

Corporate Social Responsibility and Profitability of Commercial Banks in Nigeria (2006-2015)

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Abstract
The study examined the corporate social responsibility and profitability of commercial banks in Nigeria. The specific objective of the study was to investigate the extent to which CSR has been influenced by the banks' PAT, TR and NA. A total number of ten banks out of twenty one commercial banks in Nigeria were selected for the study. The time series data used were obtained from the annual reports of banks published in NSE website. Multiple regression analysis and student t-test were the statistical tools used to test the hypotheses formulated at 5% level of significance. The result indicated zero impact by PAT and TR while the impact of NA is negative. The p-values for all the variables were not significant. The study therefore concludes that expenditure on CSR is not significant enough and has not been positively affected by the financial performance of banks. The recommendation is that banks should create a good image that will market their operations better in the environment where they operate. Investment in CSR will give them that social acceptance required for a business to be more profitable.
Keywords: corporate social responsibility, commercial banks, profitability, Total Revenue, Net Assets, Nigeria.

1.0 Introduction

The issue of corporate social responsibility (CSR) and banks in Nigeria has become worthy of notice since the disclosure of expenditures on them is always on the front page of banks annual reports. It has drawn such attention that someone may want to know how much banks' financial performance affects the said CSR. The proper disclosure of all social cost incurred within a year is really commendable because the stakeholders and other accounting information users may want to use it in decision making process. Therefore, communicating this information is one aspect banks in Nigeria have not neglected. However, the need for the banking sector to improve on what they are already doing has become necessary since businesses exist not only for the owners but basically for all stakeholders. Universal definition of CSR has not been established, therefore organizations have different definitions which is in accordance with their understanding and practice of CSR within their local environment and countries at large. Corporate Social Responsibility has always been referred to as corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, triple-bottom line, and corporate ethics in so many studies and, in some cases, corporate governance is used to describe it (Bassen et al., 2006). Divergence CSR definition among scholars and practitioners, has resulted into different definition by different researchers in different ways over time. McWilliams and Siegel (2001) see Corporate Social Responsibility as "doing all those activities which are not forced by law of those countries in which they are running their business and which are not for the primary benefit of the business but for the benefit of the society". According to Schoemaker and Jonker (2006), the basic normative premise of CSR is that organizations should exceed the normal business boundaries of maximizing profits for shareholders but endeavor to care for the host community and the business environment they are operating in. Companies' contribution to improve the society and preserve the environment will go a long way to boost their profitability. Firms' economic perception determine their extent of involvement in CSR activities. Some organizations believe in maximizing the shareholders' value, while some other believe in maximizing profits according to (Friedman, 1962). Albinger and Freeman (2000) stated that CSR is a factor of profitability and which has the ability to motivate, attract and retain the desired workforce and improve financial performance. Several studies have been carried out on the relationship between CSR and FP resulting in diverse conclusions. Ponnu and Okoth (2009) did a study on CSR disclosure in Kenya. They discovered that Kenyan companies are relatively smaller when measured by the international standards. Therefore, the participation of firms in social activities may not depend on their financial ability rather, their readiness and desire to strategically position their business within the society for future economic and competitive advantages. A study by Mutuku (2005) established that there was no relationship between CSR and financial performance while, a study by Wanjala (2011) found that banks that are profitably engaged in corporate social responsibility. Ondieki (2011) in his research discovered that an increase in CSR score would lead to increase in profitability and also a unit increase in efficiency would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange. Empirical studies examining the relationship between CSR activities and firms' financial performance have presented mixed findings. Therefore, this study is aimed at examining the banks' profitability and corporate social responsibility. In pursing this objective, a sample of ten banks has been drawn from the twenty one banks in Nigeria. These banks are: First Bank Plc., Zenith bank Plc., Sterling bank Plc., Wema bank Plc., Access bank Plc., Standard IBTC bank Plc., Eco Bank Plc., Diamond bank Plc., Fidelity bank plc. And FCMB group Plc.

1.1 Objectives of the Study

The major objective of this study is to evaluate the impact of Nigerian banks' financial performance on the society. In an effort to achieve the major objective, the following specific objectives will be critically examined:

- To investigate the extent to which the banks PAT affects CSR;
- To examine the effect of the banks' total revenue (TR) on CSR;
- To ascertain the impact of the Net Asset (NA) on CSR.

1.2 Research Questions

The following research questions have been raised to enable the researcher pursue the above objectives:

- To what extent has PAT affected the CSR?
- What influence does TR have on CSR?
- How does NA affect the CSR?

1.3 Research Hypotheses

- Ho1: PAT does not significantly affect the CSR;
- Ho2: TR has no significant relationship with CSR;
- Ho3: NA does not positively affect CSR.

2.0 Literature Review

2.1 Conceptual Review

Bowen (1953) was the first to recognize the concept of CSR in his publication titled "Social Responsibilities Businessman". The concept has since then been in existence as a focal point which has addressed the changes in business requirements and diverse social responsibilities. However, the concept was popularized by German Beta pharmaceutical company in the 1990s when it implemented CSR programs. Since then, CSR activities have been adopted by both private and public sectors. World Business Council for Sustainable Development (2004) defined corporate social responsibility as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life". Jibril et al (2016) referred to KLD, 2006 which states that the "broad framework used to categorize CSR initiatives includes actions under the domains of employee relations and diversity programs, ethical materials sourcing, product design, marketing programs, the environment, human rights, and corporate governance". Profitability refers to the capacity of firm to generate profit. According to definition by Peavier (2012), profitability is one of the organizational performance indicators which reveals the return on sales and return on investments. They say customers are always right. When customers are well managed and given the right attention, the organization's revenue increases. Without customers no organization exists. This fact is obvious and must be well handled for banks to keep functioning.

2.2 Theoretical Framework

Among all the numerous CSR theories, the study has been anchored on the following:

2.2.1 Stakeholder Theory

Stakeholder theory describes the relationship of an organization with its stakeholders which comprise the employees, suppliers, customers, host communities and so on. Ojo (2012) mentioned that the theory focuses on the need for establishments to actively practice corporate social responsibilities since they depend on the society to exist and carry on their businesses profitably. Ferreira, Branco and Moreira (2012) affirmed that "Stakeholder theory postulates a positive relationship between economic performance and the level of decision by a company to engage in CSR reporting and therefore profitable firms are more likely to disclose more information in order to screen themselves from less profitable firms". The Stakeholder theory is both a managerial and an ethical theory, which tends to explain the diverse relationship between the organization and its several stakeholders; achieving the profit maximization, stakeholders' benefits and expectations at the same time. Bird et al., (2007). asserted "that CSR activities, which encompass all legitimate stakeholders' implicit claims as stakeholder theory suggests, can improve firm value by (1) immediate cost saving, (2) enhancement of firm reputation, and (3) dissuasion of future action by regulatory bodies including governments which might impose significant costs on the firm". Driver & Thompson (2002) stated that Stakeholder theory is closely related to the issue of corporate social responsibility to the extent that Stakeholder theorists define appropriate and inappropriate corporate behaviour in terms of how corporations act visa-vise their stakeholders. Kaler (2006) opined that "one of the main functions of Stakeholder theory was to enable the argument for an enhancement of distributive justice within the confines of a basically capitalist structure for companies by means of a more extensive serving of nonshareholder interests relative to those of shareholders than would be the case with a shareholder value approach to running companies". According to this theory, the demand of stakeholders such as investors, shareholders, customers, suppliers, employees, government and the host communities have to be adequately considered by managers since they are capable of influencing the performance of the organization.

2.2.2 Social Benefit Theory

Social benefit theory promotes firms contribution towards the well-being of the host communities. Businesses do not operate in a vacuum, somehow, the daily pollution as a negate externality affects the people in the environment. It is in the interest of banks operating in all communities to strive to minimize the effect of environmental hazards caused by industrial generators emissions into the air. The improvement of the wellbeing of the people gives banks a competitive advantage over others. Some banks do this through the provision of health facilities, building of classrooms in the Universities and purchase of vehicles for VCs and heads of departments. Bay Oil and Watts (2003) identified two factors that banks' CSR can really rely on, which are the force of competition and engaging in CSR activities. Therefore, CSR demands that all stakeholders should be taken care of. Banks are to consider the well-being of the host communities and to provide CSR that could benefit all interest groups in the society.

2.2.3 Legitimacy Theory

According to this theory, a firm's activities are deemed to be genuine when it is socially tolerable and adequate and deserve everyone's approval. When a company's behavior reveals a significant difference from the expectation of the people, it gives rise to legitimacy gap. Legitimacy theory is obtained from the concept of organizational legitimacy by Dowling and Ptefer (1975) "as a condition or status which exist when an entity's value system is congruent with the value system of the larger social system of which the entity is a part when actual disparity exist between the two value systems, there is a threat to the entity's legitimacy theory posts. That organization continually seeks to ensure that they operate within the bond and norms of their respective societies". When applying a legitimacy theory, the organization is expected to willingly disclose all activities viewed by the management to be the activities expected by the communities in which it operates (Deegan 2002, Cormier 1997). This theory depends on the fact that there is a "social contract" between a company and the society in which it operates (Deegan 2000, Deegan 2002; Mathew 1993). This theory emphasizes that firms going concern may be at stake especially if the society begin to see a breach in the social contract between them and the firm. The legitimacy theory encourages the society to revoke any contractual agreement with an organization that is acting ultra vires. That is, where the society affirms that the operations of an entity is no longer legitimate, the society has the right to stop the entity's operations. The resultant effect are quickly noticed by customers reducing their patronage and also telling other to withdraw. Suppliers and contractors will gradually cease their supply and credit facilities to the entity. There will be a multiplier effect because the society will mount pressure on the government to increase taxes, fines or pass a law to stop the operations that are against the host community and the society at large. Legitimacy theory is a generally acceptable theory when it comes to studies on CSR (Deegan 2002) and actually it is not out of context because it has been proved by various researcher that legitimacy theory serves better in the explanation of environmental and corporate social responsibility (Campbell et al 2003).

2.3 Empirical Review

Ajide and Adremi (2014) did a research on "the effects of corporate social responsibility activities disclosure on corporate profitability". They made used of published financial statements of twelve commercial banks in Nigeria for only one year which is 2012. The statistical tool employed for data analysis was the multiple regression analysis of ordinary least square (OLS). Their study revealed that the size of banks and CSR activities have a positive relationship with the profitability of banks while owner equity has negative relationship with the profitability. The result therefore revealed that when banks carry out CSR activities and are committed to impacting and improving the well-being of people the returns can increase the number of customers and more revenue will be generated.

Olayinka and Temitope (2011) investigated "corporate social responsibility and financial performance in developing economy, the Nigerian experience". The study made use of forty published annual reports of listed firm Nigerian stock exchange commission. The research design employed was content analysis research design which traces sentence of each component of CSR disclosed in Reports of the sampled companies. The analysis was done with the aid of the statistical package for social science, (SPSS version 15.0) the result indicated a positive and significant relationship with the financial performance indicators and the CSR.

Richard and Okoye (2013) studied "the effects of corporate social responsibility on the deposit money banks in Nigeria". The research design used was a descriptive survey design. The information contained in the annual reports published by banks was extracted for analysis. The research indicated that corporate social responsibility has impacted on the financial growth of the banks in Nigeria such that a significant improvement on infrastructures and other social amenities were also noticed in the host communities.

Ofori, Nyuur, and Darko (2014) carried out a research on banks in Ghana and discovered that CSR was seen as a strategic and management tool to genuinely turn a business into a profitable venture. For the purpose of profitability and sustainability bank are encouraged to practice CSR in Ghana. Their research therefore revealed a strong positive relationship between corporate social responsibility and the financial growth of banks in Ghana.

Amole et al., (2012) carried out a research "on the impact of corporate social responsibility on the profitability of Nigerian banks, using ordinary least square (OLS) model of regression in testing the relationship between dependent and independent variables". The model adopted was based on the causal relationship between CSR and firm's financial performance (FFP) and data on corporate social responsibility expenditure and profit after tax for the period of 2001-2010 was analyzed. The results of the regression analysis showed that for every unit change increment in the CSR expenditure, there will be 95% increase in the profit after tax of the bank. The coefficient of determination (R-Square) value of 0.893 obtained indicated that CSR accounted for 89% of the variation in the profit after tax of the bank. The study revealed a positive relationship between banks CSR activities and profitability, and the need for banks to be committed to CSR as backed up by the Stakeholder's theory. This will enhance their profitability and create confidence in the investors that their investment is safe will not suffer threat of community crisis and industrial unrest.

3.0 RESEARCH METHOD

3.1 Research Design

The research design adopted in this study is a cross sectional survey which involves a survey of existing data (secondary data).

3.2 Methods of Data Collection and Technique of Analysis

Time Series Annual data was employed ranging from 2006 - 2015 with a sample size of 10 banks. The research instruments used in collection of data for this study were mainly secondary data from the NSE Website and Annual reports published by the banks selected.

Descriptive and inferential statistics were used to analyse the data for this study. Also multiple regression and t-test statistical tools were used to test the hypothesis formulated in this study.

3.3 Model Specification

This study used the econometric technique of Ordinary Least Square (OLS) in form of Multiple Linear Regressions to the relative regression coefficients. The regression model was estimated through the use of Statistical Package for Social Sciences (SPSS).

The mathematical model for the study is as follows:

CSR = f (PAT, TR, NA)

Where;

CSR = Corporate Social Responsibility
PAT = Profit after Tax
TR = Total Revenue
NA = Net Asset

Mathematical Specification

$Y_i = b_0+b_1X_1 + b_2X_2 +b_3X_3 +e$

Where;

Y_i = Corporate Social Responsibility
X_1 = PAT
X_2 = TR
X_3 = NA
b_0 = the parameter which represents the intercept
b_1, b_2, b_3 = The regression parameters used in determining the significance of the impact of each of the independent or explanatory variables x_1, x_2, x_3 on dependent variable, Y_i.
e = Random disturbance term.

4.0 Results and Discussions

The result from SPSS below has been summarised as follows:

Summary of the Results

R	=	0.945
R^2	=	0.893
Adj.R	=	0.839
Std Error of estimate	=	1322.93
Durbin – Watson	=	2.227
F Value	=	16.691
DF	=	10-4 = 6 i.e. F-tab = 4.53 (Under 5%)
PV (Significant)	=	0.003

TABLE 1

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.945[a]	.893	.839	1322.928	2.227
a. Predictors: (Constant), NA, PAT, TR					
b. Dependent Variable: CSR					

Source: SPSS Output for research data, 2017.

Table 1 shows the R^2 of 89.3% which is the rate of variability on the dependent variable (CSR) by all the independent variable (PAT, TR & NA) combined. That means CSR of Banks affects the behaviour of the explanatory variables which are accounted for by the model.

TABLE 2

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	87634281.959	3	29211427.320	16.691	.003[b]
	Residual	10500838.441	6	1750139.740		
	Total	98135120.400	9			
a. Dependent Variable: CSR						
b. Predictors: (Constant), NA, PAT, TR						

Source: SPSS output for research data, 2017

Table 2 is the F-Test to determine whether the model is a good fit for the data. From the p-value, the model is a good fit since the P<0.05. That is, the F-value of 16.691 with the P-value of 0.003 shows that the model is statistically significant.

TABLE 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-886.105	817.297		-1.084	.320
	PAT	.009	.006	.501	1.495	.186
	TR	.002	.002	.594	1.157	.291
	NA	.000	.001	-.140	-.353	.736
a. Dependent Variable: CSR						

Source: SPSS output for research data, 2017.

Table 3 means that Y = -888.105 + 0.009PAT + 0.002TR – 0.000NA.

4.1 Test of Hypothesis

The study earlier hypothesized that: significant relationship does not exist between banks' CSR and their PAT, TR & NA. Therefore the study has tested sets of variables using the t-test, to see if they are significant. The results revealed the following: PAT = 1.495< 4.53 (no impact), significance level (p = 0.186 > 0.05 i.e., not significant); TR = 1.157 < 4.53 (no impact), significance level (p = 0.291 > 0.05 i.e., not significant); NA = -0.353 < 4.76 (negative impact), significance level (p = 0.736 > 0.05 i.e., not significant). Based on the result from SPSS, the study has accepted the three null hypotheses and rejected the alternatives which state otherwise.

5.0 Conclusion and Recommendation

From the result above, it is obvious that banks have not done much on corporate social responsibility. The expenditure on it is not significant enough that the PAT, TR and NA do not positively impact on it. The Stakeholder theory is both a managerial and an ethical theory, which helps to explain the diverse relationship between the organization and its several stakeholders; achieving the profit maximization, stakeholders' benefits and expectations at the same time. When stakeholders are not happy with an organization, the going concern of that organization is usually at stake. CSR gives an organization a good image before the host community which may in turn help to promote the business. Therefore, it is recommended that more CSR activities that will lead to public awareness of banks interest in the wellbeing of the entire social environment be carried out. CSR has the power to enhance profitability of businesses within an environment. Good name cannot be bought, it is earned by actions people can sight.

APPENDIX

VARIABLES FROM COMMERCIAL BANKS IN NIGERIA FROM 2006 - 2011

NAME OF ORGANIZATION	CSR	PAT	TR	NA
	06-'15	06-'15	06-'15	06-'15
	N'M	N'M	N'M	N,M
FIRST BANK NIG. PLC	8,328	413,033	2,788,071	3,536,286
ZENITH BANK PLC	*9,309*	*590,229*	*2,574,687*	*2,519,134*
STERLING BANK PLC	17,637	47,055	576,141	464,481
WEMA BANK PLC	262	(55,682)	275,731	56,050
ACCESS BANK PLC	2,055	235,450	1,473,114	2,052,194
STANDARD IBTC BANK PLC	766	126,398	615,545	852,334
ECO BANK PLC	1,091	145,280	1,486,534	1,482,074
DIAMOND BANK PLC	3,226	72,769	1,054,217	1,161,003
FIDELITY BANK PLC	584	90,840	415,605	1,163,718
FCMB GROUP PLC	43,258	85,933	855,713	1,162,204
TOTAL	86,516	1,751,305	12,115,358	14,449,478

SOURCE: NSE WEBSITE AND ANNUAL REPORTS OF BANKS IN NIGERIA 2006-2016.

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