Corporate Social Responsibility and the Financial Performance of Deposit Money Banks in Nigeria

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Abstract

The study examines the impact of corporate social responsibility on the financial performance of deposit money banks in Nigeria. The survey research design was adopted for the study. The questionnaire method was used as the instrument of data collection. A total of 210 questionnaires were distributed to selected deposit money banks and communities that play hosts to these banks out of which 169 were returned. Responses from the selected respondents were analysed using the SPSS analytical technique. Three hypotheses were formulated to determine the impact of corporate social responsibility (independent variable) on banking profitability, industry-community relationship, and corporate image (dependent variables). The ANOVA test shows evidence of significant relationship between the dependent and independent variables. The regression estimates show (i) significant negative impact of CSR expenditure on the profitability of banking operations (ii) significant positive impact of CSR on reduction of social tension or youth restiveness and improvement in the quality of life in the host communities (iii) significant positive impact of CSR on corporate image and significant negative impact of CSR on brand loyalty. Based on the above results, the study concludes that corporate social responsibility affects the profitability of banking operations in Nigeria. It is therefore recommended that policies on corporate social responsibility be strengthened and strictly enforced by the relevant authorities with adequate sanctions for non-compliance. Enlightenment and sensitization campaigns are further recommended to educate business firms on the need to engage corporate social responsibility for a healthy and investment-friendly climate.

Introduction

In recent times, the conduct business operations have drastically changed due, largely, to the emergence of an increasing number of exogenous factors which impinge on corporate performance. The society, for instance, plays a very
vital role in the survival of a business such that businesses can no longer ignore the society they operate in. Business managers/directors are therefore confronted with the task of exploring ways of enhancing the performance of their organizations as well as the quality of life in their host community. This is the very essence of corporate social responsibility (CSR). Corporate social responsibility is a form of corporate self-regulation integrated into a business model (McWilliams & Siegel, 2001). CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms. Ethim (2011) defines CSR as a concept whereby a company indulges in continuous and responsible activities that point to its good intention as a corporate citizen. Corporate social responsibility (CSR) can further be explained as the practice whereby organizations take care of the needs of the communities where they are located. It could be through provision of electricity, pipe bore water, building of good roads or provision of security, etc. In return, these communities provide the organizations with a supportive business environment.

As a concept, therefore, corporate social responsibility promotes a symbiotic relationship between organizations and their host communities and thereby engenders industrial peace and harmony. Since banks gain substantially from their external environment, it is only necessary to give back to the society. The relationship should be mutual rather than parasitic. Discharge of corporate social responsibility promotes industry-community harmony thereby making the operating environment conducive for business operations. A business environment that supports industrial peace, no doubt, is expected to enhance organizational performance.

Corporate social responsibility (CSR) is an important factor in the operational performance of business organizations such as banks and other financial and non-financial institutions. Organizations have taken upon themselves the responsibility to impact positively on societies rather than focusing only on profit making in order to ensure their long-term survival. Organizations have developed a variety of strategies for dealing with this intersection of societal needs, the natural environment, and corresponding business imperatives with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations. Hitherto, societal expectations from business organizations did not go beyond efficient allocation of resources and profit maximization that shareholders would benefit from (dividends). In recent times, a lot has changed. Societies now demand, as stakeholders, that they should be fairly treated by organizations in their domain, hence businesses must think beyond profit maximization to value addition.

Traditionally, banks and other business organizations are primarily driven by the profit motive and in an effort to meet this objective many organizations have failed to respond to the expectations of the society or environment in which they operate. Proponents of CSR argue that corporations increase long-term profits by operating within a CSR perspective while critics argue that business organizations are primarily established to make profit and not charity. Research has shown that corporate social responsibility can enhance the profit margin, survival, respectability and reputation of a business. However, despite the positive impact of corporate social responsibility on bank performance, some banks still neglect or rather consider it irrelevant. One major reason underlying this attitude is the banks’ desire to make more profit while trying to reduce cost of operations. They consider corporate social responsibility an unnecessary expenditure which only reduces profits, dividend pay-out and hence firm value. Another reason is that corporate social responsibility though practiced successfully in developed countries is still largely unpopular in many developing nations including Nigeria.

Empirical evidence on the impact of CSR on corporate performance (particularly in the banking sector) in developing economies like Nigeria is rather quite scanty and available studies have produced mixed results. This study is expected to augment the body of literature in the area by filling the literature gap particularly as it relates to developing economies. The major objective of the study is to determine the extent to which corporate social responsibility affects the profitability of banks in Nigeria. To achieve this objective, the following hypotheses have been formulated in the null form:
Ho$_1$: Bank expenditure on CSR has no significant impact on the profit performance of banks in Nigeria.

Ho$_2$: CSR has no significant effect on industry-community relationship.

Ho$_3$: Corporate social responsibility has no significant effect on the corporate image of Nigerian banks.

**Review of Related Literature**

Companies do not exist in isolation as they continuously engage in one form of interaction or the other with different segments of the society that offer support services and resources needed for successful business operations. For instance, the society provides labour, raw materials or natural resources and market for finished products. Businesses therefore depend on human society for the successful conduct of their operations just as the society depends on business firms for economic and social well-being. Thus, the relationship is one of mutual interdependence. According to Mohammed, Isa and Muhammad (2013), this relationship has placed considerable pressures on the company due to increasing knowledge and heightening expectations that companies have a duty to be responsible corporate citizens and should think beyond their financial interests. Shocker and Sethi (1993) contend that expectation for more accountability, transparency and socially responsible project execution demand that companies should consider the interests of stakeholders rather than shareholders in business strategy decisions. They should be able to strike a balance between economic, environmental and social impact of their operations.

Corporate social responsibility is a deviation from the traditional view of business which is profit maximization. Traditionally, businesses were established to make profit for their owners, oftentimes at the expense of the larger society. The neglect of host communities by business organizations operating in their areas has often been advanced as the major reason behind the numerous agitations by communities for a fair treatment. The case of the Niger Delta region of Nigeria where the oil companies are accused of exploiting the oil-rich region without any consideration for their well-being is a case in point. The situation has made human survival uneasy for the communities just as it has rendered business operation difficult for the oil companies. Pursuit of profit or value maximization for shareholders as the sole motivation for business should be considered less attractive and less rewarding.

According to Barakat and Tarestad (2006), a business that has social responsibility is one with primary social objectives whose profits are ploughed back in the business or in the community rather than being driven by the desire more profits. Some firms are often reluctant to engage CSR initiatives because they consider CSR a liability and hence a drain on corporate profits. However, Erni (2001) argues that though CSR has huge cost implications, it is no longer considered a liability but an investment in social and environmental issues. Such investments are sources of long-term benefits for firms and society.

Corporate social responsibility increases profits because customers like the idea that the companies they do business with have managers who believe in acting ethically and giving back to the community (Adeyanju, 2012). Companies that have managers who genuinely practice CSR increase business performance even in cases where businesses do not support investments (Ginnarakis and Theotokas, 2011). Scholars contend that CSR practice varies from country to country and that leaders of corporations should practice CSR based on the moral and political system in which they operate (Campbell, 2007; Scherer and Palazzo, 2009). Griffin and Mahon (1997) examined the link between corporate social responsibility and the financial performance of the chemical industry. The study shows that companies that report high CSR record high levels of performance while those that report low CSR are linked with low levels of financial performance. Ngwakwe (2009) studied the impact of environmental responsibility on the performance of the Nigerian manufacturing sector. Evidence from the study indicates a positive impact. Babalola (2012) investigated the relationship between CSR and profit performance of firms in Nigeria using data on a sample of ten randomly selected firms over the period 1999-2008. The result shows evidence of significant positive relationship between CSR and firm profitability. Uadiale and Fagbemi (2012) examined the impact of CSR activities on financial performance using a sample of forty audited financial statements of quoted companies in Nigeria. Return on Equity (ROE) and Return on Assets (ROA) were used as proxies.
for financial performance. The result shows a significant positive relationship between the selected measures of financial performance and CSR.

Olayinka and Temitope (2011) studied correlation between CSR and financial performance of firms in Nigeria. The study also produced evidence of positive correlation between CSR and financial performance in Sri Lanka. In a similar study, Wijesinghe and Senaratne (2010) examined the impact of CSR (adopting Global Reporting Index as proxy) and firm profitability (proxied as return on assets (ROA) and return on equity (ROE)). The study shows empirical support for positive impact of CSR on firm performance. Nze, Okoh & Ojeogwu (2016) studied the effect of CSR on the earnings of quoted oil and gas firms in Nigeria using the ordinary least squares (OLS) technique. The result of the study shows significant positive effect of CSR on earnings. Oba (2011) examined whether CSR variables (community social responsibility, human resource management, and charitable contribution) have significant impact on quoted conglomerates’ market value. The regression estimates show non-significant relationship between community social responsibility and market value as well as between human resource management and market value. A significant relationship was however observed between charitable contribution and market value.

Mohammed, Isa and Muhammad (2013) examined the impact of CSR Disclosure on the profitability of quoted manufacturing firms in Nigeria. Specifically, the study focused on the impact of selected CSR indices on the return on assets (ROA) of selected manufacturing firms. Using secondary data from the annual reports of the selected companies, the study shows significant positive relationship between voluntary CSR Disclosure and ROA and significant negative correlation between both environmental and information disclosures and ROA. To improve financial performance, the study recommends that quoted manufacturing firms should undertake greater environmental management initiatives in the areas of pollution control and environmental conservation as well as product-related disclosures.

Bello (2012) examined the relationship between corporate social responsibility disclosure and quoted conglomerates in Nigeria using five-year annual data sourced from the financials of the selected companies. The study used donations, environmental pollution and prevention, health and safety of employee and employment of disabled persons as independent variables and ROA as dependent variable. The result shows non-significant relationship. Iqbal, Ahmad, Basheer and Nadeem (2012) investigated the impact of CSR on the financial performance of Pakistani listed companies using secondary data on corporate social responsibility index as exogenous variable and ROA, ROE, Debt/Equity and Market value per share as dependent variables. The study reports a significant negative relationship CSR and financial performance.

Ginnarakis and Theotokas (2011) evaluated CSR in 112 companies that implemented the Global Reporting Initiative (GRI) between 2007 and 2010 in an attempt to measure the effects of the financial crisis on CSR performance. The basis of the GRI reporting framework was a 6-point score tested on 112 companies that measured the company’s corporate reputation, concern for the community, stakeholder pressure, and economic performance. The Wilcoxon signed-rank-sum test showed that companies that engage in CSR increase their business performance significantly. Carlsson and Akerstom (2008) conducted a study to identify the effect of CSR on corporate performance. The study finds a positive effect of CSR on financial performance. Uwuigbe and Egbide (2012) conducted a study on CSR Disclosures using a sample of 41 listed companies in Nigerian stock exchange for the period, 2008-2012. The paper shows a significant negative relationship between financial performance and level of corporate social responsibility disclosures.

Ojo (2010) appraised the practice of CSR by selected business firms in Nigeria by comparing their turnover and investments in CSR. The result of the study reveals very low level of investments in CSR by the selected firms. Maruf (2013) examined the impact of CSR on corporate image. The study shows evidence of positive impact of CSR on corporate image. A study by Branco and Rodrigues (2007) reports that companies with strong social responsibility image often have a better ability to attract preferred job applicants, retain them once hired, and keep employee morale high. Ndu and Agbonifoh (2014) studied the practice, constraints and challenges to the adoption of CSR in the Niger Delta region of
Nigeria using primary data collected using questionnaires. They find low level of adoption of CSR in the area as manifested in low level of development of the region.

Osisioma, Nzewi and Nwoye (2015) examined the relationship between CSR and the financial performance of selected firms in Nigeria. The study shows a significant positive relationship between CSR cost and corporate profitability. Odetayo, Adeyemi and Sajuyigbe (2014) investigated the impact of CSR on the corporate profitability of Nigerian banks. They find significant positive relationship between expenditure on CSR and profitability of Nigerian banks. Onwe (2014) examined the effect of corporate social responsibilities of banks on the Ebonyi State University community. The study was designed to identify the determinants of level of confidence the University community has on banks’ CSR activities. Zenith Bank PLC was used for the study. The regression estimates show that monetary and non-monetary donations by the bank significantly explain the host community’s confidence in the bank. It therefore concludes that CSR by banks boosts community’s confidence on their activities.

Uzoka and Eze (2015) conducted a similar study the Ebonyi State University community. Zenith Bank PLC was also used for the study. Their finding was consistent with that of Onwe (2014). Specifically, they report that monetary and non-monetary donations significantly affect the host community’s confidence on the bank. Ajide and Aderemi (2012) studied the effect of CSR disclosure on corporate profitability. The result of the study indicates significant positive effect of CSR on corporate bank profitability. A similar study by Richard and Okoye (2013) also shows significant positive impact of CSR on the performance of deposit money banks in Nigeria. Kindele (2011) studied a sample of four banks to determine the effect of CSR as a tool for organizational survival in Nigeria. The study presents evidence of a significant relationship between CSR practices and bank profitability.

Ngwakwe (2009) studied a sample of sixty manufacturing companies in Nigeria to determine the relationship between environmental responsibility and firm performance in Nigeria. The firms were categorized into environmentally ‘responsible’ and irresponsible” groups. Three indicators of sustainable business practice (employee health and safety (EHS), waste management (WM), and community development (CD), common among the 30 ‘responsible’ firms) were selected. The result shows that sustainable practices of the ‘responsible’ firms are significantly related with firm performance.

Methodology

The survey research design was adopted for the study. From a population of 21 deposit money banks (DMOs), a sample of 6 banks was selected based on their asset base. Major branches of these banks located in Lagos were chosen for this study. Communities (6 in number) where these banks have discharged CSR were also selected for the study. A total of 180 questionnaires were administered on the staff of the selected banks (30 for each of the selected banks) while 30 other questionnaires were administered on selected respondents from the 6 communities (5 for each community) where these banks have discharged their CSR. The Statistical Package for Social Sciences (SPSS) was employed in analyzing the data so as to determine the correlation and regression estimates.

Data Analysis and Discussion of Results

Table 1 shows that of the 210 questionnaires distributed, a total of 169 were retrieved from respondents. This represents a retrieval rate of 80.5 per cent.
Table 1 presents the details of the number of questionnaire returned or not returned.

<table>
<thead>
<tr>
<th>Questionnaires</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administered</td>
<td>210</td>
<td>100%</td>
</tr>
<tr>
<td>Returned</td>
<td>169</td>
<td>80.5%</td>
</tr>
<tr>
<td>Not returned</td>
<td>41</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

Source: Field Survey 2017

Test of Hypotheses

The research hypotheses are stated in the null form as presented below:

**Hypothesis 1**

$H_0$: Bank expenditure on CSR has no significant impact on the profit performance of banks in Nigeria.

Table 2: ANOVA test for statistical significance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>3.739</td>
<td>2</td>
<td>1.869</td>
<td>3.156</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>98.332</td>
<td>166</td>
<td>.592</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>102.071</td>
<td>168</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Bank profitability
Predictors: (Constant), CSR

Table 2 above shows the assessment of the statistical significance of the model for determining the relationship between bank profitability and CSR. The ANOVA tests the null hypothesis that there is no significant impact of bank expenditure on CSR on the profit performance of banks in Nigeria. The result shows evidence of significant relationship between bank profitability and corporate social responsibility at 5 per cent, hence a rejection of the null hypothesis. The result implies that expenditure on CSR affects the profitability of banking institutions in Nigeria.

Table 3 Coefficients of the research variables

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Constant)</td>
<td>2.824</td>
<td>.181</td>
<td>15.607</td>
</tr>
<tr>
<td>1</td>
<td>CSR increases the profit-earning capacity of banks</td>
<td>-.135</td>
<td>.058</td>
<td>-.091</td>
</tr>
<tr>
<td></td>
<td>Expenditure on CSR does not affect profitability of banking operations</td>
<td>-.002</td>
<td>.064</td>
<td>-.002</td>
</tr>
</tbody>
</table>

Dependent Variable: Bank profitability
Predictors: (Constant), CSR
Source: Field Survey 2017

From table 3 it was observed that the respondents’ perception on whether CSR increases the profit-earning capacity of banks was significantly negative at 5 per cent. This result indicates that discharge of CSR by banks reduces capacity for higher profits. However, the perception on whether expenditure on CSR does not affect profitability was also negative,
though not significant. The negative response implies a positive impact of CSR expenditure on bank profitability. Though this position negates the former, it is non-significant.

**Hypothesis II**

H.2: CSR has no significant effect on industry-community relationship.

**Table 4: ANOVA test for statistical significance**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>2</td>
<td>11.690</td>
<td>12.076</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>166</td>
<td>.968</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>184.071</td>
<td>168</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Industry-community relationship
Predictors: (Constant), CSR

Table 4 shows the result of the ANOVA test of statistical significance of the model for determining the relationship between CSR and industry and community. The ANOVA tests the null hypothesis that there is no significant impact of CSR on industry-community relationship. The result shows evidence of significant association between corporate social responsibility and industry-community relationship at 5 per cent, hence a rejection of the null hypothesis. The result implies that discharge of CSR by banks affects industry-community relationship.

**Table 5: Coefficients of the research variables**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>(Constant)</td>
<td>1.263</td>
<td>.257</td>
<td>4.910</td>
</tr>
<tr>
<td></td>
<td>CSR has helped reduce social tension or youth restiveness in the local communities.</td>
<td>.195</td>
<td>.092</td>
<td>.170</td>
</tr>
<tr>
<td></td>
<td>Banks have positively impacted the quality of life in the rural communities.</td>
<td>.308</td>
<td>.098</td>
<td>.251</td>
</tr>
</tbody>
</table>

Dependent Variable: Industry-community relationship
Predictors: (Constant), CSR
Source: Field Survey 2017

Table 5 shows the respondents’ perception on whether CSR has helped reduce social tension and youth restiveness. The result shows a significant positive impact of CSR on reduction of social tension or youth restiveness at 5 per cent. This result indicates that discharge of CSR by banks reduces social tension or youth restiveness in host communities. Also, the perception on whether discharge of CSR by banks has positively impacted the quality of life in the rural communities shows significant positive impact of CSR on quality of life in the rural communities. The positive results imply that CSR promotes industry-community relationship.

**Hypothesis III**

H.3: Corporate social responsibility has no significant effect on the corporate image of Nigerian banks.
Table 6: ANOVA test for statistical significance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.207</td>
<td>2</td>
<td>3.103</td>
<td>3.265</td>
<td>.001</td>
</tr>
<tr>
<td>Residual</td>
<td>157.793</td>
<td>166</td>
<td>.951</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>164.000</td>
<td>168</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Bank corporate image  
Predictors: (Constant), CSR

Table 6 shows the result of the ANOVA test of statistical significance of the model for determining the relationship between CSR and corporate image. The ANOVA tests the null hypothesis that there is no significant effect of CSR on the corporate image of Nigerian banks. The result shows a significant relationship between corporate social responsibility and banks’ corporate image at 5 per cent, hence a rejection of the null hypothesis. This implies that discharge of CSR by banks affects their corporate image.

Table 7: Coefficients of the research variables

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T-Statistic</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.973</td>
<td>.267</td>
<td>11.115</td>
<td>.000</td>
</tr>
<tr>
<td>CSR has no significant positive effect on banks’ corporate image.</td>
<td>.148</td>
<td>.083</td>
<td>.144</td>
<td>-1.783</td>
</tr>
<tr>
<td>CSR has significant positive effect on brand loyalty</td>
<td>.165</td>
<td>.070</td>
<td>.382</td>
<td>-2.357</td>
</tr>
</tbody>
</table>

Dependent Variable: Bank corporate image  
Predictors: (Constant), CSR

Source: Field Survey 2017

From table 7 it was observed that the respondents’ perception on whether CSR has no significant positive effect on corporate image of banks was negative but not significant at 5 per cent. This result indicates that discharge of CSR by banks enhances banks’ corporate image. However, the perception on whether CSR has significant positive effect on brand image also produced a negative result. The negative response implies that CSR has negative impact on brand loyalty.

Conclusion and Recommendation

The results of the statistical tests are summarized as follows:

- The ANOVA test for statistical significance shows significant relationship between CSR expenditure and bank profitability. The regression estimate further reinforced the above finding. However the estimate shows significant negative impact of CSR expenditure on the profitability of banking operations in Nigeria.
- On the relationship between CSR and industry-community relationship, the ANOVA test shows evidence of statistically significant association between CSR and industry-community relationship. The regression estimates show that CSR by banks reduces social tension or youth restiveness and also improves the quality of life in their host communities. Thus, CSR promotes healthy industry-community relationship.
- The ANOVA result also shows significant relationship between CSR and corporate image. The regression estimates show non-significant positive impact of CSR on corporate image at 5 per cent though at 10 per cent
there is evidence of positive impact of CSR on corporate image. However, the estimates also show significant negative impact of CSR on brand loyalty.

Based on the above results, the study concludes that corporate social responsibility affects the profitability of banking operations in Nigeria. It is therefore recommended that policies on corporate social responsibility be strengthened and strictly enforced by the relevant authorities with adequate sanctions for non-compliance. Enlightenment and sensitization campaigns are further recommended to educate business firms on the need to engage corporate social responsibility for a healthy and investment-friendly climate.

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