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CORPORATE SOCIAL RESPONSIBILITY PRACTICES AND THEIR EFFECTS ON FINANCIAL PERFORMANCE. A STUDY OF DEPOSIT MONEY BANKS (DMBS) IN NIGERIA

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Abstract

This study investigated the effect of corporate social responsibility (CSR) practices on financial performance of deposit money banks (DMBs) in Nigeria from 2012 to 2023. The study population comprised 25 quoted DMBs listed on the Nigerian Exchange Group (NGX), with a sample size of 8 DMBs selected based on annual reports. Secondary data from audited financial statements and NGX publications were utilized, with variables including CSR expenditures, Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and firm size. Panel data analysis employing Ordinary Least Squares (OLS) regression techniques revealed a significant negative relationship between CSR expenditure and both ROA and ROE, indicating that higher CSR spending was associated with lower financial performance in terms of these metrics. respectively, suggesting a detrimental effect of CSR expenditure on ROA and ROE. However, no significant effect was observed on EPS. The study recommended that strategic alignment, efficiency, stakeholder engagement, a long-term perspective, and continuous monitoring of CSR programs for DMBs

to balance social responsibility with financial sustainability effectively.

Keywords: Corporate social responsibility (CSR), Financial performance, Deposit money banks (DMBs), Nigeria, Panel data analysis

Introduction

Corporate Social Responsibility (CSR) has emerged as a significant concept in the contemporary business sector, reflecting the growing recognition of the interdependence between organizations and the societies in which they operate. The primary objective of businesses was to maximize profits and create value for shareholders. However, this paradigm has evolved, and organizations are now expected to contribute positively to the larger society and environment in which they operate (Ebe, Celestine, Ada, Uzodinma &Okwo, 2021).

CSR encompasses a broad range of activities and initiatives aimed at integrating social, ethical, and environmental concerns into business operations and decision-making processes. Carroll's (1991) influential pyramid of CSR outlines four fundamental responsibilities that businesses should strive to fulfil: economic, legal, ethical, and philanthropic (Carroll, 2021). By embracing CSR, organizations demonstrate their commitment to balancing economic goals with the well-being of stakeholders, including employees, customers, communities, and the environment (Orshi, Barde &Muhammas, 2022).

In the Nigerian banking sector, CSR has gained prominence as deposit money banks (DMBs) increasingly recognize their pivotal role in shaping the economy and influencing societal development. As influential financial institutions, DMBs have the potential to contribute significantly to sustainable economic growth, financial inclusion, and community empowerment (Olowolaju& Adelola, 2020). CSR initiatives in the banking sector can take various forms, such as responsible lending practices, financial literacy programs, community development projects, environmental conservation efforts, and initiatives aimed at promoting ethical governance and transparency (Amahalu, 2017).

The relationship between CSR practices and financial performance has been a subject of ongoing debate and empirical investigation. Proponents of CSR argue that responsible business practices can enhance financial performance by improving reputation, attracting and retaining talented employees, fostering customer loyalty, and reducing operational risks (Ebe *et al*., 2021). By demonstrating a commitment to societal and environmental well-being, organizations can strengthen their brand image, build trust with stakeholders, and gain a competitive advantage in the marketplace.

Conversely, critics argue that CSR activities may initially incur additional costs, potentially affecting short-term financial performance (Olowolaju& Adelola, 2020). They contend that resources allocated to CSR initiatives could be better utilized to enhance profitability and shareholder value. This perspective often stems from the traditional view that the primary responsibility of businesses is to maximize profits within the confines of legal and ethical boundaries.

In Nigeria where socio-economic challenges and environmental concerns are prevalent, the role of CSR in the banking sector becomes particularly significant (Amodu, 2018). DMBs have the potential to contribute to sustainable development and address pressing societal issues through their CSR initiatives. However, the extent to which these initiatives translate into tangible financial benefits remains a topic of ongoing debate and investigation.CSR has gained significant attention in recent decades as businesses face increasing pressure to adopt sustainable and ethical practices. While numerous studies have explored the relationship between CSR practices and financial performance, the findings have been inconsistent, particularly in to the banking sector in Nigeria. This research gap warrants further investigation to provide clarity and insights for DMBs in the country.

Previous studies on CSR practices and financial performance in Nigerian banks have yielded conflicting results. Adekunle and Aghedo (2014), for instance, discovered a favourable correlation between the financial performance of a number of Nigerian banks and their CSR policies, indicating that funding CSR projects might increase profitability and shareholder value. Adeneye and Ahmed (2015), however, found no discernible correlation between the financial performance of Nigerian banks and their CSR activities, raising doubts about the possible financial advantages of CSR programmes. Similarly, CSR had no significant effect on the profitability of Nigerian banks, according to a study by Uadiale and Fagbemi (2012).

The findings exhibit contradictions, indicating the necessity for more research to elucidate the nature of the correlation between CSR activities and financial success within the Nigerian banking industry. It is possible that the inconsistencies stem from variations in the methodologies employed, the specific CSR initiatives considered, or the timeframes examined. Additionally, the failure to account for potential mediating or moderating variables, such as bank size, ownership structure, or regulatory environment, could contribute to the conflicting results (Orshi*et al*., 2022; Usman & Amran, 2015).By exploring the effect of CSR expenditure on financial performance in the Nigerian DMBs, this study could have significant implications for policymakers, regulators, and industry stakeholders.

If a positive effect of CSR expenditure on financial performance is established, it could provide a compelling argument for promoting CSR as a strategic imperative for DMBs. Conversely, if the results indicate a negative or insignificant effect, it may prompt a re-evaluation of CSR strategies and resource allocation within the banking sector.Therefore, this study specifically seeks to evaluate the effects of CSR expenditures by DMBs on key financial performance indicators, such asreturn on assets, return on equity, andearnings per share.

Hypotheses of the Study

There following null hypotheses were tested in the study:

$H0_1$: There is no significant effect of CSR expenditures on ROA of DMBs in Nigeria.

$H0_2$: There is no significant effect of CSR expenditures on ROE of DMBs in Nigeria.

$H0_3$: There is no significant effect of CSR expenditures on EPS of DMBs in Nigeria.

LITERATURE REVIEW

Conceptual Review

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a multifaceted concept that has become increasingly important in the global business environment, consisting ethical, social, and environmental considerations in corporate practices (Carroll, 1991 as cited by Carroll, 2021). It reflects a company's commitment to operating responsibly and contributing positively to society beyond its economic goals (Ali *et al*., 2023). In relation to deposit money banks (DMBs) in Nigeria, understanding and implementing robust CSR practices are imperative for sustainable business growth and stakeholder satisfaction.

Ethical behaviour is a foundational pillar of CSR, emphasizing honesty, integrity, and fairness in business dealings (Carroll, 1991 as cited by Carroll, 2021). This includes compliance with legal regulations, ethical standards, and industry norms, as well as transparent communication with stakeholders (Ali *et al*., 2023). DMBs in Nigeria can demonstrate ethical behaviour by promoting integrity in financial services, ensuring customer privacy and data security, and fostering a culture of ethical decision-making among employees.

Social impact is another key aspect of CSR, focusing on the positive contributions businesses make to society (Carroll, 2021). This involves initiatives such as community development projects, philanthropy, education programs, and support for vulnerable groups (Ahmed, Mubarik & Shahbaz, 2021). By engaging in social impact activities, DMBs can address societal needs, improve living standards, and build strong relationships with communities, customers, and other stakeholders.Environmental sustainability is a critical component of modern CSR, advocating for responsible use of natural resources and environmental conservation (Carroll, 2021).

DMBs can promote sustainability through green initiatives, energy efficiency measures, waste reduction strategies, and support for environmental causes (Ahmed, Mubarik & Shahbaz, 2021). By adopting sustainable practices, banks can mitigate environmental risks, reduce their carbon footprint, and contribute to a healthier planet.
Stakeholder engagement is also central to effective CSR, emphasizing collaboration, dialogue, and mutual respect with all stakeholders (Belandres, 2016). This includes employees, customers, investors, regulators, suppliers, and local communities (Ali *et al*., 2023). DMBs can engage stakeholders through transparent communication, feedback mechanisms, social responsibility reports, and involvement in community development projects (Olowolaju& Adelola, 2020). By building trust and positive relationships, banks can enhance their reputation, attract investment, and foster long-term sustainability.

The evolution of CSR concepts has been influenced by scholars such as Carroll (1991), who proposed the CSR pyramid highlighting economic, legal, ethical, and philanthropic responsibilities, and Freeman (2010), who introduced the stakeholder theory emphasizing the importance of considering diverse stakeholder interests in business decision-making. These frameworks have shaped the understanding of CSR as a holistic approach that integrates social, environmental, and ethical considerations into corporate strategy and operations.

The Concept of Financial Performance

The performance of any business organization are usually measured by a number of factors which are both internal and external. These factors include sales turnover, calibre of management and ability to meet daily obligations of the business (Tikhonov & Zelentsova, 2021). Financial measurements, such as inventory levels or cash on hand, are frequently generated from or directly tied to the chart of accounts and can be seen in a company's profit or loss statement or statement of financial condition. Financial metrics have been used as the company’s measurement method. Double entry books of accounts kept by accountants served as a gauge and watchdog for the international commercial businesses operating during the period of discovery (Njeri, 2022).

Since the early 20th century, businesses have had access to information, thus they have recognised the value of reporting and analysing business unit performance to identify new capabilities for success in the marketplace (Tikhonov & Zelentsova, 2021). Traditional measurement control systems have come under increasing fire in the past ten years for being overly restricted and centred on financial metrics. The explanation for this is that the environment has changed since the invention of traditional measuring techniques (Evans, 2015).According to Zharfpeykan and Akroyd (2022), there are a number of measures that may be used to determine the financial success of an organization, such as growth and survival. The asset turnover level, earnings per share, creditor's term, gross profit margin, shareholder wealth, returns on capital employed, and profits and returns for shareholders are all taken into consideration.

The capacity of a company to create new resources from its daily activities over a certain period of time is measured by its financial performance. Cash flow from operations and net income are used to measure performance. Employee performance as a whole and financial performance are closely related. The commercial banks have demonstrated exceptional and noteworthy performance (Vision Reporter, 2010).

Measures of Financial Performance

Financial performance encompasses a range of key metrics, with Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) standing out as fundamental indicators of a company's profitability, efficiency, and value creation for shareholders (Brigham, 2016).

Return on Assets (ROA): ROA is a critical metric used to evaluate how effectively a company generates profits from its assets. It is calculated by dividing net income by average total assets and is expressed as a percentage. A higher ROA indicates that a company is utilizing its assets efficiently to generate earnings (Brigham, 2016). For DMBs in Nigeria, ROA is particularly important as it reflects the bank's ability to generate profits from its investment in assets such as loans, investments, and other financial instruments. A consistently high ROA suggests effective asset management and operational efficiency, which are key drivers of financial performance and long-term sustainability (Brigham, 2016).

Return on Equity (ROE): This is another vital metric that measures a company's profitability relative to shareholders' equity. It is calculated by dividing net income by average shareholders' equity and is also expressed as a percentage. ROE provides information on how well a company is generating returns for its shareholders' investments (Brigham, 2016). A higher ROE indicates efficient use of equity capital to generate profits, which is essential for attracting investors and enhancing shareholder value. For DMBs in Nigeria, ROE is a critical measure of financial performance, reflecting the bank's ability to deliver returns to its shareholders while maintaining a healthy capital structure (Brigham, 2016).

Earnings Per Share (EPS): This is a metric that assesses a company's profitability on a per-share basis. It is calculated by dividing net income by the total number of outstanding shares and represents the portion of earnings allocated to each share of common stock. EPS is an important indicator for investors as it helps them evaluate the company's profitability and potential for generating returns (Brigham, 2016). Higher EPS values indicate higher profitability per share, which is favourable for shareholders and can contribute to stock price appreciation and investor confidence. For DMBs in Nigeria, EPS is a key metric in evaluating the bank's earnings performance and its ability to create value for shareholders through dividends and capital appreciation (Brigham, 2016).

Effect of CSR expenditure of ROA

Numerous studies have been conducted in the literature on the impact of CSR spending on ROA, especially in relation to DMBs in Nigeria. While some research have revealed a negative or negligible association, others have discovered a positive link between

CSR expenditure and ROA. A study by Aigbovo and Ashafoke (2019) looked at the effect of CSR spending on Nigerian deposit money banks' financial results between 2005 and 2016. The study demonstrated a positive and substantial association between CSR expenditure and ROA using ROA as one of the financial performance parameters. According to the authors, investing in corporate social responsibility (CSR) may benefit a bank's brand, draw in new clients, and eventually boost its bottom line.

In a similar vein, Nwanne and Okonkwo (2019) looked into how CSR spending affected some Nigerian banks' bottom lines between 2008 and 2017. The study used return on assets (ROA) as a gauge of financial performance and discovered a strong and positive correlation between ROA and CSR spending. The author argued that CSR expenditure can contribute to long-term sustainability and profitability by enhancing a bank's image and building customer loyalty.

Matuszak and Różańska (2017), on the other hand, looked at the connection between Polish banks' financial performance and their CSR disclosure. An negligible correlation was discovered between CSR spending and ROA, which was one of the financial success metrics employed in the study. The authors suggested that the insignificant relationship could be attributed to the short-term nature of the study or the possibility that CSR expenditure may not directly impact financial performance.Another study by Bani-Khaled *et al*.(2021) investigated the relationship between CSR expenditures and performance in Jordanian commercial banks.The study used ROA as an indicator of financial performance and discovered a negative correlation between ROA and CSR spending. According to the authors, investing in CSR may be seen as an extra expense that temporarily lowers profitability.

Effect of CSR Expenditure on ROE

With differing conclusions, several studies have looked at the connection between CSR spending and ROE in the Nigerian banking industry. Odetayo, Adeyemi, and Sajuyigbe (2014) looked at the effect of CSR spending on the bottom line of a few Nigerian banks between 2006 and 2010. The study demonstrated a positive and substantial association between CSR expenditure and ROE using ROE as one of the financial performance criteria. The authors proposed that investing in corporate social responsibility (CSR) may improve a bank's standing with the public, draw in new business, and eventually boost profits to shareholders. In a similar vein, Amahalu (2017) looked at the relationship between CSR and the financial results of Nigerian listed deposit money banks between 2010 and 2016.The study demonstrated a positive and substantial association between CSR expenditure and ROE using ROE as one of the financial performance criteria. The author maintained that by improving a bank's reputation and cultivating client loyalty, which may result in increased returns for shareholders, CSR spending can support long-term sustainability and profitability.

Conversely, Bani-Khaled *et al*. (2021) proposed that CSR spending may be viewed as an extra expense that short-term lowers profitability and returns for shareholders. Tuhin (2014) looked at the impact of CSR spending on the financial health of Bangladeshi Islamic banks in another research. The study showed no significant correlation between CSR spending and ROE, using ROE as one of its financial success metrics. The study's short duration or the potentiality that CSR spending has no direct bearing on profits for shareholders and financial performance might be the reasons for the weak correlation, according to the authors.

Effect of CSR Expenditure on EPS

With differing degrees of success, several studies have looked at how CSR initiatives affect financial performance, particularly EPS. Some researchers argue that CSR expenditure can positively influence EPS by enhancing the company's reputation, attracting investors, and improving customer loyalty (Cheng *et al*., 2014). CSR initiatives such as environmental sustainability programs, community development projects, and ethical business practices can contribute to long-term value creation, leading to higher EPS over time (Porter & Kramer, 2011).

On the other hand, there is also evidence suggesting that CSR expenditure may not always lead to a significant improvement in EPS, especially in the short term. Cho *et al*. (2019) found that while CSR activities can enhance stakeholder relationships and brand image, they may also impose additional costs on firms, which could offset the benefits in terms of EPS growth. The relationship between CSR expenditure and EPS may be influenced by several factors, including the type of CSR activities, the industry backdrop, and the overall financial health of the firm (Cho *et al*., 2019).

According to Ali*et al*. (2023), investing in CSR initiatives such as financial literacy programs, sustainable banking practices, and community engagement can enhance the bank's reputation, strengthen customer relationships, and attract socially conscious investors. However, the financial impact of these initiatives on EPS may vary depending on factors such as the size of CSR expenditure, the alignment of CSR activities with business goals, and the ability to effectively communicate CSR efforts to stakeholders (Ali *et al*., 2019).

Theoretical Framework

The study used the legitimacy theory and the stakeholder theory to explain the connection between financial performance of DMBs in Nigeria and their commitment to corporate social responsibility.

Stakeholder Theory

According to the stakeholder theory of R. Edward Freeman (1984), organisations should take into account the interests of all parties involved when making decisions, including shareholders, workers, consumers, suppliers, the community, and the environment (Freeman &Dmytriyev, 2017).The theory posits that organizations do not operate in isolation; rather, they are part of a complex network of stakeholders who can affect or be affected by the organization's activities and decisions (Kujala *et al*., 2022). By engaging in corporate social responsibility (CSR) activities and addressing the concerns of various stakeholders, organizations can build positive relationships, enhance their reputation, and ultimately improve their financial performance (Mishra & Suar, 2010; Jamali & Karam, 2018).

Stakeholder theory provides several arguments supporting the application of CSR practices and the consideration of stakeholder interests. First, engaging with stakeholders and addressing their concerns through CSR initiatives can foster trust, loyalty, and support from these groups, contributing to long-term success and financial performance (Jamali & Karam, 2018). Second, CSR activities can enhance an organization's reputation and legitimacy, leading to increased customer loyalty, better relationships with suppliers and employees, and improved access to resources (Jamali & Karam, 2018). Third, addressing stakeholder concerns through CSR practices can help organizations anticipate and mitigate potential risks, such as regulatory changes, social activism, or environmental disasters (Kujala*et al*., 2022). Finally, by effectively managing stakeholder relationships through CSR initiatives, organizations can develop valuable intangible resources, such as knowledge, reputation, and social capital, contributing to a sustainable competitive advantage and improved financial performance (Latapí Agudelo, Jóhannsdóttir &Davídsdóttir, 2019).

Legitimacy Theory

Legitimacy theory posits that organizations must operate within the bounds and norms of the societies in which they operate to gain legitimacy and ensure their long-term survival (Suchman, 1995 as cited by Pizzi, Rosati & Venturelli, 2021). According to this theory, organizations are not only influenced by economic factors but also by societal expectations and norms stemming from legal requirements, ethical considerations, and cultural values (Christensen, Hail &Leuz, 2021). Organizations that fail to meet these societal expectations may face criticism, negative publicity, or sanctions, which can harm their legitimacy and long-term viability. By engaging in corporate social responsibility (CSR) activities, organizations can demonstrate their commitment to societal values and expectations, thereby enhancing their legitimacy and potentially improving their financial performance (Ali, Frynas& Mahmood, 2017).

Legitimacy theory provides several arguments supporting the application of CSR practices. First, CSR initiatives can help organizations fulfill their part of the social contract with society, demonstrating their commitment to societal well-being and earning stakeholder trust and support (Christensen, Hail &Leuz, 2021). Second, CSR activities can enhance an organization's reputation and improve relationships with stakeholders, such as customers, employees, and regulators, contributing to legitimacy and long-term success (Cho *et al*., 2019). Third, by aligning operations with societal expectations and addressing potential concerns, organizations can mitigate risks associated with non-compliance or negative public perception, protecting their legitimacy and financial performance (Christensen, Hail &Leuz, 2021). Finally, organizations that maintain legitimacy through CSR practices may find it easier to access critical resources like skilled labour, capital, and government support, which can contribute to their financial performance (Pizzi, Rosati & Venturelli, 2021).

Review of Empirical Literatures

The effect of CSR expenses on the financial performance of deposit money banks listed on the Nigeria Stock Exchange between 2011 and 2020 was examined by Mbonu and Amahalu (2022). Using ROA as the financial performance measure, they chose 13 of the 14 listed DMBs and utilised Corporate Donations, Occupational Health and Safety Costs, Training Costs, and Remediation Costs as CSR proxies. Through the use of Panel Least Square (PLS) Regression analysis and the Pearson Correlation Coefficient, their research revealed a substantial positive influence of CSR costs on ROA, indicating that more CSR initiatives might improve the financial performance of Nigerian banks.

Vásquez (2021) analyzed the influence of CSR policies on Peruvian banks' financial performance, focusing on financial inclusion and infrastructure investment. The study covered the period 2009-2018 and hypothesized a positive impact of CSR on financial monthly performance. Using multiple linear regression, Vásquez examined 12 major Peruvian banks and suggested the incorporation of CSR information disclosure policies in various sectors of Peru's economy.

The effect of CSR on United Bank of Africa (UBA) Plc's financial performance in Nigeria was examined by Aigbovo and Ashafoke (2019). They recommended organised CSR policies as a long-term business potential after finding no significant correlation between CSR and financial performance after analysing data from 1992 to 2014.

Wagle (2020) explored the relationship between CSR practices and financial performance in Nepalese commercial banks. Using ROA, ROE, and NI as dependent variables and CSR as independent, they found a significant negative correlation between CSR and ROA but an insignificant relationship with ROE and NI, highlighting the complexity of CSR's impact on financial metrics in emerging economies.

The performance of DMBs in Nigeria as well as CSR were investigated by Innocent *et al*. (2019). An ex-post facto study strategy was implemented, and ten DMBs were sampled. For a period of eleven years (2007-2017), information on CSR expenditures and earnings after tax was collected from the DMBs' financial statements. The Kao Cointegration analysis, multiple regression random effects approach, and panel unit root test were applied. The results showed that DMBs' profit after taxes is directly and significantly impacted by corporate social responsibility. Long-term profitability of commercial banks is also positively impacted by greater spending on corporate social responsibility.

Belal, Abdelsalam, and Nizamee (2015) performed a research in Bangladesh that included a critical analysis of the performance and ethics of an Islamic bank. This study, which examined the years 1983–2010, using regression analysis and content analysis to examine CSR and financial success. The findings indicate that banks with higher CSR ratings have lower ROA and ROE, however the difference between the two is not statistically significant.

In 2014, Mallin, Farag, and Ow-Yong carried out a study on the relationship between financial success and corporate social responsibility in China's banking sector. The data in this article comes from 162 banks spread across 22 nations. The findings demonstrate a favourable correlation between corporate social responsibility and financial success and a negative correlation with non-performing loans.

In their 2014 study, Rahman and Rashid examined the connection between financial success and corporate social responsibility using Yamuna Bank Limited's experience in Bangladesh. The focus of this study is on quantitative research and all facts pertaining to spending, investment, and cost. According to this analysis, YBL Bangladesh's profitability did not significantly benefit from CSR between 2007 and 2012.

RESEARCH METHODOLOGY

Research Design

The research design adopted for this study is post-facto which involve the use of secondary data in nature it involves investigating the relationship between two or more variables with the hope of establishing whether effect or lack of effect exist between the variables under study. The rationale behind adopting the design is because the study is after finding whether as a result of expenditure on CSR, financial performance of the Banks significantly improves or not.

Population of the Study

The population of this study is made of the 25 quoted DMBs on the Nigerian Exchange Group (NGX).

Sample and Sampling Technique

Out of the 25 DMBs listed in the NGX, only 8 of the DMBs with up-to-date financial reports from 2014 to 2023 were purposively selected.These include: First Bank of Nigeria (FBN), United Bank for Africa (UBA), Guaranty Trust Bank (GTB), Zenith Bank, Union Bank, Access Bank, Fidelity Bank, and First City Monument Bank (FCMB)

Method of Data Collection

The data used for this study were secondary data. The data were obtained from audited and up to date financial statements and reports of the sampled banks and the publications of the NGX.

Measurement of variables

The variables used in this study are presented in Table 1.

Table1: Variable Measurement

Variable	Measurement	A priori expectation
Dependent variable		
Return on Equity (ROE)	ROE is the ratio of Net Income after Taxes divided by Total Equity Capital	
Return on Asset (ROA)	ROA is the ratio of Annual Net Income divided by Average total Assets	
Earnings per share (EPS)	EPS is calculated as a company's profit divided by the outstanding shares of its common stock	
Independent variables		
Corporate Social Responsibility Expenditures (CSR)	This was calculated as donations, charities and events sponsorships costs for the period covered (2014 – 2023)	Positive (+)
Firm size (FSZ)	FSZ is measured as the natural logarithm of the book value of total assets of a firm	Positive (+)

Method of Data Analysis

This study uses panel data Ordinary Least Square (OLS) regression technique in analysing the data. In doing this, computer package of E-views version 12 was used. The results of the analysis were extracted and presented in tabular form.

Model Specification

The following regression models were from Innocent *et al*. (2019) and Bande (2022) and improved upon in this study (in their implicit and explicit forms) to capture the variables of the study:

$ROA_{it} = F(CSREXP_{it}, FZ_{it})$………………………………………………………… (1)
$ROA_{it} = \beta_0 + \beta_1 CSREXP_{it} + \beta_2 FZ_{it} + e_{it}$…………………………………………… (2)
$ROE_{it} = F(CSREXP_{it}, FZ_{it})$………………………………………………………… (3)
$ROE_{it} = \beta_0 + \beta_1 CSREXP_{it} + \beta_2 FZ_{it} + e_{it}$…………………………………………… (4)
$EPS_{it} = F(CSREXP_{it}, FZ_{it})$………………………………………………………… (5)
$EPS_{it} = \beta_0 + \beta_1 CSREXP_{it} + \beta_2 FZ_{it} + e_{it}$…………………………………………… (6)

Note that Firm Size was introduced in the modelling of the variables as a control variable.

Where:

ROA = Return on Assets

ROE = Return on Equity

EPS = Earnings Per Share
CSREXP = Corporate Social Responsibility Expenditures
FSZ = Firm Size
β_1 - β_2 = Slope of the Regression Line
β_0= Constant
e = error term
i = cross sectional dimension
t = time series dimension

RESULTS AND DISCUSSIONS

Descriptive Statistics

The descriptive statistics presented in Table 2 shows the variables used in assessing the effect of CSR practices on financial performance of deposit money banks (DMBs) in Nigeria from 2012 to 2023. The statistics reveal a wide range of CSR expenditures among DMBs, with a mean expenditure of ₦2.03 billion and a substantial standard deviation of ₦1.87 billion. This indicates significant variability in how much banks are investing in CSR initiatives, which could include activities such as community development projects, environmental sustainability efforts, and social welfare programs. The positive skewness in CSR expenditures suggests that while most DMBs may have relatively moderate spending in this area, there are a few banks with considerably higher expenditure levels. These could be banks that prioritize CSR as a core part of their business strategy, aiming to enhance their reputation, stakeholder relationships, and overall social impact.

On to the financial performance metrics, the statistics for ROAand ROE indicate considerable variations in profitability levels among DMBs. The mean ROA of 43.50% and mean ROE of 306.47% highlight the potential for high returns in the Nigerian banking sector. However, the highly positive skewness and leptokurtic distributions for both ROA and ROE indicate that there are banks achieving exceptionally high profitability, possibly due to unique market positions, effective risk management, or innovative business strategies. On the other hand, the statistics for EPS and Firm Size show relatively less variability. EPS, which reflects profitability on a per-share basis, has a moderate positive skewness and is moderately leptokurtic, indicating some deviation from a normal distribution but not as pronounced as ROA and ROE. Firm Size, likely measured by market capitalization or total assets, exhibits a narrow range with a distribution close to normal, suggesting a more stable pattern in terms of bank size within the industry.

Table 2: Descriptive statistics

Statistics	CSREXP	ROA	ROE	EPS	FSZ
Mean	2.03E+09	0.434982	3.064732	2.804015	6.525416
Median	1.25E+09	0.015100	0.136696	2.305489	6.608826
Maximum	7.80E+09	3.811896	26.41828	7.846613	7.008861
Minimum	1.00E+08	0.004400	0.032309	0.444208	6.063933
Std. Dev.	1.87E+09	1.114308	7.815507	2.335959	0.277931
Skewness	1.119923	2.325879	2.302739	0.822770	-0.315309
Kurtosis	3.406404	6.517957	6.371110	2.237878	1.633432
Jarque-Bera	20.72829	136.0595	130.2992	13.15454	9.060753
Probability	0.000032	0.000000	0.000000	0.001392	0.010777

Sum	1.95E+11	41.75829	294.2143	269.1855	626.4400
Sum Sq. Dev.	3.32E+20	117.9598	5802.805	518.3870	7.338333
Observations	96	96	96	96	96

Effect of CSR expenditure of ROA of DMBs in Nigeria

Hausman Test

The result in Table 3 shows the Hausman Test, focusing on the effect of CSR expenditure on ROA in Nigerian DMBs from 2012 to 2023. The result presented shows that at 5% level of significance, the chi-square statistic is 0.373611 and p-value >5% which is insignificant. This non-significance of the p-value shows that Hausman test favours the interpretation of the random effect model.

Table 3: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section and period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.373611	2	0.8296

OLS Panel regression analysis

The OLS panel regression analysis results presented in Table 4 shows the effect of CSR expenditure on financial performance, as measured by ROA, for DMBs in Nigeria over the period of 2012 to 2023. The analysis employs a two-way random effects model, accounting for both cross-sectional and time-series variations in the data.

The result demonstrated that, at the 5% significance level, expenditure on CSR had a statistically significant negative effect on ROA. Specifically, the coefficient of -0.049728 for the CSR expenditure variable suggests that a one-unit increase in CSR expenditure leads to a decrease in ROA by approximately 0.05 units, holding other factors constant. The t-statistic of -2.096889 and the associated p-value of 0.0387, both of which are below the 5% significance level, corroborate this finding. The present study's observation of a negative relationship between ROA and CSR expenditures is in line with earlier research conducted by Cho *et al*. (2019) and Lys *et al*. (2015), which suggested that CSR initiatives might potentially result in supplementary expenses for companies, hence adversely affecting their short-term profitability.

CSR initiatives, such as community development programs, environmental protection measures, and employee welfare schemes, often require substantial financial resources, which may initially strain a firm's profitability. Additionally, Olowolaju and Adelola (2020) argued that CSR activities may initially incur additional costs, potentially affecting short-term financial performance. They contend that resources allocated to CSR initiatives could be better utilized to enhance profitability and shareholder value. This perspective often stems from the traditional view that the primary responsibility of businesses is to maximize profits within the confines of legal and ethical boundaries.

Furthermore, the R^2 value of 0.480162 indicates that the independent variables, including CSR expenditure and firm size, explain approximately 48% of the variation in ROA. While this explanatory power is significant, it also suggests that other factors not included in the model may influence the financial performance of DMBs in Nigeria.

Test of hypothesis ($H0_1$)

Since CSR expenditures (coefficient = -0.049728, p<5%) had a statistically significant effect on ROA of DMBs, therefore, the null hypothesis which stated that there is no significant effect of CSR expenditures on ROA of DMBs in Nigeria is hereby rejected.

Table 4: OLS Panel regression analysis

Dependent Variable: ROA				
Method: Panel EGLS (Two-way random effects)				
Date: 04/05/24 Time: 12:50				
Sample: 2012 2023				
Periods included: 12				
Cross-sections included: 8				
Total panel (balanced) observations: 96				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNCSREXP	-0.049728**	0.023715	-2.096889	0.0387
FSZ	-0.079398	0.193562	-0.410195	0.6826
C	1.994847	1.192678	1.672579	0.0978
	Effects Specification			
			S.D.	Rho
Cross-section random			1.152951	0.9865
Period random			0.000000	0.0000
Idiosyncratic random			0.135118	0.0135
	Weighted Statistics			
R-squared	0.480162	Mean dependent var		0.014707
Adjusted R-squared	0.281123	S.D. dependent var		0.135262
S.E. of regression	0.131967	Sum squared resid		1.619628
F-statistic	3.401383	Durbin-Watson stat		1.216157
Prob(F-statistic)	0.037526			
	Unweighted Statistics			
R-squared	0.108019	Mean dependent var		0.434982
Sum squared resid	120.4144	Durbin-Watson stat		1.002907

Where ** is significant at 5%

Effect of CSR Expenditure on ROE of DMBs in Nigeria

Hausman Test

The Hausman Test result on the effect of CSR expenditures on ROE from 2012 to 2023 is shown in Table 5. The results have shown that the chi-square statistic is 0.207617 and the p-value is >5%, both of which are insignificant at the 5% level of significance. The p-value's non-significance indicates that the Hausman test supports the random effect model interpretation.

Table 5: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section and period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.207617	2	0.9014

OLS panel regression analysis

The effect of CSR expenditure on financial performanceas determined by ROE for DMBs in Nigeriais examined using the OLS panel regression analysis shown in Table 6 for the years 2012–2023. The result demonstrated that, at the 5% significance level, CSR expenditure had a statistically significant negative effect on ROE. In particular, the coefficient of -0.261405 for the CSR expenditure variable indicates that, when all other variables are held constant, an increase of one unit in CSR spending results in a drop of about 0.26 units in ROE. The t-statistic of -2.032173 and the associated p-value of 0.0450, both of which are below the 5% significance level, corroborate this finding.

The results from Table 4, which showed that CSR expenditures had a negative and significant effect on ROA, are consistent with the study's finding that there is a negative association between CSR expenditure and ROE. These findings provide more credence to the claim that CSR initiatives may come with extra expenses for businesses, which can have a short-term detrimental effect on their profitability and shareholder returns (Cho *et al*., 2019; Lys *et al*., 2015). Olowolaju and Adelola (2020) assert that because ROE shows investors' and shareholders' return on equity investment in the firm, it is an important indicator.The inverse relationship between CSR expenditures and ROE implies that, at least initially, investors may view CSR initiatives as a drain on their profits. This view may have an impact on a company's capacity to draw in and keep investors as well as its overall market value.

Moreover, the independent variables (CSR expenditure and firm size) explained about 58% of the variation in ROE, according to the model's R^2 value of 0.582275. Although this explanatory power is substantial, it also implies that the financial performance of deposit money institutions in Nigeria might be impacted by other factors that are not taken into account by the model.

Test of hypothesis ($H0_2$)

Since CSR expenditures (coefficient = -0.261405, p<5%) had a statistically significant effect on ROE of DMBs, therefore, the null hypothesis which stated that there is no significant effect of CSR expenditures on ROE of DMBs in Nigeria is hereby rejected.

Table 6: OLS Panel regression analysis

Dependent Variable: ROE				
Method: Panel EGLS (Two-way random effects)				
Date: 04/05/24 Time: 12:56				
Sample: 2012 2023				
Periods included: 12				
Cross-sections included: 8				
Total panel (balanced) observations: 96				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNCSREXP	-0.261405**	0.128633	-2.032173	0.0450
FSZ	-0.205669	1.052225	-0.195461	0.8455
C	9.882983	6.719102	1.470878	0.1447
	Effects Specification			
			S.D.	Rho
Cross-section random			8.099770	0.9918

Period random		0.000000	0.0000
Idiosyncratic random		0.734681	0.0082
	Weighted Statistics		
R-squared	0.582275	Mean dependent var	0.080219
Adjusted R-squared	0.380423	S.D. dependent var	0.729604
S.E. of regression	0.715598	Sum squared resid	47.62355
F-statistic	4.877472	Durbin-Watson stat	1.236754
Prob(F-statistic)	0.008601		
	Unweighted Statistics		
R-squared	0.159293	Mean dependent var	3.064732
Sum squared resid	5856.731	Durbin-Watson stat	1.001925

Where ** is significant at 5%

Effect of CSR Expenditure on EPS of DMBs in Nigeria

Hausman Test

The Hausman Test result on the effect of CSR expenditures on the EPS of DMBs in Nigeria is displayed in Table 7. The result demonstrated that the chi-square statistic is 0.120005 and the p-value is >5%, both of which are insignificant at the 5% level of significance. The p-value's non-significance indicates that the Hausman test supports the random effect model interpretation.

Table 7: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section and period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.120005	2	0.9418

OLS panel regression analysis

The result presented in Table 8 shows the effect of CSR expenditure on financial performance, as measured by EPS, for DMBs in Nigeria over the period of 2012 to 2023. In contrast to the findings in Tables 4 and 6, where CSR expenditure was found to have a negative and significant effect on ROAand ROE, respectively, the results in Table 8 suggest that CSR expenditure does not have a statistically significant effect on EPS. Specifically, the coefficient of 0.114814 for the CSR expenditure variable indicates a positive relationship with EPS, but the t-statistic of 1.349729 and the corresponding p-value of 0.1804 imply that this effect is not statistically significant at the conventional levels.

Since EPS shows how much of a company's profit is distributed to each outstanding share of common stock, it is a commonly used indicator for assessing a company's profitability from the viewpoint of shareholders. The fact that CSR expenditure and EPS in this study did not significantly correlate shows that the short-term financial impact of CSR efforts on profits per share may be less noticeable or more challenging to identify.

The positive coefficient suggests that CSR practices can improve a firm's reputation and brand image, which can translate into increased customer loyalty, better access to talent, and improved relationships with regulators and local communities (Cheng *et al.*, 2014). However, the results show that CSR expenditure does not significantly affect EPS in the short term. Furthermore, CSR programmes emphasising social responsibility and environmental sustainability can help manage risks over the long term and provide doors for development and innovation (Eccles *et al*., 2014; Porter & Kramer, 2011).

With an R^2 value of 0.318106, the independent variablessuch as firm size and CSR expenditureexplain almost 32% of the variation in EPS. Although this explanatory power is significant it also implies that the financial performance of deposit money institutions in Nigeria might be impacted by other factors that are not taken into account by the model.

Test of hypothesis ($H0_3$)

Since CSR expenditures (coefficient = -0.114814, p>5%) had no statistically significant effect on EPS of DMBs, therefore, the null hypothesis which stated that there is no significant effect of CSR expenditures on EPS of DMBs in Nigeria is hereby accepted.

Table 8: OLS Panel regression analysis

Dependent Variable: EPS				
Method: Panel EGLS (Two-way random effects)				
Date: 04/05/24 Time: 12:57				
Sample: 2012 2023				
Periods included: 12				
Cross-sections included: 8				
Total panel (balanced) observations: 96				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNCSREXP	0.114814	0.085065	1.349729	0.1804
FSZ	3.498678***	0.686782	5.094305	0.0000
C	-22.43156	4.069949	-5.511509	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			2.336765	0.9604
Period random			0.000000	0.0000
Idiosyncratic random			0.474601	0.0396
	Weighted Statistics			
R-squared	0.318106	Mean dependent var		0.164119
Adjusted R-squared	0.303441	S.D. dependent var		0.567946
S.E. of regression	0.474008	Sum squared resid		20.89556
F-statistic	21.69239	Durbin-Watson stat		1.550920
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.312209	Mean dependent var		2.804015
Sum squared resid	356.5421	Durbin-Watson stat		1.032287

Where *** is significant at 1%

CONCLUSION AND RECOMMENDATIONS

This study examines the complex link between corporate social responsibility (CSR) policies and financial performance in Nigerian deposit money banks (DMBs) between 2012 and 2023. No substantial effect is shown on earnings per share (EPS), despite the fact that CSR spending has a large negative impact on both return on equity (ROE) and return on assets (ROA), suggesting that more CSR spending is associated with worse short-term financial performance. These results point to the need for DMBs to deliberately match business goals with CSR programmes, with a focus on effectiveness, stakeholder

involvement, and long-term thinking. By continuously monitoring and evaluating the effectiveness of CSR programs, banks can navigate the delicate balance between social responsibility and financial viability, leveraging CSR practices as a tool for sustainable growth and value creation.
Based on these conclusions, the following recommendations can be made:

i. DMBs should align their CSR initiatives more strategically with their business goals and financial objectives. This involves carefully assessing the potential costs and benefits of CSR activities to ensure they contribute positively to overall performance.

ii. DMBs should emphasize efficiency and effectiveness in CSR spending by focusing on initiatives that create tangible value for stakeholders while minimizing costs. This could include partnerships with local communities, environmental sustainability efforts, and employee welfare programs that yield measurable returns.

iii. DMBs should engage with stakeholders, including investors, regulators, customers, and local communities, to communicate the rationale and outcomes of CSR initiatives. Building trust and transparency around CSR practices can help mitigate any negative perceptions regarding their impact on financial performance.

iv. DMBs should implement robust monitoring and evaluation mechanisms to assess the effectiveness of CSR programs in achieving desired social and financial outcomes. Regular reviews and adjustments based on performance data can enhance the overall impact of CSR initiatives.

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