

# Corporate Social Responsibility and Organizational Profitability: An Empirical Investigation of United Bank for Africa (UBA) Plc.

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## Abstract

This study investigated the impact of Corporate Social Responsibility on bank profitability with particular reference to United Bank for Africa (UBA) Plc. The study used annual reports of United Bank for Africa (UBA) Plc. Data used include corporate social responsibility expenditure and profit after tax for the period of 2006-2012. Data relating to cost/investment/expenditure as the case may be for the bank on corporate social responsibility and profitability was used to construct ordinary least square (OLS) model of regression to which was analyzed using SPSS. Result showed that Corporate Social Responsibility spending has short term inverse effect on Net Profit but in the long run it will provide better returns. The paper recommended that government should put Policy framework in place that will be design for corporate social responsibility in Nigeria to ensure compliance by setting mechanisms and institutions for the implementation of Corporate Social Responsibility.

**Keywords:** Corporate Social Responsibility, Organizational Profitability, Community, Customer, Government and UBA Plc.

## Introduction

Corporate Social Responsibility (CSR) activities are no longer only charitable events but tools for boosting positive image of the company, employee and customer satisfaction and organizational profitability. Islam, (2012) confirmed that the concept of business has changed from profit making activities to social welfare activities where businesses are not

only responsible to its shareholders but also to all of its stakeholders. The main force that drives companies to adopt corporate social responsibility is CSR's financial benefits (Rapti and Medda, 2012). Nicolau (2008) defined socially responsible companies as those which in profit-making operational decisions, considers the full scope of environmental impact and balances the needs of stakeholders.

According to World Business Council on Sustainability Development, (1998) described CSR as "the continuing commitment by Business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". While The European Commission defined CSR in 2006 as "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"

CSR can be described as an obligation, beyond that required by the law and economics, for a firm to pursue long term goals that are good for society. Maigan and Ferrell, (2004) described corporate social responsibility as an instrument to increase firms' legitimacy in the eyes of their stakeholders and to develop positive social responsibility images to burnish their reputations.

Many research (Richard and Okeye, 2013; Olayinka and Temitope, 2011; Amole *et al*, 2012; and Amaeshiet *al*, 2006) have done on CSR in Nigeria especially in oil and gas, manufacturing and telecommunication sector but few in banking sector and their result is inconclusive and there is needs to further investigate the impact of CSR on bank profitability. Therefore, this research study sets to investigate the impact of CRS on bank profitability with particular reference to United Bank for Africa (UBA) Plc.

### **Literature Review**

Dunning (2003) urged the development of what he names a Responsible Global Capitalism that should not be considered as an end in itself, but as a means of social transformation of societies to create a better life for its citizens. According to Dunning no single religion or philosophy can force its unique values and standards upon others but each religion or philosophy can contribute to a sustainable moral ecology. Corporate Social Responsibility (CSR), the set of standards to which a company subscribes in order to make its impact on society, has the potential to make positive contributions to the development of society and businesses. McWilliams and Siegel (2000) defined CSR as an emerging social action beyond company interests. CSR was a company's strategy and actions with cost consequences. The social responsibility affects to all the organization's behaviours and actions so that they assumed the commitments with society, according to their values and role in the society. Therefore, this issue affects the organization as a whole and cannot be faced by carrying out certain specific activities or planning other compensatory activities (Pau and Domingo, 2005).

Carroll and Bochoit, (2003) viewed CSR as economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. While, Ruggie (2002) looked at CSR as a strategy for demonstrating good faith, social legitimacy, and a commitment that goes beyond the financial bottom line. According to World Business Council for Sustainable Development (Löhman and Steinholtz, 2003) an active CSR work might include areas such as:

- The management of the organization clearly declares its views and obligations towards the society and its stakeholders
- The organization develops and implements clear policies

- The organization has rules for purchasing, including social and environmental concerns
- The organization reduces its “ecological footprints”, both in production and in the process of production
- The organization has objectives with regard to environmental and social concerns
- The organization shows an active engagement with regard to the development of its local society
- Consumers are educated in how products ought to be used
- The organization informs about all its different business areas in a transparent manner

### **Empirical Review**

Previous studies on the relationship between CSR (Corporate Social Responsibilities) and organizational responsibility did not provide conclusive evidence; other revealed that there is significant relationship between CSR and organizational profitability while other has contrary view. For instance, Lee, (2008) opined that keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organizations to reshape their frameworks, rules, and business models. To understand and enhance current efforts, the most socially responsible organizations continue to revise their short- and long-term agendas, to stay ahead of rapidly changing challenges. McGuire (1988) also argued that companies who do not take into account CSR, may not survive since they may fail to innovate. They conjectured that design may form the basis of constructing the link between innovation and CSR. In the same way, Lee, (2008) maintained that corporate social responsibility initiatives can lead to innovations through Corporate Social Responsibility in any nation would proactively promote the public interest by encouraging community growth and development and voluntarily eliminating practices that harm the public sphere, regardless of legality( Abefe-Balogun, 2011).

Shehu (2013) examined the influence of CSR on profit after tax of some selected deposit money banks in Nigeria. He found that CSR has significant effect on profitability. Richard and Okoye, (2013) also investigated the impact of corporate social responsibility deposit money of bank in Nigeria. They discovered that social responsibility has a great impact on the society by adding to the infrastructures and development of the society. The result of Babalola, (2013) who investigated the impact of social audits on corporate performance among Nigerian manufacturing firms agreed with others researchers (Sehu, 2013; Richard and Okoye, 2013; Lee, 2008 and Abefe-Balogun, 2011) who affirmed that CSR has a positive and significant relationship with the organizational performance. Akindele (2011) also examined the extent and role of the retail banking industries in corporate social responsibilities practices to help achieve sustainable growth and development in the local communities. It was found that there is a significant relationship between bank profitability and CSR practices. In the same way, Olayinka and Temitope (2011) used qualitative research method to examine the relationship between corporate social responsibility and financial performance in Developing Economies. The result showed that CSR has a positive and significant relationship with the financial performance measures. Amole *et al.* (2012) also used ordinary least square (OLS) model of regression in testing the relationship between CSR and firms financial performance. The results of the regression analysis revealed that there is positive relationship between banks CSR activities and profitability.

However, Moore, (2001) and Amaeshi et al.(2006 ) found that CSR has negative relationship with profitability, while Barnett and Salomon, (2006) discovered that there was no relationship between CSR and profitability because its relationship is complex to

understand. Chapple and Moon, (2005) asserted that corporate social responsibility referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change. Amaeshi et al. (2006) used a two pronged and two stage approach in carried out a research on Corporate Social Responsibility (CSR) in Nigeria: Western mimicry or indigenous practices? The results/analysis showed that the understanding and practice of CSR in Nigeria is still largely philanthropic and altruistic. Their finding differs from the understanding and practice of CSR in Western economies where CSR have advanced beyond philanthropy. Moore, (2001) also investigated the relationship between CSR and corporate financial performance and the study reported that negative relationship exists between CSR and CFP. The result of Wright and Ferris (1997) is in line with Moore, (2001) who found negative relationships

### **Brief Corporate Social Responsibility Report of United Bank for Africa (UBA) Plc.**

For several years, UBA Group has been committed to a deliberate strategy of sustainable development that align operational excellence with multifarious social program including, infrastructural development, economic empowerment and environmental sanitation. Interestingly, CSR is imbibed and well understood by management so much that the initiatives are embedded in all facets of the business to ensure that fair decisions are taken at all time. The responses to key shareholder group are:

#### **Customers:**

- Celebrating the UBA customer through a periodic service excellence program (SEP).
- Dedicated customer interaction centre (CIC) to address customer related issues and provide feedback system.

#### **Employees:**

- Quarterly online chat between management and staff.
- Put in place world class performance measurement structure for entrenched people happiness.
- Adopts international staff policies flexible enough meet requirement of labour laws in each country.

#### **Shareholder:**

- Open door policy, where investors have access to senior management to evaluate their investment decisions
- Dedicated investor relations department that addresses all investors' related issues.
- Hosting investors to quarterly teleconference calls.

#### **Community:**

- Dedicated CSR arm (UBA foundation)
- Continued implementation of the "Read Africa" initiative.
- Education support with the annual essay competition.
- Cleaning and maintenance of environs.
- Donation to tertiary institutions

#### **Government:**

- Prompt and accurate remittance of tax obligations
- Committed to supporting government's economic empowerment programs and initiatives.

- Largest employer of labour in the financial services sector with 12, 978 staff worldwide.

**Regulators:**

- Adherence to laid down rules and principles of banking in Nigeria.
- Carry on the business in the most ethical way to protect the interest of customers.

**Suppliers:**

- Fairness in vendor management and awarding contracts.
- Engaged in open bidding process since 2010
- Entrenched partnership with suppliers.

**Table 1: Schedule of donations for the period 1<sup>st</sup> January, 2012 to December, 2012.**

<b>Beneficiary</b>	<b>Amount in Naira</b>
1. African University of Science and Technology (AUST)	50,000,000
2. Nasarawa State Government	10,000,000
3. Federal Ministry of Agriculture	10,000,000
4. The Nigerian Police Force	5,449,500
5. Kogi State Flood Disaster Relief	5,000,000
6. Central Bank of Nigeria	3,500,000
7. Lagos University Teaching Hospital (LUTH)	1,500,000
8. Financial Reporting Council (FRC)	1,000,000
9. Lagos University Teaching Hospital (LUTH)	540,750
10. Nigerian Defense Academy	500,000
<b>Total</b>	<b>87,490,250</b>

Source: Annual Report and Accounts 2012

**METHODOLOGY**

The study used annual reports of United Bank for Africa (UBA) Plc. Data used include corporate social responsibility expenditure and profit after tax for the period of 2006-2012. Data relating to

cost/investment/expenditure as the case may be for the bank on corporate social responsibility and profitability was used to construct ordinary least square (OLS) model of regression to which was analyzed using SPSS version 20.

**Model Specification**

The economic model used in the study: Bank Profitability =f(CSR)

Bank profitability is measured by the net profit (NP)

Bank Profitability i.e

$NP = f(CSR)$

$NP = \beta_0 + \beta_1 CSR + U_i$

where;

the a priori expectation is  $\beta_1, \beta_2 > 0$

NP = Net Profit

CSR = Corporate social responsibility

U = Disturbance Term

$\beta$  = Intercept

$\beta_1$  = Coefficient of the independent variable.

Table 2: United Bank for Africa (UBA) Plc extracted financial efficiency parameters (2006 to 2012)

Year	Net Profit	CSR Expenditures
2006	11468000000.00	65026.00
2007	19831000000.00	318500.00
2008	40002000000.00	307000.00
2009	12889000000.00	584800.00
2010	2167000000.00	599000.00
2011	(16385000000.00)	102157300.00
2012	54766000000.00	87490250.00

**Data Analysis and Result Interpretation**

Table 3

**Correlations**

			Net Profit	Corporate social responsibility
Pearson Correlation	Net Profit		1.000	-.079
	Corporate social responsibility		-.079	1.000
Sig. (1-tailed)	Net Profit		.	.433
	Corporate social responsibility		.433	.
N	Net Profit		7	7
	Corporate social responsibility		7	7

Table 3 shows that CSR has insignificant negative relationship ( $r = -0.79$ ) with profitability. This indicates that the amount UBA Plc. spent on social responsibility has decrease effect (79%) on net profit in short run. This result is contrary to Amole *et al*, (2012) and Shehu (2013) who found that positive relationship exist between CSR expenditure and Net Profit but the result is in line with Moore, (2001) who found that there is negative relationship between CSR and Corporate Financial Performance.

Table 4

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	23861170.399	11412224.434		2.091	.091
Corporate social responsibility	-.040	.224	-.079	-.177	.866

a. Dependent Variable: Net Profit

Table 4 shows that corporate social responsibility expenditure has negative effect on the net profit of UBA Plc with ( $\beta = -0.040$ ;  $t = -0.177$ ; Pns). This implies that corporate social responsibility expenditure has inverse effect on UBAPlc. Net profit but insignificant. This indicates that spending on CSR in long run will lead to better return. The result agreed with Chapple and Moon, (2005) who asserted that corporate social responsibility referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

### Conclusion and Recommendation

The study revealed that Corporate Social Responsibility spending has short term inverse effect on Net Profit but in the long run it will provide better returns. The study also concluded that there is negative relationship between CSR expenditure and bank profitability. But the support lend to the society through bank's CSR will thereby make the business environment more friendly and habitable for organization survival in the long run. Management should continue support CSR activities because any organization that does not invest much in corporate social responsibilities its long run existence is threaten. Also, government should put Policy framework in place that will be design for corporate social responsibilities in Nigeria to ensure compliance by setting mechanisms and institutions for the implementation of CSR. Future researchers need to study the relationship of CSR expenditure and profitability in term of other variables such as Return on Assets and Return on Equity in relation with banking sector organizations in Nigeria. When other financial performance indices are investigated that will provide a very clear and broader picture to scholars and it will be very easy for them to confirm that CSR expenditure lead towards financial performance.

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