The Effect of Corporate Social Responsibility on Bank Performance in South Africa

Naurikay Bennett[1], Adefemi Obalade[2]

Abstract: This study investigates the relationship between the corporate social responsibility (CSR) and financial performance (FP) of the leading commercial banks in South Africa. The study used annual time series data spanning the period from 2002-2021. This study contributes to the extant literature by examining the effect of CSR on different measures of financial performance such as return on assets (ROA), Net profit after tax (NPAT) and net profit margin (NPM), in order to provide robust evidence. A correlation analysis was used to examine the direction of the relationship between CSR and FP. The study further employed regression analysis to examine the effects of CSR on FP. The overall finding is that CSR positively affected ROA, NPAT and NPM for both Standard Bank and Nedbank. This finding is in line with most of the studies conducted on the relationship between CSR and FP. This suggests that CSR is helpful in improving the performance of banks. The study recommends that the regulatory authority in South Africa should implement policies that encourage investment in corporate social responsibility. In addition, bank management must consider CSR investments as worthwhile for banks. This study provides robust support for the profit relevance of CSR investment in the South African banking sector.

Keywords: social responsibility; profit after tax; return on assets; net profit margin; bank size.

JEL Classification: E58; G21; M14; N57

1. Introduction of the Study

Corporate Social Responsibility (CSR) has attracted the attention of scholars globally (Rahman and Chowdhury, 2020; Susanto, 2019; Rodriguez-Fernandez, 2016; Hamid and Ibrahim, 2020). The growing literature can be attributed to CSR's several important roles in firms. For instance, CSR equips firms to gain investor appreciation, a positive image, and stakeholder loyalty and in turn an increase in revenue (Jermsittiparsert, Siam, Issa, Ahmed & Pahi, 2019). CSR also creates opportunities for firms to provide adequate employee training, leading to better performance for firms (Nitescus and Cristea, 2020). Stakeholder theory advocates that CSR enhances financial performance (FP) as the enduring relationship of a company with its stakeholders will allow the company to be successful (Maqbool & Zameer, 2017). CSR is concerned with the transformation from traditional value creation and profit maximization for shareholders to a broader scope focusing on value creation and profit maximization for stakeholders (Jamali, 2020). This transformation will allow for the sustainable development of both shareholders and stakeholders' relationships (employees, public, investors, and customers). Stakeholders have become important assets for any company and it is important for

[1] University of the Western Cape, South Africa, E-mail: 3852180@myuwc.ac.za.
[2] University of the Western Cape, South Africa, Corresponding author: aobalade@uwc.ac.za.

companies to balance the interests of both shareholders and stakeholders to ensure continuous value creation (Jamali, 2020).

Globally, banks have been paying much attention to CSR practices following the financial crisis, which resulted in banks losing the confidence of the stakeholders, due to poor management and the growth of non-performing loans (NPL) (Gangi, Mustilli, Varrone and Daniele, 2018). CSR practices were in this sense used as a reputational driver and to gain back the trust of the public in general. Hence, it has become very important for banks to invest in CSR practices. In addition, the banking sector consumes a vast amount of natural resources like paper, energy and creates waste (Siueia & Wang, 2019). Thus, it has become important for managers to invest in CSR practices. CSR investment incorporates the environmental dimension which has become an increasingly vital dimension in the banking sector.

Studies on the impact of CSR on financial performance have revealed mixed results. As a consequence, there are no conclusive findings on the relationship between CSR and FP, both in global and South African contexts. In addition, very few studies have been carried out in the financial sector, with specific reference to banks. The extant studies have focused on the impact of CSR on ROE, a performance measure that caters for the need of equity holders only. Since CSR aims at satisfying the stakeholders, an examination of CSR's impact on other measures of performance such as ROA, NPM and NPAT will shed more light on the topic.

2. Literature Review

The stakeholder theory suggests that a business has a key goal of meeting the needs of stakeholders (employees, customers or clients, investors, and the public as a whole), especially those that can influence the generation of profits for the business (Freeman, 1984; Rahman and Chowdhury, 2020). Companies engaging in socially responsible practices gain a competitive advantage in the business, as it attracts more investors to the company and it also reduces operating costs (Deegan, 2002; Nguyen, 2018). Companies buy human resources and raw materials from society to produce and deliver products and services to society (Nguyen, 2018). When waste of this process is disposed of, society bears the consequences. In turn, a disruption in the relationship may evolve which may result in society boycotting the company's product, ultimately leading to a decrease in revenues and profits. Hence, CSR investment is necessary to avoid this negative consequence. The Agency theory focuses on the relationship between managers and stockholders (Tanggamani, Amran & Ramayah, 2018), whereby the former being an agent is expected to maximize profit for the latter. This theory might explain why CSR does not enhance financial performance when managers' decision is detrimental to the shareholder's objective. Furthermore, the fact that the company incurs a cost when investing in CSR gives a competitive disadvantage to the firm, resulting in a negative synergy which explains the negative impact of CSR on financial performance (Tanggamani *et al.*, 2018). Hence, the negative synergy hypothesis and agency theory can be used to explain the negative results that researchers found when conducting studies on the impact of CSR on financial performance.

Corporate Social Responsibility (CSR) has been studied widely and many authors have found different definitions of this practice. The dimensions of CSR are environment, energy use, employees, community, product and customers (Dzeawuni, 2020). CSR is concerned with the transformation from traditional value creation and profit maximization for shareholders, to a broader scope, focusing on value creation and profit maximization for stakeholders as well (Jamali, 2020). This means that the organization has to conduct its activities and operations considering the needs of its stakeholders. If organizations act responsibly towards these stakeholders, customer loyalty will be a result, which in turn will result in an increase in profits. Many stakeholders are interested in the financial performance of an organization. Stakeholders like investors are specifically interested in how well a company generates revenue. Financial performance simply illustrates how efficiently and well companies manage their assets from their primary mode of business and generate revenues (Kenton, 2021). There exist numerous measures of performance.

Return on Assets (ROA) is related to the ability of a firm to be profitable in relation to its assets employed (Hargrave, 2022). Human resources (employees) become the main asset of any company. Providing training to employees and giving them a safe working environment may result in them working more productively and efficiently, thus resulting in higher profits for the company, which is basically ROA for the company (Hargrave, 2022). Return on Equity (ROE) is related to how efficient a company is in handling the money that shareholders have contributed to it (Furhmann, 2022). Furthermore, this measure of financial performance is mostly used when a company is compared to its competitors or when an industry analysis is done. Many studies have adopted ROE and ROA as measures of financial performance for their studies (Rodriquez-Fernandez, 2016; Hamid and Ibrahim, 2020; Ta, 2018). However, there are other financial performance measures like NPAT and NPM, which are key indicators of financial performance (Stobierski, 2020). NPAT is one of the most analysed figures on financial statements as it represents the amount of money that can be paid out to investors. NPAT will also indicate the amount of money a company has to reinvest. A high NPAT will allow companies to have more cash on hand to invest in CSR activities. Similarly, NPM illustrates the ability of a firm to convert income into profit. Similar to NPAT, it also shows how much a company has to spend, for example, on CSR activities after its expenses. From the foregoing, the impact of CSR investment on NPAT and NPM needs to be examined, to ascertain whether it is worthwhile for companies to invest in CSR.

A number of studies have been carried out globally, and mixed results have been found across countries and even across sectors of the same country (Fathony, Khaq & Endri, 2020; Rodriguez-Fernandez, 2016; Dat *et al.*, 2021; Boukattaya and Omri, 2021). For example, Fathony *et al.*, (2020) found that CSR has no effect on stock returns. A study that was conducted in Spain found that corporate governance has a positive correlation with ROA and ROE (Rodriguez-Fernandez, 2016). This illustrated a positive CSR-FP relationship. In France, it has been illustrated that CSR has no significant impact on FP (Boukattaya & Omri, 2021). Furthermore, Nguyen (2018) found that the mean of CSR is 0.43, which is relatively low but has increased due to the labour law violation that happened in Vietnam at the end of 2009 and 2010.

Studies have shown that the relationship between CSR and FP varies cross-industry and cross-country. Profitability has a positive and significant influence on CSRD in the manufacturing sector in Indonesia (Susanto, 2019). This implies that if a firm has been performing well financially they tend to invest more in CSR activities. Similarly, CSR is a very important contributor to customer satisfaction and loyalty in the logistics industry in Indonesia (Jermsittiparsert *et al.*, 2019). In certain sectors, like the oil and gas sector, it may be expensive for firms to invest in CSR practices, leading to a negative correlation between CSR and FP (Dat *et al.*, 2021). This brings about the question of whether it should be mandatory for all sectors to invest in CSR, as it would be costly for the oil and gas sector to for example invest in both the community and simultaneously in carbon emission mitigation. Thus, research and development (R&D) and the implementation of corporate governance practices will sustain and facilitate a healthy CSR-FP relationship (Rodriguez-Fernandez, 2016; Hamid & Ibrahim, 2020; Dat *et al.*, 2021). However, Fauziah, Yusoff and Adamu (2016) in Malaysia, found that R&D has no relationship with FP.

Firm visibility also plays an important role, as companies use this to manage social expectations, which showcased a positive relationship between CSR and FP (Achour & Boukattaya, 2021). Furthermore, education also plays an important role when it comes to CSR practices. Ta (2018) and Xiaojing (2020) show that firms derive more benefits from CSR investing when they are more informed about CSR practices. Quirós, Quirós and Hernández (2019), also found a positive correlation between environmental, social and governance dimensions (ESG) and ROA.

The global financial crisis played a role in the investment into CSR practices by banks. During the post-crisis period higher CSR practices increased the financial performance of banks and these practices were seen as a reputational driver of value creation (Gangi *et al.,* 2018). Septianto and Viverita (2021) also supported the fact that global crises played a significant role in CSR investments by banks. Through CSR investments banks managed good relations with stakeholders and also increased their cost-efficiency. Comparably, Scholtens and van't Klooster (2019) illustrated that banks with high sustainability scores had lower default risk. A vast number of studies have been conducted on the banking sector in Indonesia (Mukhtaruddin, Ubaidillah, Dewi, Hakiki & Nopriyanto, 2019; Jamali, 2020). In these studies, FP has been used as a benchmark to decide whether banks can invest in CSR practices. Jamali (2020) found that profitability is positively associated with CSR investment. This allows for the conclusion to be made that as banks are more profitable, they will be able to invest more in CSR. This will ultimately lead to the satisfaction of different stakeholders, thus supporting the stakeholder theory (Setiawan *et al.,* 2019).

In the South African context, not a lot of studies have been carried out on the CSR-FP relationship. The results in South Africa are also mixed. However, most studies found a positive relationship between CSR and FP (Fatoki, 2019; Wasara & Ganda, 2019). Fatoki (2019) states that CSR improves process efficiency. Thus, if employees are trained and educated they may perform better, and use resources efficiently and the firm can reduce its operational costs. Wasara and Ganda (2018) found a negative relationship between environmental disclosure and ROI, and a positive relationship between social disclosure and ROI. This shows that firms perceive that investing in social practices is more profitable than investing in environmental practices. Furthermore, Nyeadi *et al.,* (2018) found a positive relationship between CSR and FP. A comparative study of the banking sectors in SA and Mozambique found a positive correlation between CSR and ROA, in the banking sector of the two countries (Siueia *et al.,* 2019).

3. Research Methods

This study relies on quantitative and deductive approaches to examine the relationship between Corporate Social Responsibility (CSR) and financial performance in the South African banking sector. The study is underpinned by the stakeholder theory and used correlational and cause-effect designs to achieve its objective of drawing a conclusion on the effect of CSR on FP.

3.1. Data and Sample

The study employed annual time series data covering 2002 to 2021 due to data availability. Data on FP, namely the NPAT, ROA, NPM and CSR investments were sourced from the websites of Standard Bank and Nedbank. Extant studies (Siueia *et al.*, 2019; Anchour & Boukattaya, 2021; Nyeadi *et al.*, 2018) have used ROE and ROA as measures of FP (dependent variables). New measures are considered in this study to shed more light on the debate.

3.2. Model specification and variable description

The study proposed equation one to examine the impact of corporate social responsibility on financial performance. The model was adapted from previous studies (Siueia *et al.*, 2019 and Nyeadi *et al.*, 2018).

$$FP = \beta_0 + \beta_1 CSR_{i,t} + \beta_2 LNSize_{i,t} + \beta_3 Loan\_R_{i,t} + \beta_4 Fin\_R_{i,t} + \varepsilon_{i,t} \quad (1)$$

The study extended the model as the regression analysis was estimated for each bank taking the three performance measures into consideration. Thus,

$$ROA_t = \beta_0 + \beta_1 CSR_t + \beta_2 LNSize_t + \beta_3 Loan\_R_t + \beta_4 Fin\_R_t + \varepsilon_t \quad (2)$$

$$NPAT_t = \beta_0 + \beta_1 CSR_t + \beta_2 LNSize_t + \beta_3 Loan\_R_t + \beta_4 Fin\_R_t + \varepsilon_t \quad (3)$$

$$NPM_t = \beta_0 + \beta_1 CSR_t + \beta_2 LNSize_t + \beta_3 Loan\_R_t + \beta_4 Fin\_R_t + \varepsilon_t \quad (4)$$

NPAT can be extracted from financial statements of banks in South Africa. Hence, no formula was needed for this measurement. ROA can be measured by dividing Net Income by Total Assets (Hargrave, 2022). Lastly, NPM can be measured by dividing Net Profit by Revenue (Hargave, 2022).

CSR investment has been calculated as 1% of Net profit after tax (Buisness in South Africa, 2021; Sethoga, 2013) for both Standard bank and Nedbank. Nedbank has been awarded the best bank that provides sustainable finance to its clients (Nedbank, 2022) and prides itself in the value that they add to the environment through sustainable banking. Standard bank is one of the biggest banks in South Africa (Standard bank, 2022) with commitment to CSR investment. There is no information on the CSR investment for other banks. The study included some controlled variables that could affect CSR and financial performance. Size was the first controlled variable, which was calculated as the natural logarithm of total assets. The larger the size, the more banks can invest in CSR (Siueia *et al.*, 2019). The second control variable used was loan ratio. This has been calculated by dividing total loans by total assets. This variable illustrates the main sources of revenue for banks (Siueia *et al.*, 2019). Hence, a conclusion made was that if this this ratio had to decrease it would affect the profitability of the bank negatively. Lastly, financial leverage was also a control variable used in this study, which was calculated by dividing total assets with total equity.

3.3 Data Analysis

The specified models were analysed using the Multiple regression models due to data limitations. Other time series estimation techniques require larger sample size. EViews was used to generate the descriptive statistics, a correlation matrix and a regression analysis, which illustrated the relationship between CSR and FP and the effect of the former on the latter.

4. Analysis and Results

The results of the data analysis are presented and interpreted in this section, namely the descriptive statistics, correlation analysis, unit root test (ADF test) and regression analysis.

4.1. Descriptive Statistics

This section plays an important role in quantitative data analysis as it gives a quick overview of the samples and measurements of a study. The descriptive statistics for both Standard Bank and Nedbank have been done separately. From Table 4.1 the average CSR score for Standard Bank is 11.82. The standard deviation assesses the dispersion around the mean. With a value of 0.16 NPM, is the least scattered, while ROA with a score of 4.06 is the most variable. The asymmetry of a series distribution around the mean is explored by the skewness. CSR, NPM, ROA and SIZE are negatively skewed, while FIN_R, LOAN_R and NPAT are positively skewed. All of the variables in the table above are peaked as their kurtosis values are more than three. The Jarque-Bera tests for normality and at a significance level of 5%, the Jarque-Bera result is not statistically significant for CSR, FIN_LEV, NPAT, NPM and LNSIZE, while it is statistically significant for LOAN_R and ROA.

Table 4.2 shows the summary statistics for Nedbank. From the Table the average CSR score is 11.00. The maximum ROA is 18.25, on average Nedbank makes 13.07 ROA. In terms of dispersion of CSR, the standard deviation for Nedbank is 0.73 which is higher than that of StandardBankk, 0.47. Nedbank's CSR, LOAN_RATIO, NPAT, NPM ROA and SIZE are negatively skewed, while FIN_R is positively skewed. The bank's NPM, ROA and LNSIZE is flat as their kurtosis values are more than three while its CSR, FIN_R, LOAN_R and NPAT are peaked as their kurtosis values are greater than three. The Jarque-Bera result is not statistically significant for CSR, LOAN_R, NPAT, NPM, ROA and LNSIZE, while it is statistically significant for FIN_LEV.

Table 4.1 Standard bank Summary Statistics

	CSR	FIN_R	LOAN_R	NPAT	NPM	ROA	LNSIZE
Mean	11.82798	14.13695	0.695681	16.46158	0.689829	15.16344	14.01478
Median	11.82097	13.17934	0.534313	16.42614	0.682100	15.48179	14.06942
Maximum	12.62643	19.19001	1.919001	17.50843	0.974178	19.81752	14.81828
Minimum	10.80690	10.68487	0.437203	15.41207	0.375941	1.662362	12.87313
Std. Dev.	0.479740	2.707200	0.420100	0.532962	0.164436	4.066250	0.500870
Skewness	-0.259900	0.638288	2.456963	0.159628	-0.216531	-1.840674	-0.481554
Kurtosis	2.819608	2.120872	7.449505	3.024489	2.577869	7.189333	2.959425
Jarque-Bera	0.252278	2.002092	36.62064	0.085437	0.304780	25.91903	0.774353
Probability	0.881492	0.367495	0.000000	0.958181	0.858653	0.000002	0.678971
Sum	236.5596	282.7390	13.91362	329.2316	13.79659	303.2688	280.2957
Sum Sq. Dev.	4.372861	139.2497	3.353193	5.396930	0.513743	314.1534	4.766551
Observations	20	20	20	20	20	20	20

Source: Authors' estimation (2022)

Table 4.2. Nedbank Summary Statistics

	CSR	FIN_R	LOAN_R	NPAT	NPM	ROA	LNSIZE
Mean	11.00916	13.10239	0.725514	15.61433	0.590140	13.07447	13.40944
Median	11.13021	12.26450	0.729064	15.73538	0.622031	15.11070	13.48075
Maximum	11.81266	20.73459	0.789029	16.41783	0.925425	18.25920	14.02101
Minimum	9.285448	11.10600	0.600006	13.89062	0.164601	3.260799	12.65432
Std. Dev.	0.735848	2.324389	0.048284	0.735848	0.204332	4.740089	0.467960
Skewness	-1.088564	1.981077	-0.758244	-1.088564	-0.682057	-1.050553	-0.341774
Kurtosis	3.292348	6.892450	3.224874	3.292348	2.829290	2.757474	1.770108
Jarque-Bera	4.021131	25.70819	1.958587	4.021131	1.574955	3.727891	1.649893
Probability	0.133913	0.000003	0.375576	0.133913	0.454991	0.155060	0.438258
Sum	220.1832	262.0478	14.51027	312.2866	11.80279	261.4894	268.1888
Sum Sq. Dev.	10.28799	102.6529	0.044295	10.28799	0.793280	426.9004	4.160736
Observations	20	20	20	20	20	20	20

Source: Author's computations

4.2 Correlation Analysis

In this section a correlation analysis has been done on Standard bank and Nedbank, respectively. Tables 4.3 and 4.4 presents the correlation results of Standard bank and Nedbank respectively. The study draws attention to the correlation matrix between CSR and FP. The direction of movement of the of NPAT, NPM and ROA with CSR is positive for both banks.

Table 4.3. Standard Bank Correlation Analysis

	CSR	FIN_R	LOAN_R	NPAT	NPM	ROA	LNSIZE
CSR	1.000000	-0.701329	-0.497140	0.990556	0.085210	0.149742	0.945859
FIN_LEV	-0.701329	1.000000	0.553561	-0.701093	0.394454	0.393319	-0.762289
LOAN_RATIO	-0.497140	0.553561	1.000000	-0.470603	-0.053160	-0.002623	-0.483334
NPAT	0.990556	-0.701093	-0.470603	1.000000	0.124871	-0.096406	0.917354
NPM	0.085210	0.394454	-0.053160	0.124871	1.000000	0.310618	-0.091326
ROA	0.149742	0.393319	-0.002623	-0.096406	0.310618	1.000000	-0.300363
SIZE	0.945859	-0.762289	-0.483334	0.917354	-0.091326	-0.300363	1.000000

Table 4.4. Nedbank Correlation Analysis

	CSR	FIN_R	LOAN_R	NPAT	NPM	ROA	LNSIZE
CSR	1.000000	-0.865066	0.526240	1.000000	0.845683	0.851632	0.818058
FIN_LEV	-0.865066	1.000000	-0.456334	-0.865066	-0.653024	-0.671263	-0.801693
LOAN_RATIO	0.526240	-0.456334	1.000000	0.526240	0.474159	0.592200	0.245181
NPAT	1.000000	-0.865066	0.526240	1.000000	0.845683	0.851632	0.818058
NPM	0.845683	-0.653024	0.474159	0.845683	1.000000	0.880608	0.507494
ROA	0.851632	-0.671263	0.592200	0.851632	0.880608	1.000000	0.425336
SIZE	0.818058	-0.801693	0.245181	0.818058	0.507494	0.425336	1.000000

Source: Authors estimation (2022)

The positive correlation means that as CSR increases, FP will move in the same direction, meaning that it will also increase. This is in line with Siueia *et al.* (2019), who also found a positive correlation in a study on the relationship between CSR and FP. In addition, CSR and the SIZE variable both move in the same direction. This result supports that of similar studies that show that CSR will damage FP should be conducted (Nyeadi *et al.*, 2018).

4.3 Regression Analysis

The regression results are presented in Tables 4.5 and 4.6 respectively for the Standard and Nedbank. The results show that a significant positive coefficient on CSR for both the banks and considering all the FP measures used in the study suggests that these banks' CSR practices have a positive impact on FP. These findings are consistent with Siueia *et al.*, (2019), who found a positive relationship among others but conflict with the findings of Dat *et al.*, (2021), which found a negative relationship between CSR and FP. These findings for both banks agree with the fact that banks that engage more in CSR practices can enjoy customer loyalty and may through this improve their FP. These results also speak to the fact that investors consider banks that invest in CSR practices.

Table 4.7. Standard Bank Regression Results

	NPAT			**NPM**			**ROA**		
Variable:	**Coef.**	**Std er**	**Pvalue**	**Coef.**	**Std er**	**Pvalue**	**Coef.**	**Std er**	**Pvalue**
C	4.71	0.77	0.00	-1.43	1.46	0.34	24.06	42.92	0.58
CSR	1.33	0.09	0.00	0.47	0.18	0.02	9.31	5.56	0.01
FIN_LEV	-0.016	0.009	0.105	0.04	0.01	0.01	0.67	0.51	0.21
LOAN_RATIO	0.05	0.04	0.20	-0.09	0.08	0.25	-2.36	2.48	0.35
SIZE	-0.27	0.104	0.01	-0.29	0.19	0.01	-9.05	5.80	0.03
F-TEST	0.0000			0.0000			0.0000		
R-Squared	0.98			0.53			0.34		
Adjusted R^2	0.98			0.41			0.17		

Table 4.10. Nedbank Regression analysis

	NPAT			**NPM**			**ROA**		
Variable:	**Coef.**	**Std er**	**Pvalue**	**Coef.**	**Std er**	**Pvalue**	**Coef.**	**Std er**	**Pvalue**
C	4.60	3.85	0.00	-0.17	1.42	0.90	24.07	18.04	0.20
CSR	1.00	1.96	0.00	0.40	0.07	0.00	9.69	0.91	0.00
FIN_LEV	-1.39	5.42	0.80	0.007	0.02	0.69	-0.11	0.25	0.65
LOAN_RATIO	-3.97	1.57	0.02	-0.47	0.58	0.42	-1.74	7.37	0.81
SIZE	-8.82	2.54	0.00	-0.25	0.09	0.01	-8.57	1.18	0.00
F-TEST(PROB)	0.0000			0.0000			0.0000		
R-Squared	0.95			0.82			0.94		
Adjusted R^2	0.93			0.78			0.93		

Source: Authors estimations (2022)

In particular, the results contradict the findings of Nguyen (2018) who found a negative relationship between CSR and FP, in respect of ROA. This means that Standard Bank and Nedbank have been effective at employing their assets. The positive coefficients of CSR for both banks and relating to all FP measures with p-values < 5%, suggests that CSR investments can be associated with a higher FP. The findings are also in accordance with the theoretical framework, the stakeholder theory that suggests that the more companies invest in the interests and needs of all their stakeholders (customers, employees, investors, and the general public), loyalty and productivity levels may increase, ultimately leading to improved FP. Regarding the control variables of both banks, it can be observed that the coefficient for size is negative (p-value < 5%), implying that size is not necessarily a guarantee for performance in the banking industry. The loan ratio coefficient that is positive suggests that the bank's earnings increase as the proportion of loans relative to total assets, *albeit* insignificantly.

Furthermore, the R-squared value illustrates how much variation in the dependent variable can be explained by the explanatory variables. For Standard Bank, 98% of the variation in NPAT can be explained by the explanatory variables, 53% of the variation in NPM can be explained by the explanatory variables and 34% of the variation in ROA can be explained by the explanatory variables, which supports the fact that CSR has a positive impact on FP. For Nedbank, 95% of the variation in NPAT can be explained by the explanatory variables, 82% of the variation in NPM can be explained by the explanatory variables and 94% of variation can be explained by the explanatory variables.

4.4. Discussion of Results

The regression results and correlation matrix results are consistent with the findings that CSR and FP are positively related. Considering the fact that CSR has a positive effect on ROA in this study, it can be implied that investing in assets like human resources through CSR practices like training and educational opportunities increases asset efficiency. The risks and challenges of CSR practices may then also be turned into strategic opportunities (Nitescus and Cristea, 2020). Basically, the CSR investment of for Standard bank and Nedbank banks result in positive and good performance. The results of Standard bank and Nedbank in this study are similar to Quirós *et al.*, (2019) who found that CSR has a positive impact on ROA. Suggesting that CSR towards all stakeholders results in satisfaction which may increase profitability and loyalty.

The positive relationship between CSR and FP suggests that through CSR investments, banks may be able to maintain a good relationship with stakeholders, which may result in increased cost efficiency. When stakeholders are loyal to banks it lowers the default risk (Scholtens & van't Klooster, 2019) and encourages employees to be more productive. An increase in CSR also suggested that financial institutions will have more financial capital for future investments. However, managers and directors should be cautious of the threshold firm size where CSR investment may damage the FP of the firm. Due to the popularity and societal awareness of CSR principles, investors are more likely to invest in banks that focus on CSR principles (Siueia *et al.*, 2019).

5. Conclusions

This study examined the relationship between CSR and the financial performance of firms in the South African banking industry. In literature, the relationship between CSR and FP might vary across countries and industries, and sectors. This study found a positive relationship between CSR and FP. This finding holds irrespective of the measure of FP. The study recommends that other South African banking firms must embrace Corporate Social responsibility practices due to the favourable effect it has on bank performance. The authors did not separate CSR into environmental, social and corporate governance dimensions. This results in the study not being able to identify which CSR dimension had the biggest impact on FP, hence the need for further study. The limited amount of CSR information on other banks in South Africa limits the sample of the study. Future researcher should examine other banks and financial institutions. The threshold size of the firm beyond which CSR will harm the FP of a company should also be explored. The authors also recommend that primary data should be used to conduct further study.

Reference

Achour, Z. & Boukattaya, S. (2021). The moderating effect of firm visibility on the corporate social responsibility-firm financial performance relationship: Evidence from France. *Intechopen*, pp. 1-18. http://dx.doi.org/10.5772/intechopen.95861.

Boukattaya, S. & Omri, A. (2021). Corporate social practices and firm financial performance: Empirical evidence from France. *International Journal of Financial Studies,* 9(54), pp. 1-17. https://www.mdpi.com/2227-7072/9/4/54.

Deegan, C. (2002). The legitimising effect of social and environmental disclosures-a theoretical foundation. *Auditing & Accountability Journal,* 15(3), pp. 282-311. https://doi.org/10.1108/09513570210435852.

Dzeawuni, W. A. (15 April, 2020). The dimensions of corporate social responsibility and customer loyalty of consumer goods companies in Nigeria. *SSRN.* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3557813.

Fathony, M.; Khaq, A. & Endri, E. (2020). The Effect of Corporate Social Responsibility and Financial Performance on Stock Returns. *International Journal of Innovation, Creativity and Change,* 13(1), pp. 240-252. www.ijicc.net.

Fauziah, W.; Yusoff, W. & Adamu, M. S. (2016). The Relationship between Corporate Social Responsibility and Financial Performance: Evidence from Malaysia. *International Business Management*, 10(4), pp. 345-351.

Freeman, R. E. (1984). *Strategic Management: A stakeholder approach.* Pitman Publishing. http://www.worldcat.org/title/strategic-management-a-stakeholder-approach/oclc/9685996.

Gangi, F.; Mustilli, M.; Varrone, N. & Daniele, L. M. (2018). Corporate Social Responsibility and Banks' Financial performance. *International Business Research,* 11(10), pp. 42-58. 10.5539/ibr.v11n10p42.

Hamid, K. T. & Ibrahim, M. (2020). The moderating effect of Corporate Governance on the Relationship between Corporate Social Responsibility and financial performance of listed non-financial services companies in Nigeria. *International Journal of Accounting & Finance,* 9(1), pp. 71-91.

Hargrave, M. (2022, March 5). Return on Assets (ROA). *Investopedia.* https://www.investopedia.com/terms/r/returnonassets.asp.

Jamali, H. (2020). Banking Governance, Financial Performance and Corporate Social Responsibility. *Journal Manajemen,* XXIV (3), pp. 497-512. http/:dx.doi.org/10.24912/jm.v24i3.681.

Jermsittiparsert, K.; Siam, M. R. A.; Issa, M. R.; Ahmed, U. & Pahi, M. H. (2019). Do consumers expect companies to be socially responsible? The impact of corporate social responsibility on buying behaviour. *Uncertain Supply Chain Management*, (7), pp. 741-752. 10.5267/j.uscm.2019.1.005.

Maqbool, S. & Zameer, M. N. (2017). Corporate social responsibility and financial performance: An empirical analysis of Indian Banks. *Future Business Journal*, 4, pp. 84-93. 10.1016/j.fbj.2017.12.002.

Mukhtaruddin, M.; Ubaidillah, U.; Dewi, K.; Hakiki, A. & Nopriyanto, N. (2019). Good Corporate Governance, Corporate Social Responsibility, Firm Value, and Financial Performance as Moderating Variable. *Indonesian Journal of Sustainability Accounting and Management,* 3(1), pp. 55-64. 10.28992/ijsam.v3i.74.

Nedbank (2022) *Corporates.* Retrieved October 7 2022 from https://www.nedbank.co.za/content/nedbank/desktop/gt/en/corporates.html.

Nguyen, N. B. (2018). The effect of corporate social responsibility disclosure on financial performance: Evidence from credit institutions in Vietnam. *Banking Academy of Vietnam*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3101658.

Nitescus, D. & Cristea, M. A. (2020). Environmental, Social and Governance Risks- New Challenges for the Banking Business Sustainability. *Amfiteatru Economic*, 22(55), pp. 692-706. 10.24818/ES/2020/55/692.

Nyeadi, J.D.; Ibrahim, M. & Sare, Y. A. (2018). Corporate social responsibility and financial performance nexus: Empirical evidence from South African listed firms. *Journal of Global Responsibility*, 9(3), pp. 301-328. 10.1108/JGR-01-2018-0004.

Quirós, M. M. M.; Quirós, J. L. & Hernández, J. R. (2019). ESG Performance and Shareholder Value Creation in the Banking Industry: International Differences. *Sustainability*, pp. 1-15. 10.3390/su11051404.

Rahman, M. & Chowdhury, S. (2020). Corporate social responsibility and firm financial performance: Bangladeshi listed pharmaceuticals companies. *Journal of Emerging technologies and Innovative Research*, 7(1), pp. 213-222.

Rodriguez-Fernandez, M. (2015). Social Performance and financial performance: The role of good corporate governance. *Business Research Quarterly*, 19, pp. 137-151. http://dx.doi.org/10.1016/j.brq.2015.08.001.

Scholtens, B., & van't Klooster, S. (2019). *Sustainability and bank risk*, 5(2), pp. 1-8. 10.1057/s41599-019-0315-9.

Septianto, F. & Viverita. (2021). The Effect of Corporate Social Responsibility on Bank Efficiency in Developed Countries. *Advances in Economics, Business and Management Research*, 179, pp. 245-251.

Sethoga, L. (2013). *Nedbank is South Africa's Socially Responsible bank*. https://m.facebook.com/nt/screen/?params=%7B%22note_id%22%3A873358160138042%7D&path=%2Fnotes%2Fnote%2F&refsrc=deprecated&_rdr.

Setiawan, D.; Ronny, P.; Vina, A. & Anas, W. (2019). Does corporate social responsibility affect earnings management? Evidence from the Indonesian banking Industry. *Business: Theory and Practice*, 20, pp. 372-378. 10.3846/btp.2019.35.

Siueia, T. T. & Wang, J. (2019). Corporate social responsibility and financial performance: A comparative study in the Sub-Saharan Africa banking sector. *Journal of Cleaner Production*, 266(2019), pp. 658-668. https://www.sciencedirect.com/science/article/pii/S0959652619310972.

Standard bank, (2022). *Corporate and Investments*. Retrieved October 4 2022 from https://corporateandinvestment.standardbank.com/.

Susanto, Y. K. (2019). Corporate Social Responsibility disclosure: Corporate Governance and Profitability. *South East Asia Journal of Contemporary Business, Economics and Law*, 20(1), pp. 39-44.

Wasara, T. M. & Ganda, F. (2019). The relationship between corporate sustainability disclosure and firm financial performance in Johannesburg stock exchange (JSE) listed mining companies. *Sustainability*, 11(4496), pp. 1-23. 10.3390/su11164496.

Xiaojing, G.E. (May 15, 2020). *Exploring factors of corporate social responsibility in luxury hotels: The case of Marriot Hotel*. https://wkuwire.org/handle/20.500.12540/403.