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Impact of Corporate Social Responsibility on Profitability of Nigeria Banks

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Abstract

Through corporate social responsibility, the bank hopes to be involved in and support sustainable development by acting morally, improving stakeholder welfare, and raising the standard of living in both the local community and society at large. This research examines Nigerian banks' profitability and corporate social responsibility empirically. Data was gathered from the annual reports of six banks that were sampled throughout a ten-year period (2003–2012) in order to accomplish the goals of this research. The statistical method used to analyze the data gathered using STATA 11 was simple regression analysis. The findings of the regression analysis showed a strong correlation between Nigerian banks' profitability and their corporate social responsibility spending. According to the study's findings, Nigerian banks are fulfilling their social duty and have acknowledged the significance of corporate social responsibility for sustainable growth. However, compared to the banks' profits, very little was spent on social responsibility. According to the report, the government should pass legislation requiring a minimum portion of an organization's profits to be allocated to corporate social responsibility.

Keywords*:* Nigerian banks, profitability, stakeholders, society, and corporate social responsibility.

INTRODUCTION

Sustainable development and corporate social responsibility (CSR) have garnered global attention, particularly in academics and the media. The demands of modern corporate organizations go beyond generating profits to include social responsibility. Business organizations must make constructive contributions to the advancement of the society in which they operate as they are part of society rather than being in a vacuum. The banking industry plays a crucial role in a country's economy. In their annual reports, almost every bank in Nigeria details their social responsibility expenditures related to sustainable development. The majority of them work to satisfy the needs of government agencies, religious institutions, university institutions, and humanitarian groups.

Nigerian banks' social responsibility initiatives have multiplied the benefits of sustainable development. Their financial success is impacted by the expenditures associated with these social commitments. The impact of corporate social responsibility on commercial organizations' profitability has been the subject of several empirical studies, particularly in industrialized nations. Why have so few research been conducted in developing nations, including Nigeria? In light of this, this study aims to investigate social responsibility in Nigerian banks and ascertain whether or not corporate social responsibility and profitability in Nigerian banks are significantly correlated.

LITERATURE REVIEW

Conceptual Framework

The term "corporate social responsibility" (CSR) lacks a widely accepted meaning. Different authors described it according to their experiences, interests, exposure, and the ideals that they held dear. Corporate social responsibility, also known as corporate conscience or corporate social performance, refers to the obligations that businesses have to the communities in which they operate, such as environmental preservation, social amenity

supply, health and safety, and so on. CSR is "the commitment of business to contribute to sustainable economic development, working with employees, their families, and the local communities," according to the World company Council for Sustainable growth (2001). According to Jamali and Mirshak (2006), corporate social responsibility (CSR) is a concern with societal needs and objectives that extends beyond the purely economic. CSR is "a concept whereby a company integrates social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis as they are increasingly aware that responsible behavior leads to sustainable business success," according to the European Union (2002).

The corporate social responsibility means:

-A company that adapts well to new social expectations and goals. -Doing business ethically and with the environment's best interests in mind.-Balancing the interests of other societal stakeholders with those of shareholders. The concept of corporate social responsibility (CSR) suggests how businesses might manage their operations to have a beneficial overall influence on society. It also refers to how organizations act morally and enhance the standard of living for both the local community and society as a whole. CSR is a set of guidelines that businesses adhere to in order to improve society. It also refers to how organizations act morally and enhance the standard of living for both the local community and society as a whole.

Empirical Framework

Examining some of the empirical studies that have been conducted in this area of study is crucial for this research project. Corporate social responsibility has been the subject of several studies, including those by Carlsson and Akerstom (2008), Ojo (2010), Uwaloma and Egbide (2012), Adeboye and Olawale (2012), and Adeyanju (2012).

Table1 : Summary of Some of empirical studies on corporate social responsibility.

Author(s)	Sample and Methods	Findings
Carlsson and Akerstom (2008)	The study used the sample of Ohrlings Pricewater house cooper for the period of year 2000 to 2007. The study used cross-case analysis	The study found that a company can engage in CSR in order to increase financial performance, improve the reputation and image of compound, and gain competitive advantage.
Uwaloma and Egbide (2012)	The study used sample of 41 listed companies in Nigerian stock exchange for the period of 2008. Multiple regression analysis was employed to analysed the data	The paper revealed that there is a significant negative relationship existed between firms financial leverage and the level of corporate social responsibility disclosures.
Adeboye and Olawale 2012	The research work conducted on a set of purposive sample of 200 executives and employees in banks. Using student t-test to test the difference between financial performance and ethical standard of doing business.	The result of the study showed that there is no significant difference between financial performance and ethical standard of doing business.

Adeyanju (2012)	The study used data collected from communication and banking industries. While data were analysed using both regression and correlation analysis.	The result of regression revealed a strong and significant relationship between CSR and societal progress. Which means CSR plays a significant role in societal progressiveness in terms of environmental and economic growth.
Ojo (2010)	The study used data of 40 limited liabilities companies quoted in Nigerian stock exchange. Data collected were analysed using correlation regression and Analysis of variance (ANOVA)	The result of the study revealed that companies examined contributed infinitesimal amount of their gross earnings to social responsibility.

Corporate Social Responsibility and sustainability development in Nigerian Banks.

Most people agree that the idea of sustainability originated from an environmental viewpoint and deals with how to manage natural resources in order to preserve them for future generations. Consequently, the organization's financial success is what determines economic sustainability. Sustainable development "requires economic growth based on policies that sustain and expand the environmental resource base, which can alleviate the extreme poverty of less developed countries." Over time, Nigerian banks have responded to corporate social responsibility (CSR) by realising their responsibilities to society and their stakeholders, since CSR improves their reputations. According to Elkington (1998), businesses should equally prioritise environmental and social challenges in addition to increasing their value by optimising profit and results. According to Elkington's claim, Nigerian banks have contributed billions of naira over the years to address the unique social and economic development issues facing the country. Healthcare, education, security, housing, agriculture, arts and tourism, sports, charities, religion, social clubs, government agencies, youth development, and public infrastructure development are the main sectors that profit from banks' CSR initiatives.

In 2012, Nigerian banks donated N132,916,347 to the health sector. Guranty Trust Bank Plc donated N32,600,000, while United Bank for Africa Plc made the largest contribution of N42,000,000. In the field of education, Nigerian banks supported academic scholarship grants, public lectures, symposia, conferences, debates, and essay contests. First Bank of Nigeria and Zenith Bank contributed N26.14 million and N21.37 million, respectively, to this industry in 2011. In 2012, Nigerian banks paid about N76.13 million on cars and other security-related equipment for law enforcement and other authorities. Environmental initiatives also got the attention they deserved. Ten banks spent a total of N296.62 million on environmental projects in 2010. Sports and other tournament sponsorships were not excluded. Zenith Bank spent N19.26 million, Union Bank spent N5.14 million, and First Bank of Nigeria spent N28.71 million in 2011. Banks have contributed to the sponsorship of cultural and artistic endeavours. A total of N52.85 million was donated to this region in 2011 by 14 Nigerian banks. In 2012, N127.11 million was donated to professional associations and social clubs; in 2011, N184.21 million was donated to government agencies, community-based organisations, and non-governmental organisations. Sponsorship of youth development programs, religious organisations, and other unclassified programs totalled N135.62 million at that time.

In 2012, Corporate Social responsibility awards, organized and sponsored by Trucontact in Collaboration with the Federal Inland Revenue Service and the Standards Organisation of Nigeria. Guaranty Trust Bank crown as the most socially responsible company in Nigeria in 2012. The bank also won two more statuettes awards as the best company in corporate governance and the environment. First Bank won statutette award for the best company in consumer issues because of its strong consumer data protection and privacy which has witnessed consistent improvements over the years. Access Bank won the award of the best fair operating company for promoting social responsibility in its sphere of influence.

M ethodology

The financial statements of six sample banks that are listed on the Nigerian Stock Exchange provided the secondary data utilised in this research. The banks were divided into two groups: the New Generation Banks and the Old Generation Banks. Banks from both stratum groups were included in the sample. Three banks were selected from each strata group. First Bank of Nigeria Plc, Union Bank of Nigeria Plc, and United Bank for Africa Plc were chosen for the Old Generation category. Zenith Bank Plc, Guarantee Trust Bank Plc, and EcoBank Nigeria Plc were the banks chosen under the New Generation category.

The study examines the effect of expenditure on corporate social responsibility on profitability of Nigerian banks. Also to investigate into whether or not there is a significant relationship between corporate social responsibility and profitability of Nigerian banks. In order to achieve two objectives set, the study need data on two variables. Data on profit after tax and data on expenditure on corporate social responsibility of the sampled banks for the period covered (2003 – 2012). The profit After Tax is dependent variable, while cost on corporate social responsibility is independent variable. The social responsibility is independent variable. The study used regression analysis to determine the effects of expenditure on corporate social responsibility on profitability of Nigerian banks, and to examine whether or not there is a significant relationship between the two variables. This was done using STATA 11 computer software. The model of the study is:

$PAT = a_0 + ai\ CSR + \mu$

Where PAT = Profit After Tax

CSR = Corporate Social Responsibility Cost

a_0 = Constant term

a_i = Parametre to be estimated

μ = Error term.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Table 2 below shows total amount spent on corporate social responsibility and profit after tax of sample banks.

First Bank Of Nigeria Plc			Union Bank of Nigeria Plc		United Bank for Africa Plc		Zenith Bank Plc		Guaranty Trust Bank Plc		EcoBank Nigeria Plc	
Year	CRS	PAT	CRS	PAT	CRS	PAT	CRS	PAT	CRS	PAT	CRS	PAT
	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000	₦' 000
2003	4359 7	2096 7000	2516 4.148	7136 000	8616 4.134	3713 000	5371 4.135	4424 002	2371 4.135	3144 1820	3214	5014 000
2004	93385	2310 5000	2987 3	8933 000	1091 82	4005 000	5593 1.665	4190, 768	2593 1.665	4125 832	3614	5893, 000
2005	67931	2781 9000	3271 9.113	1007 4000	1247 32.13	4921 000	7734 7.285	7155 920	2734 7.285	5433 748	3819	6320 000
2006	11988 7	3216 4000	3416 7.148	1086 8000	1390 18.81	1155 0000	4288 634.2	1148 0000	1763 5.235	8590 265	4147	9710 000
2007	31588 3	3667 9000	3523 1	1387 6000	1651 3.712	2144 1000	4231 5.465	1877 9000	1231 5.465	1319 4000	6102	1009600 0
2008	43872 9	1256 9000	5184 6.842	2685 9000	1861 4.163	4082 5000	4387 29	5199 3004	1281 5.671	2913, 704	7193	(8980 000)
2009	12295 13	3622, 000	1579 33.05	7285 400	2030 3.514	2375, 000	4461 5.889	2060 3000	2461 5.889	2860 3078	4812	(5944 000)
2010	88774 3.64	2917 000	5785 7.850	1054 7600	5990 0	5980 00	5080 00	3760 4000	3280 31.29	3960 4024	6123	2120 000
2011	90413 6.12	4478 5000	5163 8.117	1073 9100	7381 4	(9649 000)	7170 00	4418 9000	2974 9.137	5174 1620	6380	(4249 000)
2012	92461 3.81	4612 4000	4815 7.314	1213 5000	8749 0250	5147 7000	5870 00	4691 8000	3647 50.86	8729 5957	5907	3165

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Sources: Annual Reports of Sample Banks (2003 – 2012).

Table 3, below shows descriptive statistics of independent and dependent variables used in this study.

Variable		Obs.	Mean	Std. Dev.	Min	Max
First Bank	CSR	10	502,541,841	592,258,024	43,597,000	1,229,513,816
	PAT	10	27,701,100,000	22,667,314,000	3,622,000,000	46,124,000,000
Union Bank	CSR	10	52,458,759	46,576,538	25,164,148	157,933,059
	PAT	10	10,388,230,000	14,855,168,900	(7,285,400,000)	26,859,000,000
UBA	CSR	10	123,461,874	120,377,386	59,900,000	203,037,514
	PAT	10	11,195,800,000	10,747,968,000	(9,647,000,000)	51,477,000,000
Zenith Bank	CSR	10	372,508,540	324,172,408	53,714,135	717,000,000
	PAT	10	24,784,395,610	23,388,561,180	4,424,186,000	51,993,000,000
Guaranty Trust Bank	CSR	10	158,236,300	136,083,218	17,635,235	364,750,865
	PAT	10	27,164,210,800	25,620,779,540	3,144,182,000	87,295,957,000
Eco Bank	CSR	10	5,136,000	4,728,500	3,214,000	7,193,000
	PAT	10	2,314,500,000	1,979,485,000	(8,980,000,000)	10,096,000,000)
Aggregate	CSR	10	202,390,557	143,069,329	167,144,618	2,327,179,119
	PAT	10	13,102,872,735	102,167,177,385	(16,002,036,000)	273,844,957,000

Source: Authors' Computation

From table 3, First Bank recorded highest spending on CSR of ₦1,229,513,816 in year 2009. While Eco Bank (Nigeria) has lowest spending of ₦3,214.000 in 2003. The six Banks spent ₦12,143,433,140 on CSR for the period of 10years 2003-2012.

Below tables show the simple regression results of the effects of CSR on profitability of sample Banks individually and collectively.

Table 4 **Regression of CSR and Profitability of First Bank**

M ode1 1. Regression of CSR and Profitability of First Bank				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	4.164	2.614	8.53	0.002
Cons	3258.26	1793.61	3.64	0.004

No of obs = 10
Prob. > F = 0.000
R – Square = 0.8140

Table 5. Regression of CSR and Profitability of Union Bank

M odel 2. Regression of CSR and Profitability of Union Bank				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	2.517	1.410	1.13	0.0016
Cons	3647.18	14621.32	1.06	0.0019

No of obs = 10
Prob. > F = 0.002
R – Square = 0.6371

Table 6. **Regression of CSR and Profitability of UBA**

M odel 3. Regression of CSR and Profitability of UBA				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	3.814	0.231	4.72	0.0032
Cons	2840.06	6834.13	3.15	0.0056

No of obs = 10
Prob. > F = 0.000
R – Square = 0.8341

Table 7. **Regression of CSR and Profitability of Zenith Bank**

M odel 4. Regression of CSR and Profitability of Zenith Bank				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	2.964	0.318	4.16	0.0016
Cons	1986.17	8957.32	3.63	0.0037

No of obs = 10
Prob. > F = 0.0016
R – Square = 0.7526

Table 8. **Regression of CSR and Profitability of Guaranty Trust Bank**

M odel 5. Regression of CSR and Profitability of Guaranty Trust Bank				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	2.871	0.352	3.52	0.0026
Cons	4016.84	6974.05	2.16	0.0031

No of obs = 10
Prob. > F = 0.003
R – Square = 0.6547

Table 9. **Regression of CSR and Profitability of Eco Bank**

M odel 6. Regression of CSR and Profitability of Eco Bank				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	1.464	0.163	1.03	0.0030
Cons	3891.26	5637.15	0.68	0.0042

No of obs = 10
Prob. > F = 0.002
R – Square = 0.6153

Table 10. **Regression of CSR and Profitability of sampled banks**

M odel 7. Regression of CSR and Profitability of sampled banks				
PAT	Co-efficient	Std.Error	T-Statistics	Prob>t
CSR	5.916	1.824	3.74	0.0038

Cons	37,813	161432	4.69	0.0052

No of obs = 60
Prob. > F = 0.0035
R – Square = 0.7358

The computed co-efficient for individual bank (4,164,2.517, 3.814, 2.964, 2.871 and 1.464) shows that increase in expenditure on corporate social responsibility of all the banks have positive impact on their profitability. Also computed probability of T and probability F for the six banks (0.002 and 0.000, 0.0016 and 0.002, 0.0032 and 0.000, 0.016 and 0.0016, 0.0026 and 0.003, 0.0030 and 0.002) are less than 0.05. These show that there is significant relationship between corporate social responsibility and profitability of individual bank. The co-efficient computed in model 7, which is 5.916 indicates that increase in corporate social responsibility of sample banks has positive impact on the profitability of the banks and significant in nature. The probability of T and probability of F computed which are 0.0038 and 0.0035, are less than 0.05. This shows that there is a significant relationship between corporate social responsibility and profitability of selected banks at the 5% level of significant. Also, R-square computed was 0.7358 (73.58%), means that corporate social responsibility has 73.58% effect on profitability of selected banks.

Discussion of Findings

According to the report, First Bank Plc spent the most money on corporate social responsibility in 2009—N1,229,513,816. In 2003, EcoBank's lowest amount was N3,214,000. Over a ten-year period (2003–2012), the tested banks collectively spent N12,143,433,140 on corporate social responsibility. Regression research revealed a strong correlation between six selected banks' profitability and their corporate social responsibility spending. This research supports the stakeholders hypothesis, which states that businesses have obligations to a variety of internal and external stakeholders in addition to their owners. The work is empirically consistent with research by Carlsson and Akerstom (2008) and Ojo (2010).

Conclusion and Implication

The research proved that corporate organisations must satisfy the needs and expectations of stakeholders other than the company's owners. To achieve ongoing commercial success, organisations' management must adapt to the demands of the external environment. The inference is that for business organisations to develop and thrive, society must support them. Similarly, society need corporate organisations' products, or the commodities and services they manufacture, as well as its social amenities. Based on the results of this study, it can be said that Nigerian banks understand the value of corporate social responsibility (CSR) and are fulfilling their responsibilities to internal and external stakeholders as well as the general public. Regression analysis of CSR and Profit After Tax for six chosen banks showed that higher CSR spending has a favourable effect on the banks' profitability. The findings are consistent with Carlsson and Akerstom's (2008) research and the stakeholders theory of CSR.

Recommendations

Based on the findings of this study, the following recommendations were suggested:
Government needs to establish agency that will monitor the social responsibility of corporate organizations, in order to oversee the compliance of CSR policies and prosecute organizations that are socially irresponsible.
Law should be enacted that will fix minimum percentage out of profit of organization that should spend on corporate social responsibility.
Nigeria tax laws can be adjusted in order to make expenses on CSR as a deductible expenses. This will reduce

tax liability of company and also encourage organizations to provide substantial amount for CSR. Nigerian corporate organizations (banks inclusive) need to establish social responsibility unit. This unit duties should include informing the management of organization, Government and other stakeholders about social responsibility of organization. The unit also need to ensure that organization responsive to social responsibility is in accordance with international best practice.

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