CORPORATE SOCIAL RESPONSIBILITY AND FIRM PERFORMANCE: A STUDY OF LISTED FIRMS IN NIGERIA

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ABSTRACT

This study investigated the Corporate Social Responsibility (CSR) disclosure practices of Nigerian quoted companies and their determinants. A checklist of 20 attributes was developed to capture the social and environmental disclosures from the annual reports of 45 companies from 8 sectors quoted on the Nigerian Stock Exchange over a two-year period (2013 to 2014). The determinants of disclosure were proxied by company size, profitability and auditor type. Company size was measured by total assets, profitability was measured by return on equity (ROE), and auditor type was measured by a dummy variable, '1' for Big 4 and '0' for otherwise. The data obtained were analysed using descriptive statistics, correlation and regression. The findings revealed that, the level of CSR was 44%, made up of social disclosure (68%) and environmental disclosure (6%). Findings also revealed that CSR was influenced by company size and auditor type; but not by profitability. This paper recommends a mandatory CSR reporting framework in line with international best practice for all listed companies in Nigeria.

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Keywords: corporate social responsibility, firm performance, annual reports

2. Introduction

Corporate reports are required to furnish all stakeholders with financial and non-financial information, which are relevant, faithfully represented and useful for making prudent, reliable, effective and efficient decisions. Companies worldwide are now focusing on how best to integrate their financial and non-financial information, particularly as businesses are experiencing unprecedented environmental and social changes. Hence, the need for every organisation to disclose in their annual reports the various activities that affect the stakeholders. This practice is becoming a very fundamental issue the world over.

Corporate Social Responsibility (CSR) is a form of internal monitoring, management and external communication, which allows organizations of all sizes to meet the growing information needs of internal and external stakeholders. In essence, it conveys information about an organization's economic, environmental, and social operations, the related impacts it has through its everyday activities; and the consequences of those impacts for the company and others. Stakeholders (investors, government, employees, customers, suppliers, trade associations and environmental groups) are expecting companies to produce reports that will demonstrate financial value , drive innovation and promote learning. Long term business success depends not only on a healthy financial position, but also on vibrant social and environmental performance. CSR is a crucial step towards achieving a sustainable global economy. It enhances corporate accountability, builds trust, creates transparency, drives greater innovation, improves internal management and decision-making processes, reduces compliance costs and gives competitive advantage.

Financial reporting is often criticized for its focus on historic, quantitative and short-term performance, rather than on long-term value creation. Corporate reporting based only on accounting standards allows companies to externalise environmental and social costs due to the fact that financial results are not placed within the context of the greater economy, society or the environment in which the business operates (Terry, 2008). According to Eccles and Krzus (2010), traditional corporate reports are increasingly less relevant and useful for analysts and investors as they are difficult for even the most sophisticated users to understand. The users of financial information today, need the data that would allow them to assess whether the entity is environmentally, socially and financially responsible. It is expected that businesses should do more than simply turn in financial statements in line with the accounting standards. They are expected to operate in a manner that is socially and ethically responsible as well as minimise negative impacts on the environment. They should also contribute positively to the community where they operate by taking into consideration the varied needs of their stakeholders.

Currently, in most jurisdictions around the world, the minimum requirement is the inclusion of significant non-financial information in company reporting. The Global Reporting Initiative (GRI), launched in 1997, has taken the lead in delineating a global disclosure framework for corporate social responsibility and sustainability. KPMG (2015) shows that the Global Reporting Initiative (GRI) remains the most popular voluntary reporting guideline worldwide, with 60 percent of all CSR reporters in the 45 countries surveyed referencing the GRI. This is roughly stable with the 2013 rate (61 percent). For stand-alone Corporate Responsibility (CR) reports the GRI application rate is at 72 percent (2013: 74 percent). The GRI reports by region for 2015, show GRI application in USA of about 69 percent, whilst Middle East and Africa show lower GRI rates about 50%.

Even in the midst of the IFRS adoption controversies in developing countries, there is a new move towards integrated reporting, a more comprehensive model that encompasses significant elements of traditional reporting and environmental, social and governance reporting within a single presentation (KPMG, 2011); of course, and firms have been put under increasing pressure from a variety of stakeholders to integrate social and environmental considerations into their operations and to ensure higher standards of governance. Only few countries have mandated the use of integrated reporting, but, there have been evidence of voluntary participation worldwide. The largest companies in Denmark are now obliged to report on non-financial information while South

Africa has made significant progress in addressing the challenges of IR by mandating all listed entities to issue annual integrated reports instead of annual financial and sustainability reports.

Various research studies have been undertaken by researchers in different countries to examine corporate social responsibility disclosure practices and the relationship between corporate social responsibility and financial performance. However, the results have been inconclusive, inconsistent, and often contradictory (Aggarwal, 2013). Positive relationship were seen by Van de Velde et al.(2005) for Europe, Buys et al. (2011) for South Africa and Eccles et al. (2012) for U.S). Negative relationship were noted by Brammer et al. (2006) for UK and Dhaliwal et al. (2011) for US while mixed relationship were observed by Jones (2005) for Australia and Moneva and Ortas (2008) for Europe. Insignificant relationship was observed by (Van de Velde et al., 2005; Buys et al., 2011).

In Nigeria however, it appears there is no study yet that has identify the specific factors that influence environmental and social disclosures after the IFRS adoption. Against this background, the aim of this study is to:

3. determine the level of corporate social responsibility (CSR) disclosure practices of Nigerian listed companies after the adoption of IFRS; and
4. identify the relationship between firm's performance and CSR disclosure practices among listed firms in Nigeria.

The Null hypothesis (H_o) was formulated to guide the study:

H_o: There is no significant relationship between firm's performance and CSR disclosure practices among listed firms in Nigeria.

The paper is in five sections. After this section, the second section reviews the relevant literature on the subject matter. The research methods adopted for the study are presented in section three while section four discusses the result. Finally, section five presents the .summary, conclusion and recommendations.

2. Review of Relevant Literature

A number of different theories provide a sound foundation to substantiate CSR reporting. The dominant ones are Stakeholder theory (Gray, Kouhy & Lavers, 1995; Brammer, Pavelin, & Porter, 2006) and Legitimacy theory (Lindblom, 1994; Suchman, 1995). The stakeholder theory is a system-oriented theory (Gray et al. 1995), which assume that any organisation is influenced by the society in which it operates and, in turn, the organisation also influences society. In this study, companies are considered to engage in some form of stakeholder management. Firm's survival and success is attributable to economic and non-economic achievements. Being socially responsible and having good relations with their stakeholders will bring about competitive advantage, making them to achieve better economic results (e.g. profit maximization) and non-economic (e.g. corporate social performance) results. The stakeholder theory argues that a firm's financial success is dependent on its ability to formulate and execute a corporate strategy which manages its relationships with stakeholders effectively (Brammer, Pavelin, & Porter, 2006). On the other hand, legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). Legitimacy theory, according to Lindblom (1994) and Suchman (1995) is value system-centred. Legitimacy exists at the organisational level when there is congruence between organisation and society value system. Legitimacy theory (Suchman 1995) focuses on whether the value system of an organisation is congruent with the value system of society, and whether the objective of organisations is to meet social expectations. Both theories i.e stakeholder and legitimate theories are united in their resolve to advance CSR reporting.

2.3 Prior Studies on the Determinants of CSR Disclosures:

Echave and Bhati. (2010) examined the determinants of corporate non-financial disclosures practices of Spanish firms using annual reports of 41 Spanish firms for the year 2007. Findings revealed that there is positive relationship between firm size, *profitability, auditor type* and level of corporate social and environmental disclosure practices as suggested by many authors cited by him (Cooke, 1991; Deegan and Gordon 1996; Naser et al., 2006). Deegan and Gordon (1996) have qualified this positive relationship between firm size and profitability and the level of disclosures to be valid only in the case of environmentally sensitive industries. However, findings in the study by Prado-Lorenzo et al. (2009) have not supported any association between firm size and the social disclosures made by the firm in the case of Spain. Also, findings in the study by Prado-Lorenzo et al. (2009) have not been supported by any other study. Osazuwa, Francis and Izedonmi (2013*)* examined the impact of corporate attributes on environmental disclosure among quoted firms in Nigeria. The researchers investigated a sample of one hundred randomly selected firms on the Nigerian Stock Exchange. Data were extracted from the financial statements of the companies and Nigerian Stock Exchange Factbook. The data were analyzed using descriptive statistics, and Binary probit regression analysis. It was observed that performance of the firm (profitability) and the industry type had a significant influence on environmental disclosure. Separate studies also discussed under the following headings:

Company Size and CSR Disclosures: Advocates of stakeholder theory state that larger companies come under more scrutiny than smaller companies, thus they feel the pressure to disclose more environmental, social and corporate governance information to obtain approval from the stakeholders for continued survival. Larger firms are also perceived to be important economic entities and therefore have greater demands placed on them to provide more information for customers, suppliers, analysts and government bodies (Cooke, 1991). A positive association between size of a corporation and the amount of CSR disclosure has been consistently found by prior studies such as (Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez, 2009; Stammy and

Ely, 2008; Ho and Taylor, 2007; Albassam, 2014). Roberts (1992) however found a negative relationship between the size of the company and the level of CSR disclosure.

Profitability and CSR Disclosures: Ali, Durtschi, Lev and Trombley (2004) argued that management of profitable organisations may disclose detailed information in the annual report because they feel comfortable communicating this good news to the stock market in order to improve the firms' valuation. However mixed empirical results were found in both emerging and developed countries. For instance, Ali, et al., (2004), Roberts (1992) and Stanwick and Stanwick (1998) provided results which support a profit-environmental, social and governance reporting relationship. Roberts (1992) provided evidence for a positive relationship between lagged profit and non-financial disclosure. Gray, Kouhy, and Lavers, (1995) and Hackston and Milne (1996) found no association between amount of disclosure and profitability. Hackston and Milne (1996) concluded that both size of the organisation and industry are significantly associated with amount of disclosure, whilst profitability is not. It is consistent with other studies as neither Davey (1982) nor Ng (1985) could find evidence of a relationship between environmental disclosure and profitability for New Zealand companies.

Auditor Type and CSR Disclosures The primary responsibility for preparing the annual report lies with company management; external auditors play a major role in the disclosure policies and practices of their clients. Ali, et. al. (2004) argued that big auditors exert a monitoring role in limiting the opportunistic behaviour by management. Fama and Jensen (1983) suggest that large audit firms have a greater incentive to report. If the client issues inadequate disclosure, this is likely to diminish the reputation of large audit firms more than small audit firms, which causes large audit firms to be more diligent. Previous research suggested that auditing firms that belong to the Big 4, Big 5 or Big6 (Big N) are more sophisticated or have better audit quality (Gupta & Nayar, 2007) than non-Big N auditing firms. Higher quality auditor may help clients prepare more sophisticated annual reports with advanced financial and non-financial information, including environmental disclosures.

3. Methodology

Ex-post facto research design was adopted. This design was deployed as it permitted the examination of independent variables in retrospect for their possible relationship with dependent variables. The population for this study consisted of 188 quoted companies on the Nigerian Stock Exchange. Judgemental sampling technique was used to select the samples of 45 out 188 quoted companies. It was adopted based on the ease with which the data could be collected from companies' website as at July, 2015. Data in this study were derived from 45 quoted companies from 8 sectors listed on the Nigerian Stock Exchange covering the period from 2013 to 2014, being the most recent annual reports available online. These sectors were Consumer Goods, Conglomerates, Construction, Healthcare, ICT, Industrial Gas, Oil and Gas and Services. Data were obtain from the online published annual reports of the select companies, specifically from the Directors' report, Corporate Governance Report, Statement of Financial Position, Statement of Comprehensive Income, and Notes to the Financial Statements. In order to determine the level of CSR disclosures, a checklist of 20 questions (Appendix 1) was developed by the researchers in line with previous studies (Hackston & Milne, 1996 and Ortas, Álvarez,. & Garayar, 2015) to capture the environmental and social information using content analysis. Each company was scored "1" for full or partial disclosure and "0" for non disclosure. The disclosure score (DS_i) for each company was computed by using the formula below;

$$CSRD_{i,} = \sum(\text{ CSR information disclosed}) / \sum(\text{ all possible CSR disclosures})$$

The data obtained was analyzed using descriptive statistics, correlation and linear regression.

This model is used:

$$CSRD_{it} = \alpha_0 + \beta_1 TA_{i,t} + \beta_2 ROE_{i,t} + \beta_3 AT_{i,t} + \varepsilon_{i,t}$$

Where:

i,t is for company *i* in year *t*,

α is the intercept

β is the coefficient of the independent variables

ε is the error term

The definitions of the dependent and independent variables and their expected signs are as given on the table below.

Table 1: Dependent and Independent Variables

Variables	Types	Definition	Expected sign for independent variables
Disclosure Score	Dependent	CSR Disclosure (CSRD)	
Company size	Independent	Total Assets of the companies (TA).	Positive
Profitability	Independent	Return on Equity (ROE) i.e the ratio of Profit for the year to Equity	Positive
Auditor Type	Independent	Auditor Type (AT); 1 for Big "4", 0 for otherwise.	Positive

Source: Researcher (2016)

4. Data analysis and findings

4.1 Descriptive Statistics

Table 2 shows the descriptive statistics of the variables. It depicts the number of observations (N), minimum, maximum, mean and standard deviation of the variable used.

Table 2: Descriptive Statistics of Dependent and Independent variables

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSRD	90	.10	.70	.4444	.08914
DSS	90	.10	1.80	.6789	.21594
DSE	90	.00	.50	.0556	.10821
TOTAL ASSET	90	68087621.00	6172349984000	407468087276.	113549110912
ROE	90	-18.26	164.57	17.5630	20.86093
AT	90	.00	1.00	.7222	.45041
Valid N (listwise)	90				

Source: Researcher's computation (2016)

Table 2 shows that average disclosure score is .4444 with a range from a maximum of .70 to a minimum of .10 and with a standard deviation of .08914. This suggests a very low variation on the disclosure score of the quoted companies over the period of observation. Specifically, the average environmental and social scores were 6% and 68% respectively. This shows that social information was the most disclosed while environmental information was the least disclosed. The total assets reveal a mean of N4.044 E+11, a minimum of 68087621, a maximum of 6.17E+12. The return on equity reveals an average of 17.56%. The range is from -18.26 to 164.57 with a standard deviation of 20.86. This shows that Nigerian quoted companies are profitable. The auditor type shows an average of 72%, minimum of 0 and maximum of 1 and standard deviation of .48. This shows that 72% of the sampled quoted companies use the Big 4 as their auditors.

4.2 Discussion of findings

Table 3: Correlation Matrix

		TOTAL ASSET	ROE	AT	CSRD
TOTAL ASSET	Pearson Correlation	1	-.053	-.068	.203
	Sig. (2-tailed)		.623	.527	.055
ROE	Pearson Correlation	-.053	1	.194	.156
	Sig. (2-tailed)	.623		.067	.141
AT	Pearson Correlation	-.068	.194	1	.241*
	Sig. (2-tailed)	.527	.067		.022
CSRD	Pearson Correlation	.203	.156	.241*	1
	Sig. (2-tailed)	.055	.141	.022	
	N	90	90	90	90

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Researchers computation(2016)

Correlation is used to test the presence of multicollinearity among the variables. The result is as depicted on Table 3. It reveals that correlation between CSR disclosure score and total assets, return on equity, and auditor type are 0.203, 0.156 and 0.241 respectively. The correlation between total assets and return on equity is -0.053, between total assets and auditor type is -0.068 and between auditor type and return on equity is 0.194. This shows that the correlation is not high between each of the variables.

The potential effect of multicollinearity on the regression is also assessed by using the Tolerance level and Variance Inflation Factor (VIF). Tolerance level is above 0.2 (0.994, 0.961, 0.959) and VIF did not exceed 10 (1.006, 1.041, 1.043), this reveals that multicollinearity is not a challenge. The normal P-P plot of regression standardized residual suggests no major deviations from normality. The Durbin-Watson checks the serial correlation, the result less than 2 (1.429), which shows that regression model has a good fit.

Table 4: Regression Result

	Model		
Variables	Coefficients[a]	t-values	Significance
(Constant)		21.652	.000
Total assets	.225	2.221	.029
Return on equity	.123	1.193	.236
Auditor Type	.232	2.250	.027
	R square 0.121 Adj R square 0.090 F value 3.946 Sig 0.11 DW 1.429		

Source: Researcher's computation (2016)

Table 4 is used in presenting the regression result. The beta coefficients show the contribution of each independent variable. The beta coefficient for company size is 0.225, for profitability is 0.123 and for auditor type is 0.232. The largest beta is for auditor type, this means it is the variable that makes the strongest contribution in explaining the CSR disclosure practices.

The results also show that t-calculated for company size, profitability and auditor type are 2.221, 1.193 and 2.250 respectively. The critical value at 10% level of significance is 1.664. The t-calculated for profitability is less than the critical value; hence the null hypothesis is retained at 10% sig. level. This result deviates from the researchers' point of view, that CSR disclosure is influenced by profitability. The result supports the study of Robert (1992) and contradicts the studies of Cooke (1991); Deegan and Gordon (1996) and Naser et al., (2006).

The t- calculated for company size and auditor type exceeds the critical value; hence the null hypothesis is rejected at 10% sig. level. This result is a confirmation that CSR disclosure is influenced by company size and auditor type, which is in line with the researcher's expectation. The result supports the studies of Ali et al. (2004), Echave and Bhati. (2010); and Gupta and Nayar, (2007).

The R square indicates how much of the variance in the CSR disclosure scores are explained by the model. The result show adjusted R squared of .090, which means the model, explains 9 percent of the variance in CSR disclosure practices. However, from the ANOVA result, the F value (3.570) which tests the regression relationship between the independent and dependent variable is significant.

5. Conclusion and Recommendations

The study reveals that, the level of CSR disclosure is 44%, this is made up environmental scores (6%) and social scores (68)%. This shows that social information is the mostly disclosed while environmental information is the least disclosed. The result also discovered that CSR disclosure is influenced by company size and auditor type. That is, the larger the size of a company, the more likely such a company will be willing to afford to invest in CSR activities. This is also the case for companies that engages the Big 4 in auditing. It is the conclusion of this study, that environmental matters are not usually disclosed in annual reports even after adoption of IFRS in 2012 and CSR disclosure practice is influenced by company size and auditor type; but not by profitability. The Financial Reporting Council (FRC) in collaboration with the business sector, accounting profession and stock exchange should take necessary steps in motivating and compelling quoted companies in addressing social and environmental issues in their annual reports. This paper recommends a mandatory CSR reporting framework in line with international best practice for all listed companies in Nigeria. Current trends of integrated reporting worldwide calls for Nigerian companies to consolidate social, environmental and financial information, disclosing the positive with the negative in order to provide greater transparency and helping to build superior trust.

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APPENDIX 1

	DISCLOSURE CHECKLIST	
	NAME OF COMPANY: **YEAR:**	**Score (Yes or No)**
S/N	**Social Responsibility Disclosure**	
1	Safety arrangements	
2	Health arrangements	
3	Training arrangements	
4	No of employees	
5	Donations made to community or community involvement	
6	Labour Rights	
7	Pension Schemes	
8	Policies on company's remuneration packages	
9	Welfare programmes for staff	
10	Sponsoring education and scholarship for students	
	Environmental Accounting Disclosure	
11	Environmental accounting policy/strategy and principles	
12	Environmental accounting objectives for the period	

13	Extensive discussion on environmental accounting	
14	Environmental Financial Disclosure	
15	Environmental Performance Indicators	
16	Contribution in the environmental protection program	
17	Conservation of natural resources	
18	Using equipment which protects the environment	
19	Research and development for the environment	
20	Energy serving devices	