International Journal of Innovative Research in Accounting and Sustainability
ISSN: 2736-1381 (Print), ISSN 2736-1500 (Online)
Vol. 8, No. 4, 2023

Corporate Social Responsibility and Performance of Nigeria Deposit Money Banks

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Abstract

The study examines the impact of corporate social responsibility on the performance of Nigeria Deposit Money Banks. The study utilized ex-post facto research design considering the fact that the study uses a historical data. Data were obtained from annual reports of the listed Deposit money banks in Nigeria. Data was analyzed using Multivariate technique of data analysis. Specifically, the study employed multiple regression technique (ordinary least square regression). The findings supported the overall relationship with an explanation. NPM, ROTA and ROE models were found to be significant at 5% level of significance. The study concludes that CSR influences the financial performance of listed deposit money banks in Nigeria. Overall, there exist a strong effect of CSR on NPM, ROTA and ROE. These effects were also found to be positive and significant at 5% level of significance. In addition, results on the effect of CSR on NPM, ROTA and ROE suggest that stakeholder theory is applicable based on the investors return on investment. The study recommends that listed deposit money banks should continue to invest in corporate social activities as much as practicable because they result into increase in profitability.

Keywords: Corporate Social Responsibility, Net Profit Margin, Return on Assets, Return on Equity.

1. Introduction

Every organization has certain responsibilities to perform to impact positively on the immediate community, environment, and the generality of the people within where it is situated and performs its activities. The discharge of these responsibilities by an organization is what is referred to as corporate social responsibility (CSR). It has to do with recognizing the way that some business aftermaths sway adversely on the residents and society and putting necessary measures in place to arrest such negative impact. It is believed by Norris and O'Dwyer (2004) that corporate social obligation means that an enterprise ought to be responsible for any of its activities that affect individuals, communities and its environment. What it implies, therefore, is that adverse business impacts on individual and society ought to be recognised and improved upon as much as possible. It has been proven in the previous scholarly studies such as Mahbuba and Farzana (2013), Moore (2001) and Abiodun (2012), that CSR has the capacity to affect corporate performance positively as commercial banks financial performance is boosted as they get involved in CSR activities which help improve corporate image, earn goodwill as a result of the increase in confidence building, and bolster the trust of people on banks leading to increasing clientele and profitability. Other societal benefits derivable from the performance of CSR activities are the minimization of social gaps in communities, the increment in social/public services, enhancement in the living standard of people, and general improvement in the quality of life leading invariably to the emergence of a peaceful milieu that guarantees organizational survival (Daniel *et al*., 2018).

The rise in CSR activities by banks gives strength to its financial performance relative to CSR due to a positive cognition of CSR by communities and, consequently, reduction in social gaps, increases in public services, increases in innovative giving and environmental management systems takes place (Lin, Chang & Dang, 2015). Business in any society needs to assume liability for each choice that is made; each move that is made must be evaluated in line with that kind of responsibility. Social responsibility entails a thorough cost-benefit analysis by a business organization of its proposed actions towards the realization of its objectives. There is a common belief that there are mutual benefits to be derived by both business and society as firms consciously make efforts to be socially responsible. On one hand, business organizations gain an enhanced reputation, while on the other hand, the society gains from social projects like provision of infrastructure, health, sports facilities, education among others executed by the business organizations. Today CSR transcends the old charitable gesture of the past by donating money to good causes only at the end of the financial year. But, an all- year- round responsibility about sports activities that deposit money banks in Nigeria accept the environment around them for the best working practices for their engagement in their local communities and their recognition that brand names depend not only on quality services and uniqueness but on how cumulatively they interact with their host communities (Daniel *et al*., 2018).

Empirical literature have indicated that some of the studies like Babalola (2013); Mehwish (2018) and Okegbe and Egbunike (2016) used a wrong statistical tool of Ordinary Least Square instead of panel regression statistical technique to estimate their model. Also, some studies such as that of Hirigoyen and Poulain (2015); Iya, Badiye and Faize (2015); Jimoh, Mukaila and Azeez (2015); Malik and Muhammed (2014) data were not current that is the data of study variables were below 2015. In another development, most studies like Jimoh, Mukaila, and Azeez (2015) and Shehu (2013) concerning CSR and financial performance were conducted using aggregated data while this present study used disaggregated data of CSR health and sports expenditures of deposit money banks in Nigeria. These gaps in literature necessitated this present study about the impact of corporate social responsibility on financial performance of DMBs. It is against this background that this study is set to find out the impact of corporate social responsibility disclosure on the performance of deposit money bank in Nigeria.

It is desirable to state that the nexus between corporate social responsibility (CSR) and profitability has come a long way (Usman, 2018; Dodd, 1932; Jarrell & Peltzman, 1985; Hoffer *et al*., 1988; Preston & O‘Bannon, 1997; Waddock & Graves, 1997; Griffin & Mahon, 1997; McWilliams & Siegel, 2000 and Simpson & Kohers, 2002). The empirical studies on CSR and profitability link have never been in agreement, as some studies find negative correlation, some find positive correlation, while others find no correlation at all. Muhammad, Saleh and Zulkifli (2011) conclude that there is a positive and significant link between CSR and Profitability. Two of the CSR dimensions, namely employee relations and community involvement were found to be positively related to financial performance. The results also reveal that there is limited evidence of the relationship between CSR and CP in the long-term.

Bolanle, et al. (2012) examine the relationship between corporate social responsibility and profitability in the Nigerian banking industry using First Bank of Nigeria (FBN) Plc as the case study. They conclude that there is positive relationship between banks CSR activities and profitability. This study is different from current study because it is a case study while current study is a longitudinal study. Uadiale and Fagbemi (2012) examine the impact of CSR activities on financial performance measured with Return on Equity (ROE) and Return on Assets (ROA). The results show that CSR has a positive and significant relationship with the financial performance measures. This study uses non-financial services firms and is therefore different from current study which uses deposit money banks. Mahbuba and Farzana (2013) examine the relationship between CSR and profitability in Bangladesh and conclude that 90.7% of the variation in profit after tax is explained by the benefit accrued from corporate social responsibility.

As far as Corporate Social Responsibility is concerned, most of the compelling pressures mounted on organization to engage in CRS may not necessarily applicable to banks operating in Nigeria. Local consumer and civil society pressures are almost nonexistent and law enforcement mechanisms have been weak and inefficient (Limbs and Fort, 2000; Oyejide and Soyibo, 2001, and Ahunwan, 2002). According to Idoko (1998) despite the fact that Corporate Social Responsibility is increasingly being recognized as an effective means of decreasing costs and strengthening market share, there has been reluctance by many deposit money banks in Nigeria to adopt these practices for a number of reasons. First, many banks do not fully understand what Corporate Social Responsibility is or how it can be practiced to improve their bottom lines and reduce risk and liabilities. Second, there are few local experts in Nigeria that could assist banks to implement Corporate Social Responsibilities measures, making the cost of consulting prohibitive, especially for smaller businesses. Third, transparency and disclosure of information has generally not been a requirement from governments and shareholders in Nigeria. If these banks want to compete in the global market place, however, they must begin making changes and incorporating Corporate Social Responsibility measures. It is against this backdrop that this study is undertaken in an attempt to ascertain the impact of Corporate Social Responsibility on the performance of Nigerian Deposit Money Banks.

2.1 Literature Review

2.1.1 Performance

The main objective of any organization is to grow and progress and this can be achieved through continuous performance (Gavrea, Ilies & Stegerean, 2011). The concept of performance has not been unanimously defined (Fauzi *et al*., 2010) defined organizational performance as the ability of the organization to meet its targets by using the available resources in a more efficient and effective way (Gavrea *et al*., 2011) gave a set of definitions to buttress the concept of organizational performance: Performance is a set of financial and nonfinancial indicators which give information on the extent of achievement of objectives and results; Performance is dynamic, requiring judgment and interpretation; Performance may be illustrated by using a causal model that describes how current actions may affect future results; Performance may be understood differently depending on the person involved in the assessment of the organizational performance (e.g. performance can be understood differently from a person within the organization compared to one from outside); To define the concept of performance is important to understand its characteristic looking at each area of responsibility; and To report an organization's performance level, it is necessary to be able to quantify the results.

2.1.2 Corporate Social Responsibility (CSR)

Tsoutsoura (2004) stated that CSR is the process by which businesses negotiate their role positively towards society. In other words, CSR has to do with attaining business success in such a manner that ethical, social, environmental standards compromised while esteeming people. According to Welford (2005), CSR is a term describing a company's obligation to be accountable to all its stakeholders in all its operations and activities.

Companies that are socially responsible will consider the full scope of the impact of their activities on the host communities and the environment when making decisions, balancing the need of stakeholders with their need to make a profit. Tuhin (2014) opines that CSR is a responsibility for a company's direct involvement with the betterment of society. It means that companies must not only meet shareholders' needs but also consider other stakeholders' demands. This study operationally defines corporate social responsibility as the expenditures incurred by the DMBs in Nigeria for the benefit of the general public.

Corporate Social Responsibility (CSR) refers to the firms 'social and environmental practices. "CSR is about treating key stakeholders responsibly" (Hopkins, 2014, p1). Various organisations, including Governmental and Non-Governmental Organisations (NGOs) and employers 'associations, regard CSR as a panacea to the global poverty gap, social exclusion, environmental degradation, and revitalise neighbourhood (Marrewijk, 2002). Hopkins (2014) argues that if the charity fails because a company fails, it is a disaster, and urge Gov-ernment to take up CSR and look after the vulnerable groups as companies that practice CRS for too long may go out of business very soon. Also, CSR is a corporate engagement with society through which they rebrand their core values towards protecting the environments, eradicating poverty, creating employment and labour practices, education, and human development (Khan, Khan, Ahmed, & Ali, 2012). Despite the CSR concept's popularity, it still lacks a universally accepted definition (Golrida, Subroto, Sutrisno, & Saraswati, 2018; Mikolajek-Gocejna, 2016).

2.2 Corporate Social Responsibility and Financial Performance

Extant studies suggest that large firms, because of their higher capital ratio and more female and minority directors, practice CSR more than the small firms (Cornett, Erhemjamts, & Tehranian, 2014). Even though there have been many studies on the relationship between CSR and firms' performance, there is no consensus regarding the relationship's sign and size (Lv, Li, & Mitra, 2020). Siddiq and Javed (2012) posit that some firms focus on community growth but ignores internal factors and argues that it is difficult to expect CSR from firms because CSR activities may not influence performance. There are a series of arguments in the literature about the existence of relationships between corporate social responsibility and financial performance. Profit serves as a reward for a firm as it continues to provide true value to its customers, to help its employees to grow, and to behave responsibly as a corporate citizen.

McWilliams and Siegel (2000) stressed that CSR impact is influenced by factors such as the firm's size, diversification, R & D and market conditions. They proposed that all these variables, when taken into consideration, must hinder the financial performance of the firm. Fasanya and Onakeya (2013) observedthat proper and effective CSR goes a long way in improving the trend of firms' financial performance in Nigeria. Researchers such Keffas&Olulu-Briggs, 2011 and Abdulraham, 2013) have found that there was a positive relationship between CSR and financial performance However, a study conducted by Babalola (2013) on the impact of CSR on firms' profitability in Nigeria using data for ten randomly selected firms between 1999-2008 indicated a negative relationship between firm's performance and profit after tax. Similarly, Folajin, Ibitoye and Dunsin (2014) studied CSR and organizational profitability using United Banks of Africa (UBA) as a case study and it was revealed that expenditure on CSR has a short-term negative effect on net profit but in the long run, it will provide better returns. Studies conducted by Abdulraham (2013) and Hilda, Hope and Nwoye (2015) on Nigeria banks discovered that there is a significant negative relationship between CSR

3. Methodology

The study utilized an ex-post facto design considering the fact that the study uses a historical data since the event under investigation has taken place and documented as secondary data obtainable from the financial statements of the various money deposit banks in Nigeria. The population of the study consists of fourteen listed Nigeria deposit money banks. The study utilizes secondary data only, data for the study are extracted from the financial Statement of the sampled banks obtained from Nigerian Group Exchange Fact Books. This study employs the multivariate technique for the purpose of data analysis. A multiple regression model has been structured using the ordinary least squares (OLS) method.

4. Data Analysis and Discussion of Findings

Three regression models were run in line with the specific objectives of the study having properly accounted for all diagnostic tests.

4.1 Corporate Social Responsibility and Net Profit Margin

The effect of corporate social responsibility on profitability measured by net profit margin can be seen in Table 1. The result in Table 1 on the effect of CSR on NPM show that the coefficient of CSR was 0.0553965 hence CSR had a positive effect on NPM. The p value was 0.000 which is less than 5% level of significance, indicates that CSR had a significant positive effect on NPM. Also, the adjusted R^2 is 0.985, which suggests that 98.5 per cent of the variations in NPM are explained by the model and Prob > F is 0.000 which is a sign of goodness of fit of the overall model.

Table 1: Regression Coefficients for CSR and NPM

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	-.003	.003		-1.08	0.281		
	CSR	.055	.002	1.229	23.21	0.000	.233	4.3

a. Dependent Variable: NPM

Adjusted R^2 = 0.985 F-Statistics = 538.73 Prob > F = 0.000

Source: Author's Computation (2023)

4.2 Corporate Social Responsibility and Return on Total Asset

The effect of CSR on return on total assets (ROTA) is shown Table 2 show that the coefficient of CSR was 0.03 hence CSR had a positive effect on ROTA. It also suggests that for every unit increase in CSR, profitability increases by 0.03. The p value was 0.000 which is less than 5% level of significance, indicates that CSR had a significant positive effect on ROTA. In addition, the moderating variables: firm size (0.000) and interest rate (0.057) have positive coefficients. They also show significant effect on profitability (p value = 0.000). Also, the adjusted R^2 is 0.95 meaning that 95 per cent of the variations in profitability are explained by the model. The prob > F is 0.000, which is a sign of goodness of fit of the model.

Table 2: Regression Coefficients for CSR and ROTA

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		**B**	**Std. Error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
1	(Constant)	-.016	.001		-11.154	.000		
	CSR	.030	.001	1.229	31.322	.000	.233	4.284

a. Dependent Variable: ROTA
R^2 = 0.951Adjusted R^2 = 0.95 F-Statistics = 883.036 Prob > F = 0.000

Source: Author's Computation (2023)

4.3 Corporate Social Responsibility and Return on Equity

The effect of corporate social responsibility on financial performance measured by return on equity (ROE) is shown Table 3. The results show that the coefficient of CSR was 0.009 hence CSR had a positive effect on ROE. It also suggests that for every unit increase in CSR, financial performance increases by 0.009. The p value was 0.000 which is less than 5% level of significance, indicates that CSR had a significant positive effect on ROE. In addition, firm size has a positive coefficient (0.001) and shows significant effect on financial performance (p value = 0.000). Although, interest rate has a positive effect (0.017), the effect is not statistically significant (p value = 0.106). Also, the adjusted R^2 is 0.906 meaning that about 91 per cent of the variations in financial performance are explained by the model. The prob > F is 0.000, which is a sign of goodness of fit of the model.

Table 4.3: Regression Coefficients for CSR and ROE

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	-.003	.002		-1.190	.236		
	CSR	.009	.001	.349	6.470	.000	.233	4.284

a. Dependent Variable: ROE
R2 = 0.908 Adjusted R2 = 0.906 F-Statistics = 445.340 Prob > F = 0.000

Source: Author's Computation (2023)

Based on the results, the three null hypotheses, which state that corporate social responsibility has no significant effect on net profit margin, return on total assets and return on equity are rejected. The rejection of the hypotheses is based on the fact that the p-values in the three cases: NPM (0.000), ROA (0.000) and ROE (0.000) are less than 0.05 (level of significance), which is the level for accepting or rejecting the statement of hypothesis. Therefore, this study found that corporate social responsibility has a positive and significant effect on the performance of listed deposit money banks in Nigeria. This implies that when listed deposit money banks increases the money spends on social responsibility their performance will also increases and vice vasa. The result of the study is in line with stakeholder theory.

5. Conclusion and Recommendations

The objective of the study is to examine the effect of corporate social responsibility on the performance of listed deposit money banks in Nigeria. The study revealed that corporate social responsibility has a significant effect on the performance of deposit money banks in Nigeria. Based on the findings of the study, the following conclusions are drawn; CSR influences the financial performance of listed deposit money banks in Nigeria. Overall, there exist a strong effect of CSR on NPM, ROTA and ROE. These effects were also found to be positive and significant at 5% level of significance. In addition, results on the effect of CSR on NPM, ROTA and ROE suggest that stakeholders theory is applicable based on the investors return on investment. From the findings and conclusion, the following recommendations are made: Listed deposit money banks should continue to invest in corporate social activities as much as practicable because as indicated by study findings that it improves performance. The study recommended that deposit money banks in Nigeria continue to engage in CSR activities such as community development because it will improve their performance. This result is in line with stakeholders' theory that the interests of all the stakeholders should be taken into consideration while pursuing firms' objectives.

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