

**A STUDY ON MEDIATING EFFECT OF CORPORATE GOVERNANCE ON
CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF
JAIZ BANK PLC.**

BY

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**BEING A DISSERTATION SUBMITTED TO THE INTERNATIONAL INSTITUTE
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DECLARATION

I hereby declare that this M.Sc. dissertation titled a study on mediating effect of corporate governance on corporate social responsibility and financial performance is the outcome of my research effort, except for quotation and citations which have been acknowledged duly. I also declare that it has not been presented anywhere for the award of any degree or certificate at any institution.

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CERTIFICATION

This is to certify that the research work for this thesis/dissertation are the subsequent write up of BintaRufai Musa with registration number (SPS/15/MIF/00028) was carried out under my supervision.

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APPROVAL PAGE

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ABSTRACT

Corporate Social Responsibility (CSR) is gaining momentum in Nigeria as organizations are recognizing the vital role it plays on firm's financial performance. The aim of the study is to examine the mediating effect of Corporate Governance in the relationship between Corporate Social Responsibility and Financial Performance of Jaiz Bank Plc. The three variables of the study which are Corporate Social Responsibility (CSR) is proxied by charity funds, while Financial performance (FP) is proxied by Return On Asset (ROA). And Corporate Governance (CG) on the other hand is proxied by Corporate Governance Index (CGI) for Islamic Financial Institutions developed by the General Council for Islamic Banks and Financial Institutions (CIBAFI) and World Bank in 2017. The study was analyzed using e-views version 4 and regression analyses was used to test the hypothesis based on the method proposed by Baron & Kenny (1986). The results reveal that CG does not mediate the relationship between CSR and FP. Although CSR seem to have significant effect on FP, the effect is a negative one due to the fact that CSR of Jaiz bank is seen to reduce its performance proxy by 0.13%. The study, thus recommends that Jaiz bank should intensify its efforts in increasing the banks profit through the accounting policy by the management due to the high costs that banks spend on CSR activity which results in decrease profit. The study also suggest that Jaiz bank should dwell more on its CSR activities because by doing so the bank will get a positive response from stakeholders which will in turn raise the image of the bank and will eventually increase the value of the bank.

LIST OF ABBREVIATIONS

AC	Audit Committee
BCBS	Basel Committee on Banking Supervision
CEO	Chief Executive Officer
CG	Corporate Governance
CGI	Corporate Governance Index
CIBAFI	General Council For Islamic Banks And Financial Institutions
CSR	Corporate Social Responsibility
IAH	Investment Account Holders
IFSB	Islamic Financial Services Board
OECD	Organization for Economic Co-operation and Development
ROA	Return OnAsset
SSB	Shariah Supervisory Board

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Businesses have come to realize more stakeholders (society) beyond maximizing shareholders profit and consumers are of the demand that companies change the way they do business. Thus Companies are consistently now under society pressure to be more transparent and take on active role in addressing the social, cultural and environmental issues of the society. This has given Corporate Social responsibility (CSR) an important place in today's corporate world and businesses that ignore it do so at their own peril. CSR is the dedication of business to operate in an ethical and sustainable way in dealing with its environmental and social impacts. This means a careful consideration of human rights, the community, environment and the society in which it operates so as to improve the qualities of lives in ways that are both good for business and positive developments.

Corporate Social Responsibility is relevant to the business of banking and banks, it is also an important segment of the global business environment with a core function of financial intermediation which requires a customer base that believes and trust in them. CSR activities can improve the reputation of a bank and also increase the customers trust. One of the reasons why customers switch banks in a competitive banking environment is the reputation created by a bank among its customers.

Thus when a banking institution has a good reputation it creates a positive image among its customers which can lead to corporate success in terms of improved profitability. All over the world banking institutions including Islamic banks have come to recognize CSR as essential for their performance by endorsing educational, cultural and environmental programmes as well as health initiatives.

They implement sponsorship actions towards vulnerable groups and charitable nonprofit organizations (Polychionidou et al 2013).

Islamic banks are a relatively new and a fast growing acceptable segment of the global banking space. Current estimates put the total Islamic Financial Industry growth rate at 6.9% with global assets of Islamic banks as USD 1.57 trillion (IFSB, 2019) Islamic banks have their guiding principles rooted in Islamic *Shari'a*. A most recognizable feature of these banks is the strict emphasis on ethics and interest prohibition as core in its operations. The ethical emphasis on the operations of the banks suggest a responsibility to the society they operate in and an extension of its business functions in improving the society can grow better public perception of it and increase patronage. Such increased patronage resulting in a large customer base can increase the bank's financial performance and position it better amongst its competitors. It is incredibly important that banks operate in a way that demonstrates social responsibility even though it's not a legal requirement, it's seen as a good practice to take into account social and environmental issues. Thus social responsibility and ethical practices are vital for success which is key for Islamic banks financial performance and survival.

Corporate Governance (CG) on the other hand is the range of policies and ethical practices which are adopted by an organization in its dealings with stakeholders. Thus, CG arises from the interests of the company to ensure investors that the funds being invested are used appropriately and efficiently.

Both Corporate Governance (CG) and Corporate Social Responsibility (CSR) focus on the ethical practices in the business. And the responsiveness of an organization to its stakeholders and the environment in which it operates. CG and CSR results into better image of an organization and directly affects the performance of an

organization. Also, it is pertinent to note that transparency, disclosure, sustainability and ethical behavior is the central theme in both CSR and CG. In order to avoid mismanagement, good CG is necessary to enable companies operate more efficiently so as to improve access to capital, mitigate risk and safeguard stakeholders.

CG also makes companies more accountable and transparent to investors so as to minimize expropriation and unfairness to stakeholders.

In Nigeria, Jaiz bank PLC is the first full-fledged Islamic bank currently in operation. The bank started operations in 2012 and broke even in less than five years. It has also not recorded any loss since it started operation with consistent increase its depositor's funds (See Jaiz bank plc Annual reports, 2012-2018). Recently its depositors funds stands at approximately N6b with profit after tax of N834.4m (Jaiz bank plc Annual reports, 2018). The bank is also actively engaged in CSR activities and it is a core reporting line in its annual reports (see Jaiz bank Annual Reports, 2013; 2014; 2015 & 2016). Whether its achievements in terms of financial performance over the past seven years of its establishment can be attributed to its CSR activities is a subject of investigation. This study is aimed at examining the effect of CSR on Jaiz bank financial performance with a mediating role of corporate governance.

1.2 Statement of the Problem

The issue of Corporate Social Responsibility (CSR) and banks in Nigeria has become worthy of notice since expenditures on CSR activities are being disclosed on the front pages of banks annual reports. Much attention has been driven by individuals to find out how much Jaiz banks Financial Performance (FP) affects its CSR being the first Islamic bank in Nigeria which started operating on the 6th of January 2012. The implementation of CSR can improve the company's performance, reputation and competitiveness. Research on the effect of CSR on banks FP has been conducted

extensively with different researches using different techniques. However there are still inconsistencies among the existing research results. Some researchers conclude that there is a positive impact of CSR on FP while others point out that the relationship is negative. Some of the researchers also show a neutral impact of CSR on FP.

KofarMata& Ibrahim (2008),conducted a study on CSR and FP of banks in Nigeria. They discovered that two of the independent variables ROA and ROE have significant positive effects on CSR disclosure on Earnings Per Share (EPS) negative effect. Thus the study concludes that FP plays a significant role on the CSR disclosure in Nigeria. A study byMutuku (2005), establishes that there was no relationship between CSR and FP, while a study by Wanjala (2011), found that banks that are profitably engage in CSR.

Furthermore more studies have been undertaking concerning the relationship between CSR and FP but using different mediating roles. Al-Shuaibi (2016), study the mediation of innovation and productivity in CSR and FP linkage in Saudi Arabia. The results prove a positive effect on CSR activities on FP and also indicate that a mediation occurs in the study. Mahrani&Soewarno (2018), use earnings management as a mediating variable of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) on Financial Performance (FP).

The result show a partial mediation of earnings management on impact of GCG mechanisms on Financial Performance and full mediation of earnings management on impact of CSR and FP. The inconsistencies of previous research results prompt the researcher to use another variable that could mediate the relationship between Corporate Social Responsibility and Financial Performance. This study therefore seek to find out if Corporate Social Responsibility influences Financial Performance of

Jaiz bank Plc with a mediating role of Corporate Governance. Also it is pertinent to note that this is the first research to attempt a study of this kind on Islamic bank in Nigeria using Jaiz bank Plc in particular, which provides a gap for the research.

The need to look at the role of mediating variables in the relationship between CSR and FP is necessary as the literature is grossly lacking in this aspect, Galbreath & Shum (2012). Examining the role of mediation can help ascertain and strengthen further the argument in the directional relationship between Corporate Social Responsibility and Financial Performance. Although the literature does not emphatically suggest the most appropriate variable for mediation but one important variable that have been investigated to have a relationship with Financial Performance of banks is Corporate Governance (CG) see (Sriwijaya, Arisman, Wardani & Yanita 2019; Ahmed 2017 & Rahman 2010). Corporate Governance is the structures and processes for the direction and control of firms to avoid mismanagement. The presence of good Corporate Governance is absolutely required by an organization considering that a good Corporate Governance requires a good governing system which can assist in building shareholder confidence and ensure that all stakeholders are treated equally. The mediating role of Corporate Governance focuses on the board of directors, board committees, internal control and external audit, risk governance, Shariah governance, transparency and disclosure.

This is to ensure their compliance with standards for Corporate Governance for General Council for Islamic Banks and Financial Institutions (CIBAFI) and World Bank in 2017.

1.3 Research Questions

Given the stated problem, the following questions were formulated to guide the study

guide the study.

- i. To what extent does Jaiz bank Plccorporate social responsibility influences its corporate governance?
- ii. To what extent does corporate social responsibility influences Jaiz bank Plcfinancial performance?
- iii. How does corporate governance influence Jaiz bank Plcfinancial performance?
- iv. What is the mediating effect of corporate governance in the relationship between corporate social responsibility and financial performance of Jaiz bank?

1.4 Objectives of the Study

The aim of the study was to study the mediating effect of corporate governance in the relationship between corporate social responsibility and financial performance of Jaiz bank Plc. The specific objectives are:

- i. To determine the effect of corporate social responsibility on the corporate governance of Jaiz bank Plc.
- ii. To determine the effect of corporate social responsibility on Jaiz bank Plc financial performance.
- iii. To determine the effect of corporate governance on Jaiz bank Plc financial performance.
- iv. To determine the mediating effect of corporate governance on the relationship between corporate social responsibility and financial performance of Jaiz bank plc.

1.5 Research Hypotheses

H₁: Corporate social responsibility has significant effect on the corporate governance of Jaiz bank Plc.

H₂: Corporate social responsibility has significant effect on Jaiz bank Plc financial performance.

H₃: Corporate governance has significant effect on Jaizbank Plc financial performance.

H₄: Corporate governance has mediating effect in the relationship between corporate social responsibility and financial performance of Jaiz bank plc.

1.6 Significance of the study

The study is expected to be of benefit to banks, in incorporating their corporate social responsibility (CSR) to the society. Corporate Governance (CG) practice will go a long way in improving Financial Performance (FP) of Islamic Banks, since the framework of CG for Islamic Banks is quite unique. This is because the institutions must follow a different set of principles based on the Holy Quran and Sunnah, which contains principles of social justice and accountability. Bhatti & Bhatti (2009). Corporate governance as a tool for a good financial performance guarantees the continued reward of ownership, management and control. Thus financial performance is the primary and concrete basis of a company's economic legitimacy to exist. And a good financial performance is achieved when the company's leaders and movers make decisions which considers the welfare and interests of its stakeholders. Financial performance outlines the overall health of a company and the public expectation for companies to maintain transparency and accountability as a vital aspect of corporate governance will continue to drive firms toward a positive and sustained financial performance. Mark (2000).

The study will also enable company executives to understand that engaging in social activities can help in managing emerging social risks as an offshoot of their operating activities. It would also highlight a better way of marketing for a firm and its management. The study will help a firm attract, motivate and retain competent employees who will enable it realize its objectives. Social activities help companies to be known as responsible corporate citizens with sensitivity towards social and environmental issues.

Also, by understanding the effects of corporate social responsibility on financial performance, investors will determine how to allocate their portfolio so as to maximize returns and thereafter change their assessment of company's performance and will be making decisions based on criteria that will include ethical concern (Caroll 1991).

Furthermore, by investigating on the mediating variable of Corporate Social Responsibility and Financial Performance, the study findings will enrich the discussions on Corporate Social Responsibility and contribute to the existing theories and literature on their association. Other scholars can also use the information gathered to expound on areas not yet addressed in Corporate Social Responsibility, Corporate Governance and Financial Performance. The study finding will act as a reference material for them while replicating the study elsewhere.

1.7 Scope of the study

The study aims at investigating Corporate Governance(CG) as the mediating role in Corporate Social Responsibility (CSR) and Financial Performance(FP) of jaiz bank Plc for the period 2012-2018. The proxy for CSR is charity funds, while the proxy for FP is Return On Asset(ROA). Because in basic terms, the ROA tells what earnings were generated from invested capital (assets). Also, ROA is a leading indicator of profitability which is being used most frequently as a proxy variable for FP in

literature that studies the correlation between corporate social responsibility(CSR) and financial performance (FP).and for the CG measure the study adopts the Corporate Governance Index(CGI) for Islamic Financial Institutions developed by General Council For Islamic Banks And Financial Institutions(CIBAFI) and World Bank in 2017.It comprises of six(6) themes with each having six items, making an aggregate of 36. Please refer to appendix 1.

1.8 Organization of the study

The study is organized in five chapters .Chapter one comprises of the background to the study statement of the research problem, objectives of the study, and the research questions .It also comprises of the research hypothesis, significance of the study and the scope of the study. Chapter two consists of the introduction, Corporate Social Responsibility, CSR in Islam and Islamic banks, evolution of Jaiz bank, CSR in the banking sector, the relationship between CSR and FP, Corporate Governance and performance in Islamic Financial Institution, the relationship between CG, disclosure, and performance in Islamic banks, CG mechanisms in Islamic banks. The chapter also entails conceptual literature review of related empirical literature and theoretical framework .Chapter three deals with the research methodology, which comprises of the data and sample ,variable and measures ,models estimation ,apriori expectation .Chapter four comprises of the data presentation and analyses ,comprising of the descriptive statistics of the variables of the study in testing of hypothesis .Chapter five summarizes ,concludes and give possible recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents a review of the literature in order to have a clear understanding of the major concepts and empirical literature on Corporate Governance (CG), Corporate Social Responsibility (CSR) and Financial Performance (FP). And also to find the most appropriate as well as conceptual framework to be used in the study. The subsequent presentation is divided into three sections namely conceptual literature review, empirical literature and theoretical framework.

2.2 Conceptual Literature

2.2.1 Evolution of Jaiz Bank Plc

Jaiz Bank Plc. Was created out the ashes of the former Jaiz international plc. Which was set up in April, 2003 as a special purpose vehicle (SPV) to establish Nigeria's first full-pledged Non-Interest Bank (Bintude 2009). The minimum capital requirement to set up a bank was 2.0 Billion Naira (Us \$14.29 Million). The promoters therefore obtained the necessary approvals and went to the capital market to raise the sum of 2.5 Billion naira (US \$18.5 Million). The offer was subscribe (about 120%) because of the huge demand for interest free banking in Nigeria and people behind it.

However, it could not obtain the license to start operation for eight years (2003-2011) due to the reforms that took place in the Nigeria's Banking Industry.

Jaiz Bank Plc. Obtained a regional operating license to operate as non-interest bank from central Bank of Nigeria on the 11th November, 2011 and begun full operation as the first non-interest Bank in Nigeria on the 6th of January, 2012 with 3 branches located in Abuja FCT, Kaduna and Kano (Jaiz,2014). The regional license allows the bank to operate geographically in third of the country. Also, based on recommendations from Islamic Development Bank (IDB). Who is also a shareholder of the bank, Jaiz Bank Plc. Has partnered with Islamic Bank Bangladesh (IBBL) for technical and management assistance.

The bank up-graded to operate in many states in 2013 and increased its current share capital based to 6 Billion Naira (US \$78 million). This upgrading enabled the bank to increase its branches to other states in the federation, thereby making it to compete effectively in one of the thriving sector of the Nigeria economy.

Jaiz bank is also positioned as a national bank offering its services to all, regardless of religious belief. Its vision is to be the dominant non-interest financial service provider in Sub-Saharan Africa, while the mission is to provide innovative, value-added, non-interest financial services to their clients by employing the best people, supported by technology (Jaiz, 2014). In the same vein, some of its strategic core value includes quality service (customer first). Team spirit, respect for individual, ethical conduct, trust, partnership and entrepreneurship. The bank has different branches located in the following states of the federation such as: Abuja FCT, Kano, Kaduna, Katsina, Zamfara, Gombe, Brono, Kwara, Ibadan Rivers and Lagos.

2.3 Corporate Social Responsibility

CSR can be seen as a means through which enterprises provide their own quota towards the development of their community by providing basic necessities/infrastructure to make life easier for the people. The European commission

(2016) defines CSR, as the responsibility of enterprises of their impact on society. A Further meaning of the definition is that firms take responsibility for their impact to the society and try to improve the society through their actions.

CSR is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life in ways that are both good for business and good for development. Karkchi&Rombaut (2006).

Different firms have different objectives and standard for performance depending on who their stakeholders are. These different stakeholders should be able to convince the firms to provide the greatest possible return to the specific capital that they provide, since this will include returns to shareholders focusing on financial performance of firms, which is the most readily measurable source of returns which provide the best proxy for the firms overall performance.

According to the World Bank, “Corporate social responsibility (CSR) is a term describing a company’s obligations and activities. Social responsibility companies consider the full scope of their impact on communities and the environment when they are making decisions, balancing the needs of stakeholders with their need to make profit” (Nicolau 2008).

The main force that drives companies to adopt corporate social responsibility may be CSR’S subsequent financial benefits. Although the casualty between the two is not yet clear, empirical studies nevertheless indicated a simultaneous relationship/interaction between CSR, and financial performance (Weber 2008).

2.3.1 CSR in banking sector

Even though CSR is generic to all businesses, the banking sector seems to be the most sensitive to impact since it is subject to more complex and diverse stakeholders than the majority of other sectors of the economy. The banking sector is an important part of a country's economic development because it creates various external benefits to the society. By facilitating cash flow, banks serve as financial intermediaries between lenders and borrowers. Since they affect a large mass of people whose interactions result in a more complex information asymmetry, they are subject to stricter regulation imposed upon them by the regulatory institutions. Well-functioning banks support various companies and entrepreneurs resulting in increased production and innovation.

A healthy banking system is therefore key to sustain prosperity. If banks became too big to fail, the government would support them in times of distress. To avoid the community's negative opinion, banks have to satisfy its demands, i.e. maximize the profit for shareholders, comply with the regulators' requirements and meet depositors' demand by maintaining optimal liquidity in the bank. Banks are increasingly implementing socially responsible activities into their everyday business practices and disclosing information on them (Achua, 2008; Wu & Shen, 2013).

Thus, since the banking system is the central pillar of an economy's development, banks should be socially responsible in order to build their reputation which could attract new customers, investors, highly educated employees and finally, win public trust (Achua, 2008).

2.3.2 Corporate Social Responsibility in Islam and Islamic Banks

Islam provides a complete code of behaviour for life since it embraces every aspect of life. CSR is therefore not isolated in the Islamic view and is one of the main concepts in Islamic teaching. Dusuki and Abdullah (2007b) stated that the concept of CSR is deeply inscribed in the *Shari'ah*. Therefore, any corporation such as an Islamic bank that claims to follow *Shari'ah* based principles should naturally practise CSR, as it enshrines Islam's true spirit.

Islamic banking was introduced as an alternative to conventional banking. Islamic banks have a strong responsibility to society, to establish a fair distribution of income, justice and efficient capital mobilisation in the economy. These requirements clearly suggest that Islamic banks should display a strong fundamental sense of social responsibility towards society.

Islamic banks commitment to CSR can be decoded through the philosophy underlying their establishment. According to Dusuki and Abdullah (2007b), Islamic banking rests on three main philosophies which distinguish it from its conventional counterpart. First, Islamic banking strives for a just, fair and balanced society, as envisioned by Islamic economics. Secondly, Islamic banking is constructed upon the principles of brotherhood and cooperation, and a system of equity sharing and stake taking. And thirdly, as a system grounded in the ethical and moral framework of the Islamic law of the *Shari'ah*. Thus, Islamic banking is characterised by ethical norms and social commitments.

The activities and operations of Islamic banks are not only based on government rules and regulations but at the same time must comply with the *Shari'ah* law. Therefore, Islamic banks permissible activities are limited compared to those of conventional

banks which are not subject to such restrictions but instead being obliged to comply solely with legislation and not with additional religious obligations.

Any activity that contradict Islamic values and principles must be avoided. Thus, Islamic banks should not invest in companies that violate human rights and damage the natural environment (Ullah and Jamali, 2010). Moreover, Islamic banks are not allowed to finance any enterprise involved in activities relating to pork, pornography, tobacco, gambling, and alcoholic liquor (Nathan and Ribiere, 2007). As a consequence, Islamic banks bring ethical values and corporate social responsibility to banking practices simply because they are required to abide by Islamic law and the *Shar'iah*, which are loaded with moral values (Kahf, 1999; Dusuki and Abdullah, 2007b).

While the above principles restrict Islamic banks' activity, they support Islamic banks' core values and activities that cultivate entrepreneurship, trade and commerce, and bring societal development or benefit (BNM, 2010). Khan (1987) indicated that these core values are one of the major principles underlying Islamic banking. Thus, making the contribution of Islamic banks to CSR practice relevant.

2.4 The relationship between CSR and FP

The linkage between Corporate Social Responsibility (CSR) and financial performance (FP) has remained unclear with literature showing contradiction information. Literature available can be grouped into three; those who found a positive relationship suggesting that CSR improves firms value, those who found a negative relationship and adopting the idea that firm must use its resources only to maximize its profits and otherwise it will have adverse results. And those who found a neutral relationship.

CSR may also be linked with subsequent financial performance so as to find out the degree in which financial performance is improved and it can also be linked with past firm performance so as to explore if firms with high financial performance take on CSR actions (Theofanis, 2010).

Based on this interrelationship that financial performance and CSR determines the magnitude of each other; Waddock and Graves (1997) based on the theories of “slack resources” and “good management” proved that better financial performance results in improved CSR and improved CSR led to improved financial performance.

This presents a serious conflict among researchers on whether CSR is independent or dependent variable evaluating the relationship between CSR and financial performance.

Financial performance(FP) refers to the degree to which financial objectives are being accomplished. It is the process of measuring the results of a firm policies and operations in monetary terms. FP is the result of decision made continuously by the management company to achieve its goals effectively and efficiently. Anwar, Haerani & Pagalung (2010). There are various ways that can be used in assessing a firm's performance depending on which profit and which assets a capital will be compared.

The ratios used in measuring FP results can be classified into Accounting based measures, which encompasses only the company's historical assessment of accounting profitability. Mcguire et al (1988). Some of the accounting based measures are Return On Equity (ROE) which is a measure of FP calculated by dividing net income by shareholder's equity. Thus, it measures the performance of the firm relative to shareholder's investments. Return On Investments (ROI), is a ratio

between net profit and cost of investment. It is used to evaluate the efficiency of an investment or to compare the efficiencies of several different investments.

Return on Capital Employed (ROCE), on the other hand is a financial ratio that determines a company profitability and the efficiency the capital is applied.

Return on Asset (ROA) is used to measure the efficiency of assets in producing income. This study employs the use of accounting based measures which is the ROA because it is the leading indicator of profitability. And the appropriate measure to measure FP as being used by Ashraf, Khan & Tariq,2017;Ene & Bello,2016.The accounting based measures are better predictions for CSR than market based measures Moore& Spencer (2006).

The market based measures on the other hand concentrate on market performance. Some of the market based measures are Share price appreciation, Earnings Per Share (EPS), market return, market to book value.

2.5 Corporate Governance and Performance in Islamic Financial Institutions

Corporate Governance (CG) of Islamic Financial Institutions (IFIs) allows ensuring fairness to all stakeholders through greater transparency and accountability towards Islamic principle. The CG of a *Shari'ah*business would first look at the transactional structure to see whether the transaction involves elements that invalidate gains or profits since *Shari'ah*principle is involved not only with the material but also with the form of business (Haider, Khan, & Iqbal, 2015). In effect, CG for IFIs stems from two principal elements it is a faith-based approach that directives are running of the company in synchronisation with *Shari'ah*principle and a profit-motive that recognises company and investment transactions to the maximisation of shareholder's wealth (Elsiddig, 2017). Hence, the main feature of the CG in the IFIs is ensuring the compliance with the *Shari'ah*principle. The Effective CG may significantly help to

strengthen Islamic banks and to assist Islamic banks in increasing rapidly and performing their responsibility efficiently (Elsiddig, 2017).

The CG deals with the way of how firms are managed and controlled and how accountability is assured. The efficiency of CG mechanisms in an Islamic bank organisation may help the company to reach its objectives, including its risk management and affect the financial performance of the Islamic bank (Mollah, Hassan, Al Farooque, & Mobarek, 2016). The CG mechanism ensures the management acts in the best interest of the company and minimises the agency cost. The CG framework is one of the important keys to increasing the efficiency in business monitoring. The implementation of the CG mechanism is expected to attain a balance of many interests that give benefit to the company. Good financial performance is crucial for Islamic banking to be able to keep maintaining the existence of the banking listed as a viable investment for the banking sectors (Mollah&Zaman, 2015). A study by Mollah et al. (2016) shows that the governance structure in Islamic banks agrees them to take higher risks and accomplish better performance as a result of item complexities and exchange instruments. However, the higher capitalisations in Islamic banks are maintained compared to conventional banks.

There have been numerous studies on CG in the Islamic banking sector and studies have been written about the relationship between CG and their firm performance of Islamic banking (Bukair& Abdul Rahman, 2015; Elsiddig, 2017; Haider et al., 2018; Mollah et al., 2016; Mollah&Zaman, 2015).

2.5.1 Corporate Governance in Islamic Banks

Basel Committee on Banking Supervision (BCBS 2015) identifies the governance structure as being composed of the board of directors and senior management. Given the distinct features of Islamic Financial Institutions arising from their commitment to the principles of the Shariah, corporate governance in these institutions encompasses certain additional stakeholders and issues that may not be found in conventional financial institutions.

For instance in its third guiding principle on corporate governance, IFSB-3 identifies customers and communities as stakeholders with vested interests in the wellbeing of Islamic Financial Institutions. In general, the literature on corporate governance in an Islamic perspective has focused on issues relating to Shariah rulings and governance structures. These include studies related to control on Shariah compliance, traditional concepts of governance, human character and decision making, investment account holders, Shariah Supervisory Boards and Shariah review and audit. Only a few attempt to explore the implementation of corporate governance on Islamic Financial Institutions based on international standards of corporate governance (Haukamah, 2011) or indicators. Considering various dimensions of the corporate governance framework, this study considers the following six themes of corporate governance:

i. Board Of Directors

The board of directors plays an important role in guiding banks and financial institutions toward a sound management and operations by providing an independent oversight of managers. The BCBS (2015) identifies the key responsibilities of the Board as the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, risk management and compliance obligations. To have an effective

oversight BCBS (2015) recommends that the board should have a sufficient number of independent directors and that the directors should collectively have the qualifications, background, knowledge, skills and expertise to understand the risk and complexities of the bank and to guide the bank in a sound and prudent manner. The chair of the board plays an important role by providing leadership and ensuring the proper functioning of the board. The chair should also be an independent or non executive board member and ensure appropriate checks and balances. Although BCBS 2015 does not explicitly recommend that the position of chair and chief executive should be separated, it is generally considered good practice for this to happen.(Ard& Berg 2010).

ii. **Board Committees**

BCBS (2015) recommends that the board should establish different board committees so that specific issues can be dealt with in a focused manner. The size and composition of the board committees will depend on factors such as bank and board size. The BCBS among others also recommends establishing the following committees.

a. **Audit Committee:** The responsibility of an audit committee is to frame policies and provide an oversight on financial reporting and internal audit, and also to interact with internal and external auditors. In maintaining the effectiveness of the committee, it should be headed by an independent board member. Thus members should have an experience in auditing and financial reporting.

b. **Risk Committee:** The role of the risk committee is to advice the board on the bank's risk appetite. And to oversee the bank's risk management framework in line with the risk appetite statement and in coordination with the Chief Risk Officer. The committee should be headed by an independent director.

- c. **Compensation Committee:** The role of the Compensation Committee is to oversee the remuneration schemes of the bank to ensure that incentives and compensation are in line with the long term business goals and risk appetite of the institution. This entails examining the remuneration policy effects on earnings, capital, liquidity, risks and how compensation schemes are likely to determine the way in which staff behave. And also working closely with the risk committee.
 - d. **Nomination/Governance Committee:** This Committee studies the role and responsibilities of board members and identifies the knowledge and skills that are required from new board members. The committee should also include a sufficient number of independent members.
 - e. **Ethics and Compliance Committee:** This committee ensures that the institution complies with the external rules and ethical codes. Thus achieving the Sustainable Development Goals launched by the United Nations in 2015 will require huge amounts of financing. The United Nations Environment Programme's Finance initiative strongly encourages banks to consider sustainability issues in their operations and this role would fall naturally to an ethics committee.
- iii. **Internal Control and External Audit:** A bank's internal audit department and its external auditors play important and different roles in ensuring that a bank's internal controls are effective. Principle 10 of BCBS (2015) relating to internal audit states that the internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long term soundness of the bank. The chief internal auditor should report to the board or its Audit

Committee. The internal audit department is responsible for carrying out risk-based and general audits and reviews in order to strengthen the overall governance and risk governance framework by ensuring that all policies and processes are applied consistently throughout the organization. In order for the internal audit to function effectively and independently, it should be given access to all relevant information and records of the organization. The BCBS (2014) published a document focusing on ways that external audit could be improved after realizing that one of the weaknesses of governance that led to the global financial crisis was the quality of external audits. A weakness in financial reporting and internal controls was also identified and remedial measures can be taken to provide helpful input to supervisors and also help to instill market confidence in financial statements. Thus a bank's Audit Committee is responsible for ensuring that the financial statements are audited by an independent external auditor.

- iv. **Risk Governance:** The importance of risk management for financial institutions became particularly apparent during the global financial crisis. Directors paid insufficient attention to risks and sometimes did not understand the risks that their banks were facing or how the risks had been changing. The Corporate Governance Principles for banks issued by BCBS (2015) put a lot of emphasis on risk governance. Of the 13 corporate governance principles identified by the BCBS, three specifically relate to risk management. Principle 6 deals with the risk management function, principle 7 deals with risk identification, monitoring and control, and principle 8 relates to risk communication.
- v. **Shariah Governance:** A sound Shariah governance involves instituting structures, controls and processes to ensure that Shariah principles and

requirements are fulfilled in all contractual, procedural and operational aspects of an Islamic financial institution from the perspective of different stakeholders. (Ahmed 2011). In order to reduce Shariah compliance risks and ensure that the Islamic financial institutions fulfil their obligation of conducting business according to underpinning operational Shariah principles and licensing requirements. The regulatory bodies can also choose to provide Shariah governance and frameworks and guidelines. IFSB 10 proposes four aspects that Shariah governance systems should have at the level of IFIs. These are issuance of Shariah pronouncements, ensuring day to day compliance with the Shariah, internal Shariah compliance review and audit, and annual Shariah compliance audit to ensure that internal Shariah compliance review has been properly carried out. To undertake these functions, the IFSB identifies different Shariah organs which include an in-house Shariah compliance unit/department, internal Shariah review/audit unit and a Shariah Supervisory Board.

- vi. **Transparency and Disclosure:** Information disclosures enables market actors to monitor banks activities which can lead to stronger governance through market discipline (Mehran&Mollineaux 2012). Principle 12 of BCBS (2015) on disclosure and transparency recommends that banks should provide adequate and relevant information to their shareholders, depositors, market participants and other stakeholders. It recommends applying the transparency section of the OECD principles on Corporate Governance, it suggests publishing timely and periodic reports that provide comprehensive information on different aspects of corporate governance, risk exposure and management. With regards to transparency and disclosure in Islamic banks, IFSB 3 and IFSB 4 provide specific guidelines. For instance, IFSB 4 provides details of the issues that need to be

disclosed by Islamic financial institutions which include financial and risk disclosure principles, disclosures for investment account holders, disclosure on general governance and Shariah governance. Similarly, principle 4 of IFSB-3 states that Islamic financial institutions should make timely disclosure to Investment Account Holders (IAH) and the public of material and relevant information on the investment account that they manage.

2.5.2 The relationship between corporate Governance, Disclosure and Performance in Islamic banks.

The level of disclosure and transparency and timeliness of reporting on the annual report can be influenced by CG mechanism (Haniffa & Cooke, 2002). The information disclosure in annual reports has been managed by the board of directors and management of the company (Hameed et al., 2016).

The timeliness and quantity of information disclosure in the annual report are decided by the board of directors, especially voluntary. Then, in turn, a higher level of transparency and disclosure may be able to positively affect firm performances because of reducing the cost of capital and information asymmetry as argued by Lang and Lundholm (2000) and Cui, Jo and Na (2018). There is a limited study on the CG disclosure as a mediating variable either in the company or banking sectors. According to Wan Abdullah et al. (2015), the influence stronger sets of CG mechanisms in Islamic banks are associated with a higher level of voluntary CG disclosure. Another study by Srairi (2015) found that Islamic banks with higher levels of CG disclosure can be affected by the high operating performance measured by return on assets (ROA) and return on equity (ROE). Hence, based on this argument, it is expected that Islamic Banking with a higher level of CG mechanisms can lead the disclosure in reporting and will gain better firm performance of Islamic banks.

The principles of Islamic banking place great emphasis on strong CG structure, transparency, the disclosure of information and strict adherence to *Shari'ah* principles. The *Shari'ah* governance framework is a set of organisational arrangements through which IFIs to ensure effective oversight, responsibility and accountability of the board of directors, management and *Shari'ah* committee (Hasan, 2011; Muneeza& Hassan, 2014).

The *Shari'ah* governance framework serves as a guide towards ensuring an operating environment that is compliant with *Shari'ah* principles at all times. Based on the definition of *Shari'ah* governance by IFSB (2009) no. 10, it can be observed that the extensive duties need to be performed by the SSB (Haqqi, 2014). Based on the understanding from the definition of *Shari'ah* principle, the duties of SSB is to oversight and supervise the *Shari'ah* compliance of the IFIs, as such, their competence is essential to form a robust *Shari'ah* board (Kasim et al., 2016). This definition also implies that the institution of the *Shari'ah* board is crucial to the *Shari'ah* governance system as an authoritative body ensuring *Shari'ah* compliance (Malkawi, 2013).

2.6 Empirical Studies

In order to determine a literature gap, there is the need to provide comprehensive review of related empirical literatures on the mediating effect of Corporate Governance (CG) on the relationship between Corporate Social Responsibility (CSR) and Financial Performance (FP). This study was able to review and analyze some previous studies among which are:

A recent study by Mangantar. (2019) analyze the influence of Corporate Governance (CG), Corporate Social Responsibility (CSR) on the Financial Performance (FP) of the banking sector as it is listed in the Indonesian Stock Exchange. And the results of the study show that Corporate Social Responsibility does not have any significant effect on Financial Performance as measured by the Return On Asset (ROA). Corporate Governance does not have any significant effect on Financial Performance. Also, Social Responsibility and Governance have a positive direction with Financial Performance.

In this research, CSR is reflected in sustainability reporting which consists of economic, environmental and social policies, the influence and performance of the organization and its products in the context of sustainable development. FP is reflected by ROA while CG is reflected by CG index whose indicators are the size of the independent commission, the size of the board of directors, and the size of the audit committee. However this is an explanatory study that needs further empirical testing of variables.

The findings of Mahrani&Soewarno. (2018) in their study the direct influence of the mechanisms of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) on Financial Performance (FP) uses earning management as a

mediating variable. Partial least square was used in analyzing the data with Warp PLS 5.0 software and the result shows that the mechanism of GCG and CSR has a positive effect on Financial Performance as well as the CSR on Financial Performance. The result also shows partial mediation of earnings management on impact of GCG mechanisms on Financial Performance and full mediation of earnings management on impact of CSR on FP. Thus the study paves way for empirically measuring of more mediating variables of CSR and FP.

Titisari, Moeljadi, Ratnawati, & Indrawati (2018) studied the mediating role in Corporate Governance (CG) relations and firm value. The research was conducted on companies that participated in the CGPI program and published sustainability reports with observation period 2011-2015. The results show that Corporate Social Responsibility (CSR) does not mediate the relationship between Corporate Governance and Corporate value as measured by ROE. Improving CG will increase CSR and Corporate value occurring in the measurement of the Company value with ROE. Thus in carrying out CG and ethical behavior, the company always pay attention to long-term sustainability to increase company assets from the results of company operations to reflect in ROE. Company value can be maximized in a company that is adapted to the principles of Corporate Governance and prioritizes the interest of stakeholders by carrying out Corporate Social Responsibility.

Kofar Mata & Ibrahim (2018) examine the effect of Financial Performance (FP) on Corporate Social Responsibility (CSR) of banks in Nigeria. A sample size of 7 banks out of 15 being listed on the Nigerian Stock Exchange with a total of 21 banks in Nigeria was used. The study employed ex-post facto research design using a data of 6 yrs period ranging from 2010-2015. The study used multiple regression model as the

technique of analyses using STATA software version 12. The study found that two of the independent variables ROA and ROCE have significant positive effects on Corporate Social Responsibility disclosure on the other (i.e. EPS) negative effect. Thus the study concluded that Financial Performance plays a significant role on the Corporate Social Responsibility disclosure in Nigeria.

Ullesever (2018) conducted a study on the relationship between the multi-layer corporate governance model of Islamic banking and bank performance. The random effects GLS method for the regression analyses and two- step generalized methods of moments for the robustness check of the findings were utilized. The result shows that board are strong and the CEO's are powerful in Islamic banks. While the return variables of Islamic banks are positively correlated with the financial disclosure index and board structure variables, they are negatively correlated with the risk closure index and CEO related variables. The corporate governance and financial disclosure indices lessen the profitability of Islamic banks as they are negatively significant with performance variables. However the governance mechanisms provides a weak explanation for the changes in shareholder value of Islamic banks which paves way for more empirical research.

Zain, Amalina, Abdullah & Rashid (2018) examines the relationship between Corporate Governance (CG) mechanisms and Shariah Supervisory Board (SSB) mechanisms on the firm's performance of Islamic bank affected by the mediating variable of CG disclosure. CG is expected to be relevant to Islamic banks in strengthening the infrastructure of Islamic Financial Institutions (IFIs). Panel data analyses is applied from annual reports of Islamic banks in the southeast Asian (SEA) and Golf Cooperation Council (GCC) regions from 2012-2017. The results provide

evidence that stronger GC strength and Shariah Supervisory Board (SSB) strength have a relationship with a higher level of firm performance of the Islamic bank. However this study is a limited comprehensive investigation into the combination of CG and SSB in affecting the firm performance of Islamic bank and CG disclosure as a mediating variable.

Jallo& Abdul Rahman (2017) explore the effect of Corporate Social Responsibility (CSR), Good Corporate Governance and Ownership Structure on Financial Performance and Firm Value of Jakarta Islamic Index for the period 2013-2015. The sampling technique used is purposive sampling and the analyses technique used is Partial Least Squares (PLS) with the help of Smart PLS version 3.0 analyses program. The results shows that:

- i. Corporate Social Responsibility, Good Corporate Governance and ownership structure has a positive and significant effect on Financial Performance.
- ii. Corporate Social Responsibility and Ownership Structure has a positive and insignificant effect on Firm Value.
- iii. Good Corporate Governance has a positive and significant effect on Firm Value.
- iv. Corporate Social Responsibility and Ownership Structure has a positive and insignificant effect on Firm Value as a mediated Financial Performance.
- v. Good Corporate Governance has a positive and significant effect on Firm Value as a mediated Financial Performance.

Hoossain, Alamgir&Alam (2017) provides an insight on the mediating role of Corporate Governance(CG) and Corporate Image (CI) on the CSR-FP link. A sample of 155 firms in a developing country support the link between Corporate Social Responsibility (CSR) and Financial Performance (FP). However the effect is indirect while CG and CI fully mediate this link. The findings indicate that the CSR

engagements help better governance practice and improve CI through establishing good internal controls and monitoring that ultimately enhance FP. However the research develops a model based on legitimacy and institutional theories and considers two intervening variables Corporate Governance (CG) and Corporate Image (CI).

Dewany(2015) aims to know the effect of the quality of Good Corporate Governance implementation on the rate of return measured using Return On Asset (ROA),the risk of financing measured using Non Performing Financing (NPF) and capitals measured using Capital Adequacy Ratio on Islamic Banks in Indonesia. Purposive sampling method was used with the limitation of Islamic Banks registered in Bank Indonesia and publish annual report and disclose reports of Good Corporate Governance from 2010-2013. However, the result shows that the quality of Good Corporate Governance implementation has no effect on the rate of return and the risk of financing but it has an effect on the capital.

From the above empirical review, it can be seen that different researchers use different proxies of CSR and FP which are either the accounting based measures or the market based. The studies present mixed findings which are either positive, neutral or negative. Also, different mediating variables with different proxies were also being used to find out if they mediate CSR and FP. Thus, to the best of the researchersknowledge, this is the first study to attempt on Corporate Social Responsibility (CSR), Corporate Governance (CG) and Financial Performance (FP) of Jaiz Bank Plc Nigeria.

2.7 Theoretical framework

Researchers have used several theories to explain the reason why companies voluntarily indulge in Corporate Social Responsibility (CSR) activities. Some of the

theories are: agency theory, slack resources theory, the legitimacy theory, and the stakeholder theory.

Agency Theory

The theory was proposed by Jensen and Meckling (1976). The theory recognizes a corporation as merely a nexus of contractual arrangements between managers and shareholders. Thus managers are assumed to be agents of shareholders who are likely to pursue corporate actions that advance their own personal interests at the expense of shareholders value. Each party (organization or agent as a stakeholder) plays different roles for other parties. Organizations are bound together by the contracts each agent has and play a crucial role on contract between the parties. These links between organization and agents mean that every organization has responsibility to other agents and organizations. Organizations balance the benefits of each party by using managerial tools and actions such as CSR and communicate their actions through annual reports and websites. The agency theory directs organizations to be socially responsible since they are social agents contracting with other agents as a part of chain; their aim goes beyond profit maximization. The theory also assumes that organization constructs the business environment and agents are the members of social society. Therefore, each individual either voluntary or involuntary plays the role of an agent. The theory implies that CSR is not a voluntary undertaking and affects financial performance and the role of organizations is seen as a way to honor a set of contracts among employees, customers, managers, shareholders suppliers, auditors among others.

Slack Resources Theory

The theory suggests a positive relationship between Corporate Social Responsibility (CSR) and Financial Performance (FP). However, the theory proposes a different temporal ordering that CSR is directly associated with subsequent financial performance. High levels of CSR may provide the slack resources necessary to engage in Corporate Social Responsibility and responsiveness.(Waddock& Graves 1997).CSR often represents an area of relatively high managerial discretion, the initiation or cancellation of voluntary social and environmental policies may to a large extent depend on the availability of excess funds (McGuire ET AL, 1988).The theory implies bidirectional causality between CSR and FP. Hence, Corporate Social Responsibility leads to high Financial Performance and also high performance leads to more investment in CSR.

Legitimacy Theory

This theory focuses on a perception that there is a social contract between a company and the society in which the company operates. The company agrees to perform various actions desired from the society, whereas the society in return approves the company's objectives, possible rewards and survival (Guthrie & Parker,1989).Therefore, the survival and growth of the company depend on whether the company manages to deliver some socially desirable ends to society and whether it can distribute social, economic or political benefits to groups from which the company derives its power. Consequently the company always tries to ensure that it operates within the defined norms and boundaries set by the society (Singh 2014).Otherwise the company's survival could be threatened if society thought that there was a breach of the social contract and wanted to revoke it (Guthrie & Cuganesan,2006).In addition societal expectations change overtime and due to this changes the conditions in the social contract also change and companies have to be

flexible to respond to the environment in which they operate. The three key challenges of legitimacy management are to gain, to maintain, and to repair the legitimacy. When there is a difference between how a company acts and how it should act, there is a threat to the company's existence (Guthrie & Cuganesan 2006) and the company has to repair their legitimacy. While gaining legitimacy can be a tough process especially for newly established companies, it is still easier than maintaining it or repairing it over time and with changes in the environment and this is where flexible companies have major advantages. The legitimacy theory has some limitations which include that it centres on the manipulative behavior of a company and pursuing its self-interest. It ignores the concept of accountability, transparency and consequently privileges financial stakeholders of a company. Furthermore it lacks accuracy and has an uncertain ability to explain managerial behavior.

Stakeholder Theory

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It was originally detailed by Richard Edward Freeman in the book called Strategic management. A stakeholder approach describes and recommends methods by which management can give due regards to the interests of those groups of stakeholders. Despite the traditional view of a company where the shareholder view only the owners of shareholders (stockholders) of the company are important and that the company has a binding fiduciary duty to put their needs first so as to increase value for them. Stakeholder theory instead argues that not only shareholders, but there are other parties who are involved which include employees, customers, suppliers, financiers, local communities, governmental bodies, political groups, trade associations and

regulators. Thus a stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objective (Freeman 1984).

The stakeholder theory contends that organizations perform CSR activities because of the ethical demand on organizations to do so. Also, the survival of a company depends on the support of its stakeholders, and that support should be sought so as to keep the company running. The stronger the stakeholders, the more the companies try to adapt (Gray, Kouh & Lavers 1995). Furthermore, the decision making of a firm, is based on the discretion of the top management and corporate governance. And it is frequently stated that such governance should incorporate stakeholder representative.

This study therefore adopts the stakeholder theory which is important in this research because the theory is related to the parties that are interested in the company. They include those who will be affected and influenced by the activities of the company such as accountability of management to stakeholders in the form of CSR activities and corporate financial performance. However, the Islamic framework of stakeholder also strives for a balanced and harmonized interest of various stakeholder groups but which is based on the moral and ethical principles enshrined in the divine guidance of the Shariah. Consequently the Islamic norms and values that characterize each organization will have an effect on whether and how the concept of the stakeholder might be used particularly in managing Corporate Governance (CG) issue. In this sense there is a normative core grounded to the Islamic moral and ethical principles for the use of the stakeholder concept. Thus the Islamic principle provide the coherent justification framework in recognizing and justifying the rights of different stakeholder which many of the humanistic-based moral theories fail to look at. Moreover the Islamic concept of justice denotes a balance of the forces of

equilibrium, a firm with a better financial position has the moral commitment and social responsibility to be concerned with the vulnerable in the society. Also, for a devout Muslim the concern for others and the environment he lives in is deeply inscribed in the pillars of Islam binding on every Muslim. Therefore, the concern of aggregate welfare of stakeholders is a moral and religious initiative based on the belief that a company should be good regardless of its financial consequences be it positive or negative. This is not to suggest that Islam is against profit making but rather it is seen as a necessary condition though not the sole purpose of their existence (Z Hassan 1983). The invocation of Shariah in business implies that the entrepreneur is no longer driven by the principle of profit maximization alone but by the pursuit of the ultimate happiness in this life and the Hereafter. Whereby he acknowledges his social and moral responsibility for the wellbeing of his fellowman.

2.8 Research framework of the study

Corporate Social Responsibility (CSR) depicts the independent variable while the dependent variable is the Financial Performance (FP) and Corporate Governance (CG) on the other hand is the mediating variable. The study adopts the Baron & Kenny (1986) regression procedure.

According to Baron and Kenny (1986), for full mediation to occur; the coefficient of CSR in equation one and two should be significant. But when CGI is included to make a full model (equation 3), the coefficient of CSR should become insignificant and that of CGI significant. If however, CSR remains significant in equation 3 with a significant CGI, but the coefficient of CSR is seen to reduce relative to that obtained in equation 2, a partial mediation occurs. Where CGI is observed to be insignificant in the full model, no mediation occurs.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section explains the methodological issues that are involved in the study. It comprises of the research design, population, sample size and sample techniques, data and sources of data, validation, techniques of data analyses as well as the model specification.

3.2 Research Design

The study adopts a descriptive research design. Descriptive study defines the features and relevant dimensions regarding the variable of interest in a given phenomenon which, offers the researcher to think systematically about aspects of a situation under investigation (Sekaren, 2000). Also, the descriptive design leads to the discovery of associations among the different variables. The study examines the effect of corporate social responsibility on Jaizbank financial performance, with corporate governance as a mediating role.

3.3 Types and Sources of Data

Data collection techniques to be conducted in this study is a documentation study, done by collecting secondary data from financial reports and annual reports of jaiz bank plc that have been published from the period of 2012-2018. Corporate governance index (CGI) for Islamic financial institutions developed by the General Council for Islamic banks and financial institutions (CIBAFI) and World Bank in 2017.

3.4 The Variables of the study and their Measurements

There are three broad variables for the study; Financial Performance (FP), Corporate Social Responsibility (CSR) and Corporate Governance (CG). Financial performance

is proxied by Return on Asset (ROA), consistent with previous studies (see Ashraf, Khan & Tariq, 2017; Ene & Bello, 2016). CSR is proxied by use of charity funds. The choice is informed from the fact that Jaiz bank recognizes this expenditure as its CSR expenditure (see Jaiz bank Annual Reports, 2013; 2014; 2015 & 2016) and previous research has also confirmed the use of charity as proxy for CSR (see the work of Zafar & Sulaiman, 2018). For corporate governance measure, the study adopts the Corporate Governance Index (CGI) for Islamic Financial Institutions developed by the General Council for Islamic Banks and Financial Institutions (CIBAFI) and World Bank in 2017. This measure is a comprehensive index for Islamic corporate governance that draws from general regulatory guidelines on corporate governance and those specific to Islamic financial institutions. It comprises of six (6) themes which are the board of directors, board committees, internal control and external audit, risk governance, Shariah governance, transparency and disclosure. With each having six items making an aggregate of 36. The variables and their measures are depicted in appendix 1.

3.5 Techniques of Data Analyses

Data collected from the Annual Audited Reports of Jaizbank Plc for the period 2012-2018 was processed and analyzed. Descriptive statistics pertaining to the variables of the study which are ROA, CSR (charity) activities and Corporate Governance practice based on the index developed by CIBAFI and World Bank (2017) was computed and presented. Correlation Matrix was used in finding out the correlation between CSR and ROA and CGI and ROA. Also, the ordinary least square (OLS) regression was used to examine Corporate Governance as the mediating variable between Corporate Social Responsibility and Financial Performance. And in controlling the likelihood of

endogeneity, one year lagged and two stage least square (2SLS) regression models were used.

3.6 Models Estimation

Since the study is with the objective of testing for mediation, it adopts the regression procedure suggested by Baron and Kenny (1986). This procedure was also adopted by Sialet. al (2018). The procedure involves the estimation of three (3) regression equations with conditions for mediation. The regression equations for this study are given below.

$$\text{CGI} = \alpha_0 + \beta_1 \text{CSR} + \mu \quad (1)$$

$$\text{ROA} = \alpha_0 + \beta_1 \text{CSR} + \mu \quad (2)$$

$$\text{ROA} = \alpha_0 + \beta_1 \text{CSR} + \beta_2 \text{CGI} + \mu \quad (3)$$

3.7 Apriori Expectation

The study expects the coefficients of all the independent variables in equation three to be positive. It is expected that the CSR activity of the bank should increase her reputation and hence customers' trust leading to increased banking with the bank. This consequently should have an effect on profitability due to increased customer base.

Corporate governance (CGI) is also expected to positively increase the bank's profitability. The whole essence of corporate governance is to provide a structure through which the objectives of an organisation can be achieved. An institution that is well governed is an indication for low risk profile and better performance (see CIBAFI, 2017).

3.8 Test of Autocorrelation (Post Estimation Test)

To test for the randomness of error term between members of the same series of observation, the study employs the Durbin Watson (DW) test for autocorrelation. By rule of thumb, a DW statistic of approximately 2 or 0 indicates an absence of serial or autocorrelation.

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND INTERPRETATION

4.1 Introduction

The research framework and methodology were developed to meet the objectives of the study which have been presented in the previous chapters. The aim of the study was primarily to examine the mediating effect of Corporate Governance (CG) on Corporate Social Responsibility (CSR) and Financial Performance (FP). As mentioned in the earlier chapters, the variables used in the study originates from various studies conducted in developed and developing countries. Thus a pilot test has been carried out in Jaiz bank Nigeria Plc to find out if CG mediates on the CSR and FP.

This chapter comprises of five sections, section one introduces the chapter. The next section will present the descriptive statistics of the variable, the multivariate analyses are presented in section three, the robustness test which tests the problem of endogeneity are presented in section four and finally section five presents the results of the hypothesis.

4.2 Descriptive Statistics

Table 4.2 represents the descriptive statistics of variables in the study. The mean value of Jaiz bank Plc return on asset (ROA) for the period under study is 0.24. On the average, the bank has expended the sum of 914.0571M on its CSR (charity) activities.

On the average, the bank’s compliance to the Corporate Governance practice based on the index developed by CIBAFI and World Bank (2017) for Islamic financial institutions is 79%, for the seven year review period.

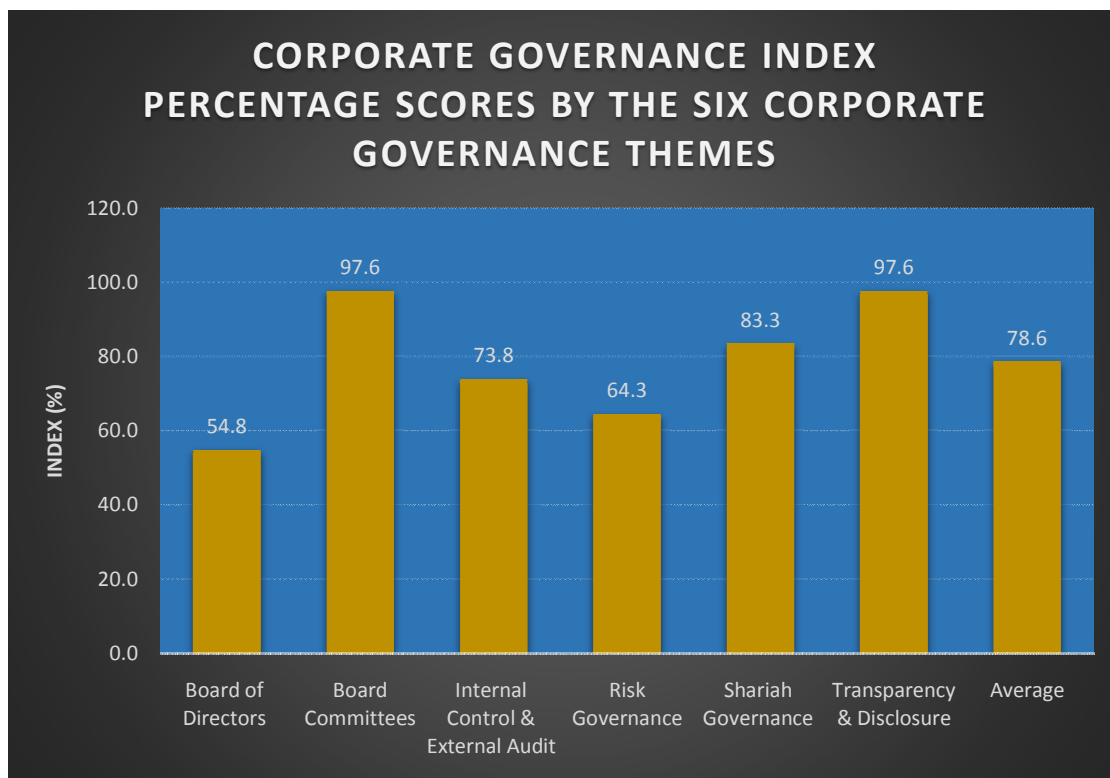
Table 4.2: Descriptive Statistics

Variable	Mean	St. Dev.
ROA	0.236429	0.322930
CSR	914057.1	897901.9
CGI	0.785729	0.034826

4.3 Corporate Governance Index

Figure 4.1 below shows the corporate governance index percentage scores by the six corporate governance themes for the period under review. The average score for the seven years period is 28.3 out of the maximum of 36 (78.6%). Of the six themes, Transparency & Disclosure and Board Committees has the highest scores at 97.6%. This is followed by *Shari’ah* Governance (83.3%). Board of Directors takes the lowest score at 54.8%, followed by Risk Governance (64.3%)

Figure 4.1:Corporate Governance Index Percentage Scores by the Six Corporate Governance Themes



A further analysis of the thematic scores by item (see Appendix) shows recurring non-independent members of Risk Committee. The bank (Jaiz Bank Plc) needs to strengthen this aspect by including more of independent members in order to increase her Risk Governance. Also, the bank should increase the number of her *Shari'ah* Board meetings (currently less than 5 in a year), as this can further strengthen *Shari'ah* Governance.

As earlier mentioned, Board of Director has the lowest score in the bank corporate governance index. A major area that calls for immediate improvement from an item analysis of the theme is the need to include no-independent Directors. This has the potential to increase the bank's corporate responsibility and governance standards. Furthermore, the bank needs to improve in its Board composition to include female Directors. The OECD global corporate governance index 2019 sets this as a priority for gender equality in corporate board composition.

4.4 Correlation Matrix

Table 4.4 represents the correlation matrix. The results show that the correlation between Corporate Governance (CGI) and Return on Asset (ROA) is a negative one. It shows that there is a negative association between CGI and ROA (-0.545158). This may suggest an insufficiently aligned corporate governance structure for improved ROA of the bank. However, the results does not suggest that CGI does not causes ROA.

CGI and CSR have low positive association, below 0.6(0.24). This suggests the absence of multicollinearity in the model with CSR and CGI as independent variables. The correlation matrix also reveal a negative correlation between CSR and ROA.

Table 4.4: Correlation Matrix

	ROA	CSR	CGI
ROA	1.000000	-0.723717	-0.545158
CSR	-0.723717	1.000000	0.246292
CGI	-0.545158	0.246292	1.000000

4.5 Multivariate Analysis

Table 4.5 shows the regression results of testing the mediating effect of corporate governance in the relationship between corporate social responsibility of Jaizbank Plc and her financial performance. The regression analysis is based on the three stage procedure discussed in chapter three. First, the study regressed corporate governance on corporate social responsibility. The coefficient of CSR in model 1 is positive and not significant ($\beta=0.0076$, $p>0.1$). This does not support our first hypothesis. Although the CSR coefficient is positive, the effect is infinitesimal (insignificant).

Table 4.5: Mediation Effect of Corporate Governance in the Relationship Between CSR and Financial Performance

VARIABLES	Model 1 (CGI)		Model 2 (ROA)		Model 3 (ROA)	
	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value
CSR	0.0076	0.2510	-0.1385	0.0001***	-0.1334	0.0006***
CGI					-0.4996	0.5108
Constant	0.6898	0.0003***	1.9807	0.0000***	1.7965	0.0037***
	F	1.68		156.66		71.06
	Adj-R ²	0.10		0.96		0.96

For detailed explanation of variables, see appendix 1

In stage two, ROA is regressed on CSR. The coefficient of CSR is negative and significant at the 1% level ($\beta = -0.1385$, $p < 0.01$). This supports the second hypothesis of the study that CSR has significant effect on Jaiz bank plc performance. However, the regressed data of the study suggests a negative effect.

This is not consistent with the a-priori expectation of a positive relationship between CSR and ROA. Thus an increase in the CSR of Jaiz bank Plcis seen to reduce its performance proxy as ROA by 0.13%.

In the final stage, financial performance proxy as ROA is regressed on CSR as well as CGI. The coefficient of CGI is negative and insignificant ($\beta = -0.4996$, $p > 0.1$). This suggest that corporate governance does not significantly affect Jaiz bank performance. When CGI is included in the model, the coefficient of CSR was found to be significant at the 1% level ($\beta = -0.1334$, $p > 0.01$). The collective effects of these results shows that corporate governance does not mediate the relationship between CSR and financial performance of Jaiz bank plc for the period under review. Thus hypotheses 3 and 4 are not supported. The study also reveals the absence of serial

correlation in all the equations. The DW statistics for all equations is seen to be within the approximate value for an absence of serial correlation. Please refer to appendix.

4.6 Robustness Tests: Problem of Endogeneity

To control for possible problem of endogeneity, the study used alternative models. This is depicted in Table 4.5 below. First the study used one year lagged variable of CSR on the consideration that the effect of CSR is not instantaneous, but requires time to calibrate its effect. The results revealed a significant CSR in model 2 ($\beta = -0.1385$, $p < 0.01$) and model 3 ($\beta = -0.1334$, $p < 0.01$), and insignificant in model 1 ($\beta = 0.0076$, $p > 0.1$). Moreover, the coefficient of CGI was insignificant in model 3 ($\beta = -0.4996$, $p > 0.1$), which confirms the previous results. Second, the study uses a Two-Stage Least Square (TSLS) method because it helps in solving the problem of endogeneity as one of the assumptions of the Ordinary Least Square (OLS) is that the error term of the dependent variable should not be correlated with the independent variable. And also with lagged values of CSR as instrument variable. The results revealed a significant CSR in model 5 ($\beta = -0.1385$, $p < 0.01$) and model 6 ($\beta = -0.1334$, $p < 0.01$), and insignificant in model 4 ($\beta = 0.0076$, $p > 0.1$). Moreover, the coefficient of CGI was insignificant in model 6 ($\beta = -0.4996$, $p > 0.1$). This is consistent with earlier results obtained.

Table 4.6: Mediation Effect of Corporate Governance in the Relationship between CSR and Financial Performance; Alternative Models

VARIABLES	Lag Of Independent Variables				2 Stage Least Square (2SLS)							
	Model1		Model2		Model3		Model4		Model5		Model6	
	(CGI)		(ROA)		(ROA)		(CGI)		(ROA)		(ROA)	
	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value
CSR	0.0076	0.2510	-0.1385	0.0001	-0.1334	0.0006	0.0076	0.2510	-0.1385	0.0001	-0.1334	0.0006
CGI					-0.4995	0.5109					-0.4996	0.5108
Constant	0.6898	0.0003	1.9807	0.0000	1.7964	0.0037	0.6898		1.9807		1.7965	0.0037
								0.0003		0.0000		
	F	1.68		156.67		71.07						
	waldChi ²							1.68		156.66		96.81
	Adj-R ²	0.10		0.96		0.96		0.10		0.96		0.96

For detailed explanation of variables, see chapter three, Table 3.1.

Testing Hypothesis 1

The hypothesis of the study state that there is a significant effect of Corporate Governance (CG) on Corporate Social Responsibility (CSR) of Jaiz bank plc. The regression analyses is based on three stage procedure as discussed in chapter three. First, the study regressed CG on CSR and the results in table 4.4 shows that the level of significant for the regression analyses indicates that there is a positive but very (low) positive relationship between CSR and CG which makes it insignificant. ($\beta=0.0076, p>0.1$). This result does not support our first hypothesis. Although the CSR coefficient is positive, the effect is insignificant. This is line with the research by Pergola dan Joseph (2011), Steubs da Sun (2015). Thus the implementation of a good CG will increase the ethical responsibility of corporate management and maintain the corporate's long term sustainability in achieving the corporate goal of providing prosperity to the stakeholders.

Testing Hypothesis 2

The hypothesis of the study state that Corporate Social Responsibility (CSR) has a significant effect on Jaiz bank Plc Financial Performance (FP). Thus, in stage two ROA is regressed on CSR. The coefficient of CSR is significant at 1% level ($\beta= - 0.1385, p<0.01$). The result supports the second hypothesis of the study that CSR has significant effect on Jaiz bank Plc performance. However the regressed data of the study suggests a negative effect. This is not consistent with the a-priori expectation of a positive relationship between CSR and ROA. Thus an increase in the CSR of Jaiz bank Plc is seen to reduce its performance proxy as ROA by 0.13%. A possible explanation for this could be that Jaiz bank in conducting its CSR uses the profit of the company which in turn

affects its FP. Although by engaging in CSR the bank will get a positive response from stakeholders and that will raise the image of the bank which will eventually increase its FP. And also attain falah. This findings is consistent with previous results by Lin, Chang& Dang (2015), Chih etal (2008) and Gras- Gil etal also have a significantly negative results but on CSR and Earnings Management (EM).

Testing Hypothesis 3

The hypothesis of the study states that CG has a significant effect on Jaiz bank plc FP. Here ROA when regressed on CG, the coefficient of CG is negative and insignificant ($\beta = -0.4996$, $p > 0.1$). Thus this signifies that CG does not significantly affect Jaiz bank performance which is not supported by the findings of the study. Researches in line with this study include Makki et al 2013, Peter & Bagshaw 2014.

Testing Hypothesis 4

The hypothesis of the study states that CG has a mediating effect in the relationship between CSR and FP of Jaiz bank plc. This is also not supported by the findings of the result. Thus when CGI is included in the model, the coefficient of CSR was found to be significant at 1% level ($\beta = -0.1334$, $p > 0.01$). The collective effect of this results shows that CG does not mediate the relationship between CSR and FP of Jaiz bank plc for the period under review. The studies in line with this research include Dewi & Widjagdo (2012), Barbara & Utami (2008). The study also reveals the absence of serial correlation in all the equations and the DW statistics for all equation is seen to be within the approximate value for an absence of serial correlation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of this chapter is to discuss the findings, reach conclusion and make necessary recommendations from all the quantitative analyses presented in chapter four. The chapter is structured into five sections as follows: section 5.1 introduction, section 5.2 presents the summary of findings, section 5.3 provides the conclusion while section 5.4 and section 5.5 cover the sections for recommendation and suggestions for further studies respectively.

5.2 The Summary of Findings

The aim of the study which is to find out if Corporate Governance (CG) mediates the relationship between Corporate Social Responsibility (CSR) and Financial Performance (FP) of Jaiz bank Plc. In line with the aim of the study, the result reveals that CG does not mediate on the relationship between CSR and FP. Whereby CG is proxies by Corporate Governance Index (CGI) for Islamic Financial Institutions developed by the General Council for Islamic Banks and Financial Institutions (CIBAFI) and World Bank in 2017. While CSR is proxies by charity and FP proxied by Return On Asset (ROA).

According to hypothesis one which states that CSR has a significant effect on the CG of Jaiz bank plc. From the results, the regression analyses shows a positive but low relationship at (0.0076) with a P- value of 0.1. This finding implies that although CSR coefficient is positive, but the effect is insignificant. Thus the hypothesis not supported.

Hypothesis two addresses the issue of whether Corporate Social Responsibility(CSR) has a significant effect on Jaiz bank Plc financial performance (FP). The coefficient of CSR in the model is positive (0.1385) and significant at 1% level with a P-value 0.01. This finding implies that CSR has a significant effect on Jaiz bank Plc performance. However the regressed data of the study suggests a negative effect due to the fact that an increase in CSR of Jaiz bank is seen to reduce its performance proxy by 0.13%.

Hypothesis three addresses the issue of whether Corporate Governance (CG) has a significant effect on Jaiz bank Plc Financial Performance (FP). The coefficient of CG in the model is negative (0.4996) and insignificant at 0.1%. Thus this signifies that CG does not significantly affect Jaiz bank performance which is not supported by the findings of the study.

Hypothesis four addresses the issue of whether Corporate Governance (CG) has a mediating effect on the relationship between CSR and FP of Jaiz bank Plc. When CGI is included in the model the coefficient of CSR was found to be significant at 1% level with P-value -0.1334. Thus, the collective effects of these results shows that CG does not mediate the relationship between CSR and FP of Jaiz bank Plc for the period under review. The study also reveals the absence of serial correlation in all the equations.

5.2 Conclusion

The objective of the study is to examine the mediating effect of Corporate Governance (CG) in the relationship between Corporate Social Responsibility(CSR) and Financial Performance (FP). For the period under review the study established that Corporate Governance (CG) does not mediate the relationship between corporate social responsibility and financial performance of Jaiz bank Plc. Although, CSR is seen to have

significant effect on Jaiz bank financial performance, the effect is a negative one. However, the results also revealed an insignificant positive relationship between CSR and corporate governance of Jaiz bank Plc. Thus in order to achieve a high Governing Index (GI) the bank should conduct a broader CSR. On the other hand, corporate governance has a negative effect on Jaiz bank Plc financial performance this could be due to the biased accounting numbers that became the measurement for the banks performance. On the bases of the findings, it can be concluded that an increase in the CSR of Jaiz bank Plc reduces significantly her performance proxy as ROA by 0.13%, but insignificantly increases corporate governance by 0.0076% (invariably no effect). While a 1% increase in corporate governance reduces insignificantly Jaiz bank performance by 0.5%.

5.3 Recommendations

In line with the findings of this study, the following recommendations are proffered:

- i. The bank should intensify efforts on the implementation of good Corporate Governance (CG) which will increase efficiency and urge economic growth. The presence of an effective Corporate Governance will help in increasing the trust level between the bank and all stakeholders involved, which is needed for the well-functioning of the bank. And also aid in an effective Corporate Social Responsibility.
- ii. Jaiz bank should be more proactive in conducting its Corporate Social Responsibilities. The bank should be extensive in its Corporate Social Responsibilities contributions and participation in areas that are deemed fit so as to have an increase in its Financial Performance.

- iii. The bank should better its Corporate Governance (CG) because, firms with better CG tend to report earnings more conservatively rather than using discretionary accounting procedures .So corporate accounting procedures that do not refer to international auditing and accounting standards are unable to assist the users of financial statements in observing a healthier comparison of financial performance and resulting in more effective evaluation.
- iv. Corporate Governance implementation alone is not enough to make investors take investment decisions, but the results of financial performance is a big share in determining investment decisions made by investors.Furthermore for governance mechanisms to run optimally, the bank has to provide bonuses in form of incentives and compensation to their workers for them to work effectively and efficiently.
- v. Jaiz Bank Plc can provide a synergy with other companies such as lotus company so as to engage in corporate social responsibility which will further boost the brand of the bank.

5.4 Recommendation for Further Studies

- i. This research uses only ROA indicator in assessing banking financial performance level, so the result cannot be the actual reference in measuring the overall level of performance of Jaiz.
- ii. A moderating variable can also be used in assessing the relationship between CSR and FP.

Further research can be conducted by taking more years and the data of other banks in the future to acquire a more accurate measurement of findings.

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APPENDICES

APPENDIX A

Table 3.4: Description of Variables		
FINANCIAL PERFORMANCE		
Variable Name	Abbreviation	Measure
Return on Asset	ROA	ROA is defined as the net income of the bank as a ratio of its total assets. It tells how the bank assets are used to generate earnings for the bank. Mathematically, it is defined as Net Income/Total
CORPORATE SOCIAL RESPONSIBILITY-IV		
Corporate Social Responsibility	CSR	CSR is a major reporting line in the financial statement of Jaiz bank Plc (see Jaiz Annual Reports of 2018 and 2017). To measure CSR, the study takes total uses of Qard (charity) fund as proxy. This apply to all of the respective financial year (2012-2018).
CORPORATE GOVERNANCE INDEX		
Board of Directors	A	A1. Is the Qualifications/experience of directors disclosed? If yes, 1; otherwise, 0 A2. Is the Number/proportion of independent directors the majority? If yes, 1; otherwise, 0 A3. The Chairman is not the CEO? If yes, 1; otherwise, 0 A4. Is the Number of board meetings per year more than 6? If yes, 1; otherwise, 0 A5. Are there at least one female member in the BOD? If yes, 1; otherwise, 0 A6. The bank has a formalized Code of Ethics/Business Conduct? If yes, 1; otherwise, 0
Board Committees	B	B1. Is there a Governance Committee? If yes, 1; otherwise, 0 B2. Is there an Executive Committee? If yes, 1; otherwise, 0 B3. Is there an Audit Committee? If yes, 1; otherwise, 0

		<p>B4. Is there a Remuneration/Nomination Committee? If yes, 1; otherwise, 0</p> <p>B5. Is there a Risk Committee? If yes, 1; otherwise, 0</p> <p>B6. Is there an Ethics and Compliance Committee? If yes, 1; otherwise, 0</p>
Internal Control and External Audit	C	<p>C1. Is the number proportion of independent members of Audit Committee the majority? If yes, 1; otherwise, 0</p> <p>C2. Is the Chairperson of Audit Committee independent? If yes, 1; otherwise, 0</p> <p>C3. What is the number of Audit Committee meetings? 4 or more, 1; less than 4 or not disclosed, 0</p> <p>C4. Is there an existence of internal audit department/ unit? If yes, 1; otherwise, 0</p> <p>C5. Does the Internal audit report to Board/Audit Committee?</p> <p>C6. Is there an appointed external auditor? If yes, 1; otherwise, 0</p>
Risk Governance	D	<p>D1. Is there a Board guidance on risk appetite/profile? If yes, 1; otherwise, 0</p> <p>D2. Is the Risk Committee chair independent? If yes, 1; otherwise, 0</p> <p>D3. Are the majority of members of Risk Committee independent? If yes, 1; otherwise, 0</p> <p>D4. Does a Chief Risk Officer (CRO) exist? If yes, 1; otherwise, 0</p> <p>D5. The CRO reports to board of directors or Risk Committee? If yes, 1; otherwise, 0</p> <p>D6. The CRO a member of Executive/Risk Committee? If yes, 1; otherwise, 0</p>
Shariah Governance	E	<p>E1. Are there 3 or more number of <i>Shari'ah</i> Board members? If yes, 1; otherwise, 0</p> <p>E2. Are the roles and duties of the <i>Shari'ah</i> Board clearly specified? If yes, 1; otherwise, 0</p>

		<p>E3. Is there a member (nonvoting) with non-<i>Shari'ah</i> background</p> <p>E4. Are there more than 5 number of <i>Shari'ah</i> Board meetings? If yes, 1; otherwise, 0</p> <p>E5. Is there a <i>Shari'ah</i> review/audit department/unit? If yes, 1; otherwise, 0</p> <p>E6. Is there a Statement on the use of prohibited income? If yes, 1; otherwise, 0</p>
<p>Transparency and Disclosure</p>	<p>F</p>	<p>F1. Is there a Corporate Governance Report? If yes, 1; otherwise, 0</p> <p>F2. Is the remuneration policy of Board members and senior executives disclosed? If yes, 1; otherwise, 0</p> <p>F3. Is there a <i>Shari'ah</i> (Compliance/Audit) Report? If yes, 1; otherwise, 0</p> <p>F4. Is there a Risk Management Report? If yes, 1; otherwise, 0</p> <p>F5. Is there an Internal Audit/Control Report? If yes, 1; otherwise, 0</p> <p>F6. Is there a Corporate Social Responsibility Report? If yes, 1; otherwise, 0</p>

2012	2013	2014	2015	2016	2017	2018	
1	1	1	1	1	1	1	
1	0	0	0	0	0	0	
1	1	1	1	1	1	1	
0	0	0	0	0	1	0	
0	0	0	0	0	0	0	
1	1	1	1	1	1	1	23
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
0	1	1	1	1	1	1	41
1	0	0	0	1	0	0	
1	0	1	1	1	1	0	
0	1	0	0	1	1	0	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	31
1	1	1	1	1	1	1	
1	1	1	1	1	0	0	
0	0	0	0	0	0	0	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
0	0	0	0	0	0	1	27
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
0	0	0	0	0	0	0	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	35
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	
1	1	1	1	1	1	0	
1	1	1	1	1	1	1	
1	1	1	1	1	1	1	41
29	28	28	28	30	29	26	
0.805556	0.777778	0.777778	0.777778	0.833333	0.805556	0.722222	

APPENDIX B

Date: 08/25/19

Time: 14:08

Sample: 2012 2018

	ROA	ROE	CSR	CGI
Mean	0.236429	0.171986	914057.1	0.785729
Median	0.070000	0.084000	745126.0	0.777800
Maximum	0.800000	0.388000	2274447.	0.833300
Minimum	0.009000	0.013000	6664.000	0.722200
Std. Dev.	0.322930	0.148984	897901.9	0.034826
Skewness	1.031263	0.404044	0.556025	-0.573386
Kurtosis	2.237129	1.480838	1.831717	2.872700
Jarque-Bera	1.410497	0.863584	0.758783	0.388293
Probability	0.493986	0.649344	0.684278	0.823537
Sum	1.655000	1.203900	6398400.	5.500100
Sum Sq. Dev.	0.625702	0.133178	4.84E+12	0.007277
Observations	7	7	7	7

	ROA	CSR	CGI
ROA	1.000000	-0.723717	-0.545158
CSR	-0.723717	1.000000	0.246292
CGI	-0.545158	0.246292	1.000000

APPENDIX C: INITIAL REGRESSION MODELS

ROA=F(CSR)

Dependent Variable: ROA

Method: Least Squares

Date: 08/25/19 Time: 14:23

Sample: 2012 2018

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.980694	0.141327	14.01495	0.0000
LOG(CSR)	-0.138472	0.011063	-12.51649	0.0001
R-squared	0.969071	Mean dependent var		0.236429
Adjusted R-squared	0.962886	S.D. dependent var		0.322930
S.E. of regression	0.062213	Akaike info criterion		-2.481559
Sum squared resid	0.019352	Schwarz criterion		-2.497014
Log likelihood	10.68546	F-statistic		156.6626
Durbin-Watson stat	2.246685	Prob(F-statistic)		0.000058

CGI=F(CSR)

Dependent Variable: CGI

Method: Least Squares

Date: 08/25/19 Time: 14:27

Sample: 2012 2018

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.689809	0.074956	9.202856	0.0003
LOG(CSR)	0.007615	0.005868	1.297765	0.2510
R-squared	0.251967	Mean dependent var		0.785729
Adjusted R-squared	0.102360	S.D. dependent var		0.034826
S.E. of regression	0.032996	Akaike info criterion		-3.749914
Sum squared resid	0.005444	Schwarz criterion		-3.765368
Log likelihood	15.12470	F-statistic		1.684195
Durbin-Watson stat	1.798478	Prob(F-statistic)		0.251010

ROA=F(CSR, CGI)

Dependent Variable: ROA

Method: Least Squares

Date: 08/25/19 Time: 14:35

Sample: 2012 2018

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.796509	0.295570	6.078116	0.0037
LOG(CSR)	-0.133448	0.013563	-9.839117	0.0006
LOG(CGI)	-0.499591	0.692954	-0.720959	0.5108
R-squared	0.972628	Mean dependent var		0.236429
Adjusted R-squared	0.958942	S.D. dependent var		0.322930
S.E. of regression	0.065434	Akaike info criterion		-2.318014
Sum squared resid	0.017127	Schwarz criterion		-2.341196
Log likelihood	11.11305	F-statistic		71.06795
Durbin-Watson stat	2.122257	Prob(F-statistic)		0.000749

APPENDIX D: 2 STAGE LEAST SQUARE

Dependent Variable: ROA

Method: Two-Stage Least Squares

Date: 09/28/19 Time: 18:14

Sample: 2012 2018

Included observations: 7

Instrument list: C ROA LOG(CSR)(-1) LOG(CSR)(-2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.980694	0.141327	14.01495	0.0000
LOG(CSR)	-0.138472	0.011063	-12.51649	0.0001
R-squared	0.969071	Mean dependent var	0.236429	
Adjusted R-squared	0.962886	S.D. dependent var	0.322930	
S.E. of regression	0.062213	Sum squared resid	0.019352	
F-statistic	156.6626	Durbin-Watson stat	2.246685	
Prob(F-statistic)	0.000058			

Dependent Variable: CGI

Method: Two-Stage Least Squares

Date: 09/28/19 Time: 18:08

Sample: 2012 2018

Included observations: 7

Instrument list: C CGI LOG(CSR)(-1) LOG(CSR)(-2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.689809	0.074956	9.202856	0.0003
LOG(CSR)	0.007615	0.005868	1.297765	0.2510

R-squared	0.251967	Mean dependent var	0.785729
Adjusted R-squared	0.102360	S.D. dependent var	0.034826
S.E. of regression	0.032996	Sum squared resid	0.005444
F-statistic	1.684195	Durbin-Watson stat	1.798478
Prob(F-statistic)	0.251010		

Dependent Variable: ROA

Method: Two-Stage Least Squares

Date: 09/28/19 Time: 18:20

Sample: 2012 2018

Included observations: 7

Instrument list: C ROA LOG(CSR) LOG(CGI) LOG(CSR)(-1)

LOG(CSR)(-2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.796509	0.295570	6.078116	0.0037
LOG(CSR)	-0.133448	0.013563	-9.839117	0.0006
LOG(CGI)	-0.499591	0.692954	-0.720959	0.5108
R-squared	0.972628	Mean dependent var	0.236429	
Adjusted R-squared	0.958942	S.D. dependent var	0.322930	
S.E. of regression	0.065434	Sum squared resid	0.017127	
F-statistic	71.06795	Durbin-Watson stat	2.122257	
Prob(F-statistic)	0.000749			

APPENDEX E: Lag of independent variables

Dependent Variable: CGI

Method: Least Squares

Date: 09/22/19 Time: 07:34

Sample: 2012 2018

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.689810	0.074954	9.203129	0.0003
LOG(CSR-1)	0.007615	0.005867	1.297789	0.2510
R-squared	0.251973	Mean dependent var		0.785729
Adjusted R-squared	0.102368	S.D. dependent var		0.034826
S.E. of regression	0.032996	Akaike info criterion		-3.749923
Sum squared resid	0.005444	Schwarz criterion		-3.765377
Log likelihood	15.12473	F-statistic		1.684255
Durbin-Watson stat	1.798475	Prob(F-statistic)		0.251002

Dependent Variable: ROA

Method: Least Squares

Date: 09/22/19 Time: 07:39

Sample: 2012 2018

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.980654	0.141319	14.01552	0.0000
LOG(CSR-1)	-0.138469	0.011063	-12.51697	0.0001
R-squared	0.969074	Mean dependent var		0.236429
Adjusted R-squared	0.962888	S.D. dependent var		0.322930
S.E. of regression	0.062210	Akaike info criterion		-2.481634
Sum squared resid	0.019351	Schwarz criterion		-2.497088
Log likelihood	10.68572	F-statistic		156.6746
Durbin-Watson stat	2.246725	Prob(F-statistic)		0.000058

Dependent Variable: ROA

Method: Least Squares

Date: 09/22/19 Time: 07:41

Sample: 2012 2018

Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.796494	0.295561	6.078245	0.0037
LOG(CSR-1)	-0.133446	0.013562	-9.839366	0.0006
LOG(CGI)	-0.499525	0.692940	-0.720877	0.5109

R-squared	0.972630	Mean dependent var	0.236429
Adjusted R-squared	0.958944	S.D. dependent var	0.322930
S.E. of regression	0.065433	Akaike info criterion	-2.318063
Sum squared resid	0.017126	Schwarz criterion	-2.341244
Log likelihood	11.11322	F-statistic	71.07150
Durbin-Watson stat	2.122309	Prob(F-statistic)	0.000749

Wald Test:

Equation: TWOROAFCSR

Null Hypothesis: $C(2)=0$

F-statistic	156.6626	Probability	0.000058
Chi-square	156.6626	Probability	0.000000

Wald Test:

Equation: TWOCGIFCSR

Null Hypothesis: $C(2)=0$

F-statistic	1.684195	Probability	0.251010
Chi-square	1.684195	Probability	0.194368

Wald Test:

Equation: TWOROAFCSR CGI

Null Hypothesis: $C(2)=0$

F-statistic	96.80822	Probability	0.000598
Chi-square	96.80822	Probability	0.000000
