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THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY EXPENDITURE ON FIRM PERFORMANCE AND FIRM VALUE OF NIGERIAN BANKS

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Abstract

Corporate social responsibility has attained a high level of discourse among practitioners and scholars around the world and more recently in a new dimension in Nigeria. However, CSR remains an equivocal construct with divergent views on its relationship with firm performance and firm value. This study therefore examines the relations between CSR expenditure on firm performance and firm values. Data were sourced from the annual reports of quoted firms on the Nigerian Stock Exchange using exploratory research design. The Pearson product moment correlation coefficient and OLS method of regression analysis were used to estimate the relationship in the variables of study. Return on Asset (ROA) and Return on Equity (ROE) were used to proxy firm performance while Earnings per Share (EPS) and Dividend per Share (DPS) were used to proxy firm value. The study reveals that CSR has impact on ROA, ROE, DPS and EPS at varying degrees. The study therefore concludes that there is positive relationship between CSR and firm performance and firm value. It is recommended that the banks should make substantial investment into the environment where it operates for improved performance.

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Introduction

Development in a country can be measured in terms of its overall social, economic and political development (Strandberg, 2002). But no matter how developed the country is, it cannot be self-sufficient, there is persistent urge to improve in the social relationship, economic development and in politics (Agboola, 2001). The Banking System is very important for any nation because through banking activities, socio-economic development of any economy can be made possible. They have active developmental roles to play in the economy such as mobilizing fund from the surplus to the deficit spending units (Maiyaki, 2010). The design of the Nigerian Banking System is geared towards greater impact on the Nigerian economy (Azende, 2011) with banks of today becoming more concerned about their environment and various stakeholders in the society, so as to be seen beyond profit making venture. Thus, suggesting a corporate behaviour to a number of stakeholders.

Corporate behaviour is not only needed to ensure return to shareholders but also other stakeholders' interest (Mulyadi & Anwar, 2012). In order to have a long run business, firms need to pay attention to profit and environment. Similarly, stakeholders are showing an increasing interest in the activities of companies. Most look to the outer circle, what the company has actually done, good or bad in terms of its products and services, in terms of the impact on the environment and on local communities on how it affects the work force (Laura & Sergio, 2009). Studies like corporate social responsibility and economic performance showed that some companies have recently been able to adapt to changing world not only by developing economically but also socially and ethically. A bank's aim remains based on developed strategy that does not only favour its shareholders but also respond to all stakeholders involved either directly or indirectly in the operations (Laura & Sergio, 2009).

Today, management of banks have found the need to provide for the environment in which they operate and hence need to evaluate the corporate social responsibility engaged in by them on their performance in terms of operations and value creation. Therefore this research is based on the evaluation of the impact of corporate social responsibility on performance and firm value of commercial banks in Nigeria.

Statement of the problem

According to Robins (2005), managers of banks are often faced with the challenge of determining how socially responsible their banks are, particularly with the increased competition in the banking industry. Therefore, promoters of CSR have argued that organizations should integrate economic, social and environmental concerns into their business strategies, their management tools and their activities, going beyond compliance and investing more on human, social and environmental capital (Belal & Momin, 2009; Perrini, 2006). Lee and Park (2010) also observed that the concept of CSR has been recognized as an important ingredient for business success. However, the findings from prior studies which had hitherto been from developed economies have shown that there are mixed findings on the influence that CSR has on business success measured in terms of performance (see Jo & Harjoko; Cheung, Tan, Ahn & Zhang, 2010; Choi, Kwak & Choe, 2010; Mulyadi & Anwar, 2011). Therefore, this research study examined the impact of CSR on corporation performance and firm value in Nigerian banks.

Objectives of the study

The main objective of this study was to examine the impact of corporate social responsibility on the performance and firm value of Nigerian banks. The specific objectives include;

(i) Examining the impact of corporate social responsibility on financial performance of banks; and

(ii) Investigating the influence of corporate social responsibility on the firm value of Nigerian banks.

The following propositions were made in this study:

H_{01}: Corporate Social Responsibility does not have positive impact on the performance of Nigeria banks

H_{02}: Corporate Social Responsibility does not have impact on the firm value of Nigeria banks

Literature Review

In the literature on CSR, different authors described it in different ways. There is no universal definition of CSR, organizations have framed different definitions and there are several perceptions of the term according to the context locally and among the countries. The concept of CSR is widely discussed in theory and practice (Weber, 2008); however, a universally accepted definition of CSR is yet to emerge (Turker, 2009). CSR can be conceptualised differently by individuals (Griffin, 2000). Indeed Amaeshi and Adi (2005) argued that there are as many

definitions of CSR as there are writers on the topic.

Egels (2005) viewed CSR as covering a wide range of issues such as plant closures, employee relations, human rights, corporate ethics, community relations and the environment. Ademosu (2008) described CSR as what an organization does to contribute to the social, economic, political or educational development of the community where it is located, but which it is not compelled to do by any law. According to Ruggie (2002), CSR is a strategy for demonstrating good faith, social legitimacy, and a commitment that goes beyond the financial bottom line. Similarly, studies have also viewed CSR in terms of corporate social responsiveness (Frederick, 1994).

Rahman, (2011) provided ten dimensions of social responsibility categories in the 21st century to include;

i. Obligation to the society
ii. Stakeholders' involvement
iii. Improving the quality of life
iv. Economic development
v. Ethical business practice
vi. Law abiding
vii. Voluntariness
viii. Human rights
ix. Protection of Environment
x. Transparency and accountability.

These categories of corporate social responsibility have been identified as mechanisms through which a company is able to provide a healthy business environment for its operation and contribute to the well being of the society, however, not without some benefits accruing from it. Scholars have identified such benefits to include; enhancement of corporate image (Drucker, 1974), improved employee relationship, improved financial performance (Amole, Adebiyi & Awolaja, 2012), good relationship with local authority, positive media coverage and competitive advantage (Entrepreneurship Mediterranean Methodology Assistance, 2012).

The increasing attention to CSR is firstly based on its capability to influence firm's performance. The researches in this field examine how CSR can provide firms with an incremental gain. For example, researchers have considered purchase intentions, increased sales, enhanced image, and improved employees morale as benefits of CSR (Fiori, Donato & Izzo, 2007). Similarly, the study of

Ahmed, Islam and Hasan (2012) showed that there is a positive relationship between CSR and financial performance.

The study of Ghoul, Guedhami, Kwok and Mishra (2011) argued that investment in employee relations, environmental policies, and product strategies contribute to lowering firms' cost of equity. Not only do such activities contribute to society at large, but they also benefit the firm by their lowering financing costs. In an earlier study, Scholtens (2008) also found a positive and significant interaction between financial and social performance. More specifically, it appears that financial performance (both risk and return) in general terms precedes social performance (both strengths and concerns) much more often than the other way around. Heal (2005) asserted that by anticipating and minimizing the potential conflicts between corporations and society, CSR plays a role in reducing the costs of such conflicts which may in the long run lead to higher returns. The underlying principle behind CSR shows that companies that exhibit stakeholder responsibility enjoy risk adjusted above-average returns. This is documented in recent studies; Allen, Carletti and Marquez (2009) compared the stakeholder-oriented and shareholder-oriented corporate policies and argued that countries with prevalent stakeholder-oriented firms have higher firm values relative to shareholder-oriented ones. The research results of Cruz (2009) showed that investment in previous social responsibility activities is capable of increasing profit, reducing risk and environmental impacts.

Methodology

An exploratory research design was used for this research study. However, while the content analysis of previous studies has mainly classified CSR disclosures into environment, energy, human resources, product and safety, community involvement, and other categories (see Azim, Ahmed & D'Netto, 2011), this study makes use of cost of CSR investment because such classifications are hitherto non -existent with applicable investment sum. Cursory mention is made just in the director's report. For the purpose of this research work, the population of the study is the total number of the commercial banks that are quoted on the Nigerian Stock Exchange. A period of six (6) years starting from 2007 was used; a point at which the banks in Nigeria were at the wake of the various liquidations in 2006.

The study examined three (3) broad variables, vis-à-vis CSR, corporate performance and firm value. The study hypothesized that CSR has no link to either firm performance and/or firm value. This is consistent with the proposition of earlier neoclassical economist who have argued that socially responsible companies have competitive disadvantage as a result of CSR costs (see Friedman, 1970; Aupperle, Carroll & Hatfield, 1985). Firm performance and firm value were measured by accounting variables. The financial data used were return on asset (ROA) and

return on equity (ROE) as measures of firm performance while earnings per share (EPS) and dividend per share (DPS) were used as measures of firm value.

The hypothesized relationship was analyzed using Pearson product moment correlation coefficient and regression analysis. For this study, a model was built in order to evaluate impact of corporate social responsibility on the performance and firm value of banks. This is consistent with the study of Mulyadi and Anwar (2012). Model used in this research is as follow:

$ROA = \alpha_0 + \alpha_1 CSR + \varepsilon$ ....equation 1

$ROE = \beta_0 + \beta_1 CSR + \varepsilon$ ....equation 2

$EPS = \alpha_{11} + \alpha_{12} CSR + \varepsilon$ ....equation 3

$DPS = \beta_{11} + \beta_{12} CSR + \varepsilon$ ....equation 4

Where:

ROA = return on assets (performance indicator)

ROE = return on equity (performance indicator)

EPS = earnings per share (firm value indicator)

DPS = dividend per share (firm value indicator)

CSR = CSR investment cost disclosure

ε = Error term

Result

The result of the correlation analysis shows that CSR expenditure has a significant relationship with firm performance as shown in Table 1. While the relationship is significant, $r = .575$, $p = .004$ for return on equity, $r = .689$, $p < .05$ for return on asset. The results also suggest a significant relationship between CSR and dividend per share (DPS, $r = .672$; $p < 0.05$), and CSR and earnings per share (EPS, $r = .441$; $p = .025$). Therefore, the result obtained from the correlation showed that there exists positive relationship between CSR expenditure of banks and firm performance as well as firm value. However, since relationship cannot be interpreted as absolute causality, the study went further to investigate the extent of influence that CSR has on both firm performance and firm value.

Table 1: CSR correlations with performance and firm value indicators

		EPS	DPS	ROA	ROE	CSR
EPS	Pearson Correlation	1	.376	.088	.392	.441**
	Sig. (2-tailed)		.064	.677	.053	.025
DPS	Pearson Correlation		1	-.004	.170	.672**
	Sig. (2-tailed)			.983	.416	.010
ROA	Pearson Correlation			1	.198	.689**
	Sig. (2-tailed)				.343	.016
ROE	Pearson Correlation				1	.575**
	Sig. (2-tailed)					.004
CSR	Pearson Correlation					1
	Sig. (2-tailed)					

**. Correlation is significant at the 0.01 level (2-tailed).

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The result obtained from Table 2 showed that R^2 is 0.308 or 30.8%. This means that 30.8% of the total variation in return on asset is explained by variation in corporate social responsibility expenditure. It is also indicating that corporate social responsibility is important in achieving adequate return on asset of the banks. The results of the ordinary least square regression analysis showed in Table 2 to evaluate the impact of corporate social responsibility expenditure on return on asset (ROA) revealed

$$ROA = 4.034 + 0.112CSR$$

This means that for every unit change increment in the CSR expenditure will lead to 11.2% return on asset of the bank. The contribution of CSR to the above model is significant because p-value (0.031) is less than $\alpha = 0.05$. Hence, more investments in CSR activities are expected to translate to improved corporate financial performance.

TABLE 2: Model Summary and Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients B	t	Sig.
1	(Constant)	4.034	.624		6.463	.000
	CSR	.112	.056	.219	1.989	.031
	r = .689; R^2 = .308; F-value = 9.563 (.016)*					

*prob. of F-value, predictor ROA

Research survey, 2013

The result obtained from the Table 3 showed that R-square is .312 or 31.2%. This means that 31.2% of the total variation in return on equity is explained by variation in corporate social responsibility expenditure. It is also indicating that corporate social responsibility is important in achieving effective financial performance. Thus, the higher the level of funds invested in CSR activities, the more likelihood for corporate financial performance to be improved upon.

TABLE 3: Model Summary and Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients B	t	Sig.
1	(Constant)	12.204	1.496		8.158	.000
	CSR	.112	.053	.175	2.115	.004
	r = .575; R^2 = .312; F-value = 11.724 (.014)*					

*prob. of F-value, predictor ROE

Research survey, 2013

The results of the ordinary least square regression analysis showed in table 3 to evaluate the impact of corporate social responsibility expenditure return on equity in Nigeria banks revealed

$$ROE = 12.204 + 0.112CSR$$

This means that for every unit change in the CSR expenditure (that is, N1million) will lead to 11.2% return on equity of the bank. The contribution of CSR to the above model is significant because p-value (0.004) is less than $\alpha = 0.05$.

The correlation between CSR expenditure and EPS as shown in the Table 1 is 0.441 or 44.1%. This established relationship between CSR expenditure and EPS was found to be significant at $p < .05$. The result obtained from the correlation showed that there exist positive relationship between CSR expenditure of banks and their EPS. The result obtained from the Table 4 showed that R^2 is .341 or 34.1%. This means that 34.1% of the total variation in earnings per share is explained by variation in corporate social responsibility expenditure. It is also indicating that costs incurred on corporate social responsibility activities are important in achieving adequate earnings per share.

TABLE 4: **Model Summary and Coefficients**

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients B	t	Sig.
1	(Constant)	112.277	25.030		4.486	.000
	CSR	.118	.043	.341	2.744	.018
	r = .441; R^2 = .341; F-value = 6.038 (.025)*					

*prob. of F-value, predictor EPS

Research survey, 2013

The results of the ordinary least square regression analysis has showed in Table 4 the impact of corporate social responsibility expenditure earnings per share in Nigeria banks. It revealed

EPS = 112.277 + 0.118CSR

This means that for every unit change increment the CSR expenditure will lead to 11.8% change in earnings per share. The contribution of CSR to the above model is significant because p-value (0.018) is less than α = 0.05. The result obtained from the Table 5 showed that R^2 is .330 or 33%. This means that 33% of the total variation in dividend per share is explained by variation in corporate social responsibility expenditure. It is also indicating that corporate social responsibility is important in achieving adequate dividend per share of banks in Nigeria. The result of correlation is also shown in Table 1.

TABLE 5: **Model Summary and Coefficients**

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients B	t	Sig.
1	(Constant)	44.084	10.663		4.134	.000
	CSR	.150	.007	.172	2.143	.010
	r = .672; R^2 = .330; F-value = 11.724 (.014)*					

*prob. of F-value, predictor DPS

Research survey, 2013

The results of the ordinary least square regression analysis as shown in Table 5 reveals that:

DPS = 44.084 + 0.015CSR

This means that for every unit change increment in the CSR expenditure will lead to 15% increase in dividend per share of the banks. The contribution of CSR to the above model is significant because p-value (0.010) is less than α = 0.05.

Conclusion

The main focus of the study was to determine the impact of corporate social responsibility on the performance and firm value of commercial banks in Nigeria. From the result of data analyzed, it can be deduced that corporate social responsibility has positive impact on the return on asset, return on equity, earnings per share and dividend per share of banks. The study also concludes that there is positive relationship between CSR expenditure and banks performance and firm value thus suggesting causal relationship between the CSR and performance and firm value of banks. This is consistent with prior studies of Jo & Harjoko (2011) and Choi *et al.* (2010) which found positive impact of CSR on firm value and firm performance respectively. The support lend to the society through banks CSR will thereby make the business environment more friendly and habitable for organization survival. The study therefore recommends that; corporate social responsibility deserves greater attention and more commitment from commercial banks. Future research directions can be geared towards the evaluation of the impact of corporate social responsibility on firm value of other sectors of the Nigerian economy.

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