Corporate Social Responsibility Disclosure and the Value of Listed Conglomerates Firms in Nigeria

Umar Salisu[1*], Saidu Sani[1] and Jamilu Umar Lawan[1]

[1]*College of Business, School of Accountancy, Universiti Utara Malaysia, Malaysia.*

Authors' contributions

This work was carried out in collaboration between all authors. Author US designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Authors SS and JUL managed the analyses of the study. Author JUL managed the literature searches. All authors read and approved the final manuscript.

Review Article

ABSTRACT

This study investigates the relationship between corporate social responsibility disclosure (CSRD) and financial performance of listed conglomerates firms in Nigeria, with the use of secondary data. The secondary data was sourced from sampled firms' annual account and reports between 2007-2016.The data generated were analyzed using descriptive, multivariate regression, Correlation and disclosure index. The major finding from the analysis reveals that there was a positive relationship between CSRD and financial performance, in the light of the major findings it was concluded that, CSRD brings about improvement in the financial performance of the sampled conglomerates in Nigeria since they maintain a positive relationship.

1. INTRODUCTION

The public's increasing consciousness of CSR related issues is putting aggregate pressure on firms to communicate their CSR efforts through voluntary and obligatory disclosure to ensure that stakeholders are conscious of the suitability of their actions taken on social and environmental

_____

Corresponding author: E-mail: umarsalisu2005@gmail.com;

issues [1]. Many companies have allocated resources and efforts to disclose extensive information about CSR issues in their annual report. Such disclosure conveys information that is useful to address the needs of multiple stakeholder groups, especially financial ones such as shareholders [2,3]. The demand for the potential value of CSR disclosure for shareholders has attracted growing interest in academic research. Many studies examine the usefulness of CSR disclosure for shareholders by analyzing the impact of voluntary CSR disclosure on firm performance [4].

Though, it is essential to understand the factors affecting a firm's decision to disclose CSR information and the quality of CSR disclosure, as stakeholders and the general public depend on such information to evaluate firm CSR [3]. Prior studies have investigated various corporate characteristics such as firm age, leverage, and industry type, among others [5,6] The existing evidence, however, is inconclusive regarding the relation between firm performance and CSR disclosure. Although [7,8,9] documents a positive relationship, many studies find either no relationship or an inverse relationship between profitability and CSR disclosure [6]. In addition, CSR disclosure and its appreciation by capital market participants are still incomplete and questionable [10].

From agency perspective, CSR reporting may represent an opportunistic manipulations by managers, and may thus reduce shareholders' wealth [11]. Indeed, managers enjoy full discretion over what to report on CSR issues. As a result, CSR information disclosed may not reflect firms' CSR performance [12,13]. In these settings, shareholders need to apply filters to assess the credibility of voluntary CSR information [14]. However, according to the stakeholder theory, managers balance diverse information requests from multiple stakeholders and may not respond to all stakeholders with the same degree of attention [2]. Rather than satisfying every stakeholder, firms prioritize their stakeholders after assessing stakeholder attributes, including power, legitimacy and urgency [15]. Different firms face different expectations from their stakeholders and have different prioritization processes. In firms with critical stakeholders, managers will give more consideration to their demands and disclose more CSR information, regardless of the level of firm performance [3].

This study seeks to examine the effect of firm performance on CSR disclosure in Nigeria from the perspective of firm performance. We focus on Nigerian companies due to the circumstance that a country of origin may be an important determinant of the level of CSR disclosure [16,17]. Whereas many studies have focused on the variation in CSR disclosure across developed nations [18,19,5,17] only a few have addressed this issue in developing countries [20,3] and not much attention to date has been directed toward CSR disclosure in Nigeria. Furthermore, in response to increasing criticism regarding the low level of CSR among Nigerian companies.

2. PREVIOUS STUDY (LITERATURE REVIEW)

The concept of corporate Social Responsibility (CSR) is an issue that dominates the existing body of literature. Many authors made an attempt to approach this term with different interpretations. [21] (p.317) 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". [22] (p. 49) opined that "CSR concept is to show that ethical principles, from wherever derived, can improve reasoning and harmonize decisions, especially in complex circumstances and thus, enhance performance". The unclear state of CSR definition is recognized also by [23].

Investigating the relationship between CSR and firm financial performance has been highly developed and researched in the modern literature. The link between may be positive, neutral or negative. Based on the summary of findings in the research of [24], it was further revealed that the linkage between CSR and financial performance is unclear. Thus, we can divide researches in three groups: those which found positive relationship, suggesting that CSR improves firms' value, those which found negative relationship, adopting the idea that firm must use its resources only to maximize its profits and otherwise it will have adverse results, and those which found neutral relationship, implying that there are many factors that can prevent researchers from secure results [25]. Neutral association can be explained if CSR is perceived as pure marketing strategy [21].

However, the mixed findings from prior studies were group into three categories the first reveal positive relationship [21,7,4,9,26]. Neutral relationship (no significance) was found in the studies of [27,18,28,8]. While negative relationship was maintain in the work of [19,3]. Therefore, drawing upon the revelations from prior studies, the hypotheses will be formulated as;

H_{01}: Conglomerate companies in Nigeria do not significantly disclose CSRD activities in the annual reports.

H_{02}: There is no significant relationship between Social responsibility disclosure and ROA of conglomerates firms in Nigeria.

H_{03}: There is no significant relationship between Social responsibility disclosure and ROCE of conglomerates firms in Nigeria.

H_{04}: There is no significant relationship between Social responsibility disclosure and ROE of conglomerates firms in Nigeria.

3. OBJECTIVES OF THE STUDY

The main objective of this work is to determine the impact of Corporate Social Responsibility Disclosure (CSRD) on financial performance of listed conglomerates in Nigeria. Other specific objectives include:

i. To determine the level of social responsibility disclosure made in the annual report of Nigerian listed conglomerates.
ii. Examine the relationship between Nigerian listed conglomerates' social responsibility disclosure level and ROA.
iii. Assess the relationship between Nigerian listed conglomerates' social responsibility disclosure level and ROCE; and
iv. Evaluate the relationship between Nigerian listed conglomerates' social responsibility disclosure level and ROE.

4. RESEARCH METHODOLOGY

This section deals with the methodology used in the research. In particular, it explains the research design, population of the study, sample size and sampling technique, sources and methods of data collection, variables of the study, as well as the statistical techniques used for data analysis.

4.1 The Research Design

The research design is content analysis which deals with the framework of data collection. This involves tracing of data of each component of CSRD and financial performance in the annual accounts and reports of listed conglomerates firms in Nigeria with the use of dependent (CSRD) and independent (ROA, ROCE and ROE) variables, a quantifiable data will be used to give explanation to the outcome of the study, with the help of ordinary least square approach(Regression analysis by using IBM's Statistical Product and Service Solutions – SPSS 16.0 software [29,30] (p.58) and the disclosure index. Information for evaluating CSRD and financial performance can best be obtained from the historical data documented in the annual reports and accounts of the listed conglomerates.

4.2 Sampling

The population of the study, comprised of all the 8 conglomerates firms that are listed in the Nigerian Stock Exchange, this includes AG Leventis, Unilever, CFOA, SCOA, John Holt, P.Z, UAC, UTC. The sample size of the study is derived using the sample selection formula used by [31,32].

$$n = \frac{N}{1+Ne^2}$$

Where: N=the population size; N=the sample size; e=the margin error at 25%

By substitution, the sample of the study was determined as follows:

N=8, and e=25%; N=8/1+8(0.25)^2; n=8/1+8(0.0625); n=8/1+0.5; n=5.33

The result reveals that, the sample of the study is 5.33 companies out of 8 companies that formed the quoted companies in the Nigerian listed conglomerates. Hence, the sample of the study comprised of five companies. In the selection of the sample firms from the sector, there was strict adherence to the rule of stratified random sampling. That is to say, after the stratification, we then write the names of the firms on separate pieces of paper and subject the selection to a raffle draw, which results in the emergence of A.G Leventis, Unilever, P.Z, UAC, and John Holt.

4.3 Method of Data Collection

The main aim of the study as mentioned earlier is to assess the impact of corporate social responsibility disclosure on financial performance of listed conglomerates firms in Nigeria. The study thus, utilizes data from a secondary source. Data are obtained from the annual accounts and reports of the 5 firms that make up the sample for the study. The time frame for the study as stated in chapter one is ten years, covering the period 2007 to 2016.

4.3.1 Dependent variable

The dependent variable in this study is the total CSR disclosure index. The list of disclosure items includes both financial and non-financial items that are relevant to investment decision-making, and which the listed conglomerates may disclose. The primary items of social responsibility information included in disclosure index were selected from the study of [33] which were considered essential for computing social responsibility disclosure requirements.

4.3.2 Independent variables

Return on assets (ROA), Return on capital employed (ROCE) and Return on equity (ROE) are measures of financial performance adopted in this study as independent variables, these variables were also used by previous researchers in their study of CSR [23,34,35,36]. The independent variables (ROA, ROCE, and ROE) have been measured and computed thus:

4.3.3 Multivariate regression analysis

The study used multivariate regression analysis to explain variation in total disclosure of CSRD index. This was used to test hypothesis 1, 2 and 3 for the purpose of explaining how the independent variables of the study (such as ROA, ROCE, and ROE) influences the dependent variable (total CSR disclosure). This study adopts and modified the multivariate function of [32] as follows.

$$CSRD = \alpha_0 + \alpha_1 ROAS + \alpha_2 ROCE + \alpha_3 Roe + e$$

Where: CSRD= Corporate Social Responsibility Disclosure; ROA=Return on Asset
ROCE=Return on capital employed; ROE=Return on equity
e = error term, α_0 is the intercept; α_1, α_2, and a_3 are the Beta coefficients

5. RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics of both the explanatory and dependent variables that are specified in the model of the study. According to the statistics, the average values of the Dependent variable Corporate Social Responsibility Disclosure (CSRD) is 0.92 and the standard deviation is 4.92704 indicating lack of substantial variation. The other variables which are all the explanatory variables in the table also show evidence of some level of variability. On the overall Return on Equity (ROE) has the highest standard deviation with about 17.09156 and CSRD has the lowest standard deviation account for only 4.92704, the higher the standard deviation the higher the financial performance for conglomerate firms.

In an effort to establish the nature of the relationship between the dependent and the independent variables, and also to ascertain whether or not multi-collinearity exists as a result of the correlation between variables, Table 2 is incorporated for the purpose of analysis. The correlation matrix in Table 2 provides some insights into which of the independent variables are related to the dependent variable CSRD.

Table 1. Descriptive statistics

	Mean	Std. deviation	N
Corporate social responsibility	.9200	4.92704	50
Return on asset	14.1626	10.60343	50
Return on capital employed	17.7956	15.40535	50
Return on equity	19.5492	17.09156	50

Source: Computed from Annual report (2007-2016) using SPSS. 16.

Table 2. Pearson correlation

	CSRD	ROA	ROCE	ROE
CSRD	1.000	.970**	.703**	-.235
ROA	.970**	1.000	.731**	-.250
ROCE	.703**	.731**	1.000	-.172
ROE	-.235	-.250	-.172	1.000

Source: compiled from Annual report (2007-2016) SPSS 16.0.

From the above matrix, the values are on the diagonal are all 1.000 indicating that each variable is perfectly correlated with itself. The highest correlations with CSRD are Return on Asset (0.97) and Return on Capital Employed (0.70). Both correlations are strong and positive and statistically significant, which implies that for

Table 3. Variance inflation factor

Variables	VIF	1/VIF
ROA	2.03	0.49
ROCE	1.98	0.51
ROE	1.06	0.94
Mean VIF	1.69	

Source: Author's computation

Table 4. Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate	Change statistics					Durbin-Watson
					R Square Change	Beta value	df1	df2	t-test	
1	.252[a]	.165	.102	.27372	.063	1.039	3	46	.0384	2.280

a. Predictors: (Constant), RETURN ON EQUITY, RETURN ON ASSET, RETURN ON CAPITAL EMPLOYED
b. Dependent Variable: CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

any changes in the value of Return on Asset and Return on Capital employed of the sampled conglomerates in Nigeria; their CSRD will be directly affected. Based on these results we therefore reject null hypothesis 2 and 3 and the alternate accepted, because there is positive and significant relationship between ROA, ROCE and CSRD. On the other hand, Return on Equity and CSRD show negative correlation of (-0.235), which implies that, if there is a slight decrease on the level of CSRD, the value of ROE will reduce. Therefore, the null hypothesis 4 will be accepted. The correlations between independent variables are positive with the exception of correlations that exist between Return on Equity and other independent variables. To further assess the validity on non-multi-collinearity indication revealed by the correlation matrices, the study uses Tolerance Value (TV) and Variance Inflation Factor (VIF).

The following Table 3 represents the results of TV and VIF for the CSRD outcome components.

From the above regression result, we check the variance inflation factors (VIF) of our regressions and find that multicollinearity is not a major concern because each of the scores is below the cutting-point 10 [37].

The test of overall significance of regression implies testing the null hypotheses. The overall significance of the regression is tested using t-statistics. In this study, the calculated t-value of 0.0384 is significance at 5%. It has also been established by the P-value of 0.001<0.1. It is therefore, concluded that linear relationship exist between the dependent and the independent variables of the model. Based on these findings,

the postulations which respectively state that CSRD does not have any significant relationship with financial performance (ROA, ROCE and ROE) of listed conglomerates were rejected. The evidence established that the dependent variable (CSRD) have impact on independent explanatory variables (ROA, ROCE and ROE) of listed conglomerates in Nigeria.

This study shows that there is a linear relationship between CSRD and financial performance (return on asset, return on capital employed and return on equity). However, the results obtained is in line with the finding of [4,9,26] but however, contradicts the result of [19,3,23].

6. CONCLUSIONS

In the light of the summary of the major findings of the study, the following conclusions are drawn;

I. Listed conglomerates firms in Nigeria do disclose the requirements of CSRD, but on the average the disclosure is low and falls within the weak level. And while firms emphasize more or less important requirements, they pay less attention to those requirements that add value and quality to their financial statements.

II. Return on asset influences the decision of the listed conglomerates firms to disclose the requirements CSRD. The higher the asset size, the higher the level of disclosure among listed firms in Nigeria. Higher efficiency level enables higher

allocation of resources with the purpose of socially more responsible corporate performance and vice versa; socially responsible corporate performance have an impact on improved efficiency, measured by financial indicator.

III. CSR brings about some improvement in the financial performance (return on capital employed) of sampled conglomerates in Nigeria since it impact positively on financial performance and as such conglomerates firms should utilize the opportunity of engaging in CSR activities.

IV. This study limitations include the fact that only financial annual reports and accounts was used and we limited our sample to listed conglomerates. The reason for these, is the difficult in collecting data in a developing country like Nigeria. Furthermore, we only examine corporate social responsibility disclosure in annual report whereas there are other method by which conglomerates can disclose their CSR activities like stand-alone report and their websites.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

REFERENCES

1. Gray R. Kouhy, Lavers S. Corporate social and environmental reporting: A reviewof the literature and longitudinal study of UK disclosure. Accounting, Auditing & Accountability Journal. 1995;8(2):47–77.

2. Jamali D. A stakeholder approach to corporate social responsibility: A fresh perspective into theory and practice. Journal of Business Ethics. 2008;82(1): 213–231.

3. Li Q, Luo W, Wang Y, Wu L. Firm performance, corporate ownership, and corporate social responsibility disclosure in China. Business ethics: A European Review. 2013;22(2):159-173.

4. Nekhili M, Nagati H, Chtioui T, Rebolledo C. Corporate social responsibility disclosure and market value: Family versus nonfamily firms. Journal of Business Research. 2017;77:41-52.

5. Gray R, Bebbington J. Corporate sustainability, accountability and the pursuit of the impossible dream. In Atkinson GS, Dietz S, Neumeyer E. (Eds.), Handbook of Sustainable Development: Cheltenham: Edward Elgar. 2007;376–394.

6. Reverte C. Determinants of corporate social responsibility disclosure ratings by Spanish listed firms. Journal of Business Ethics. 2009;88(2):351–366.

7. Hull CE, Rothenberg S. Firm performance, the interactions of corporate social performance with innovation and industry differentiation. Strategic Management Journal. 2008;29(7): 781-789.

8. Mahoney L, Roberts RW. Corporate social performance, financial performance and institutional ownership in Canadian firms. Accounting Forum. 2007;31(3):233-253.

9. Rettab B, Ben Brik A, Mellahi K. A study of management perceptions of the impact of corporate social responsibility on organizational performance in emerging economies: The case of Dubai. Journal of Business Ethics. 2009;89(3): 371-390.

10. Cahan SF, De Villiers C, Jeter DC, Naiker V, Van Staden CJ. Are CSR disclosures value relevant? Cross-country evidence. The European Accounting Review. 2016;25(3): 579–611.

11. Moskowitz M. Choosing socially responsible stocks. Journal of Business and Society. 1972;1:71-75.

12. Bird A, Hall A, Momente F, Reggiani F. What corporate social responsibility activities are valued by the market? Journal of Business Ethics. 2007;76(2): 189-206.

13. Luo L, Lan YC, Tang Q. Corporate incentives to disclose carbon information: Evidence from the CDP global 500 report. Journal of International Financial Management and Accounting. 2012;23(2):93–120.

14. Cho CH, Guidry RP, Hageman AM, Patten DM. Do actions speak louder than words? An empirical investigation of corporate environmental reputation. Accounting,

Organizations and Society. 2012;37(1):14–25.

15. Nelling E, Webb E. Corporate social responsibility and financial performance: The virtuous circle revisited. Review of Quantitative Finance and Accounting. 2009;32(2):19-209.

16. Gray RM, Javad M, Power DM, Sinclair CD. Social and environmental disclosureand corporate characteristics: A research note and extension. Journal of Business Finance & Accounting. 2001;28:3/4,327–356.

17. Smith JL, Adhikari A, Tondkar RH. Exploring differences in social disclosures internationally: A stakeholder perspective. Journal of Accounting and Public Policy. 2005;24(2):123–151.

18. Folger H, Nutt F. A note on social responsibility and stock valuation. Academy of Management Journal. 1975;18(1):155-160.

19. Fiori G, Di Donato F, Izzo MF. Corporate social responsibility and firms performance. An analysis on Italian listed companies. Paper presented at the Performance Measurement Association Conference (PMA); 2009.

20. Bolanle AS, Olanrewaju AS, Muyideen AA. Corporate social responsibility and profitability of Nigeria banks- causal relationship. Research Journal of Finance and Accounting ISSN. 2012; 3(1):2222-1697.
Available:www.iiste.org

21. Davis K. The case for and against business assumption of social responsibilities. The Academy of Management Journal. 1973;16(2):312-322.

22. Babalola YA. The impact of corporate social responsibility on firms' profitability in Nigeria. European Journal of Economics, Finance and administrative sciences. 2012;45(1):39-50.

23. Marcia M, Otgontsetseg E, Hassan T. Corporate social responsibility and its impact on financial performance: Investigation of the U.S commercial banks. Journal of Social Science Research Network; 2013.

24. Ullmann A. Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance of US. Firms. The Academy of Management Review. 1985;10(3):540- 557.

25. Kang KH, Lee S, Huh C. Impacts of positive and negative corporate socialresponsibility activities on company performance in the hospitality industry. International Journal of Hospitality Management. 2010;29(1):72.

26. Zhong M, Gao L. Does corporate social responsibility disclosure improve firminvestment efficiency? Evidence from China. Review of Accounting and Finance. 2017;16(3):348-365.

27. Fauzi H. Corporate social and financial performance: Empirical evidence from American companies. Globsyn Management Journal; 2009.

28. Goukasian L, Whitney KL. Corporate socially responsible firms perform well! Evidence from financial and operating performances. Working Paper Series; 2008.

29. Hejase A, Hejase H. Research methods: A practical approach for business students (2nd edition). Philadelphia, PA, Masadir Inc; 2013.

30. Andy F. Discovering statistics: Using SPSS for Windows, London: Sage Publication; 2000.

31. Kantudu AS. An analysis of the degree of application of SAS 8 by quoted firms in Nigeria. PhD Thesis: Department of Accounting, Ahmadu Bello University Zaria, Nigeria; 2006.

32. Barde M. An evaluation of accounting information disclosure in the oil and gas marketing industry. Nigeria Oil Unpublished PhD thesis, Department of Accounting, Bayero University, Kano; 2009.

33. Rouf A, Harun AA. Ownership structure and voluntary disclosure in annual reports of Bangladesh. Pakistan Journal of Commerce & Social Sciences. 2011; 5(1).

34. McWilliams A, Siegel D. Corporate social responsibility: A Theory of the Firm; 2001.

35. Waddock SA, Graves SB. The corporate Social performance and financial performance link. Strategic Management Journal. 1997;18(4):303-319.

36. Wahba H. Does the market value corporate environmental responsibility? An

Empirical Examination", Corporate Social Responsibility and Environmental Management. 2008;15(2):89-99.

37. Xie Q. 2014 CEO tenure and ownership mode choice of Chinese firms: The moderating roles of managerial discretion. International Business Review. 2008;23(5): 910–919.