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CORPORATE SOCIAL RESPONSIBILITY EXPENDITURE AND PROFITABILITY: A STUDY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

[1]Jimoh Ayanda Oladipo, [2]Mukaila Ayanda Aremu and [1]Azeez Tunbosun Lawal

[1] Department of Business Administration, University of Ilorin, Ilorin, Nigeria

[2] Department of Marketing, University of Ilorin, Ilorin, Nigeria

ABSTRACT

Today's banks have adopted the discretionary form of corporate social responsibility (CSR) into their business operations, as a large number of them now issue reports on their CSR spendings. Nevertheless, many are yet to determine the consequence of this action on their profitability. To this end, this study examines the relationship of CSR expenditure on the level of profitability of listed banks in Nigeria with a view to determining whether or not CSR spending influences banks profitability. The study is based on the analysis of secondary data obtained from the annual reports of fifteen listed banks for the period 2005 to 2013. Purposive sampling technique was adopted to select all fifteen deposit money banks (DMBs) listed on the Nigerian Stock Exchange (NSE) among the twenty-one licensed DMBs in Nigeria. Descriptive statistics, correlation and panel data regression analysis were employed to assess the relationship. The findings indicate that there is a positive association (r = 0.2584) between corporate social responsibility expenditure and profitability of the sampled banks, the result revealed that for every unit increment in the CSR expenditure, there is a corresponding1.35 increase in profit after tax of the banks. The study concludes that CSR expenditure is very significant in explaining the variations in profitability level of banks. It is therefore recommended that banks should strategically choose their CSR spending to increase their long-term profitability for sustenance and in consequence maximize the benefits to society for sustainable development.

Keywords: Corporate social responsibility, Profitability, Listed firms, Deposit money banks, Nigeria

INTRODUCTION

Organizations operate in an environment that is dynamic, complex and uncertain. Thus, they must take into consideration the interests of their external public in the performance of their day-to-day operations. The existence of organizations has consequences for society and both the organizations' and their host communities share a symbiotic relationship; their interdependence is indispensable and, therefore, they are expected to reinforce each other. Organizations depend on the society for their personnel, security and the patronage of their goods and services while the society in turn expects them to make socio-economic contribution to the development of their environment. However, both of them can enjoy harmonious relationship only if they meet each other's respective expectations (Ojo, 2008; Palmer, 2001; Uadiale & Fagbemi, 2011).

Banks are no exception as their pervasive influence on society makes the issue of implementing social responsibility imperative. Although the banking industry, in comparison to other industries such as petro-chemical, agro-allied and manufacturing, does not aggressively impact negatively on the environment, there is a profound rise in the quest for social responsibility expenditure from the banking sector because of its definite importance to the economic development of any country.

The presence of organizations in the society, however, does not come without certain challenges, as their day-to-day activities are expected to be conducted ethically and legally while also committing themselves to the realization of their stakeholders' expectations. This brings about the concept of corporate social responsibility which is regarded as crucial to the achievement of these expectations. Corporate social responsibility (CSR) is a responsibility for a company's direct involvement with the betterment of the society. CSR means that companies must not only fulfill shareholders' needs but also take into consideration other stakeholders' demands (Moir, 2001;Tuhin, 2014).

The idea of corporate social responsibility is not unfamiliar in Nigeria due to the age-old conviction that businesses have a responsibility to 'give something back' to the communities where they operate. Indeed, there existed certain initiatives in the past designed to 'give something back' to host communities, especially by oil and gas multinational companies, where it is believed that the history of formalized CSR in Nigeria began. It is the integration of CSR implementation to corporate strategy that is relatively new to firms. The notion of CSR is commonly perceived and practiced as corporate philanthropy by Nigerian companies at the moment, as they mostly make cash donations and corporate gifts such as pipe-borne water, educational materials, buildings such as schools and hospitals, medical aids, vehicles, scholarships, wheelchairs to the handicapped, sport kits, clothing and household items, food items, surveillance (electronic) gadgets etc. aimed at addressing socio-economic development challenges that have been brought to the fore as a result of agitations by civil society groups in the host communities and society at large. This is what is excused by observers as an entry model to CSR (Obi, 2013). However, there is limited government regulation to ensure sustainable socially responsible behavior (Abdullahi, Lawal, Ijaiya & Ibrahim, 2012; Ojo & Akande, 2013).

Corporate Social Responsibilities (CSR) has been a highly contemporary and contextual issue to all stakeholders, including the government, the corporate organization itself, and the general public. The public contended that the payment of taxes and the fulfillment of other civic rights are enough grounds to have the liberty to take back from the society in terms of CSR undertaken by other stakeholders. Some ten year ago, what characterized the Nigerian society was flagrant pollution of the air, of water and of the environment. Most corporate organizations are concerned about what they can take out of the society, and de-emphasized the need to give back to the society (their host communities). This attitude often renders

the entire community uninhabitable. A case in point, as noted by Adeyanju (2012), is the Niger Delta area of Nigeria where intensive oil exploration of over the years has led to serious environmental degradation and widespread poverty as a result of loss of livelihood among the people. This translated into negative integrity and reputation on the part of corporate identity as people perceived this as exploitation and greed for profitability and wealth maximization within the decaying Nigerian economy. However, the general belief is that both business and society gain when firms actively strive to be socially responsible; that is, business organizations gain in terms of enhanced reputation, while society gains from the social projects executed by business organizations. In modern times, however, having seen the benefits and favourable pay-back of their investment in CSR, corporations are now seriously involved in this project, which had impacted in the society wonderfully and profitably.

Organizations, including banks in Nigeria, are increasingly beginning to understand the importance of ensuring and creating value in society, which is expected to have a positive effect on the organization. The past few years have, however, left banks in Nigeria with no choice but to find creative ways of strengthening their corporate brands and appeal to the good conscience of stakeholders. For the forward looking ones who currently report their CSR activities, on their websites and /or annual financial report, corporate social investment has proved effective in improving their public perception and financial performance (Lawal & Brimah, 2012).

Giving part of their profit to good course may not make sense on the face of it but the returns in terms of brand appeal can hardly be underestimated. Zenith Bank Plc has, for instance, set aside one percent (1%) of its Profit after Tax (PAT) for CSR activities. Committing a portion of PAT to CSR is to avoid suspicion of tax evasion. Likewise, First Bank of Nigeria Plc, GTBank Plc, Diamond Bank Plc, among a few others, quoted on the Nigerian Stock Exchange (NSE), have been visible in the past doling out substantial amounts of money to different segments of society while reporting tax payments (Ameashi, Adi, Obeche & Amao, 2006; Fodio, Abu-Abdissamad & Oba 2013; Obi, 2013).

A total of N1.869billion was reported to have been spent by eight Nigerian banks in 2012 on various community-related projects under the rubric of corporate social responsibility to identify with the society in which they operate. The figure is about 55 percent of the total CSR expenditure of N3.4billion by the banking industry in the year, which is in contrast with the preceding year's N1.7billion, with the hope that the figures will increase in the future due to increased knowledge of the concept of CSR. Among the eight banks, tier one banks (Zenith Bank Plc, UBA Plc, GTBank Plc, FBN Plc, and Access Bank Plc), which are ranked based on their huge market share, capital base, among other indices, dominated the list, with Zenith bank Plc topping the CSR expenditure list with N585million, followed by GTBank Plc which spent N364.8m. In 2011, the oil and gas sector spent N9.5billion on CSR, followed by telecoms with N6.4billion, and the banking industry came third (Obi, 2013).

Nevertheless, it will be worthy to know if CSR involvement influences profitability and to what extent.

Statement of Problem

Banks solicit deposits from customers, provide complementary services and grant loans to their host communities to achieve desired profitability. Over the years, Nigerian banks have enjoyed huge patronage for these services from their host communities resulting in them recording compound growth rates, huge profits and expansion in terms of the number of their outlets. The total number of Nigerian deposit money banks rose by 57 percent post consolidation, i.e. from 3,300

branches in July 2004 to 5,810 in December 2011 and the total number of bank branches, microfinance banks inclusive, stood at 6,605 at the end of the same year (Earnest, 2012; Sanusi, 2012).

Despite the increasing rate of expansion of the banks and their businesses in Nigeria, there is hardly a commensurate evidence of recorded CSR expenditure undertaken by the banks to assist their host communities in areas of their socio-economic needs and sustainable development. This corporate gesture of giving back to, and appreciation for their host communities should be acknowledged by banks, especially in investing in socio-economic and environmental development of these communities since they enjoy an interdependent relationship with them, yet little is being done to reverse the trend (Adeyanju, 2012).

Ameashi *et al.* (2006) and Abdullahi *et al.* (2012) in their studies agree that most of the studies on CSR implementation have focused more on developed countries while little is known of developing countries like Nigeria. Thus, the present study intends to add to the body of knowledge on the subject by examining the impact of CSR expenditure on their bottom-line so as to encourage more participation from the industry. It is hoped that issues raised in the study will stimulate interest among managers, researchers, students, investors, regulators and policy makers.

Objective of the Study

The objective of this study is to determine the relationship between Corporate Social Responsibility (CSR) expenditure and profitability of deposit money banks in Nigeria.

LITERATURE REVIEW

According to Jamali and Mirshak (2006), Corporate Social Responsibility principles have long been part of enlightened business practice, but the concept witnessed an astounding ascendancy and resurgence in recent years. A growing body of evidence seems to suggest that there is a myriad of definitions of Corporate Social Responsibilities (CSR), each considered valuable in its own right and designed to fit the specific organization. The majority of definitions integrate the three dimensions to the concept, that is, economic, environmental and social dimensions. CSR has also been commonly described as a demonstration of certain responsible behaviour on the part of public and the private (government and business) sectors toward society and the environment.

The World Business Council on Sustainability Development in 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”. According to European union (2006) “CSR is the concept that an enterprise is responsible or accountable for its impact on all relevant shareholders”. In the opinion of Macmillan (2005), “CSR is a term describing a company’s obligation to be accountable to all its stakeholders in all its operations and activities. Socially responsible companies will consider the fullscope of their impact on communities and the environment when making decisions, balancing the need of stakeholders with their need to make a profit”. “CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Since stakeholders exist both within a firm’s and outside a firm, hence, behaving socially and responsibly will increase the human development of stakeholders both within and outside the corporation” (Clarkson, 1995).

Steiner (1977) defined Corporate Social Responsibilities (CSR) as “the intelligent and objective concern for the welfare of the society that retains the individual and corporate behaviour from ultimately destructive activities, no matter how

immediately profitable and leads to the directions of positive construction of human betterment". As an improvement on the above definitions, Koontz and O'Donnell (1968) defined social responsibility as the personal obligation of everyone, as he acts in his own interests, but he must always have due regard that his freedom does not restrict others from doing the same thing. He further noted that a socially responsible individual or organization will obey the laws of the land.

Carroll (1991) notes that one of the factors that contributed to the ambiguity that frequently shroud discussions about social responsibility was the lack of consensus on what the concept meant. The concept of CSR as expounded by Carroll (1979) is still one of the most accepted globally in CSR studies (Mohamad, 2012; Crane & Matten, 2004) which introduces four layers of CSR or four types of social responsibility; economic, legal, ethical and discretionary expectations placed by society at any given point in time. According to Carroll (1991), the components of CSR begin with the basic notion that economic performance undergirds all else. At the same time, businesses are expected to obey the law because the law is society's main reference of acceptable and unacceptable behaviour. They are obliged to do what is right, just, fair, and avoid or minimise harm to stakeholders. Businesses are also expected to be corporate citizens that can be achieved through discretionary responsibility and they can contribute financial and human resources to the community and improve the quality of life. Table 1 explains the four forms of corporate social responsibility depicted by Carroll (1979; 1991; 1994).

Table 1: The Forms of Corporate Social Responsibility

Economic Responsibility	• It is a profit motive of the business. • Business is considered the basic economic unit with the principal role to produce goods and services that consumers need and want and to make an acceptable profit in the process. Examples: By profitably maximizing revenue, minimizing cost and making strategic decisions to improve performance.
Legal Responsibility	• As a partial fulfilment of the social contract between the business organization and society, businesses are expected to pursue their economic missions within the framework of the law. Examples: obey all laws, adhere to regulations, and fulfil all contractual obligations.
Ethical Responsibility	• To avoid those activities and practices that are prohibited by society members, even though they are not codified into law. • Encompasses additional behaviours and activities that are not necessarily codified into law but nevertheless are expected of business by society's members. Example: Avoiding questionable practises, operating above minimum required law and assert ethical leadership.
Discretionary Responsibility	• Encompasses business actions that are in response to society's expectations that businesses be corporate citizens. • This responsibility is purely voluntary and the decision is guided only by the desire of businesses to engage in social roles not mandated, not required by law and not even expected in an ethical sense. • Includes activities such as donations and charitable gifts to residents and institutions within the community. Examples: corporate contribution programmes, supporting community, community involvement and improvement, volunteerism, sustainable development.

Source: Adopted from Carroll (1991)

The Bali Roundtable on developing countries, in 2002, recognized the business sector as a primary driver of economic development while the World Summit for Sustainability identified business involvement as critical in alleviating poverty and achieving sustainable development. Corporate social responsibility has to do with an organization going out of its way to initiate actions that will impact positively on its host community, its environment and the people generally. It can be seen as a way of acknowledging the fact that some business fallouts have adverse effects on citizens and society and making efforts to ensure that such negative impact are corrected. Post *et al*. (1999), as a matter of fact, believe that corporate social responsibility means that a corporation should be held accountable for any of its actions that affect people, communities, and its environment. It implies that negative business impacts on people and society should be acknowledged and corrected, if possible. It may require a company forgoing some profits if its social impacts are seriously harmful to some of its stakeholders or if its fund can be used to promote a positive social good.

Nevertheless, the concept has not been uniformly embraced, with lingering diverging views about its potential usefulness and applicability. To skeptics, CSR is antithetical to sound business practice and serves to dilute its focus on wealth creation (Clement-Jones, 2005; Murray, 2005). Proponents, however, characterize CSR as essential for successful business operations and as an opportunity for business to look beyond narrow economic returns and take the wider social concern into consideration (Jackson and Nelson, 2004; Rudolph, 2005).

The exact purpose of business could be the fundamental reason for controversies that lead to the disagreements regarding what the concept of CSR involves. This has led to the surge in theories that have been brought to bear on the concept. Depending on one's perspective, corporate social responsibility can be interpreted using either of the two major schools of thought which are at the two opposite extreme of the continuum: the classical and expansionist views, which are often referred to as the shareholders and stakeholders theories. The former is composed of advocates of profit maximization while the other consists of writers who are of the belief that businesses should incorporate people and planet into their profit drive.

The Shareholder theory

Milton Friedman is one of the major proponents of this theory. According to Friedman (1970), the most important responsibility of business is to increase shareholders' wealth. For this reason, the manager's main aim is to make as much profit as possible while conforming to the basic rules of society. Firms are commonly assumed to incur significant cost by pursuing social welfare objectives beyond profit maximization within the law. Levitt (1985) is also a strong advocate of this debate. This is evident in his Havard Business Review article titled "*The Dangers of Social Responsibility*" in which he cautions that "government's job is not business, and business job is not government".

This theory asserts that management, as agents of shareholders, should pursue no other goal other than profit maximization. It recognizes the three aspects of CSR as propounded by Carroll (1999): economic responsibility, legal responsibility and ethical responsibility, but opposes the philanthropy responsibility, since it can jeopardize the business and shareholders' wealth (Herremans, Akathaporn and McInnes, 1993). They believe that free markets are responsible for and can handle social problems by creating incentives and disincentives to elicit appropriate behaviour from business (Shrivastava, 1995).

The Stakeholder Theory

Stakeholder theory focuses on the relationship between group of individuals who can affect or be affected by the achievement of the organizations' objectives (Freeman, 1984). Freeman (1984) is one of the major advocates of this theory and asserts that managers must satisfy a variety of constituents who are referred to as stakeholders (e.g. investors and shareholders, employees, customers, suppliers, government and competitors). Clarkson (1995) defined a stakeholder as a person or a group that has/have, or claim(s), ownership rights or interest in an organization and its activities past, present or future. Such claimed rights or interests are the results of actions taken by the organizations and may be legal or moral, individual or collective. Starik (1995) expanded the definition of stakeholder to include both human and non-human entities. He argued that the non-human or natural environment can be integrated into the stakeholder management concept, since the natural environment is one of the important components of the business environment. According to this theory, it is not enough for organizations to focus exclusively on satisfying only equity holders or the owners of the business but also consider other group of individuals who can undermine its performance by their actions.

While views about CSR continue to alternate between these two extremes, this study is anchored on the stakeholder theory. This is mainly because, in as much as banks are expected to give back to the society they operate in, CSR expenditure should be done on the basis of the banks' good financial position and availability of free resources to cater for the needs of both the owners and other stakeholders (Waddock & Graves, 1997).

Empirical Review

Several studies can be found in literature on the relationship between Profitability and corporate social responsibility expenditure and the extent to which one affects the other; however, they all provide contradictory evidence of the relationship in their findings. Hence the findings can be grouped into three categories. While some studies support the existence of a positive correlation between CSR and financial results, some found the relationship to be negative and others reported lack of correlation between the two variables.

Tuhin (2014) measures the impact of corporate social responsibility expenditure on the level of profitability of listed banks in Bangladesh. The study is based on the secondary data of 10 listed banks for the period 2007-2011. The banks were selected on the basis of random sampling. The study employed regression analysis to assess the relationship. The findings indicate that there is a significant positive association between corporate social responsibility expenditure and profitability of the sample listed banks.

Akanbi and Ofoegbu (2012) investigated the effect of the dimensions of CSR on organizational performance in the banking industry with a particular reference to United Bank of Africa, Lagos. The study employed survey research. Primary data was used for the study with questionnaires as research instrument. 250 employees were selected using stratified sampling technique cut across all cadres and departments in the organization. Data was analysed using t-test, regression, Pearson correlation and analysis of variance (ANOVA). The study revealed that the dimensions of CSR have effect on organizational performance. Hence, it concluded that social responsibility performance is hindered by factors such as excessive taxation, lack of corporate and public awareness etc. Therefore, for organizations to embrace CSR, they must harmonize and reconcile the significant degree, the corporate objectives and social needs.

Bedi (2009) studied the relationship between social and financial performance of top Indian firms for the financial year 2007-2008, as rated by NGO Karmyog. The research considered 37 companies which spent some amount of financial resources on CSR activities. The relationship between their financial performance and expenditure on CSR was then measured using correlation and regression. The analysis found a positive relationship between CSR and financial performance. The descriptive and inferential measures show that corporate social expenditure relies upon the financial performance of the firm.

Malik and Nadeem (2014) investigated the impact of CSR on CFP of banks in Pakistan. Secondary data was obtained from annual reports of eight banks (8) between 2008-2012, to verify the relationship between profitability (EPS, ROA, ROE, net profit) using CSR regression models (panel data).The result shows that there is lack of CSR in Pakistan as the regression model indicates a positive relationship between profitability and CSR practices. It concludes that financial institutions which implement CSR in their operations earn more profit for the long term period.

Amole, Sulaiman and Awolaja (2012) postulated that the rising cost of running business organizations in Nigeria and the lack of basic infrastructure, as well as divergent views in literature regarding the type of relationship that exists between CSR and corporate performance necessitated their examination of the relationship between CSR and profitability in the Nigerian banking industry using First Bank Plc as the case study. Their study employed annual reports as the main source of secondary data and covered the period between 2001 and 2010. The data collected for the study were analysed using correlation and regression techniques. The findings revealed that for every unit change increment in the CSR expenditure, there was .945 or 95 percent increase in profit after tax of the company. The study concluded that there is a positive relationship between banks CSR and profitability and recommended that banks need to demonstrate high level of commitment to CSR based on stakeholders theory in order to enhance their profitability in the long run.

Sanni, Olayiwola and Abdul-Baki (2014) argued that spending on CSR expenditure without knowing the future returns generated for an organization could cumulatively put an organization into financial problems in the future. In their work, they examine the impact of CSR expenditure on the profitability of Nigerian Deposit Money Banks (DMBs). Secondary data sourced from the bank's financial statements between 2007 and 2011 were employed in the analysis. Purposive sampling technique was adopted to select the ten out of the existing twenty one DMBs currently operating in Nigeria. Correlation and panel data regression model was adopted which revealed that expenditure on CSR has no significant impact on bank's profitability, and therefore suggests that banks should exercise care on the amount committed to CSR so as not to jeopardize their profit and wealth maximization objectives.

It is evident that there is no universal acceptance and understanding on the link between CSR and profitability. Various studies have differed in the relationship between CSR expenditure and profitability and the extent to which spending on CSR affects profitability of companies. These differences have been attributed to a number of factors, among which include sample size, cultural setting and market value (Sanni *et al*, 2014).

Hypothesis

In other to achieve the earlier stated objective for the study, the following hypothesis is stated in the null form and was tested using the data obtained from the study:

H_0: there is no significant relationship between expenditure on CSR and banks profitability

METHODOLOGY

Research Design

This study is based on the analysis of secondary data collected from the annual reports and accounts of all listed DMBs from 2005 to 2013. The descriptive statistics, correlation and panel research design was adopted to analyse the association and effects of corporate social responsibility expenditure on banks profitability. Panel studies are those in which the independent and dependent variables are measured repeatedly on municipalities (banks) and on several occasions (years). Panel study was considered an efficient analytical method for this study because it allows the inclusion of data for (N) cross –sections and (T) time periods.

Population and Sampling Frame

The population of this study comprises twenty one (21) licensed deposit money banks in Nigeria, as at 31st December 2013. The study employed a sampling size consisting of fifteen (15) deposit money banks listed on the Nigerian stock exchange as at 31st December 2013 using purposive sampling technique. The emphasis on banks listed is based on the premise that they are by law (Investment and Securities Act, 2007) mandated to file their periodic financial reports. The adoption of listed firms as case study is not unusual, as studies such as Tevfk and Oktay (2008), Halliru (2008), Musa and Oyedijo (2012) and Sanni *et al*. (2014) have used listed firms as their case studies.

Sample data was collected from 2005 to 2013; this period was chosen because it marked the period of post-consolidation era in the Nigerian banking industry. The total number of observations was 15 banks for 9 years which makes up 135 observations.

Method of Data Collection

Secondary data was used for this study and were extracted from the annual financial reports of the banks and the fact-book published by the Nigerian stock exchange. These sets of data comprised mainly amounts reported as spent on CSR activities and the firms profit after tax for the period under consideration**.**

Method of Data Presentation and Result

Data collected were subjected to both descriptive statistics, correlation and regression analysis. Descriptive statistics involved the use of tables, central tendencies and graphs in order to present the level of CSR expenditure of banks, while correlation was employed to establish the relationship between CSR spending and profit of banks. The regression analysis was used to show the impact of CSR expenditure on profitability of the banks studied as against the OLS assumption of common constant among the cross sections of selected banks, and in fixed effects method the constant is treated as group. The fixed effects estimation is referred to as the least squares dummy variables (LSDV) estimator in order to allow for different constants for each group (bank), and it includes a dummy variable for each bank. The fixed effects model assumes constant coefficients but the intercept varies over the individual banks as specified below:

$$Y_{it} = a_1 + a_2X_1 + a_2X_2 + e_{it} \quad i=1,2..N \; t=1,2\ldots T \quad \text{------} (1)$$

Where, a is the intercept of the equation, and e is the error term.

Before assessing the validity of the fixed effects method, a standard F-test was used to check the effect of fixed effects against the pooled regression method. We can perform this significance test for an R^2 change. The F-Test can be written as:

$$F_{groupeffects} = \frac{(R_{fcw^2} - R_{pooled^2})/(n-1)}{(1-R_{LSDV^2})/(nT-n-k)} \quad \text{------} (2)$$

Here T=total number of temporal observations. n = the number of groups and k= number of regressors in the model. If we find significant improvements in the R^2 then we have statistically significant group effects.

The study determines whether CSR uptake of banks have any impact on their profitability and in doing so the regression equations will use panel data that consists of cross sectional and time series observations. This will enable the use of a larger number of data points, increasing the degree of freedom and reducing the co-linearity among the independent variables. This conforms to the work of Mahoney and Roberts (2007) on the CSR-FP link for publicly held Canadian companies.

The dependent variable is profitability, which is proxy by profit after tax (PAT) of the banks. PAT is the net profit earned by the company after deducting all expenses such as interest, depreciation and tax. PAT can be fully retained by a company to be used in the business. Dividends, if declared, are paid to the shareholders from this residue. It is a more accurate look at operating efficiency for leveraged companies. Profits after tax directly impact the amount investors earn and hence affect market capitalization accordingly.

The independent variable is the corporate social responsibility (CSR) expenditure of the banks, which is measured in this study using the amount of all donations and corporate gifts reported in selected banks' financial reports.

Model Specification

This first equation introduces expenditure on CSR as the independent variable (X) and profitability as the dependent variable (Y) in the study. It was adopted to determine the association between the dependent and independent variables.

$$r = \frac{\sum(CSR_i - \overline{CSR})(PAT_i - \overline{PAT}) / n}{\delta_{CSR} \times \delta_{PAT}} \quad (3)$$

where:

CSR_i = ith value of CSR

$\overline{CSR}$ = mean of CSR

PAT_i = ith value of PAT

$\overline{PAT}$ = mean of PAT

n = number of observations

δ_{CSR}= standard deviation of CSR

δ_{PAT}= standard deviation of PAT

The second equation below was adopted to examine the effect of the independent variable (CSR) on the dependent variable (Profitability) in the study.

Profitability = *f* (CSR expenditure)

PAT = *f* (CSREXP)

$PAT_{it} = \beta_0 + \beta_1 CSREXP_{it} + \varepsilon_{it}$ ....(4)

Where,

PAT = Profit after tax

CSREXP = Amount spent on donations and corporate gifts

ε = Error term

i = Individual banks

t = Time period of the variables = 1,2,...9years

β_0 = Intercept coefficient

β_1= Parameter estimates

'*a priori*' is given as: $\beta_1 > 0$

The above denotes that CSR expenditure is a function of profitability, thus a positive relationship is expected between the dependent and independent variables.

Data Presentation and Results

This section reveals the descriptive result of the correlation coefficient between the independent and dependent variables and analyses the empirical results based on the panel data regression model estimates while discussing the findings of the study.

Descriptive Statistics Result

Table 2 presents the summary of the descriptive statistics of the dependent and the independent variables. The mean, minimum, maximum and standard deviations are presented in order to provide an insight into the distribution of the underlying variables.

Table 2: Descriptive statistics summary

	CSR Exp.	PAT
Mean	4.56E+08	1.18E+10
Maximum	1.90E+10	1.18E+11
Minimum	774000.0	-8.32E+10
Std. Dev.	3.30E+09	2.53E+10
Skewness	11.35545	0.815395
Kurtosis	130.9401	8.389218
Jarque-Bera	94975.00	178.3302
Probability	0.000000	0.000000
Sum	6.16E+10	1.59E+12
Sum Sq. Dev.	1.46E+21	8.61E+22
Observations	135	135

Source: Author's computation, 2015

Table 2 shows the mean value for PAT as N11.8bn while CSR has a mean value of N456m. The banks were on the average profitable during the period of 2005 to 2013 regardless of the minimum loss of N83.2bn reported in one of the listed banks during the period. The maximum CSR expenditure was N1.9bn.The standard deviation of both variables indicates high variation in the distribution of the series, indicating that both CSR and profitability were unstable during the period. The

skewness and kurtosis show that the CSR are positively skewed and has a fat tail; this is also applicable to profitability. Equally the probability of the Jarque Bera statistics, which is significant, shows that the distribution of both the CSR and profitability is not normal. Therefore, the application of OLS method is inappropriate. Hence, the fixed effect and random effect models are used in this study.

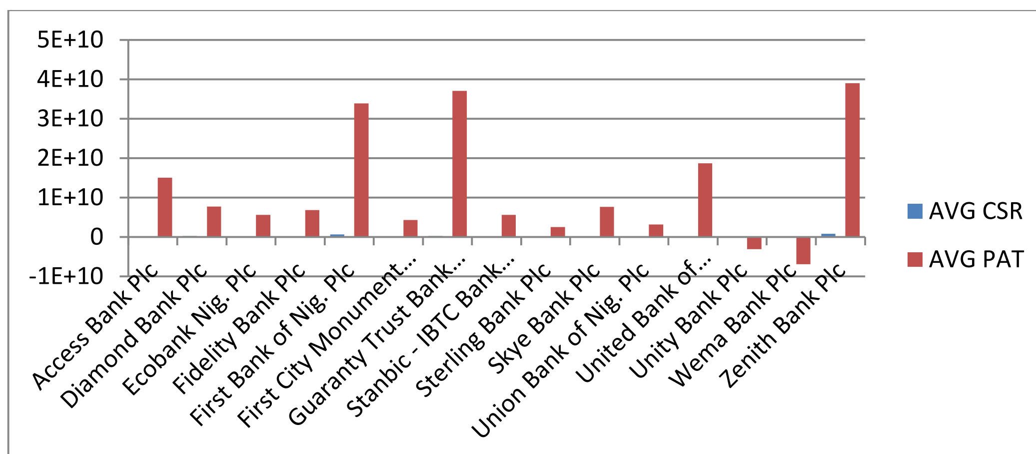

Figure 1: Graphical presentation of nine years average of PAT and CSR across the listed banks in Nigeria (2005-2013)

Source: Author's computation, 2015

As shown in Figure 1, Access Bank, FBN, GTBank, UBA and Zenith bank had the highest average PAT which was above N1trn over the nine year period reviewed while Unity bank and Wema bank recorded losses. CSR expenditure for all banks when compared with their average PAT was very negligible.

Correlation Result

Table 3: Correlation matrix between the dependent and independent variables

Variables	**PAT**	**CSR**
PAT	1.0000	
CSR	0.2584	1.0000

Source: Author's computation, 2015

The matrix, as shown in Table 3, depicts that with the correlation coefficient (0.2584), there is a positive relationship between CSR and profitability of banks. Although the relationship is weak, it could have great impact. This implies that for banks to really maximize value from embarking on CSR spending, they need to deploy more resources to their CSR engagements

Presentation and Analysis of Panel Data Regression Model

Table 4: Estimates of fixed effect regression model

Fixed-effects (within) regression		Number of obs =	135
Group variable: bankid		Number of groups =	15
R-sq:	within = 0.0387	Obs per group: min =	9
	between = 0.2892	avg =	9.0
	overall = 0.0668	max =	9
		F(1,119) =	4.78
corr(u_i, Xb) = 0.1595		Prob > F =	0.0307

profitabil~y	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
csr	1.352377	.6182478	2.19	0.031	.1281843	2.576569
_cons	1.12e+10	1.92e+09	5.82	0.000	7.38e+09	1.50e+10
sigma_u	1.345e+10					
sigma_e	2.209e+10					
rho	.27047257	(fraction of variance due to u_i)				
F test that all u_i=0:	F(14, 119) =	3.25			Prob > F = 0.0002	

Source: Author's computation, 2015

Table 4 shows the estimates of fixed effect model investigating the impact of corporate responsibility (CSR) on profitability. The value of coefficients of CSR (1.35237) shows that CSR is positively related to profitability. The model shows that CSR is a significant determinant of bank profitability. The p-value, (0.031) shows that the coefficient of profitability is statistically significant at 3.1%. The average effect of increase in the CSR on increase in profitability across banks over time is 1.352377 which implies that a unit increase in CSR will on the average bring about 1.352377 unit increases in profitability. That is, on the average, a million naira increase in the expenditure on CSR will lead to corresponding 1.352377 million naira increase in profit of banks. The F-statistics is 4.78 with probability value of 0.0307 depicts that the model has a good fit. Hence, the findings of the model are valid for the banks involved in this investigation. The Rho statistics 0.27 indicates that about 27% variation in profitability across the banks over time is due to their peculiar unobserved differences.

Table 5: Estimates of random effect regression model

Random-effects GLS regression		Number of obs =	135
Group variable: bankid		Number of groups =	15
R-sq:	within = 0.0387	Obs per group: min =	9
	between = 0.2892	avg =	9.0
	overall = 0.0668	max =	9
Random effects u_i ~ Gaussian		Wald chi2(1) =	6.85
corr(u_i, X) = 0 (assumed)		Prob > chi2 =	0.0089

profitabil~y	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
csr	1.591469	.6079967	2.62	0.009	.3998174	2.783121
_cons	1.11e+10	3.26e+09	3.40	0.001	4.68e+09	1.75e+10
sigma_u	1.007e+10					
sigma_e	2.209e+10					
rho	.17210502	(fraction of variance due to u_i)				

Source: Author's computation, 2015

Similarly, the result of the random effect regression expressing the impact of CSR on profitability of banks is shown in table 5. It indicates that CSR is a significant determinant of the profitability of the banks investigated, i.e. CSR positively affects banks' profitability. This is indicated by the value, 1.5915 for the coefficients of CSR. The p-value 0.009 of the Z-statistics is 2.62, shows that the variable (CSR) is statistically significant. On the basis of magnitude, a unit increase in CSR expenditure will lead to about 1.5915 units increase in the banks' profitability and the reverse is the case when there is a decrease in expenditure on CSR. By implication, one million naira increase in the expenditure on CSR result in about 1.5915 million naira increase in the banks' profit. This portrays the average effect of change in CSR on the changes of profitability across banks over time. The intra-class correlation (rho) shows that about 17.2% variation in profitability of banks as a result of their unobserved individual differences while the Wald chi statistics, 6.85 with p-value 0.0089), indicates that the model has a good fit.

Table 6: Hausman Test

	Coefficients (b) fix	(B) ran	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
csr	1.352377	1.591469	-.2390924	.1121177

```
                 b = consistent under Ho and Ha; obtained from xtreg
  B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test:  Ho:  difference in coefficients not systematic

             chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                     =        4.55
           Prob>chi2 =      0.0330
```

Source: Author's computation, 2015

Given that both the fixed effect and random effect models exhibit goodness of fit, to determine the preferable one for adoption for this study between the two, the Hausman test was conducted using the estimates of the two models. The result of the test is reported in table 6 above. The null hypothesis of the test is that random effect is preferable (difference in coefficients not systematic) against the alternative hypothesis that random effect model is not preferable (difference in coefficients systematic). The null hypothesis would be rejected if the probability of the chi-square statistics is significant. Therefore, the results of the test conducted in this study show that the null hypothesis is rejected. Hence, we conclude that the fixed effect model is preferable to the random effect model. This is indicated by the chi-square statistics is 4.55 with probability value of 0.0330. So, the findings of this study are preferably based on the estimates of the fixed effect which supersedes that of the random effect model.

DISCUSSION OF FINDINGS

The findings, based on the correlation model result of 0.2584, show that a positive relationship exists between corporate social responsibility expenditure and profitability i.e banks' sustainability. With this correlation result, it is believed that it could have great impact when banks deploy more resources to finance what the society expects from them. This might perhaps call for banks to adopt the concept as a business strategy rather than a mere act of generosity to really maximize value from embarking on CSR spending.

Based on the regression estimates, there is indication that CSR expenditure is very significant in explaining the variations in profitability level of sample banks. It is also revealed that for every unit increment in the CSR expenditure, there will be

1.35 increases in profit after tax of the company. The results are in line with the *a priori* expectations, so the null hypothesis is rejected.

The finding is consistent with the works of Amole *et al.* (2012), Malik and Nadeem (2014), Bedi (2009) and Tuhin (2014) who also discovered that a positive and significant relationship exists between CSR expenditure and profitability of banks in their countries, i.e. Nigeria, India, Pakistan and Bangladesh respectively, however, contrary to the findings of Sanni *et al*. (2014) which revealed that expenditure on CSR has no significant impact on bank's profitability.

CONCLUSION

The study reveals that deposit money banks in Nigeria recognizes the importance of sustainability and contributing to the socio-economic and environmental development of their host communities, this is evident by the diverse programmes expended on and reported as CSR expenditure of the banks examined, however, the data collected revealed that less of banks financial resources is still channeled towards CSR expenditure, as the maximum spent by a bank within the period studied was N1.9bn with is less than 2% of annual PAT of any of the banks.

Based on the results from the study, it is therefore concluded that CSR spending by banks does not commensurate with the profit they make even though the former enhances the latter and that every million naira increase in banks CSR expenditure will lead to increases in their profit after tax by N1.35m.

RECOMMENDATIONS

Based on the findings and the stakeholders' theory, the study recommends that for banks sustenance they should endeavour to spend more on their CSR engagements by contributing more percentage of their profit after tax towards alleviating critical socio-economic and environmental problems within the society in which they carry out their operation so as to enhance their profitability and thus sustainable developments. They should also take the adoption of CSR as a business strategy rather than a mere act of generosity to derive long term value.

It is also important to expand the scope of the study by including unlisted banks, non-banking financial institutions like insurance companies, pension fund administrators, etc. Other financial performance measuring factors such as deposits, revenue, return on assets (ROA), earnings per share (EPS) and economic value added (EVA) can be investigated as outcome of CSR activities. Moreover, the scope of the research may be extended by increasing the sample size and carrying out a cross-country examination.

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ABOUT THE AUTHORS:

Jimoh Ayanda Oladipo , Senior Lecturer, Department of Business Administration, University of Ilorin, Ilorin, Nigeria;

Mukaila Ayanda Aremu, Senior Lecturer, Department of Marketing, University of Ilorin, Ilorin, Nigeria and

Azeez Tunbosun Lawal, Ph.D. Student, Department of Business Administration, University of Ilorin, Ilorin, Nigeria.