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EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF NIGERIAN BANKS: MODERATING EFFECT OF CORPORATE GOVERNANCE

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Abstract

Society's consciousness of the importance of corporate social responsibility has increased over the last decades. The study examined the moderating effect of corporate governance on the relationship between CSR and financial performance from 2012 to 2022. Corporate governance was proxied as board size, board independence, and board gender diversity. CSR was proxied using CSR disclosure index while financial performance was proxied using ROA and ROE. The null hypotheses were tested using robust random effect model for both models. The result shows that the effect of CSR on ROA is insignificant. Likewise, the effect is insignificant when financial performance is proxied with ROE. On the other hand, board size has a significant negative effect on ROA. The effect is insignificant in ROE. Findings also show that the effect of board independence on ROA is significant and positive. On the contrary, the effect of board independence on ROE is insignificant. The effect of board gender diversity on ROA and ROE is insignificant. The moderating effect of board size on the relationship between CSR and ROA is significant and positive. In contrast, the effect is significant and negative when financial performance is proxied as ROE. The moderating effect of board independence on the relationship between CSR and ROA is significant and negative. In contrast, the effect is significant and positive. The moderating effect of board gender diversity on the relationship between CSR and financial performance (ROA and ROE) is insignificant. The study recommends that Banks should aim to have a majority of independent directors on their boards. This ensures that board decisions are made with a greater degree of objectivity, reducing the potential for conflicts of interest and enhancing the board's ability to monitor management effectively.

Keywords: Board Size, Board Independence, Board Gender Diversity, CSR, Financial Performance.

1. INTRODUCTION

Society's consciousness of the importance of environmental, social and economic issues has increased over the last decades. This increased interest has led to the development of the Corporate Social Responsibility concept (CSR) in which companies actively work simultaneously with environmental, social and economic issues that extend beyond what is legally required by these companies in order to achieve a more sustainable society.

As the interest in CSR has increased, a debate whether CSR is value-creating or should be considered an agency cost has arisen. Companies that engage in CSR focus not only on maximizing the short- term financial gain for the owners, but also on meeting the interests of other stakeholders with the intention to increase the long-term value of the company by satisfying multiple stakeholders. (André & Fredrik, 2018).

In recent years, there has been an increasing emphasis on the role of corporate social responsibility (CSR) in the business landscape, particularly within the context of Nigerian

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banks. While there is a growing body of literature that recognizes the potential positive effect of CSR on financial performance, there remains a gap in understanding how board characteristics moderate this relationship. The dynamics between board structures, including independence, diversity, and size, and their influence on the interplay between CSR initiatives and financial performance in Nigerian banks warrant closer examination.

Numerous studies such as Hamad and Cek (2023); Pasko et al., (2022) suggest a positive association between CSR activities and financial performance. However, the extent and nature of this relationship may vary across different organizational contexts. The specific mechanisms through which CSR practices contribute to or detract from the financial performance of Nigerian banks need exploration. Other studies (Hamid & Ibrahim, 2020, Husaini et al., 2023) found a negative effect of CSR on financial performance.

While existing literature has extensively explored the individual relationships between CSR and financial performance (Hamid & Ibrahim, 2020, Husaini et al., 2023, Hamad & Cek, 2023; Pasko et al., 2022). There is a notable gap in the understanding of how board characteristics moderate the relationship between CSR activities and financial performance, particularly in the context of Nigerian banks.

While the literature acknowledges the pivotal role of boards in shaping organizational strategies and performance, there is limited empirical evidence on how specific board characteristics moderate the CSR-financial performance relationship in Nigerian banks. Understanding whether certain board structures enhance or hinder the influence of CSR initiatives is critical for effective governance and strategic decision-making.

Studies such as Alduais et al. (2022), Laili et al. (2018), Hashem et al. (2023), Shafqat and Ayub (2022), Suryana et al. (2021), Musdalifa and Kusumastuti (2022) were conducted outside Nigeria. On the contrary, Hamid and Ibrahim (2020) study focused on non-financial firm in Nigeria which differs from the current study that focuses on Nigerian banks.

There have been challenges in the corporate governance of some money lending and deposit banks in Nigeria, though privately own, but the Central Bank of Nigeria (CBN) serves as a regulatory body. According to Punch news Papers (2024), The Central Bank of Nigeria has dissolved the boards and managements of Union Bank of Nigeria, Keystone Bank and Polaris Bank. This action became necessary due to the non-compliance of these banks and their respective boards with the provisions of Section 12(c), (f), (g), (h) of Banks and Other Financial Institutions Act, 2020. The banks' infractions vary from regulatory non-compliance, corporate governance failure, disregarding the conditions under which their licenses were granted, and involvement in activities that pose a threat to financial stability, among others.

Understanding the moderating role of board characteristics is crucial for several reasons. Firstly, the banking industry, as a key player in the Nigerian economy, is subject to unique regulatory frameworks and stakeholder expectations. The influence of board characteristics on the CSR-financial performance relationship may differ in this context compared to studies conducted in other industries or regions.

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Secondly, Nigeria has experienced significant economic, social, and environmental challenges, which may influence the dynamics between CSR efforts and financial outcomes. The moderating effect of board characteristics could shed light on how boards navigate these challenges and leverage CSR activities for sustained financial success.

Thirdly, considering the evolving landscape of corporate governance globally, including Nigeria, understanding the interplay between board characteristics and CSR in the banking sector can contribute to the ongoing discourse on responsible and sustainable business practices.

Nigeria's status as an emerging market introduces unique challenges and opportunities for businesses. Exploring the moderating role of board characteristics provides insights into the adaptability and effectiveness of corporate governance mechanisms in navigating the complexities of CSR and financial performance in this specific market.

Research Hypotheses

H_{01}: Board size does not have significant effect on financial performance of listed banks in Nigeria.

H_{02}: Board gender diversity does not have significant effect on financial performance of listed banks in Nigeria.

H_{03}: Board independence does not have significant effect on financial performance of listed banks in Nigeria.

H_{04}: Corporate social responsibilities do not have significant effect on financial performance of listed banks in Nigeria.

H_{05}: Board size does not have significant moderating effect on the relationship between corporate social responsibility and financial performance.

H_{06}: Board gender diversity has a significant moderating effect on the relationship between corporate social responsibility and financial performance.

H_{07}: Board independence does not have significant moderating effect on the relationship between corporate social responsibility and financial performance.

2. LITERATURE REVIEW

This study is underpinned by the stakeholder’s theory proposed by Freeman (1984). The stakeholder ecosystem, involves anyone invested and involved in, or affected by, the company like the employees, environmentalists near the company’s plants, vendors, governmental agencies, and more.

Freeman’s theory suggests that a company’s real success lies in satisfying all its stakeholders, not just those who might profit from its stock. When it comes to CSR, it is an umbrella concept for company’s activities oriented toward society at large that includes charity, volunteering, environmental efforts, and ethical labour practices.

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CSR focuses on one stream of business responsibilities – responsibility to local communities and society at large – to ensure business does deliver on it. Although sometimes social responsibilities could be organized per stakeholder, social orientation would still prevail there. This research is anchored on stakeholder's theory looking at the independent variable

Corporate social responsibility (CSR)

Caroline and Suvi (2022) said that the early description of social responsibility defined by Bowen, H. R. in 1953 intend to answer the following question: "What responsibilities to society may businessmen reasonably be expected to assume?". He opined that business people's corporate social responsibility have to do with their responsibility to pursue policies, make decisions, or follow actions in line with society's desired objectives and values (Carroll 1999).

Another definition was later presented by Frederik (1960), who stated that "Businessmen should oversee the operation of an economic system that fulfils the expectation of the public." Accordingly, he intended that business operations should proceed in such a way that they enhance socio-economic welfare. Later, an important contribution was presented by Donna J. Wood 1991, who revisited the concept and incorporated other theoretical approaches to the topic, such as industrial institutionalism, stakeholder management theory, and social issue management theory (Maura-Leite & Pedgatt, 2011). Thereby, the concept also became naturally linked to the stakeholder theory.

Karagiorgos (2010), said that the definition of CSR is an issue that dominates the existing literature. Many authors made an attempt to approach this term with many views. Davis (1973, pp.312-313) defined CSR as "the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks".

The World Business Council for Sustainable Development (1999) suggests that: "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

It can also be view as the responsibility of firms to their environment that might not be legally bidding on them but have an unusual effect on the social and economic fabric of the community they operate in, with the capacity to positively boost the firms' corporate image. André and Fredrik (2018) refers to companies that engage in more voluntary activities regarding environment, employees, communities' well-being than is required by the law (Mcwilliam & Siegel 2001; Barnea & Rubin, 2010).

The interest and relevance of CSR have increased in the last decades since some managers have become more aware of multiple stakeholders' importance and not only the shareholders (Mitchell, Agle & Wood 1997; Diebecker & Sommer, 2017). Therefore, it could be argued that voluntary CSR is at least as important as legal requirements for these managers.

The stakeholder perspective assumes that companies who satisfy multiple stakeholders will reduce potential conflicts, strengthen relationships and ensure the focus on the going concern

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concept which will be value creating for the company (Freeman, Harrison, Wicks, Parmer & Cole, 2010). However, investing in CSR usually lead to a lower result in a short-term perspective regardless whether the company chooses to report it as a cost or investment.

Thus, not every manager agrees that satisfying several stakeholders will be in the best interest of the company and its shareholders as they argue that costs related to CSR activities are conflicting with profit maximization and are therefore considered as agency costs. This perspective refers to the more traditional shareholder philosophy as satisfying shareholders is important for these managers and is achieved by increasing the profits for the company (Mitchell et al., 1997; Diebecker & Sommer, 2017).

Those who advocate the shareholder perspective argue that managers who engage in CSR do this to boost the company's social and sustainable responsibilities at the expense of the shareholders without seeing any long-term benefits. They argue that these costs wouldn't exist if the managers avoid engagement in CSR activities and would therefore increase the profit and value for the shareholders (Mcwilliam & Siegel 2001; Jiraporn & Chintrakarn, 2013). On the other hand, those who advocate the stakeholder perspective argue that engaging in CSR should be seen as a long-term investment as satisfying multiple stakeholders will reduce potential conflicts, strengthen relationships and ensure the focus on the going concern concept which will be value creating for the company (Freeman, Harrison, Wicks, Parmer & Cole, 2010).

Corporate Governance

There are various definitions of corporate governance in literature. For example, Ogbechie and Koufopoulos (2010) defined board characteristics as those varied personal characteristics and physical differences in people who are members of the board that make the board heterogeneous. Their rationale behind this definition is that for boards to be effective, there is a need for diverse perspectives to confront management's thinking. Promoting diverse perspectives in a board can generate a wider range of solutions and decision criteria for strategic decisions. In another vein, Kang, et al. (2007) defined board characteristics as the variation in the board's composition.

They categorise characteristics in two: the characteristics that can be observed directly and those that cannot be observed indirectly. The characteristics that can be observed directly include age, ethnicity, and sex (gender). On the other hand, the characteristics that cannot be observed directly include educational background, work experience and membership in an organisation.

Fakile and Adegbole (2019) refer to Board characteristics as the features of corporate boards that are tasked with overall management of the firm. The role played by the management will determine the success crumbling of the organisation. According to Aifuwa and Embele (2019), board characteristics can be defined as one internal corporate governance mechanism, which expatiates on the features of the board. It looked at the characteristics of the board from size, independence, diligence, diversity (age, gender, nationality, expertise, educational and functional background), and committee structure (Anderson et al., 2004).

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The administrative activities of the board involve the duty of overseeing and monitoring the organizations financial reporting process (Anderson et al., 2004). They meet at a scheduled time with the organizations' accountant and external auditors to review financial statements, audit procedures and the internal control system (Klein, 2002) aim at improving the organisation's performance. Hermalin and Weisbach (2003) see the board as a market solution that helps mitigate the agency problems that befalls most organizations.

According to Jenfa (2000), the board is responsible for a company's internal control systems and has the ultimate responsibility for the operation of the company. Boards define the rules for the chief executive officer regarding hiring and firing, compensation plan and provide high-level advice. Vafeas (2000) see boards duty as mainly responsible for monitoring the quality of information contained in financial reports because managers often have their own interest and incentives with regard to managing earnings and potentially misleading stockholders.

For the purpose of this study, board characteristics is defined in line with Kang et al. (2010) definition, who described board characteristics as the variations in the board's composition. For the purpose of this study, board characteristics is viewed as board size, board composition and board gender diversity.

Financial Performance

Financial performance is reflected in a company's ability to generate revenue to sustain its operations. Iyota et al (2022) defined financial performance is the totality of an organization's financial health, its ability and capacity to meet its long-term financial obligations and its commitments to provide services in the foreseeable future. Rahel and Serkalem (2010) defined financial performance as a measure of profitability and/or market value. They opined that financial performance is considered an indicator of how well the firm satisfies its owners and shareholders. The ultimate goal for most firms is to increase their financial performance, particularly for public firms, in shareholder value. The aim of performance measurement systems is to provide operational control and provide external financial reporting.

On the other hand, Greenley (1995) defined performance as a reflection of how the organization uses its financial and human resources and uses them in a way that makes it capable of achieving its goals or the institution's ability to survive and maintain a balance between shareholders and employees' satisfaction. Kenton (2021) describes Return on Assets (ROA) as a proxy for a firm's financial performance, a ratio that measures its earnings relative to its total net assets.

It is defined as the ratio between net income and total average assets, or the amount of financial and operational income a company receives in a financial year as compared to the average of that company's total assets. The ratio is considered an indicator of how effectively a company uses its assets to generate earnings. Luo and Lusmeida (2019) opines that ROA helps to indicates how a business can increase their profit with less investment. ROA is most useful for comparing companies in the same industry. EBIT is used instead of net profit to keep the metric focused on operating earnings without the influence of tax or financing differences when compared to similar companies.

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According to Ahmed et al (2011), the performance of any firm not only increases the market value of that specific firm but also leads towards the growth of the whole industry, which ultimately leads towards the overall prosperity of the economy. Frésard (2010) argued that firms holding higher cash than their competitors achieve better performance and profitability when measured by return on assets. He presented evidence that the firm's market-share increased more than their competitors due to effective corporate cash management.

In this study, ROA refers to a financial ratio that indicates how profitable a company is to its total assets. Mathematically, ROA equals *Net income/Total Assets.* Corporate management, analysts, and investors can use ROA to determine how efficiently a company uses its assets to generate a profit (Hergrave, 2022). Luo and Lusmeida (2019) also defines Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Net income is for the full fiscal year (before dividends paid to ordinary stockholders but after dividends to preferred stock). ROE is primarily used for comparing the performance of companies in the same industry. CSR is a strategy used to achieve company objectives.

When businesses practice CSR, they create a positive image in the community. If a positive image is created, the company will gain public trust and be able to generate consumer loyalty. Consumer loyalty will have an influence on profits by increasing sales. ROE is one tool for determining a company's profitability. Companies that engage in corporate social responsibility activities will gain a positive public image, increasing their public trust. consumer loyalty. Furthermore, product sales will increase, increasing the company's profits. This study uses Return on equity to measure financial performance. When the ROE value is high, it is expected that stock prices will rise (Matuszak & Róaska, 2017). The higher the ROE, the higher the profit generated by the company. Investors use a high ROE as one of the factors they consider when deciding whether or not to invest in a company. ROE is a measure of management's ability to generate income from the equity available to it. ROEs of 15-20% is generally considered good.

ROEs are also a factor in stock valuation, in association with other financial ratios. In general, stock prices are influenced by earnings per share (EPS), so that stock of a company with a 20% ROE will generally cost twice as much as one with a 10% ROE. (Ningsih et al, 2022). Return on Equity = Net Income/Shareholder's Equity. Earnings per share (EPS) is a valuation tool in measuring financial performance and profitability of businesses. Earnings per share (EPS) is a metric that is used in measuring management's success in generating profits for shareholders. It shows the percentage of a company's net profit that is divided to all shareholders. EPS is key in measuring the level of a corporation's ability to generate net profits on each share.

This ratio indicates the amount of profit after tax attributable to each ordinary share. It is a measure of the ability of the company to pay ordinary share dividends and also measures the potential return to ordinary shareholders. Earnings per share indicates how much earnings an establishment makes for each share of its stock. A higher earnings per share shows a greater value, as investors will pay extra for a corporation’s shares, if they perceive the company has

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higher profits, which is relative to its share price. Earnings per share (EPS) represents the ration of an enterprise's earnings, net of taxes and preferred stock dividends, hat is apportioned to each share of public stock. (Ajao et al, 2022).

Empirical Review

Bennett and Obalade (2023) investigated the relationship between the corporate social responsibility (CSR) and financial performance (FP) of the leading commercial banks in South Africa. It is proxy by Corporate social responsibility, financial performance Return on asset, Net profit after tax and net profit margin annual. Time series was used to analyzed the data. The overall finding is that CSR positively affected ROA, NPAT and NPM for both Standard Bank and Nedbank.

Sibuea et al (2023) aimed to empirically prove the effect of good corporate governance on company financial performance with earnings management as a mediating variable in state-owned companies listed on the Indonesia Stock Exchange (IDX) for the 2011-2020 period. Independent directors, independent commissioners, government ownership, independent audit, leverage, firm size, earning management and financial performance were use as proxies. Panel data regression was use to analyse the data.

The results show that independent directors and independent audit committees directly have a significant negative effect on financial performance, government ownership partially has a significant positive impact on financial performance, and independent commissioners have no significant negative effect on financial performance. In contrast, earnings management had no significant positive impact on financial performance in state- owned companies listed on the IDX from 2011 to 2020. The results also show that independent directors and independent audit committees have no significant positive effect on financial performance. In contrast, independent commissioners and government ownership have no significant negative impact on earnings management.

Manan and Amin (2023) investigated the impact of Corporate Governance on firm financial performance in Pakistani listed firms, with earnings management acting as a mediator proxy by board size, board independence, audit committee size, ownership concentration and return on assets. Panel data model was use to analyse the data. Findings suggest that Board Independence and Audit Committee size are important corporate governance factors for influencing earnings management. Earnings management is also intrinsically linked to a company's performance.

In Nigerian, several empirical studies have been conducted on the effect of CSR on financial performance. For example, Olubunmi (2023) investigated Corporate Social Responsibility (CSR) on financial performance of some selected manufacturing companies in Nigeria. Corporate social responsibility, earning per share and Net profit margin were used as variables and Net profit margin and Earning per share are the proxies descriptive and inferential statistics (correlation and multi -regression) was applied in analysing the data. The result of analysis revealed that CSR has significant relationship on financial performance measured with EPS and negative significant relationship on NPM of selected manufacturing companies in Nigeria.

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Najib and Farhan (2023) examined the moderating effect of liquidity on the relationship between firms' specific and sustainability expenses. economic, social, environmental, age, current ratio (CR), leverage (LEV), total expenses (EXP), market capitalization (MCAP), return on assets (ROA), sales and firms' size were used as proxies. Panel data with fixed-effect models was used to analyse the data. The findings show that greater leverage with less liquidity negatively affects the levels of sustain- ability spending.

Benhamed and Abdullah, (2023) examined the mediating effects of corporate social responsibility disclosures on the relationship between corporate governance and financial performance. The independent variables are Board ownership, Managerial ownership and family ownership proxy by return on equity and return on asset. Panel review was use to analyse the data. The study reviewed the literature, and results revealed a mixed impact on mediating effects of corporate social responsibility disclosures on the relationship between corporate governance and financial performance.

Siddiqui et al. (2023) examined the role of Corporate Governance and Corporate Reputation (CR) in the disclosure of Corporate Social Responsibility (CSRD) and firm performance. ROA, ROE, Tobin's Q, firm reputation, ownership concentration, CSR disclose, CEO integrity, institutions, CEO duality, Leverage, Asset, Employee, Industry and crises are use as proxies. Ordinary least square (OLS) models was use to analyse the data. The results verified a moderate effect of "corporate governance" on "CSRD" and CR.

Ainiokha et al (2021) examined how corporate governance, firm attributes influence financial Performance of banks. Board size, board independence, board gender diversity, board meeting, director's shareholding and ROA are the proxies used. Multiple panel regression techniques were used to analyse the data. Based on the analysis the research found that there is no significant relationship between board size and firm performance (ROA), that there is no significant relationship between board independence and firm performance (ROA), also that there is no significant relationship between board gender diversity and firm performance (ROA), the study also reveals that there is no significant relationship between board meetings and firm performance (ROA), also that there is no significant relationship between director's shareholding, firm size and firm performance (ROA).

3. METHODOLOGY

This study adopts ex post facto research design. In this study, secondary data sources will be used to collect information on the moderating effect of corporate governance on the relationship between CSR and financial performance from the audited annual reports and accounts of the sampled banks. The proxies for corporate governance are: board size, board independence and board gender diversity while the independent variable is CSR and the dependent variables - financial performance is measured as ROA, ROE and EPS. The population consist of all listed banks in the Nigerian Exchange Group (NGX) as at December 2022. The total number of banks listed in NGX as at December 2022 was 14. Table 3.1 shows the list of banks:

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Model specification and variable measurement

This section presents the panel regression model that captures the effects of sustainability reporting on financial performance of listed banks firms in Nigeria is presented below:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BIN_{it} + \beta_3 BGD_{it} + \beta_4 CSR_{it} + \beta_5 BS{*}CSR_{it} + \beta_6 BIN{*}CSR_{it} + \beta_7 BGD{*}CSr_{it} + \varepsilon_{it}$$

$$ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BIN_{it} + \beta_3 BGD_{it} + \beta_4 CSR_{it} + \beta_5 BS{*}CSR_{it} + \beta_6 BIN{*}CSR_{it} + \beta_7 BGD{*}CSr_{it} + \varepsilon_{it}$$

Where

ROA – Return on asset, ROE – Return on Equity, BS – Board size, BIN – Board independence, BGD – Board Gender Diversity, CSR – Corporate Social Responsibility, CSR*BS – Moderating effect of Board size on CSR, CSR*BIN – Moderating effect of board independence on CSR, CSR*BGD – Moderating effect of board gender diversity on CSR, β_1 β7 – Beta coefficient, α – constant, ε – error terms, it – identifier and time

Table 1: variables and their measurements

Variable	Measurements	Source
ROA	Profit after tax divided total asset	Iyoha and Igbinovia (2023)
ROE	Profit after tax divided by total equity	Iyoha and Igbinovia (2023)
Board size	Total number of directors on the board	Shafqat and Ayub (2022)
Board independence	Ratio of independence directors on the board to the total number of directors	Shafqat and Ayub (2022)
Board gender diversity	Ration of female directors on the board to the total number of directors	Shafqat and Ayub (2022)
CSR	CSR index	Suryana and Sedana (2021)

Source: Author's compilation (2024)

4. RESULT AND DISCUSSIONS

This section discusses the descriptive statistics of the variables as well as the empirical result.

Table 2: Descriptive statistics

Variable	Mean	Std. dev.	Min	max
ROA	.0435727	.0753841	-.021	.54
ROE	.1832	.7440317	-3.943	6.417
CSR	69.04755	41.22388	0	100
BS	14.33028	3.130066	6	21
BIN	.1599083	.0849237	0	.36
BGD	.2189908	.1055641	0	.5
BS_CSR	975.3604	628.4057	0	2000
BIN_CSR	11.99476	9.459096	0	36
BGD_CSR	14.5489	11.43332	0	45.5

Source: Author's compilation (2024)

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Table 2 shows that the average ROA of listed banks in Nigeria is 4.35%, with a deviation of 7.5%. The minimum and maximum ROA of the selected banks are -2.1% and 5.4% respectively. This shows that the management of banks can generate profit from the assets employed by banks. On the other hand, ROE is 18.3%, with a standard deviation of 74.4%. The minimum and maximum ROE of banks are -394.3 and 641.7%, respectively. This implies that management generates more profit from equity compared to assets. The average CSR disclosure for banks is 69%, with a deviation of 41%. Table 2 also shows that the average board size of banks is 14 with a deviation of 3. The minimum and maximum numbers are 6 and 21, respectively. Implying that banks comply with the code of corporate governance. Table 2 also shows that that the average independent directors on the board is 15.9% with a deviation of 8.4%. The minimum and maximum number of independent directors is 0 and 36% respectively. It can therefore be concluded that banks comply with the code of corporate governance of having at least one independent director. In addition, the table shows that the average board gender diversity of the banks is 21.8% with a deviation of 10.5%. The minimum and maximum number of female directors to the total board members is 0 and 50% respectively. Therefore, it can be deduced that the board is diverse.

Table 2 also shows the moderating effect of corporate governance indicators on CSR of banks in Nigeria. The result showed an increase in average CSR disclosures by banks when moderated with board size but reduced when moderated with board independence and board gender diversity.

Table 3: correlation matrix and multicollinearity test

Variable	ROA	ROE	CSR	BS	BIN	BGD	CSR_BS	CSR_BIN	CSR_BGD
ROA	1								
ROE	0.3310	1							
CSR	-0.0739	0.0720	1						
BS	-0.4899	-0.2392	-0.0264	1					
BIN	0.2710	0.3308	0.3215	-0.2148	1				
BGD	0.3383	0.1823	-0.1163	-0.1409	0.1122	1			
BS_CSR	-0.1648	-0.0421	0.9301	0.2405	0.2220	-0.1167	1		
BIN_CSR	0.0554	0.2998	0.7828	-0.1426	0.7023	-0.0588	0.6789	1	
BGD_CSR	0.1018	0.1990	0.7284	-0.0723	0.2516	0.4713	0.6594	0.5744	1
VIF	10.94	10.94	32.49	2.69	3.15	3.33	20.03	7.89	6.65

Source: Author's compilation (2024)

Table 3 shows the pairwise correlation between the variables. The findings shows that the correlation between ROA and CSR is negative. Similarly, the relationship is negative with board size but positive with board independence and board gender diversity. When corporate governance is introduced as a moderating variable, the relationship between ROA and board size as moderator on CSR is negative while board independence and CSR as well as board gender diversity and CSR is positive. The correlation between ROE and CSR is positive. Also, they is a positive correlation between board independence, board gender diversity and ROE. The correlation between the moderating effect of board independence and board gender

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diversity on the relationship between CSR and ROE is positive. Board size effect on the relationship between CSR and ROE is negative.

Table 3 shows the multicollinearity test result. CSR and the moderating effect of CSR and board size are higher than the threshold of 10, indicating the presence of correlation among the variables. Also, the mean Variance Inflation Factor (VIF) is above 10. Based on this outcome, the hypotheses were tested using robust random effect regression analysis correcting for first-order autocorrelation.

Table 4: Empirical results

Variable	Coef.	Z	P-value	Coef.	Z	P-value
CSR	-8.41e-06	-0.01	0.990	.0019979	0.23	0.817
BS	-.0105435	-3.32	0.001	-.0167887	-0.44	0.658
BIN	.5188676	4.46	0.000	-1.45446	-1.00	0.317
BGD	.0824961	0.87	0.384	.2852563	0.24	0.808
BS_CSR	.0000898	2.69	0.007	-.0010482	-2.33	0.020
BIN_CSR	-.0065159	-4.11	0.000	.0634178	3.18	0.001
BGD_CSR	-.0013741	-1.22	0.223	.0151109	1.06	0.291
R^2 = 19.38				R^2 = 34.07		
Hettest	105.75		0.0000	116.86		0.0000
Hausman test	1.60		0.9529	3.66		0.7220
Lagrangian test	61.54		0.000	20.12		0.0000

Source: Author's compilation (2024)

Table 4 shows the empirical result of the estimated models. The $R^{2,}$ which measures the variations in the dependent variable, shows that the variation accounts for 19.38% in ROA. While in ROE it accounts for 34.07%. The heteroscedasticity test based on Breusch-Pagan shows that the null hypotheses were rejected. Hence, heteroscedasticity was present in both models. The Hausman test, which was carried out to test the best model between Random and Fixed effects, shows that for both models, the Fixed effect was rejected. This informed the application of the Lagrangian Multiplier test to check between Random effect and pooled regression. The result indicated that Random effect was most preferred in both models because the null hypotheses were rejected at 5% significant level. Based on these tests, robust random effect models accounting for first-order autocorrelation were applied to correct multicollinearity in the models.

The result shows that the effect of CSR on ROA is insignificant. Likewise, the effect is insignificant when financial performance is proxied with ROE. Bennett and Obalade (2023) and Olubunmi (2023) found a positive effect of CSR on financial performance. On the other hand, board size has a significant negative effect on ROA at a 5% significant level. That is, a larger board performs less than a smaller board size by 1%. Larger boards often bring together a wider array of interests, which can lead to conflicts and the need for more extensive negotiation and compromise. This can increase agency costs, as the board may prioritise satisfying diverse interests over making decisions that enhance shareholder value. The effect is insignificant in ROE. Findings also show that the effect of board independence on ROA is

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significant and positive at 5% significant level. Impliedly, an increase in independent directors on the board increases ROA by 51%. Manan and Amin (2023) found a significant effect. Independent directors are better positioned to provide objective monitoring of the company's management, as they do not have a vested interest in the firm. Their independence allows them to evaluate management's actions without bias, leading to more effective oversight and the prevention of self-serving behaviours by executives. Board independence is a critical component of good corporate governance that positively influences firm performance. By providing unbiased oversight, reducing agency costs, enhancing decision-making, increasing accountability, and improving risk management, independent directors contribute to the long-term success and sustainability of a company. On the contrary, the effect of board independence on ROE is insignificant. This finding was supported by Sibuea et al. (2023), who found an insignificant effect. The effect of board gender diversity on ROA and ROE is insignificant. This finding aligns with Ainiokha et al.'s study (2021).

The moderating effect of board size on the relationship between CSR and ROA is significant and positive at 5% significant level. In contrast, the effect is significant and negative when financial performance is proxied as ROE. With more members, larger boards can provide more comprehensive oversight of CSR activities. They are better positioned to ensure that these activities are strategically aligned with the company's objectives, which can maximize the financial benefits of CSR. This improved oversight can lead to more effective CSR initiatives that positively impact ROA.

The moderating effect of board independence on the relationship between CSR and ROA is significant and negative at 5% significant level. In contrast, the effect is significant and positive at 5% significant level. Independent directors are more likely to objectively evaluate CSR initiatives, ensuring they are not just superficial gestures but are genuinely aligned with the company's long-term strategy and goals. This objective oversight ensures that CSR activities are effective, contributing positively to financial performance. On the other hand, the negative effect on ROA implies that independent directors, particularly those with a strong focus on financial returns, may adopt a conservative approach to CSR investment. They might prioritize short-term financial performance over long-term CSR benefits, leading to underinvestment in CSR initiatives. This conservative stance can diminish the potential positive impact of CSR on ROA, resulting in a negative moderating effect. The moderating effect of board gender diversity on the relationship between CSR and financial performance (ROA and ROE) is insignificant.

5. CONCLUSION AND RECOMMENDATIONS

The study examined the moderating effect of corporate governance on the relationship between CSR and financial performance from 2012 to 2022. Corporate governance was proxied as board size, board independence, and board gender diversity. CSR was proxied using CSR disclosure index while financial performance was proxied using ROA and ROE. The null hypotheses were tested using robust random effect model for both models. The study concludes that larger boards often bring together a wider array of interests, leading to conflicts and the

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need for more extensive negotiation and compromise. This can increase agency costs, as the board may prioritise satisfying diverse interests over making decisions that enhance shareholder value. The effect is insignificant in ROE. Also, the independence of the board is a key factor in driving better governance outcomes and enhancing the overall financial performance of firms. By prioritizing board independence, companies can ensure that their boards are effective stewards of the organization, capable of making strategic decisions that align with the best interests of shareholders and other stakeholders. The moderating effect of board size on the relationship between CSR and ROA is significant and positive, primarily due to the enhanced resources, strategic oversight, advocacy for CSR, risk management, and stakeholder relations that larger boards provide. By leveraging these strengths, larger boards can amplify the positive impact of CSR activities on a company's financial performance, resulting in higher ROA. Thus, companies with larger boards may be better positioned to harness the full financial benefits of their CSR investments. Board independence has a significant and positive moderating effect on the relationship between CSR and ROE but negative to ROA. Independent directors provide the necessary oversight, balance, and strategic direction to ensure that CSR activities are not only aligned with the company's ethical values but also contribute to financial performance. By fostering credibility, mitigating risks, and ensuring effective resource allocation, independent boards can amplify the positive impact of CSR on ROA, making board independence a critical factor in the success of CSR initiatives.

The study recommends that:

i. Banks should aim to have a majority of independent directors on their boards. This ensures that board decisions are made with a greater degree of objectivity, reducing the potential for conflicts of interest and enhancing the board's ability to monitor management effectively.

ii. Banks should seek to appoint directors who have experience and expertise in CSR, sustainability, and stakeholder management. This diversity can ensure that CSR activities are well-integrated into the company's overall strategy, leading to better financial performance.

iii. Banks should establish a routine impact assessment process for CSR activities led by independent directors to evaluate their effectiveness and financial return.

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