THE EFFECT OF CSR ON THE FINANCIAL PERFORMANCE OF NIGERIAN BANKS: THE MODERATING EFFECT OF CUSTOMER LOYALTY

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Abstract: *Numerous studies have been conducted to investigate how corporate social responsibility (CSR) affects corporate financial performance (CFP), but this direct relationship appears to be complex. As a result, the main aim of this study is to investigate how customer loyalty shapes the association between CSR and financial performance. Previous studies propose using an intermediate variable known as a mediating or moderating variable to strengthen the link between CSR and CFP. From the perspective of Nigerian commercial banks, this study empirically explores the moderation of customer loyalty on the correlation between CSR and corporate financial performance. This study relied on secondary data from the annual report as well as primary data from questionnaires. A total of 446 questionnaires were surveyed from the customers of nine commercial banks listed on the Nigerian stock exchange. This study adopted structural equation modelling to test the established hypotheses. The result proves that CSR enhances corporate financial performance. Similarly, customer loyalty serves as a moderating factor to further solidify this relationship. Using a moderating variable, this research has strengthened the connection between CSR and financial performance, adding to the body of knowledge. Additionally, the research findings have provided valuable insight that is critical in making key decisions.*

Keywords: corporate social responsibility, corporate financial performance, customer loyalty.

JEL classification: G21, M14, D11.

1. Introduction

Over the years, several research has focused on CSR and how it affects CFP (Petrenko et al., 2016; Coelho, et al. 2023; Zhou et al. 2021; Ramzan et al. 2021; Tulcanaza-Prieto et al. 2020; Jahmane and Gaies 2020; Ho et al. 2019; Szegedi et al. 2020; Liu et al. 2021; Mangantar, M. (2019). Several studies, however, have found inconclusive and ambiguous results when examining the “direct relationship between CSR and organizational performance” (Singh & Misra 2021).
Consumers have become increasingly concerned in recent years about environmental and social behavioral practices and the ethical standpoint of organizations (Sun et al. 2020). Companies strive to develop relationships with their customers that foster long-term patronage. The desire of a customer to do business with a company over time is known as

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customer loyalty. Customer loyalty toward companies is defined as committing to doing business with them long-term or making repeated purchases from them. It can be characterized as customer preference for and loyalty to a specific brand (Naqvi, 2013).
Because businesses operate in a highly dynamic and competitive environment, their primary goals, regardless of industry, size, or nationality, seem to be profit maximization and survival (Hichri and Ltifi, 2021; Chondough. 2023). For businesses, maintaining loyal customers is a profitable strategy and a strategic advantage (Liu et al., 2019). One method for building relationships is to demonstrate social responsibility. As stated by Farooq and Salam (2020), the body of literature has shown that consumers factor firms' CSR efforts into their purchasing decisions. For businesses, keeping a solid customer base is essential, and the best way to do this is by increasing the number of loyal customers (Sun et al., 2020).
CSR is defined as an organization's efforts to achieve commercial success while embracing practices that value and support communities, societies, people, and the environment as a whole (McWilliams & Siegel, 2001). It refers to the initiative taken by a firm to have a positive impact on society through its initiatives for the benefit of its consumers, the environment, local communities and a wider stakeholder. Mohr et al. (2001) defined CSR as a commitment made by businesses to minimize any negative effects, increase wealth, and have a long-term positive impact on society. Because CSR appears to have a favorable effect on consumers' behavioral responses, businesses have grown to be more interested in CSR (Sen & Bhattacharya, 2001).
CSR programs are more likely to increase customer retention rates and foster favorable perceptions of the company (Han 2019). Jensen (2001) has asserted that organizations seeking to understand the correlation between CSR and CFP should look at the strategic perspective. The foundation of a successful business and its long-term expansion is customer satisfaction. Customers are particularly interested in the topic of CSR in the banking sector (Ogunmokun & Timur, S. 2022). Consumers' concerns about business ethics and environmentally friendly practices have increased in recent years. Every business aspires to develop a relationship with customers that will persuade them to continue purchasing its goods over time (Sun et al., 2020).
Firms that engage in CSR are rewarded for their commitment through customer loyalty (Kim and Lee, 20219). Consumers must understand the company's efforts because, only after learning about the company's CSR policy can they develop a positive attitude (Ahmed et al., 2020). In the banking sector, customers' long-term use of their accounts and recommendations to buy their products are indicators of loyalty (Purwanto et al., 2020). As a result, banks use a variety of tactics to draw in and keep customers in order to survive and expand. Numerous studies have looked into customer loyalty, which is regarded as a crucial element of customer satisfaction, particularly in the service sector (Rizan et al., 2020). Customer loyalty depicts an ongoing, passionate relationship between a company and its customers. It is manifested in the degree a customer is eager to patronize a company.
Several investigations have been conducted to examine the direct relationship between CSR and a company's CFP, but this direct relationship appears bogus and ambiguous. As a result, the primary goal of this study is to explore how customer loyalty influences the relationship between CSR and CFP. Prior research has suggested that the link between CSR and CFP should be investigated by adopting an intermediate variable known as a mediating or moderating variable (Ali et al. 2020).

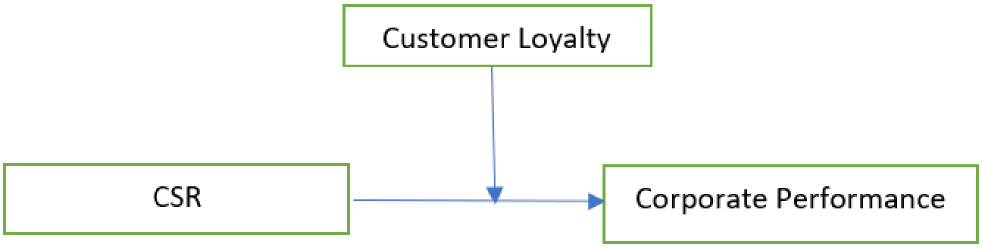

Figure 1: Conceptual Framework
Source: Author’s Composition, 2023

2. Literature Review

The stakeholder theory underpins previous studies investigating the relationship between CSR and CFP. According to stakeholder theory, firms can increase the value of their stakeholders by engaging in CSR activities (Donaldson and Preston, 1995). Improved stakeholder relations encourage businesses to develop intangible assets, which boosts financial performance. Waddock and Graves (1997) assert that businesses gain from CSR initiatives because the gains outweigh the costs. Customers are the main focus of the banking system, and every action is geared towards satisfying them and getting their attention (Zanjirchi et al., 2010). CSR initiatives have been used to address social issues that consumers have, build a positive reputation, and foster goodwill among stakeholders and customers (Khan et al., 2017). According to Tulcanaza-Prieto et al. (2020), CSR initiatives have a significant impact on how customers view the quality of the services they receive. Customers choose banks that take environmental protection measures to preserve the surroundings in which they operate (Liket & Maas, 2015). Promises and expectations must be fulfilled in order for customer satisfaction to be high. This involves the company's capacity to comprehend customer expectations and consistently perform well. An organization's profits could rise dramatically with just a small improvement in customer retention (Norazah, 2015). In accordance with the stakeholder theory, firms stand to benefit financially from CSR engagement (Ongsakul et al. 2020). The ability to meet the expectations of stakeholders leads to reputational benefit (Csapóné, 2015). This results in an increase in FP and risk management as the company's reputation grows. CSR strategies could directly or indirectly yield additional income.
Van et al. 2022 analyzed the impact of CSR on the performance of Vietnamese banks from 2012 to 2019. The regression result showed a positive interaction between environmental, employee responsibility and CFP when using environmental, employee, and community responsibility as proxies for CSR. However, no statistically significant evidence was found to support the hypothesis that community responsibility will improve the performance of Vietnamese commercial banks. Hichri and Ltifi (2021) measured the moderating role of customer loyalty on the correlation of CSR and CFP of Swedish companies. The result of using ordinary least squares revealed a significant moderation of customer loyalty on the interaction between the variables. Similarly, Galdeano et al. (2019) investigated the interaction of CSR on the performance of banks in Bahrain. The structural equation modeling results revealed that CSR has a significant impact on the performance of the financial sector in Bahrain. CSR initiatives have a better chance to increase sales, retain customers, and foster a favorable perception of the company (Han 2019). Furthermore, businesses must maintain a strong consumer base, and increasing the number of loyal customers is the most cost-effective strategy (Malik and Ahsan 2019). It is evident that a socially conscious company's relationship with its clients ensures consistency (Kim, and Lee, 2019). Siueia et al. 2019 used regression analysis to investigate the impact of CSR on the financial performance of the banking sector in Mozambique and South Africa

from 2012 to 2016. The findings revealed statistically significant positive results, implying that CSR engagement can help banks improve their performance.
In contrast, Saadaoui and Ben Salah (2022) found that CSR had a statistically negative effect on the CFP of French banks from 2010 to 2018. Thus, proves that CSR and the CFP of the French banks move in opposite directions, implying that an increase in CSR will result in a decrease in the financial performance of French banks.

H1: *CSR significantly affects corporate performance.*

H2: *CSR significantly affects customer loyalty.*

H3*: Customer loyalty significantly moderates the interaction between CSR and corporate performance.*

3. Methodology

This research adopted both secondary data from the examined firms' annual reports and primary data with the use of questionnaires. Purposive sampling was used to collect primary data from customers of the following Nigerian banks: "Zenith Bank PLC, Fidelity Bank PLC, FCMB Group PLC, Guaranty Trust Bank, Access Bank, Ecobank, Union Bank, United Bank For Africa, First Bank Of Nigeria". CSR, as measured by social and environmental responsibility, represents the independent variable of this investigation. Social and environmental responsibility encompasses issues such as labor practices, human rights, society, environmental concerns, material, energy, water, and emission (Usman and Amran, 2015). CSR data was obtained from the annual reports of the banks under consideration. Corporate performance as the dependent variable is proxied by ROA and ROE, consistent with numerous studies on corporate performance. ROA is measured as the "net profit divided by total asset". Return on equity (ROE) is measured as the "net profit divided by the shareholders' equity". The environmental and social responsibility checklist is driven by the global reporting initiative guideline, which measures the number of items disclosed by a firm to the total number of items available per indicator. The data is therefore coded using a scale of "0" and "1" (0 indicating no disclosure and 1 for every disclosure).
To assess customer loyalty, 446 questionnaires were distributed to customers of nine commercial banks listed on the Nigerian stock exchange. 24 questionnaires were found to be incomplete and had to be discarded. Customer loyalty was assessed as a moderating variable using four items adapted from Sirdeshmukh et al. (2002) and Islam et al (2021). A 5-point Likert scale with scores ranging from 1 (strongly disagree) to 5 (strongly agree) was used.
The study adopted structural equation modelling (SEM) with the use of Smart PLS to test the proposed hypothesis. To begin, a measurement model is used to assess the dependability and validity of the items under consideration.

3.1. Descriptive Statistics

Descriptive statistics present a summary and description of the study's dataset. Using 446 observations, the descriptive statistics is presented in Table 1, 2 and 3, detailing a summary of the respondents' gender, age and educational background.

Table 1: Gender Statistics

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	287	64.3	64.3	63.3
Female	159	35.7	35.7	100
Total	446	100	100	

Source: Author's own computation

Table 2: Age Statistics

Years	Frequency	Percent	Valid Percent	Cumulative Percent
18 to 30	173	38.8	38.8	38.8
31 to 40	247	55.4	55.4	94.2
41 & above	26	5.8	5.8	100
Total	446	100	100	

Source: Author’s own computation

Table 3: Respondents’ Level of Education

Years	Frequency	Percent	Valid Percent	Cumulative Percent
Bachelors	312	70	70	70
Masters	124	27.8	27.8	97.8
PhD	10	2.2	2.2	100
Total	446	100.0	100	

Source: Author’s own computation

As shown in Tables 1-3 above, the descriptive statistics have shown that approximately 64.3% of the respondents are male, while the remaining 35.7% are female. The majority of the respondents fall between the age of 35 to 40 years, which is about 55.4% of the respondents. For the level of education, those with a bachelor’s degree were over 3 times in number, accounting for 70% of the respondents. 27.8% of respondents have a master's degree while the remaining 2.2% are PhD holders. The respondents' educational background is crucial because it shows whether they are well-educated enough to comprehend the main idea of the study and be able to discuss the subject matter.

3.2. Reliability Test

Fornell and Larcker (1981) and Hair et al. (2013) both recommend that the value of each individual item under investigation be equal to or higher than 0.50. CSR, corporate financial performance, and customer loyalty have shown AVA values of 0.749, 0.732, and 0.840, respectively, when using AVA to assess the convergent validity of constructs. These values exceed the 0.50 threshold, indicating that the variables under consideration are reliable. Furthermore, Bagozzi and Yi (1988) proposed that the composite reliability of each construct be greater than 0.70. This study's composite reliability was 0.931, 0.897, and 0.797, indicating that it passed the reliability test. Table 4 contains the pertinent information. Cronbach's Alpha is also used to test for reliability. Based on the rule of thumb, Cronbach's Alpha values for all the constructed variables exceed the 0.7 threshold, giving enough evidence to accept that all the constructs are reliable.

Table 4: Reliability of Instrument

	Cronbach's Alpha	rho_A	Composite Reliability	AVE
CSR	0.825	0.827	0.931	0.749
CFP	0.817	0.911	0.897	0.732
CL	0.984	0.803	0.797	0.840

Source: Author’s own computation

3.3. Discriminant Validity Test

As stated by Hair et al., 2019, “The model has sufficient discriminant validity if the AVE root for each construct is greater than the correlation between the constructs and other constructs in the model”. According to Chin (1998), a cross-loadings table compares each latent construct's square root of AVE values to the reflective loadings of other constructs. Thus, "the square roots should be higher than the compared reflective loadings," as stated by (Galdeano et al., 2019:1536). Additional information is provided in Table 5, which shows that the square root values of the AVE scores for each latent construct ranged consisting of 0.883, 0.891 and 0.8849 respectively, indicating adequate discriminant validity.

Table 5: Discriminant Validity (Fornell-Larcker Criterion)

	CSR	**CFP**	**CL**
CSR	0.883		
CFP	0.782	0.891	
CL	0.695	0.672	0.884

Source: Author's own computation

4. Structural model

The regression model is presented below to analyze the relationship between the examined variables.

$CFP_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 CL_{it} + E_{it}$ (1)

$CL_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 CFP_{it} + E_{it}$ (2)

Where:
CSR = Corporate Social Responsibility
CFP = Corporate Financial Performance
CL = Customer Loyalty
β_0 = Intercept
β_1 and β_2= Coefficient of the independent and moderating variables
E = Error term.
it = Subscript for Panel Data

4.1. Test of Hypotheses

This research empirically tested 3 hypotheses which are proposed below:
H1: CSR significantly affects corporate performance.
H2: CSR significantly affects customer loyalty.
H3: Customer loyalty significantly moderates the interaction between CSR and corporate performance.

Table 6: path coefficient for direct effect

Hypotheses	**Relationship**	**Original Sample (O)**	**Standard Deviation**	**T Statistics**	**P Values**
H1	CSR -> CFP	0.731	0.069	10.868	0.001
H2	CSR -> CL	0.471	0.085	5.053	0.000

Source: Author's own computation

Table 6 presents the path coefficient result of the direct effect between CSR, CFP and CL. The PLS bootstrapping technique was used to analyze the research hypothesis, which reveals the t-statistic and p-value values for each hypothesis. Based on the p-value of 0.001, which is less than the 5% significance level, the results of this analysis demonstrated a positive and statistically significant effect on corporate financial performance. This has provided sufficient evidence to accept hypothesis one, which proposed that CSR has a significant impact on corporate performance. Both variables are moving in the same direction. By implication, an increase in CSR could potentially benefit the company through improved financial gain. Additionally, CSR appears to have a positive impact on customer loyalty. With a p-value of 0.000, the result is statistically significant at the 5% threshold. This suggests that as businesses become more involved in CSR, more customers become committed to doing business with them in the long run, either by repeatedly patronizing or recommending the companies to others. The findings of this investigation, which are presented in Table 7, support the stakeholder theory and those made by other scholars (Rossi et al., 2021; Chouaibi and Chouaibi 2021). According to the stakeholder theory, among other things, meeting stakeholder expectations enhances the company's reputation and image. As a result, an improvement in reputation permits an improvement in financial performance and better overall risk management for the company (Chouaibi and Chouaibi 2021).

Table 7: Effect Size and Predictive Relevance

Endogenous Construct	R Square	R Square Adjusted	Effect size
Corporate Financial Performance	0.837	0.831	Strong
Customer loyalty	0.796	0.794	Strong

Source: Author's own computation

R-square indicates how much the independent variable influences the dependent variable. It has a value between 0 and 1, indicating the significance of the independent variables in affecting the value of the dependent variable. R-square is a measure of how much an independent latent variable has an impact on a latent dependent variable. According to the findings of numerous studies, a strong R-square value is one that is greater than 0.7. Table 7 shows a strong correlation between the dependent and independent variables, with R-square values of 0.837, 0.796, and adjusted R-square values of 0.831 and 0.794 all above the threshold of 0.7.

Table 8: path coefficient for the indirect effect

Hypotheses	Relationship	Original Sample (O)	Standard Deviation	T Statistics	P Values
H3	CSR_CL -> CFP	-0.085	0.070	3.462	0.000

Source: Author's own computation

The result from the test of hypothesis for both direct and moderating effects has provided sufficient evidence to accept the proposed hypotheses, which shows a statistically significant relationship between CSR engagement and corporate financial performance. Similarly, customer loyalty has a statistically significant impact on the association between CSR practices and corporate financial performance, thereby strengthening the connection between the independent and the dependent variables. A summary of the results is shown in Table 9 below.

Table 9: Result Summary

HYPOTHESES		P-Values	FINDINGS		DECISION
H1	CSR-CFP	0.001	+	Significant	Accepted
H2	CSR-CL	0.000	+	Significant	Accepted
H3	CSR-CL-CFP	0.000	+	Significant	Accepted

Source: Own edition

5. Conclusion

The current study aimed to investigate how financial performance could be improved in the financial industry. The study's goal was to determine whether CSR activity could be used to forecast financial results. The study also examined how customer loyalty affects the

relationship between CSR and CFP. The hypothesis testing results strongly supported all three hypotheses. According to the findings of this study, CSR significantly and positively affects the financial performance of the examined banks in Nigeria. By implication, the independent and the dependent variable move in the same direction. This means that an increase in CSR will boost the financial performance of the examined banks in Nigeria. Furthermore, customer loyalty moderates the association between CSR and CFP.
This research has increased the empirical literature providing evidence to indicate a significant positive relationship between the moderation of customer loyalty in strengthening the link between CSR and financial performance. This is especially important in the case of a developing country with limited empirical evidence. Firms can recognize the significance of CSR and ensure that corporate business practices align with the core values of sustainable policies, potentially increasing customer loyalty and financial performance. This study suggests that appropriate regulatory enforcement and environmental impact analysis should be seriously considered over voluntary measures if companies are to behave in a socially responsible manner. this will prompt companies to integrate CSR as a crucial part of their operations. While a short-term negative impact is to be expected, the long-term benefit outweighs the cost of being socially responsible. It is therefore recommended that banks improve their CSR initiatives and disclose such related obligations to reap the reward associated with social and ethical behavior.

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