

## Article

# Corporate Social Responsibility and Performance of Nigerian Deposit Money Banks

Dr. Isibor, A. A, Dr. Adesina T. & Dr. Ndume Mercy

<sup>1</sup>Lecturer, Department of Banking & Finance, Covenant University, Ota, Ogun State E-mail: [Aregghan.isibor@covenantuniversity.edu.ng](mailto:Aregghan.isibor@covenantuniversity.edu.ng)

<sup>2</sup>Lecturer, Department of Banking & Finance, Covenant University, Ota, Ogun State

<sup>3</sup>Lecturer, Department of Sociology, Covenant University, Ota, Ogun State

Submission: 10/03/2024;

Received: 28/05/2024;

Revision: 25/06/2024;

Published: 01/07/2024

\*Corresponding author: Dr. Isibor, A. A

**Abstract:** The paper examined the effect of corporate social responsibility on the performance of Nigerian deposit money banks with special reference to Guarantee Trust Bank PLC in Nigeria (GTBank). The paper made positions that corporate social responsibility enhances the performance of banks. Hence, we empirically examined the impact of corporate social responsibility on profit of GTBank for the period 2006 till 2018. From the model specified, the unit root test indicated that the result was stationary at level showing there is a long run co-integration among the variables. The result of the OLS result showed that there was a positive and significant impact of corporate social responsibility on the profit performance of GTBank. We therefore recommend that all stakeholders should ensure that they encourage their banks to have serious commitment towards corporate social responsibility as this has added value to their investment in the long run.

**Keywords:** Corporate Responsibility, Capital Adequacy ratio, Non Performing loan ratio.

## INTRODUCTION

In today's world, we do not only consider corporate social responsibility as the free gifts of firms to the society but is seen as an effective tool for increasing the goodwill of an organization, employee and customer satisfaction and organizational profitability. According to Islam (2012), businesses are no more for profit making but are now responsible to the environment in which they operate as a whole. There are certain driving forces that encourages firms to adopt corporate social responsibility and these factors has evolved from time to time. According to Nicolau (2008), socially responsible organizations are those firms that in a bid to achieve the core profit maximization, firms also consider the environmental impact in which their organization will make and then takes them into consideration.

It is widely adjudged that socially responsible companies can create economic and environmental impact on the community by identifying the basic need of the people and seeking for effective ways of meeting part of them and if not all of them. In a bid to meet these needs, the people in the environment tend to develop that love for the organization and this increases the performance of the organization in terms of profit and returns. Although, the core aim of organizations is profiting maximization, but it has been adjudged that in the developed world, corporate social responsibility is an effective tool used in stimulating

profit and hence should be adopted frequently by Nigerian deposit banks.

Although pressures are not really mounted on Nigerian deposit banks by the community to involve in corporate social responsibility unlike the oil companies in the Niger Delta region, but failure to identify with the needs of these people could lead to violence from the people and even social agitations for companies to identify with their needs and meet them.

Considering the issues/problems raised above in the previous paragraph problem above, this paper is to identify the impact of corporate social responsibility on the performance of Nigerian deposit banks. From the given objective, our specific objective is to investigate the effect of corporate social responsibility on the profitability of Guaranty Trust Bank. The paper asks question if corporate social responsibility impact on GT Bank's profit, while the research hypothesis attempts to test if there is no significant effect of corporate social responsibility on the profit of GT Bank

The study is crucial to management, the government and its agencies because it will assist in preparing strategies and help in regulating environmental, labor and social impacts of industry. Governments appear to be particularly interested in disclosure system. Also, corporate organization will find the study useful in the process of developing reporting systems, measuring performance, and tracking changes over time so that they can support the

development of information systems that will improve internal management of risks and stakeholders. Furthermore, Investors have increasingly urged banks to demonstrate their social and environmental performance to investors – both the traditional mainstream investors and the growing numbers of socially responsible investors will highly benefit from this study.

Due to paucity of data, the scope is limited to 2006-2018. Section two and three of this paper dwells on literature review and methodology. Section four is on data analysis while Section five ends the paper with conclusion and recommendation.

## **LITERATURE REVIEW**

Theoretically, there is no worldwide acceptable definition of corporate social responsibility but different scholars defined it based on their perceptions and understanding. University of Miami (2007), explained the concept of corporate social responsibility as a means of analyzing the inter-dependence relationships that exist between businesses and economic systems, and the communities within which they are based.

Vitezić (2011) viewed corporate social responsibility as the balance between economic, ecological and social goals, which means distribution of assets on several actors. Ruggie (2002) in his work considered corporate social responsibility as a strategy for demonstrating good faith, social legitimacy, and a commitment that goes beyond the financial bottom line. The European Commission (2001) defined corporate social responsibility as a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment, or a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

### **Strategic Role of Corporate Social Responsibility**

Corporate Social Responsibility activities have been cited to inculcate the inclusion of social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices such as promoting employee empowerment, achieving levels of environmental performance through recycling and pollution reduction and goals of community organization. Corporate social responsibility can be considered as the firm's strategic investment. Even when it is not directly tied to a product feature or production process it helps to build the reputation or maintenance of the organization's image to the outside community. The motivation for corporate social responsibility is to ensure the continuance of the banks to be in existence and also for profit maximization through increase in sales of goods or otherwise deposits.

### **Accounting for Corporate Social Responsibility**

The purpose of this is to provide sufficient information in the financial statement to permit the prediction of future divided trends, variability and co-variability of future return (Greuning and Koen, 2002). Financial information disclosures in the financial statement are required to assist in the proper functioning of the country's capital market and at the same help major potential investors and the management to make decisions. Despite the acceptance of

the accounting for social responsibility in Nigeria, no standard so far has been promulgated on how the costs of social responsibility programmes are to be accounted for and how they are to be disclosed.

Thus, even if business adopt social responsibility policies as required agencies, they still face the challenge of reporting their performance in this area, this create concern regarding business transparency and raises the question as to whether or not the business should be forced to draw up a report to account for social responsibility performance as adopted in some developed countries where regulation specify that businesses listed on their stock exchanges must provide social sections in their annual reports (Henderson, 2002).

In accounting for it, we have descriptive approach which just requires the bank to list out all the assistances rendered to the public, cost outlay approach considers the total cost incurred in the activity and cost benefit approach focuses on the benefits associated with it.

### **Theoretical Review**

The social benefit theory considers private externalities associated with innovative activity. An externality is defined as the impact of an economic agent's actions on the well-being of another economic agent such as pollution. The theory 2mphasizes the need that we take account of other stakeholders as well. These stakeholders include: customers, employees, governments, suppliers, taxpayers, community groups and underrepresented groups. The strategic theory approach suggest that corporate social responsibility activities be included in strategy formulation and that the level of resources devoted to it be determined through cost/benefit analysis. Analysis of the strategic implication of corporate social responsibility is hampered by cross country/ cultural differences in the implications that regulate market activity, including expectations and different returns to activity. For banks operating in multiple countries/cultures this complicates the process of determining which activities to engage in and how much to invest.

The theory of firm value provided a framework for analyzing corporate social responsibility activities within the context of the theory of the firm. Based on this framework, they develop hypothesis regarding the provision of corporate social responsibility activities attributes across industries and market structures. They hypothesize that 'the provision of corporate social responsibility activities will depend on R&D spending, advertising intensity, the extent of product differentiation, the percentage of government sales, consumer income, the tightness of the labour market, and the stage of the industry life cycle. All of these should be tested empirically to see if the results support the hypothesis.

### **Empirical Review**

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. 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. 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.

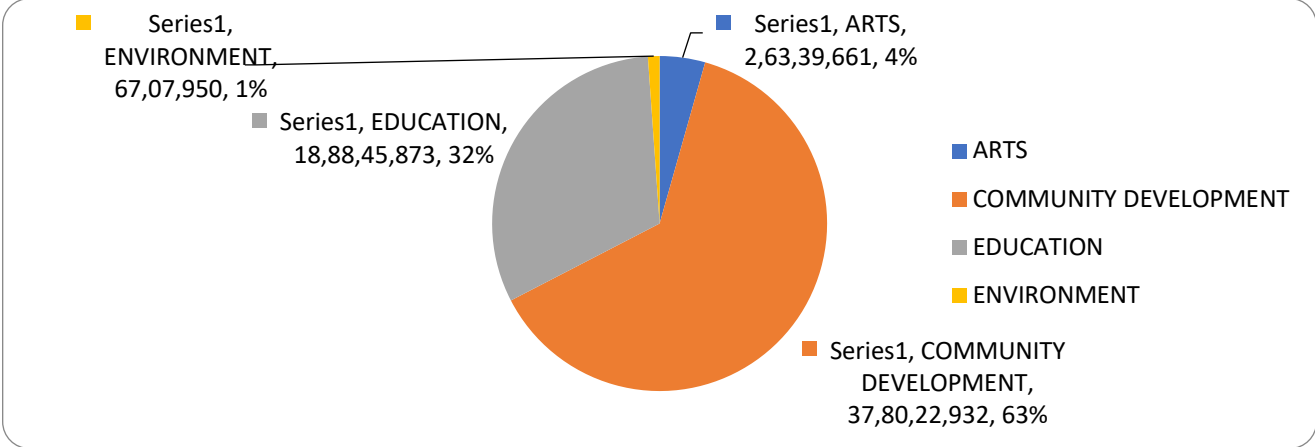
**Corporate Social Responsibility in GTBank , 2018**

**Table 1:** Corporate Social Obligations of GTBank for 2018

SECTOR	AMOUNT	PERCENTAGE
ARTS	26,339,661	4.39
COMMUNITY DEVELOPMENT	378,022,932	63.01
EDUCATION	188,845,873	31.48
ENVIRONMENT	6,707,950	1.12
TOTAL	599,916,416	

Source: GTBANK Online 2018 Annual Report

**Figure 1:** Pictorial Representation of the Social Obligations across sectors



Source: GTBANK Online 2018 Annual Report

**Table 2:** Share of Social Obligations to Bank's Profit

DESCRIPTION	VALUE (NAIRA)
PROT AFTER TAX (2018)	98,694,919,000
SOCIAL OBLIGATION (2018)	599,916,416
PERCENTAGE SHARE	0.61%

Source: GTBANK Online 2018 Annual Report

The above shows that only 0.61% of the profit after tax in GTBank for the year 2018 was spent on corporate social responsibility.

**METHODOLOGY**

The quantitative technique adopted in analyzing the data collected is Ordinary least square estimate (OLS) method using Econometric view package (E-View) to analyze the role of corporate social responsibility on profit of GTBank. Multiple regression equations will also be adopted because multiple equations provide a better representation of the real world which is relatively richer than a single equation model. Descriptive analysis, will in this research work also be adopted in analyzing the trend of the different variables mentioned above over the time period specified.

The population of this study consisted of all the agents and stakeholders in the Nigerian deposit money banks.

Although, the organizations have many offices here in Nigeria, the researcher used only the workers and management team that are based in Nigeria. The sample of this paper review involves the entire operations of GTBank within the period of 2006-2018.

**Model Specification**

We would be adapting the model specified by Gunu (2008), Bolanle (2012). The simple regression model is emanated from the following original equation as used by the scholars below:

$$Y_t = \alpha_0 + \beta_1 X_t + e_{nt} \dots\dots\dots (i)$$

$$\text{LogPAT} = \alpha_0 + \beta_1 \text{LogCSR}_{i,t} + \epsilon_{i,t} \quad \text{..... (ii)}$$

Hence, from above, we will further specify our model as;  
 $\text{PATM}_t = \beta_0 + \beta_1 \text{LogCSR}_t + \beta_2 \text{CAR}_t + \beta_3 \text{NPL}_t + U_t$

.....  
 (iii) Where,

$\text{PATM}_t$  = profit after tax margin of GTBank at time t

$\text{LogCSR}_t$  = Corporate social responsibility expenditure of

GTBank at time t

$\text{CAR}_t$  = Capital adequacy ratio of GTBank at time t

$\text{NPL}_t$  = Ratio of non- performing loans to ratios and advances of GTBank at time t

$U_t$  = Error term at time t

The apriori expectation of the model is  $\beta_0 > 0$ ,  $\beta_1 > 0$ ,  $\beta_2 > 0$ ,  $\beta_3 < 0$

Data will be sourced from the annual report of GTBank, the online version for the respective years.

### Analytical Techniques for Decision Making Under the Regression Analysis

This involves the various tests that will be carried out in order to derive information from our data analysis. They are stated as follows:

#### Unit root test

The study deploys Augmented Dickey-Fuller (ADF) test to examine the stationarity of the time series and test the null hypothesis. It is expected that the series do not contain unit root in order to find relationship among the variables in the long run. The test is carried out both at a level and first difference using 1 and 5% Mackinnon Critical value.

#### Co-integration test

Johansen's co-integration test will be employed and this examines the long run co-movement among the series.

#### Coefficient of determination ( $R^2$ )

This shows the percentage of the total variation of the

dependent variable that can be explained by the independent variables. In other words, it shows the extent to which the explanatory variables influence the dependent variable. Thus a high value of  $R^2$  (50% or above) depicts that the explanatory variables influences the dependent variable to a high degree (there is goodness of fit) and vice-versa. If  $R^2$  is very low, then a greater proportion of the regression line remains unexplained.

#### Durbin-Watson test for autocorrelation

This is a test for autocorrelation in the parameter estimates. To test the null hypothesis using the Durbin-Watson test,  $H_0: d = 2$  and that the values of "d" lies between 0 and 4. Hence, we could conclude in the following ways:

If there is no autocorrelation, then  $d = 2$ . Likewise if  $d = 0$ , we have a perfect positive autocorrelation. However, if  $0 < d < 2$ , then there is some degree of positive autocorrelation (which is stronger if d is closer to zero). Also, if  $d = 4$  there exist perfect negative autocorrelation and if d lies between 2 and 4, that is;  $2 < d < 4$  there is some degree of negative autocorrelation. As a rule of thumb, d should be between 1.5 and 2.5 to indicate independence of observations or no autocorrelation.

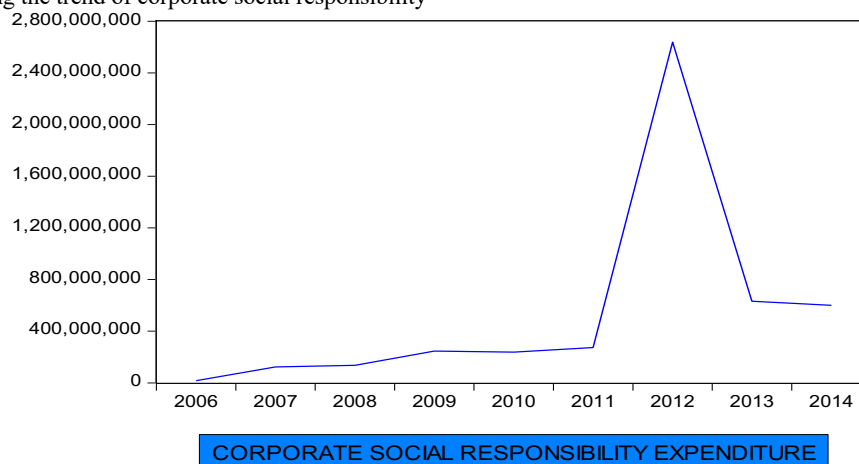
### PRESENTATION AND ANALYSIS OF RESULTS

In this section, we present and analyze our data, obtaining the result that explains the impact of corporate social responsibility on profit of GTBank. Here, we make use of descriptive statistics.

#### Trend Analysis

In this section, we graphically illustrate the various variables that were used within the time period to see their direction, whether they are increasing or not and also see their cyclical pattern. According to Gujarati (2009), before one performs formal tests on stationarity, it is always advisable to plot the time series under study to see if the series exhibit trend or not, or whether they have intercept or not. Such trends give an initial clue about the likely nature of the time series. Thus, a graphical sketch of each of the variable over time was made. This helps to informally identify the presence of any trending behaviour in the variables in question over time. The trend of the variables is shown below:

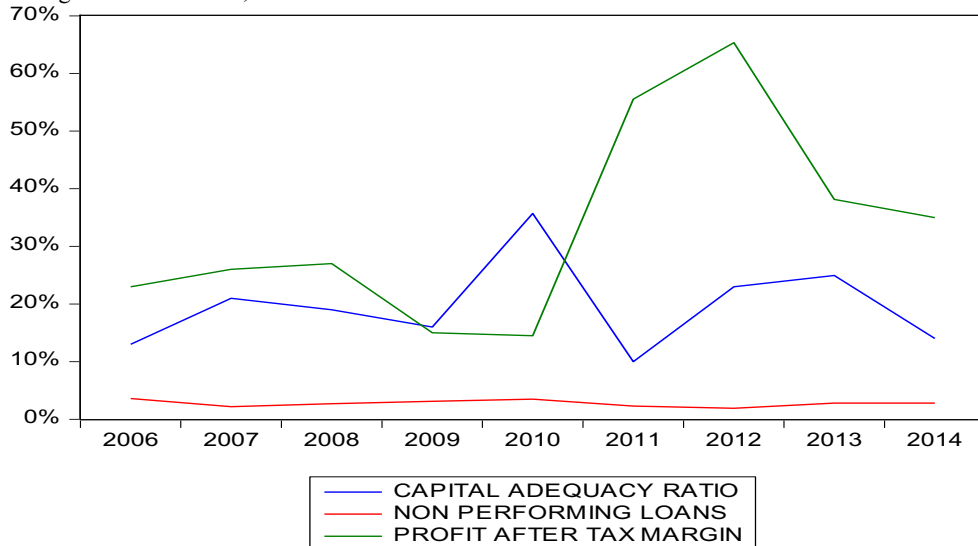
**Figure 2:** Graph showing the trend of corporate social responsibility



**Source:** Author's Computation from the data obtained from the annual report using E-View 7.0

We discovered that corporate social responsibility reached its peak in 2012; this might be as a result of the environmental and social challenges as at that time.

**Figure 3:** Graph showing the trend of CAR, NPL and PATM



**Source:** Author's Computation from the data obtained from the annual report using E-View 7.0

From the graph above, non performing loans ratio was the least throughout the period and the profit after tax margin was the highest.

### Descriptive Statistics

The data used for this study include corporate social responsibility expenditure (CSR), non performing loans ratio (NPL), profit after tax margin (PATM) and capital adequacy ratio (CAR). CAR, NPL, CSR and PATM were available from 2006 to 2018.

### Group Summary Statistics

Summary descriptive statistic is shown in the table 3 below. A test is carried out to show whether the distribution follow normality condition. This is done through the Jacque Bera normality test, with the null hypothesis of normal

distribution, skewness is zero and excess kurtosis is zero, against the alternative hypothesis of non-normal distribution. Hence, an observation of table 3 below shows that given the acceptance/rejection criteria, non performing loans ratio (NPL), profit after tax margin (PATM) and capital adequacy ratio (CAR) are normally distributed since all the probabilities are less that the Jacque Bera Chi-square distribution at 5% level of significance. However, the alternative hypothesis is accepted for CSR as the probability value is significant, meaning that the test statistics is greater than the critical value.

**Table 3:** Summary Statistics of the Variables

	CAR	NPL	PATM	CSR
Mean	19.62889	2.766667	33.28222	5.45E+08
Median	19.00000	2.800000	27.00000	2.46E+08
Maximum	35.70000	3.600000	65.34000	2.64E+09
Minimum	10.00000	1.900000	14.49000	17634240
Std. Dev.	7.760896	0.574456	17.44960	8.12E+08
Skewness	0.831838	0.052687	0.739625	2.182122
Kurtosis	3.075977	1.935090	2.357967	6.266457
Jarque-Bera	1.040097	0.429427	0.975146	11.14364
Probability	0.594492	0.806773	0.614115	0.003804
Sum	176.6600	24.90000	299.5400	4.90E+09
Sum Sq. Dev.	481.8521	2.640000	2435.907	5.27E+18
Observations	9	9	9	9

**Source:** Author's Computation from the data obtained from the annual report using E-View 7.0

### Unit Root Test

The study deploys Augmented Dickey-Fuller (ADF) test to examine the stationarity of the time series and test the null hypothesis. It is expected that the series do not contain unit root in order to find relationship among the variables in the long run. The test is carried out at level, and first difference using 1%, 5% and 10% Mackinnon Critical value. The variables of corporate social responsibility expenditure (CSR), non performing loans ratio (NPL), profit after tax margin (PATM) and capital adequacy ratio (CAR) were tested. The levels of statistics of the tests are reported in table 4. ADF reported all the variables stationary at level.

**Table 4:** Unit Root Test

Variable	Method	ADF at level	ADF at level critical value (5%)	Order of integration
CSR	ADF	-3.378361 ( 0.0478)	-3.20969	I(0)
NPL	ADF	-3.499805 (0.0477)	-3.403313	I(0)
CAR	ADF	-3.713184. (0.0346)	-3.403313	I(0)
PATM	ADF	-3.895977 (0.0354)	-3.403313	I(0)

Source: Author's Computation from the data obtained from the annual report using E-View 7.0

#### Summary of the Regression Result

In this section, we present the regression result according to our model specified in the previous section. The result obtained is in the table below:

**Table 5:** Ordinary Least Square Result & Dependent Variable: PATM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-19.78878	103.1142	-0.191911	0.8554
LOG(CSR)	5.409375	1.686645	3.207180	0.0114
CAR	0.636304	0.159214	3.996533	0.0047
NPL	-14.15819	10.44434	-1.355585	0.2332
R-squared	0.697077			
Adjusted R-squared	0.515323			
F-statistic	5.835275			
Prob(F-statistic)	0.001003			
Durbin-Watson stat	1.571713			

Source: Author's Computation from the data obtained from the annual report using E-View 7.0

The R-squared value of 0.6971 indicates that about 69.71% variations in profit after tax margin in the model by the explanatory variables. The F-statistics of 0.001% is statistically significant and this shows that there is a considerable harmony between profit after tax margin and the explanatory variables put together. This confirms that all the independent variables jointly have significant influence on the dependent variable. The D.W statistic of 1.57 indicates that there is no serial correlation associated with the regression result. The result reveals that corporate social responsibility expenditure was positive and significant. This means that corporate social responsibility significantly increases the profit performance of GTBank. The result also reveals that capital adequacy ratio significantly and positively contributes to the profit of GTBank

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

This paper has examined corporate social responsibility on performance of GTBank with special reference to its profit. The result shows that at 5% level of significance, corporate social responsibility expenditure significantly contributes to the bank's profit; hence we have been able to reject the

null hypothesis and accept the alternative. At the present level of performances of banks in Nigeria, corporate social responsibility leads to growth. Also, it shows that social responsibility is necessary for rapid growth of firms. Firms must therefore seek to tap from every opportunity that will stimulate an increase in the provision of effective social responsibility.

### Recommendation

We therefore recommend that all stakeholders should ensure that they encourage their banks to have serious commitment towards corporate social responsibility because it will add value to their investment in the long run. This will particularly encourage those investors who are interested in long term investment.

## REFERENCES

1. Abefe, B.N. (2011): *Corporate Social Responsibility in Nigeria: Western Mimicry or Indigenous Influences?* No. 39-2006, ICCSR Research Paper Series – ISSN 1479 – 5124, the University of Nottingham, pp. 17-25
2. Akindele, A. I. (2011): *Corporate Social Responsibility: An Organizational Tool For Survival*

- in Nigeria. *African Journal for the psychological study of social issues*, 19(2): 10-15.
3. Amole, B. B., Adebisi, S. O. and Awolaja, A. M. (2012): Corporate Social Responsibility and Profitability of Nigeria Banks – A Causal Relationship, *Research Journal of Finance and Accounting*, 3(1): 6-17.
4. Babalola Y.A (2013): An Impact of Social Audits on Corporate Performance: Analyses of Nigerian Manufacturing Firms, *Research Journal of Finance and Accounting*, 4(3), 96-101
5. Bolanle, A. B., Olanrewaju, A. S., and Muyideen A. A (2012): Corporate Social Responsibility and Profitability of Nigeria Banks: A Causal Relationship” *Research Journal of Finance and Accounting*, 3(1), 11 - 23
6. European Commission (2001): Green Paper “Promoting a European Framework for Corporate Social Responsibility, Brussels, Pp. 32 - 49
7. Greuning G.J and Koen D. (2002): Agency conflict and corporate strategy: Effect of Divestment On Corporate Value. *Strategic Management Journal*, 18(1), 77- 83
8. Gujarati D.N (2009): Basic Econometrics, 4<sup>th</sup> Edition, Pearson Publisher
9. Gunu U (2008): The influence of corporate social responsibility on the performance of Banks” A case study of Zenith Bank Plc. J. of Faculty of management sciences Usman Danfodiyo University sokoto ISSN 2141-1670 vol. 2 November, 2008
10. Handerson G. (2002): Corporate social and financial performance: an investigation in the U.K. Supermarket industry; *Journal of Business Ethics* vol. 34, no. 3/4, pg 299-316
11. Islam (2012): Corporate Social Responsibility (CSR) and Issue to Corporate Financial Performance (CFP): Empirical Evidence on Dhaka Stock Exchange (DSE) Listed Banking Companies in Bangladesh. *European Journal of Business and Management*, 4(11), 11 - 22.
12. Nicolau, J. L. (2008). Corporate Social Responsibility, Worth-Creating Activities. *Annals of Tourism Research*, 35(4), 990-1006
13. Olayinka, M. U. and Temitope, O. F. (2011): *Corporate Social Responsibility and financial Performance in developing Economies-The Nigerian Experience*, New Orleans, New Orleans International Academic Conference, 815-824.
14. Richard, E. O. and Okoye, V. (2013): Impact of corporate social responsibility on the deposit money banks in Nigeria. *Global Business and Economics Research Journal*, 2(3): 71-84
15. Ruggie WG (2002): The theory and Practice of Learning Networks: Corporate Social
16. Responsibility and Global Compact”, *Journal of Corporate Citizenship*, 10(3), 27-36
17. Shehu.A (2013): The Influence of Corporate Social Responsibility on Profit after Tax of Some Selected Deposit Money Banks in Nigeria. *Educational Research*, 4(10), 722-732.
18. University of Miami (2007): A Guide to Corporate Social Responsibility (CSR) Retrieved on 13/05/2013 from <http://www6.miami.edu/ethics/pdf-files/csr-guide.pdf>
- Vitezić N (2011): Correlation between social responsibility and efficient performance in Croatian enterprises Zb. rad. Ekon. fak. Rij. • 2011 • vol. 29 • sv. 2 • 423-442 423