Examining the Nexus between Firm Profit and Corporate Social Responsibility: Evidence from Selected Banks

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Abstract

The research investigates the relationship between firm profit and CSR for 14 selected banks in Nigeria covering the period 2016 to 2022 using secondary data from banks' annual financial reports in the form of panel data. Bank profit after tax is the response variable while CSR expenditures and employee welfare expenses (internal CSR) were proxies for CRS. The study used Granger Causality to show the direction of causality between the variable, guided by the theoretical framework of Carrol's CSR pyramid and ethical consumer hypothesis. From the results, only two hypotheses were accepted out of four. It was found that CSR expenditure impact bank profits and vice versa. However, there was no relationship between bank profits and employee welfare expenses.

Keywords: Corporate social responsibility, panel data analysis, sustainability, granger causality, Carrol's CSR pyramid, ethical consumer hypothesis

JEL Classification: M14, C23, Q56

1. Introduction

The concept of Corporate Social Responsibility (CSR) has evolved from merely returning profits to society to creating shared value with stakeholders, aiming to enhance corporate environmental and social sustainability. Organizations with strong CSR tend to be more effective and productive than those with weak, fragmented cultures (Amah, 2012). What began as a peripheral activity within CSR is now a core corporate strategy (Thacker, 2019). Philanthropic expenses have shifted from financial contributions to strategic investments aimed at creating shared value. In Nigeria, banks frequently compete in CSR, integrating such initiatives into their branding, imaging, and advertisements.

In recent years, Nigeria's financial sector has experienced a significant shift with the rise of Financial Technology (Fintech) companies, challenging traditional banks and

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redefining industry dynamics (Kola-Oyeneyin, Kuyoro, & Olanrewaju, 2020). However, amid this digital revolution, the strong connection traditional banks maintain with local communities through CSR initiatives is often overlooked. Traditional banks, rooted in physical locations, foster community engagement and contribute to local development. In contrast, Fintechs, with their virtual presence often lack this tangible community connection (Adeleke, 2014). In Nigeria, as in many developing countries, people typically use Fintech accounts for small transactions, fearing the lack of established community presence and the potential for Fintechs to disappear suddenly.

Early theories in academic literature, such as Carroll's pyramid, suggested that only profitable firms engage in CSR (Carroll, 2016). However, contemporary perspectives indicate that consumers, government entities, and stakeholders prefer doing business with socially responsible firms that contribute to their communities. If this modern viewpoint holds, it suggests that a strong CSR   can drive long-term profits, as there is increasing emphasis on partnering with socially responsible enterprises. Historically, CSR was often seen as mere philanthropy aimed at boosting managerial egos.

In the 1960s, interest in CSR primarily focused on philanthropy, seen as an expense to return some profits to society. Financially, this implied a slight decrease in profits to achieve social or environmental goals. This perspective led Milton Friedman (1970) to write the influential article, "The Social Responsibility of Business is to Increase its Profits." In it, he argued that executives imposing social expenses on corporations should be viewed as disloyal to their principals and shareholders. Friedman asserted that "if profits are the only value driver, any reduction in earnings without a complementary effect, whether from philanthropy or otherwise, destroys value" (Friedman, 1970).

In the early days of CSR, a firm's value was primarily perceived through shareholder interests. However, the introduction of stakeholder theory by Freeman et al. (2010) argued that corporate governance should consider the concerns of all stakeholders, including employees, customers, suppliers, and communities. A CSR policy that addresses stakeholder needs can provide a competitive advantage in various areas. For example, favourable non-monetary employment conditions can attract high-quality talent, while environmental responsibility and improved relationships with governments and communities can facilitate the establishment of new facilities (Kitzmueller & Shimshack, 2012). Moreover, CSR can attract investments from ethical mutual funds and socially conscious investors.

Thus, the evolution of CSR has shifted from being seen solely as a philanthropic expense to an investment. However, in Nigeria, especially among banks, there is a

tendency to focus CSR efforts on external stakeholders while neglecting the workforce (Amaeshi et al., 2006). Human capital is a critical asset for any organization. Holme and Watts (2000) emphasized that employees' right to good healthcare is a vital CSR concern that requires attention. Nigerian labour laws stipulate that health plans for bank employees often cover only primary health services or have limited coverage, excluding essential services such as surgery, comprehensive health screening, or ambulance services (Anene & Anene, 2013; National Consumer League, 2005). Additionally, Ogunwale and Mohammed (2013) noted that many banks either do not offer medical facilities to their employees or restrict coverage to a maximum amount or even monetize the benefit.

2. Literature Review

Corporate Social Responsibility (CSR) is a multidimensional concept encompassing the ethical, social, and environmental responsibilities of organizations beyond their economic goals. Over time, the definition of CSR has evolved from simple philanthropy to a holistic approach integrating sustainability, ethical business practices, and societal well-being. At the heart of CSR is the Stakeholder Theory, which posits that organizations have responsibilities to a broader set of stakeholders beyond shareholders. This perspective underscores the interconnectedness of business and society, emphasizing the importance of considering the interests and expectations of employees, customers, communities, and the environment (Brandão, Diógenes, & Abreu, 2017).

Stakeholder theory has identified CSR as a significant value driver. Burke and Logsdon (1996) outline five dimensions of corporate strategy that connect CSR to value creation: centrality (alignment with the firm's mission and objectives), specificity (the ability to capture private benefits), proactivity (anticipating social trends), voluntarism, and visibility (projects observable by stakeholders). Epstein et al. (1996) approach CSR from a paradox theory perspective, suggesting that tensions between CSR and Corporate Financial Performance (CFP) can inspire creative ideas for managers. Vilanova et al. (2009) argue that CSR and competitiveness are linked through a cycle of learning and innovation, with CSR enhancing corporate reputation and contributing to value creation.

Managers play a crucial role in balancing stakeholder demands and corporate capacities to create value while adhering to corporate governance rules. In their work on corporate philanthropy, Porter and Kramer (2006) advocate for strategic giving, emphasizing charitable efforts that not only benefit society but also enhance corporate competitive context, rather than mere donations for cause-related marketing. They argue that analysing CSR with the same framework as corporate business decisions transforms it into a source of opportunity, innovation, and

competitive advantage. This distinction lies between responsive CSR, which focuses on returning profits to society, and strategic CSR, which identifies societal problems that corporations can help solve, creating value for both society and shareholders (Sánchez & Sotorrío, 2007).

CSR and employee motivation are pivotal components in modern organizational management. Nigerian banks often adopt unconventional strategies, such as offering staff overdrafts at below-market interest rates, blending financial benefits with social responsibility. By providing these overdrafts, Nigerian banks exhibit a form of internal CSR aimed at enhancing employees' financial well-being. However, this practice warrants scrutiny under the CSR framework, as it may be perceived as privileging internal stakeholders over external societal interests (Albasu, 2017).

Agency theory highlights conflicts of interest between principals (employers) and agents (employees), emphasizing potential issues in aligning objectives. Offering below-market overdrafts could enhance staff loyalty and commitment, but it might also create moral hazards, leading to relaxed financial discipline or conflicts of interest between the bank's profitability and employees' personal financial stability (Achua, 2008).

3. Methodology

In panel data analysis, choice is always done between fixed and random effect. Regarding the properties of the two estimators, econometric theory indicates that the fixed effect estimator is always consistent, even if the underlying model is random effects (Gujarati & Porter, 2009). Typically, in conducting a panel data estimation, both estimators are estimated together, followed by the Hausman test to choose between them.

The implicit (functional) representation of the model is expressed as:
$$BP = f\,(CSRE, EWE) \tag{3.1}$$
Where;
BP = Bank Profit
CSRE = Corporate Social Responsibility Expenditure
EWE = Employee Welfare Expenses
The explicit (econometric) form of the model in equation (3.1) is expressed as;
$$BP_{it} = \beta_{1i} + \beta_2 CSRE_{it} + \beta_3 EWE_{it} + \mu_{it} \tag{3.2}$$
Where;
β = constant; μ = error term

This study utilizes firm-level panel data derived from the yearly audited financial statements published on the relevant banks' websites and the Nigeria Stock Exchange website for the period 2018-2022. Panel data combines time series and

cross-sectional data. It is important to note that this study uses unbalanced panel data, meaning that not every entity (or bank) has complete data, resulting in some missing data. The number of banks used in this study exceeds the time period, categorizing our panel data as a short panel. The functional model, as shown in equation (3.1), is a multivariate equation with three variables. Bank profits are proxied by the yearly profit after tax. The variables on the right-hand side of equation (3.2) are the yearly CSR expenditures and employee welfare expenditures (other than salaries). These expenditures include costs to cover medical bills and other sundry needs of staff, such as overdrafts at below-market interest rates. The variable "employee welfare expenditure" serves as a proxy for internal CSR.

4. Result and Discussion

Table 4.1 Panel data for the 14 sampled banks

Banks	Year	Profits (after tax)	Donations to charities & NGOs N' millions	Other employee expenses	Banks	Year	Profits (after tax)	Donations to charities & NGOs N' millions	Other employee expenses
Stanbic IBTC	2017	25165	142.81	24	Fidelity Bank	2016	9734	65.5	376
	2018	15499	175.16	8		2017	17768	417	2200
	2019	33727	309.08	95		2018	22926	158.362	2000
	2020	26369	326.9	332		2019	28425	165	2537
	2021	32358	114.8	353		2020	26650	535.5	2792
	2022	50965	183	782		2021	35579	1377	1014
Citi	2017	32297.31	20.415	195.909	First Bank	2017	9275	10	
	2018	30730.26	11.75	476.894		2018	9342	12	
	2019	37331.04	11.19	330.661		2019	13862	9	
	2020	42150.17	250	620.316		2020	33860	24	
	2021	32892.5	1162.7	1012.1		2021	13048	24	
	2022	31504.7		1790.8		2022	19460	18	6
Standard Chartered Bank	2019	40488.18	11.5		Zenith Bank	2016	119285	2557	4901
	2020	32167.37	269.717			2017	153003	2611	6340
	2021	7961.11	730			2018	165480	3065	5536
						2019	200020	2729	7128
Jaiz Bank	2016	311.273	51	611.86		2020	197852	3285	6354
	2017	537.117	20.32	598		2021	233133	4372	4860
	2018	834.365	3.29	96.07		2022	234593	1671	6916
	2019	2442.785	0.8	114.9					
	2020	2903	13.8	91.13	Access Bank	2016	64026	285.33	
	2021	4084.5	29.106	191.2		2017	51335.46	567.027	
	2022	6881.2	14.9	215.7		2018	73596.3	376.753	
						2019	70116	353.91	
Union Bank	2017	11239	45.5	97		2020	80039	2603.6	
	2018	18438	30.2	560		2021	111326.5	4059.8	
	2019	24375	47	118		2022	166658	1612.7	
	2020	24653	393	361					
	2021	19180	1202	730	UBA	2016	47541	322	241
	2022	29009	53	477		2017	41396	650	373
						2018	41047	1033	310
GTB	2017	158727.7	867.113	246.955		2019	62750	650	297
	2018	166919.8	928.078	370.932		2020	56911	3944	206
	2019	175125.3	505.36	373.144		2021	58669	1384	179
	2020	178188.4	1870	411.557		2022	133696	1244	295
	2021	8282.5	2710.8						
	2022	88605.1	488.17		FCMB	2017	1524.886	395.36	265.056
						2018	3552.392	315.8	336.181
Wema	2016	2591	30.2	1800		2019	3601.46	299.3	67732
	2017	2301	53.58	856.5		2020	3060.273	709.47	28093
	2018	3359	79.3	1377		2021	5088.69	1481.5	29.722
	2019	5210.7	110.8	2853		2022	7264.18	299.977	277.427
	2020	4592.2	228.9	2224.2					
					Sterling	2016	5182	212.26	273
						2017	8455	346	280
						2018	9468	299	
						2019	10163		343
						2020	11110	435	374
						2021	13403	250	600

Source: Published yearly financial reports of various banks

The results of our Granger Causality estimation are presented in Tables 4.2 and 4.3. All variables enter the estimation as both dependent and independent variables, and all variables are in absolute forms.

Table 4.2 Panel Data Granger Causality Result for Current Year and Past Year

Pairwise Granger Causality Tests

Sample: 2016 2022
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
BP does not Granger Cause CSRE	67	17.4487	9.E-05
CSRE does not Granger Cause BP		12.4971	0.0008
EWE does not Granger Cause CSRE	51	0.95473	0.3334
CSRE does not Granger Cause EWE		0.07874	0.7802
EWE does not Granger Cause BP	53	0.03007	0.8630
BP does not Granger Cause EWE		0.00096	0.9754

Source: Author's computation

Table 4.3 Panel Data Granger Causality Result for Current Year and Last Two Years

Pairwise Granger Causality Tests

Sample: 2016 2022
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
BP does not Granger Cause CSRE	52	6.47351	0.0033
CSRE does not Granger Cause BP		16.1618	5.E-06
EWE does not Granger Cause CSRE	39	0.44236	0.6462
CSRE does not Granger Cause EWE		0.05821	0.9435
EWE does not Granger Cause BP	41	0.03367	0.9669
BP does not Granger Cause EWE		0.12607	0.8819

Source: Author's computation

In Table 4.2, we reject the null hypothesis that CSR expenditures (CSRE) in the past year do not Granger cause bank profits (BP) in the current year because the relationship is statistically significant at the 1% level. Conversely, we also reject the

null hypothesis that BP from the previous year does not Granger cause current year CSRE, as this relationship is also statistically significant at the 1% level. Using the results from Table 4.2 to analyse our second proxy for bank CSR, employee welfare expenditures (EWE), we find that we can accept the null hypothesis that past year EWE does not Granger cause current year BP, as this relationship is not statistically significant even at the 10% level. Similarly, we reject the hypothesis that BP from the previous year Granger causes current year EWE, as this relationship is also not statistically significant even at the 10% level.

We extended our analysis two years back to check if any variable lagged by two years impacts another variable in the current year. The results are presented in Table 4.3. Our findings show that CSRE from two years ago Granger causes current year BP, leading us to reject the null hypothesis as this relationship is statistically significant at the 1% level. Conversely, BP from two years ago Granger causes current year CSRE, with this relationship being statistically significant at the 5% level. Therefore, we can conclude that there is a bidirectional relationship between CSRE and BP, as they both Granger cause each other. However, for our second CSR variable, EWE, there was no Granger causality with BP or CSRE, indicating no bidirectional causality with BP (our proxy for firm profit) and CSRE variables. Additionally, setting our variables two years back only shows a bidirectional impact between BP and CSRE.

In explaining the implications of our results, it becomes clear that the yearly bank profits after tax for a current year significantly impact the size of banks' CSR budgets for the following year. This indicates that when banks' profits increase or decrease in a given financial year, their CSR expenditures will similarly rise or fall. This finding aligns with Archie Carroll's hypothesis that companies must first be profitable before engaging in CSR activities.

Additionally, our results indicate that current year CSR expenditures impact bank profits for the subsequent year. This supports the ethical consumer or client hypothesis, suggesting that consumers or clients prefer doing business with companies that act as 'responsible citizens' within their operating environments. This is evidenced by the CSR portfolios of many banks, which include projects on environmental sustainability, women empowerment, and girl child education, among others. It implies that the average Nigerian bank customer values CSR efforts and rewards banks by choosing to do business with them.

Furthermore, we examined if our results could be replicated with a two-year lag. Interestingly, we found similar results: bank profits from the past two years impact the CSR budget for the next year and vice versa. This means that if banks experience a consecutive decline in profits over two years, it will affect their CSR budget.

Moreover, the results revealed that bank customers also consider the CSR projects executed by banks over the past two years when deciding which banks to patronize in the following year. This underscores the relevance of Archie Carroll's hypothesis in the Nigerian context.

Similar to this study, Margolis and Walsh (2003) findings underscore that CSR expenditures can enhance firm profit, although they did not establish causality. Lins, Servaes, and Tamayo (2017) findings aligns with the ethical consumer hypothesis supported by this study, they found that firms with higher CSR activities experienced better balance sheet profit during crisis due to enhanced consumer trust and loyalty. Lastly, Olaleye, Akinwale, and Dada (2021) found that CSR expenditures positively correlated with profitability but highlighted that internal CSR initiatives, such as employee welfare, had a weaker link to financial outcomes. Thier results corroborate this study's finding that EWE does not Granger cause BP, suggesting that external CSR initiatives may have a more immediate and noticeable impact on bank profit in the Nigerian context.

5 Conclusions and Recommendations

Based on the findings of the study supports Archie Carroll's hypothesis that organizational profits are a crucial determinant of CSR expenditures. Additionally, the findings align with the ethical consumer hypothesis, suggesting that consumers and clients prefer doing business with organizations that act as responsible citizens within the communities they operate.

Since bank profits from the previous year impact the current year's CSR budget. Furthermore, given that CSR expenditures from the previous year impact current year profits, and profits from the past two years influence the current year's CSR budget, it is recommended that bank managers should recognize CSR expenditures as an investment rather than a cost, prioritizing initiatives that align with consumer expectations and community needs to strengthen brand reputation and drive profitability. Additionally, managers are encouraged to integrate CSR planning into long-term financial strategies, using profit forecasts to allocate budgets effectively. By linking CSR initiatives to measurable business outcomes, managers can make more informed decisions that balance social impact with firm profit.

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