

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND  
TECHNOLOGY, KUMASI**

**CORPORATE SOCIAL RESPONSIBILITY AND BANK  
PERFORMANCE: THE ROLE OF BANK FINANCIAL  
STABILITY**

**BY**

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND  
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## DECLARATION

I hereby declare that this submission is my own work towards the award of the **MSc Accounting and Finance** and that, to the best of my knowledge, it contains no material previously by another person or any material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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## DEDICATION

I dedicate this project to my darling husband, Mr Alex Ofei-Kwayisi and my lovely children Madansi and Madom.

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## ACKNOWLEDGMENT

I am grateful to the Almighty God for His daily strength, protection and divine guidance and ability to complete this project fully fit.

A lot of contributions have come from a number of people since I embark on this program

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## ABSTRACT

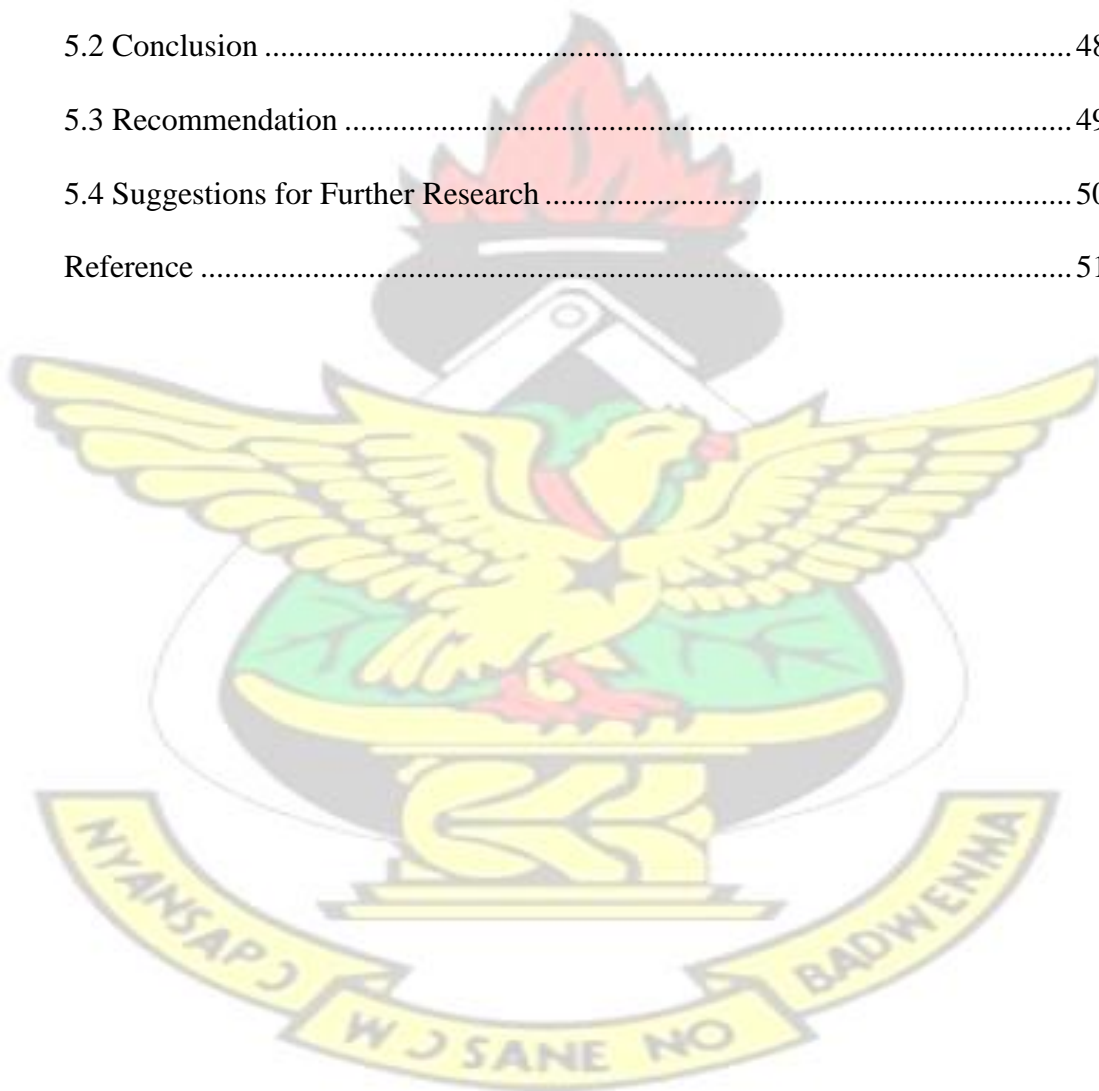
The objective of the study was to investigate the moderating effect of bank financial stability on the nexus between corporate social responsibility and bank performance. Secondary data is collected from the annual reports of commercial banks in Ghana in order to provide information for this research. The data spanned the years 2010 to 2021. The study sampled 16 commercial banks. The design for study was explanatory since it explains the relationship among the variables. The regression method employed was fixed effect regression. The study found that CSR spending among banks in Ghana shows significant variation, indicating different levels of commitment and resource allocation. Some banks, like GCB, ECOBANK, and ADB, demonstrate a strong commitment to CSR, while ABSA and Prudential bank did not disclose their spending. The analysis revealed that increased CSR activities positively impact both Return on Assets (Coeff= 0.026191; p-value=0.00) and Return on Equity (Coeff= 0.166342; p-value=0.00) for banks. The finding further showed that the interaction between CSR and financial stability (FSTB) had a positive and significant effect on both ROA (Coeff= 0.000053; p-value=0.08) and ROE (Coeff= 0.178413; p-value=0.00). Banks should enhance their CSR initiatives by allocating sufficient resources and developing strategic plans to align their activities with social and environmental goals. This can include investing in community development, environmental sustainability, financial education, and supporting social causes relevant to their stakeholders.

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# CHAPTER ONE

## INTRODUCTION

### 1.0 Background of the Study

Corporate social responsibility (CSR) is a widely used term in the business realm that refers to the discretionary social responsibilities that companies, regardless of their size, undertake. As per Rhou and Singal's (2020) research, the term "corporate social responsibility" pertains to the persistent endeavours of an organisation to enhance the standard of living of its workforce, clientele, local community, and the wider society. CSR initiatives within multinational corporations are frequently self-governing units that operate within the broader organisational structure.

The concept of corporate social responsibility has existed since the dawn of time. It has long opened the way for businesses to have moral, ethical, and charitable responsibilities, earn a fair return for investors, and comply with the law (Hur, Moon and Kim, 2020). According to a traditional understanding of corporate social responsibility, corporate social responsibility is solely responsible to owners or stockholders (Yoon and Chung, 2018). Corporations' ethical obligations have become increasingly nuanced in recent years. This implies that companies need to consider not only their investors and workers and suppliers and customers and the community and the state and county governments, and environmental and other special interest organisations but everyone who has a stake in the company's success (Yeon, Lin, Lee and Sharma, 2021). Companies have a responsibility to society beyond merely making money, according to Schwartz and Carroll (2018). According to Yoon and Chung (2018), corporate social responsibility (CSR) helps companies thrive financially and compete more effectively. This means that CSR has a positive effect on financial

performance. Companies that fully embrace corporate social responsibility outperform their competitors in terms of market sustainability. Corporate social responsibility enables companies to manage and plan how social, economic, and environmental factors influence their values, strategy, and culture in order to maximise benefits and reduce risks. Because it increases productivity, decreases the risk of business disruptions, and opens up new potential for driving innovation, a well-planned and effective Corporate social responsibility approach enhances brand and company reputation (Lins, Servaes, and Tamayo, 2017).

Ethical managers, according to the literature, find CSR to be a useful tool for mitigating risk (Jo and Na, 2012; Lu, Liu, and Falkenberg, 2022). Businesses that prioritise social and environmental sustainability are more likely to have high credit ratings, implement long-term strategies, and avoid bankruptcy. Managers in competitive industries whose companies participate in corporate social responsibility (CSR) are seen by the public as more innovative and trustworthy, according to Jo and Na (2012).

Having confidence in a company's long-term financial success and generating enough revenue from operations to meet ongoing expenses is what is meant by "financial stability" (Abdelbadie and Salama, 2019). Having a solid financial foundation ensures that a business can weather economic storms and capitalise on expansion possibilities. According to Hassan, Khan, and Paltrinieri (2019), Bank stability is negatively related to credit risk and liquidity risk. Hence firms with lower risk utilise CSR to achieve long-term growth. Ho, Lu and Lucianetti (2021) found that risk-seeking firms moderates the CSR-firm performance relationship. Saadaoui and Salah (2022) found that financial stability positively moderates the CSR-firm performance relationship.

## 1.1 Problem Statement

The business case demonstrates how a company may increase its value and competitiveness via sustainable practices (Jensen, 2002). When it comes to the banking business, CSR actions that take a strategic or unselfish tack set a brand apart from its competitors, provided that CSR is not related to greenwashing (Shen, and Benson, 2016). CSR practises may aid banks' bottom lines in today's cutthroat economic climate. Therefore, banks may aim to enhance their financial performance via sustainable performance while simultaneously regaining the public's confidence and reducing operational risk (Zhou, Sun, Luo, and Liao, 2021).

Freeman's (1984) stakeholder theory suggests that an organisation may gain credibility among its most vital constituencies if they are seen to have a strong corporate social performance. As a result, increasing firm performance will be less of a challenge for the company. The link between corporate social responsibility (CSR) and the financial success of banks may be clearly understood when financial stability concerns are addressed (Saadaoui and Salah, 2022).

The capacity of a business to generate profits, boost the worth of its capital assets, and meet both its immediate and long-term debt obligations are all intertwined with one another, making up what is known as its "financial stability" (Berger, Klapper and Turk-Ariss, 2017). Businesses that are financially secure are those that are willing to take calculated risks in order to set themselves apart from the competition and increase their profits. Financially secure businesses engage in CSR efforts to maintain and attract sustainability-minded stakeholders since these programmes tend to get more attention

from external stakeholders and public visibility (which may bring further growth chances). Djalilov and Hartwell (2022) posit that CSR activities are cost-intensive; hence financially stable firms use CSR as a competitive strategy compared to financially unstable firms.

In spite of the above, limited studies exist on the subject in Ghana. Most studies only focused on the direct relationship between CSR and firm performance (Gatsi, Anipa, Gadzo and Ameyibor, 2016; Ofori and Hinson, 2007; Ofori, S-Darko, and Nyuur, 2014). Ansong (2017) considered stakeholder engagement as a moderating variable. Agyemang and Ansong (2017) considered access to capital and firm reputation as mediating variables. None of the studies above considered firm financial stability as a moderating variable. To address this gap, this study seeks to investigate the moderating effect of bank financial stability on the nexus between corporate social responsibility and firm performance.

## **1.2 Objective of the Study**

The study's general objective is to investigate the moderating effect of bank financial stability on the nexus between corporate social responsibility and bank performance. These are the specific objectives.

1. To identify the trend of corporate social responsibility of Ghanaian banks.
2. To investigate the impact of corporate social responsibility on the performance of banks
3. To examine the moderating influence of financial stability on the association between corporate social responsibility and bank performance

### **1.3 Research Questions**

1. What is the trend of corporate social responsibility among banks in Ghana?
2. What is the effect of corporate social responsibility on banks' performance?
3. What is the moderating effect of financial stability on the relationship between corporate social responsibility and banks' performance?

### **1.4 Significance of the Study**

The findings of this study will contribute to academic literature. The study will inform scholars about the role financial stability plays in CSR and firm performance relationships, which could propel scholars to research other moderating variables.

The study will inform investors about the role corporate social responsibility plays in the performance of firms. This will guide investors to choose the right firms to invest especially those that disclose their CSR activities. The findings of the study will educate managers on the role of financial stability in the CSR-firm performance link. As a consequence of this, managers will be informed to enact policies to address their financial stability concerns to prevent the failure of their respective firms.

### **1.5 Brief Methodology**

The present study utilises secondary data sourced from the annual reports of commercial banks operating in Ghana to furnish relevant information. The data span the years 2010 to 2021, making it panel data. The independent variable is corporate social responsibility (Ramzan, Amin, and Abbas, 2021). The dependent variable is firm performance (Agyemang and Ansong, 2017). The moderating variable is financial stability (Dwumfour, 2017). The control variables are firm size (Asare, Alhassan,

Asamoah, and Ntow-Gyamfi, (2017), firm Age (Asare, Laryea, Onumah, and Asamoah, (2020), leverage (Cooper, Henderson, and Kish, 2019), GDP (Zheng, Wang and Jiang, 2019) and inflation (Zheng, Wang and Jiang, 2019). Multiple linear regression is used to analyse the data.

### **1.6 Scope and limitation of the Study**

This research investigates the moderating effect of bank financial stability on the nexus between corporate social responsibility and firm performance. Commercial banks operating in Ghana are examined for this study. There are twenty-three commercial banks in Ghana, and all of them can be selected if their data is available. The study only covers a relatively short time period of 12 years, which may not capture long-term trends or fluctuations in the relationship between corporate social responsibility and firm performance.

### **1.7 Organization of the Study**

This is an overview/summary of how the paper is structured. The research paper is organised into five (5) chapters. Chapter one provides an overview of the research, including the study's background, problem statement, objectives, significance, and scope. Chapter two comprises a comprehensive analysis of the existing literature pertaining to the subject matter. Chapter three is dedicated to discussing the methodology employed in the research. Chapter four provides an overview of the data analysis. The final section of the document provides a summary of the results and suggestions for further action.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter discusses the review of literature on the topic. The chapter is systematically organised and highlights the study's theories, concepts and empirical reviews.

#### 2.2 Conceptual Review

##### 2.2.1 The Concept of Corporate Social Responsibility

Corporate social responsibility (CSR) refers to business strategies that consider the social and environmental impacts of a company's operations and activities. Corporate social responsibility refers to the practise of businesses demonstrating concern for both societal and environmental issues by incorporating them into their decision-making processes and operational strategies, as well as assuming accountability for the consequences of their actions. The aforementioned endeavours encompass initiatives aimed at mitigating the organization's environmental impact, engaging in philanthropic activities within the localities it serves, and upholding equitable treatment of its workforce. The ultimate objective of corporate social responsibility (CSR) is to generate financial benefits for both the corporation and society, as posited by Tamvada (2020).

According to Singh and Misra (2021), corporate social responsibility refers to the conscientious consideration of a company's actions on society and the environment when making decisions. This creates an opportunity for corporations to engage in environmentally and socially responsible behaviour, which can benefit all stakeholders.

Enterprises have the potential to mitigate their adverse impact and enhance the well-being of the communities in which they function by evaluating the social and environmental implications of their activities. According to He and Harris (2020) CSR is the obligation of a company to balance its economic goals with its social and environmental responsibilities, and to operate in a way that is both profitable and beneficial to society. By considering the needs of all stakeholders, including customers, employees, shareholders, and the community, companies can develop innovative and sustainable business models that benefit all parties involved. This can lead to long-term success and profitability for the company.

Cho Chung and Young (2019) define CSR as the commitment of a business to operate in a manner that is transparent, accountable, and fair to all stakeholders, including customers, employees, shareholders, and the community. Ikram, Sroufe, Mohsin, Solangi, Shah and Shahzad (2019) also explain that CSR is the practice of a company integrating social, environmental, and economic considerations into its business model, and striving to create value for all stakeholders. By engaging in responsible business practices, companies play a positive role in addressing social and environmental issues, such as climate change, inequality, and poverty, and contribute to the creation of a more sustainable and equitable world. Hamid, Riaz and Azeem (2020) explain the CSR practices could be broken into five dimensions; economic, legal, ethical, philanthropic and environmental.

***Economic dimension:*** This refers to the responsibility of a company to contribute to economic growth and development, and to generate profits for shareholders and

stakeholders. This includes considerations such as maximizing profits, creating jobs, and engaging in fair trade practices.

**Legal dimension:** This refers to the responsibility of a company to abide by all relevant laws and regulations, and to avoid engaging in illegal or unethical activities. This includes considerations such as complying with labour laws, avoiding bribery and corruption, and following environmental regulations.

**Ethical dimension:** This refers to the responsibility of a company to act in a manner that is fair and just, and to consider the interests of all stakeholders. This includes considerations such as treating employees fairly, avoiding discrimination, and acting in a transparent and accountable manner.

**Philanthropic dimension:** This refers to the responsibility of a company to give back to the community and engage in charitable activities. This includes considerations such as donating to charities, supporting social causes, and engaging in community service.

**Environmental dimension:** The concept of "environmental responsibility" pertains to the ethical obligation of a corporation to safeguard and rehabilitate ecological ecosystems. The scope of this responsibility encompasses the mitigation of greenhouse gas emissions, preservation of resources, and promotion of environmentally sustainable behaviours.

### **2.2.2 Financial Stability**

There are a few different definitions of financial stability that are used in the context of firms. One definition is the ability of a firm to withstand financial shocks and continue

to operate without experiencing financial distress or failure. This includes the ability to maintain adequate levels of capital and liquidity, as well as to manage risks effectively (Berger, Klapper and Turk-Ariss, 2017). Another definition of financial stability is the ability of a firm to maintain a solid financial position over time, with the ability to generate sufficient profits to meet its financial obligations and to provide a reasonable return to its shareholders (Berger, Boubakri, Guedhami and Li, 2019).

According to Lisin, Kushnir, Koryakov, Fomenko, and Shchukina (2022), financial stability can be defined as the absence of systemic risk within the financial system. Systemic risk refers to the likelihood of a chain reaction occurring across the financial system due to the collapse of a solitary major financial institution. Financial stability ensures that companies can continue to offer essential financial services to individuals and businesses even during periods of economic or financial market instability. The banking industry, like other businesses and organisations, is subjected to volatility as a result of growing globalisation, internationalisation, advancements in information, communication, and technology, as well as trade liberalisation, all of which have an impact on their stability (Kiemo, Olweny, Muturi, and Mwangi, 2019). Firms should be proactive in their consideration of the operating environment and the development of major approaches that would reduce the severity with which they are exposed to conditions that are most likely to affect their long-term viability. According to Akosah, Loloh, Lawson, and Kumah (2018), a suitable regulatory mechanism that goes beyond the fundamental saving requirements should be implemented in order to address and manage the systemic aspects of subsidising liquidity hazard among commercial banks. Because they are determined on a subjective basis, the save proportions projected by each bank may not be sufficient to meet the liquidity challenges they may face in the

future. Directions and supervisions have become essential in Ghana as a result of the demand for rules and controls to ensure the stability of financial institutions. As per Akosah, Loloh, Lawson, and Kumah (2018), the Bank of Ghana augmented the minimum capital requirement to GHS 60 million in 2008, and subsequently raised it to GHS 120 million and GHS 400 million in 2013 and 2018, respectively, with the aim of establishing a robust financial framework.

### **2.2.3 Financial Performance**

According to Rajapathirana and Hui (2018), the evaluation of a firm's achievement is based on its capacity to generate value for its shareholders and its profitability. Revenue, profit, and share price are among the financial metrics employed to assess a company's performance. According to Fatihudin's (2018) definition, the efficacy of a corporation can be evaluated based on the impact of its management and decisions on its financial performance.

As per the findings of Awaysheh, Heron, Perry, and Wilson (2020), the financial prosperity of a firm is evaluated based on its capacity to fulfil its monetary commitments. This is often measured by looking at a company's liquidity and solvency. Soewarno and Tjahjadi (2020) defined firm performance as a company's ability to increase its revenue, profit, market share, or other key indicators of success. It is typically measured using metrics such as revenue growth and earnings growth. Barauskaite and Streimikiene (2021) explain the financial performance of a firm are usually measured by the following metrics.

**Revenue:** This is the total amount of money that a company generates from its operations. It is typically measured over a certain period of time, such as a quarter or a year.

**Profit:** This is the amount of money that a company makes after subtracting its expenses from its revenue. It is also known as net income or earnings.

**Earnings per share (EPS):** This metric is the ratio of net income earned by a company after accounting for taxes, expressed as a percentage of the total number of shares issued and outstanding. The aforementioned is a methodology employed to ascertain the level of profitability of a company on a per-share basis.

**Return on equity (ROE):** This metric is utilised to evaluate a company's ability to generate profits by efficiently utilising the equity of its shareholders. The computation involves the division of a firm's net earnings by its shareholder equity.

**Return on assets (ROA):** This metric is utilised to evaluate the effectiveness of a company in generating profits by efficiently utilising its assets. The computation involves the division of a corporation's net earnings by its overall assets.

**Cash flow:** This is the amount of money that is generated or spent by a company's operations. It is an important metric because it shows whether a company has the financial resources to pay its bills and invest in its future growth.

**Stock price:** This is the current market value of a company's shares. It is an important metric because it reflects investors' perception of a company's performance and future prospects.

## **2.3 Theoretical Review**

### **2.3.1 Stakeholder Theory**

Stakeholder theory posits that corporations bear ethical responsibilities to take into account the viewpoints of all individuals who may be adversely affected by their actions. In accordance with stakeholder theory (Freeman, 1984), management ought to consider not only the concerns of the company's shareholders or proprietors but also those of the employees, customers, suppliers, regulators, and other stakeholders when formulating decisions. Stakeholders encompass individuals and entities from the public, private sector, and governmental bodies. According to Freeman's (1984) definition, stakeholders are individuals or groups who have the ability to impact or be impacted by the achievement of a company's objectives. As per Clarkson's (1995) categorization, stakeholders can be classified into two groups, namely "major" and "minor." Clarkson (1995) posits that although secondary actors such as the media, rivals, and trade organisations have an impact on the firm, their influence is indirect and not crucial to the firm's survival. Primary stakeholders, including shareholders and investors, workers, consumers, and the government, exert a direct influence on the organisation and are indispensable to its ongoing viability (Do et al., 2023). Secondary stakeholders, such as the media, competitors, and trade groups, exert an indirect influence on the organisation and are not considered vital to its survival.

When examining the relationship between CSR and bank performance through the lens of stakeholder theory, it suggests that banks should not only focus on financial outcomes but also on meeting the expectations of diverse stakeholders (Kuzey et al., 2021). In the context of CSR and banks, stakeholders include customers, employees, communities, and regulators. Adopting socially responsible practices, such as

environmental sustainability, ethical lending, and community development, can enhance a bank's reputation and trust among these stakeholders (Do et al., 2023). This, in turn, may lead to improved customer loyalty, employee satisfaction, and a positive image in the community. However, the impact on financial performance is nuanced. While some argue that CSR can contribute to long-term profitability by fostering positive relationships and reducing risk, critics contend that immediate financial gains might not always be evident (Kuzey et al., 2021). The challenge lies in finding a balance that aligns CSR initiatives with the expectations of stakeholders while maintaining financial viability.

Ultimately, embracing CSR within the framework of stakeholder theory encourages banks to navigate the complex interplay between social responsibility and financial performance, recognizing the interconnected nature of their relationships with diverse stakeholders.

### **2.3.2 Shareholder Theory**

Friedman (1970) initially introduced the concept of the shareholder theory of the firm. Friedman posited in the article that the primary objective of a business is to generate profits for its shareholders. He further contended that companies that partake in endeavours that do not directly contribute to this aim are behaving in an irresponsible manner. The premise of this theory posits that the ownership of the firm lies with the shareholders, who are entitled to anticipate a profit-based return on their investment. As per this theoretical framework, the corporation ought to accord precedence to the

concerns of its shareholders over those of other stakeholders, including but not limited to employees, customers, and the wider community.

One of the key implications of the shareholder theory is that firms should only engage in activities that directly contribute to the generation of profits for their shareholders. This means that firms should focus on maximizing their profits and minimizing their costs in order to generate the highest possible return for their shareholders (Dat et al., 2022). This may involve cutting costs by reducing the number of employees or outsourcing work to countries with lower labour costs, for example. Another implication of the shareholder theory is that firms should not engage in activities that do not directly contribute to the generation of profits for their shareholders (Achour and Boukattaya, 2021). This includes activities such as corporate social responsibility (CSR) initiatives, which may be seen as a waste of resources that could be better used to increase profit.

Shareholder theory emphasizes that a company's primary responsibility is to maximize returns for its shareholders. In this context, the concern arises as to whether CSR activities contribute positively or negatively to a bank's bottom line. Proponents of shareholder theory argue that while CSR might align with ethical considerations, its impact on bank performance should be measured in terms of shareholder value (Dat et al., 2022). If CSR initiatives lead to increased costs without generating commensurate financial benefits, shareholders may question the rationale behind such practices (Achour and Boukattaya, 2021).

However, some argue that a strategic approach to CSR can enhance a bank's reputation and mitigate risks, indirectly benefiting shareholders over the long term. For instance, socially responsible practices can attract a more loyal customer base and may contribute to regulatory compliance, thereby reducing potential legal and financial risks.

## **2.4 Empirical Review**

### **2.4.1 CSR and Bank Performance**

The impact of corporate social responsibility (CSR) on the stock market performance of Indian enterprises that are publicly listed was examined by Mangalagiri and Bhasi (2022). A regression analysis was conducted to investigate the relationship between corporate social responsibility (CSR) and financial performance. This study employed accounting and market metrics to evaluate company performance. Research shows that CSR has a positive impact on financial metrics but has minimal bearing on stock price performance. The most crucial finding of the research was that markets do not value most required CSR expenditure. Companies who invest in CSR activities above what is legally required receive financial rewards for their efforts.

Ghardallou and Alessa's (2022) research contributes to this continuing discussion by examining how CSR and financial success are not always linearly related. The study used 70 GCC enterprises from 2015 to 2020 using a panel smooth transition regression (PSTR) model. The CSR composite index and other CSR characteristics were used, including environmental, social, and governance transition factors, to get these results. Real-world data reveals that investing in CSR doesn't boost a company's worth until it reaches a certain critical valuation point. When the marginal benefit exceeds the cost, investing in CSR is excellent for a company's bottom line. When examining

government, social, and environmental CSR evaluations independently, the findings similarly demonstrate the nonlinear connection. Interesting, the finding ties the social CSR characteristic to the highest possible threshold. Therefore, businesses might increase profits by investing more in CSR's social initiatives.

The study conducted by Naseem, Shahzad, Asim, Rehman, and Nawaz (2020) investigated the relationship between corporate social responsibility (CSR) and organisational performance. Drawing upon stakeholder theory, an empirical investigation of 1021 firms in the Asia-Pacific region spanning the period from 2006 to 2016 reveals a positive association between corporate social responsibility and business performance.

Corporate social responsibility (CSR) and financial performance was examined by Al-Shammari, Banerjee, and Rasheed (2021). In order to look at the years 2004–2013, the authors used a longitudinal panel sample of 137 S&P 500 businesses and data from several sources. Stochastic frontiers analysis is used to analyze the capabilities of companies in R&D, operations, and marketing. The findings show a link between corporate social responsibility (CSR) and financial success, with the influence on performance being stronger for companies with more R&D and operational capabilities.

Selcuk and Kiymaz (2017) studied the link between business success in the Borsa Istanbul and corporate social responsibility (CSR) from 2009 to 2011 for listed companies. For any socially responsible action, they do content analysis of Turkish companies' annual reports and websites. They found a correlation between financial success and corporate social responsibility. The financial performance of a restaurant's

internal and external stakeholders was examined by Yoon and Chung (2018), who focus on the influence of corporate social responsibility (CSR). According to the research, external CSR has a positive influence on a company's market value, but a negative impact on its operational efficiency. Increasing a company's operational profitability via CSR has minimal impact on its market value.

The study conducted by Ikram, Sroufe, Mohsin, Solangi, Shah, and Shahzad (2019) is focused on examining the impact of corporate social responsibility (CSR) activities on the performance of small and medium-sized businesses (SMEs) in Pakistan over a prolonged period. The research involved administering surveys to small and medium-sized enterprises (SMEs) located in Karachi, Lahore, and Faisalabad. Based on existing research, there appears to be a positive correlation between corporate social responsibility and financial performance.

The study conducted by Yang, Bento, and Akbar (2019) aimed to investigate the impact of corporate social responsibility (CSR) on various aspects of Chinese pharmaceutical companies. The sample size consisted of 125 companies, and the study period spanned from 2010 to 2016. The researchers examined the influence of CSR on five distinct areas, namely owners, workers, customers and suppliers, environmental practises, and society. The overall corporate social responsibility (CSR) score significantly impacts a company's financial performance. Corporate social responsibility (CSR) was investigated by Naseem, Shahzad, Asim, Rehman and Nawaz (2020) in relation to firm performance. Thomson Reuters-ASSET4 DataStream environmental, social, and governance ratings are used to compute them (as a proxy for corporate social responsibility). Stakeholder theory-based analysis of 1021 Asia Pacific corporations

between 2006 and 2016 shows a favourable correlation between corporate social responsibility and company performance.

The impact of corporate social responsibility (CSR) on the financial performance of a firm was investigated by Saadaoui and Salah (2022). The researchers placed particular emphasis on the significance of financial stability in mitigating the impact of corporate social responsibility. The research examined a cohort of 23 banking institutions in France over a period spanning from 2010 to 2018. The findings indicate that the success of banks is significantly and negatively impacted by their overall CSR score. The authors assert and illustrate that the impact of corporate social responsibility (CSR) on the achievement of banks is contingent upon the level of stability exhibited by the financial status of the bank.

#### **2.4.2 Financial Stability in the Relationship of CSR and Bank Performance**

Empirical studies investigating the moderating role of financial stability in the relationship between CSR and bank performance provide valuable insights into the complex dynamics of these variables. Existing research has explored this interplay from various perspectives, shedding light on how financial stability influences the outcomes of CSR initiatives in the banking sector. Empirical research suggests that financial stability plays a crucial moderating role in shaping the impact of CSR on bank performance.

Studies by Dakhli (2021) and Do et al. (2023) demonstrate that well-capitalized banks with robust financial structures are better positioned to leverage CSR activities for enhanced performance. Financial stability is found to act as a buffer against potential

risks associated with CSR activities. Research by Dat et al. (2022) highlights that financially stable banks can absorb the costs of socially responsible practices more effectively, leading to a positive correlation between CSR engagement and long-term financial performance.

Scholars such as Kuzey et al. (2021) argue that a strategic alignment between CSR initiatives and financial objectives is essential for maximizing the positive impact on bank performance. Financially stable banks are better equipped to integrate CSR into their overall strategy, fostering a symbiotic relationship between social responsibility and financial outcomes. The literature emphasizes the need to consider contextual factors such as regulatory environments and market conditions. Wang et al. (2021) indicates that the moderating effect of financial stability may vary based on the regulatory frameworks governing CSR practices in different regions.

Longitudinal studies, including those conducted by Achour and Boukattaya (2021), provide a temporal dimension to the relationship, revealing how the moderating role of financial stability evolves over time. These studies highlight the dynamic nature of CSR-bank performance dynamics in the context of changing financial landscapes. Some studies, represented by Kijkasiwat et al. (2022), delve into the challenges and controversies surrounding the integration of CSR in banking. Financial stability may not uniformly guarantee positive outcomes, and these studies offer a nuanced understanding of potential drawbacks and conflicting results.

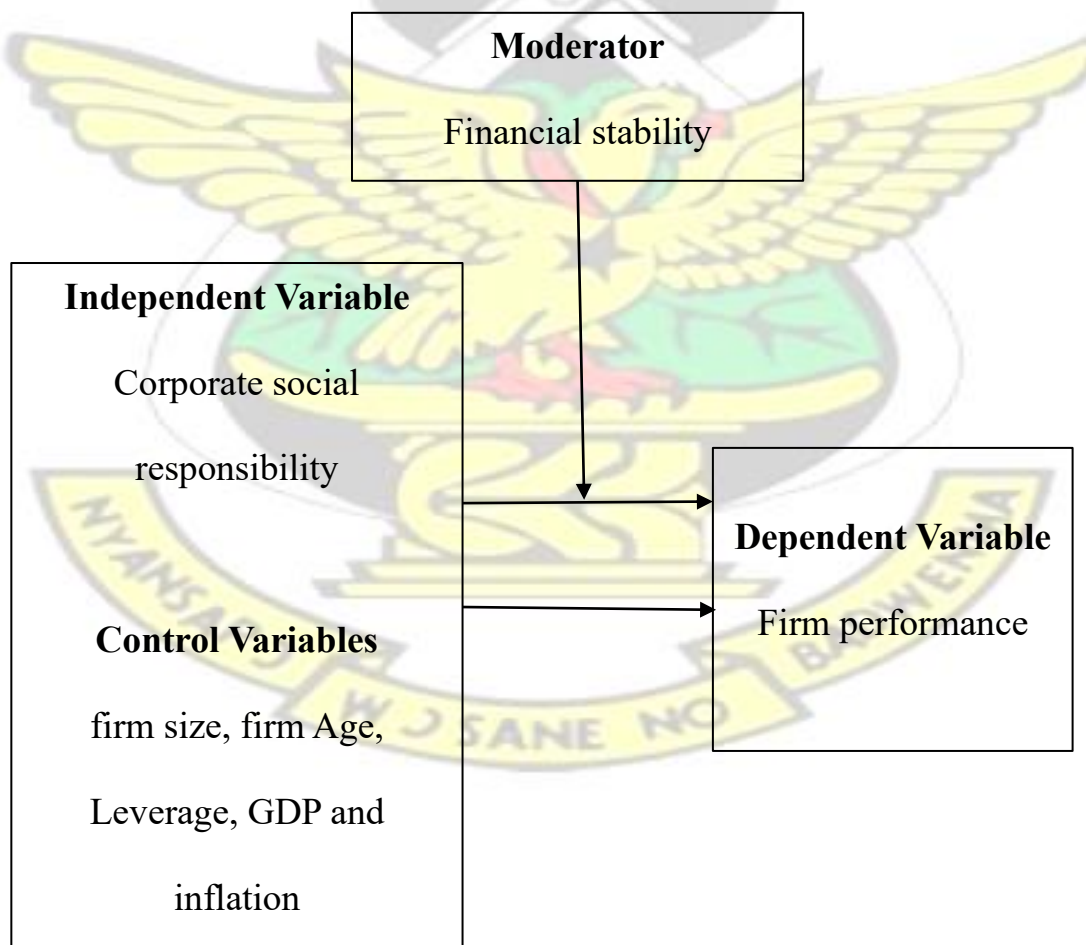
In conclusion, the empirical literature on the moderating role of financial stability in the CSR-bank performance relationship underscores the intricate interplay between these factors. While financial stability provides a conducive environment for banks to

engage in CSR, strategic alignment, contextual factors, and temporal considerations are crucial in determining the overall impact on performance.

## 2.5 Conceptual Framework

The framework for the Study is presented in figure 2.1. The diagram shows that financial stability is the moderator. The independent variable is corporate social responsibility and the dependent variable is firm performance. The control variables are firm size, firm age, leverage GDP and inflation.

**Figure 2.1 : Conceptual framework**



Source: Author's construct (2022)

## CHAPTER THREE

### RESEARCH METHODS

#### 3.1 Introduction

This chapter presents an overview of the ways to identify, select, process, and analyse data in order to arrive at the findings and conclusions of the research. These approaches include identifying the data to be studied, processing the data, and analysing the data. This chapter covers a variety of topics, including research design, methodologies, variables and data analysis.

#### 3.2 Research Design

The concept of "research design" pertains to the systematic blueprint or framework that scientists employ in their exploration and examination of a particular phenomenon. The study's general approach is explicated, along with the methodologies and processes employed for gathering and scrutinising data. According to Hair, Page, and Brunsveld (2019), the descriptive, explanatory, and exploratory research methods are among the most frequently utilised techniques in research.

The descriptive research design is a research methodology utilised to depict a particular phenomenon. This research design is frequently employed when the researcher aims to collect data concerning a particular group or population, with the intention of delineating the attributes of said group or population. In general, descriptive research design involves collecting data from a sample of individuals or groups, and using statistical or other analytical techniques to summarize and describe the data. The ultimate goal of descriptive research design is to provide a detailed and accurate description of a specific group or population, and to help researchers better understand

the characteristics and behaviours of that group. This study design, however, does not address queries pertaining to the timing and causality of the development of particular traits. However, it delineates the attributes of the populace or occurrence being examined, constituting the "what" investigation (Rahman, 2020). Hence, the descriptive research techniques are inadequate in comprehending the impact of one variable on others.

Exploratory research design is a type of research design that is used to explore a phenomenon or problem. This type of research design is often used when the researcher is unsure about what to expect from a study, or when the researcher is trying to identify potential relationships or patterns in the data (Hair, Page and Brunsveld, 2019). Kotler and Armstrong (2006) posit that the primary objective of exploratory research is to gather primary data that will facilitate the comprehension of challenges and the provision of solutions. Furthermore, Rahman (2020) asserted that the exploratory research methodology is frequently employed to stimulate further investigation in the field.

The Explanatory Research Design is a research methodology employed to elucidate a particular phenomenon. The utilisation of this research design is commonly observed when the researcher aims to comprehend the causative factors behind a particular phenomenon and to recognise the variables that could be potentially influencing it. Explanatory research design typically entails the acquisition of data from a subset of individuals or cohorts, followed by the application of statistical or alternative analytical methodologies to discern patterns and correlations within the data. The primary objective of the explanatory research design is to offer an enhanced comprehension of

the fundamental reasons behind a particular phenomenon. Additionally, it aims to facilitate the formulation of theories and interventions that can effectively tackle the issue under investigation (Rahman, 2020). The present investigation employs an explanatory research design, as its primary objective is to ascertain the correlation pattern among the variables and to gauge the magnitude of the association.

### **3.3 Population**

According to Dawson (2019), the sample is a representative subset of the population, which refers to the entire collection of observations that were selected for analysis. This study utilised commercial banks in Ghana as its sample population. Ghana is home to 23 commercial banks in total.

### **3.4 Sample Size and Sample Design**

In the realm of research and sampling methods, two fundamental types of sample selection are probability sampling and non-probability sampling.

The objective of probability sampling is to guarantee that each element of the population has an equal and substantial likelihood of being selected for inclusion in the ultimate sample. This methodology can be employed by researchers to assess the likelihood of selection for each participant and make statistical inferences about the entire population based on the sample. Non-probability sampling methods do not employ random selection procedures, thereby rendering the likelihood of an individual's inclusion in the sample unpredictable and unmanageable. Non-probability sampling involves the selection of participants by researchers based on their own discretion or a pre-existing list of contacts (Dawson, 2019). This study employed non-

probability sampling to select the sampled firms. The sampling method was chosen so that the researcher could select a sample that is relevant to the study based on certain attributes of the members of the population. Hence commercial banks were selected for the study if their data was available to researcher. The data from the firms is necessary so that the objectives of the study could be achieved. The study selected sixteen (16) commercial banks based on their available data. The period covered 2010 to 2021. At the time of gathering the data no bank had released their 2022 annual reports hence it was excluded from the study.

### **3.5 Data Collection Method**

There are two types of information useful for study. Data from a primary source has been gathered by the researcher themselves from the original source. This data is collected for a specific research purpose, and is not previously published or available from other sources. Secondary source of data is data that has been collected by someone else, and is already published or available from other sources (DePoy and Gitlin, 2019). This study made use of secondary data which were the annual reports of the banks. Also data on inflation was gathered from the world development indicators.

### **3.6 Data Analysis**

Panel data is a type of data that consists of observations of multiple variables for the same subjects over multiple time periods (Durlauf, Johnson and Temple, 2005). This makes it possible to analyse how the values of the variables change over time, and to examine the relationships between the variables. Panel data is often used in economics and other social sciences to study trends and to predict future outcomes. The data for study was analysed using panel data regression and Eviews 10 as the statistical software.

Panel data regression is a type of regression analysis that is used to analyse panel data. In panel data regression, the dependent variable is modelled as a function of one or more independent variables, with the goal of understanding the relationship between the variables and making predictions. Panel data regression allows for the inclusion of both time-invariant and time-varying variables, which can provide valuable insights into how the variables change over time and how they are related to one another. This technique is commonly used in economics and other social sciences to study trends and to make predictions about future outcomes (Asteriou and Hall, 2021). There are several different types of panel regression techniques, including fixed-effects regression, random-effects regression, and hierarchical linear models. Each of these techniques has its own strengths and weaknesses, and the best method to use will depend on the specific characteristics of the data being analysed (Gujarati, 2021).

Fixed-effects regression is a method that is commonly used when the panel data is unbalanced, meaning that not all individuals in the panel have data for all time periods. This method allows the researcher to control for individual-level differences, such as differences in age or income, by including dummy variables in the regression model (Gujarati, 2021). Random-effects regression is a method that is used when the panel data is balanced, meaning that all individuals in the panel have data for all time periods. This method allows the researcher to estimate the overall effect of a variable on the dependent variable, as well as the individual-level effects of that variable. To determine which model to use, the Hausman test is performed. Diagnostic tests were performed to ensure the results could be trusted (Gujarati, 2021).

### **3.6.1 Multicollinearity**

The occurrence of multicollinearity in a regression model is a statistical phenomenon that arises when two or more predictor variables exhibit a high degree of correlation (Hanck, Arnold, Gerber and Schmelzer, 2019). The presence of multicollinearity may result in coefficient estimates that lack stability and consistency, thereby posing challenges in the interpretation of the unique impact of each predictor variable on the outcome. Multicollinearity can also make it difficult to identify the correct model specification, and can increase the standard errors of the coefficient estimates, leading to a decrease in the model's predictive power (Hanck, Arnold, Gerber and Schmelzer, 2019). To detect multicollinearity, one can look for high pairwise correlations between the predictor variables, or calculate a measure of multicollinearity such as the variance inflation factor (VIF). To address multicollinearity, one can try to remove one or more of the highly correlated predictor variables from the model, or use regularization methods that can help to stabilize the coefficient estimates. This study employed the VIF to check for multicollinearity.

### **3.6.2 Autocorrelation**

Autocorrelation is a statistical phenomenon that occurs when the correlation between a variable and itself at different points in time is not equal to zero (Wooldridge, 2002). This means that the value of a variable at a given time is related to its previous values. Autocorrelation is often studied in the context of time series data, where it can affect the reliability of statistical models and the validity of their predictions. Autocorrelation can be measured using the autocorrelation function (ACF), which plots the correlation between a variable and itself at different lag times. If there is a significant autocorrelation at a given lag time, it may indicate the presence of a pattern or trend in

the data that is not captured by the model. To address autocorrelation, one can try to incorporate lagged variables or differenced variables into the model, or use a different model specification that is better suited to time series data. This study however employed the Durbin-Watson statistics in Eviews.

### **3.6.3 Heteroscedasticity**

Heteroscedasticity is a statistical concept that arises when the variability of a dependent variable is not uniform across distinct levels of an independent variable. Stated differently, the magnitude of diversity observed in the reliant variable is contingent upon the value of the autonomous variable. This can affect the reliability of statistical models that are used to analyse the data, and can make it difficult to make accurate predictions (Wooldridge, 2010). A way to detect heteroscedasticity in Stata is to use the `hettest` command, which performs a formal test for heteroscedasticity using the Breusch-Pagan test. The present study conducts a statistical test that evaluates the explained sum of squares of a model under two conditions: one with a specification for heteroscedasticity and the other without. The test further computes a p-value to ascertain the statistical significance of the observed difference. When the p-value is lower than the predetermined level of significance, it indicates the presence of heteroscedasticity in the dataset. The White test was utilised in this research.

### **3.7 Econometric Model**

The model for the study was adopted from the study of Saadaoui and Salah (2022). These models are panel regression models. The estimation technique was the fixed effect regression.

$$ROA_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 INFLATION_{it} + \beta_3 AGE_{it} + \beta_4 Size_{it} + \beta_5 LEVERAGE_{it} + \beta_6 GDP_{it} + \epsilon_{it} \dots\dots\dots (1)$$

$$ROE_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 INFLATION_{it} + \beta_3 AGE_{it} + \beta_4 Size_{it} + \beta_5 LEVERAGE_{it} + \beta_6 GDP_{it} + \epsilon_{it} \dots\dots\dots (2)$$

$$ROA_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 FSTB_{it} + \beta_3 (CSR * FSTB)_{it} + \beta_4 INFLATION_{it} + \beta_5 AGE_{it} + \beta_6 Size_{it} + \beta_7 LEVERAGE_{it} + \beta_8 GDP_{it} + \epsilon_{it} \dots\dots\dots (3)$$

$$ROE_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 FSTB_{it} + \beta_3 (CSR * FSTB)_{it} + \beta_4 INFLATION_{it} + \beta_5 AGE_{it} + \beta_6 Size_{it} + \beta_7 LEVERAGE_{it} + \beta_8 GDP_{it} + \epsilon_{it} \dots\dots\dots (4)$$

ROA: return on Assets

ROE: return on equity

CSR: corporate social responsibility

FSTB: financial stability

GDP: Gross domestic product

### 3.8 Variables and Measurements

The variables for the study are presented in Table 3.1. It includes the variables, how it was measured, supporting studies and the expected sign. The independent variable was corporate social responsibility. The dependent variable was firm performance. The moderating variable was financial stability. The control variables was firm size, firm age, leverage, inflation and GDP.

**Table 3.1 Variables and Measurement**

<b>Variables</b>	<b>Measurement</b>	<b>Source</b>	<b>Sign</b>
<b>Dependent Variable</b>			
Firm performance	Return on Assets (ROA) and Return on equity (ROE)	Kordloie and Shahverdi (2018)	
<b>Independent Variable</b>			
Corporate social responsibility	Natural log of actual amount spent on corporate social responsibility	Ramzan, Amin, and Abbas, (2021)	Positive
<b>Moderator</b>			
Financial Stability	$((\text{net income} + \text{Equity}) / \text{total Assets}) / \text{Standard Deviation (ROA)}$	Ramzan, Amin, and Abbas, (2021)	Positive
<b>Control Variables</b>			
Size	The natural log of total assets	Yoon and Chung (2018)	Positive
Inflation	Consumer price Index	Al-Shammari, Banerjee, and Rasheed, (2021)	Positive
Leverage	Total debt to total assets	Siregar and Bukit (2017)	Negative
GDP	Growth in GDP	Saadaoui and Salah (2022)	Positive
Age	Age of the firm	Kabir and Thai (2017)	Positive

Source: Author's construct (2022)

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This chapter provides an exposition of the findings obtained from the investigation. The analysis encompasses an examination of the outcomes, coupled with a discourse on the findings. The study first presents the descriptive statistics, followed by the presentation of the primary findings.

#### 4.1 Descriptive Statistics

Table 4.1 presents the descriptive statistics. The table shows that the average ROA for the 16 commercial banks in Ghana over the period from 2010 to 2021 is 0.03, with a standard deviation of 0.02. The minimum ROA observed is -0.10, indicating a loss, while the maximum ROA is 0.08. The positive average ROA suggests that, on average, the banks in Ghana have been generating profits relative to their assets. However, the standard deviation indicates some variability in profitability across the banks. The negative minimum ROA suggests that there were periods when some banks experienced losses, which could be influenced by various factors such as economic conditions and internal management.

The table shows that the average ROE for the 16 banks is 0.19, with a higher standard deviation of 0.18 compared to ROA. The minimum ROE is -0.93, indicating a significant loss, while the maximum ROE is 1.17. The higher average ROE compared to ROA indicates that the banks' profitability, relative to shareholders' equity, has been relatively higher. However, the wider range and standard deviation suggest that there

is significant variation in the profitability and efficiency of banks in utilizing their equity to generate returns. The negative minimum ROE indicates that some banks have experienced periods of substantial losses relative to their equity. The table also provides summary statistics for the logarithm of the amount spent on CSR activities. The average CSR spending is 10.02, with a standard deviation of 5.61. The minimum CSR spending is 0.00, while the maximum is 16.16. The average CSR spending of 10.02, as measured on a logarithmic scale, suggests that, on average, the banks in Ghana have been allocating resources towards CSR activities. The standard deviation indicates variability in CSR spending across the banks, with some banks potentially investing significantly more or less in CSR. The minimum CSR spending of 0.00 suggests that there are banks that either did not disclose their CSR spending or reported no spending during the period.

**Table 4.1: Descriptive statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	181	0.03	0.02	-0.10	0.08
ROE	181	0.19	0.18	-0.93	1.17
CSR	181	10.02	5.61	0.00	16.16
FSTB	181	13.08	10.74	-70.15	47.61
Size	181	21.76	0.92	19.10	23.64
Leverage	181	0.85	0.10	0.56	2.08
GDP	181	6.02	3.49	0.51	14.05
Inflation	181	11.65	3.35	7.14	17.45
Age	181	38.33	31.78	2.00	125.00

Source: Author's construct (2022), ROA: return on Assets, ROE: return on equity

CSR: corporate social responsibility, FSTB: financial stability, GDP: gross domestic product.

FSTB is measured as the z-score, which is a metric used to assess the financial stability of a bank. The table shows that the average FSTB for the 16 commercial banks in Ghana over the period from 2010 to 2021 is 13.08, with a standard deviation of 10.74. The minimum FSTB value observed is -70.15, indicating severe financial distress, while the maximum FSTB value is 47.61. The average FSTB value of 13.08 suggests that, on average, the banks in Ghana have demonstrated a reasonable level of financial stability during the analysed period. However, the wide range and standard deviation indicate significant variation in financial stability across the banks. The presence of negative values, such as the minimum FSTB of -70.15, suggests that some banks may have experienced significant financial difficulties during the period.

Size represents the bank's total assets, measured as the natural logarithm of total assets. The table shows that the average size of the 16 banks is 21.76, with a standard deviation of 0.92. The minimum size observed is 19.10, while the maximum size is 23.64. The average size of 21.76 indicates that, on average, the banks in Ghana are of relatively larger scale in terms of their total assets. The standard deviation suggests some variability in the size of banks, with some being larger or smaller. The minimum and maximum sizes indicate the range of bank sizes observed within the sample.

Leverage is measured as the ratio of debt to total assets, indicating the extent to which a bank relies on debt financing. The table shows that the average leverage for the 16 banks is 0.85, with a standard deviation of 0.10. The minimum leverage observed is 0.56, while the maximum leverage is 2.08. The average leverage of 0.85 suggests that,

on average, the banks in Ghana have a moderate level of debt relative to their total assets. The standard deviation indicates some variability in leverage across the banks, with some being more or less leveraged. The minimum and maximum leverage values highlight the range of debt-to-asset ratios observed within the sample. GDP represents the Gross Domestic Product, which is a measure of the economic output of a country. The table shows that the average GDP for the period from 2010 to 2021 is 6.02, with a standard deviation of 3.49. The minimum GDP observed is 0.51, while the maximum GDP is 14.05. The average GDP of 6.02 indicates the level of economic output in Ghana during the analysed period. The standard deviation suggests some variability in GDP growth rates, with periods of higher and lower economic activity. The minimum and maximum GDP values reflect the range of economic performance observed within the period.

Inflation represents the rate of increase in the general price level of goods and services. The table shows that the average inflation rate for the 16 commercial banks in Ghana is 11.65, with a standard deviation of 3.35. The minimum inflation rate observed is 7.14, while the maximum inflation rate is 17.45. The average inflation rate of 11.65 indicates the level of price inflation experienced in Ghana during the analyzed period. The standard deviation suggests some variability in inflation rates, with periods of higher or lower inflation. The minimum and maximum inflation values reflect the range of inflationary pressures observed within the period.

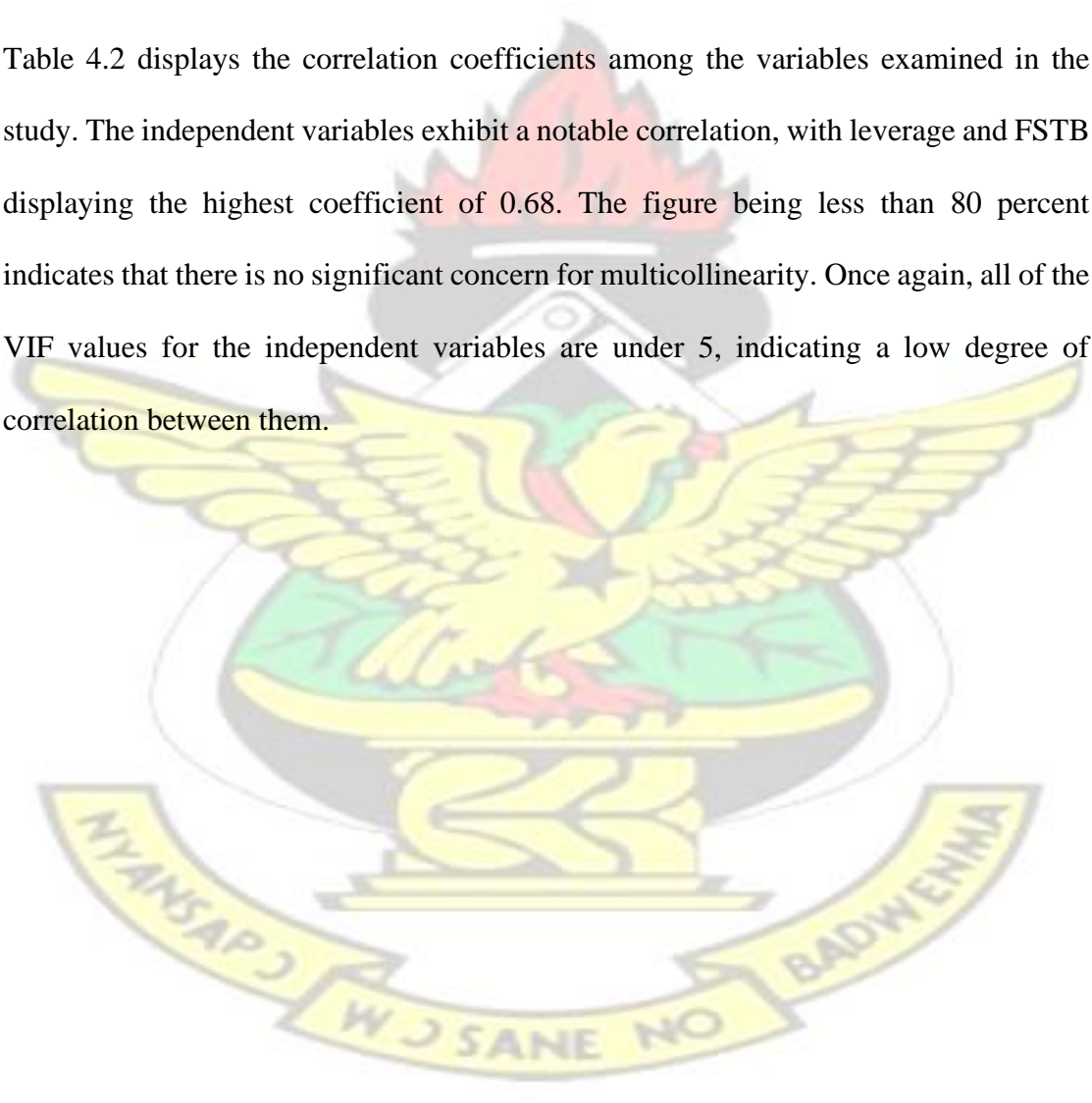
Firm age represents the age of the commercial banks, measured in years. The table shows that the average firm age for the 16 banks is 38.33, with a standard deviation of 31.78. The minimum firm age observed is 2.00 years, while the maximum firm age is

125.00 years. The average firm age of 38.33 indicates the average length of time the banks have been operating in Ghana. The standard deviation suggests some variation in the ages of the banks, with some being relatively new and others more established. The minimum and maximum firm age values highlight the range of bank ages observed within the sample.

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#### **4.2 Correlation Matrix**

Table 4.2 displays the correlation coefficients among the variables examined in the study. The independent variables exhibit a notable correlation, with leverage and FSTB displaying the highest coefficient of 0.68. The figure being less than 80 percent indicates that there is no significant concern for multicollinearity. Once again, all of the VIF values for the independent variables are under 5, indicating a low degree of correlation between them.



**Table 4.2: Pearson correlation**

	ROA	ROE	CSR	FSTB	Size	Leverage	GDP	Inflation	Age	VIF
ROA	1.00									
ROE	0.80	1.00								
CSR	0.05	0.06	1.00							1.13
FSTB	0.11	0.13	0.16	1.00						1.87
Size	0.11	0.17	0.27	0.03	1.00					1.94
Leverage	0.02	-0.06	-0.12	-0.68	-0.01	1.00				1.87
GDP	0.02	0.04	-0.09	-0.03	-0.47	0.06	1.00			2.08
Inflation	-0.04	-0.02	-0.10	-0.06	-0.12	0.05	-0.47	1.00		1.62
Age	0.24	0.22	-0.03	0.03	0.33	-0.04	-0.05	-0.02	1.00	1.18

Source: Author's construct (2022), ROA: return on Assets, ROE: return on equity CSR: corporate social responsibility, FSTB: financial stability, GDP: gross domestic product.

### 4.3 Diagnostic Tests

Table 4.3 indicates that the chi-square values for each of the four equations exhibit statistical significance at a 1% level. The aforementioned observation implies the presence of substantial fixed effects, thereby rendering the adoption of a random effect model unsuitable. The table means that all the four models is estimated using the FE model. In Table 4.3, the Durbin-Watson statistics is used to access autocorrelation. All the four equations have a Durbin-Watson statistics below 2 suggesting that there is significant autocorrelation. Also the p-value of the white test for all the four equations is significant at the 1% level suggests that there is strong evidence of heteroskedasticity. The issue of autocorrelation and heteroskedasticity is corrected using panel corrected standard errors.

**Table 4.3 Diagnostic tests**

		Heteroskedasticity	Hausman	Autocorrelation
EQ1 ROA	Stat	175.21	18.54	134
	P-value	0.00***	0.01***	
EQ2 ROE	Stat	183.74	17.12	1.85
	P-value	0.01***	0.00***	
EQ3 ROA	Stat	204.06	19.58	1.36
	P-value	0.00***	0.00***	
EQ4 ROE	Stat	215.54	17.75	1.86
	P-value	0.00***	0.01***	

Source: Author's construct (2022), \*\*\*: 1% significance

#### 4.4 Trend of Corporate Social Responsibility of Ghanaian Banks

The data in figure 4.1 shows that majority of the banks disclose CSR spending data. The availability of data on CSR spending indicates that these banks recognize the importance of sustainability and are actively engaged in addressing social and environmental issues. It suggests that they have dedicated resources and initiatives towards promoting sustainable practices, supporting local communities, and minimizing their environmental impact.

**Figure 4.1: Trend of Corporate social responsibility**



Source: Author's construct (2022), 1:ABSA bank, 2: ACCESS bank, 3:ADB bank, 4: CAL bank, 5: ECOBANK, 6: Fidelity bank, 7: First Atlantic bank, 8: GCB bank, 9: GT bank, 10: Prudential bank, 11: Republic bank, 12: Standard chartered bank, 13: Societe general bank, 14: Stanbic bank, 15: UMB bank, 16: Zenith bank

From the graph in Figure 4.1, there is a significant variation in the CSR spending among the banks. Some banks have higher CSR budgets, while others have relatively lower or

no reported CSR spending. This suggests that banks have different levels of commitment to CSR activities and allocate varying amounts of resources towards them. ABSA and Prudential bank did not disclose their CSR spending. Some banks may be more proactive in disclosing their CSR spending, possibly due to regulatory requirements or voluntary reporting frameworks. This highlights the influence of regulatory and reporting frameworks in promoting transparency and accountability in CSR practices. GCB has the highest total CSR spending, followed by ECOBANK and ADB. These banks demonstrate a strong commitment to corporate social responsibility. Also some banks have missing data for CSR spending in certain years, indicating inconsistencies in reporting or a lack of transparency in their CSR activities.

There is a general upward trend in CSR spending across several banks over the years. This indicates a growing recognition of the importance of CSR and sustainability issues within the banking sector in Ghana. The increasing CSR spending suggests that banks in Ghana may be focusing on addressing social and environmental issues, such as education, healthcare, poverty alleviation, environmental sustainability, and community development.

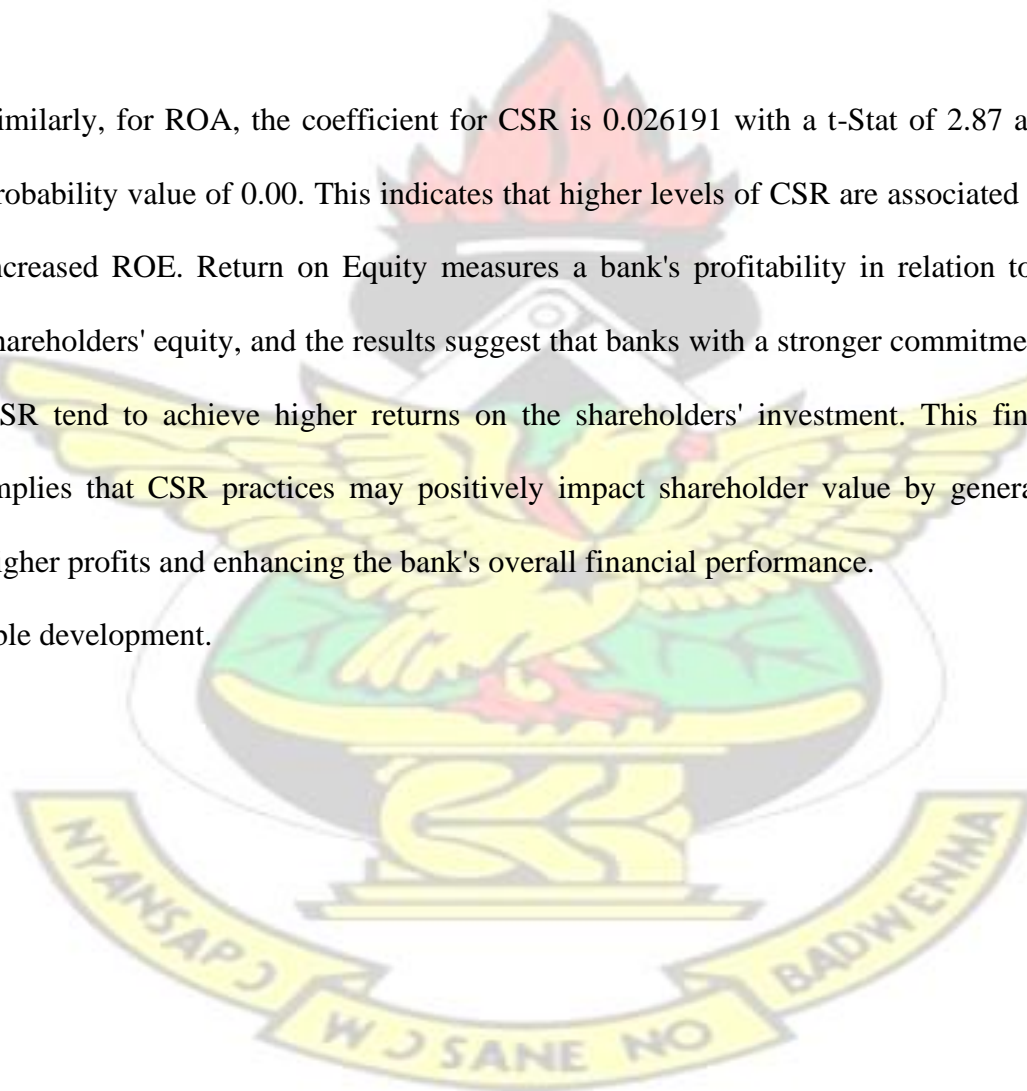
#### **4.5 Corporate Social Responsibility and Performance of Banks**

The data in Table 4.4 indicates that the F-statistic is 7.83 for ROA and 4.24 for ROE, with a p-value of 0.00. This suggests that the independent variables as a group are statistically significant in explaining the dependent variable. The R-squared value is 0.51 for ROA and 0.35 for ROE which means that the independent variables in the model explain 51% of the variability in ROA and 35% of the variability in ROE.

For ROE, the coefficient for CSR is 0.166342 with a t-Stat of 4.27 and a probability value of 0.00. This suggests that for every unit increase in CSR activities, there is a corresponding increase in ROA. In other words, as banks allocate more resources towards CSR initiatives, their profitability, as measured by ROA, tends to improve. This finding suggests that CSR activities can enhance a bank's ability to generate returns on its assets, potentially by improving customer loyalty, reputation, and stakeholder relationships.

Similarly, for ROA, the coefficient for CSR is 0.026191 with a t-Stat of 2.87 and a probability value of 0.00. This indicates that higher levels of CSR are associated with increased ROE. Return on Equity measures a bank's profitability in relation to the shareholders' equity, and the results suggest that banks with a stronger commitment to CSR tend to achieve higher returns on the shareholders' investment. This finding implies that CSR practices may positively impact shareholder value by generating higher profits and enhancing the bank's overall financial performance.

able development.



**Table 4.4: CSR and Firm performance**

	ROA				ROE			
	Coefficient	Std. Error	t-Stat	Prob.	Coefficient	Std. Error	t-Stat	Prob.
CSR	0.026191	0.00913	2.87	0.00***	0.166342	0.038962	4.27	0.00***
Size	0.001915	0.005557	0.34	0.73	-0.005189	0.004754	-1.09	0.28
Leverage	0.000253	0.000358	0.71	0.48	-0.073346	0.063862	-1.15	0.25
Inflation	-0.001193	0.000574	-2.08	0.04**	-0.007651	0.004745	-1.61	0.11
GDP	-0.001291	0.00062	-2.08	0.04**	-0.003793	0.005296	-0.72	0.47
Age	-0.001812	0.001442	-1.26	0.21	-0.043251	0.010301	-4.20	0.00***
Constant	0.053775	0.07722	0.70	0.49	-1.54351	0.581246	-2.66	0.01***
R-square	0.51				0.35			
Obs	181				181			
F-stat	7.83***				4.24***			

Source: Author's construct (2022), ROA: return on Assets, ROE: return on equity, CSR: corporate social responsibility, FSTB: financial stability, GDP: gross domestic product, \*\*\*: 1% significance level, \*\*: 5% significance level

The results suggest that engaging in CSR activities can have a positive influence on bank performance, as reflected by both ROA and ROE. The finding supports the study of Mangalagiri and Bhasi (2022) and Ghardallou and Alessa (2022). This finding can be explained through stakeholder engagement. CSR activities often involve engaging with various stakeholders such as communities, employees, and regulators. By actively addressing societal concerns and collaborating with stakeholders, banks can build stronger relationships, which can have positive effects on their overall performance (Mangalagiri and Bhasi, 2022). CSR practices can help banks mitigate certain risks, such as reputational risks, legal and regulatory risks, and operational risks. By proactively addressing environmental, social, and governance (ESG) issues, banks can minimize the likelihood of negative events that can harm their performance. This risk mitigation can contribute to more stable and sustainable financial performance (Ghardallou and Alessa, 2022).

The finding provides corroboration for the stakeholder theory. According to stakeholder theory, it is imperative for organisations to take into account the welfare and concerns of all stakeholders, rather than solely focusing on shareholders. By engaging in CSR practices, banks can effectively address the concerns and interests of various stakeholders, including customers, employees, communities, and regulators. This alignment with stakeholder interests can contribute to improved performance and long-term sustainability.

#### **4.6 Moderating Effect of Bank Stability between Corporate Social Responsibility and Performance of Banks**

The data in Table 4.5 indicates that the F-statistic is 7.22 for ROA and 3.85 for ROE, with a p-value of 0.00. This suggests that the independent variables as a group are statistically significant in explaining the dependent variable. The R-squared value is 0.41 for ROA and 0.29 for ROE which means that the independent variables in the model explain 41% of the variability in ROA and 29% of the variability in ROE. For ROA, the coefficient for CSR is -0.000525, but it is not statistically significant (t-Stat = -0.82, Prob = 0.41). The coefficient for FSTB (Financial Stability) is -0.000761, but it is also not statistically significant (t-Stat = -0.59, Prob = 0.56). The coefficient for the interaction term CSR\*FSTB is 0.000053 and it is significant at the the 10% level (t-Stat = 1.75, Prob = 0.08). This positive coefficient suggests a positive moderation effect of FSTB between CSR and ROA. In other words, the impact of CSR on ROA is amplified or strengthened in the presence of FSTB. This implies that when both CSR activities and financial stability (FSTB) are high, the positive effect of CSR on ROA becomes more pronounced.

For ROE, the coefficient for CSR is -0.008461, but it is not statistically significant (t-Stat = -1.04, Prob = 0.30). The coefficient for FSTB is -0.004838 and it is not statistically significant (t-Stat = -0.44, Prob = 0.66). The coefficient for the interaction term CSR\*FSTB is 0.178413 and it is statistically significant (t-Stat = 4.04, Prob = 0.00). This positive coefficient also indicates a positive moderation effect between CSR and FSTB on ROE. It means that the relationship between CSR and ROE is positively influenced by the interaction with financial stability (FSTB). When both CSR activities and financial stability are high, the positive impact of CSR on ROE is enhanced.

The findings suggest that the interaction between CSR and financial stability (FSTB) has a positive moderation effect on both ROA and ROE. This implies that the combination of CSR activities and financial stability has a greater positive impact on a bank's performance. The finding supports the study of Saadaoui and Salah (2022). The finding is explained by the fact that financial stability amplifies the impact of CSR: It is possible that when banks have higher levels of financial stability their CSR activities have a stronger positive effect on firm performance. This could be due to the fact that financially stable banks are better positioned to allocate resources effectively towards CSR initiatives, resulting in improved financial performance.

Another explanation is that financially stable banks are more resilient to the potential costs associated with CSR activities, such as increased expenses or reduced profitability, allowing them to maintain or improve their performance despite engaging in CSR. Financial stability may influence how banks allocate resources and prioritize their strategic focus. Banks with higher financial stability may have more resources available to invest in CSR initiatives, enabling them to implement more effective and impactful sustainability practices. Additionally, financially stable banks may have a greater ability to align their CSR efforts with their overall business strategy, leading to improved performance outcomes.

**Table 4.5: CSR, bank stability and firm performance**

	ROA				ROE			
	Coefficient	Std. Error	t-Stat	Prob.	Coefficient	Std. Error	t-Stat	Prob.
CSR	-0.000525	0.000642	-0.82	0.41	-0.008461	0.008103	-1.04	0.30
FSTB	-0.000761	0.001287	-0.59	0.56	-0.004838	0.011111	-0.44	0.66
CSR*FSTB	0.000053	0.000031	1.75	0.08*	0.178413	0.044124	4.04	0.00***
Size	0.005143	0.005882	0.87	0.38	0.000217	0.000270	0.80	0.42
Leverage	-0.020627	0.087029	-0.24	0.81	-0.379129	0.761754	-0.50	0.62
Inflation	-0.001136	0.000589	-1.93	0.06*	-0.007516	0.004988	-1.51	0.13
GDP	-0.001129	0.000636	-1.77	0.08*	-0.003104	0.005536	-0.56	0.58
Age	-0.002489	0.001504	-1.66	0.10*	-0.045706	0.010649	-4.29	0.00***
Constant	0.058149	0.120805	0.48	0.63	-1.391347	1.024332	-1.36	0.18
R-square	0.41				0.29			
Obs	181				181			
F-stat	7.22***				3.85***			

Source: Author's construct (2022), ROA: return on Assets, ROE: return on equity, CSR: corporate social responsibility, FSTB: financial stability, GDP: gross domestic product, \*\*\*: 1% significance level, \*\*: 5% significance level, \*: 10% significance level

The finding supports the resource dependence theory (RDT). RDT emphasizes the importance of external resources and relationships for organizational survival and success. According to RDT, organizations actively engage in strategic actions, such as CSR activities, to establish and maintain resource dependencies with external stakeholders, including regulators, customers, and the community.

In the context of CSR and financial stability, RDT suggests that when a firm faces higher levels of financial instability or uncertainty, it may strategically invest in CSR activities to build and maintain positive relationships with stakeholders who can provide critical resources, such as financial support, favourable regulations, or customer loyalty. By demonstrating a commitment to social and environmental issues, the firm may enhance its legitimacy and reputation, which can help attract and retain resources necessary for survival and growth.

Therefore, the significant interaction between CSR and financial stability implies that firms operating in a financially unstable environment may find value in investing in CSR as a strategic response to mitigate resource dependencies and enhance their long-term financial performance. RDT suggests that these firms recognize the importance of maintaining positive relationships with stakeholders, and CSR serves as a means to achieve that goal in the face of financial challenges.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

This section provides a concise overview of the key findings, draws conclusions based on the results, and offers recommendations for future action. Therefore, it is partitioned into four distinct sections..

#### 5.1 Summary of Findings

The study found that CSR spending among banks in Ghana shows significant variation, indicating different levels of commitment and resource allocation. Some banks, like GCB, ECOBANK, and ADB, demonstrate a strong commitment to CSR, while ABSA and Prudential bank did not disclose their spending.

The analysis revealed that increased CSR activities positively impact both Return on Assets (Coeff= 0.026191; p-value=0.00) and Return on Equity (Coeff= 0.166342; p-value=0.00) for banks. The coefficient values indicate that for every unit increase in CSR, there is a corresponding increase in ROA and ROE. This suggests that allocating more resources to CSR initiatives can improve a bank's profitability by enhancing customer loyalty, reputation, and stakeholder relationships. Banks with a stronger commitment to CSR tend to achieve higher returns on assets and generate increased returns on shareholders' investment.

The analysis showed that the interaction between CSR and financial stability (FSTB) had a positive and significant effect on both ROA (Coeff= 0.000053; p-value=0.08) and ROE (Coeff= 0.178413; p-value=0.00). This suggests that when CSR activities and

financial stability are high, the positive impact of CSR on profitability (ROA and ROE) is strengthened. In other words, the presence of strong financial stability amplifies the positive relationship between CSR and profitability for banks.

## 5.2 Conclusion

The overarching aim of the research was to examine how bank financial stability influences the relationship between corporate social responsibility and bank performance. The present study utilises secondary data sourced from the annual reports of commercial banks operating in Ghana to furnish relevant information. The dataset encompassed the temporal range from 2010 to 2021. The research conducted a sampling of 16 banking institutions. The study design was explanatory in nature as it aimed to elucidate the interrelationships among the variables. The utilised regression technique was fixed effect regression. The study found that there is a positive relationship between CSR activities and bank performance because CSR enhance reputation, improve customer loyalty, and strengthened stakeholder relationships. Also Bank stability positively moderates the relationship between CSR and bank performance because stable banks are better positioned to leverage the benefits of CSR initiatives.

The positive correlation observed in these studies underscores the multifaceted benefits of CSR on bank performance. Notably, banks that integrate CSR into their strategic framework tend to enjoy enhanced reputation, increased customer loyalty, and improved relationships with diverse stakeholders. These factors collectively contribute to a positive financial impact, reflecting in strengthened performance metrics.

Moreover, the research findings highlight the nuanced nature of this relationship. The effectiveness of CSR initiatives is contingent on factors such as the strategic alignment of social responsibility with financial goals, the regulatory environment, and the stability of financial structures. Well-capitalized banks, in particular, are positioned to leverage CSR activities as a means of risk mitigation and long-term value creation.

The nuanced role of financial stability as a significant moderator in the relationship between CSR and bank performance suggests that the interplay between these variables is intricate, with financial stability acting as a critical factor influencing the outcomes of CSR initiatives. The study highlights that well-capitalized banks, with robust financial structures, are better positioned to navigate the complexities of integrating CSR into their operations. Financial stability emerges as a crucial moderating factor, influencing the extent to which CSR practices contribute to enhanced bank performance. In essence, a strong financial foundation enables banks to absorb the costs associated with CSR activities and capitalize on the long-term benefits.

### **5.3 Recommendation**

Based on the findings of the study, the following recommendations are made:

Banks should enhance their CSR initiatives by allocating sufficient resources and developing strategic plans to align their activities with social and environmental goals. This can include investing in community development, environmental sustainability, financial education, and supporting social causes relevant to their stakeholders.

Banks should integrate CSR into their overall business strategy and corporate culture.

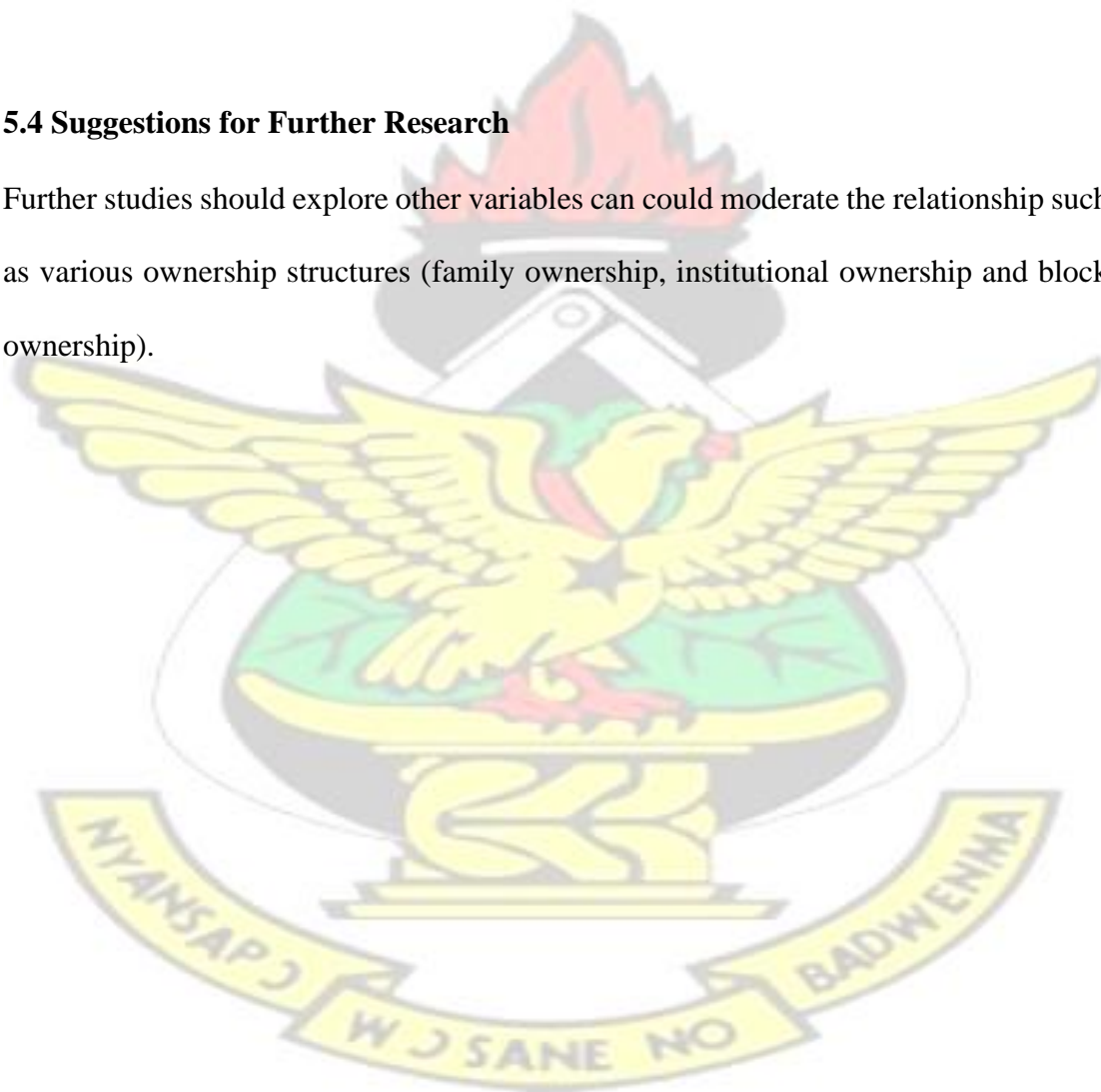
Embedding CSR principles and practices throughout the organization will ensure that

social and environmental considerations are integrated into decision-making processes and operations.

Given the positive moderating effect of bank stability on the CSR-performance relationship, banks should prioritize risk management practices to ensure financial stability and resilience. This includes robust risk assessment, capital adequacy, liquidity management, and compliance with regulatory requirements.

#### **5.4 Suggestions for Further Research**

Further studies should explore other variables that could moderate the relationship such as various ownership structures (family ownership, institutional ownership and block ownership).



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