tests were analyzed using e-views statistical software. The regression result indicates that waste management costs (WMC) and community development costs (CDC) have a significant positive effect on net profit margin (NPM), while the moderated variable of firm size on both waste management costs (WMC) and community development costs (CDC) has a significant negative effect on the net profit margin (NPM) of the selected industrial goods firms in Nigeria. The study focused on listed industrial goods firms in Nigeria from 2011 to 2020, but its findings may not be generalizable to more recent periods, such as 2013-2023, which could be affected by changesin economic conditions, or industry-specific factors, potentially limiting the study's relevance and applicability to current market conditions.

Ayon (2022) examined the effect of community involvement activities on the financial performance of food and beverage companies in Nigeria. The specific objectives are to determine the relationship between corporate social responsibility and return on capital employed, and to determine the relationship between corporate social responsibility and earnings per share. The study made use of the quantitative research method. The population of this study is the seventeen (17) food and beverage firms listed on the Nigerian Exchange Group. The study adopted secondary data compiled from the audited financial statements of the seventeen (17) food and beverage companies listed on the Nigerian Exchange Group covering the period of five (10) years from 2011 to the year 2020. The sample of the study comprises seventeen (17) food and beverage companies listed on the Nigerian Exchange Group. Quantitative Data analysis was analyzed using the Stata. The findings of the study revealed community involvement has a positive but insignificant relationship with return on capital employed and also has a positive insignificant relationship with earnings per share in food and beverage companies in Nigeria. Consequent to this study, it was recommended among others that food and beverage companies should endeavor to improve on their corporate social responsibility disclosures especially the ones with relatively low levels of disclosures.

Akinleye and Olaoye (2021) examined the effect of community development cost on return on asset of selected oil and gas firms. Six (6) oil and gas firms were randomly sampled for the study and data were collated from published annual reports of these firms over the period of 10 years, spanning between 2010 and 2019. Data were analyzed using panel-based estimation techniques. Community Development Costs (CDC) is the independent variables while financial performance is a dependent variable proxied by return on assets (ROA). The firm size and leverage ratio as control variable. Result showed that a unit increase in community development cost by 1 billion naira led to insignificant increase in return on asset by 0.7%. By implication this result showed that increase in the level of community development cost of oil and gas firms in Nigeria significantly influenced the performance of oil and gas firms as measured in terms of return on asset. This study concluded first that engagement in community development in Nigeria by oil and gas firms has the potential to culminate into improved corporate performance; however, such potential is yet to be fully harnessed by most of the oil and gas firms in Nigeria. Hence oil and gas firms in the country, should be more objective in their engagement in community development in the country, so as to further boost their performance potential.

Ejeje, et al., (2021) examined the impact of disclosure on community development cost on turnover of listed manufacturing firms in Nigeria. To produce valid empirical results, preliminary tests such as normality, serial correlation, heteroscedasticity, multicollinearity were conducted on research data. The OLS and GLS regression analysis was conducted to show the effects of the predictor on financial performance as represented by sales revenue. The results strongly showed that environmental accounting information disclosure has a significant impact on the financial performance of quoted manufacturing firms as represented by sales revenue. In view of the findings, the researcher concludes that effective disclosure and reporting of environmental information in the annual report positively influences financial performance. The researcher recommends that, firms should continue to disclose more information on environmental related issues due to the inherent advantage derivable there from, while firms that are not disclosing their environmental activities should be encouraged to do so because they may be losing the patronage of ethical stakeholders who may be tempted to regard them as not environmentally friendly firms.

Bani-Khaled, et al., (2021) examined the relationship between corporate social responsibility (CSR) expenditures and both financial and non-financial performance of Jordanian commercial banks during the period 2008-2018. To measure the variables of interest, secondary data published on Amman Stock Exchange (ASE) website were processed to become preliminary data suitable for the nature of the study. The study sample amounted to 13 commercial banks, which represent all Jordanian commercial banks listed on ASE. The study found that there is a positive and significant relationship between CSR expenditures and financial performance, as the study showed that the return on equity (ROE) has a positive and significant relationship with CSR expenditure, while the return on assets (ROA) and Tobin's Q model have a statistically significant negative relationship with CSR expenditure, while the market stock price (MSP) had a positive, but not statistically significant. The study also found that there is a positive, statistically significant relationship between CSR expenditures and non-financial performance, which was represented by total deposits and total training expenditures in Jordanian commercial banks. Accordingly, the study recommends encouraging banks to prepare sustainability reports and CSR reports, which are considered comprehensive, and not only with disclosures within the annual reports.

Mia and Fiola (2020) examined the effect of environmental performance and environmental costs on financial performance in Indonesia. The study's time frame spanned from 2014 to 2018. The research uses a quantitative method. Purposive sampling method is used in sample selection in which the companies studied are mining and manufacturing companies in Indonesia which are listed on the Stock Exchange. The research uses ratio analysis to measure financial performance and measure environmental performance sorted by Proper rating, to measure environmental cost used data obtained by looking for a percentage of the environmental cost and then statistical methods to test the hypothesis. The results of this research indicate that only the environmental costs have an effect on the financial performance of mining and manufacturing companies with a significant level 0.047. It means that the disclosure of environmental costs carried out by mining and manufacturing companies in Indonesia has an impact on financial performance, and the company's concern, both in terms of costs for environmental prevention, costs for environmental detection, costs for internal failure and costs for external environmental failure can minimize the risk of environmental pollution.

Nwaiwu and Oluka (2018) examine the effect of environmental cost and financial performance measures of quoted oil and gas companies in Nigeria. Time series data were collected from annual financial reporting and economic review of Central Bank of Nigeria. A Pearson product moment correlation and multiple linear regression analysis were used. The result revealed that adequate disclosure of environmental cost and compliance to corporate environmental regulations has positive and significant effect on financial performance. Thus, it was emphasized that regulatory enforcement for adequate environmental cost accounting and proper reporting by the management of oil and gas companies in Nigeria would guarantee a conflict free corporate atmosphere that would lead to improve corporate performance. Due to differences in operational activities, the conclusions and recommendations of this study may not be applicable to all types of companies. The focus of the study is specifically on oil and gas companies.

2.3 Theoretical Framework

2.3.1 Stakeholder Theory

Stakeholder theory, introduced by Edward Freeman in 1984 in his book Strategic Management: A Stakeholder Approach, centers on organizational management and business ethics, focusing on the morals and values involved in running an organization. The core principle of this theory is identifying the various groups that are stakeholders in an organization and advocating for ways in which management can consider and address their interests (Ibida & Emeka-Nwokeji, 2019). It is considered a foundational concept for research on corporate social responsibility (CSR) and is frequently cited in studies on management science and political analysis, especially when discussing the actions and behaviors of agents within organizations. Over time, stakeholder theory has increasingly influenced environmental disclosures and CSR initiatives, becoming a dominant framework in these fields. According to proponents of the theory, while profitability remains a central goal, the interests of other stakeholders are equally important (Strand & Freeman, 2015). This suggests that a company's focus is not only on maximizing shareholder profit but also on engaging with other key groups such as customers, employees, suppliers, and potential investors that are integral to its business ecosystem. Companies should consider their broader impact on the community and the environment. For example, customers contribute to a company's revenue, while employees, suppliers, and investors all have a vested interest in the firm's sustainability and social responsibility. When it comes to environmental and community development expenditure disclosures, stakeholders need to be informed about the organization's commitment to these causes.

This study is grounded in stakeholder theory because it emphasizes that companies should prioritize not only maximizing profits for shareholders but also aligning their operations with societal norms and expectations. In line with stakeholder theory, businesses can improve and sustain their public image by contributing to environmental and community initiatives.

3.0 METHODOLOGY

This study employed a longitudinal panel research design, collecting data on community development expenditure, environmental expenditure, and financial performance from the audited annual reports of listed consumer goods firms on the Nigeria Exchange Group for the period 2013-2023. The study's population consists of 21 listed consumer goods firms on the Nigeria Exchange Group as of December 31, 2023, with a sample of 17 firms selected through purposive sampling. Data analysis was conducted using E-Views software. Descriptive statistics, including means, standard deviations, and percentages, were used to measure central tendencies. In addition, correlation and regression analyses were performed to explore the relationship between community development expenditure, environmental expenditure, and financial performance.

Table 1: Study Population

S/no.	**Company**	**Acronym**	**Year of Incorporation**
1.	Cadbury Nigeria Plc	CADBURY	1965
2.	Champion Breweries Plc	CHAMPION	1974
3.	Dangote Flour Mills Plc	DANGFLOUR	2006
4.	Dangote Sugar Refinery Plc	DANGSUGAR	2020
5.	Flour Mills Of Nigeria Plc	FLOURMILL	1960
6.	Golden Guinea Breweries Plc	GOLDBREW	1962
7.	Guinness Nigeria Plc	GUINNESS	1950

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8. Honeywell Flour Mill Plc	HONYFLOUR	1985
9. McNichols Plc	MCNICHOLS	2004
10. Multi-Trex Integrated Foods Plc	MULTITREX	1999
11. Nascon Allied Industries Plc	NASCON	1973
12. Nestle Nigeria Plc	NESTLE	1969
13. Nigerian Breweries Plc	NB	1946
14. Nigerian Enamelware Plc	ENAMELWA	1960
15. PZ Cussons Nigeria Plc	PZ	1948
16. Unilever Nigeria Plc	UNILEVER	1923
17. Vitafoam Nigeria Plc	VITAFOAM	1962

Source: Nigerian Exchange Group (2023)

3.1 Model Specification

The research adopted the model proposed by Lawrence and Bernard (2023).

$$NPM_{it} = \beta_0 + \beta_1 CDE_{it} + \beta_2 FS_{it} + e_{it} \qquad (1)$$

Where;

NPM = Net Profit Margin,

CDE = Community Development Expenditure,

FS = Firm Size

β_0 = Constant time

i= Number of firms (1, 2, 3….17)

t= time (2013……2023)

eit = error terms.

Table 2: Measurement of Variables

Variable	Type	Measurement	Source
Net Profit Margin (NPM)	Dependent	Net Profit divide by Total Revenue. (NPM=NP/TR)	Nnamani *et al.* (2017)
Community Development Expenditure (CDE)	Independent	Total expenditure on donation.	Oluyinka (2021)
Firm Size (FS)	Control variable	Natural logarithm of total assets	Ifuruezee*t al.* (2017)

Source: *Researcher Compilation, (2024)*

Decision Criteria

The null hypothesis (Ho) will not be rejected if the computed value falls within the critical positive value of the distribution table for whichever degree of freedom will be computed with a 5% (0.05) level of significance. Otherwise reject the null hypothesis.

4.0 RESULTS AND DISCUSSION

The main objective of this study is to investigate the effect of community development expenditure and environmental expenditure on financial performance. To enhance the validity of the results and the presentation and understanding of the panel multiple regression results, the result of the descriptive and diagnostic tests is included in the result and analysis presented here.

4.1 Descriptive Statistics

The mean, maximum and lowest values of the applicable variables are shown together with the corresponding standard deviations. The descriptive statistics for the variables used in the study are displayed in Table 3. Using E views which analysis of variables for the period under consideration was obtained.

Table 3: Descriptive Statistics Results

	NPM	CDE	FS
	₦	₦	₦
Mean	0.308210	325713	6.13667
Median	0.012385	29514.2	14.7692
Minimum	-19.04768	62.0100	1.63932
Maximum	23.53281	48058.7	21.4371
Std. Dev.	0.31862	0.56832	0.37905
Kurtosis	0.41783	-0.16842	0.52744
Skewness	-0.32656	0.01252	1.58013
Jarque-Bera	1.42108	0.03624	21.18776
Probability	0.49138	0.98204	0.00003
Sum	45.73333	3.2387	359.00000
Observation	187	187	187

Source: E-views 12 Output (2024)

The descriptive statistics for both the dependent and independent variables are presented in Table 3 above. The table shows the mean, minimum, maximum, and standard deviation values for financial reporting quality (NPM), which are 0.308210, -19.04768, 23.53281, and 0.31862, respectively. These figures indicate a small dispersion of the standard deviation from the mean value. From the table, it is observed that NPM has a negatively skewed distribution, while all the independent variables exhibit positively skewed distributions.

For community development expenditure (CDE), the mean, minimum, maximum, and standard deviation are 325713, 62.0100, 48058.7, and 0.56832, respectively. The range between the maximum and minimum values suggests a slight increase in community development expenditure over the study period, indicated by the modest deviation of the standard deviation from the mean. Specifically, CDE shows a negative skew, while FS display positive skew, suggesting that the distribution of FS is more likely to have values above the sample average. Skewness indicates the degree of asymmetry in the distribution. Kurtosis was used to assess the "peakness" of the distribution, with values greater than 3 indicating a leptokurtic distribution and values below 3 indicating a platykurtic distribution.

Firm size (FS) has a mean value of 6.13667, a standard deviation of 0.37905, and minimum and maximum values of 1.63932 and 21.4371, respectively. The standard deviation values reflect the degree of dispersion in the data: the greater the dispersion, the more the data deviates from the mean.

Further analysis of the table reveals that FS is statistically significant, with P-values below 5%, based on their individual behaviors, while NPM and CDE have higher P-values above the 5% significance level.

4.2 Correlation Analysis

Table 4 presents the correlation matrix showing the Pearson correlation coefficient between the dependent and independent variables as well as among the studies of the independent variables.

Decision rule

The acceptable threshold for the correlation between the dependent and independent variable is ≤ 0.8 all things been equal.

Table 4: Correlation Matrix

	NPM	CDE	FS
NPM	1		
CDE	0.20112	1	
EE	0.04195	0.2852	
FS	0.08154	-0.198	1

Source: E-views 12 Output (2024)

The table above indicates that none of the correlation coefficients between the explanatory variables exceed 0.7, which suggests there is no significant risk of serial correlations among the data. According to the rule, a correlation coefficient above 0.8 between two independent variables would signal potential multicollinearity. The results show that community development expenditure (CDE) and net profit margin (NPM) have a positive correlation coefficient of 0.20112. The results also showed that net profit margin (NPM) have a positive correlation coefficient of 0.04195. Additionally, firm size (FS) exhibits a negative relationship with both community development expenditure and environmental expenditure, but a positive 0.08154 relationship with net profit margin.

4.3 Multicollinearity Test

The multicollinearity test was carried out in order to assess the robustness of the estimate, utilizing the Variance Inflation Factor (VIF). Multicollinearity is a breach of the assumptions for linear regression modeling and occurs when one or more independent variables have a strong influence on the others than they do on each other. This can affect the validity of the findings from any research.

Decision rule:

If the value of VIF is 1< VIF < 5, it specifies that the variables are moderately correlated to each other.If VIF ≥ 5 to 10, there willbe multicollinearity among the predictors in the regressionmodel and VIF > 10 indicate the regression coefficients are feebly estimated with the presence of multicollinearity.

Table 5: Multicollinearity Test (VIF)

Multicollinearity

	Coefficient Variance	VIF	1/VIF
C	347.8372	4.86734	NA
CDE	54.4273	7.02136	1.83174
FS	81.21065	8.10034	1.88014

Source: E-views 12 Output (2024)

Table 5 presented the results of the multicollinearity test conducted which revealed that from the distribution of the values in the table, the correlation coefficient of the independent variables is indeed in line with the variance inflation factors (VIF). The VIF ranges from 1.82279 to 1.88014, which is below a threshold of 10 and shows that the study variables are not multicollinear.

4.4 Heteroskedasticity Test

In order to validate the robustness of the estimates, the Heteroskedasticity test was conducted as a diagnostic check.

Decision Rule:

At 5% level of Significance if the residuals are homoskedastic reject alternative hypothesis and null is not rejected

H0: No conditional Heteroskedasticity (Residuals are homoskedastic)

H1: There is conditional Heteroskedasticity

Table 6: Heteroskedasticity Test

	Value	df	Probability
Likelihood ratio	96.1708	11	0.07160

LR test summary:

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	Value	df
Restricted LogL	304.1738	105
Unrestricted LogL	258.5784	105

Source: E-View 12 Output (2024)

From the result in table above with a ratio value of 96.1708 and a corresponding probability value of 0.07160 which is greater than 5%, the study therefore posits that, there is every reason to not reject the null hypothesis, that states there is no heteroskedasticity problem. Consequently, based on the diagnostic probability 0.07160the alternative hypothesis is rejected, thus there is homoskedasticity, indicating that residuals are homoskedastic and as such the samples give a true reflection of the population.

4.5 Hausman Test

This test is carried out to choose between the fixed effect model and random effect model, in order to interpret the objective of the study and the research hypotheses. The decision rule of Hausman test is at 5% level of significance.

Decision rule:

Reject H_0if the prob>F is less than 0.05. Otherwise, do not reject.

Hypothesis

H_0: Random effect is the most appropriate for the panel regression analysis.

$H_{1:}$ Fixed effect is the most appropriate for the panel regression analysis.

Table 7: Hausman test

Test summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
Cross-section random	6.08750	3	0.0463

Source: E-views 12 Output (2024)

The table 7 above shows that the test is statistically significant at 0.0463 as the probability statistics lies below 5% level of significance. Therefore, this study rejects the null hypothesis that the random effect is the appropriate model.

4.6 Fixed Effect Likelihood Ratio Test

In order to distinguish between the fixed effects regression model and the pooled effect regression model, the fixed likelihood ratio test is carried out. Due to the panel format of the data set, pooled and fixed-effect regressions were conducted.

Decision rule:

If p-value is less than 0.05, reject the null hypothesis. Otherwise, do not reject.

Hypothesis

H_0: Pooled effect is the most appropriate for the panel regression analysis.

$H_{1:}$ Fixed effect is the most appropriate for the panel regression analysis.

Table 8: Fixed Effect Likelihood Ratio (Test between Pooled and Fixed)

Effect Test	Statistic	d.f	Prob
Cross-section F	19.07865	85291	0.0000
Cross-section Chi square	115.67581	11	0.0000

Source: E-views 12 Output (2024)

According to the decision rule that led to the test, it reveals a chi-square statistics value of 115.67581 with a probability value of 0.0000, implying that the null hypothesis should be rejected, which indicates that fixed effect is the most suited for the panel regression analysis.

Table 9: Regression Analysis

Variables	Coefficients	Std. Error	t-Stat	Prob.
C	1.40921	0.64093	2.18903	0.02344
CDE	0.76024	0.16390	4.67102	0.00345
FS	-0.15904	0.03427	-2.32409	0.00120
Effects Specification				
Cross-section fixed (dummy variables)				
R Square	0.65776	Mean dependent var		0.30821
Adjusted R Square	0.62453	S.D dependent var		0.31862
S.E of regression	7.82012	Akaike info criterion		4.12043
Sum squared resid	29.43804	Schwarz criterion		4.63190
Log Likelihood	-178.56320	Hannan-Quinn criter.		4.50273
F-value	20.70954	Durbin-Watson stat		1.72901
Prob (F-statistic)	0.000000			

Source: E-views 12 Output (2024)

The table 9 above display and analyze the effect of regression result of the explained variables proxied by NPM as well as the explanatory variables CDE. It shows R2 of 0.65776 which means that about 65.77% of total variation in net profit margin of listed consumer goods firms in Nigeria is accounted for by community development expenditure and environmental expenditure with other factors not included in the model. Furthermore, the regression of result as presented above shows an intercept of 1.40921.

The result reveals that community development expenditure (CDE) has a positive significant impact on the net profit margin (NPM) of the listed consumer goods firms in Nigeria. CDE has a beta coefficient of 0.76024and a P-value of 0.00345 which is significant at the 5% level. This suggests that a shift of community development expenditure will result in a significant increase in the net profit margin of listed of consumer goods firms in Nigeria. This implies that community development expenditure of listed of consumer goods firms in Nigeria improves their net profit margin.

4.7 Discussion of findings

The findings of this study contribute to a better understanding on the mix of community development and environmental expenditure variable so as to improve the financial performance of listed consumer goods firms in Nigeria. Net profit Margin and two other independent variables with one control variables which include firm size. All these factors were put to test in order to identify the possible community development and environmental expenditure variable that can improve the financial performance of listed consumer goods firms in Nigeria. The result presented in the above table 8 revealed that the explanatory variables of the hypothesis one was found to be positive and significant. Thus, the null hypothesis one was rejected and the alternative hypothesis was accepted that is, total expenditure on community has significant effect on net profit margin.

5.0 CONCLUSION AND RECOMMENDATION

This paper examines the effect of community development on financial performance of listed consumer goods firms in Nigeria as a sample between 2013 and 2023. The study concluded that there is positive and significant relation between community development expenditure and net profit margin. Thus, it is important to note that donations by companies to the community makes them socially responsible and affect how various stakeholders invest in them thereby increasing their financial performance.

Based on the study's findings, the following recommendations are proposed to improve financial performance of listed consumer goods firms on the Nigeria Exchange Group;

i. The sampled companies should endeavor to improve in the corporate social responsibility activities and leverage on it to enhance the financial performance of their businesses in the country.

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