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Corporate Social Responsibility on Bank Financial Performance in Nigeria

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Abstract*:* This study examines the effect of corporate social responsibility on bank financial performance in Nigeria. Secondary data was used for the study and it was obtained from the financial statement of audited annual reports and accounts of two (2) selected deposit money banks listed on the Nigerian Stock Exchange for the period 2011-2015. The data was tested for unit root using panel unit root process of PP Fisher Chi Square and it was shown that the data were stationary at levels. Regression result based on fixed effect regression which was suggested by Hausman test for randomization of panel result indicates that a positive relationship exists between Corporate Social Responsibility and profitability of banks financial performance and the relationship is statistically significant and in line with a priori expectation. Corporate Social Responsibility was negatively related to Return on Assets of Banking Industry in Nigeria. The result indicates that a unit increase in Corporate Social Responsibility will result in a corresponding decrease in performance of the banking sector proxied by return on asset (ROA) by a margin of 70.00%. There is a positive relationship between Corporate Social Responsibility was positively signed and statistically significant ($P<0.05$). It was concluded that Corporate Social Responsibility help to improve the bank's performance rating. It was however recommended among others that since Corporate Social Responsibility made the highest contribution to Earnings per share more than all the other performance variables, management of the bank should ensure that to keep shareholders satisfied with the running of the bank, they must invest in corporate social responsibility as the return to shareholders is great as shown by the result of the study.

Keywords: Corporate Social Responsibility, Bank, Performance, Nigeria.

I. Introduction

Corporate Social Responsibility (CSR) has become an area of interest for many organizations. This had lead Hopkins (2014) to posit that without a common language, we do not really know whether our dialogue with corporations is being heard and interpreted in a consistent way. Nowadays, there is a growing recognition of the impact corporations have on employees, customers, communities, the environment, competitor's business partners, investors, shareholders, government and others. The concept of corporate social responsibility is a crude blend of long-run profit-making and altruism, a doctrine which fuses social values with profit maximization goals (Hopkins, 2014). A new trend of growing importance in the world is a tendency towards a more socially responsible business. Business organizations operates in an environment characterized by dynamism, complexity and uncertainty. And to live in an environment is to take into account every element of their surroundings that is important to their success and important to others who may be affected by it. Thus, the organization must take into consideration the interests of its stakeholders in the performance of their corporate duties. The survival of the enterprise depends on the successful interaction with the organization and its stakeholders (Inegbenebor and Osaze, 2009). This continual interaction with the environment gives rise to a number of broader responsibilities to society in general which are both internal and external to the organization. These responsibilities are usually referred to as Social Responsibilities (Inegbenebor and Osaze, 2009). These responsibilities concern the environment, social wellbeing of all stakeholders as well as correct corporate governance.

Managers and practitioners have often been criticized for being single minded about value maximization and not considering the broader aspects of corporate strategy or the interests of other stakeholders. However, profit maximization or increasing market share no longer remains the focus of businesses (Jenkins, 2015; Marrewijk, 2012). The last two decades has witnessed a lot of changes in the nature of the triangular relationship between companies, the state and the society. These turns of events have pressurized business firms to put serious effort into a wide range of Corporate Social Responsibility activities. Banking sector occupies important key position in the economy of a nation. In Nigeria virtually all the banks report their expenses on social responsibility towards sustainable development in their annual reports. Most of them strive to meet the demand of charitable organizations, government agencies, religious organizations and tertiary institutions. The concept of "social contract" has

a main role in the legitimacy theory. The survival and growth of any company are based on the production of desirable ends to society and the distribution of economic, social or political benefits to groups from which it takes its resources. Society has implicit and explicit requirements about how the organisation should operate. Implicit requirements are those that are defined by law, whereas explicit ones come from non-legislated societal expectation. There has been a tremendous growth in the awareness of social responsibility of corporations in recent years. A large number of companies appear increasingly engaged in a serious effort to define and integrate CSR into all aspects of their businesses (Al-Shubiri, Al-Abedallat and Orabi, 2012).

Bank performance is analyzed in terms of its capacity to generate sustainable profitability. Profitability is a bank's first line of defence against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. An institution that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. Moreover, since the ultimate purpose of any profit-seeking organisation is to preserve and create wealth for its owners, the bank's return on equity (ROE) needs to be greater than its cost of equity in order to create shareholder value (De-Wet and De-Toit, 2007).

According to De-Wet, and De-Toit (2007), although banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage. While it is clear that a bank must be able to generate "earnings", it is also important to take account of the composition and volatility of those earnings. "Efficiency" refers to the bank's ability to generate revenue from a given amount of assets and to make profit from a given source of income. "Risk-taking" is reflected in the necessary adjustments to earnings for the undertaken risks to generate them (e.g. credit-risk cost over the cycle). "Leverage" might improve results in the upswing – in the way it functions as a multiplier – but, conversely, it can also make it more likely for a bank to fail, due to rare, unexpected losses. Bank performance addresses the question of how well financial institutions are performing in providing their services to consumers and businesses, and how much we can gauge that performance with regards to certain benchmark. Various performance aspects cannot be observed directly whereas they are economically important. While stockholders will view performance in terms of the profits made on their behalf, whether or not adjusted for risks taken, performance in a broader sense is the contribution financial institutions make to the common wealth, on behalf of consumers and businesses. They will be mainly interested in whether financial products are not too expensive and whether the quality is sufficient.

Md Al, Kazi and Ayesha (2013) studied a dynamic panel analysis of the financial determinants of corporate social responsibility in Bangladeshi banking industry and found that several financial determinants including total investment, ROA, EPS, number of branches, and number of employees have significant long run impact on the level of bank's CSR expenditure and thereupon fulfilling firm's commitment towards the greater society as a corporate citizen. Cornetta, Otgontsetseg and Tehranianb (2014) examined Corporate Social Responsibility and its Impact on Financial Performance: Investigation of U.S. Commercial Banks and found that the largest banks appear to be rewarded for their social responsibility, as both size adjusted ROA and ROE are positively and significantly related to CSR scores. Tsoutsoura (2014) carried out a study in an attempt to address the question whether corporate social responsibility is linked to financial performance. Using regression analysis, he tested the sign of the relationship between corporate social responsibility and financial performance. The study used extensive data covering 442 companies for a five year period, 1996-2000. Results indicate that the sign of the relationship is positive, which supports those studies that found positive linkages in the past.

Anlesinya, Ahinsah, Bawa, Appoh and Bukari (2014) carried out a research on the effect of CSR on financial performance of MTN Ghana Limited and found that CSR has positive effect on financial performance proxied by ROE & ROA. However, CSR did not significantly predict ROI and EPS. Korathotage (2012) studied Corporate Social Responsibility and Company Performance: Evidence from Sri Lanka and found that six CSR constructs were identified in the pilot study of this research. All these companies disclosed their CSR practices and CP data in either their annual reports, sustainability reports or on their company website.

A review study on the state of CSR in emerging economies dating from 2009 identified a total of 41 existing studies on the subject (Belal and Momin, 2009). Relatively little is known about the existence and practice of CSR in the non-western parts of the world (Li *et al*. 2010) and calls are made for more research in these parts of the world (Belal and Momin, 2009). These studies exemplify a huge discrepancy in literature and in knowledge. Currently, this discrepancy leads to the ongoing debate in the academic field of CSR about the relationship between theory and reality, and whether theory correctly represents the reality of CSR worldwide. Various researchers call for more research in the developing economies, in order to test the applicability and usefulness of the concept of CSR in these countries. Researchers believe that CSR can mean something different to different people in different time and place. Research toward CSR revealed that companies are aware and active in CSR, but see it as a burden distracting from the real interest of making profit (Qingfen, 2006). The fact that these companies see CSR as similar to charity is raised, and described as a mistaken interpretation of CSR. CSR is still seen as charity in most Nigerian companies. Since it is statutory to give certain percentage of company earnings to

CSR, some company just publish fictitious CSR figures in their annual statement of account to satisfy regulatory requirement.

As CSR activities do not directly generate returns for businesses, their contributions are sometimes deemed to be a misallocation of funds and may lead to objections from shareholders.

Often there exist some fundamental contradictions between commercial objectives on one side, and social or environmental goals on the other. This leads to the classic discussion – "Is corporate social responsibility just a waste of shareholder's wealth, or it is creating value?"

Despite such an ambiguous relationship between corporate social responsibility and a firm's performance, as well as the debate of the actual need for such socially responsible work, it is a fact that many companies are involved in the many initiatives associated with corporate responsibility. Such initiatives include establishment of codes, guidelines, non-financial annual reports, standards and management systems related to the social, environmental and governance aspects of the business. A growing number of company reports and websites, research literature and government documents write extensively about environmental, social and governance factors (ESG), socially responsible investments (SRI) and corporate social responsibility (CSR).

Nigerian banks efforts on social responsibility have produced multiplier effects on the sustainable development. These social responsibilities cost them some expenses which have effects on their financial performance. Many empirical studies have been carried out in order to examine the effect of corporate social responsibility on profitability of business organizations, especially in developed countries while little studies were carried out in developing countries, Nigeria inclusive. Despite the growing involvement in CSR, a shadow of doubt remains as to whether such initiatives could potentially lead to better performance by a firm (Dusuki and Dar, 2015). It is in an attempt to clear such doubts that this study is carried out. This study examines if there is a nexus between CSR and performance of the banking sector in Nigeria. The main objective of the study is to assess the effect of Corporate Social Responsibility on Bank Financial Performance in Nigeria. The specific objectives are to:

i. assess the effect of Corporate Social Responsibility on Earnings per Share of Banking Industry in Nigeria.
ii. determine the effect of corporate Social Responsibility on Return on Asset of Banking Industry in Nigeria.
iii. examine how Corporate Social Responsibility affects Return on Investment of Banking Industry in Nigeria.

It is hypotheses, Corporate Social Responsibility has no significant effect on Earnings per Share of banking industry in Nigerian, Corporate social responsibility has no significant effect on Return on Asset of banking industry in Nigerian and Corporate Social Responsibility does not significantly affect Return on Investment of banking Industry in Nigerian.

II. Methodology

An ex-post-facto research design was adopted for this study. The target population of this study was all the commercial banks in Nigeria. There are twenty one (21) Deposit Money Banks in Nigeria. From the twenty one (21) Deposit Money banks in Nigeria, two (2) Deposit Money banks were purposively selected for this study, namely: First Bank and Guaranty Trust Bank. This study covered a period of five (5) years from 2010-2015. The selection criteria were on the basis that the selected banks represent banks from two eras - the old generation and the new generation bank as it will provide an insight on CSR provision by the selected banks. The data used are obtained from the Statistical Bulletin of Central Bank of Nigeria and Nigeria Bureau of Statistics for the period of 2010-2015.

Model Specification

Guided by the implicit and the explicit form of the model, the following relationships exist between the variables of the study. The implicit form of the model is shown below:

EPS = f (CSR)..(1)

ROA = f (CSR)...(2)

ROI = f (CSR)...(3)

Where,

EPS = Earnings per Share (A proxy for bank performance)

ROA= Return on Asset (A proxy for bank performance)

ROI = Return on Investment (A proxy for bank performance

CSR= Corporate Social Responsibility disclosure

In explicit form the model is presented thus;

$EPS= \beta_O+ \beta_1 CSR+ E_t$ ....(4)

$ROA=\beta_O+ \beta_1 CSR+ E_t$ ....(5)

$PFT=\beta_O+ \beta_1 CSR+ E_t$ ....(6)

β_0 =Intercept of the line with Y- axis or the value of y when x is zero.

E=Error term

β_1, = the regression coefficients

A priori expectation

$\beta_1>0$

Data Analysis techniques

The study employed descriptive statistics of mean, median, variance skewness etc to analyze the data. The stationarity of data was checked through panel unit root test. There are two types of panel unit root processes. When the persistent parameters freely move across cross-section, this type of unit root process is called an individual unit root process, Fisher-ADF and Fisher-PP test are based on this form. Hence, the two unit root processes was applied in this study.

Pedroni's methodology allows us to test the presence of cointegration; it could not provide estimation of long-run relationship. For panel framework, in presence of cointegration, several estimators are proposed: Ordinary Least Squares (OLS), Fully Modified OLS (FMOLS), Pooled Least Square (PLS), dynamic OLS (DOLS), fixed effect regression using pooled least square dummy variable

(LSDV). However, the relationship between the variables of the study was examined using fixed effect regression and random effect regression analysis. After which the Hausman test for randomization of panel result was performed to select the best estimator between fixed effect and random effect regression.

The probability value of the estimate was used to accept or reject a hypothesis; the following decision rules were adopted for accepting or rejecting hypotheses: *If the probability value of b_i* [*p* (b_i) > critical value] we accept the null hypothesis, that is, we accept that the estimate b_i is not statistically significant at the 5% level of significance. *If the probability value of b_i* [*p* (b_i) < critical value] we reject the null hypothesis, in other words, that is, we accept that the estimate b_1 is statistically significant at the 5% level of significance.

III. Results and Discussion

Table 1: Descriptive Statistics

	CSR	EPS	ROA	ROI
Mean	7.190008	2.103000	1.072400	109.7660
Median	6.160008	2.240000	0.029800	80.74500
Maximum	1.250009	3.350000	10.47370	235.8300
Minimum	2.970008	0.060000	0.004500	12.54000
Std. Dev.	3.630008	1.056767	3.303314	82.62534
Skewness	0.321236	-0.745729	2.666563	0.450300
Jarque-Bera	1.110151	1.033674	22.73432	0.966579
Probability	0.574029	0.596404	0.600012	0.616751
Observations	10	10	10	10

Source: *E-view 9.0 Result Output, 2020*

The above table shows the descriptive statistics for our study. The statistics show the various properties and characteristics of the variables and their distribution. The main statistics of interest, the Jacque-Bera statistics is considered as it is used to establish the normality or otherwise of a time series data we have used. Jacque-Bera test assesses model bias. The Jarque-Bera statistic indicates whether or not the residuals (the observed/known dependent variable values minus the predicted/estimated values) are normally distributed. The calculation of p-values for hypothesis testing typically is based on the assumption that the population distribution is normal. As shown in Table 1, CSR has a probability value of 0.574029, EPS has a probability value of 0.596404, ROA has a probability value of 0.600012 while ROI has a probability value of 0.616751. This result shows the probability value of the Jarque Bera statistics greater than 0.05 or 5% ($p>0.05$) which shows that the null hypothesis that the data was not normally distributed is rejected for the alternative hypothesis. This result indicates that the data are normally distributed.

Testing for Unit Root

Table 2: Panel Unit Root Test at Levels

Cross sections included 2

Variable	Method	Statistics	Prob**
CSR	PP-Fisher Chi Sq	0.00864	0.0000
EPS	PP-Fisher Chi Sq	12.2590	0.0155
ROA	PP-Fisher Chi Sq	1.79549	0.0433
ROI	PP-Fisher Chi Sq	3.39158	0.0446

Source*: E-view 9.0 Result Output, 2020*

To check the stationarity of our data we used an individual unit root process by Philips Perron and Fisher which utilizes the Chi Square test statistics and a probability value to establish the unit root or otherwise in a series under investigation. CSR have PP-Fisher Chi Sq statistics of 0.00864 with a probability of 0.0000. EPS have a PP-Fisher Chi Sq statistics of 12.2590 with a probability value of 0.0155. ROA have a PP-Fisher Chi Sq statistics of 1.79549 with a probability value of 0.0433. Finally, ROI have a PP-Fisher Chi Sq statistics of 3.39158 with a probability value of 0.0446. As shown by the result of the study, all the variables CSR, EPS; ROA and ROI were stationary at levels using Phillips-Perron Fisher unit root test statistics at 5% level of significance. As shown by the result of the unit root using the individual unit root processes, all the variable are stationary ($p<0.05$) at levels using the above statistics. In presence of stationarity at levels co integration for the data is not investigated and any of the above estimators can be used be to estimate the relationship between the variables of the study. Having estimated the fixed effect and the random effect regression analysis, a Hausman test for randomization

of panel result is hereby carried out to determine the estimator that will be used for the interpretation of our result.

Hausman Tests for Randomization of Panel Result

Hausman test for the randomization of panel result test was performed to ascertain whether fixed effects or random effect regressions result should be used for interpretation of results.

Table 3: Correlated Random Effects - Hausman Test

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.956585	3	0.0120

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
ROA	-0.418351	0.156047	0.041925	0.0050
ROI	-0.000150	-0.008433	0.000101	0.0490
CSR	-0.000000	-0.000000	0.000000	0.0334

***Source**: E-view 9.0 Result Output, 2020*

The result reveals chi-square of 10.956585 which is significant at 5% ($p<0.05$). This provides evidence in support of the fact that the error terms are not correlated with the regressor. The result suggests that the fixed effect regression model is most suitable for the data in use. Therefore, the study adopted fixed effect regression result for interpretation. The result is as presented below.

Table 4: Fixed Effect Regression for EPS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	0.890009	4.880010	7.976873	0.0041
C	-0.694018	0.355627	-1.951535	0.1461
	Effects Specification			
Cross-section fixed (dummy variables)				
Period fixed (dummy variables)				

***Source**: E-view 9.0 Result Output, 2020*

The result of objective one has shown that Corporate Social Responsibility and Earnings per share of Banking Industry in Nigeria were positively related and the relationship is statistically significant ($p<0.05$), indicating that Corporate Social Responsibility has a positive effect on Earnings per share of Banking Industry in Nigeria during the period under study. This result is in line with the theoretical and economic expectations. This finding is in line with that of Md. Al, Kazi and Ayesha (2013) who carried out a dynamic panel analysis of the financial determinants of Corporate Social Responsibility in Bangladeshi banking industry. The results from panel ARDL model for 30 private commercial banks confirm that several financial determinants including total investment, ROA, EPS, number of branches, and number of employees have significant long run impact on the level of bank's CSR expenditure.

Table 5: Fixed Effect Regression for ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.700008	3.27E-09	-13.17035	0.0009
C	13.31249	3.652529	14.12343	0.0008

***Source**: E-view 9.0 Result Output, 2020*

The second objective of this study was to investigate the Effect of Corporate Social Responsibility on Return on Asset of banking industry in Nigeria. The regression result showed that the coefficient of Corporate Social Responsibility is negatively signed and the relationship is however significant ($p<0.05$). This study is contrary to the findings of Cornetta, Otgontsetseg and Tehranianb (2014) who examined Corporate Social Responsibility and its Impact on Financial Performance: Investigation of U.S. Commercial Banks. Tsoutsoura (2014) also found a positive relationship. The negative result could be as a result of the perception of management of the bank of the usefulness of corporate social responsibility and their inability to invest more in corporate social responsibility.

Table 6: Fixed Effect Regression for ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	0.490008	1.710007	0.321252	0.0491
C	0.335837	124.4843	0.565018	0.6116

Source*: E-view 9.0 Result Output, 2020*

The final result of the study indicates that Corporate Social Responsibility had a positive effect on the dependent variable of the study (ROI). Corporate Social Responsibility was positively related to profitability and statistically significant ($p<0.05$). This relationship is in line with a *priori* expectation. This result is in line with that of Korathotage (2012) who studied Corporate Social Responsibility and Company Performance in Sri Lanka. However, Anlesinya, Ahinsah, Bawa, Appoh and Bukari (2014) who carried out a research on the effect of CSR on financial performance of MTN Ghana Limited using multiple regression analysis found a contrary result.

IV. Conclusion

This study concludes that the social impact of deposit money banks is becoming a very important issue in business administration. It was reviewed that a bad social impact, in fact, could increase the bank's risk, could lead to wrong relationships with many stakeholders and could affect corporate reputation. In most cases, the result is a decrease in bank's value and, sometimes, the end of the bank itself. As a result, a lot of corporations began to develop and communicate their strategies for reducing conflicts between society and the bank itself. Corporate Social Responsibility (CSR) was used as a means to bridge this gap and most importantly, help to improve the bank's performance rating proxied by earnings per share, return on assets and return on investment. The study has shown that Corporate Social Responsibility was positively related to earnings per share and return on investment during the time under study and this means that these measures of performance of the banks were significantly influenced by engagement in corporate social responsibility. The fear or the shadow of doubt that remains as to whether corporate social responsibility could potentially lead to better performance in a firm has been answered from the result of our study that has shown a positive and significant relationship between two variables of the performance indicator (EPS and ROI). Based on the findings of the study, the following recommendations are made: i. Corporate Social Responsibility made the highest contribution to Earnings per share more than all the other performance variables. Hence management of the bank should ensure that to keep shareholders satisfied with the running of the bank, they must invest in corporate social responsibility as the return to shareholders is great (89.0%) as shown by the result of the study. ii. Corporate social responsibility is negatively related to return on assets. This performance indicator can be improved if management of the bank takes the issue of making commitment to increasing their investment in the corporate social responsibility so as to boost their firm reputation and thus improve their performance. iii. The result showed that corporate social responsibility had 49% effect on performance proxied by return on investment. This impact can be increased if management of the banks under study will make it a priority to up their investment in CSR.

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