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Investment in corporate social responsibility, disclosure practices, and financial performance of banks in Nigeria

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ABSTRACT

Using panel data set from banks in Nigeria, a developing country, this paper examines the effects of corporate social responsibility (CSR) investment and disclosure on corporate financial performance. The results from the Wallace and Hussain estimator of component variances (a two-way random and fixed effects panel) suggest that CSR investment without due disclosure would have little or no contribution to corporate financial performance. This paper supports the argument that firms could benefit both financially and non-financially from a strategic CSR agenda.

1. Introduction

Hitherto, investment in corporate social responsibility (CSR) as a global phenomenon has remained a thriving corporate governance concept and management strategy in most multinationals (Peng & Yang, 2014; Amin-Chaudhry, 2016). It keeps attracting the interest of a vast number of scholars, economists, governmental and non-governmental organizations, and the public as a result of industrial growth and economic prosperity of many nations (Abiodun, 2012; Adeyemi & Ayanlola, 2014; Harpreet, 2009; Uadiale & Fagbemi, 2012; Uwuigbe & Uadiale, 2016). Documented evidence has shown that investments in CSR have the potentials of making positive contributions to the development of society and businesses (Harpreet, 2009; Helg, 2007; Wahba & Elsayed, 2015; Hategan & Curea-Pitorac, 2017). In effect, more organizations are beginning to see the benefits from setting up strategic CSR agenda (Chaudhary, 2017; Famiyeh, 2017).

Historically, the concept of CSR became pervasive in the 1960s. Since then, it has been narrowly construed, and used indiscriminately to cover legal and moral responsibilities (Uadiale & Fagbemi, 2012). In corporate sense, engaging in CSR activities is a way of firms making restitutions to the society in respect of social and environmental degradation caused by their business operations. It is also an act of appreciation to the host community. In reality, corporate entities are social creations, and they depend largely on the support of the society for survival (Reich, 1998). Arguably, while firms may engage in CSR activities to earn the continuous support of the society, the stalemate here is whether investment in CSR has any financial returns, or it is a mere drain of corporate resources (Galant & Cadez, 2017; Peng & Yang, 2014; Testa & D'Amato, 2017).

In the literature, there has been a deal of ambiguity and uncertainty about what CSR really means to a firm as well as the motivation behind a firm's engagement in CSR (Abiodun, 2012; Wahba & Elsayed, 2015; Galant & Cadez, 2017; Hategan & Curea-Pitorac, 2017). Business scholars and economic strategists have committed much research efforts to provide empirical evidence on whether a proactive stance towards CSR is just a mere drain of a firm's profit, or it is a source for sustainable success and competitive advantage (Hockerts, 2007; Famiyeh, 2017; Galant & Cadez, 2017). Generally, while it is assumed that firms act socially responsible

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because they anticipate some benefits, theories of CSR assert that firms engage in profit-maximizing CSR, being their lead motivation (McWilliams & Siegel, 2001; Bagnoli & Watts, 2003; Amin-Chaudhry, 2016).

Accordingly, the proponents of CSR are convinced that it pays off for the firm as well as for the firm's stakeholders and the society. They believed that investment in CSR enhances a firm's public image, and gives the firm unique comparative marketing advantages, mostly among increasingly socially conscious consumers, which in turn, increases the firm's long-term revenue (Burke & Logsdon, 1996; Gras-Gil, Manzano, & Fernandez, 2016). In an international survey by PricewaterhouseCoopers, about 70% of the global chief executives believed that CSR was vital to their firms' profitability (Simms, 2002).

Generally, while studies on CSR abounds in the developed countries, evidence from a developing country's perspective appears to be limited (Wahba & Elsayed, 2015). Particularly, CSR study in Nigeria is still sparse. This paper therefore is designed to provide further empirical evidence on the effects of CSR investment and disclosure on corporate financial performance from the perspective of a developing country. According to Wahba and Elsayed (2015), much CSR studies reflect the context of developed countries, and so, adding evidence from less developed countries could possibly assist in developing existing theories of corporate finance as well as corporate social responsibility.

Besides, most CSR studies in Nigeria have concentrated on multinational firms. Particularly, the oil and gas firms in the Niger Delta region, while less has been done on indigenous firms and other industries like the banking industry (Amaeshi, Adi, Ogbechie, & Amo, 2006; Oluyemi, Yinusa, Abdulateef, & Akindele, 2016). According to Oluyemi et al. (2016), the demand for CSR in the Nigerian banking system is imperative seeing that the banks are instrumental to the development of the country. Hence, using data from banks in Nigeria, a developing country, this paper adds to our understanding on the interactions between CSR investment and disclosure, and banks' financial performance. It also adds to the limited CSR literature in Africa as a whole, and Nigeria in particular.

The remaining part of this paper is structured as follows: the second part presents the review of literature related to CSR and corporate financial performance. It also introduces the hypotheses formulated for the study. The third part presents the research method and design for the study. In the fourth part, the results and discussions of the findings are presented, while the fifth part concludes and presents the significance of the study.

2. Literature review and theoretical framework

Previously, the concept of CSR has been described extensively in different ways across the globe, with both similarities as well as considerable differences (Crane, Matten, & Spence, 2008; Uadiale & Fagbemi, 2012; Asatryan & Březinová, 2014). In the report of the National Association of Accountants (NAA) (1974), CSR is described as the identification, measurement, monitoring, and reporting of the social and economic effects of an organization on society. It is the disclosure of those costs and benefits that may or may not be quantified in monetary terms arising from the economic activities of firms, which are substantially borne by stakeholders and the community at large (Perks, 1993). Similarly, Brown and Dacin (1997) described CSR as a firm's status and activities with respect to its perceived societal or stakeholders' obligations. It is seen as a cluster concept, overlapping with concepts such as business ethics, corporate philanthropy, citizenship, environmental responsibility and sustainability (Al-Samman & Al-Nashmi, 2016; Gras-Gil et al., 2016; Matten & Moon, 2004).

Generally, there has not been a strong consensus on the concept of CSR, nor its constituents (Wahba & Elsayed, 2015). However, Belkaoui (1999) had earlier argued that the key features of social accounting include the 'measurement' and 'communication' of information concerning the effects of a business and its activity on the society and the environment. Building on Belkaoui, Crane et al. (2008) specified that the core essence of CSR is its voluntary feature, which goes beyond statutory obligations, managing externalities, and multiple stakeholders' orientation. They also noted that CSR feature goes beyond the alignment of social and economic responsibilities, practices, and corporate philanthropy. Functionally, CSR serves as a veritable strategic structure that ensures corporate and environmental sustainability.

In a more dynamic standpoint, CSR is being interpreted as the concept of triple bottom-line; people, planet, and profit, which captures an expanded range of values and criteria for measuring organizational success (Abiodun, 2012; Harpreet, 2009). Although, conflicting persuasions have emerged on the importance, or otherwise of CSR in business activity. For instance, the neoclassical economists advanced that firms should devote more energy to supplying quality goods and services to its customers, minimize costs, and maximize profits, all within the laws and regulations of the land (Carroll, 1979; Jamali & Mirshak, 2007; Quazi & O'Brien, 2000). Overtly, the neoclassical economists' position provides a motivated platform for firms to engage willingly in CSR so they can accrue certain benefits from their host community, and from the society as a whole.

In recent years, businesses have started responding to the growing interest of stakeholders regarding their social significance. While many of the individual policies, practices, and programmes toward societal development are not new as such (Al-Samman & Al-Nashmi, 2016; Peng & Yang, 2014), firms are addressing their societal role far more coherently, comprehensively, and professionally, an approach that is elegantly broadened by CSR (Crane et al., 2008; Galant & Cadez, 2017; Wahba & Elsayed, 2015). Accordingly, in explaining CSR paradigm among firms, different CSR theories and paradigms have been proposed by scholars and economists (Choi, 1999). For example, the enlightened shareholder model, legitimacy theory, and stakeholder theory have been applied in explaining the motivation behind firms' investments in CSR activities (Croker & Barnes, 2017; Hamid & Atan, 2011). Recent studies have also employed the institutional theory in explaining CSR and firms' motivations toward CSR investments (Bradly, 2015; Ruiviejo & Morales, 2016).