

Impact of Corporate Social Responsibility on Profitability of Nigeria Banks

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Abstract

Bank expects to be involve and promote sustainable development through corporate social responsibility through which the organisation will behave ethically, contribute positively to the welfare of stakeholders, and improve the quality of life of the local community and society at large. This study is an empirical investigation of corporate social responsibility and profitability of Nigerian banks. To achieve the objectives of this study, data were collected from annual reports of sampled six banks, for the period of 10 years (2003 – 2012). Simple regression analysis was employed as a statistical technique to analyse data collected using STATA 11. The regression results revealed that there is a significant relationship between expenditure on corporate social responsibility and profitability of Nigerian Banks. The study concludes that Nigerian banks recognized the importance of corporate social responsibility for sustainable development and they are performing their obligation to the society. But little amount were spent on social responsibility, if compared with profit generated by the banks. The study recommends that government need to enact a law that will fix minimum percentage out of profit of organisation that will be spent on corporate social responsibility.

Keywords: Corporate Social Responsibility, Nigerian Banks, Profitability, Stakeholders, and Society.

Introduction

The issue of Corporate Social responsibility (CSR) and sustainable development have attracted worldwide attention, especially in the media and in academia. Modern business organizations expectations is beyond making and maximizing profit towards being socially responsible to the society. Since business organizations do not exist in isolation but exist within a society, therefore business organizations need to contribute positively to the development of society in which they are operate. Banking sector occupies important key position in the economy of a nation. In Nigeria virtually all the banks reports their expenses on social responsibility towards sustainable development in their annual reports. Most of them strive to meet the demand of charitable organizations, government agencies, religious organizations and tertiary institutions.

Nigerian banks efforts on social responsibility have produced multiplier effects on the sustainable development. These social responsibilities costs them some expenses which have effects on their financial performance. Many empirical studies have been carried out in order to examine the effect of corporate social responsibility on profitability of business organisation, especially in developed countries. Why little studies were carried out in developing countries, Nigeria inclusive. It is against this background that this research paper tries to examine social responsibility in Nigerian banks, and determine whether or not there is a significant relationship between corporate social responsibility and profitability in Nigerian banks.

Literature Review

Conceptual Framework

Corporate Social Responsibility (CSR) as a concept has no consensus definition. Various writers defined it based on their background, interest, exposure, as well as values embodied in the writer's frame of reference. Corporate social responsibility is also called corporate conscience or corporate social performance are duties perform by organizations to the society in which they are operate, such as protection of the environment, provision of social amenities, health and safety, and so on. The World Business Council for Sustainable Development (2001) defined CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities. Jamali and Mirshak (2006) explained that CSR represents a concern with the needs and goals of society which goes beyond the merely economic. The European Union (2002) described CSR as "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 behaviour leads to sustainable business success.

The corporate social responsibility means:

- Organisation responding positively to emerging societal priorities and expectations.
- Conducting business in an ethical way and in the interests of the external environment.
- Balancing the shareholders' interests with the interests of other stakeholders in the society.

The idea of CSR implies how organisation can manages its business process to produce an overall positive impact on society. It also means how organisation behave ethically and contribute to economic development of society by improving the quality of life of the local community and society at large. The CSR are set of standards that company subscribes to in

order to make positive impact on society. It also means how organisation behave ethically and contribute to economic development of society by improving the quality of life of the local community and society at large.

Empirical Framework

It is important for this research work to examine some of the empirical studies that have been carried out in this field of study. Many studies have been carried out on corporate social responsibility, among them were studies of 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.

The concept of sustainability is generally regarded as having emerged from the environmental perspective is about how to manage physical resources so that they are conserved for the future. Therefore, economic sustainability is about the economic performance of the

organization itself. Sustainable development 'calls for economic growth that can relieve the great poverty of less developed countries, based on policies that sustain and expand the environmental resource base . Nigerian banks responses to CSR over the years when they recognized their obligations to the banks' stakeholders and to the society since CSR enhance their reputations. Elkington, (1998) asserted that companies should not only focus on enhancing its value through maximising profit and outcome but concentrate on environmental and social issues equally. In line with Elkington assertion, over the years Nigerian banks have spent billions of naira as their contribution towards addressing the peculiarity the social economic development challenges of the society. The principal beneficiaries of banks' CSR policies are in the areas of healthcare, education, security, housing, agriculture, arts and tourism, sports, charity organisations, religion, social clubs, government agencies, youth development and public infrastructure development.

Donation to health sector by Nigeria banks amounted to ₦132,916,347 in 2012. United Bank for Africa Plc contributed highest amount of ₦42,000,000, followed by Guaranty Trust Bank Plc which contributed ₦32,600,000. In education sector, banks in Nigeria sponsored quiz, debates, and essays competitions, public lecturers, symposia, and conferences and sponsored academic scholarship awards. In 2011 First Bank of Nigeria and Zenith Bank made contributions of ₦26.14 million and ₦21.37 million respectively to this sector. In the area of security, banks in Nigeria spent more than ₦76.13 million in year 2012, to purchase vehicles and other equipment for police and other security agencies. Environmental projects also received proper attention, In 2010, ten banks expending a total cost of ₦296.62 million on environmental projects. Sponsoring sports and other tournamental were not left out. In 2011, First bank of Nigeria spent ₦28.71 million, Zenith Bank spent ₦19.26 million, while Union Bank spent ₦5.14million. Sponsoring of Arts and culture related activities is another area where banks donated to. In 2011 to donation to this area by 14 Nigerian banks amounted to ₦52.85 million. Donations to social clubs, professional bodies accounted for ₦127.11 million in 2012, while donations to government agencies, community-based organisation, non-government organizations were ₦184.21 million in 2011. During the same period the amount spent on sponsoring of youth Development Programmes, Religious organizations and other unclassified programmes total at ₦135.62 million.

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.

Methodology

This study used secondary data, that were obtained from the financial statement of six sample banks quoted in Nigerian Stock Exchange. All the banks were categorized into two: the old Generation Banks and the New Generation. The banks used as sample cut across the two strata group. From each stratum group three banks were chosen. In Old Generation category, the following banks were selected: First Bank of Nigeria Plc, Union Bank of Nigeria Plc and

United Bank for Africa Plc. Under the New Generation category the banks selected were: Zenith Bank Plc, Guaranty Trust Bank Plc and EcoBank Nigeria Plc.

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:

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

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.

Year	First Bank Of Nigeria Plc		Union Bank of Nigeria Plc		United Bank for Africa Plc		Zenith Bank Plc		Guaranty Trust Bank Plc		EcoBank Nigeri Plc	
	CRS ₦' 000	PAT ₦' 000	CRS ₦' 000	PAT ₦' 000	CRS ₦' 000	PAT ₦' 000	CRS ₦' 000	PAT ₦' 000	CRS ₦' 000	PAT ₦' 000	CRS ₦' 000	PAT ₦' 000

2003	43597	20967000	25164.148	7136000	86164.134	3713000	53714.135	4424002	23714.135	31441820	3214	5014000
2004	93385	23105000	29873	8933000	109182	4005000	55931.665	4190768	25931.665	4125832	3614	5893000
2005	67931	27819000	32719.113	10074000	124732.13	4921000	77347.285	7155920	27347.285	5433748	3819	6320000
2006	119887	32164000	34167.148	10868000	139018.81	11550000	4288634.2	11480000	17635.235	8590265	4147	9710000
2007	315883	36679000	35231	13876000	16513.712	21441000	42315.465	18779000	12315.465	13194000	6102	10096000
2008	438729	12569000	51846.842	26859000	18614.163	40825000	438729	51993004	12815.671	2913704	7193	(8980000)
2009	1229513	3622000	157933.05	7285400	20303.514	2375000	44615.889	20603000	24615.889	28603078	4812	(5944000)
2010	887743.64	2917000	57857.850	10547600	59900	598000	508000	37604000	328031.29	39604024	6123	2120000
2011	904136.12	44785000	51638.117	10739100	73814	(9649000)	717000	44189000	29749.137	51741620	6380	(4249000)
2012	924613.81	46124000	48157.314	12135000	87490250	51477000	587000	46918000	364750.86	87295957	5907	3165000

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**

Model 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

Model 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

Model 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

Model 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

Model 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

Model 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

Model 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

The research work showed that First Bank Plc has highest expenditure in corporate social responsibility of ₦1,229,513,816 in year 2009. EcoBank has lowest of ₦3,214,000 in year 2003. In aggregate all the sampled banks spent ₦12,143,433,140 on corporate social responsibility for the period of 10 years (2003 – 2012). The result of regression analysis showed that there is a significant relationship between expenditure on corporate social responsibility and profitability of six sampled banks. This study conforms to the stakeholders theory that explained organizations have responsibility to various group of company stakeholders both internal and external and not just the owners of the company. Empirically the work conform with the studies of Carlsson and Akerstom (2008), and Ojo (2010).

Conclusion and Implication

The study established the fact that corporate organizations need to meet the demands and expectations of other stakeholders apart from owners of the company. The management of organizations need to respond to the external environment demand in order to achieve sustainable business success. The implication is that that corporate organizations need support of society in order for them to grow and prosper. Likewise, society need organizations product, that is goods and services they produce and also need social amenities from corporate organizations. On the basis of the findings of this research work, it can be concluded that Nigerian banks recognized the important of CSR and they are doing their obligations to the stakeholders, both internal and external as well as society at large. Collectively, regression of CSR and Profit After Tax of Six sampled banks indicated that increase in expenditure on CSR has positive impact on the profitability of the banks. The results support the stakeholders theory of CSR and also conform to the study of Carlsson and Akerstom (2008).

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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