CORPORATE SOCIAL RESPONSIBILITY ACCOUNTING IN THE FINANCIAL SECTOR: A STUDY OF DEPOSIT-MONEY BANKS IN NIGERIA

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Abstract

Corporate social responsibility (CSR) of banks in Nigeria capture by the activities of donations to community development, educational development and health scheme have been adjudged significant in the development of host communities in Nigeria. This paper examined the corporate social responsibility of banks on profit after tax and customer deposit performance in Nigerian banking sector. The data were collected on the various operating banks in Nigeria covering 2006 to 2015 from CBN Statistical Bulletin Report, 2016Q$_1$. Statistical tools (Diagnostic check, Unit root test, VAR model and Granger Causality test) were used to analyse the data. The findings confirmed the variables were stationary and both donations to community and educational developments impacted positively on profit after tax and customer deposit in the Nigerian banking sector. Furthermore, the finding also suggested that donations to health scheme drive the customer deposit in the short run and statistically significant to profit after tax performance in Nigeria. Akaike Information Criteria (AICs) of the two models based on CSR suggest that CSR activities performed better in customer deposit than profit after tax. The study recommended that there should be need assessment campaign on the continual donations on the critical aspect of the community development via infrastructure, education and health as this will enhance banking sector growth.

Keywords: Nigeria, Corporate Social Responsibility, Financial Sector

1.0 Introduction

In business research, the concept of corporate social responsibility has aroused series of arguments through studies as a way of emphasizing the need for sustainable development. Most of these studies have revealed firms' negative impacts on the environment. It has also been recognized that sustainable development and reduction of poverty are the key issues that need to be addressed by the governments, mostly in the developing world . The modern perspective of CSR emphasizes a business-society relationship model with focus on the contribution that organizations provide in order to solve social problems in the society (Ismail, 2011). Such social problems (alongside other problems) have been identified as limiting factors to sustainable developments. Also, such social problems are although assumed to be the responsibility of the government of a particular country. However, the government alone cannot achieve this without the help of the private sector. Srivastava, Negi, Mishra and Pandey (2012) reveal that the stakeholders (owners, suppliers and even the community at large) are affected by the overall activities of business firms either directly or indirectly. Therefore, this argument has posed an obligation on business firms to comply with legislation and also ensure voluntary participation in building a better society, by taking initiatives to enhance the well-being of their owners, employees, families, local community and the society at large.

Prior studies in the areas of CSR and the banking sector have focused majorly on banks' performance (financial and non-financial) as a way of encouraging firms to participate in positive actions that will enhance the society. However, in most of these studies, performance is measured either in terms of shareholders' return (ROE) or assets return (ROA). Only a very few of these studies have considered the monetary measure of financial performance, especially when CSR intends to be captured by bank donations. This study therefore intends to study the relationship between CSR and bank performance in Nigeria, measuring performance by the profit after tax (PAT) and the total customers deposit (CUD).

2.0 Statement of the Problem

Corporate Social Responsibility (CSR) as a concept in the business environment today has no generally accepted definition. Prior studies have suggested various definitions which are clearly and evidently based on their background, interest, exposure and values as embodied in their frame of reference (all factors of which are subject to the whims and caprices of a single individual). However, we would adopt the definitions that support the aim of this paper and best explains the position of this study on the subject matter.

Basically, there are four major responsibilities which are directed towards the owners, the government, business environment, the customers and suppliers among others. These four responsibilities include:

1. The economic responsibility of a firm is to make profit. This responsibility is the business' version of the human survival instinct. Firms need to make more profits in order to grow and ensure continuity (i.e. going concern).

"A bank must be profitable in order to earn returns to its owners, pay interest to customers, keep the work force productively employed and also pay taxes to the government. Ultimately, the profitability of a bank is necessary for its long-term survival in order to ensure economic sustainability. Also, banks can offer more business-oriented credit facilities to trusted customers at a cost, which will finally earn profit for the bank (interest charged), as a well as financing businesses (economic expansion)."

2. The legal responsibility relates to firms adhering to rules and regulations. The proponents of CSR argue that this obligation must be understood as a proactive responsibility. That is, laws shouldn't be seen as boundaries that firms can simply ignore if the penalty is low; instead, firms' responsibility in this case should rather accept these laws as a social good and make efforts to obey them strictly.

"In reality, there is difference between a board of directors which adheres strictly to the corporate governance code because of the legal implications, and the one which adheres strictly to the corporate governance codes because they see themselves as being responsible to the owners and the society at large, and must act in utmost good faith. The later believes that our society as a whole is served when we adhere strictly to the rules, even where a little or no penalty applies. That is legal responsibility."

3. The ethical responsibility relates to firms- doing the right thing even when it may not be required by the law. This is the keystone responsibility, and it depends on a corporate culture that embraces the business itself as part of the society, with all the rights and obligations that accompanies citizenship.

"A bank can decide to be more security-conscious by incurring further costs for installing higher security facilities that are ordinarily not required of them by law. This may be as a way of safeguarding the deposits of her customers and the life of her workers. This may be the bank's way of preventing any form or armed robbery which will ultimately affect customers' deposit and also lead to the loss of lives (i.e. the bank workers in that particular branch where the robbery occurred)"

4. The philanthropic responsibility covers all forms of voluntary contributions to the society, even when they are not legally bound to do so .The philanthropic responsibility by banks is the focus of this study. This is because unlike other responsibilities, it is the banks' sole willingness to embrace and maintain this responsibility to the society, and from which the firm has no personal or economic benefit in return.

"A bank can decide to provide scholarship schemes, construct a community market, organize sport competitions between communities to foster unity and social stability, and make donations to schools, higher institutions, hospital patients and children in orphanage homes etc. Also, an industrial chemical company may take the lead in construction a drainage system or rehabilitating an empty lot into a park. It is pertinent t state here that none of these acts arise as responsibilities culminating from the firm's day-to-day operations. Instead, they are simply public acts of generosity that present a new dimension of the business as having some responsibilities to fulfill, like every other member of the community."

The World Business Council for Sustainable Development (2001) defined CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities.

The European Union (2002) described CSR as “when companies integrate social and environmental concerns in their business operations and in their interactions with stakeholders on a voluntary basis as they are increasingly aware that a responsible behaviour leads to sustainable business success. In that vein, Adeyanju (2012) believes that CSR implies that a firm should be held accountable for any of its actions that affect people, communities, and its environment. Furthermore, negative business impacts on the society should be acknowledged and corrected, if possible. Originally, this aspect may require a firm foregoing part of its profits, given that its social impacts are seriously harmful to some of its stakeholders or given that its funds can be used to promote a positive social good.

CSR in the Nigerian Banking Industry

Elkington (1998) emphasized that firms should not only focus on enhancing its value through maximizing profit and outcome, but also concentrate on environmental and social issues equally. The concept of CSR is generally accepted as tool for ensuring sustainability, while the term “sustainability” having emerged from the environmental perspective- refers to the management of physical and non-physical resources, so that they are conserved for the future. The notion of sustainability is very specific. It means the long-term maintenance of balance. As elaborated by theorists including John Elkington, this balance is achieved economically, socially, and environmentally. However, the next section discusses the economic and social sustainability which are relevant to the current study.

Economic sustainability here values the long-run financial stamina over more volatile and short-run profits. Following the triple-bottom-line model, large firms are always responsible for creating business plans that allow stable and prolonged action. These actions will create an avenue for the establishment and sustenance of other economic activities.

“One of the responsibilities of deposit-money banks in Nigeria is to invest in activities that will create a platform for the establishment and sustenance of other profitable ventures through provision of credit facilities to customers at very low interest rate, investment in human capital development and capacity building, financial incentives to encourage entrepreneurship incentives e.t.c. All these activities are geared toward sustaining economic development in Nigeria.

Social sustainability here means banks' involvement in activities that will contribute to social stability in the environment where they operate. Participation in activities that will maintain law and order in the society by banks have raised an array of ethical arguments, some of which supports the concept of fair trade. However, on the need for sustaining social stability, the lead argument is that peace and order in the world is a product of fairness and sincerity in the allocation of world's resources. The case of insurgence in some northern states in Nigeria resulted to such governmental actions as declaring state of emergencies on such states. This action punctured the financial activities of banks in such areas (as they would be required to forcefully reduce their working hours to the instructed time).

“Another observation here is the case of deposit money banks making donations to security initiatives at the state levels and also creating awareness to the citizens through series of sensitizations, as a way of enlightening the general public on the need to avoid activities or actions that can cause social disorders (hence, supporting the government in fighting against disorder-causing activities and people in the society).

In Nigeria, the emphases of banks' CSR activities as shown above are in the areas of healthcare, education, and community development in the areas of security, housing, agriculture, arts and tourism, sports, charity organizations, religion, social clubs, government agencies, youth development and public infrastructure development. Hence, this study proposes a CSR structure that captures the various donations of Nigerian banks into 3 major categories; education, health scheme and community development.

CSR and the performance of Banks

There have been growing literatures on the association between CSR and the financial and non-financial performance of firms. However, some studies contend that originally, certain CSR involvements are non-profit maximizing while others are of the opinion that some firms pursue profit maximizing CSR activities (Bénabou and Tirole, 2010; Gillan et al., 2010; Fatami et al., 2009). However, in the case of the banking industry, the association between CSR and financial performance has not been extensively examined, and the few existing studies offer conflicting empirical evidences.

Chih et al. (2010) examined a total of 520 financial firms in 34 countries over 2003-2005, and conclude categorically that CSR and financial performance are not related. The emphasis of this evidence was shifted by contradictory evidence presented by the study of Wu and Shen (2013). They analyzed 162 banks through 22 countries and over a 7 years (i.e. 2003-2009), and revealed that CSR is positively associated with financial performance in terms of return on assets, return on equity, net interest income, and non-interest income. The differences in the results could be traced to possible issues relating to measurement, differences in sample size as well as study periods.

The study of Ahmed, Islam and Hasan (2012) shows a positive, although insignificant relationship between operating performance and CSR in Bangladesh. This result is in conformity with the findings of a prior study by El Ghoul, Guedhami, Kwok and Mishra (2011) which concluded that firms with stronger CSR have lower costs of equity, lower firm risk, and higher overall valuation. Cheng, Ioannou and Serafeim (2011) also affirm that firms with better CSR have lower overall capital constraints, leading indirectly to more opportunities for investment and higher valuations.

In Nigeria, Amole et al. (2012) used the ordinary least square (OLS) model of regression in testing the relationship between dependent and independent variables. The study used data on CSR expenditures and PAT for the study period of 2001-2010. It employed a model on the causal relationship between CSR and firms financial performance (FFP). The results revealed that for every unit increment in CSR expenditure, there was a 95% increase in the PAT of the bank. Akindele (2011) adopts a survey design using ex-post, facto type, with data drawn from 4 randomly selected banks in Nigeria. The study revealed that there is a significant relationship between bank profitability and CSR practices. Olayinka and Temitope (2011) examined the relationship between corporate social responsibility and (DHS), a two-way performance financial performance in developing economies using the qualitative research method. The result reveals that CSR has a positive and significant relationship with the financial performance measures. These results solidify the accumulating body of empirical support for positive impact of CSR on financial performance. However, on the basis of the above observations, the hypothesis of this study states thus;

H0: Banks involvement in CSR has no significant relationship with their performance

3.0 Research Method

To achieve the aim of this study, we have adopted the descriptive research design. Also, a sample of 6 deposit-money banks listed on the Nigerian Stock Exchange (NSE), have been considered for study over a period of ten (10) years, spanning from 2006 to 2015. Banks' involvement in CSR activities was captured by donations to community development (DCD), donatations for educational development measure which focuses on banks' profitability (profit after tax) and banks' customer growth (customers' deposit) have been adopted for capturing banks' performance. Modeling the Profit After Tax (PAT) and Customer Deposit (CUD) as dependent variables on Donation to Community Development (DCD), Donation for Educational Development (DED) and Denotation to Health Scheme independent variables is very important. Hence, two the models are specified as follows:

Model 1 (Relating CSR to bank performance as measured by PAT)

$$PAT_{it} = \alpha_0 + \alpha_1 DCD_{it} + \alpha_2 DED_{it} + \alpha_3 DHS_{it} + \varepsilon_t \quad 1$$

$$LnPAT_{it} = \alpha_0 + \alpha_1 LnDCD_{it} \; \alpha_3 LnDHS_{it} + \varepsilon_t \quad 1a$$

Model 2 (Relating CSR to bank performance as measured by CUD)

$$CUD_{it} = \alpha_0 + \alpha_1 DCD_{it} + \alpha_2 DED_{it} + \alpha_3 DHS_{it} + \varepsilon_t \quad 2$$

$$LnCUD_{it} = \alpha_0 + \alpha LnDCD_{it} + \alpha_2 LnDED_{it} + \alpha_3 LnDHS_{it} + \varepsilon_t \quad 2a$$

Where: PAT_{it} is the profits after tax of bank i in year t, DCD_{it} is the total donations to community development by bank i in year t, DED_{it} is the total donations to educational development by bank i in year t, DHS_{it} is the total donations to health scheme by bank i and in year t and CUD_{it} is the total customer deposit of bank i in year t. α_0 is the constant value of the regression model, α_i are the regression coefficients or parameters and ε_t is the error terms which is stochastic with mean value zero and variance 1. The model for estimation procedure is transform into logarithm so that the coefficients of determination can be expressed in elasticity.

Presumptive Assumptions and Explanations

The regression parameters are assumed to be $\alpha_i > 0$ Donation to community development (LnDCD), educational development (LnDED) and health scheme (LnDHS) are expected to be positively related to theProfit after tax (LnPAT) and customer deposit (LnCUD). These assumptions imply that a unit change in donation to community development (LnDCD), education (LnDED) and health based on Bruesch-Godfrey test statistic. The test confirms the presence of scheme (LnDHS) will account for direct correspondent relationship increase in Profit after tax (LnPAT) and customer deposit (LnCUD). These assumptions may or may not be violated given the evident data sets.

4. Empirical Results and Discussion of Findings

Empirical results of the E-views analysis output are summarized and discussed in the following tables:

Table 1: Diagnostic Results

Diagnostic Check	Model 1 LnPAT				Model 2	
	Test Statistic	Test value			LnCUD	
	JB	1.08	P.value		Test value	P.value
Normal			0.601		0.675	0.713
Serial Correlation	LM-Test	0.2428	0.079**		0.1765	0.055**
Heteroskedasticity	ARCH	0.014	0.0204		0.4729	0.4084
Stability	Ramsey Reset	2.7017	0.0427		1.525	0.1876
DW-Statistics		2.48**			0.641	

Source: E-views 7.0

From the table 1 above shows the results of diagnostic check for the residual pattern of variables. It reveals that the variable residuals fail the normality test using Jarcque-Bera (JB) statistics as the probability value is greater than the significant level of 0.05 at 5% for the two models 1 and 2 and they have no presence of first order autocorrelation because the probability value (0.07 and 0.06) are greater than the 5% hence Ho is accepted in favour of the alternative hypothesis homoscedasticity in model of LnPAT that is model 1 suggesting that the variance of the residuals are statistically equal but the model of LnCUD indicates the presence of heteroskedasticity implying non equal variance in the residuals as the pvalue is less than 0.05 at 5% level. However, the models are not in functional form because the Pvalues of 2.701 and o.187 from Ramsey Reset test statistic are greater than the 0.05 critical value at 5% hence it is not stable.

Table2: Unit Root Test Results of ADF and PP tests

Variable	Order	ADF	Critical value at 5%	Prob.	Decision	Conclusion
LnPAT	I(1)	-5.5370	-3.3209	0.0034	0.0034<0.05	No Unit Root
LnCUD	I(1)	-6.2080	-3.4033	0.0025	0.0025<0.05	No Unit Root
LnDCD	I(0)	-3.3232	-3.2598	0.0457	0.0457<0.05	No Unit Root
LnDED	I(0)	-4.2258	-3.3209	0.0155	0.0155<0.05	No Unit Root
LnDHS	I(1)	-4.5499	-3.4033	0.0132	0.0132<0.05	No Unit Root

Source: E-views 7.0

Table 2 shows the results of time series properties of variables adopted in the study. Unit root test for stationarity based on Augmented Dickey Fuller (ADF) test indicates that both the exogenous (donation to community development (LnDCD), education (LnDED) and health sector (LnDHS) will account for direct correspondent relationship increase in Profit after tax (LnPAT) and customer deposit (LnCUD).) and endogenous (profit after tax (LnPAT) and customer deposit (LnCUD) are stationary. Donation to health scheme (LnDHS), profit after tax (LnPAT) and customer deposit (LnCUD) are stationary at order I(1) while donation to community development (LnDCD) and education (LnDED) are stationary at level I(0) since the values of the ADF test results are greater than critical value at 5%. Null hypothesis is rejected in favour of alternative that no unit root exists in among the variables.

Table 3: Autoregressive Model Results

	Model I					**Model 2**			
LnPAT	**Coeff.**	**Std.**	**T-ratio**	**T-ratio>2.0**	LnCUD	**Coeff.**	**Std.**	**T-ratio**	**T-ratio>2.0**
LnDCD	2.941	3.075	0.73	<2.0		0.2290	0.128	1.81	<2.0
LnDED	1.849	2.259	0.82	<2.0		0.06038	0.127	0.18	<2.0
LnDHS	-6.19	1.451	-4.27**	>2.0		-0.2607	0.168	-1.55	<2.0
C	27.71	37.80	0.73	<2.0		5.856	3.935	1.49	<2.0
LnPAT(-1)	0.281	0.496	0.57		LnCUD(-1)	1.1735	0.716	1.64	
LnPAT(-2)	0.652	0.372	1.75		LnCUD(-2)	-0.393	0.589	0.59	

**sig. at 5% level, *source: E-views 7.0*

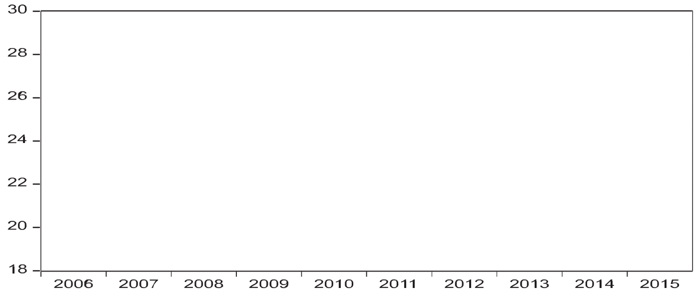

Fig1 Trend of customer deposit and profit after tax of banks based on CSR activities over time

Table 3 shows that the estimated value of donation to community development (LnDCD) positively impacted on profit after tax (LnPAT) and donation to educational development (LnDED) impacted positively on LnPAT. However, donation to health scheme (LnDHS) indicates an inverse relationship with the LnPAT. Change in LnDCD and LnDED will result in 2.94 and 1.85 increase in profit after tax of the banking in Nigeria. On the other hand, a unit increase in LnDHS will bring about 6.2 decrease in LnPAT and it is statistically significant**. In the model of customer deposit (CUD), both donations to community development (LnDCD) and donation to educational development (LnDED) impacted positively on LnCUD but LnDHS effects negatively on LnCUD. This implies that a unit increase in donation to community development (LnDCD) and donation to educational development (LnDED) impacted positively on LnPAT will account for nearly 0.22 and 0.06 increase in Ln(CUD) and they are not statistically significant to LnCUD as t-ratios are less than 2.0 rule of thumbs. Trend analysis of customer deposit performance of banking industry through corporate social responsibility is on the increase while profit after tax performance of banks seems dwindling over the study period.

Table 4: Global Results of Models

Global Stat	Model1	Model2
R-squared	0.912901	0.957229
Adj. R-squared	0.695154	0.850302
Sum sq. resids	3.698909	0.024774
S.E. equation	1.359946	0.111297
F-statistic	4.192484	8.952139
Log likelihood	-8.265893	11.75811
Akaike AIC	3.566473	-1.439528
Schwarz SC	3.626055	-1.379947
Mean dependent	24.87882	29.37408
S.D. dependent	2.463098	0.287656

Source: authors' computation, 2016

In all, there is overall statistical significance among donations to community development (LnDCD), educational development (LnDED) and health scheme (LnDHS) in relation to profit after tax (LnPAT) and customer deposit (LnCUD)at both 5% and 1% levels. The R^2 of the regression models are relatively high by 91.3% and 95.7%. Adj.R^2 values of the two models are 0.695 and 0.850 indicating that 69.5% and 85% of the variation in the endogenous variable (LnPAT and LnCUD) are explained by the determinant factors of amongdonation to community development (LnDCD), education (LnDED) and health scheme (LnDHS). However, 30.5% and 15% of the LnPAT and LnCUD variation are unexplained due to factors such as socioeconomic policy, strike, politics and others. The Durbin-Watson of this study revealed that there is presence of serial autocorrelation in model1 (LnPAT) but serial autocorrelation exists in model2 (LnCUD). The predicting power of the estimated models are over 90% which implies the models estimate have high predicting power for forecasting the profit after tax (LnPAT) and customer deposit (LnCUD) in the banking industry.

Table 5: Causality Results

Model 1 LnPAT

Pairwise Granger Causality Tests
Date: 05/23/16 Time: 09:01
Sample: 2006 2015
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LNDCD does not Granger Cause LNPAT	8	2.15803	0.2626
LNPAT does not Granger Cause LNDCD		5.36673	0.1021
LNDED does not Granger Cause LNPAT	8	1.67885	0.3241
LNPAT does not Granger Cause LNDED		0.99214	0.4670
LNDHS does not Granger Cause LNPAT	8	0.21126	0.8207
LNPAT does not Granger Cause LNDHS		2.33046	0.2451

Source: authors' computation, 2016

Model 2 LnCUD

Pairwise Granger Causality Tests
Date: 05/23/16 Time: 09:01
Sample: 2006 2015
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LNDCD does not Granger Cause LNCUD	8	3.96244	0.1439
LNCUD does not Granger Cause LNDCD		0.68050	0.5706
LNDED does not Granger Cause LNCUD	8	2.36929	0.2414
LNCUD does not Granger Cause LNDED		0.26072	0.7863
LNDHS does not Granger Cause LNCUD	8	9.88214	0.0478
LNCUD does not Granger Cause LNDHS		2.98109	0.1937

Source: authors' computation, 2016

Table 5 above shows that at lag 2 of the 10 years recorded variables (donation to community development (LnDCD), education (LnDED) and health scheme (LnDHS) for LnPAT reveals that none of the exogenous variables (donation to community development (LnDCD), education (LnDED) and health scheme (LnDHS)) are not jointly granger causing the bank's profit after tax (LnPAT). Donation to health scheme (LnDHS) has uni-directional relationship with customer deposit (LnCUD). However, donation to community development (LnDCD) and educational development (LnDED) have no granger causality with the customer deposit (LnCUD). Therefore, only model of customer deposit (LnCUD) is driven by the donation to the health scheme (LnDHS) in the short run in Nigeria.

1. Conclusion

Corporate social responsibility of banks in Nigeria captured by the activities of donation to community development (LnDCD), educational development (LnDED) and health scheme (LnDHS) confirm that only donations to health scheme drives the customer deposit in the short run and statistically significant to profit after tax performance in Nigeria. Donations to community and educational developments positively impacted on customer deposit and profit after tax. Capture activities of CSR have positive impact on profit after tax in previous and current years while the customer deposit model is positively influence in the current but negatively impacted on in the previous years. In selecting the best model, the values of AICs suggest that CSR activities perform better in customer deposit than profit after tax.

2. Recommendation

From the findings and conclusion, the study recommends that:

1. There should need assessment campaign on the continual donations on the critical aspect of the community development via health, education and infrastructure as this will go along way increasing customer deposit tendency and build confidence in the perceptions of the general public on banking sector corporate social responsibility delivery in Nigeria. This will enhance turnover in the profit after tax margin in year in year out in the country.
2. Law and policy driven by corporate social responsibility should be formulated and genuinely enacted to fulfill the needs of the host community (where company operates) in contributing their quota to the general wellbeing of the people in their operating domain.
3. Aggressive commitment of banks on needful application and direction of corporate social responsibility is highly expected to encourage robust profit after tax performance in the banking industry in Nigeria.

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