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Determinants of Corporate Social Responsibility Information Disclosure: Evidence from Manufacturing Firms in Nigeria

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Abstract

This paper explores the drivers of corporate social responsibility (CSR) information disclosure from the perspective of signaling and legitimacy theories. Specifically, the paper investigates the effects of corporate size and CSR performance on the extent of CSR information disclosure. Overall, data set was drawn from the annual reports of 12 manufacturing firms operating in Nigeria for the period between 2017 and 2018 by means of content analysis. The data set collected was analyzed by performing multiple regression analysis. The results of the analysis indicate that both size and CSR performance have significant positive effects on the extent of CSR information disclosure. This finding provides an understanding of CSR information disclosure behavior of manufacturing firms in Nigeria that would be of immense help to corporate regulators in designing future CSR reporting guidelines. The study result further extends and deepens extant literature on CSR information disclosure by the inclusion of CSR performance, which is not commonly included as driver of CSR disclosure and, thus, provides valuable reference for cross countries comparative studies in this area.

Key Words: Corporate Social Responsibility, Corporate Social Responsibility Disclosure, Determinants of Corporate Social Responsibility Disclosure, Signaling Theory, legitimacy theory

JEL Classification: M14, M41

1. Introduction

The heightened interest in accounting and reporting of the CSR construct has been noted to be prompted as a result of the financial crisis of 2008, and the obvious need to restore consumers' and investors' trust in capital markets (Dyduch & Krasodomska, 2017). Additionally, not only is CSR disclosures a vital part of a company's annual report which serve as a complement to financial information (Handoyo, 2020), but the justification for engaging in it by corporates is multidimensional, and can vary from social and cultural reasons to financial and economic reasons (Al-Hadi, *et al*., 2017). So, companies can be environmentally and socially responsible by means of a growing number of ways, and subsequently signal their activities to their numerous stakeholders through voluntary CSR information reporting. As noted by Dyduch and Krasodomska (2017), companies could grow to be socially responsible through following the law, integrating environmental, social, ethical and human consumer rights concerns in their operations and strategies; and inform their numerous stakeholders concerning their achievements in CSR via their integrated annual social reports and their websites. Accordingly, the need to investigate the level and quality of this CSR information disclosure in the annual reports of corporate organizations has engaged the attention of scholars in recent years.

Exiting literature indicates growing empirical studies on the determinants of CSR information disclosure (Chih, *et al.*, 2010; Dyduch & Krasodomska, 2017; Al-Hadi, *et al.*, 2017; Kühn, *et al.*, 2018; Kapitan & Ikram, 2019; Anatami, *et al.*, 2019; Handoyo, 2020). Overall, the results of these studies show that corporate size, Profitability, industry environmental sensitivity, level of governance, GDP, type of industry, independent board of commissioners, audit committee and board of directors' impact on the extent of CSR information disclosure. Further, a review study on the determinants of CSR disclosure in developing and developed countries by Ali, *et al.* (2017) indicated that industry sector, company size, corporate governance mechanisms and profitability dominate factors that drive the CSR disclosure. The study further indicated that whereas the concerns of regulators, creditors, investors, shareholders, the media and environmentalists are deemed very vital in reporting CSR information in developed countries, CSR reporting in developing countries is mainly influenced by such forces as international buyers, international media, foreign investors and such international regulatory bodies as the World Bank. However, whereas some of these studies indicate positive relationship between corporate size and CSR disclosure (Chih, et al., 2010; Anatami, et al., 2019), others indicate negative relationship (see, for example, Handoyo, 2020), a clear case of mixed or inconclusive study results. Thus, there is a need for further empirical examination, drawing evidence from Nigerian context.

Furthermore, literature indicates that prior studies on the drivers of CSR disclosure have employed leverage and profitability (Kapitan & Ikram, 2019), the firm size, stock price and earning per share (Handoyo, 2020), company size, financial leverage, profitability, industry environmental sensitivity, women on the board, board size, reputation, and internationalization (Dyduch & Krasodomska, 2017), life expectancy, GDP, corruption, company nationality, industry affiliation, company size and degree of internationalization (Kühn, *et al.*, 2018) as determinants of the level of CSR information disclosure. Moreover, from the reviewed empirical studies, it would be observed that whereas CSR disclosure is a prominent topic in research, the construct of CSR performance is not. Additionally, both constructs have been studied in isolation and, thus, bringing them together is essentially a study of "terra incognita". Building on the study results, this paper explores the effect of corporate size and CSR performance on the extent of CSR information disclosure, drawing evidence from manufacturing firms in Nigeria

On the basis of a sample of 24 firm-year observations of 12 manufacturing firms for the period between 2017 and 2018, the results of the regression analysis performed indicate that both corporate size and corporate CSR performance have significant positive effects on CSR disclosure. The study result extends and deepens literature on drivers of CSR disclosure. The contribution of this paper to literature is twofold. First, it offers very exclusive empirical evidence to support the conjecture that CSR performance affects the extent of CSR disclosure. Second, the study provides additional evidence to support signaling theory as robust framework for explaining CSR reporting behaviors of manufacturing firms operating in Nigerian context.

The remainder of this paper proceeds as follows. Whereas section 2 discusses literature review and hypotheses development, section 3 presents the methodology. Thereafter, section 4 and 5 summarizes the study results and outlines the concluding remarks, respectively.

2. Literature review and hypotheses development

2.1 CSR and CSR Disclosure

The importance often attached to CSR has led to the rising focus of attention on it by corporate managers, national governments and academics. As an eclectic construct, CSR comprises such broad areas as social and environmental activities of corporates. As documented by Fasoulis and Kurt (2019), it is a wide-ranging topic that has been stretched and established itself, increasingly, into the contemporary business approach. So, CSR is a concept that involves voluntary integration of the environmental and social concerns by companies in their operations, and their relationship with their numerous stakeholders (Aras & Cr-owther, 2008).

Further, CSR very often has been at the vanguard of the global community as an indispensable success constituent of every single sustainability initiative, and constitutes a recognized integral component and tactic of management of business and improvement cycle (Fasoulis &Kurt, 2019). Accordingly, refusal of corporate organizations to be socially and environmentally responsible would not only do great disservice to their image, but brings both sanctions and media pressure to them. As corroborated by Al-Hadi, *et al*., 2017), while a firm whose CSR orientation is not positive may experience such sanctions as increased media/political pressure, loss of executive/firm reputation, the possibility of paying fines and penalties and consumer boycott, a firm whose CSR orientation is positive enjoys many financial benefits.

Moreover, corporate stakeholders do not depend on just financial information when evaluating the performance of firms, but also on information regarding CSR activities and, so, publicly and fully CSR information disclosure is one of the ways to reduce information asymmetry (Handoyo, 2020). However, literature indicates rising interest of scholars on drivers of CSR information disclosure (Dyduch & Krasodomska, 2017; Al-Hadi, *et al.*, 2017; Kühn, *et al.,* 2018; Kapitan & Ikram, 2019; Anatami, *et al*., 2019; Handoyo, 2020). Additionally, corporate information reporting practices have been explained by either deploying stakeholder and legitimacy theories or signaling theory. According to Dyduch and Krasodomska (2017), legitimacy theory has often been used to explain company reporting practices, and it requires the companies to act in a way that will make its business be acknowledged as being in line with the law, transparent and the economics principle. So, most studies have deployed legitimacy theory to explain CSR information reporting behaviors of corporates (Reverte, 2009; Dyduch & Krasodomska, 2017; Okezie & Ihendinihu, 2019; Anatami, *et al*., 2019). This is because according to Dyduch and Krasodomska, (2017), legitimacy theory states that corporate organizations tend to ensure that societies recognize them as functioning in accord with the accepted societal norms, and that their operations are viewed as being lawful. In addition, signaling theory has posited that companies with high quality should signal their advantage to the capital market (An, 2012), suggesting that socially responsible corporates should signal their social performance to its numerous stakeholders. Thus, both legitimacy and signaling theories underpin this study.

2.2 CSR Disclosure and Corporate Size

Existing empirical literature indicates rising studies on the determinants of CSR information disclosure (Chih, *et al*., 2010; Dyduch & Krasodomska, 2017; Al-Hadi, *et al*., 2017; Kühn, *et al*., 2018; Kapitan & Ikram, 2019; Anatami, *et al*., 2019; Handoyo, 2020). Specifically

Handoyo(2020) investigated the determinants of corporate social responsibility disclosure drawing evidence from firms operating in Indonesia and indicated that the firm size, stock price and earnings per share significantly impact on the CSR disclosure, with firm size having negative influence. Kapitan and Ikram (2019) explored the effect of leverage and profitability on CSR disclosure using evidence from listed firms in Indonesia Stock Exchange and showed that whereas profitability has significant positive effects on CSR disclosure, leverage does not influence it.

Al-Hadi, *et al.* (2017) investigated the relationship between financial distress and CSR performance, and firm life cycle as a moderating variable in the association using evidence from listed Australian firms. The authors indicated, among others, that positive CSR activity has significant negative effect on financial distress of the firm. Dyduch and Krasodomska (2017) examined the elements that impact on the extent of CSR disclosure, drawing evidence from the annual reports of firms operating in Poland. The authors indicated a significant effect of industry environmental sensitivity on CSR disclosures, but no association between profitability, board size, financial leverage and women on the board CSR disclosure level.

Chih, *et al*. (2010) examined the determinants of CSR drawing global evidence from firms operating from the financial industry and showed, among others, that corporate size is positively related to CSR, while financial performance is not related to CSR. Kühn, *et al.* (2018) explored the contents and determinants of CSR website reporting, drawing evidence from seven countries in Sub-Saharan Africa. Among others, the authors indicated that the level of governance and GDP standard have positive effect on CSR disclosure. Anatami, *et al*. (2019) investigated the determinants of CSR disclosure, the moderating effect of environmental performance. The authors drew evidence from manufacturing firms listed in Indonesia Stock Exchange and reported firm size, type of industry, profitability, independent board of commissioners, audit committee and board of directors to have significant impacts on CSR disclosure, among others.

Fasoulis and Kurt (2019) explored the drivers of CSR implementation drawing evidence from 50 firms operating in maritime industry in 14 countries worldwide and indicated that increased trust, relationships with key stakeholders and improved company's image are the key drivers of the level of CSR implementation.

Overall, the results of the reviewed prior studies show that corporate size impact on the extent of CSR information disclosure (Chih, *et al*., 2010; Anatami, *et al*., 2019; Handoyo, 2020). This is corroborated by Ali, *et al*. (2017) who conducted a review of articles on the determinants of CSR disclosure in developing and developed countries and indicated that industry sector, company size, corporate governance mechanisms and profitability, dominate factors that drive the CSR disclosure. The authors further indicated that whereas the concerns of regulators, creditors, investors, shareholders, the media and environmentalists are deemed very vital in reporting CSR information in developed countries, CSR reporting in developing countries is mainly influenced by such forces as international buyers, international media, foreign investors and such international regulatory bodies as the World Bank. However, whereas some of these studies indicated positive relationship (Chih, *et al*., 2010; Anatami, *et al*., 2019), others reported negative relationship (see, for example, Handoyo, 2020), a clear case of mixed or inconclusive study results. Additionally, Dyduch and Krasodomska (2017) document that: large companies are more diversified across geographical and product markets, and they have more diverse stakeholder groups. They are also usually more involved in the CSR practices than SMEs, and enhancing corporate reputation is an important factor which encourages them to increase the scope of CSR disclosures. Building on the above discussion, the following hypothesis is proposed:

Ho1: Corporate size has no significant relationship with CSR information disclosure

2.3 CSR Disclosure and CSR performance

Firms can pursue their social responsibility initiatives in diverse ways. As stated earlier, companies could grow to be socially responsible through following the law, integrating environmental, social, ethical, and human consumer rights concerns in their operations and strategies, and inform their numerous stakeholders concerning their achievements in CSR via their integrated annual social reports and their websites (Dyduch & Krasodomska, 2017). This suggests that by means of CSR information reporting in the corporate annual reports and websites, corporates inform their numerous stakeholders about their CSR performance. Thus, it can be conjectured that socially responsible firms are inclined to signal their performance by means of CSR information reporting in either their annual reports or website.

Extant literature indicates that prior studies on the drivers of CSR disclosure have employed leverage and profitability (Kapitan & Ikram, 2019), the firm size, stock price and earnings per share (Handoyo, 2020), company size, financial leverage, profitability, industry environmental sensitivity, women on the board, board size, reputation, and internationalization(Dyduch & Krasodomska, 2017), life expectancy, GDP, corruption, company nationality, industry affiliation, company size and degree of internationalization (Kühn, *et al.*, 2018) as determinants of the level of CSR information disclosure. Moreover, from the reviewed empirical studies, it would be observed that whereas CSR disclosure is a prominent topic in research, the construct of CSR performance is not. Additionally, both constructs have been studied in isolation and, thus, bringing them together is essentially a study of “terra incognita”. Accordingly, this study addresses this research gap by exploring the relationship between the two and, so, proposes the following hypothesis.

Ho2: CSR information disclosure has no significant relationship with CSR performance

3. Data and Methods

By means of content analysis, a data set was collected from the 2017 and 2018 annual reports of 12 manufacturing firms operating in Nigeria. We select these firms based on availability of their annual reports in their official websites within the study period.

3.1 Model Specification

The model was specified tailoring the studies conducted by Al-Hadi, *et al*. (2017), Handoyo (2020) and Shalihin, *et al* (2020), Handoyo (2020). The model of this study is specified as follows:

$CSRDs = a_1 + a_2CSRP + a_3CS + U$
Where:
CSRDs = Corporate Social Responsibility Disclosure scores
CSRP = Corporate Social Responsibility Performance (the natural logarithm of the number of CSR items disclosed in the annual report of the studied firms).
CS = Corporate Size (proxied by the total corporate assets)

U = the Error term
a_1 = Intercept
a_2 and a_3 = coefficients of the independent variables.

4. Data Analysis and Discussion of findings

4.1. Descriptive statistics

Table 1 reports the result of the descriptive analysis conducted. From this table it can be observed that the mean average value of the level of CSRD is 45.8%. This shows that the extent of CSRD of the manufacturing firms in Nigeria is below average, suggesting below average performance. It also indicates that the level of CSRD is low. The table also shows that the average value of CSRP is about 14. It shows that, of the 22 CSR activities that manufacturing firms in Nigeria are expected to engage in, only 14 of these activities are carried out. This represents about 63% of these activities. It indicates above average performance. It further suggests a fair CSRP of the manufacturing firms operating in Nigeria. Further, table 1 shows that the average of the total assets of the manufacturing firms in Nigeria is ₦342,874,789,800, suggesting an impressive asset base of these firms.

Table1. Descriptive Statistics

	Minimum	Maximum	Mean	Standard Deviation
CSRD	25	68.75	45.7933	15.5325
CSRP	8	22	14.3333	4.36056
Total Assets (₦'000)	24648676	1694463000	342874789.8	443010092.6

Source: Authors' Computation, 2022.

4.2 Determinants of corporate social responsibility (CSR) information disclosure

Table 2 reports the results of the regression analysis performed. From this table, it can be seen that whereas the coefficient of total assets variable is 6.307, its corresponding p-value is 0.043. This indicates that the size of the studied manufacturing firms has significant positive relationship with the level of CSRD. It further shows that the size of the manufacturing firms in Nigeria has significant positive effects on the level of CSRD of the firms. This finding does not support hypothesis one which states that corporate size has no significant relationship with CSR information disclosure. The finding is consistent with prior study findings (see, for example, Chih, *et al*., 2010; Anatami, *et al*., 2019; Handoyo, 2020) that corporate size impact on the extent of CSR information disclosure. This is corroborated by Ali, *et al*. (2017) who conducted a review of articles on determinants of CSR disclosure in developing and developed countries and indicated that industry sector, company size, corporate governance mechanisms and profitability, dominate factors that drive the CSR disclosure.

Table 2 further shows that the level of corporate social responsibility performance of the manufacturing firms in Nigeria has significant positive relationship with the level of CSRD by them (β = 103.024, $p<0.05$). This result indicates that the level of CSRP determines the level of CSRD by the manufacturing firms in Nigeria. This finding does not support hypothesis two which states that CSR information disclosure has no significant relationship with CSR performance. This finding is consistent with signaling theory which states that companies with high quality should signal their advantage to the capital market (An, 2012), suggesting that socially responsible corporates should signal their social performance to its numerous stakeholders. This further suggests that manufacturing firms who perform highly in social responsibility activities are wont to report this through increased disclosure of CSR information to inform operators of the capital markets and, thus, reduce the level of information asymmetry.

Dependent Variable	**CSRD**	
Independent Variables	Coeff.	P-Values
LogTA	6.307	0.043
LogCSRP	103.024	0.000
R-Squared	.843	
F-value	56.359	
Sig.	0.000	

Source: Authors' Computation, 2022.

5. Conclusion and Recommendations

This paper explores the determinants of CSR disclosure. Drawing evidence from the annual reports of a sample of publicly-listed Nigerian manufacturing firms, covering 2017 and 2018 period, the results of the regression analysis performed indicate that corporate size and the level of CSR performance determines the extent of CSR information reporting. These findings extend and deepen existing empirical literature on the drivers of CSR disclosure. It also supports the conjecture that positive performing firms or firms that engage in positive CSR activities are wont to signal this performance by means of enhanced CSR information reporting.

The study results have vital implications for regulators, policy makers and investors. First, the study results offer valuable insights that would be useful to regulators and policy makers in developing future CSR disclosure guidelines. Second, the study findings would particularly be value relevant to potential investors in that they would understand that increased CSR information reporting by manufacturing firms is the result of increased engagement in positive CSR activities by the firms, and this would in turn reduce the probability of the firms' financial distress. So, potential investors should invest in firms that report their CSR information.

This paper is subject to a number of limitations. First, the study sample was drawn from publicly-listed Nigerian manufacturing firms. However, as a result of unavailability of 2017 and 2018 annual reports of some of the publicly-listed manufacturing firms, it was impossible to include all the firms in the study sample. Second, the study focused on firms in manufacturing industry, with the exclusion of firms from such other industries as banking, insurance, ICT, etc. Accordingly, further studies in this area should increase the study sample and period, and include firms from other industries to permit generalizability of results.

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Appendix: Corporate Social Responsibility items

S/N	VARIABLES
	COMMUNITY INVOLVEMENT
1	Opening up or contributing towards educational institutions
2	Aid to flood/drought/disaster victims
3	Construction and maintenance of roads.
4	Contribution for the promotion of art, culture, and sports.
5	Provision of drinking water facilities
6	Contribution towards health care
7	Construction of temples, community halls, packs, and so on
8	Promotion of rural income generation schemes
	ENVIRONMENTAL CONTRIBUTION :
1	Certified under ISO14000 series
2	Going for land reclamation and afforestation
3	Installed effluent treatment plant
4	Going for rain harvesting programmers
5	Recycling of pollutants and wastes
6	Engaged in ecofriendly products/process
7	Efficiency in paper usage
8	Power saving / energy conservation
	WORK PLACE:
1	Providing better working environment to the employees
2	Retirement fund benefit plans, i.e., gratuity, provident fund
3	Proper safety measures for accident -prone activities
4	Frequent training/ development programmes for employees
5	Spending for the welfare of the employees
6	Providing medical facilities to the employees
7	Profit sharing /share ownership programmes for employees
8	Women harassment at the workplace
	DIVERSE
1	Redress of grievance of workers/shareholders/employess
2	No child labour in employment
3	Different training programmes for empowerment of youth
4	Welfare activities for SC/ST/disabled persons
5	Providing agricultural guidance/schemes
6	Financial inclusion schemes
7	Setting of orphanage home
8	Better customer service/customer guidance/after sales service

Source: Maqbool and Zameer (2018, pp. 91-92).