



# Does CSR Improve Organization Financial Performance? Evidence from Nigeria Using Triangulation Analysis

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## ABSTRACT

The study examines the impact of corporate social responsibility (CSR) on organizational financial performance of some selected banks in Nigeria using time series of annual data of ten banks over the period of 1990 to 2010. Pearson Correlation coefficient was used to analyse the correlation that exist between CSR and organization performance while collected data were regressed using Ordinary Least Square technique. Findings indicate a positive relationship between CSR cost and Profit after Tax (PAT). The study therefore recommends that top management in an organization must ensure prudence in its spending and get committed to any social activity it wants to embark upon and allow the members of the public to associate such an activity or activities.

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## 1. Introduction

Corporate social responsibility has taken on an increasingly prominent role in the business world in recent years. CSR can be loosely defined as the adoption of socially beneficial and environmentally sustainable practices by corporate actors. The rise of CSR can be attributed to growing public disenchantment with traditional business practices that degrade the environment and compromise worker wellbeing, and resulting pressure from consumers and nonprofits on the private sector to reform itself. Instead of simply complying with government regulation, a company that is "socially responsible" adopts more stringent self-regulation ensuring that it is acting to minimize negative impact on the environment, its employees, its customers, and the community.

Other authors find that CSR has a neutral effect on financial performance because the types of actions taken in the name of CSR are often cost-saving and would have been taken anyway. Or there could be a negative effect, since some CSR policies can compromise firms' profit-making ability because of their production of public goods. Authors rooted in classical theory rail against the idea that corporations should have a social conscience. A corporation's contribution to society is to add to national income; it is the role of the government to guard against social and environmental abuses.

Although there is still some debate in the literature, it is likely that profit-seeking entities engage in CSR because it has some profit-generating function. The profit motives behind CSR, however, may create limitations in its effectiveness in achieving social and environmental goals. This paper develops

## 2. Review of Literature

For a period of over 30 years there has been a great interest and as a consequence numerous studies of the nature of the relationship between corporate social responsibility (CSR) and financial performance. Management, politicians, academics are among those interested in identifying who gains the benefit from and who bears the cost of corporate social responsibility (CSR) activities.

Today, heightened interest in the role of business has been promoted by increased sensitively to and awareness of environmental and ethical issues. Issues like environmental damage, improper treatment of workers and faulty production that inconveniences or endangers customers are highlighted in the media. In some countries like Nigeria, Government regulations regarding environmental and social issues have increased. As government around the world withdrew from operating business enterprises, private sector corporations are more increasingly under pressures to take a more active role in the society, to be good "Corporate Citizens". This obligation is seen to comply with legislation and see organization voluntarily taking further steps to improve the quality of life.

As the impact of the corporate sector very broadly define has become a greater concern, there has been an increasing interest in determine the sign and magnitude of any relationship that might exist between the extent of a company's social responsibility (CSR) activities and its future financial performance. This

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study examines the impact of corporate social responsibility on organisational performance of selected banks in Nigeria

## **2.1 Theoretical Framework**

Concepts and theories of corporate social responsibility (CSR) have been examined and classified scholars since the mid-1970. However due to the evolving meaning of CSR, numerous effort are needed to understand new developments. Since there is a great diversity of theories and approaches, the task remains a very hard one, mainly because no uniformity could be arrived. In discussing CSR, western research will normally adopt several theories such as ethical, economic, legal, charity or stewardship. Each theory will lead to different perceptions on CSR. The ethical theory suggest that business must be carried out in accordance to the ethical principles such as far and justice. The existence of a company according to the stewardship theory should lead to a better condition for the society and not other-wise.

### **2.1.1 Stakeholder's Theory, Carroll's CSR and Agency Theory.**

Firstly, an important approach to CSR stems from a book by Freeman (1984) called strategies management". The stakeholder theory developed by Freeman (1984) focus on the interactions between firms and society. Over the years the stakeholder's theory has been recognized as an integral part of CSR by many authors (Harrison & Freeman, 1999; Clarkson, 1995). It is argued that through effective stakeholder, management social and ethical issues can be resolved and the demands of society and shareholders will be accounted for Harrison & Freeman, (1999). Clarkson's (1995) differentiates between social and stakeholder issues, starting that social issues are furthered by local institution and adopted in regulation and legislation, while stakeholder issues are not concerned with legislation and regulation.

Secondly, a famous view point on the concept of CSR is provided by famous Carroll's (1991), He uses pyramid of corporate responsibility to identify a spectrum of obligations that companies have toward society. He defines CSR using a four responsibilities approach known as economic, legal ethical and philanthropic (Discretionary). The main focus of any organization has always been on the economic responsibilities, which implies that companies have to produce goods and services for the public to gain profit, businesses have responsibility towards the shareholders to increase their wealth. Even through making lots of money is surely control to why corporations exist, but these days it appears that corporations are being challenged to do more and to be more. Businesses are also accountable on their legal responsibility.

Thirdly, the agency is the relationship between the principles and agents which involves the nature of costs of resolving conflict of interests between principal and agents (Jensen & Meckling, 1976). This theory infers that the precipitators of these conflicts incur agency costs in which they have incentive for possible reduction (Morris, 1987). Recent study done by Brown, et al., (2008) Indicates that agency costs play a prominent role in explaining corporate donation, which is part of CSR.

## **2.2. Review of Empirical Studies**

Empirical Studies of the relationship between CSR & financial performance comprise essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firm engage in either socially responsible or irresponsible acts. The result of these studies have been mixed, Wrights & Ferris (1997) discovered a negative relationship, while Welch & Wazzan (1999) found no relationship between CSR and financial performance, other studies, discussed in McWilliams & Siegel (1997) are similarly inconsistent concerning the relationship between CSR and short-run financial returns.

The second type or studies examines the relationship between some measure of corporate social performance (CSP) and measure of long-term financial performance, by using corporate social performance (CSP) and measure of long-term financial performance, by using accounting or financial measure of profitability. The studies that explore the relationship between social responsibility and accounting based performance measures have also produced mixed results. Cochran & Wood (1984) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, Carroll, & Hat field (1985) detected no significant relation between CSP and a firm's risk adjusted return on assets. Waddock & Graves (1997) found significant positive relationships between an index of CSP and performance measure, such as ROA in the following year. Studies using measures of return based on the stock market also indicate diverse results. Vance (1975) refutes previous research by Moskowitz by extending the time period for analysis from six (6) months to three (3) years, thereby producing result which contradict Moskowitz and which indicate CSP/CFP relationship, however, Alexander & Buchrolz (1978) improved on Vance's analysis by evaluating stops market performance of an identical group of stocks on a risk adjusted basis, yielding on inconclusive result.

## **2.3. Conceptual Framework**

From the evidence obtained in the literature, and the industry context of this study, the thesis adopts the stakeholder theory which holds that business organization must play an active social role in the society in which it operates. Freeman (1997) one of the advocates of stakeholder theory, presented a more positive view

of manager's support of CSR. He asserts that managers must satisfy a variety of constituents (e.g. investors and shareholders, employees, customers, suppliers, government and local community organizations) who can influence firm outcomes.

According to this view, it is not sufficient for managers to focus exclusively on the needs of stakeholders, or the owners of the corporation. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important, otherwise, these groups might withdraw their support.

Business for social responsibility (BSR), define CSR as achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment. McWilliams & Siegel (2001), describe CSR as acting that appear to further some social good, beyond the interest of the firm and that which is required by law? A point worth noticing is that CSR is more than just following the laid (McWilliams & Siegel 2001). Alternatively, according to Freeman (1997), the definition of what would exemplify CSR is the following. "An action by a firm, which the firm chooses to take that substantially, affects an identifiable social stakeholder's welfare". A social responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirement and contribute to the welfare of its key stakeholders. CSR is viewed, then, as comprehensive set policies, practices, and programs that are integrated into business operations supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human-right, the market place as well as the work place.

### **2.3.1. Relationship Between CSR and Financial Performance**

In recent years, the number of companies practicing CSR is growing and many argued that it is linked to sustainability and ensuring long-term profit. Whether or not to practice CSR could be answered by reviewing the empirical studies done on this area that examine the link between CSR and financial performance. A significant body of CSR research has been centered on the debate over whether there is a relationship between good CSR and strong financial performance, and what kind of relationship there is.

Chand (2006) investigated the relationship between CSR and financial performance. The study used industry type as a boundary condition. Accordingly, by controlling the industry types, will eliminate all the environmental difference that tend to hide the link between these CSR and performance, He found that by controlling for industry, a clear positive link can be shown between CSR and performance.

Cochran & Wood (1984) examined the relationship between CSR (Moskowitz's ranking) and corporate financial performance (the ratio of operating earnings to assets and excess Market valuation). The conclusion of their study was that within industry groups, the financial variable that most strongly correlated with CSR was asset age. However they claimed that the causality between these two variables was left UN investigated.

The linkage between corporate social responsibility and firm financial performance has received considerable research attention especially in the area of socially responsible Investigating CSR. The global study by Hill, (2006) examined corporate social responsibility through a comparison of SR, to the broader stocks market in the United States, Europe and Asia. In their finding show that only the European find out performed the larger equity market in the short-term (3years). None of these statistics was significant in the medium term (5 years).however; both the United States and European portfolios outperformed their comparison markets in the Long-term (10years). They further argued that taken together these results suggest that being viewed as socially responsible by investors may impact positively the valuation of firms. Over the long run, providing them with the opportunity to do well while doing good" European investors appear to value CSR in the short term as well as the long-term, and Agran investors may have the tendency to mirror the use Investors, They concluded from the finding, having the value of CSR activities to global enterprise may continue to grow in importance.

### **2.3.2. Measures of Corporate Social Responsibility**

Determine how social and financial performance are connected is further complicated by the lack of consensus of measurement methodology as it relates to corporate social performance. In many cases, subjective indicators are used, such as survey of business student (Heinze, 1976) or business faculty members (Moskowitz, 1972) or even the fortune making (Preston & O' Bannon, 1997). Significantly, it is unclear exactly what these indicators measure. In other cases, researchers employ official corporate disclosures annual reports to shareholders CSR reports, or the like. Despite the popularity of these sources, there is no way to determine empirically whether the social performance data revealed by corporations are under reported or over reported.

### **2.3.3. Measures of Financial Performance**

Although measure financial performance is considered a simpler task, it also has it specific complications. The measures that represent different perspectives of how to evaluate a firm's financial

performance have different theoretical implication (Hillman & Keim 2001). The use of different measures, needless to say, complicates the comparison of the results of different studies.

In other words, accounting measure capture only historical aspects of firm performance (McGuire, Schneeweis, & Hill 1986). They are subject, moreover, to bias from managerial manipulation and difference in accounting procedures (Branch, 1983). Market measures are forward looking and focus on market performance. They are less susceptible to different accounting procedures and represent the investor's evaluation of the ability of a firm to generate future economic earnings (McGuire, J.B.A, Sundgren, and T. Schneeweis, 1988).

### 3. Research Methodology and Data

Data for the study are obtained from secondary source, which is the financial statement of the banks under study. The data are collected in order to assist us draw conclusion on the study. A sample size of two banks were drawn out of the population (UBA and First Bank Plc with a period of 25 years that is , from 1990-2010).

#### 3.1. Model Specification

In order to capture the effect of corporate social responsibility on Nigeria banking industry, a simple linear regression model will be used. The model will include the dependent and independent variables;

The model is thus specified as;

$$Y = a_0 + bx + u \tag{i}$$

The functional relationship between dependent and independent variables is;

$$\text{PROF} = f(\text{CSR}) \tag{ii}$$

$$\text{PROF} = \alpha_0 + \beta_1 \text{CSRC} + \mu \tag{iii}$$

Where PROF= PAT

CSRC (Corporate Social Responsibility Cost)

$\mu$  = Stochastic term

### 4. Result Findings and Presentation

Table 1. Showing Correlations output to show the relationship between Banks data on Corporate Social Responsibility Cost (N) and profit after Tax (N)

Correlation between CSR and Profit After Tax		PAT	CSR
Pearson Correlation	PAT	1.000	0.852
	CSR	0.852	1.000
Sig. (1-tailed)	PAT	.	0.000
	CSR	.000	.
N	PAT	50	50
	CSR	50	50

**Researcher's Computation, (2013) \***. Correlation is significant at the 0.01 level (2-tailed)

#### 4.1.1 Interpretation

There is a significant relationship between C.S.R cost and profit after tax (P.A.T).

Table 2. Showing Regression Analysis Result

Dependent Variable: PAT  
Method: Panel Least Squares  
Sample: 1990 - 2010

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.743310	0.85149	2.041045	0.0168
CSR	1.653410	0.76295	2.167112	0.0005
R-squared	0.727595	Mean dependent var		11.07310
Adjusted R-squared	0.721227	S.D. dependent var		4.32610
F-statistic	1.362150			
Prob(F-statistic)	0.00021			
Durbin-Watson stat	1.660223			

#### **4.1.2. Interpretation**

The co-efficient of CSR implies that there is a positive relationship between CSR and profit after tax (PAT). The co-efficient value of CSR is given as 1.65, the implication of this is that a one unit change in CSR will increase profit after tax by 1.6 units. The co-efficient value of which shows the amount by which profit will increase, if CSR is 0 or in determinate gives a value of 1.7. The implication of this is that profit after tax will increase by 1.7 units, if CSR is 0 or determinant.

#### **4.1.3. Co-Efficient of Determinant ( $R^2$ )**

The  $R^2$  is used to measure the degree to which changes in the dependent variable are being explained by the dependent variable. It is used to measure the reliability of the model specified. From the result above, the value of  $R^2$  is 0.72, this suggests that 72% of the changes in profit after tax is caused by CSR. The implication of result is that CSR is statistically significant in explaining profit after tax in determining profit after tax. The implication is that the null hypothesis (which states that there is no significant relationship between CSR and profit after tax (PAT)) could be rejected. The alternative hypothesis which states otherwise is significant, since CSR accounts for about 72% of the variation in profit after tax.

#### **4.1.4. Standard Error Test**

This test measures the size of the error of the estimate, while establishing a degree of confidence in their variability. The test holds that for an estimate to be significant, the standard error of its coefficient must be less than half the value of the coefficient ( $S.E < 0/2$ ). From the result above the standard error of CSR is given as 1.41667. The coefficient of CSR/2, it gives us 0.826705, since S.E (0.76295) is less than coefficient /2 (0.826705) this means that CSR is statistically significant in determining variation in profit after tax. Thus, we reject the null hypothesis.

#### **4.1.5. F-Statistics**

It measures the overall significance of the explanatory variables in a specified model. The value of f-statistics, according to the result is given as 0.00021. Decision rule for f-statistics is we reject the null hypothesis, when f-statistics is less than 0.01, 0.05 and 0.1 at 1%, 5% and 10% level of significance respectively, it means that CSR is significant in explaining changes in profit after tax and so therefore, we reject our null hypothesis.

#### **4.1.6. Durbin Watson**

The Durbin Watson is used to detect the presence of auto correlation which is the relationship between values separated from each other by a given time lag. It tests for serial correlation in the residuals from a statistical regression analysis. The Durbin Watson is always between 0 and 4. A value of two (2) means that there is no serial correlation in the model. A value approaching zero (0) indicates positive auto correlation and values toward approaching four (4) indicate negative auto correlation. It is best for the value of the Durbin Watson to be two (2) or better still approaching two (2). In the regression conducted, the value of the Durbin Watson is 1.6, since the value is closer to two (2), it means that the presence of auto correlation of the model is low.

### **5. Summary, Conclusion and Recommendations**

#### **5.1. Summary**

In summary, our regression analysis of selected banks reveals statistically significant relationship between the adoption of corporate social responsibility and financial performance. However, in conducting the analysis a number of opportunities for refining the research were identified. As such, could be considered on how the selected banks generally administer it CSR cost and profit after tax (PAT) in banking sector. CSR play vital role in determining financial performance of banks. The study reflects that there is a positive relationship between CSR cost and profit after tax (PAT) in the banking sector and by examining the trend analysis of selected banks involvement in CSR. As stated in chapter four of this project, there is an increase in CSR cost and profit after tax (PAT) which will bring about increase in performance.

It may also be useful to one lag between the measurement of financial performance and corporate social responsibility. Alternatively, a lag could be used to test whether better financial performance leads to corporate social responsibility and financial performance.

#### **5.2. Conclusion and Recommendation**

This study revealed that there exist a positive relationship between corporate social responsibility cost and profit after tax. This shows that no matter how much an organisation spends on social activities, it should be seen as investment, which will yield return in the nearest future. Corporate Social Responsibility should be seen as one of the major machinery through which an organisation will achieve its objectives. It should be seen as one of the top management priorities through which to achieve other objectives. The

corporate social responsibility is a tool through which an organisation can gain more of the community's confidence and gain more ground at its locality. The revelation being made by this study rally showed that there are a lot of benefits that accrued to organization that engaged even in a little of social activities. Still, organizations must ensure prudence in its spending. This research also recommends that future research may be incorporated in order to understand how analysis reactions to CSR strategies affected subsequent implementation of such strategies by the same firm or by others in the same industry. Also the top management should be committed to any social activity it wants to embark upon and allow the members of the public to associate such an activity or activities.

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