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## Article

# Impact of corporate social responsibility on financial performance

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# Impact of Corporate Social Responsibility on Financial Performance: Evidence from Listed Banks in Nigeria

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*The major purpose of the study is to examine the Impact of CSR on Earning Per Share (EPS), Return On Capital Employed (ROCE) and Dividend Per Share (DPS) of listed banks in Nigeria. It is believed by the researchers that this study will be of immense use to the government, financial institutions and the general public. The study covered the period 2010-2014. The Impact of EPS, ROCE and DPS was tested on CSR. Simple regression analysis was employed by the researchers in testing the data collected from the annual published financial statement of the selected banks. The regression result showed that EPS and DPS have negative significant relationship with CSR while ROCE has a positive significant relationship with CSR. The research recommends that the government should by way of legislation through regulatory authorities, compel financial institutions to embark actively in CSR, also CSR should be seen as an investment and reported as such in the financial statements of financial institutions.*

**Keywords:** Corporate Social Responsibility, Earnings Per Share, Return on Capital Employed, Dividend Per Share

**JEL Classification:** G20, M14

## 1. Introduction

As the world continues to experience global economic recovery, financial institutions work with policy makers and others in the private sector to restore growth and build public goodwill going forward. The issue of corporate social responsibility (CSR) and its impact on financial performance is crucially relevant now, more than ever.

According to Cornett, Erhemjamts and Tehramian (2014) the “after effects of the financial crisis and the slow economic recovery have resulted in generated skepticism and constant scrutiny of commercial banks’ motives and actions”. They further stated that consumers want tangible actions that demonstrate that banks have their best interest at heart.

Banks and other financial institutions are at the frontline of curbing financial crisis in any economy and one of the things that strengthen the financial performance of banks is corporate social responsibility. As

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evidenced in developed economies, particularly in August 2012, Bank of America released its second annual corporate social responsibility report as it highlights a number of initiatives including \$1.5trillion community development lending and investing goal, \$2billion philanthropic investment goal, \$50billion environmental business goal each for a ten year period.

Banks belong to the publicly owned financial institutions established solely for profit making. In Nigeria, even though banks are controlled by the government regulatory authorities, they engage in a lot of activities, and offer a range of products aimed at profit making. But there is a lack of commitment in corporate social responsibility.

According to Business for Social Responsibility (BSR), Corporate Social Responsibility is defined as achieving commercial success in ways that honor ethical values and respect of the people, communities and the natural environment. McWilliams and Siegal (2001) describe corporate social responsibility “as actions that appear to further some social good, beyond the interest of the firm and that which is required by law”.

Various empirical studies exist in literature on corporate social responsibility in developed economies and are mixed such as Griffin and Mahon (2007), Margolis and Walsh (2003), Gracia-Castro, Arino and Canel (2010).

Cornett et al.'s (2014) study on corporate social responsibility and its impact on financial performance focused on the investigation of U. S commercial banks. The authors found that the largest banks consistently have higher corporate social responsibility strength and this appears rewarding as it has a positive and significant impact on their Return on Asset and Return on Equity.

In a similar study, Muryaza, Akhtar, Ijaz and Sadiga (2014) carried out a study on the impact of corporate social responsibility on firm financial performance in Pakistan and found that a positive relationship exists between corporate social responsibility and financial performance (Van de Velde et al., 2005). The study further suggests that if firms expand its using on the social exercises it can enhance picture in the clients' brain and assist them to attain high benefits.

In Nigeria, the gap is yet to be filled on the impact of corporate social responsibility on financial performance of listed banks such need necessitate this study (Van de Velde, et al., 2005).

### **1.1. Statement of the Problem**

Over the decades, corporate firms have ignored and disregarded corporate social responsibility, arguing that there are no laid down principles for allocating its cost whether as an investment or welfare to the society (Kanwal, Khanam, Nasreen and Hameed, 2013). The involvement of any corporation in corporate social responsibility is a function of the culture of the organization, size or the stakeholders demand (Kanwal et al, 2013)

In a developing nation like ours, there are no organized pressure group and consumer awareness to influence corporate behavior (Ebere, Madugba and Okpe, 2014). Most corporate organizations including banks demonstrate biased attitude on corporate social responsibility and the society also especially in rural areas, as a lack of awareness of corporate responsibilities. Most managers of financial institutions in Nigeria lack favorable attitude of corporate social responsibility. According to Turban and Greening (1997) as cited in Tsoutsoura (2004) companies perceived to have a strong corporate social responsibility commitment often exhibit a heightened ability to attract and keep employees, which leads to a lower turnover, recruitment and training costs. Employees often use involvement in corporate social responsibility practices to examine and determine whether their personal values conflict with those of the business they work for (Tsoutsoura, 2004). A lot of corporate financial institutions exist without much impact on the society on the ground that it does not have a positive impact on their financial performance. This has become a worrisome aspect and needs urgent attention; hence this study aims to find out whether corporate social responsibility has an impact on the financial performance of listed banks in Nigeria.

### **1.2. Purpose of the Study**

The purpose of this study is to find out the impact (if any) of corporate social responsibility on the financial performance of listed banks in Nigeria with the following specific objectives:

- To determine the impact of corporate social responsibility on return on capital employed of listed banks in Nigeria.
- To investigate the impact of corporate social responsibility on earning per share of listed banks in Nigeria.
- To determine the impact of corporate social responsibility on dividend per share of listed banks in Nigeria.

### 1.3. Research Questions

- Q1. To what extent does corporate social responsibility impact the Return on Capital Employed of listed banks in Nigeria?
- Q2. What is the impact of corporate social responsibility on earning per share of listed banks in Nigeria?
- Q3. Is there any relationship between corporate social responsibility and dividend per share of listed banks in Nigeria?

### 1.4. Research Hypotheses

- H<sub>01</sub>. There is no significant relationship between corporate social responsibility and Return on Capital employed of listed banks in Nigeria.
- H<sub>02</sub>. There is no significant relationship between corporate social responsibility and earnings per share of listed banks in Nigeria.
- H<sub>03</sub>. There is no significant relationship between corporate social responsibility and dividend per share of listed banks in Nigeria.

## 2. Review of Related Literature

### 2.1. Concept of Corporate Social Responsibility

Studies on corporate social responsibility commenced with Boroen who in 1953 issued a paper on “social responsibility of businessmen”. Other researchers that followed suit were Davis (1960), Cochran and Wood (1984), Carroll (1979), since then, many studies have been conducted on corporate social responsibility.

According to Freeman (1997) corporate social responsibility “is an action which the firm chooses to take, that substantially affects an identifiable social stakeholder’s welfare”. Tsoutsoura (2004) opined that a socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirement and contribute to the welfare of its key stakeholders. Corporate social responsibility is an entire set of policies, practices and programs that are integrated into business operations supply chain and decision making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, government, human rights, the market place as well as the workplace.

Corporations employ different means in committing to corporate social responsibility depending on the policies, company size and of course the particular industry involved, the firms’ culture, stakeholders demand, and how historical progressive the company is in engaging corporate social responsibility is always put into consideration. Some of the means in which corporations get involved in corporate responsibility included and not limited to:

- a. *Donations and gifts*: This implies transferring the usufructs of someone to any other person or institution. It is a gift offered by a physical or a legal person for charitable purpose and for the benefit of the society. This may of course come in form of cash offering, services, clothing, toys, food, vehicle etc. Donations also include emergency relief and development support or medical needs like donation of blood and transplant. The goods offered as charity is called gift in kind. The institution that provide gift called donor and the individual or any institution who accepts the gift called done (Igbal et al, 2013 as cited by Malik and Nadeem, 2014).
- b. *Health care services*: The financial institutions can bear the cost of their employee health treatments as well as that of other people in the community where they operate. They can also build and maintain Hospitals within the community where they exist.
- c. *Education*: Financial institutions can give scholarships both for families of their employees and other people who cannot afford to pay their tuition fees. In addition, they can also grant their employees room for in-service training, which is a way of not only empowering their workers but also increase their mental ability.
- d. *Road construction/maintenance*: In addition, financial institutions can embark on road construction and maintenance in the community in which it exist, this goes a long way to create sense of belonging to the community and of course create a positive impact on the community.
- e. *Youth empowerment programs*: This is simply any program designed by the banks to empower the youth of the host community. This helps to boast and portrays image of the bank.

### Benefits of corporate social responsibility

- a. *Enhanced brand image and reputation*: Tsoutsoural (2004) posit that customers are often drawn to brands and companies with good reputation in corporate social responsibility issues. Good reputation also

increases the firms' ability to attract capital and trading partners. However, according to him, reputation is hard to measure and quantify.

b. *Less risk of negative rare events*: Negative rare events which could determine the activities or productive activities of the company may be control and taken care off through involvement in corporate social responsibility. Such as erosion, earthquake etc.

c. *Increased ability to attract and retain employees*: Companies perceived to have strong corporate social responsibility usually have an increased strength to attract and retain employee and this leads to reduction in labor turnover, recruitment and training costs (Turban and Greening, 1997 as cited by Tsoutsoura, 2004).

### **Classification of corporate social responsibility risk**

According to Tsoutsoura (2004) risk associated with corporate social responsibility may be grouped as follows:

a. *Corporate governance*: Companies engaged in corporate social responsibility principles are more transparent and have less risk of bribery and corruption. This is because they protect not only the shareholders interest but also that of stakeholders.

b. *Environmental aspect*: To control these risks, they implement stricter and more costly quality and environmental control measures, as it helps them to run less risk of having to recall defective productions and pay heavy fines for excessive polluting.

c. *Socially aspect*: This arises from waste that could cause damage to the reputation of the firm.

d. *Financial Performance*: The goal of financial management is to maximized investors economic welfare as reflected by management performance. Organizations aim at maximizing shareholders' wealth and generate enough profit to continue the business and to grow higher in future. Suffice to say that performance of firms is affected by multiple external and internal factors.

The external factors include market preferences and perceptions, country rules and regulations, and economy of the country. The market and laws are same for similar businesses but different across industries, while internal factors are fundamental variables which are specific to firms such as Return On equity (ROE), Earning per Share (EPS) Return on Capital Employed, (ROCE), Market value per share (MVPS), Net Assets Value per share (NAVPS) Liquidity Ratio (LR) etc.

The financial performance variables that will be considered in this study are: Return on capital employed, Earnings per share and Dividend per share. Also Bank age as a control variable will be considered.

#### **• Return on Capital Employed (ROCE)**

Weetman (2003) opines that "ROCE measures the performance of a company as a whole in using all sources of long term finance". It is an improvement over EPS as it links the returns generated to the capital (Irala, 2005) since company's aim is to increase profits, maximum ROCE shows that the company has been able to improve efficiency in the use of funds and capital. ROCE seeks to ascertain the level of profit made by a firm as a going concern (Emekaekwue, 2002). According to him, ROCE is calculated thus:

$$\text{ROCE} = (\text{Profit before interest and taxes} - \text{Income from external investment}) / (\text{Share capital} + \text{debt} + \text{reserve} - \text{External Investment})$$

#### **• Earnings Per Share (EPS)**

This is the portion of a company's profit allocated to each outstanding share of common stock. Irala (2005) opined that it is a measure of company's per share performance. Earnings per share measures that amount of earnings that is attributed to one share (Emekewe, 2002). Suffice to say that EPS is a carefully scrutinizing metric that is often used as a barometer to gauge a company's profitability per unit of shareholder ownership hence; it is a key driver of share price. Sawir (2001) stated that "EPS is a ratio used to determine how much net income per share". EPS does not include the cost of capital (debt) for the use of debt will lead to a change in earning per share (EPS) and also changes in the risk as these two factors will affect the company's stock price (Brigham and Houston, 2006). EPS can be calculated as:

$$\text{EPS} = (\text{Profit after tax} - \text{preference dividend}) / \text{No of ordinary share capital in issue}$$

#### **• Dividend Per Share (DPS)**

This is the sum of declared dividend for every ordinary share issued. Dividend per share is the total dividend paid out over an entire year (including interim dividend but not including special dividends) divided by the number of outstanding ordinary shares Issued. It is the sum of declared dividend for every ordinary share issued. It is an accounting ratio used to evaluate the total number of dividend declared for every share of issued stock. The issued stock taken into account is common stock. Declared dividends are the portion of the

company's profit that is paid out to shareholders. However, declared dividends are not equivalent of paid dividends. The amount that is not paid to shareholders is considered retain earnings. In a nutshell, dividend per share is important because it shows returns to the shareholders. It can be calculated thus:

$$DPS = (D - SD) / S$$

where D = sum of dividend over a period (usually one year)

SD = special, one time dividends

S = shares outstanding for the period

## 2.2. Theoretical Framework

The positive accounting theory identifies firm (organization and company) as means of codifying contracts which are essential in order to get self-seeking individuals to agree and co-operate. Walts and Zimmerman (1986) as cited in Ebere et al (2014) holds the opinion that the focus of positive accounting theory is to describe, explain and predict accounting practice of managers. In order to identify which firm publishes certain information like corporate disclosure.

This theory will be adopted in this study because it mandates firm to disclose corporate responsibilities even though it never stated how or the manner in which it should be disclosed.

## 2.3. Empirical Review

Tsoutsoura (2004) carried out a study on corporate social responsibility and financial performance an 500 S&P firms covering a period of five years between 1996 –2000 in California. The relationship was tested using empirical methods, the results indicated that the sign of the relationship is positive and statistically significant; supporting the view (Waddock and Graes, 1997, McGuire, Sundgreen and Scheweis, 1998, Auperle, Carroll and Hatfield, 1985) that socially responsible corporate performance can be associated with a series of bottom-line benefits.

Kanwal, Khanam, Nasreem and Hameed (2013), Malik and Nadeem (2004) investigated the impact of corporate social responsibility on the firm's financial performance in Pakistan. The study covered a period of five years 2008 – 2012 on 15 companies listed in Karachi stock exchange using correlation analysis, the result showed that there is a considerable positive relationship between corporate social responsibility and financial performance of the selected firms. The authors, therefore, recommend that companies should embark on corporate social responsibility.

Cornett, Erhemjamts and Fehranian (2014) investigate corporate social responsibility and its impact on financial performance: Investigation of U. S commercial banks. Their study covered a 7 years period 2003 – 2009, and ordinary least square was used to analyze the data collected from published materials and the result showed a positive relation between corporate social responsibility and financial performance.

Igbal, Ahmad, Hamad, Bashir and Sattar (2014) investigated corporate social responsibility and its possible impact on firms' financial performance in banking sector of Pakistan, the challenge was to identify the impact of disclosure of CSR on firms' profit margin and EPS. The study covered a 7 years period from 2005 – 2011. The study utilized secondary data extracted from the annual published account of banks in Pakistan. The study employed simple regression in analyzing the data. The study used donation as component of CSR as Independent variable and Net profit margin and EPS are dependent variables. The result of the study showed that there is a positive significant relationship between CSR and financial performance of the firms, and it was recommended that firms should have ISR policy that should reviews periodically and implementation policy and such should be approved by the Board of Governors.

Malik and Nadeem (2014) carried out an investigation on impact of corporate social responsibility on financial performance of banks in Pakistan; the purpose of the study was to find out if CSR impacts on financial performance. The study covered a period of five years which spanned from 2008 – 2012. Regression analysis was utilized in analyzing the data gotten from published financial statements of the banks. The study used CSR as Independent variable while EPS, ROA, ROE where use as dependent variables. The study find out that there is lack of CSR in Pakistan and the regression model showed a positive between profitability and Net profit and CSR practices. The study recommended that banks in Pakistan should embark on CSR as it impacts on their financial performance.

## 3. Methodology

This study will utilize the ex-post facto research design. Secondary data used for analysis covered five years period (2010 – 2014) and comprises of corporate responsibility, return on capital employed, earning per share and dividend per share as contained in the published financial statements of the selected banks in Nigeria.

The data was analyzed with SPSS 20.0. Simple regression was used to determine the impact of corporate social responsibility on financial performance (Van de Velde, et al., 2005) of listed banks in Nigeria. Corporate donations and charitable served as proxies for corporate social responsibility, while Return on capital employed, Earning per share and Dividend per share served as proxies for financial performance.

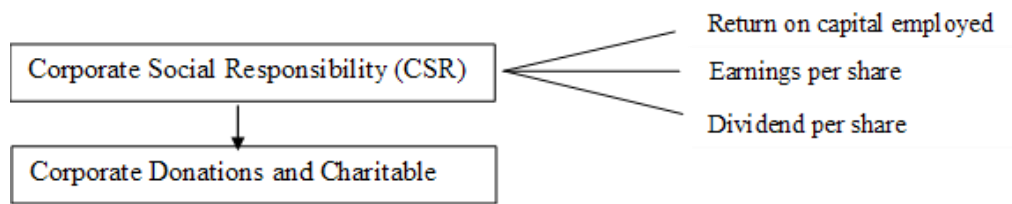


Figure 1. Conceptual model

### Model specification

To attain the objective of this study, the following functional models were formulated:

Model 1:

$$ROCE = f(CSR)$$

$$ROCE = \beta_0 + \beta_1 CSR + \mu_1$$

Model 2:

$$EPS = f(CSR)$$

$$EPS = \beta_2 + \beta_3 CSR + \mu_2$$

Model 3:

$$DPS = f(CSR)$$

$$DPS = \beta_4 + \beta_5 CSR + \mu_3$$

where ROCE = Return on Capital Employed

EPS = Earnings per Share

DPS = Dividend per Share

$\beta_0, \beta_2, \beta_4$  = Constant

$\beta_1, \beta_3, \beta_5$  = Coefficients

$\mu_1, \mu_2, \mu_3$  = Error/Stochastic term

## 4. Discussion of Findings

$H_{01}$ : Earning Per Share has no significant relationship on corporate social responsibility.

Table 1. Model Summary for  $H_{01}$

| Model | R                  | R Square | Adjusted R-Square | Std Error of the Estimate |
|-------|--------------------|----------|-------------------|---------------------------|
| 1     | 0.245 <sup>a</sup> | 0.060    | 0.012             | 104.58894                 |

a. Predictors (Constant) CSR

Table 2. Coefficients for  $H_{01}$

| Model |            | Unstandardized Coefficients |           | Standardized Coefficients | t     | Sig.  |
|-------|------------|-----------------------------|-----------|---------------------------|-------|-------|
|       |            | B                           | Std Error | Beta                      |       |       |
| 1     | (Constant) | 87.345                      | 30.745    |                           | 2.841 | 0.014 |
|       | CSR        | -3.214                      | 0         | -0.245                    | -0.91 | 0.379 |

a. Dependent Variable EPS.

The result of data analyses above shows that the strength of the relationship between EPS and CSR is very weak at 24.5%. While the value of the coefficient of determination of 0.060 indicate that only about 6% of the variations in EPS can be explained by variations in CSR.

Furthermore, the coefficient of regression (B) of -3.214 indicates that the relationship between the variables of the study is negative implying that the implementation of CSR has a negative effect on EPS and vice versa.

Finally, the regression result show the computed t-statistic for the coefficient of CSR is 0.910 which is lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that the null hypothesis is not rejected thus we conclude that Earning per Share has no significant relationship with corporate social responsibility.

*H<sub>02</sub>: Return on capital employed has no significant relationship on corporate social responsibility and bank age.*

**Table 3. Model Summary for H<sub>02</sub>**

| Model | R                  | R Square | Adjusted R-Square | Std. Error of the Estimate |
|-------|--------------------|----------|-------------------|----------------------------|
| 1     | 0.575 <sup>a</sup> | 0.331    | 0.279             | 1.74419                    |

a. Predictors (Constant) CSR

**Table 4. Coefficients for H<sub>02</sub>**

| Model |            | Unstandardized Coefficients |           | Standardized Coefficients | t      | Sig.  |
|-------|------------|-----------------------------|-----------|---------------------------|--------|-------|
|       |            | B                           | Std Error | Beta                      |        |       |
| 1     | (Constant) | 3.371                       | 5.13      |                           | 6.575  | 0.000 |
|       | CSR        | -1.493                      | 0.000     | -0.245                    | -2.535 | 0.250 |

a. Dependent Variable ROCE.

The result of data analyses above shows that the strength of the relationship between ROCE and CSR is 57.5%. While the value of the coefficient of determination of 0.331 indicate that about 33.1% of the variations in ROCE can be explained by variations in CSR.

Furthermore, the coefficient of regression (B) of -1.493 indicates that the relationship between the variables of the study is negative implying that the implementation of CSR has a negative effect on ROCE and vice versa.

Finally, the regression result show the computed t-statistic for the coefficient of CSR is -2.35 which is higher than the critical t-statistic of 1.76 at 0.05 level of significance. This means that the null hypothesis is rejected. Thus, we conclude that Return on capital employed has a significant relationship with corporate social responsibility.

*Ho3: Dividend Per Share has no significant relationship on corporate social responsibility.*

**Table 5. Model Summary for H<sub>03</sub>**

| Model | R                  | R Square | Adjusted R-Square | Std Error of the Estimate |
|-------|--------------------|----------|-------------------|---------------------------|
| 1     | 0.366 <sup>a</sup> | 0.134    | 0.068             | 68.52437                  |

a. Predictors (Constant) CSR

**Table 6. Coefficients for H<sub>03</sub>**

| Model |            | Unstandardized Coefficients |           | Standardized Coefficients | t      | Sig.   |
|-------|------------|-----------------------------|-----------|---------------------------|--------|--------|
|       |            | B                           | Std Error | Beta                      |        |        |
| 1     | (Constant) | 60.295                      | 20.144    |                           | 2.993  | 0.010  |
|       | CSR        | -3.286                      | 0.000     | -0.366                    | -1.420 | -0.179 |

a. Dependent Variable DPS.

The result of data analyses above shows that the strength of the relationship between DPS and CSR is weak at 36.6%. While the value of the coefficient of determination of 0.134 indicate that only about 13.4% of the variations in DPS can be explained by variations in CSR.

Furthermore, the coefficient of regression (B) of -3.286 indicates that the relationship between the variables of the study is negative implying that the implementation of CSR has a negative effect on DPS and vice versa.

Finally, the regression result show the computed t-statistic for the coefficient of CSR is -1.420 which is lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that the null hypothesis is



not rejected thus we conclude that Dividend Per Share has no significant relationship with corporate social responsibility.

## 5. Conclusion and Recommendations

In this study, an indefatigable effort has been made to analyze the impact of corporate social responsibility on financial performance of listed banks in Nigeria. This study considers accounting and market based Indices Earnings per Share, Return on Capital Employed and Divided per Share, in determining the impact of CSR on financial performance. The result of the simple regression for hypothesis one showed that Earnings per share have a negative significant relationship with corporate social responsibility. This result does not invalidate Earnings per share as financial performance indices but implies that financial institutions have not been embarking on CSR positively. The result of hypothesis two showed that Return on capital employed has a positive significant relationship with CSR. This is in line with Tsoutsoura (2004), Kanwal et al (2013). This study shows that CSR impacts positively on the financial performance of the financial institutions. The result of hypothesis three revealed that dividend per share has no significant relationship with CSR, and it implies that the amount of dividend paid out is highly affected by the operating profit which is often reduced by CSR. This study established that financial institution in Nigeria do not actively engage in corporate social responsibility as it does not impact much on their financial statements.

### 5.1. Recommendations

Based on the findings of this study, the researcher makes the following recommendations:

1. The government should through the regulatory authorities compel financial institutions to embark on corporate social responsibility.
2. Banks should be made to consider CSR as an investment and thus report it as such in their financial statement
3. CSR helps a company's reputation by creating a positive image in the mind of customers, suppliers etc., hence, it should become a part of the culture of financial institutions in Nigeria
4. Government may by way of tax incentive motivate bank to actively embark on corporate socially responsibility as it will impact on their successes and reduce the burden on government in terms of provision of amenities for the society, communities and nation at large
5. Research studies should be encouraged in the field of corporate social responsibility as this will help to create awareness for corporate institutions on CSR.

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