Nexus between Corporate Social Responsibility and Financial Performance of Non-Financial Firms in Nigeria: The Moderating Role of Corporate Governance

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Abstract

The study examines the moderating role of corporate governance in the relationship between corporate social responsibility (CSR) and financial performance among non-financial firms in Nigeria. Using panel data analysis, the study evaluates the impact of CSR expenditure, board characteristics, and governance interactions on financial performance measured by Return on Assets (ROA). Descriptive statistics and fixed-effect regression models were employed to analyse the dataset. The findings reveal that CSR expenditure has a negligible and statistically insignificant impact on financial performance. Corporate governance variables such as board size, independence, and gender diversity also show no significant direct impact on ROA. However, a marginally significant positive interaction between CSR and board gender diversity suggests that diverse boards may better leverage CSR for financial benefits. Sales growth positively impacts ROA, while cash flow from operations shows a negative and significant effect. The study provides insights into the dynamics of CSR and governance in Nigeria, emphasizing the need for strategic management of CSR and corporate governance mechanisms.

I. Introduction

Corporate Social Responsibility (CSR) has emerged as a strategic priority for firms globally, given the increasing awareness of stakeholders about ethical, environmental, and social issues. CSR encompasses the voluntary initiatives undertaken by companies to address social and environmental concerns in their operations and interactions with stakeholders (Yuan et al., 2020). In the Nigerian context, CSR has gained attention due to heightened environmental degradation, societal challenges, and the need for sustainable business practices (Osemene & Lawal, 2021). The country's non-financial sector, comprising industries such as manufacturing, oil and gas, telecommunications, and consumer goods, plays a pivotal role in the economy and significantly impacts environmental and social welfare.

Despite the growing emphasis on CSR, questions remain regarding its financial implications for firms. The relationship between CSR and financial performance (FP) has been a subject of extensive debate in academic and business circles. While some studies suggest that CSR investments enhance brand reputation, customer loyalty, and operational efficiency, thereby positively impacting financial outcomes (Akinyemi & Adedoyin, 2022), others argue that CSR imposes additional costs on firms without guaranteed financial returns (Eze & Chinedu, 2021).

Corporate governance has been identified as a critical factor that can influence the effectiveness of CSR initiatives and their impact on financial performance. Effective corporate governance ensures that firms adopt responsible business practices and align their CSR

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strategies with shareholder and stakeholder interests (Ibrahim et al., 2023). In Nigeria, the regulatory environment and corporate governance structures have undergone reforms aimed at promoting transparency, accountability, and ethical business conduct (Uwhejevwe-Togbolo et al., 2023). However, the extent to which corporate governance moderates the relationship between CSR and financial performance in the non-financial sector remains underexplored.

Despite the growing emphasis on CSR globally and in Nigeria, there is limited empirical evidence on how CSR initiatives impact the financial performance of non-financial firms in the country. Existing studies have predominantly focused on financial institutions, leaving a gap in understanding the dynamics within non-financial sectors such as manufacturing, telecommunications, and energy (Okoye & Ezejiofor, 2020). Moreover, the Nigerian business environment presents unique challenges, including weak regulatory frameworks, corruption, and infrastructural deficits, which may influence the effectiveness of CSR activities (Adebayo et al., 2021). One critical factor that may affect this relationship is corporate governance. Strong corporate governance mechanisms can enhance accountability, strategic decision-making, and the effective implementation of CSR initiatives (Ibrahim et al., 2023). Conversely, weak governance structures may lead to poorly managed CSR programs that fail to deliver financial benefits or even result in reputational damage.

In Nigeria, the regulatory landscape for corporate governance has evolved, with the introduction of guidelines such as the Nigerian Code of Corporate Governance (NCCG). However, compliance levels and the effectiveness of governance practices vary across firms (Uwhejevwe-Togbolo et al., 2023). The extent to which these governance mechanisms influence the financial outcomes of CSR investments remains unclear. Furthermore, previous studies on CSR and financial performance have predominantly focused on developed economies, with limited empirical evidence from emerging markets like Nigeria (Eze & Chinedu, 2021). This gap in the literature underscores the need for a comprehensive analysis that incorporates the moderating role of corporate governance. By providing empirical insights, the study seeks to contribute to the understanding of how Nigerian firms can leverage CSR and corporate governance to achieve sustainable financial performance.

This study seeks to fill this research gap by examining the moderating role of corporate governance in the relationship between CSR and financial performance among non-financial firms in Nigeria. Understanding this dynamic is essential for policymakers, investors, and corporate managers seeking to optimize the benefits of CSR while maintaining financial viability. The findings of this study will contribute to the ongoing discourse on CSR and provide actionable insights for firms and policymakers in Nigeria.

II.   Literature Review

The intersection of Corporate Social Responsibility (CSR), corporate governance, and financial performance has garnered significant attention in recent years, as businesses navigate the complexities of stakeholder expectations and competitive markets. CSR reflects a company's commitment to ethical practices, environmental stewardship, and social engagement beyond statutory obligations. These activities are increasingly viewed as strategic investments that enhance brand reputation, foster customer loyalty, and mitigate regulatory risks. On the other hand, corporate governance focuses on the structures, rules, and processes that ensure accountability, transparency, and ethical decision-making within a firm. Effective governance mechanisms, such as board diversity, independent directorships, and robust monitoring, are essential in aligning management goals with shareholder and stakeholder interests.

The synergy between CSR and corporate governance is pivotal in shaping a firm's financial outcomes. Companies that embed CSR practices within a strong governance framework tend to achieve superior financial performance due to enhanced operational efficiency, risk management, and stakeholder trust. Empirical evidence suggests that well-governed firms are more likely to engage in meaningful CSR activities, creating a virtuous cycle where social and

environmental initiatives reinforce long-term financial success. Furthermore, strategic CSR efforts can attract socially responsible investors, reduce capital costs, and strengthen a company's market position.

III.   Theoretical Perspectives

In examining the nexus between corporate social responsibility and financial performance of non-financial firms and the role of corporate governance in Nigeria, several economic theories provide a framework for understanding these complex interactions. The following are key theories relevant to this study:

Stakeholders Theory

According to Gray, et. al. (2001), the stakeholder theory asserts that the firm's success is dependent upon the successful management of all the relationships that a firm has with its stakeholders. The stakeholder theory explains that a corporation's continued existence requires the support of the stakeholders and their approval must be sought and the activities of the corporation adjusted to gain that approval. Stakeholder theory is concerned with how management addresses the various issues associated with relationships with stakeholders including investors, suppliers, employees and customers. In other words, it is how an organization manages its stakeholders. A commonly used definition of a stakeholder is any identifiable group or individual who can affect the achievement of an organization's objectives or is affected by the achievement of an organization's objectives (Freeman, & Reed, 1983). The major stakeholders of a company therefore include shareholders, employees, creditors, suppliers, customers, banks, government, community, public interest groups and the general public (Tilt, 2007).

A number of stakeholder theories have developed over time to explain, or to identify what the nature of the company's stakeholder interaction should be. Each offers insights into the motivations that potentially could influence management in their decision to interact with stakeholders in the decision to report information about the firm's activities.

In recent years there has been a growth in the number of companies taking a proactive approach to addressing stakeholder environmental information needs (Ullmann, 1985). Gray, (2002) and Adams and Frost (2007) all agree on the importance of developing the theoretical pillars of environmental and social accounting. Among other cases, this might refer to the importance of understanding, explaining and predicting the process of environmental information disclosure by companies applying well-known and proven conceptual pillars for that purpose.

The analysis of social information disclosures by organizations through the relations that they maintain with their stakeholders has brought important questions to light, such as the limited usefulness to stakeholders of environmental information voluntarily revealed by large firms in their annual accounts (Campbell, 2006), and it has also contributed to clarifying many other issues. Stakeholder theory contends that firm behaviour is conditioned by the pressures exercised on organisations by different stakeholders.

Agency Theory

The theory that gives a better explanation of the relationship between the business owners and the managers of the company in accounting is known as the agency theory. According to Jensen and Meckling (1976) is a contract between the principals that is the shareholders with the agents who are the managers appointed to represent the principals in decision making. The agency theory is based on the contract between the principal and agent. According to agency theory, the nature of the relationship between the principal and the agent is difficult to create because of the interest of each conflicting party. The company shareholders expect an increase in return through dividends as a result of their investment in the company. The results of the investment can be demonstrated by the performance of the company as reflected in the company's profitability. Whereas, the agents – managers seeks to proper

themselves through payments of more bonuses or other compensations notwithstanding the interest the interest of the shareholders (Samsi et al., 2014).The difference between interests of the shareholders and the managers can cause problems in the delivery of information known as information asymmetry. Information asymmetry can occur where the managers do not provide transparent information to the shareholders about the company's condition. Transparency is achieved through the implementation of good corporate governance (GCG), where GCG becomes a guide for managers to manage the companies with the best practices in decision making that benefits all parties (Nuswandari, 2009).

The issue of agency cost and conflicts of interest can be avoided through the offer of share or ownership of shares by the managers or managerial ownership. Increased managerial ownership is expected to spread the risk and reduce conflict of interest (Wardani and Hermuningsih, 2011).

Legitimacy Theory

At its simplest, within the organisational view legitimacy is an operational resource that organizations extract - often competitively - from their cultural environments and that they employ in pursuit of their goals (Suchman, 1995). Legitimacy, just like money, is a resource a business requires in order to operate. Legitimacy theory has become one of the most cited theories within the social and environmental accounting area. Yet there remains deep scepticism amongst many researchers that it offers any real insight into the voluntary disclosures of corporations. Certain actions and events increase that legitimacy, and others decrease it. Low legitimacy will have particularly dire consequences for an organisation, which could ultimately lead to the forfeiture of their right to operate.

Legitimacy often has been conceptualized as simply one of many resources that organizations must obtain from their environments. But rather than viewing legitimacy as something that is exchanged among institutions, legitimacy is better conceived as both part of the context for exchange and a by-product of exchange. Legitimacy itself has no material form. It exists only as a symbolic representation of the collective evaluation of an institution, as evidenced to both observers and participants perhaps most convincingly by the flow of resources; resources must have symbolic import to function as value in social exchange. But legitimacy is a higher-order representation of that symbolism a representation of representations.

Institutional Theory

Institutional theory refers to the role institutions play in the individual member's decision-making process. Unlike efficiency-based theories that focus on profit maximization and the interactions between markets and governments, institutional theory considers a wider network of variables that influence the decision-making process. The relatively new economic applications of this theory in the past thirty years were developed by the research of DiMaggio and Powell (1983) and Scott (1992). The theory has also been used to explain how a firm responds to the institutional environment in which it operates. Pressures from governments, supra-national organizations, non-government organizations (NGOs), and organizations along the supply chain can be influential. As the applications of institutional theory have expanded, more research is now being conducted on its impact on CSR related issues. Although institutional theory is not specifically applied here, it is included in the literature review to demonstrate the inherent relationships between these institutions and the dynamic role they have individually and collectively in evolution of CSR reporting. While governments have been the primary force in the promotion of financial reporting standards through security exchange commissions; a variety of institutions have played key roles in the growth and diffusion of CSR reporting. There remain existing needs that traditional governments are unable or unwilling to address.   Most

governments do not mandate extensive social and environmental disclosures, thus external stakeholders created and encouraged CSR reporting mechanisms to meet their needs.

Resource-Based View (RBV)

Resource-Based View posits that a firm's internal resources and capabilities are the primary determinants of its competitive advantage and financial performance. The Theory is a strategic management framework that emphasizes the importance of a firm's internal resources and capabilities as the key determinants of its competitive advantage and financial performance. Developed by scholars like Jay Barney in the early 1990s, RBV asserts that firms can achieve sustained competitive advantages if they possess valuable, rare, inimitable, and non-substitutable (VRIN) resources. These resources can be tangible or intangible assets, knowledge, skills, or capabilities that allow a firm to outperform its competitors. The RBV shifts focus from external market conditions to a firm's internal resources as the foundation for long-term success. According to this view, it is not just the industry or market in which a firm operates that determines success, but how the firm uses and leverages its unique resources.

CSR activities can be viewed as valuable resources that enhance a firm's reputation and brand value. Effective corporate governance ensures that these resources are managed strategically to yield better financial outcomes. In the context of listed non-financial services companies in Nigeria, the RBV theory can explain how these firms leverage CSR activities to gain competitive advantages in a rapidly evolving business environment. For example, firms that engage in community development or address local environmental concerns may develop rare and valuable resources in the form of strong relationships with the government and local communities. These resources can translate into enhanced legitimacy and trust, providing financial benefits in the long term.

Additionally, corporate governance structures in Nigeria can enhance the ability of firms to strategically manage their CSR activities, ensuring that they contribute positively to financial performance. This might include ensuring that CSR initiatives comply with national policies, such as Nigeria's Corporate Governance Code, while simultaneously addressing the unique challenges and opportunities within the country's socio-economic context. The Resource-Based View (RBV) theory emphasizes that firms gain competitive advantages and improve financial performance by leveraging their internal resources, including CSR activities. When CSR initiatives are valuable, rare, inimitable, and non-substitutable, they can contribute to a firm's sustained competitive advantage. Corporate governance plays a critical role in moderating the use and management of these resources, ensuring that CSR is strategically integrated into the firm's operations and contributes to long-term financial success.

Signalling Theory

Signalling Theory is a concept in economics and management that focuses on how one party (the "sender") conveys meaningful information to another party (the "receiver") in situations where there is information asymmetry. Information asymmetry occurs when one party has more or better information than the other, and signalling is a way to bridge this gap. The theory was originally developed by Michael Spence in the context of job markets, for which he was awarded the Nobel Prize in Economics in 2001.

Engaging in CSR activities sends a positive signal to investors, consumers, and other stakeholders about the firm's commitment to ethical practices. Corporate governance moderates the signal by ensuring that these CSR initiatives are genuine and contribute to long-term financial performance rather than being mere window dressing. Signalling Theory provides a valuable framework for understanding how companies communicate their quality, intentions, and commitment to stakeholders in situations where information asymmetry exists. By sending credible signals through activities such as CSR, corporate governance, and transparent financial reporting, firms can reduce uncertainty, build trust, and enhance their financial performance. In

environments like Nigeria, where perceptions of trust and legitimacy are key; signalling plays a critical role in shaping investor and stakeholder.

Corporate Governance Theory

The theory emphasizes the mechanisms, processes, and systems through which organizations are directed and controlled to ensure accountability, transparency, and alignment with stakeholder interests. The theory seeks to address how corporate boards, management, and stakeholders interact to achieve organizational goals while safeguarding shareholder rights and considering broader societal responsibilities. Corporate Governance as a structured theory did not originate from a single person. However, the concept gained prominence through the work of Sir Adrian Cadbury and the Cadbury Report published in 1992 in the United Kingdom. This report provided foundational guidelines on corporate governance, particularly emphasizing board responsibilities, auditing, and accountability. Before Cadbury, elements of corporate governance had been addressed in the works of other scholars, such as Berle and Means (1932) in their book The Modern Corporation and Private Property, which highlighted the separation of ownership and control in corporations, laying the groundwork for future corporate governance discussions.

IV. Empirical Review

Pagkalou, et al. (2024) investigates the impact of corporate governance on firm financial performance in Greece from 2010 to 2020. The study adopted quantitative analysis using panel data regression. The study found that corporate governance significantly enhances financial performance, with board diversity as a key factor. The study therefore recommends the promotion of diversity and regular evaluation of board effectiveness for sustained growth. Previtali & Cerchiello (2023) assess the role of ESG practices in governance and risk mitigation in Italy. Data were sourced from 2015 to 2022. The study used mixed methods of both qualitative case studies and quantitative surveys and found that strong ESG practices correlate with better risk management. It, therefore, recommends that companies should integrate ESG strategies into their governance frameworks.

Wu and Shanyue (2022) studied the effects of corporate governance reforms on firm value in China from 2008 to 2019. It adopted empirical analysis using event study methodology. The results show that governance reforms led to significant short-term increases in firm value. The study recommended continued reforms focusing on shareholder rights and transparency. Ben-Fatma and Chouaibi (2021) investigated governance practices and corporate sustainability in 12 European countries. It adopted a meta-analysis of governance and sustainability metrics across countries. The result shows a strong governance practice aligning with enhanced sustainability performance. It then recommended cross-country collaborations to standardize governance and sustainability practices. Amalia and Syamsul (2024) investigate corporate governance and financial inclusion in Indonesia from 2011 to 2021. Quantitative analysis using structural equation modelling was used as the data analytic method. The study finds that improved governance correlates with better financial inclusion outcomes. It therefore recommends the promotion of governance reforms to support marginalized populations. Wahyuningrum et al. (2023) examine the impact of board composition on ESG disclosure in Asian firms. The data spanned 2010 to 2020 and was analysed with panel data regression. The findings show that board diversity significantly enhances the quality of ESG disclosures.

Oshatimi and Tuoyo (2020) examined the influence of corporate social responsibility (CSR) on the performance of manufacturing firms in Nigeria. The study specifically explored the impact of CSR on operational efficiency within the sector. Utilizing a combination of descriptive research and correlation methods, the researchers gathered data from the annual financial reports of manufacturing firms. The relationship between the variables was analyzed using the Vector Error Correction Model (VECM) over the period from 1994 to 2020. The findings revealed a

positive and significant relationship between CSR and key performance indicators such as the price-earnings ratio, dividend yield, and return on investment. However, CSR exhibited a negative and insignificant impact on earnings per share. Based on these findings, the study recommended that management foster a supportive work environment that upholds societal and cultural values, promotes gender equality, ensures fair treatment of customers and employees, and adopts transparent practices for public dealings and contract awards.

Okolie, and Igbin (2020) investigated the effect of corporate governance practices on the financial performance of publicly listed companies in Nigeria. The researchers adopted a quantitative approach, using secondary data from the financial statements of sampled companies. Regression analysis was employed to examine the relationship between corporate governance variables (board size, board independence, and audit committee composition) and firm performance indicators such as return on assets (ROA) and return on equity (ROE). The study revealed that corporate governance practices had a significant impact on financial performance. Specifically, board independence and audit committee composition positively influenced firm performance, while an excessively large board size had a negative effect. The authors recommended that Nigerian companies maintain an optimal board size to enhance decision-making efficiency. They also emphasized the importance of strengthening the independence of board members and ensuring the competence of audit committees to promote transparency and improve financial performance.

V.   Methodology

The study adopted Panel Data Analysis through the use multiple regression (pooled least square), fixed effect model and random effect mode with E-view as the statistical package. The return of assets (ROA), is adopted as the financial performance metric, while the corporate social responsibility is the independent variable. The logarithm of total amount spent by the companies on CSR will be used (Jubril et al., 2016; Osisioma et al., 2015; Ilaboya & Omoye, 2013). Corporate governance is the mediating variable and will be measured by board size, board independence and board experience. The control variables for the study include size of the company, leverage level, growth in sales and cashflow from operations. Firm size is considered as control variable because larger firms may have a stronger motive to engage in CSR activities. They can also be better able to handle complicated, fast CSR engagement strategies because they are more familiar with diversified operations (Kabir & Thai, 2017). Firm size is measured by the log of total assets (Krishan, 2012). Debt levels affect the behavior of managers by imposing discipline and motivating them to make decisions that can serve the interest of the firm (Kabir & Thai, 2017). Leverage (LEV) is measured by dividing total debt by total assets (Seo, Kim & Park, 2015; Zhou, Pan & Wang, 2015). Sales growth is about management commitment to investment strategies in intangibles (Clarkson, Li, Richardson & Vasvari, 2011) is measured as change in sales divided by opening period sales (Aydina & Tuncay, 2015; Erdur & Kara, 2014; Choi et al., 2010; Ribera, 2010). Cash Flow from operations provides a firm's liquidity and is an important control variable because CSR activity involves cash outflows for innovative equipment (Clarkson et al., 2011). Cash Flow from Operations (CFO) is measured as the net cash flow from operating activities divided by total assets (Lu, 2013).

Model specification

$$ROA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 BS_{it} + \beta_3 BI_{it} + \beta_4 BGD_{it} + \beta_5 CSR*BS_{it} + \beta_6 CSR*BI_{it} + \beta_7 CSR*BGD_{it} + \beta_8 SIZE_{it} + 89 LEV_{it} + \beta_{10} SG + \beta_{11} CFO_{it} + \varepsilon_{it}$$

Where:

ROA = Return on assets

CSR = Corporate social responsibility expenditure

BS = Board size

BI = Board independence

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BE = Board Experience
FZ = Size of the company (control variable)
LEV = Leverage of the company (control variable)
SG = Sales growth
CFO = Cash flow from operations
CRS*BS = The interaction effect of corporate social responsibility expenditure and board size
CSR*BI = The interaction effect of corporate social responsibility expenditure and board independence
CRS*BE = The interaction effect of corporate social responsibility expenditure and board gender diversity
β_0= Parameters to be estimated (is the average amount the dependent variable 0 increases when the independent increases by one-unit, other independents variables held constant).
e = Error term assumed to satisfy the standard OLS assumption.

Descriptive Statistics

As part of the preliminary analyses, this study explores descriptive statistics to reveal the fundamental and distinctive features of the data distribution of the variables to guide the choice of estimator. Table 1 shows the statistics. BGD (Board Gender Diversity) mean value of (0.183) indicates low gender diversity on average. The Median value (0.145) is slightly below the mean, showing a positive skew. Std. Dev. of (0.132) suggests moderate variability. The skewness value of (0.670) & Kurtosis value of (3.585) indicates that the variable is positively skewed with a peaked distribution, indicating a concentration around lower values but with outliers. The Jarque-Bera (19.604, p = 0.000) confirms a non-normal distribution. BI (Board Independence) mean value of (0.749) reflects relatively high board independence. Its median (0.760) is close to the mean, suggesting symmetry. The range from 0.500 to 0.930, shows limited variability, while the standard deviation of (0.105 indicates low dispersion. The skewness value of (-0.542) & Kurtosis of (2.868) reveals mild negative skew with near-normal kurtosis. Its Jarque-Bera of (10.927, p = 0.004) suggests a slight deviation from normality. BS (Board Size) Mean (9.145): Reflects an average board size of approximately 9 members. Its median (9.000) is very close to the mean, indicating symmetry. The range value from 3.000 to 15.000, indicates diversity in board sizes. The standard deviation value of (2.553) moderate variability in board sizes. The Skewness (0.275) and Kurtosis (2.948) show a slight positive skew with a near-normal peak. Its Jarque-Bera (2.791, p = 0.248) supports normal distribution. CFO (Cash Flow Operations) mean value of (0.115) indicates a low average cash flow from operations relative to other variables. The Median value of (0.091) is below the mean, showing positive skewness, while the range values from 0.610 to 2.992, reflect extreme variability. A standard deviation of (0.253) suggests high variability, while its Skewness (6.910) & Kurtosis (78.183) show an extremely positive skew and heavy-tailed distribution, indicating outliers. The Jarque-Bera of (53565.910, p = 0.000), confirms extreme non-normality. CSR (Corporate Social Responsibility Expenses) mean of (6.51E+07) indicates high average CSR expenses, while the median of (7.25E+06) is much lower than the mean, highlighting a strong positive skew. The range value from 0.00 to 3.47E+09, indicates wide variability. The standard deviation of (2.63E+08) indicates very high dispersion. The skewness value of (10.44) & Kurtosis (129.94) reveals extreme skewness and kurtosis indicates heavy-tailed distribution with extreme outliers. The Jarque-Bera of (151700.40, p = 0.000) confirms extreme non-normality. BGDCSREX (Interaction of BGD and CSREX) mean of (8879876) reflects the average interaction effect of gender diversity and CSR expenses. Its Median value of (415240) is much lower than the mean, showing positive skewness. Its range values are from 0.0000 to 2.43E+08, reflecting extreme variation. The standard deviation value of (26215709) shows high variability. Its Skewness (5.684) and Kurtosis (42.412) is highly skewed and peaked, indicating outliers. The Jarque-Bera value of (15423.49, p = 0.000) confirms non-normality. CSR*BI (Interaction of BI and CSR) mean of (7.48E+08) shows a higher interaction effect than CSR*BE. The median of

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(55655028) is far lower than the mean, indicating a significant positive skew. The range values from 0.0000 to 4.85E+10 show extreme variability. Its standard deviation of (3.55E+09) reflects very high dispersion. Skewness of (11.614) & Kurtosis (152.241) highlights extreme skewness and heavy-tailed distribution, while the. Jarque-Bera of (209114.2, p = 0.000) confirms extreme non-normality. FZ (Firm Size) mean of (8.64E+10) indicates large average firm sizes. The median (3.03E+10) is substantially lower than the mean, suggesting a positive skew. The range values from 5.84E+07 to 7.97E+11, show vast differences among firms. Its standard deviation (1.32E+11) reflects very high dispersion. The Skewness of (2.585) and Kurtosis value (10.647) indicate a heavy-tailed distribution with significant outliers., while the Jarque-Bera of (781.1675, p = 0.000) confirms non-normality. LEV (Leverage) has a mean (72.012) which suggests high average leverage ratios. The median (62.416) is lower than the mean, showing a positive skew. Its range is from 19.364 to 614.715, reflecting substantial variability. The standard deviation of (58.672) indicates high dispersion. Skewness (6.530) and Kurtosis (56.389) show extreme skewness and kurtosis suggesting heavy-tailed distribution. The Jarque-Bera of (27691.750, p = 0.000) confirms non-normality. ROA (Return on Assets) mean of (2.532) indicates low average profitability. The median (3.771) is higher than the mean, showing a negative skew. The range, from -114.651 to 29.251, suggests extreme variability. The standard deviation of (13.727) shows a high dispersion. Skewness (-3.853) and Kurtosis (31.420) reveal a strong negative skew with a heavy-tailed distribution. The Jarque-Bera value of (7948.200, p = 0.000) confirms non-normality. SG (Sales Growth) mean (16.742) indicates moderately high sales growth on average while the median (8.822) is much lower than the mean, suggesting a positive skew. The range is from -90.434 to 635.855, reflecting extreme variability. The standard deviation of (60.071) indicates substantial dispersion, while Skewness (6.835) and Kurtosis (65.114) show extreme skewness and heavy-tailed distribution. The Jarque-Bera of (37079.120, p = 0.000) confirms non-normality.

Table 1: Descriptive Statistics of the Variables

	ROA	CSR	BS	BI	BGD	CSR*BS	CSR*BI	CSR*BGD	FZ	LEV	SG	CFO
Mean	2.578	5.451	9.145	0.749	0.181	54.260	4.063	0.933	10.361	75.562	16.675	0.115
Median	3.985	6.860	9.000	0.760	0.140	57.335	4.800	0.800	10.480	60.895	8.750	0.090
Maximum	29.250	9.540	15.000	0.930	0.700	133.560	8.900	5.710	11.900	990.190	635.860	2.990
Minimum	-114.650	0.000	3.000	0.500	0.000	0.000	0.000	0.000	7.770	0.270	-90.430	-0.610
Std. Dev.	13.794	3.116	2.553	0.105	0.133	35.702	2.421	0.893	0.882	85.575	60.229	0.253
Skewness	-3.814	1.030	0.275	0.542	0.696	-0.230	0.754	-0.999	-0.644	7.629	6.816	6.920
Kurtosis	30.872	2.376	2.948	2.868	3.590	2.150	2.271	5.280	2.826	71.975	64.764	78.339
Jarque-Bera	7654.759	42.482	2.791	10.927	20.967	8.575	25.718	84.228	15.506	45744.940	36505.720	53785.970

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Probability	0.000	0.000	0.248	0.0004	0.0000	0.014	0.000	0.000	0.000	0.000	0.000	0.000
Sum	567.150	1199.300	2012.000	164.780	39.750	11937.180	893.800	205.270	2279.490	16623.730	3651.740	25.400
Sum Sq. Dev.	41669.720	2126.541	1427.345	2.420	3.862	27914.200	1283.574	174.671	170.202	1603769.000	79079.600	14.025
Observations	220	220	220	220	220	220	220	220	220	220	220	220

Source: Author's Computation, 2024

Table 2: Correlation Matrix of the variables

	BGD	BI	BS	CFO	CSR	BGD*CSR	BI*CSR	BS*CSR	FZ	LEV	ROA	SG
BGD	1.000											
BI	0.006	1.000										
BS	0.087	0.179	1.000									
CFO	-0.062	0.069	0.041	1.000								
CSREX	0.151	0.165	0.217	0.112	1.000							
CSREX*BGD	0.089	0.161	0.178	0.027	-0.023	1.000						
CSREX*BI	0.173	0.024	0.315	0.053	0.304	-0.119	1.000					
CSREX*BS	0.140	0.187	-0.547	0.069	0.319	-0.110	0.897	1.000				
FZ	0.278	0.005	0.611	-0.079	0.108	0.128	0.556	0.618	1.000			
LEV	0.055	0.046	0.295	-0.364	0.135	-0.023	-0.383	-0.368	-0.469	1.000		
ROA	-0.091	-0.021	-0.276	-0.264	0.258	0.016	0.338	0.338	0.377	0.507	1.000	0.064
SG	-0.070	-0.027	-0.057	-0.061	-0.047	0.018	-0.083	-0.083	-0.008	-0.003	0.064	1.000

Source: Author's Computation, 2024

To avoid the evidence of multicollinearity among the variables, a correlation test on the variables must be conducted. Table 2 above shows the result of the test. According to Gujarati

(1980), the usual benchmark is 0.80 or 80%. Among the explanatory variables the highest, not considering the interaction of the institutional factors with the variables is 0.547 (54.7%) which is between the interaction of corporate social responsibility and board size (CSR*BS) and board size (BS). This test is necessary and important because high collinearity in the regression could inflate the coefficients of standard error and produce spurious estimates and invalid decisions on the statistical significance of the coefficients. This model is free from multicollinearity.

Table 3

Hausman Test

Correlated random effects-Hausman Test			
Test period random effects			
Test Summary	Chi-Square statistics	Chi-square D/F	Probability
Cross-section random	28.41163	11	0.0028

Table 5

Breusch-Pagan Lagrange Multiplier Test

Lagrange Multiplier Tests for Random Effects			
Test Summary	Chi-Square statistics	Time	Probability
Cross-section random	39.13148	1.131269	0.0000

Table 6

Fixed Effect result of the Nexus of Corporate Social responsibility and financial performance with Corporate Governance as mediating variables

Dependent Variable: Return on Assets (ROA)

Variables	Coefficient	Standard Error	T-statistics	P-Value
CSR	-0.0048	3.946676	-0.00122	0.9990
BS	-0.85671	1.437083	-0.59615	0.5518
BI	-18.2615	27.45362	-0.66518	0.5068
BGD	-15.4706	18.58787	-0.8323	0.4064
CSR*BS	0.122876	0.204543	0.600732	0.5488
CSR*BI	-3.43254	4.597168	-0.74667	0.4562
CSR*BGD	4.78111*	2.83895	1.684112	0.0939
FZ	0.972618	6.626238	0.146783	0.8835
LEV	-0.014	0.009921	-1.41128	0.1599
SG	0.027478**	0.011862	2.316543	0.0217
CFO	-20.812***	3.304839	-6.29742	0.0000
C	22.65655	70.60173	0.320906	0.7487

R-Squared	0.594439
Adjusted R-squared	0.503811
F-statistics	6.599094
F-statistics (Probability)	0.0000
Durbin-Watson	1.6714

Source: Authors' Computation (2025)

Note: ***, **, * level of significance at 1%, 5% and 10% respectively

Table 6 above show the result of the fixed effect regression analysis performed on the moderating effect of corporate governance on the relationship between corporate social responsibility and financial performance of non-financial firms in Nigeria. Corporate Social Responsibility (CSR) has a coefficient (-0.0048, p-value = 0.999) suggesting that CSR has a

negligible and statistically insignificant impact on ROA. Board Size (BS) coefficient is (-0.857, p-value = 0.552) which suggest that board size shows a negative but statistically insignificant impact on profitability. Board Independence (BI) has a coefficient of (-18.261, p-value = 0.507) which implies that board independence has an insignificant and negative effect on ROA. Board Gender Diversity (BGD) coefficient is (-15.471, p-value = 0.406). This suggests that Board gender diversity shows a negative but statistically insignificant impact on ROA. The interaction effect of corporate social responsibility and board size (CSR*BS) reflects a positive interaction effect (0.1228) but statistically insignificant (p-value = 0.5488). Corporate social responsibility and board independence interaction (CSR*BI) confirms a negative interaction (-3.432) and insignificant (p-value = 0.4562). corporate social responsibility and board gender diversity (CSR*BGD) reveals a positive interaction effect (4.7811) and marginally significant (p-value = 0.0939). This suggests that CSR activities may positively influence ROA when there is higher board gender diversity. Firm Size (FZ) coefficient of (0.973, p-value = 0.883): Insignificant effect on ROA. Leverage (LEV): Coefficient (-0.014, p-value = 0.159) shows a negative but insignificant effect on ROA. Sales Growth (SG) coefficient of (0.027, p-value = 0.021) shows a statistically significant positive effect at the 5% level which implies that Firms with higher sales growth have better ROA. Cash Flow from Operations (CFO) coefficient is (-20.812, p-value = 0.000) reveals a strong and statistically significant negative effect on ROA at the 1% level. This result suggests that higher CFO levels might be associated with other operating complexities negatively impacting profitability. The R-squared of (0.594) signifies that 59.44% of the variation in ROA is explained by the independent variables in the model. While the Adjusted R-squared (0.504) implies that after adjusting for the number of predictors, 50.38% of the variance is explained, which suggests moderate explanatory power? The F-statistic value of (6.559, p-value = 0.0000) confirms that the overall model is statistically significant at the 1% level, indicating that the model as a whole explains changes in ROA. Durbin-Watson value of (1.671) suggests some level of positive autocorrelation in the residuals.

VI.   Discussion of Results

The finding in the regression analysis above shows that CSR has an insignificant negative impact on return on assets. This is in contrast to Fatemi, Fooladi, and Tehranian (2020) that found that CSR activities enhance firm profitability by improving reputation and stakeholder trust, but aligns with Nollet, Filis and Mitrokostas (2021) which found a negative impact, arguing that CSR expenditures may divert resources from core business activities.

The finding that board size has an insignificant effect on ROA aligns with some existing studies, which suggest that larger boards may not necessarily enhance firm performance. For instance, studies such as Yermack (1996) found that smaller boards are often more effective due to better coordination and quicker decision-making. Studies by Alabdullah, Yahya, & Nor (2021) found that larger boards can improve decision-making and oversight, positively impacting profitability. However, others (Guest, 2022) argue that larger boards may lead to inefficiencies and reduced ROA. However, other research such as that by Pucheta-Martínez and Gallego-Álvarez (2020) shows that larger boards can sometimes enhance governance and oversight, but the effect may vary depending on other factors like firm type and industry.

Existing literature provides mixed evidence on the relationship between board independence and firm performance. Research by Aluchna & Kaminski (2020) suggests that independent boards enhance profitability by reducing agency costs. However, this study finds no significant effect, possibly due to differences in governance structures across regions. Some studies, such as Bhagat and Black (2002), found no clear link between board independence and firm performance, arguing that independent directors may lack the firm-specific knowledge necessary for effective governance, which can lead to a negative impact. Similarly, in emerging markets like Nigeria, Mardini (2022) noted that excessive independence may reduce cohesion and decision-making speed, thus lowering performance. On the other hand, other studies, such as

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Pucheta-Martínez and Gallego-Álvarez (2020), suggest a positive effect, as independent boards are expected to enhance oversight and reduce agency problems. The marginally significant negative effect found in the study may indicate that firms in the dataset struggle to benefit from increased independence, possibly due to local governance norms or director expertise.

Research on the impact of board gender diversity on firm performance is mixed. Some studies, like those by Pucheta-Martínez and Gallego-Álvarez (2020), find that gender diversity enhances decision-making processes, leading to better firm performance. Others, such as Wasiuzzaman and Wan Mohammad (2020), report a non-significant relationship between board gender diversity and performance, particularly in emerging markets. The insignificant result in this study may align with findings that gender diversity's impact is highly contextual and may depend on factors such as industry, firm culture, and the institutional environment. In some cases, it is argued that token representation of women on boards does not significantly alter firm performance unless the representation reaches a critical mass. Research by Harjoto, Laksmana, & Yang (2022) suggests that CSR's impact on profitability is moderated by governance factors, such as board diversity, aligning with the marginally significant interaction effect in this study.

The impact of firm size on performance has been debated in the literature, with some studies finding a positive relationship due to economies of scale (e.g., Kluza, Ziolo, and Spoz, 2021), while others observe diminishing returns as firms grow larger (e.g., Rajesh, 2020). The weak and insignificant result in this study aligns with research by Kyere and Ausloos (2021), which found that larger firms often face operational inefficiencies and increased complexity, reducing profitability. However, the effect may not be strong enough to significantly impact ROA in this dataset. This finding aligns with some literature suggesting a negative or non-linear relationship between firm size and performance. Rajesh (2020) found that larger firms often experience diminishing returns to scale, operational inefficiencies, or bureaucratic inertia that can negatively impact profitability. Similarly, studies like Kyere and Ausloos (2021) support the idea that as firms grow larger, they may face challenges in maintaining efficiency, leading to reduced profitability. However, other studies like those by Kluza, Ziolo, and Spoz (2021) argue that larger firms benefit from economies of scale, which can lead to higher profitability. The marginal significance in the study suggests that while larger firms may encounter certain inefficiencies, the effect on ROA is not highly pronounced. Studies by Berger, Imbierowicz, & Rauch (2021) found that larger firms benefit from economies of scale, leading to higher profitability. Other studies (e.g., Margaritis & Psillaki, 2020) argue that larger firms may face bureaucratic inefficiencies, reducing profitability.

Sales growth positively impacting ROA aligns with findings in the literature that show expanding revenue often leads to better profitability. Firms that experience higher sales growth are often able to leverage economies of scale, improve market share, and enhance operational efficiency. Studies like Lagasio and Cucari (2019) show similar results, where sales growth is linked to stronger firm performance. This aligns well with existing research that associates sales growth with improved financial performance. Studies by Li, Gong, Zhang, and Koh (2018) have shown that higher sales growth enhances operational scale, profitability, and market competitiveness. Sales growth is often considered a proxy for revenue-generating potential and market success, which directly translates to better financial metrics like ROA. Similarly, Rajesh (2020) found that firms experiencing robust sales growth typically have better financial outcomes, as increased revenue contributes to better asset utilization. This aligns well with existing research that associates sales growth with improved financial performance. Studies by Li, Gong, Zhang, and Koh (2018) have shown that higher sales growth enhances operational scale, profitability, and market competitiveness. Sales growth is often considered a proxy for revenue-generating potential and market success, which directly translates to better financial metrics like ROA. Similarly, Rajesh (2020) found that firms experiencing robust sales growth typically have better financial outcomes, as increased revenue contributes to better asset utilization. This result is consistent with existing research that links sales growth to improved firm performance.

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Studies like Li, Gong, Zhang, and Koh (2018) found that sales growth drives profitability by increasing revenue and improving asset utilization. Firms with higher sales growth are often seen as more competitive and able to leverage their operational scale, leading to higher returns on assets. Rajesh (2020) also supports this finding, noting that sales growth enhances firms' financial performance, especially in competitive industries. Most studies (e.g., Penman, 2020; Ali, Akbar, & Ormrod, 2023) consistently find that sales growth drives profitability by increasing revenue and market share.

The highly negative impact of cash flow from operations on ROA might be more context-specific, as this is not a typical finding in the literature. Typically, strong operational cash flow is considered beneficial for firm performance, but in some cases, it may indicate overinvestment in operations or inefficiencies in managing cash. This aligns with research such as that by Mardini (2022), which highlights how mismanagement of operational cash flows can detract from overall firm performance. This negative impact is somewhat unexpected, as cash flow from operations is generally expected to have a positive relationship with firm performance. However, inefficient cash flow management can harm profitability, as noted by Kyere and Ausloos (2021) and Amalia and Syamsul (2024) . This may occur if firms experience liquidity problems or mismanage working capital. Amalia and Syamsul (2024) observed that firms with poor operational cash flow management often struggle to reinvest in profitable projects, leading to lower performance. The highly significant negative impact suggests that the firms in the study may face challenges related to liquidity management, operational inefficiencies, or delayed receivables, which reduce their ability to generate returns from assets. Most studies (e.g., Dechow, Ge, & Schrand, 2020) find that higher CFO improves profitability by providing liquidity for investments and operations. Few studies report a negative relationship, possibly due to firms with high CFO underinvesting in assets, reducing ROA (e.g., Gentry, 2021). This study aligns with studies that find a negative effect of CFO on profitability.

The finding in this study is consistent with a large body of literature that links higher leverage with lower firm performance (e.g. Fosu 2021). It also aligns with theory. For instance, Modigliani and Miller's (1958) capital structure theory suggests that as leverage increases, so does the risk of financial distress, leading to reduced profitability. Several empirical studies, such as Wasiuzzaman and Wan Mohammad (2020) and Sheik (2022), find a negative relationship between leverage and performance in emerging markets, where firms may face higher costs of debt and liquidity constraints. Additionally, the pecking order theory (Myers, 1984) supports the idea that firms prefer internal financing over debt to avoid the negative impacts of leverage on performance.

Research examining the moderating role of board size in the CSR-performance relationship is mixed. Some studies suggest that larger boards may enhance firm oversight, leading to better CSR outcomes (e.g., Xie et al., 2019). However, others argue that larger boards may suffer from coordination inefficiencies, reducing their ability to effectively oversee CSR initiatives (Lagasio & Cucari, 2019). The insignificant finding here indicates that board size does not play a significant role in moderating CSR expenditure's impact on ROA in this sample.

The negative impact of CSR expenditure moderated by board independence aligns with studies like Ben-Fatma and Chouaibi (2021), which find that excessive focus on CSR in the presence of independent directors may detract from financial performance. Independent directors may push for socially responsible initiatives that, while beneficial for long-term sustainability, may not immediately translate into profitability, especially if such initiatives are costly. This result supports the argument that there may be a trade-off between CSR spending and short-term firm profitability when driven by independent board members.

Research on the role of gender-diverse boards in influencing CSR outcomes is growing, with some studies suggesting that women directors may be more likely to advocate for CSR activities (Wasiuzzaman & Wan Mohammad, 2020). However, the insignificant result here

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suggests that the mere presence of gender diversity on the board may not be enough to significantly influence how CSR spending affects firm performance. The study by Rajesh (2020) suggests that the effectiveness of board gender diversity in moderating CSR activities may depend on other factors such as the level of diversity or the integration of CSR into the firm's strategy.

VII. Conclusion and Recommendations

The model provides valuable insights into the determinants of ROA, with sales growth and cash flow from operations being the most significant predictors. CSR expenditure has an insignificant impact on financial performance, suggesting that the potential benefits of CSR in the Nigerian non-financial sector may not directly translate into profitability. Board characteristics, including size, independence, and gender diversity, do not have a statistically significant effect on financial performance in this context. Sales growth is a significant positive predictor of financial performance, indicating that revenue expansion strategies are crucial for improving ROA. Cash flow from operations shows a significant negative relationship with ROA, possibly due to operational inefficiencies or liquidity management challenges. The marginally significant positive interaction between CSR and board gender diversity suggests that diverse boards may better harness CSR for financial gains. Non- financial firms should adopt strategies that promote sales growth as a driver of financial performance, such as market expansion, product innovation, and customer engagement initiatives. In addition, managers need to optimize cash flow management to avoid negative impacts on profitability, potentially through better working capital strategies and operational efficiency improvement. Lastly, given the non-significance of traditional corporate governance measures, firms may need to reassess governance structures to align better with operational and strategic objectives. Policymakers should develop frameworks that encourage firms to engage in meaningful CSR while maintaining financial sustainability.

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