EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON BANKS FINANCIAL PERFORMANCE IN NIGERIA: A STUDY OF UNITED BANK OF AFRICA

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ABSTRACT

The study investigates the effects of Corporate Social Responsibility on Banks Financial Performance in Nigeria with special reference to United Bank of Africa (UBA) Plc. The study utilized secondary sources of data, which were sourced from UBA’s annual report. The data sourced, spanned from 1992 – 2014. Data disaggregating into health issue, transportation and education proxies as Corporate Social Responsibility and Return on Equity as financial performance. The Ordinary Least Square (OLS) Estimation technique and Granger causality test were adopted. The findings of the study suggest that there is insignificance relationship between Corporate Social Responsibility and financial performance. The paper recommends that management should see Corporate Social Responsibility as a business opportunity that is beneficial in the long run thereby, incorporating credible and well-structured social responsibility policies.

Contribution/Originality: The study contributes to the existing literature by using disaggregated measure of Corporate Social Responsibility. The findings of the study are therefore relevant and useful to Corporate Managers and Policy makers as well as academics.

1. INTRODUCTION

The environment has turned out to be a vital interest in today’s social and economic system in such a way that; the maintenance and enhancement of the quality of environment has become a great subject of discourse for the business world. Corporate enterprises are held accountable for safeguarding a workable environment as their activities create pressure over the environment (Uwuigbe and Egbide, 2012). Recent concerns about global warming, emissions, trading market for greenhouse gases have intensified stakeholder’s interest in corporate social responsibility performance (Anderson, 1998). Against this backdrop, Corporate social responsibility (CSR) is at present an important discourse between companies and their stakeholders as the concept now rank among top agenda of most corporations (Bhattacharya et al., 2008).

The concept of CSR is concerned with the commitment of companies to contribute to sustainable development, stakeholder’s interest, and enhancement of social conditions. Evidence shows that societies and businesses co-exist in the modern world in a way that the latest trends between them are not only basically about business ventures seeking to make profits but also foreshadowing interest such as; societies welfare and other society oriented non-
economic actions (Falck and Hebich, 2007). The prevailing components of CSR require organizations to look into the interest of society and take responsibility for the impact of their doings with customers, employees, shareholders, communities and the environment in all facets of their operations (Rhuks et al., 2010). CSR is not just a statutory responsibility to conform with legal prerequisite; rather, it entails requirement compelling organizations to voluntarily take extra strides in advancing the quality of life for employees and their defendants, old communities and the society at large. These are achievable through educational training, provision of basic infrastructure, health care services provisions, skill acquisitions programmes and so on. A core or common denominator within CSR issues is that it addresses the relationship between (businesses) corporations and societies.

Financial institutions, in particular banks, have come under increasing pressure to take a more long term view of their investors’ business interests and to acknowledge and respond to their obligations to the society (Matten, 2006; Money and Schepers, 2007; Gill, 2008).

1.1. Statement of the Research Problem

Keith (2003) asserted that business does not exist in isolation in our society and that a healthy business system cannot exist within a sick society. Also business usually benefits from a stable and well managed social and political environment. Any social unrest caused by prejudice and poverty is harmful to business. It is therefore imperative on corporate body to consider their acts within the framework of the whole social system.

Thus, most corporate citizen doesn’t believe to be socially responsible, For over three decades, the study of the correlation between CSR performance and corporate financial performance has yielded contradictory results (Marom 2006). Empirical studies of the relationship between CSR and financial performance comprise essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Posnikoff (1997) cited in Tsoutsoura (2004) reported a positive relationship, whereas Welch and Wazzan (1999 cited in Tsoutsoura (2004)) found no relationship between CSR and financial performance. Other studies, discussed in McWilliams and Siegel (2000) are similarly inconsistent concerning the relationship between CSR and short-run financial returns.

The second type of study examines the relationship between measure of corporate social performance (CSP) and measures of long-term financial performance, by using accounting or financial measures of profitability. The studies have also produced mixed results. Cochran and Wood (1984) for example, located a positive correlation between social responsibility and accounting performance after controlling for the age of assets.

Thus, all the previous studies used aggregated measure of CSR base on the literature reviewed. This study tends to focus on the disaggregated measures of CSR (CSR on Health, Education and Transport) and financial performance (Return on Equity). This study examines CSR measures for the period of 1992 to 2014 (a span of twenty-three (23) years) in the banking industry with United Bank for Africa Plc., as a focus.

1.2. Objective of the Study

The objective of the study is to evaluate the effect of Corporate Social Responsibility on the financial performance of United Bank of Africa in Nigeria.

1.3. Research Question

The following research question is raised for the purpose of this study:

- Is there any significant causal relationship between financial performance and corporate social responsibility in United Bank of Africa?
1.4. Research Hypothesis

The following research hypothesis has been formulated for testing:

Hypothesis

H0: That there is no causal relationship between Corporate Social Responsibility and financial performance in United Bank of Africa in Nigeria.

1.5. Scope of the Study

The study covered the period of twenty-three years (23yrs) spanning from 1992-2014. The time frame is chosen due to the paucity of data. As for the variables of measurement, Return on Equity was used in measuring financial performance, while donation on health, education and transportation were used in measuring Corporate Social Responsibility.

2. LITERATURE REVIEW

2.1. Conceptual Clarifications

CSR is viewed from different perspectives and angles. The perspectives vary from individual authors to organizations and as a result there is no generally accepted unified definition of the concept. But, on critically viewing the various definitions given one could observed that they are centered on three themes as stated by Wissink (2012). These themes are corporate relations to economic, societal and environmental sustainability. It is on this basis that several terms like corporate conscience, good corporate citizenship, business responsibility, business citizenship, social performance, sustainable responsible business, community relations, and responsible business are used to connote CSR.

The concept is therefore closely linked to the principle of sustainability, which argues that enterprises should make decisions based not only on financial factors such as profits and dividends, but also based on the immediate and long term social and environmental consequences of their activities (Tilt, 2009). Some few notable definitions of CSR given by various authors are: Carroll (1979) defined CSR as the social responsibility of business to society at a point in time that encompasses the economic, legal, ethical, and philanthropic expectations.

In the view of McComb (2002) it is described as the ability of company to link itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. In another similar definition by Hill et al. (2007) CSR is the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders. In a concise definition given by Baker (2004) it is described as the ability of the companies to manage the business processes to produce an overall positive impact on society.

Some of the organizational” definitions of CSR are: The European Commission (2006) defined CSR as a concept which makes companies decide voluntarily to contribute to a better society and a cleaner environment by integrating social and environmental concerns in their business operations and in their interaction with their stakeholders. In another definition given by University of Miami (2007) it is considered as a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based.

The World Business Council for Sustainable Development - WBCSD (1998) defines the CSR as 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.

CSR is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local communities and the society at large to improve their lives in ways that are good for business and for development (Starks, 2009). CSR includes corporate activities such as cash donations to
charities, sponsorship, job creation programmes, protecting the environment and the likes. To this end, banks in Nigeria could said to be in the forefront of CSR as attested by the many life-changing initiatives such as endowments of professional chairs in Nigerian Universities, Sponsorship of indigent students, promotion of sports and the building of computer centers in various universities (Olajide, 2005).

From the above set of definitions, it could be observed that the definitions of CSR given are based on the peculiarities of settings in which the definitions are targeted to represent. That informed the reason why variations exist amongst the definitions and none appears to be fully comprehensive.

3. THEORETICAL FRAMEWORK

3.1. Instrumental Theory of CSR

In this theory, CSR is seen only as a strategic tool to achieve economic objectives and, ultimately, wealth creation. Representative of this approach is the well-known Friedman view that “the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country” (Friedman, 1970). Instrumental theories have a long tradition and have enjoyed a wide acceptance in business so far. Concern for profits does not exclude taking into account the interests of all who have a stake in the firm (stakeholders). It has been argued that in certain conditions the satisfaction of these interests can contribute to maximizing the shareholder value (Mitchell et al., 1997; Ogden and Watson, 1999). An adequate level of investment in philanthropy and social activities is also acceptable for the sake of profits (McWilliams and Siegel, 2001). Three main groups of instrumental theories can be identified, depending on the economic objective proposed. In the first group the objective is the maximization of shareholder value, measured by the share price. Frequently, this leads to a short-term profits orientation. The second group of theories focuses on the strategic goal of achieving competitive advantages, which would produce long-term profits. In both cases, CSR is only a question of enlightened self-interest (Kein, 1978) since CSRs are a mere instrument for profits. The third is related to cause-related marketing and is very close to the second.

3.2. Economic Drivers of Corporate Social Responsibility (CSR)

According to Arthur (2003) researches conducted on CSR identified factors sometimes described as drivers that serve as rationale behind which companies voluntarily engaged in adopting CSR. Although, the drivers are applicable to all companies, but the extent of their applications and the roles they play in improving financial positions vary from one company to another, and also from sector to sector. Some of these notable drivers are briefly explained thus:

- **Management Reputation:** Organizational reputation is something that is built over time, CSR offers a means by which companies can manage and influence the attitude and perception of their stakeholders, which in turn leads to trust building and mutual benefits between business and the immediate environment. Tuppen (2004) shows that CSR related issues are important drivers of corporate image and reputation, which are major determinants of consumer satisfaction and this by extension creates positive financial returns as argued by Uadiale and Fagbemi (2011).

- **Qualitative Workforce:** In surveys conducted by Globe Scan Inc (2005) & Eweje (2006) it is found that CSR plays significant role in attracting and retaining talented diverse work force. Companies that account for the interests or needs of their employees perform in terms of quality and delivery compared to those that do not offer that (Grant Thompson Int’l Report, 2011). In the view of Turban and Greening (1997) CSR is considered to have bearing on encouraging customers’ orientation toward organizational attainment.

- **Investor Relations and Access to Capital:** The investment community is increasingly viewing CSR as an akin to long-term risk management and good governance practice. In a survey conducted by Hill and
it is found that analyst place much more importance on corporate reputation compared to what they do on financial performance.

- **Risk Profile and Risk Management**: CSR offers more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues and use positions of leadership as a means to gain competitive advantage. Managing risk is a central part of many corporate strategies, because reputations that take decades to build up can be ruined in hours through incidents such as corruption, scandals or even environmental accidents. These can also draw unwanted attention from regulators, courts, governments and media. Therefore, building a genuine culture of 'doing the right thing' within a corporation can offset these risks as cited by Brine *et al.* (2006).

- **Learning and Innovation**: Learning and innovation are critical to long-term survival of any business, on that basis CSR is considered as a vehicle used by business in responding to environmental and societal risks.

- **Competitiveness and Market Positioning/ Brand differentiation**: In crowded market places, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers, and at the same time CSR can play a role in building customer loyalty based on distinctive ethical values. As such business service organizations can benefit too from building a reputation for integrity and best practice.

- **Operational Efficiency**: CSR offers opportunities of reducing present and future costs of the business through the improvement of operational efficiency. In addition, to that companies that improve working conditions and labour practice also experience increase in productivity.

- **License to Operate**: Companies that fail to discharge societal responsibilities stand the chance of license revoking due to litigation by community members. The companies may also suffer from serious patronization from the community members.

- **Laws and Regulations**: Another driver of CSR is the role of independent mediators, particularly the government, in ensuring that corporations are prevented from harming the broader social wellbeing, including people and the environment. CSR critics argue that governments should set the agenda for social responsibility by the way of laws and regulations that will allow a business to conduct it responsibly in the society they are operating.

### 3.3. UBA Efforts on CSR

UBA has a number of focus areas for its CSR agenda and constantly tries to focus on the basic needs of society, reaching as many people as possible through its CSR initiatives. The objective is to target all parts of the country with its CSR activities but UBA is presently using Lagos as a test area for its projects and initiatives. Regarding the internal CSR work the focus of the foundation is at present to gain commitment and understanding for the CSR initiatives. Some of the UBA CSR initiatives are presented as follows (Helge, 2007).

- **Micro credits** - UBA has initiated micro credits to its customers. The Nigerian government has also introduced a micro credit finance programme but interest rates are still as high as 36 percent. The objective for UBA is therefore to give the opportunity for people to take a loan without interest or at least with very low interest rates.

- **Scholarships** - UBA also runs a scholarship programme. The objective is for 108 pupils to be examined each year through scholarships. UBA finds it important that the pupils don’t feel like “second hand” students because of the scholarships. Therefore UBA has also introduced a grant that is being offered to the school in combination with the scholarship that makes the scholarship beneficial not only for the student but also for the school.
Environment - UBA also works intensively on waste management and environmental issues. For example, a project has been run with the purpose of installing refuse collection centers as well as offering training for people to become refuse collectors. The vision is to create an environmental movement where all companies, large and small, contribute with something in the work of improving the environment.

### Reviewed of Empirical Studies on Corporate Social Responsibility (CSR) and Financial Performance (FP)

<table>
<thead>
<tr>
<th>S/N</th>
<th>Author(s)</th>
<th>Title</th>
<th>Methodology</th>
<th>Findings</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>SarwarUddin et al. (2012)</td>
<td>Corporate Social Responsibility and Financial Performance-Linkage-Evidence from the Banking Sector of Bangladesh.</td>
<td>T-test</td>
<td>The results of the study reveals that the average return on asset ratios of the banks having high corporate social performance is higher compared to that of banks having low CSP</td>
</tr>
<tr>
<td>2</td>
<td>Shehu (2013)</td>
<td>Effect of Corporate social responsibility on profit after tax of some selected deposit money banks in Nigeria.</td>
<td>Static Panel</td>
<td>The findings discovers that CSR has significant effect on profitability</td>
</tr>
<tr>
<td>3</td>
<td>Richard and Okeye (2013)</td>
<td>Impact of Corporate Social Responsibility on Deposit Money Banks in Nigeria</td>
<td>Static Panel</td>
<td>The study discovered that CSR has a great impact on the society by adding to the infrastructure and development of the society</td>
</tr>
<tr>
<td>4</td>
<td>Olayinka and Temitope (2011)</td>
<td>Relationship between CSR and financial performance in developing Economies</td>
<td>Qualitative research method</td>
<td>The result showed that CSR has a positive and significant relationship with financial performance measures.</td>
</tr>
<tr>
<td>5</td>
<td>Folajin et al. (2014)</td>
<td>Corporate Social Responsibility and Organizational Profitability: An Empirical Investigation of United Bank of Africa (2006-2012).</td>
<td>OLS</td>
<td>The result showed that there is an inverse relationship between CSR and profitability of UBA</td>
</tr>
<tr>
<td>6</td>
<td>Fiori and Izzo (2007)</td>
<td>Impact of voluntary disclosure of CSR on stock prices of Italian listed Companies</td>
<td>Static panel</td>
<td>The results show that the disclosure of CSR policies (especially those referred to employees) leads to higher stock prices because of the prevalent of a good perception of the market</td>
</tr>
<tr>
<td>7</td>
<td>Ali et al. (2010)</td>
<td>The behavior of Pakistan consumers towards CSR of firms</td>
<td>Cross company survey in Pakistan</td>
<td>CSR of producers does not motivate consumers to buy a products from cellular industry in Pakistan</td>
</tr>
<tr>
<td>8</td>
<td>Servaes and Tamayo (2012)</td>
<td>Impact of corporate social responsibility on firm value based on the role of customer awareness</td>
<td>OLS</td>
<td>The study found that CSR and firm value are positively related for firms with high customer awareness</td>
</tr>
</tbody>
</table>

Source: Compiled by the researcher from previous studies on Globe Scan Inc (2005).

### 4. METHODOLOGY

In analyzing the effect of CSR on financial performance of United Bank of Africa Plc. The study employed time series data and Ordinary Least Square Estimation technique.
4.1. Source of Data

The Study utilizes secondary source of data, which were sourced from UBA’s annual report. The data sourced, spanned from 1992-2014.

4.2. Empirical Estimation

This study adapted the work of Folajin et al. (2014) Corporate Social Responsibility and organizational profitability, an empirical investigation of UBA by; extending the scope of the study from 1992 to 2014, disaggregating the Corporate Social Responsibility into categories to determine the performance of each donations on sections on financial performance of the Bank. As such the following linear relationship is specified as;

\[ ROE = f(CSRE, CSRH, CSRTR) \]  

This is explicitly stated as;

\[ ROE = \beta_0 + CSRE_t\beta_1 + CSRH_t\beta_2 + CSRTR_t\beta_3 + \mu_t \]  

\[ ROE \] — Return on Equity (proxy as financial performance of UBA)

\[ CSRE \] — Total donation by UBA on Primary, Secondary and Tertiary Education (Proxied as CSR on Educational Sector)

\[ CSRH \] — Total donation by UBA on Health Sector (Proxy as CSR on Health Sector)

\[ CSRTR \] — Total donation by UBA on Transport and Services (Proxy as CSR on Transport and Services)

\[ \mu_t \] — Error term

4.3. Analysis and Discussion of Results

4.3.1. Preliminary Analysis of Regression Variables

The table below presents the descriptive statistics for the variables in the study based on time-series data of the United Bank of Africa from the year 1992 to 2014.

<table>
<thead>
<tr>
<th></th>
<th>ROE</th>
<th>CSRE</th>
<th>CSRH</th>
<th>CSRTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.169734</td>
<td>14229858</td>
<td>3289004.</td>
<td>5473684.</td>
</tr>
<tr>
<td>Median</td>
<td>0.185883</td>
<td>500000.0</td>
<td>575000.0</td>
<td>0.000000</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.433206</td>
<td>93811294</td>
<td>25000000</td>
<td>10000000</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.057954</td>
<td>0.000000</td>
<td>0.000000</td>
<td>0.000000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.104943</td>
<td>25425980</td>
<td>6105207.</td>
<td>2903585.</td>
</tr>
<tr>
<td>Skewness</td>
<td>3.559417</td>
<td>1.987108</td>
<td>2.903227</td>
<td>3.999316</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>5.509417</td>
<td>6.171452</td>
<td>9.530860</td>
<td>17.01635</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>0.265227</td>
<td>20.46656</td>
<td>5.506319</td>
<td>206.1787</td>
</tr>
<tr>
<td>Probability</td>
<td>0.875804</td>
<td>0.000000</td>
<td>0.000000</td>
<td>0.000000</td>
</tr>
<tr>
<td>Sum</td>
<td>2.224943</td>
<td>2.70E+08</td>
<td>62491070</td>
<td>10400000</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>0.215599</td>
<td>1.46E+16</td>
<td>6.71E+13</td>
<td>9.4E+13</td>
</tr>
<tr>
<td>Observations</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Researcher’s Computation from EViews 7

The descriptive statistics suggests that the average amount of donations spent on Education, Health, Transport and Services are 14.2million, 3.2million and 0.5 million naira respectively. The highest total to 93.8 million on Education, 25 million on Health sector and 10 million on transport and services from the year 1992 to 2014. All the variables failed Jarque-Bera test except Return on Equity at 5% level of significance.

4.4. Unit Root Test

The time series properties of the variables were ascertained informally through their graph plot as shown in figure 1 below
From the regression result above all the variables proxied as Corporate Social Responsibility have a positive and insignificant effect on Financial Performance (Return on Equity) of United Bank of Africa.

The coefficient of determination, R^2(0.22), Shows that approximately 22% variation in the Financial Performance(ROE) was explained by all the explanatory variables examined, and 78% are explained by other factors affecting the variable not captured in the model.
The F-test is used to determine the significance of the model or the explanatory power of the model, such that if $F(\text{Prob})$-statistics is less than 0.05 at 5% level of significance, the model is considered to be good and adequate for forecasting and policy analysis. From the result, Prob. (F-statistic) is $0.000000$ at 5% level of significance, implying that the model is adequate for forecasting and policy analysis. Finally the Durbin-Watson value of 2.409 indicates absence of first order Auto-correlation among the variables used in the model i.e. Auto-correlation is not a problem.

4.5. Granger-Causality Test

The result of the granger-causality test suggest that there exist a Uni-directional causal relationship running from donation to health sector to financial performance (Return on Equity), more so unidirectional causality running from donation to transport and services to Financial performance (ROE).

4.6. Discussion of Findings

The above findings are in line with the work of 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. Also in the work of Folajin et al. (2014) 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.

5. CONCLUSION

In line with the findings of the study that shows statistical insignificance of CSR to Financial performance, the study concludes that corporate social responsibility does not play significant role on the profitability of United Bank of Africa in Nigeria. More so, the causality test suggests that it is only donation on transport and services and health sector that augment a change in the financial performance of the firm.

6. RECOMMENDATIONS

Based on the findings and conclusion, the study recommends the following to the various stakeholders.

i. Management: Given the fact that corporate responsibility leads to profit realization, the management of UBA should ensure that proper inbuilt policy statements should be made and therefore back it up with effective budgeting system such that it can add significantly to the development of the Bank.

ii. Shareholders: Sometimes conflicts happened between companies and the immediate environments, based on numerous studies conducted on environmental conflict resolutions one of the factors causing that is the failure of the companies to impact positively to the environments. The study recommends that at the annual general meeting shareholders should compel the management of their companies to have well-structured corporate social responsibility.

6.1. Suggestions for Further Research

Further researches should be conducted in this area by widening the scope and incorporating more relevant variables. In addition, different methodologies may also be employed in order to address the issue in more holistic approach.

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