



CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract: The role of deposit money banks in bridging the intermediation gap in the financial system plays a vital role on influencing the economy's capacity for savings and investment. The extent to which these banks prioritize corporate social responsibility, encompassing the interest of various internal and external stakeholders, determines their effectiveness in fulfilling their intermediary role. This research investigates the impact of corporate social responsibility on the financial performance of Nigeria deposit money banks. The study focuses on a selected group of deposit money banks in Nigeria, analyzing secondary panel data from 2017 to 2022. Panel regression analysis is conducted to explore the relationship between corporate social responsibility (measured through investment and binary approaches) and two financial performance indicators: non-performing loans and net interest income. The results obtained from the random effect model indicate that corporate social responsibility, particularly when measured using the investment method, has a statistically significant positive influence on non-performing loans. Conversely, the binary approach to corporate social responsibility has a statistically significant negative effect on net interest income. The study concludes that deposit money banks should continue practicing corporate social responsibility throughout their fiscal year as it enhances intermediation skills and reduces the occurrence of non-performing loans.

Keywords: Financial performance, non-performing loan ratio, interest income and corporate social responsibility.

1. INTRODUCTION

The Deposit Money Banks are a means by which the flow of funds in any financial system of the world can be improved. Through their intermediation process, the deposit money banks tend to improve the operations of business and industries in the financial web. Inclusively, their proactive nature to attend to their social environment and meet the need of all external stakeholder is also important in determining their continuity and profitability.

According to Kabir & Chowdhury (2023) "financial performance" refers to the ability of all resources inside a corporate body to handle money within a given time frame. Banks must have a solid strategy plan in place that would put the CSR concepts and values into practice if they want to improve their



performance and rate of return on investment (Fondem, 2021). Among, the behavioral objective of the banks is to provide the stakeholders and shareholders with accurate financial and non-financial information that would equip them to take good financial decision that would affect their profitability status.

However, the pressure from customers, vendors, workers, communities, investors, activist groups, and other stakeholders has also motivated banks to adopt or increase their efforts in corporate social responsibility. As a result, corporate social responsibility has significantly increased in recent years, leading banks of all sizes and industries to create cutting-edge tactics (Coelho et al, 2023; Ashraf et al, 2017). Banks have realized that CSR is beneficial for business since it boosts productivity, increases competitiveness, and fosters a great company image in the eyes of customers, investors, workers, and the society at large (George, et al, 2023).

According to Wati, et al, (2023) corporate social responsibility (CSR) truly aids a firm in determining its social obligation to its workers and society, where it creates funds and maintains liquidity and profitability. Although most Nigerian businesses have experimented with the concept of CSR, they do so by providing social and infrastructure amenities to the internal and external environments where their operations are felt (Theodoulidis, Diaz, Crotto, and Rancati, 2017). This is done in an effort to close the socio-development gaps that plague most of those communities and the larger society, according to Potluri, Ullah, and Johnson (2020).

The article of Gangi, Varrone, Mustilli, and Daniele (2018) carried out in Italy, posited that the stakeholder theory has a positive outlook towards the effectiveness of banks and corporate organization in performing their corporate social responsibility. But, the managers and the agency theory position belief organizational effectiveness and their performance in corporate social responsibility would have negative effect on banks and corporate organization profitability and liquidity status. The stakeholder's school of thought believe corporate social responsibility would increase profitability.

To ensure ethical conduct, businesses must find a middle ground, as supported by the resource-based theory and stakeholder theory, acknowledging that the success of banks in Nigeria's bank-based economy relies on internal and external resources obtained from society (Amahalu and Okudo, 2023). Based on these premises, this research aims to examine how corporate social responsibility affects the financial performance of Nigerian deposit money institutions. Specifically, the study analyzes the impact of corporate social responsibility metrics from binary and investment perspectives on two key financial performance indicators: non-performing loans and net interest margin. The selected deposit money banks in Nigeria serve as the focal point of investigation in this study.

2. LITERATURE REVIEW

The tenets of corporate social responsibility intends to illustrate an organizations proactive nature to attend to the economic, social and environmental attributes internally and externally that affect the operations and return on investment that stakeholders have on the organisation. The concept of corporate social responsibility attempts to address the internal operation, external oriented operations and inside-out operation of a corporate entity (Amahalu and Okudo, 2023). In the social context, it implores the corporate entity to fulfil all the social responsibility and attribute of the immediate environment and human capital that organisation is deploying to generate profit. It also implores the internal awareness of the organisation to meet the need of the internal shareholders and external stakeholders in its operation, by ensuring that no conflict of interest occur in the organisation. (Sayed et al., 2017; Theodoulidis et al., 2017). Knowing full well that internal conflict with the external stakeholders would affect the going concern and continuity prospect of the organization. (Karagiorgos, 2010).

While "financial performance" refers to an organization's ability and willingness to satisfy its short- and long-term financial commitments, it also encompasses its financial health and its commitments to deliver services in the near future (Awan and Nazish, 2016; Coelho, et al, (2023). Long-term goals are the outcomes anticipated from pursuing specific strategies, which are activities to be followed to achieve

long-term goals. According to Weber (2008) in Paulik, Majkova, Tykva, and Cervinka (2015), objectives and strategies should be implemented over a continuous period of time, often between two and five years.

Bank profitability is another name for financial performance. One of the ultimate goals of banks is profitability, hence all strategies and initiatives are created to achieve this lofty goal. Banks must either incorporate competition, concentration, efficiency, productivity, and profitability as they grow and try to optimize their earnings. The concept of bank success is multifaceted, necessitating a wide variety of metrics (Kabir and Chowdhury, 2023).

Banking Profitability may also reflect a manager's risk-taking philosophy. Banks that generate significant profits engage in dangerous actions without fear. Similar to this, banks with poor management see higher levels of bad debt. Investors place a lot of importance on profitability measures. For bank shareholders, the level of profitability is crucial since it demonstrates how well management has used their funds (Devinaga, 2010; Adelo, et al, 2023).

The stakeholder's theory, which Edward Freeman proposed in 1984, is thought to be pertinent for this investigation. The argument contends that, in addition to their shareholders, businesses also have other stakeholders whose interests they are obligated to try to advance. Stakeholders encompass all individuals who exert influence on or are affected by the activities of a company, spanning the host community, government, competitors, shareholders, employees, and customers. To exemplify, businesses must proactively assume a social role to enhance the well-being of the society within which they operate (Freeman 1984; Onwe 2014).

Therefore, it is not enough for managers to concentrate just on the demands of shareholders or owners; it is also advantageous for a firm to participate in CSR activities that promote the interests of other groups who have a direct or indirect impact on the success of the firm. Due to the fact that each company's stakeholders group is unique, CSR should start with stakeholder identification before determining the best plan to meet and balance their expectations (Adamkaite, et al, 2023; Awwad, et al, 2023). The knowing of the organisation to identify the external owners of the organisation is a major aspect of the stakeholders theory; the formal and informal interaction between the enterprise and stakeholders in a major position of the stakeholder's theory. This implies that ability of the organisation to captures the financial and non-financial needs of parties involved, so as to meet their needs and improve the firm's performance prospects.

Kabir and Chowdhury (2023) investigated into the relationship between corporate social responsibility and financial performance in Bangladesh banking sector. The study was able to capture 30 listed banks from the period of 2006 to 2018. The employed the panel vector auto-regression the study revealed that corporate financial performance leads to corporate social responsibility but in the long-run corporate social responsibility does not necessarily influence corporate financial performance. The study lacks a theoretical framework and also negated the importance of corporate social responsibility being a social capital activity, that can spur profitability and performance for the banking sector.

Coelho Jayantilal and Ferreira (2023) in their inquiry provided a better understanding of the relationship between companies financial performance and corporate social responsibility activities. The study expanded the horizon of corporate social responsibility by pushing the fact the corporate social responsibility should entail social, environmental and governance responsibility which would stimulate synergy to improve business value and increase financial performance for the advantage of stakeholders (internal and external). The study employed the bibliometric and content analysis methodology to capture studies that have examined the phenomenon in various geographical location. The findings reveals the environmental, social and governance measures on the companies expenditure becomes significant in recent times to improve financial performance.

Hamad and Cek (2023) conducted a study to explore the extent and impact of changes in business financial performance resulting from corporate social responsibility (CSR) disclosures, focusing on the



relationship between corporate governance and company performance in the non-financial sector. The study analyzed a sample of 625 non-financial businesses from six OECD member nations' stock markets over a 10-year period from 2012 to 2021. Data on corporate governance, financial performance, and CSR scores were collected from the reputable DataStream database, commonly used for analyzing studies on listed firms in OECD nations. Statistical procedures including regression analysis and moderation analysis were employed for data analysis. The findings revealed that all aspects of corporate governance mechanisms, except for audit board participation, had a significant and positive influence on financial performance measures across the selected OECD economies, except for France. In France, the corporate governance code had a notable adverse effect on return on asset (ROA) and return on equity (ROE) due to disparities in cultural and operational norms. The presence of the audit board did not substantially affect return on assets (ROA). Additionally, all qualities, except for board size (BSIZ), had significant positive effects on earnings per share (EPS) in Spain, the United Kingdom (UK), and Belgium. Moderation analysis results indicated that CSR plays a crucial role in driving corporate governance standards, leading to enhanced corporate financial performance. The study emphasized the importance of considering both corporate governance and CSR disclosures for investors and stakeholders when making investment decisions. Companies that prioritize both governance and CSR typically achieve superior financial performance and are better positioned to minimize risks. Furthermore, policymakers have the potential to enhance the corporate governance code to promote sustainable development in the stock market.

George Kayal and Maiti (2023) conducted a study to investigate the impact of mandatory Corporate Social Responsibility (CSR) spending, as mandated by the Indian Companies Act of 2013, on the financial performance of commercial banks in India. Using panel regression models, the study analyzed the relationship between CSR expenditure and the financial performance of 22 Indian banks over the period from 2016 to 2022. Three profitability measures and market returns were employed as proxies to evaluate financial success. Additionally, four control variables size, risk, age, and capital intensity were included to ensure the reliability of the analysis. The findings indicated that investing in CSR has a positive effect on the profitability of banks in India. However, there was no discernible correlation between expenditure on CSR and the market returns of Indian banks.

Wati, Saragih, Yusrizal, Welly, and Putri (2023) examines into the impact of corporate social responsibility, corporate governance, firm size and financial performance. The study employed the purposive sampling technique is selecting manufacturing firms listed on the Indonesia stock exchange market. The study employed the panel regression analysis. The findings revealed that corporate social responsibility, corporate governance, size of firm have significant positive impacts on financial performance. The importance of corporate social responsibility and good governance in firms for the future investors should pay close attention to the components of corporate social responsibility.

Aqabna Aga and Jabari (2023) conducted a study to examine the relationship between corporate social responsibility (CSR) and the financial performance of companies in the MENA region, both before and after the COVID-19 pandemic. Additionally, the study aimed to understand the role of earnings management (EM) in moderating this relationship. The study's sample comprised 661 firm-year observations spanning from 2007 to 2021. Random effect estimation (RE) was utilized to analyze the associations, and GMM regression was employed to ensure the consistency of the results. The findings revealed that environmental, social, and governance (ESG) scores positively influenced return on assets (ROA), even in the context of the COVID-19 pandemic. Regarding the moderating effect of EM, the results suggested that CSR had a minimal beneficial impact on financial performance. However, environmental, social, and governance (ESG) factors showed minimal influence on Return on Equity (ROE). Additionally, the study found a robust and positive correlation between environmental, social, and governance (ESG) factors and Tobin's Q. The study provides policymakers, board directors, and



managers with actionable recommendations by enhancing understanding of how managers respond to CSR disclosure and the impact of reducing profit manipulation on firm performance.

Amahalu and Okudo (2023) conducted a study to assess the impact of Corporate Social Responsibility (CSR) on the Financial Performance of publicly traded oil and gas companies in Nigeria over the period from 2009 to 2021. Specifically, the study focused on analyzing the influence of donations on the net profit margin, return on assets, and return on equity of these companies. Employing an ex-post facto research design, the study included a sample size of seven quoted oil and gas companies in Nigeria. Statistical analysis, including Pearson correlation coefficient and simple linear regression analysis conducted using E-View 9.0, revealed a significant and positive correlation between Net Profit Margin, Return on Assets, Return on Equity, and Donations, with a significance level of 5% for each variable. The findings suggest that implementing CSR initiatives can contribute to maximizing future returns for oil and gas corporations in Nigeria. The study recommends that these companies prioritize enhancing their commitment to social responsibility initiatives, such as community projects and environmental preservation, to enhance their financial success.

Fondem (2021) examines how corporate social responsibility (CSR) and corporate governance (CG) influence banking performance in the Central African Economic and Monetary Community (CEMAC) region. The study utilizes data from the World Bank's sovereign database and Worldwide Governance's database covering the period from 2003 to 2018. The z-score is employed as a measure of CSR variables such as population density, labor force participation rate, and renewable energy. The results demonstrate that the fixed effects model outperforms both the pooled OLS and random-effects models. The findings reveal a significantly positive relationship between CSR and banking performance in the CEMAC region, while CG shows a considerable positive association. These results indicate an ineffective application of CG techniques throughout the entire CEMAC region.

Zhou, Sun, Luo, and Liao (2021) investigate the impact of corporate social responsibility and bank financial performance on green financing in China. The study focuses on listed Chinese banks from 2008 to 2018 and explores how CSR affects bank financial performance, with a specific examination of the mediating role of green credit. The findings suggest that CSR initially has a negative effect on bank financial performance in the short term but becomes beneficial in the long run. Additionally, the inclusion of green credit is found to be significant in this relationship. The study also conducts various heterogeneity tests, providing valuable insights for the development of environmental regulations and future research.

Ramzan, Amin, and Abbas (2021) analyze the effects of corporate social responsibility (CSR) on the financial performance, financial inclusion, and financial stability of the banking sector in Pakistan. The study focuses on 20 commercial banks, utilizing annual data from 2008 to 2017. The findings indicate that CSR, along with factors such as age and size, has a positive impact on all three parameters. However, high levels of borrowing undermine financial stability and inclusion, and the tangible nature of assets shows an inverse correlation with financial inclusion

3. METHODOLOGY

In this study, ex-post research design was used. The financial statements of the chosen deposit money banks in Nigeria for the years 2017 to 2022 were the source of the secondary data. Zenith Bank of Nigeria, First Bank of Nigeria, Access Bank of Nigeria, United Bank of Nigeria, Guaranty Trust Bank, Fidelity Bank, Stanbic IBTC Bank and Union Bank, Wema Bank, and FCMB are some of the banks that were chosen. The influence and relationship between corporate social responsibility and the financial performance of deposit money banks in Nigeria are examined using the panel data regression method. These models were adapted and adjusted to suit the present study from the study of Ashraf, Khan, and Tariq, (2017), Muloli (2020) and Gangi, Mustilli, Varrone, and Daniele (2018).

The linear equation is given below;





$$FP_{t(NPL,NII)} = f(CSR_t) \dots\dots\dots 1$$

$$CSR_{i,t} = f(CSR_I_{i,t}, CSR_B_{i,t}, FS_{i,t}, LEV_{i,t}, LD_{i,t}) \dots\dots\dots 2$$

Model One

$$NPL_{i,t} = (\alpha_0 + \beta_1 CSR_I_{i,t} + \beta_2 FS_{i,t} + \beta_3 LEV_{i,t} + \beta_4 LD_{i,t} + \mu_t) \dots\dots\dots 3$$

Model Two

$$NII_{i,t} = (\alpha_0 + \beta_1 CSR_B_{i,t} + \beta_2 FS_{i,t} + \beta_3 LEV_{i,t} + \beta_4 LD_{i,t} + \mu_t) \dots\dots\dots 4$$

Where:

FP; Financial performance at time t

CSR; Corporate Social Responsibility at time t

NPL: Non-performing loan ratio at time t

NII: Net Interest Income at time t

CSR_I; Corporate Social responsibility (Investment approach) at time t

CSR_B; Corporate Social responsibility (Binary approach) at time t

Control Variable

FS; Firm Size at time t

LEV; Leverage ratio at time t

LD; Loan-to-deposit ratio at time t

i= nth term

α = Intercept

$\alpha_1 - \alpha_4$ = Coefficient of the Independent Variables.

μ = Disturbance term/White noise at time t

Description of Variables

Variables	Description	Measurement
Independent Variables		
CSR_I	It is the corporate social responsibility expenditure made by the firm to different available component corporate social responsibility. (Investment approach)	It the yearly expenditure on health, education, social welfare, environment protection, public donation. (Djalilov, Vasylieva, Lieonov and Lasukova, 2015; Wati, Y., et al, 2023; Adeloopo et al, 2023).
CSR_B	CSR is a dummy variable that identifies the presences of social initiatives in the bank (binary approach)	1 presence of social initiatives, 0 absence of social initiatives. (Djalilov, Vasylieva, Lieonov and Lasukova, 2015; Wati, Y., et al, 2023; Saeed et al, 2023).
FS	It is the total value of the asset within a year.	It is the Log of total asset Gangi, et al, (2018).





LEV	It is the capital structure of a firm within a year.	Total debt divided by Equity. Gangi, Mustilli, Varrone, and Daniele (2018).
LD	It is the differences in the loan-to-deposit of a bank	Total loan divided by Total deposit. Gangi, Mustilli, Varrone, and Daniele (2018).
Dependent Variables		
NPL	It is the percentage of loans not recouping its required interest.	Non-performing loans divided by Total Loans. Ashraf, Khan, and Tariq, (2017).
NII	It is the differences in Interest income of a bank.	Net Interest Income divided Total Assets. Ashraf, Khan, and Tariq, (2017).

4. RESULTS AND DISCUSSIONS

4.1 Descriptive Analysis

	CSR_1	CSR_B	FS	LEV	LD	NII	NPL
Mean	4.000308	1.000000	7.554109	6.892144	0.664041	0.047429	0.042059
Median	1.628208	1.000000	6.748813	6.587705	0.633491	0.047617	0.038032
Maximum	5.109609	1.000000	9.938507	15.56221	1.059009	0.073607	0.109922
Minimum	121.7500	1.000000	5.972001	3.237725	0.422777	0.017533	0.001037
Std. Dev.	8.229208	0.000000	1.429620	2.034079	0.157965	0.011431	0.024425
Skewness	3.987613	0.000000	0.419114	1.293014	0.576238	-0.241622	0.608192
Kurtosis	20.38862	0.000000	1.390001	6.637980	2.629688	2.942135	3.482188
Jarque-Bera Probability	1067.407	0.000000	9.609610	58.10710	4.273883	0.690879	4.993606
	0.000000	0.000000	0.008190	0.000000	0.118015	0.707909	0.082348
Sum	2.806310	70.00000	528.7877	482.4501	46.48290	3.320030	2.944127
Sum Sq. Dev.	4.663219	0.000000	141.0232	285.4859	1.721749	0.009016	0.041164
Observations	70	70	70	70	70	70	70

The descriptive statistics utilized in the study are shown in the accompanying table. The median value for CSR_1 (Corporate Social Responsibility Investment Approach) is 1.62%, while the standard deviation has a variance value of 8.22%. The mean, median, and standard deviation values for CSR_B (Corporate Social Responsibility Binary Approach) are each 1.00%, with the standard deviation having a variance value of 0.00%. FS (Firm size) has a mean value of 7.55%, a median value of 6.74%, and a variance value of 1.42% for the standard deviation. The mean value of LEV (Leverage) is 6.89%, the median value is 6.58%, and the standard deviation is 2.03%. The mean value of the loan-to-deposit ratio is 0.66%, the median value is 0.63, and the standard deviation has a variance value of 0.15. The standard deviation has a fluctuation value of 0.01%, and the mean and median values of NII (Net interest income) are both 0.04%. The NPL (non-performing loan) has a mean value of 0.04%, a median value of 0.03%, and a variance value of 0.02 for the standard deviation.





4.2 Correlation Matrix

	CSR_1	FS	LEV	LD	NII	NPL
CSR_1	1	0.17243	0.2136	-0.2312	-0.1631	0.1746
FS		1	0.1773	0.0763	0.1649	-0.2598
LEV			1	-0.2002	-0.4163	-0.4270
LD				1	0.3456	-0.2672
NII					1	-0.2669
NPL						1

The table 4.2 depicts CSR_1 (Corporate Social responsibility investment approach) has positive relationship with FS (Firm Size) at 0.17, LEV (Leverage) at 0.21, NPL (Non-performing loan) at 0.17, and negative relationship with LD (Loan to deposit ratio) at -0.23, NII (Net Interest income) at -0.16.

4.3 Panel Regression Results

Dependent variable: Non-performing loan ratio

Variable	Fixed	Random
C	-0.2237 (0.4791)	0.1038 (0.0021)
CSR_1	2.0291 (0.0938)**	3.8462 (0.0010)*
FS	0.0403 (0.3395)	-0.0019 (0.6254)
LEV	-0.0026 (0.0237)*	-0.0023 (0.0577)**
LD	-0.0319 (0.1367)	-0.0491 (0.0031)*
R ²	0.8028	0.6753
Adjusted R ²	0.7279	0.6753
Durbin Watson	2.0965	1.6189
F-Statistics	10.718	3.4555
Prob (F-statistics)	0.0000	0.0127
Hausman Chi-squ	1.570	

p<0.05*; p<0.1**

The outcomes of model one's panel regression were shown in the table above. Leverage has a strong negative impact on the non-performing loans of the chosen deposit money institutions in Nigeria, according to the fixed effect model. The non-performing loans of the chosen deposit money institutions in Nigeria have a favorable, considerable impact on corporate social responsibility (investment approach). The corporate social responsibility (investment approach) has a favorable, significant impact on non-performing loans of the chosen deposit money





banks in Nigeria, according to the random effect model. Leverage significantly affects the non-performing loans of the Nigerian deposit money banks that have been chosen. The selected Nigerian deposit money banks' non-performing loans are significantly impacted negatively by the loan-to-deposit ratio. The random effect model would be the proper model for drawing inference for model one because the Hausman chi-square is over 0.05%.

Dependent variable: Net Interest Income

Variable	Fixed	Random
C	0.1347 (0.3790)	0.0410 (0.0258)
CSR_B	-0.0009 (0.0196)*	-0.0009 (0.0478)*
FS	-0.0126 (0.5333)	-9.9603 (0.9629)
LEV	0.0008 (0.2984)	-0.0020 (0.0056)*
LD	0.0020 (0.0975)**	-0.0337 (0.0006)*
R²	0.7804	0.5470
Adjusted R²	0.6970	0.5068
Durbin Watson	1.2750	0.9465
F-Statistics	9.3555	8.6354
Prob (F-statistics)	0.0000	0.0000
Hausman Chi-squ	1.1300	

p<0.05*; p<0.1**

The outcomes of model one's panel regression were shown in the table above. The loan-to-deposit ratio has a positive, considerable impact on the net interest income of the chosen deposit money institutions in Nigeria, according to the fixed effect model. The net interest income of the chosen deposit money institutions in Nigeria is significantly negatively impacted by corporate social responsibility (binary approach). The binary approach to corporate social responsibility has a large negative impact on the net interest revenue of the chosen deposit money banks in Nigeria, according to the random effect model. Leverage significantly reduces the net interest revenue of the chosen Nigerian deposit money banks. The selected Nigerian deposit money banks' net interest revenue is significantly negatively impacted by the loan-to-deposit ratio. The random effect model would be the proper model for drawing inference for model one because the Hausman chi-square is over 0.05%.

5. CONCLUSION

The results of model one showed that leverage, loan-to-deposit ratio, and corporate social responsibility (investment approach) have both positive and negative significant effects on non-performing loans of





Nigerian deposit money banks. In order to lower the quantity of non-performing loans in the banks, strategic and tactical level managers should invest financial and social resources from the banks in corporate social responsibility. The model two results showed that the loan-to-deposit ratio, leverage, and corporate social responsibility (binary approach) have a negative significant impact on net interest income. It suggests that the intermediation responsibilities of the deposit money banks in the economy would be influenced by corporate social responsibility (binary approach). To contrast the agency theory with the stakeholder's perspective, Gangi, Varrone, Mustilli, and Daniele (2018) place the relevance of corporate social responsibility in the middle. The two results support the stakeholder theory's claim that corporate social responsibility would raise the performance and profitability of Nigeria's deposit money institutions.

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