# FIRM SPECIFIC PREDICTORS AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: EVIDENCE FROM THE NIGERIAN BANKING INDUSTRY

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**Abstract**

The paper investigated the impact of firm-specific Predictors and Corporate Social Responsibility (CSR) Disclosure of commercial banks in Nigeria over a period of fourteen (14) years spanning from 2009-2022. The main thrust of this research work is to examine the extent firm-specific predictors such as Return on Asset (ROA), Economic Value Added (EVA), Leverage (LEV), Firm Size (FSZ), and Dividend per Share (DPS) have affected CSR disclosure among sampled commercial banks. In investigating the impact, four hypotheses were stated. The paper sourced data from the annual reports of sampled commercial banks within the reviewed periods. The pooled Ordinary Least Square (POLS) estimation technique was adopted. The study revealed that ROA and DPS have negligible effect on CSR disclosure while financial leverage exerted a negative significant effect on CSR disclosure. However, economic value added exerted a positive significant effect on CSR disclosure. The study concludes that Economic Value Added is statistically and positively related to CSR while ROA, LEV, and Dividend gave a mixed result. Hence, bank management should customize their CSR disclosure efforts to align with the scale and scope of the banks' operations and resources. Also, the regulatory agencies should ensure that bank managements provide clear and quantifiable evidence of how CSR efforts improve their EVA growth in their annual reports. To mitigate the risks associated with financial leverage, bank management should diversify their products. Lastly, bank management should continuously evaluate and refine their approach to dividend per share and CSR disclosure in response to changing market dynamics, regulatory requirements, and stakeholder expectations.

**Keywords:** Firm Specific Predictors, Corporate Social Responsibility Disclosure, Nigerian Banking Industry

**JEL Classification:** M41

## 1. INTRODUCTION

In recent times, much attention has been paid to the concept of corporate social responsibility (CSR) disclosure. This is caused by the current commitment of the firms to be highly socially responsive. However, firms may not act responsibly if their CSR issues are not integrated in their decision making and governance structures suggesting that effective corporate governance structures would ensure that the issues of the stakeholders are investigated to satisfy the increasing demands for more CSR (Okaiwele & Amede, 2018; Jeroh, 2020).

Existing studies documented that, engaging in CSR results in improved firm performance and firm value, results in higher profitability and greater sales, enhances brand image, reputation of the firm, increased sales and customer loyalty, better investor relations, serve as a source of getting firm's capital, improves the welfare of the stakeholders and the quality of life of the society (Dikeocha, 2019; Jeroh, 2020). Adeyemi and Ayanlola (2018) observed that the voluntary nature of CSR is a likely factor that is responsible for low CSR in the Niger Delta area of the country. They point out that voluntarily carrying out CSR activities tend to negate the aim of adopting International Financial Reporting Standard (IFRS) by Nigeria which is primarily aimed at increasing the level of accounting information disclosure in Nigeria. The low level of CSR involvement in the Niger Delta area could also be attributed to lack of strong legislations and weak institution that can enforce CSR by companies.

Bruns (2017) defined CSR disclosure as a company's efforts, operations, policies, and performance regarding social, environmental, and governance concerns. It therefore entails informing all relevant parties—investors, staff members, clients, suppliers, communities, and regulators—about the company's initiatives to conduct business in a sustainable and socially conscious way. Overall, CSR disclosure is essential for fostering responsibility, openness, and trust between businesses and their stakeholders (Onuorah & Agbogun, 2019). It also serves as evidence of a company's dedication to sustainable and ethical business practices (Abdu, 2016; Bruns, 2017)

Consistent with literature, major firm-specific predictors are firm profitability, economic value added, financial leverage and dividend per share (Abdu, 2016; Abada & Okuma, 2017; Onuorah & Agbogun, 2019; Buallay et al, 2020). The linkage between profitability and CSR disclosure is that highly profitable firms are at a more vintage point to disclosure more of their investments in CSR. This is because is profitability is essential for a company's sustainability and growth (Francoeur, Labelle, Balti, El Bouzaidi, 2019; Gololo, 2019). It reflects its ability to generate returns for shareholders, reinvest in the business, and fulfill its financial obligations. Similarly, highly profitable firms are often viewed favorably by investors and stakeholders (Gololo, 2019; Hajara & Yakadi, 2022; Irine & Nikita, 2021; Jamey, 2021; Januarianto & Gusti, 2021). Further, the linkage between economic value added and CSR disclosure is such that the disclosure of CSR by the company can increase added value and management concern for CSR will bring many benefits to the company (Abdu, 2016; Shehu & Farouk, 2013). Since firms often find themselves constrained by limited resources and bounded rationality, these limited resources will be used to satisfy the most important stakeholder group first. Hence, the level of debt in the bank's capital structure influences the importance of this stakeholder group. That is, when the level of debt is relatively high, the importance of this stakeholder group increases, and management is more likely to address their financial claims than the claims of other stakeholder groups, for instance, a local community or an environmental support group who want the bank to invest more in pollution control.

Nevertheless, Herbert, Anyahara and Okoroafor (2016) pointed that there is still a lack of using webpages for reporting CSR disclosure even till date. More so, firms are yet to fully integrate the outcry of the public in annual reports even till date. It is on the premise of this lacuna that the current study seeks to examine the effect of firm-specific predictors on CSR disclosure among quoted commercial banks in Nigeria. Specifically, the paper seeks to examine the effect of profitability (ROA), economic value added, financial leverage and dividend per share on CSR disclosure among fifteen (15) sampled commercial banks in Nigeria from 2009 to 2022.

The paper is structured into five sections. The first and second section covered the introduction and literature review and hypotheses development. The third and fourth section focused on the methodology, result and discussions. The fifth section covered the conclusion and recommendations.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### 2.1. PROFITABILITY (ROA) AND CSR DISCLOSURE

With respect to profitability and CSR disclosure, three schools of thought exist, which include the existence of a positive association between CSR disclosure and profitability. The first school of thought measures positive associations between CSR disclosure and firm profitability because firms invest in CSR activities because CSR disclosure improves the value of banks (Abdu, 2016; Ani et al, 2022; Kepramareni et al, 2022; Hajar et al, 2022). Meanwhile, Buallay et al (2020) reported a negative association between CSR disclosure and profitability. However, Onuorah and Agbogun (2019) evidenced that firm performance has a minimal effect on CSR disclosure. Stemming from the various findings and the resource-based view, the study hypothesis is:

Hypothesis: H1: The profitability and CSR disclosure is positive and significant.

### 2.2 ECONOMIC VALUE ADDED (EVA) AND CSR DISCLOSURE

Onuorah and Agbogun (2019) evidenced that CSR has a positive influence on a firm's economic profit as it has been found not to be the expense of value maximization (shareholder value) because fulfilling the maximization of the shareholder's wealth alone may not be sound enough to guarantee the future financial affluence of the firm. However, Abdu (2016) evidenced that EVA had a negligible effect on CSR disclosure. This study goes as far as not only evaluating the direction of the relationship but also examining the influence economic profit (EVA) has on a firm's decision to invest in CSR. Consequently, the study hypothesis is:

Hypothesis: H2: The economic value added, and CSR disclosure relationship is positive and significant.

### 2.3 LEVERAGE AND CSR DISCLOSURE

Abdu (2016) posits that, despite the inclusion of leverage by firms in their capital mix, they participate as much as possible in investment in CSR with a view to attracting investors to invest in their company. This is because investment in CSR by a firm simply signals to the stakeholders that the bank has the potential for future survival and growth. Rosalinda and Noer (2022) argue that more highly leveraged firms disclose more voluntary information in their annual reports to reduce agency costs and, as a result, the cost of capital. However, debt holders are likely to see their investments in the firm materialize in the form of repayments and future interests. Since the amount of debt limits the amount of free cash flows available for managers to invest and since there is no undisputed evidence that investing in CSR will lead to more financial success, it is proposed that debt holders want the firm to invest their resources in activities other than CSR to ensure their repayments and interests. Consequently, the study hypothesis is:

Hypothesis: H3: The financial leverage and CSR disclosure relationship is negative and significant.

### 2.4 DIVIDEND PER SHARE AND CSR DISCLOSURE

According to Oburota and Ebiaghan (2024), dividend connotes the distribution of a portion of a company's earnings (past or present) in cash payments, such as shares of stocks or other property, decided by the board of directors among the shareholders of the firm in proportion to their ownership. This study measures dividends based on DPS in line with Shehu & Farouk (2013) and Onuorah & Agbogun (2019). DPS is the sum of dividends declared by a company divided by the number of outstanding ordinary shares issued.

Saeed and Zamir (2021); Onuorah and Agbogun (2019); Sari and Matusin (2019) reported that there is a correlation between CSR and firms that perform economically well are more likely to pay a dividend, and therefore companies that pay a dividend have greater incentives to embark on CSR as this will portend good fortune for the sectors. However, Sari and Matusin (2019); Villiers and Ma (2017) gave a contrary view to this. The dividend was reported to have a negative but insignificant relationship with CSR in the two models (Training and Education and the Value of Research and Development). This study seeks to examine, with a view to authenticating or disproving the existing views as to the effect of dividends on an organization’s investment in CSR in the context of sectors in Nigeria. Stemming from the various findings, the study hypothesis is:

Hypothesis: H4: The dividend per Share and CSR disclosure relationship is positive and insignificant.

In response to the four research hypotheses stated above, we present a schematic model specifying the direction of relationship between the four specific predictors and CSR disclosure below:

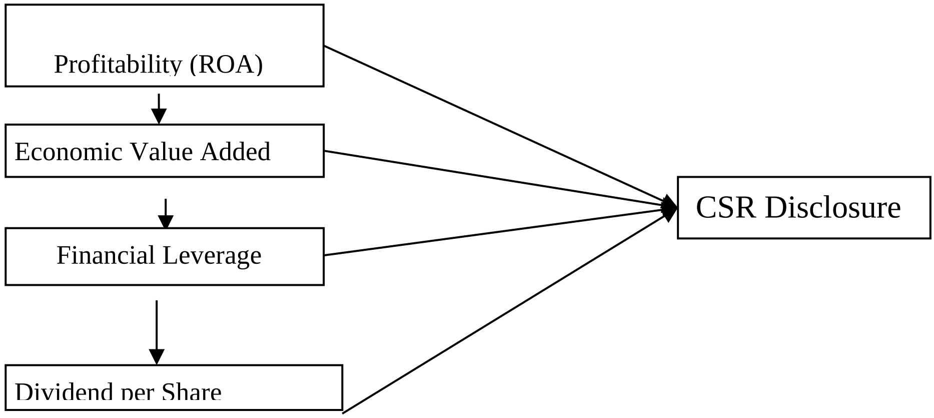


***Figure 1:*** *Firm-specific Predictors and CSR Disclosure*
*Source: Researcher's Model (2024)*

## 3. METHODOLOGY

This study employed a quasi-experimental design with a view to addressing the problem of the study. The study sampled 15 commercial banks out of the 23 commercial banks quoted on the floor of the Nigerian exchange group as of December 31, 2022. These commercial banks were purposefully selected using the convenience sampling technique. Secondary data were extracted from financial statements of these banks for a period of fourteen years, 2009 - 2022. The fifteen sampled banks are: First Bank of Nigeria Plc, Fidelity Bank Plc, Guaranty Trust Bank Plc, United Bank for Africa Plc, Stanbic IBTC Bank Plc, Union Bank Plc, Titan Trust Bank Plc, Access Bank Plc, Eco Bank Plc, Zenith Bank Plc, Polaris Bank Plc, FCMB Plc, Wema Bank Plc, Sterling Bank Plc and Heritage Bank Plc. The technique for analysis is the pooled ordinary least squares estimation technique, because the Breusch-Pagan test affirmed that the POLS was considered adequate for the study. To estimate the research model, the study adopted the Abdu (2016), Onuorah (2019), and Agbogun (2019) models with a few adjustments. The mathematical form of the model is expressed as:

$$Y=\beta_o+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon it \ldots\ldots 1$$

Where:

Y: Regressed (Endogenous variable)
$\beta o$: Intercept or Constant coefficients (the constant term)
$\beta_1 – \beta_5$: Coefficients of the parameter estimates of the independent variable.
$X_1$-$X_4$: Independent variables (Explanatory or Exogenous variables)
$\varepsilon it$: Stochastic, disturbance error term (noisy variable).

The explicit form of the modified model is stated as:

$$CSR=\beta_o+\beta_1ROA+\beta_2EVA+\beta_3LEV+\beta_5DPS+\varepsilon it \ldots\ldots 2$$

Where:

CSR= Corporate Social Responsibility Disclosure using the dichotomous approach such that if a bank discloses her involvement in CSR, it is denoted as 1 but if they do not, it is denoted as 0.
ROA= Return on Asset measured as the ratio of Earnings before Interest and tax to total asset
EVA= Economic Value Added measured by deducting its cost of capital from its operating profit, adjusted for taxes on a cash basis.
LEV= Leverage measured as a ratio of Total Debt to equity.
DPS= Dividend per Share measured by the sum of dividends declared by a company divided by the number of outstanding ordinary shares issued.
εit: Stochastic or disturbance error term (noisy variable).

## 4. RESULTS AND DISCUSSION

***Table 1**: Descriptive Statistics*

| Variables | CSR | ROA | EVA | LEV | DPS |
|---|---|---|---|---|---|
| **Average** | 0.8976 | 0.0405 | 96.0300 | 5.2892 | 2.5476 |
| **Standard Deviation** | 1.0000 | -1.0000 | 1.0000 | -4.1382 | 0.0000 |
| **Maximum** | 1.0000 | 0.6320 | 193.0000 | 6.2109 | 4.9300 |
| **Minimum** | 0.0000 | -0.1627 | 55.4586 | 3.9264 | 0.4400 |
| **Observations** | 210 | 210 | 210 | 210 | 210 |

*Source: E-Views 9.0 (2024)*

Table 1 reported that the Economic Value Added reported the highest maximum, average and minimum values out of the four firm-specific predictors evaluated. Meanwhile, ROA reported the least maximum, average and minimum values out of the four firm-specific predictors evaluated. Still, none of the means of the four firm-specific predictors evaluated reported values above their standard deviations. By implication, they all clustered around their mean values. Hence, they are considered fit for analysis. Again, CSR disclosure reported highest value of 1and lowest values of 0 since the content analysis approach was used. However, the model was subjected to further analysis with the intent of testing for reliability, validity robustness of the statistical inferences. This is shown in tables 2 and 3:

***Table 2:** Multi-collinearity Tests*

| Variable | ROA | l_EVA | l_LEV | l_DPS | Average |
|---|---|---|---|---|---|
| **Variance Inflation Factors (VIF) Test** | 1.3304 | 1.7562 | 1.1643 | 3.9789 | 2.0575 |
| **Tolerance Value Test=1/VIF** | 0.7517 | 0.5694 | 0.8589 | 0.2513 | 0.6078 |

*Source: E-Views 9.0 (2024)*

Table 3 showed that all the firm-specific predictors of CSR disclosure fall below 5, suggesting that they are free from multicollinearity problems as reported by Ighosewe, Uyagu and Iyere (2020). In like manner, the average TOV value of 0.6075 which is below the benchmark value of 0.10 further reaffirmed that, the firm-specific predictors are truly free from multi-collinearity problems (Ighosewe, 2021)

***Table 3:*** *Robustness Check*

| Robustness Check | Chi-Square | (P-Value) | Decisions |
|---|---|---|---|
| **Breusch-Pagan Test** | 1.9802 | 0.1020 | POLS is preferred over REM |
| **Hausman Test** | 1.6380 | 0.7534 | REM is preferred FEM |

*Source: E-Views 9.0 (2024)*

The result of robustness checks above confirmed that the POLS is considered adequate for the study. It is on this ground that the POLS estimate was presented**:**

***Table 4: POLS*** *Regression Analysis*

| Variables | Coefficient | T-Value | P-Value |
|---|---|---|---|
| **Constant** | 0.6060 | 2.2380 | 0.0352** |
| ROA | 0.0821 | 0.2060 | 0.8386 |
| l_EVA | 0.5516 | 3.3882 | 0.0028* |
| l_LEV | -0.4072 | -3.7735 | 0.0011* |
| l_DPS | 0.0313 | 1.2517 | 0.2233 |
| **Global Statistics** | | | |
| $R^2$ | 0.6305 | Adjusted $R^2$ | 0.6109 |
| F-Statistics | 5.31788 | Prob(F-statistic) | 0.0000* |

Durbin Watson=2.0509

* Denotes 1% level of Significance while ** denotes 5% level of Significance

*Source: E-Views 9.0 (2024)*

The result estimate reported a coefficient of determination ($R^2$) of 0.6305 which suggests that the model has a high predictive power. Moreover, the adjusted $R^2$ of 0.6109 further confirmed that, the model is fit. This shrinkage means that if the model were derived from the population rather than a sample it would account for approximately 1.96% less variance in the outcome. The Durbin Watson value of 2.0509 suggests that the series are free from serial correlation problems.

Meanwhile, the Prob. (F-statistic) of 0.0000<0.01 suggests that the firm profitability (ROA), economic value added, leverage and dividend per share are major predictors of CSR disclosure within the reviewed periods. There are several significant points that emerged from the analysis. These include:

Firstly, the results of this study revealed that Return on Asset is positively and insignificantly related to CSR disclosure in the sampled commercial banks within the reviewed periods. The result suggests that ROA is not a major firm-specific predictor of CSR disclosure. Reasons behind this finding may be found in the causality of the relationship. As of today, it is still unclear if better financial performance leads to more CSR or if CSR engagement will lead to better financial performances (Mellahi et al., 2016).

Secondly, the economic value added was found to be positive and statistically significant to CSR disclosure. This result is not surprising as company have soon realized that involvement in CSR affects the company positively and significantly as it helps to improve their corporate image and reputation, workers' retention, provides access to capital, improves sales and customer loyalty, increased employee morale, loyalty and satisfaction, attracts and retains highly talented employees, reduces the risk of negative rare events, and solving societal problems many but few to mention. It is beyond doubt that, when properly done, it improves the company's market positioning; that is the place the product or service rendered by the firm has in the mind of its end users.

Thirdly, financial leverage was negatively associated with CSR disclosure during the periods reviewed. By implication, commercial banks with higher debt levels voluntarily disclose more information in their reports to reduce agency costs. Finally, DPS has a positive yet negligible effect on CSR disclosure within the reviewed periods.

## 5. CONCLUSION AND RECOMMENDATIONS

Over the years there has been a growing public awareness of the role of Business Corporation in society and as a result the topic of CSR has received much scholarly debate. This increased scholarly debate is likely because of the promise of increased financial performance. However, the results of this work are still contradictory and ambiguous (Mellahi et al., 2016). In view of this, the study sought to examine the effect of return on assets, economic value added, firm leverage, and dividend per share on CSR disclosure of 15 sampled commercial banks from 2009-2022. The study concludes that Economic Value Added is statistically and positively related to CSR while ROA, LEV, and Dividend gave a mixed result. Considering the researcher's findings, the study makes the following submissions:

Bank management should customize their CSR disclosure efforts to align with the scale and scope of the banks' operations and resources.

The regulatory agencies should ensure that, bank managements provide clear and quantifiable evidence of how CSR efforts improve their EVA growth in their annual reports. To mitigate the risks associated with financial leverage, bank management should diversify their products. Bank management should continuously evaluate and refine their approach to dividend per share and CSR disclosure in response to changing market dynamics, regulatory requirements, and stakeholder expectations.

Even though the study is novel, it has some limitations. The study was confined to the banking industry only. Hence, the researchers suggest that future researchers should consider the whole financial sector. Again, future researchers should use different methodologies to address the issues associated with the measurement of CSR disclosure.

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