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The Effect of Corporate Social Responsibility on Firms Financial Performance in Kano Metropolis: A Conceptual Model

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Abstract: **The motive of every firm is to maximize the wealth of owners by providing benefits to the society when society faces any trouble. There are lot of examples in the world that many firms share the loss of society when there is natural or any other disaster in that society. This study will examine the impact of CSR on Banks' financial performance. After analyzing the different studies in literatures, a sample size of 5 banks out of 15 being listed on the Nigerian Stock Exchange with the total of 21 banks in Nigeria will be used. Secondary and primary data would be used to measure variables of the study including corporate social responsibility (CSR) and financial performance**.

Keywords: **Corporate social responsibility, financial performance.**

1. INTRODUCTION

When people come together to establish a firm, they do so to allocate their resource for the purpose of a common goal and such may be to earn profit. To achieve this goal, they also interact with society. On the basis of their motives, organization can be divided into Profit organization, Government organization and Non for Profit organization. Profit oriented organizations try to maximize owner's wealth, Government organizations define the regulations and structure of society in which firm continue its operations and not for profi*t* organizations perform the social deeds when society need. In society there are such types of organizations existing. No doubt they perform different task but they are interdependent in a well-organized society.

Business impact on society is growing with the passage of time and the number of Stakeholders also increased. CSR, this phrase consists of three things, Corporate, Social and Responsibility. CSR check the relationship between firms and society in which they operate and interact. Society is defined in broader sense and many levels which includes all stakeholders and groups that keep interest in the operations of the organization. Stakeholders include the customers, workforce, lenders, supplier, Government, local communities and even the environment. Each firm should identify the stakeholders that can influence the organization more.

Firms are involved in socially responsible behavior or not, debate is continued on this topic. Economic arguments suggest that managers should make that decision which can increase the wealth of stockholders. On the other hand Sociologists suggest that, it is the responsibility of firm to groom the society, and should make those decisions that go beyond the owner's wealth maximization. The firm performance has been defined many times by many scholars. All definitions are used to study the link of profitability with the firm corporate social responsibility.

Many scholars are trying to understand how corporate social responsibility affects the financial performance of the firm. The study will take earning per share (EPS) and Profitability as performance measure in this study. When all Expenses are deducted from the Sales of company, the remaining value is known as Profitability. When this profit is divided on the number of shares outstanding the resulted value is known as EPS. No doubt green products are expensive to produce but extra cost can be borned by the consumer who use the environment friendly products.

The literatures revealed that many studies on corporate social responsibility and financial performance were conducted. Specifically, the literature indicated that there are lot of research on social responsibility and financial performance in the

developed countries including U.S.A (Tsoutsoura, 2004; Hull, & Rothenberg, 2008; Inoue, & Lee, 2010; Flammer 2013), UK (Singh, 2014), Australia (Torugsa, 2012), France (Cavaco, & Crif, 2013), France and Canada (Crifo, et al 2013), Italy (Poddi, & Vergalli 2009), Portugal, Spain, and Italy (Morais, 2014), Greece (Karagiorgos, 2010) and in Romania (Vintila & Duca 2013; Simionescu, & Gberghina, 2014). Moreover, similar studies were conducted in Asian countries including China (Pan, et al 2014; Chen, et al 2013; Qiu, 2012), Indonesia (Fauzi, 2006; Bidhari, et al 2013), Pakistan (Mujahid, &Abdullah, 2014; Iqbal, et al 2014; Kanwal, et al 2013), India (Ghosh, 2013; Zahoor, 2014), Thailand (Wuncharoen, 2013), and Malaysia (Wan Ahamed, et al 2014), also in the Middle East countries like Iran (Matin, et al 2011; Saeidi, et al 2014) and Jordan (AL- Shubiri, et al 2012).

Furthermore, similar studies were conducted in Africa countries such as South Africa (Chetty, et al 2015), Ghana (Ofori, et al 2014), Nigeria (Peters, & Bagshaw, 2014; Shehu, 2015), Kenya (Cherobon, 2014; Daniel 2014) and Tanzania (Naila, 2013). Though there were some few researches already conducted in the continent and in Nigeria as stated above, but due to cultural, economical, technological and geographical differences, the researcher decided to study this topic in a newer context of Kano metropolis, Nigeria where there seems to be dearth of research on the said topic.

This study is aimed at examining the impact of corporate social responsibility on financial performance using empirical evidence from the Nigerian banking sector. Specific objectives will comprise the following:

- To identify the impact of disclosure of CSR on firm's Profit Margin
- To identify the impact of disclosure of CSR on firm's EPS.

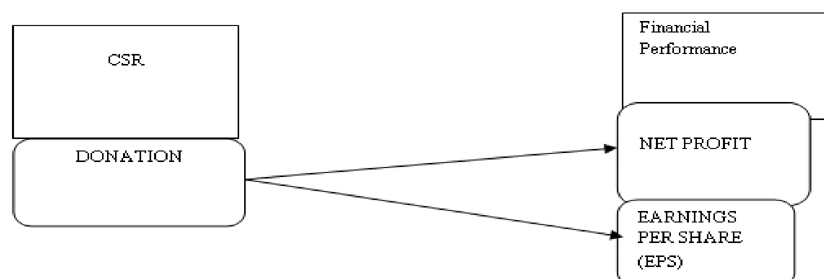
2. THEORETICAL FRAMEWORK/MODEL OF THE STUDY

Theorists have advanced a variety of models to account for Corporate Social Responsibility's influence on corporate financial performance; each proposes mechanisms through which corporate social performance has its effects. Preston & O'Bannon (1997) distinguish between the direction of the relationship – positive, negative or neutral –and the causal sequence – whether one type of performance follows another or whether they are synergistic. They finally arrive at six possible causal and directional hypotheses – social impact, available funding, trade-off, managerial opportunism and synergistic hypotheses.

More recently, Moore (2001) suggested extending this typology in order to allow for more complex relationships between CSP and CFP other than simply linear ones. As Moore (2001:300) noted, "There may be an optimum level of social performance beyond which social expenditures detract from rather than contribute to financial performance". For example, Bowman & Haire (1975) found a statistically significant inverted U relationship between CSP and CFP.

Stakeholder theory suggests that CSP is positively associated with CFP (Freeman, 1984; Donaldson & Preston, 1995) because it enhances the satisfaction of various stakeholders – and consequently the firm's external reputation – and lead to better financial performance. Theorists supporting such a hypothesis (Freeman & Evan, 1990) propose that managers typically increase the efficiency of their organization's adaptation to external demands "by addressing and balancing the claims of multiple stakeholders" (Orlitsky et al. 2003:405). Conversely, Cornell & Shapiro (1987) argue that failure to meet the expectations of various stakeholders will generate market fears, and consequently, will increase corporate's risk premium and ultimately result in lost profit opportunities.

Other scholars (McGuire et al. 1988; Kraft & Hage, 1990) suggest that CSP and CFP are positively associated "but that the causal relationship is from financial to social performance" (Preston & O'Bannon, 1997: 423). According to the available funding hypothesis (known also as the slack resource hypothesis), firms will follow the normative rules of good corporate social depending on the financial resource available. Hence, profitability in one time period may increase a firms' ability to fund discretionary social performance projects.



There are three variables in this model, the researcher will take donation as independent variable and also take Net Profit and EPS as a dependent variables. According to the Model, as the firms give donations to the society, the Net Profit Margin and EPS of the firm increases. Donation plays an important role for the development of society which ultimately leads to higher return to the company (Net Profit) as well as to the investor (EPS). There is a positive relationship between Corporate Social Responsibility and Financial Performance of the companies. As banks serve or give more and more to the society, the return of the banks will increase i.e. when the firm spends some money on the society (Donation), the society get benefit from it, but it does not mean that society will not pay to the firm. Society also pays to the firm in the sense of Goodwill or Reputation or good image of company in the minds of customers as well as investors.

3. REVIEW OF RELEVANT LITERATURE AND HYPOTHESIS DEVELOPMENT

Karagiorgos (2010) conducted research on Financial Performance linkage with the CSR in Greek companies and found that there is a positive correlation among stock returns and CSR performance. Wuncharoen (2013) result's, showed a positive correlation between CSR and Return on Equity (ROE)/Return on Assets (ROA) through simple regression statistics. Zahoor (2014) revealed that CSR practices have shown positive correlation with financial performance of a company, and Mujahid and Abdullah (2014) found that there is significant positive relationship between Corporate Social Responsibility and firm's financial performance and shareholders wealth, while Vintila and Duca (2013) found that company size and company profitability have an influence toward the corporate social responsibility.

Iqbal et al (2014) concluded that there is positive relationship between CSR and Financial performance of firms. Chen et al (2013) demonstrated that TCSR is positively associated with financial performance of a firm, whereas ICSR is negatively related to financial performance. Torugsa et al (2012) demonstrated a case for SMEs as being able to maximize financial returns whilst proactively making progress towards CSR. Poddi and Vergalli (2009) result's seem to support the idea that CSR firms which are more virtuous, have better long run performance. They have some initial cost but obtain higher sales and profits due to several causes reputation effect, a reduction of long run cost and increase social responsible demand. Daniel (2014) found that expenses on social course have an effect on financial performance of commercial banks in Kenya. Tsoutsoura (2004) indicated that the sign of the relationship is positive and statistically significant; supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits, and Rais and Goedegebuure (2009) indicated that CSP strongly and significantly affects both a firm's competitive position and its financial performance.

Ofori et al. (2014) revealed that banks in Ghana view corporate social responsibility practices to be a strategic tool; banks are motivated to practise corporate social responsibility by legitimate reasons as much as they are motivated by profitability and sustainability reasons. Also Wan Ahamed et al (2014) concluded that there is positive relationship between CFP and CSR practices together with Firm Size and Firm Revenue as control variable.

Crifo et al (2012) showed that isolated and aggregated CSR dimensions impacts positively firm performance. The interaction between the various CSR dimensions also affects positively firm performance but with a much stronger impact, suggesting that synergies among CSR practices matter a lot for firm performance. Also in (2013) they found that CSR dimensions in isolation impact differently on a firm's profit. The interaction among various CSR dimensions exerts different influences on firm performance in term of profit, producing both substitutability and complementarity effects. While Inoue Y. and Lee S. (2010) revealed that each dimension had a differential effect on both short-term and future profitability and that such financial impacts varied across the four industries.

Flammer (2013) found that adopting a CSR-related proposal leads to superior financial performance. The effect is weaker for companies with higher levels of CSR, suggesting that CSR is a resource with decreasing marginal returns. Finally, consistent with institutional theory, he found that the effect is stronger for companies operating in industries where institutional norms of CSR are higher. Pan X. et al (2014) showed that the differences in the relationship between CSR and CFP for five sublevel industries are due to industry characteristics. Cherobon (2014) pointed out that CSR ought to be adopted and executed smartly by firms so as to avoid the imbalances of performing and not performing by only achieving its advantages and avoiding its disadvantages. Kanwal et al (2013) showed that there is a considerable positive relationship between the CSR and Financial performance of the firm, and firms spending on CSR not only benefits from continuous long term sustainable development but also enjoy enhanced Financial Perfomance. Hull and Rothenberg (2008) got a results that support both innovation and the level of differentiation in the industry as moderators for a positive relationship between corporate social performance and financial performance: corporate social performance most strongly affects performance in low-innovation firms and in industries with little differentiation.

Ghosh (2013) suggested that the companies which are large in size, have less leverage, are business group affiliated, have higher R&D and advertisement expenses, and are operating in environmentally sensitive industries are likely to be superior in sustainability. Cavaco and Crifo (2013) also suggested some kind of trade-offs between CSR components. Some CSR combinations appear as relative complements, human resources and business behaviour towards customers and suppliers, suggesting mutual benefits and less conflict between those stakeholders. Morais (2014) unveiled that markets value a low CSR disclosure negatively, but do not find other levels of disclosure to add value, which implies that in times of crisis a low CSR disclosure may increase information asymmetry between a company and market participants. Chetty et al (2015) showed that CSR activities lead to no significant differences in financial performance.

Simionescu and Gberghina (2014) found a negative relationship between CSR and ROS, as well as a positive association between CSR and EPS and by estimating fixed effects panel data regression models, the positive relationship between CSR and EPS was reinforced. Matin et al (2011) showed that there is no positive relationship between corporate social responsibility and any of its five dimensions and firm financial performance. Moreover, there is a positive relationship between firm size and firm risk and firm financial performance. Shehu (2015) found that two of the independent variables (i.e. ER and CP) have significant positive impacts and other one (i.e. EMS) negative impact.

Peters and Bagshaw (2014) showed that the banking sector has the highest level of corporate governance disclosure compared to the other two sectors, their result indicates that the nature of control over the sector have an impact on companies' decision to disclose online information about their corporate governance in Nigeria; and that there were no significant differences among firms with low corporate governance quotient and those with higher corporate governance in terms of their financial performance.

Naila (2013) suggested that there is no significant relationship between environmental compliance and financial performance among listed manufacturing firms in Tanzania. Singh (2014) said that there is no significant impact of CSR disclosure on the financial performance, both in short-term scenario and long-term scenario for the chosen industries in UK. Fauzi (2006) said that corporate social performance (CSP/CSR) has no effect on corporate financial performance (CFP) under slack resource and good management theory it is also shown that only financial leverage could moderate the interaction between CSP/CSR and financial performance (CSP). But Qiu (2012) showed that the CSR situation in China is still not optimistic. Saeidi et al. (2014) showed that only reputation and competitive advantage mediate the relationship between CSR and firm performance. However these lead to the following hypothesis:

H1: Disclosure of CSR positively affects profit margin of Nigerian selected banks

H2: Disclosure of CSR positively affects Earnings per share of Nigerian selected banks

4. METHOD

The study will comprise of 5 selected banks in the Nigerian Banking industry. The study will use data of 6 years time frame (i.e. from 2009-2014). A 6 years period is considered adequate to provide enough data for the study, as it would enable the researcher to examine the necessary variables from the annual financial reports of the Nigerian Banking Industry.

A sample size of 5 banks will be chosen out of 15 being listed on the Nigerian Stock Exchange with the total of 21 banks in Nigeria. Each bank in the population must have finished its obligation in delivering annual report of the year ended 2014. Archival records will be used to gather the secondary data needed for the study. Annual reports of listed firms will be the data source of corporate social responsibility. Financial data related to independent and dependent variables will be from the banks' database. And the website of the banks will provide supplementary information for the sample.

Dependent variable of the study is financial performance which is represented by EPS (Earning per share) and NPM (Net Profit Margin). The independent variable/parameter is Donation.

Measures:

Corporate Social Responsibility:

Many scholars had used different measures to measure corporate social responsibility of firms, some used content analysis on CSR annual reports (Karagiorgos, 2010; Chen, et al 2013). Peters and Bagshaw (2014) employed Board Composition,

Board size and Board committees, Fauzi (2006) used community issues, diversity in workplace, employee relation, environmental performance, international issues, product and business practices, and other variables concerning compensation, confidentiality, and ownership in other companies, Rais and Goedegebuure (2009) considered Employee relations, Customer relations, Shareholder relations, Supplier relations and Community relations.

Simionescu and Gberghina (2014) used Dummy variable which takes the following values; 0, if the company is not considered to be socially responsible; 1, if the company is considered to be socially responsible, Poddi and Vergalli (2009) considered Enterprise size, the sector it operates, Shareholders' demand, and historical progressiveness, Zahoor (2014) employed Index of social performance, Ofori et al. (2014) used Panel data, Morais (2014) considered size and leverage, Shehu (2015) used survey and questionnaires, Crifo et al (2013) used extra-financial ratings, Wan Ahamed et al. (2014) considered environment, workplace, community and marketplace dimension, Flammer (2013) used Kinder, Lydenberg, and Domini (KLD) employed index of social performance, Bidhari et al (2013) used Tobin's Q, Inoue and Lee (2010) considered KLD STATS database.

Cherobon (2014) used Economic spending, legal spending, Ethical spending, and Discretionary spending responsibility, Pan et al. (2014) used shareholder responsibility, employee responsibility, supplier, customer and consumer rights responsibility, environmental responsibility, and social responsibility based on stakeholder theory, Qiu (2012) considered core stakeholders: government, suppliers, employees, creditors, customers and non-core stakeholders: environment, community, special interest groups, Mujahid and Abdullah (2014) used employees, environment, customers, society and shareholders, Kanwal et al. (2013) considered cost and economic benefits, Singh (2014) used published CSR keywords on the annual reports of the firms over five years ranging from 2008 till 2012.

Cavaco and Crifo (2013) used Vigeo database, Daniel (2014) considered monetary spending on social activities, Chetty et al (2015) used JSE SRI Index constituents, Wuncharoen (2013) employed content analysis via annual reports as well as hotel websites and surveys, Ghosh (2013) used ESG S&P India Index, however for the purpose of this study the researcher decided to used Donation to measure CSR, considering the fact that it can function or take the place of most of CSR dimension and this is adopted from Iqbal et al (2014).

5. FINANCIAL PERFORMANCE

Many Scholars had used various measures to measure financial performance of Firms such as; Return on Asset (ROA) and Return on Equity (ROE) (Peters, and Bagshaw, 2014, Wan Ahamed et al 2014, Wuncharoen, 2013, Ofori et al 2014), Return on asset (ROA) (Chen, et al. 2013, Fauzi, 2006), Ghosh (2013) used ROA, ROE and Tobins Q ratio while Mujahid and Abdullah (2014) employed accounting terms like ROA and ROE and shareholders wealth measures like EPS and stock price, Poddi and Vergalli (2009) used Return on Equity (ROE) and Return on Capital Equity (ROCE).

Bidhari et al (2013) used Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS), Shehu (2015) employed Return on Assets (ROA), Return on Equity (ROE) and Capital Adequacy Ratios (CAR), Crifo et al. (2013) used; return on asset, return on equity, return on capital employed, return on sales and Tobin’s q, Inoue and Lee (2010) Return on Asset (ROA) and Tobin’s q, Flammer (2013) employed Return on Asset (ROA) and Net Profit Margin (NPM).

Morais (2014) used company's stock return and Chetty et al (2015) considered stock return performance over time, Cherobon (2014) employed volume of sales, number of customers and employee retention, Singh (2014) used assets (ROA), Tobin’s Q, and total shareholder returns (TSR), Cavaco and Crifo (2013) considered return on assets (ROA) and Tobin’s Q

Simionescu and Gberghina (2014) used Accounting based: The return on assets ratio, The return on equity ratio, The return on sales ratio and Market based: The price/earnings ratio, The earnings per share ratio, The price/book value ratio, Karagiorgos (2010) employed both Accounting-based and Market based measurement, Zahoor (2014) used Accounting profits only, Pan et al (2014) used EPS as a market-based CFP index and ROA, ROE, Growth Rate of Main Operating, and Expansion Rate of Net Assets as accounting-based CFP indicators.

Rais and Goedegebuure (2009) used Profit margin growth, Return on equity (ROE) growth, Revenue growth and Return on asset (ROA) growth, Qiu (2012) employed Return on Asset ROA, Return on Equity ROE and Earning per Share EPS, Kanwal et al. (2013) used Net profit & Total assets, Daniel (2014) considered net profits before taxes, but for the purpose of this study, the researcher will used Net Profit and Earning per share EPS to measure the Financial Performance of the selected banks as adopted from Iqbal et al. (2014).

6. CONCLUSION

There is no doubt that there are numerous studies conducted on the relationship between CSR and Firm Financial Performance in the developed countries but few in the developing countries, many results of CSR and Firm Financial Performance have been shown by different scholars. The significance of this study is utmost, as its findings will hopefully assist the banks management in Nigeria to know whether CSR has impacts on the financial performance of firms. More specifically it will assist firms' management to know that CSR is an integral part of the wealth creation process, which if manage properly will enhance the competitiveness of business. The result of the study will be of immense advantage to Government in seeing ways of improving its regulations concerning CSR of corporations.

The study will motivate the general public to continue investing and patronizing the products of companies that are socially responsible which will in turn raise challenges to those companies that are not socially responsible as investors continuously urging firms to demonstrate their social and environmental performance while both potential and traditional investors benefit from this study.

The result of this study will be beneficial to firms' managers in the Nigerian Banking Industry to the extent that their participation in CSR will serve as a motivator to others not participating.

The study will provide professional management bodies such as NIM, and IPMA the opportunity to increase in creating awareness for entrepreneurs on the impact of CSR on firms' financial performance. On the other hand, the media can also benefit from this research because it will give them a basis of enlightening stakeholders about the position of firms on the impact of CSR, thereby helping the society or community to know which firm is socially responsible. Also the findings will assist financial information users, such as Distributors, Suppliers, Shareholders, Trade Unions, Creditors, in making investment decision on firms in Nigeria.

Finally, base on the fact that little research on CSR exist in Nigeria, this study will add to the empirical evidence and available literatures on CSR and financial performance in Nigeria by examining the link between the two concepts in Nigerian firms.

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