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AN EMPIRICAL INVESTIGATION OF THE ASSOCIATION BETWEEN FIRMS' CHARACTERISTICS AND CORPORATE SOCIAL DISCLOSURES IN THE NIGERIAN FINANCIAL SECTOR

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ABSTRACT

This paper investigates the association between firms' characteristics and the level of corporate social disclosures in the Nigerian financial sector. Using the judgmental sampling technique, a total of 31 listed firms have been selected for this study based on their level of market capitalization and direct financing of most firms from the manufacturing industry. Also, using the content analysis method of eliciting data, a scoring scheme was used for measuring the extent of corporate social disclosure in the annual report. The study observed that a positive association existed between a firm's characteristics and the level of corporate social disclosure. In addition, the paper observed that corporate social disclosures by listed firms are still in its infancy. The paper therefore calls for standard setting bodies to put in place a corporate social environmental reporting framework, in order to improve the level of corporate social disclosures among of listed firms in the financial industry.

Keywords: Corporate Social Disclosure; Sustainability; Content Analysis; Financial Sector; Firms' Characteristics; Profitability; Audit Firm

INTRODUCTION

In the wake of the current global financial meltdown, coupled with the bank consolidation in the Nigerian financial sector; strengthening and consolidating financial institutions constitutes the first phase of the reforms designed to ensure a diversified, strong and reliable financial sector. This will guarantee the safety of depositors' money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the global financial system (Achua, 2004). Amidst these new players, financial institutions in Nigerian are now driven by advanced competition brought about by globalization, development in the information technology, and deregulation of financial services. This has invariably affected customers' habits as well (Achua, 2004).

The past three decades have witnessed the emergence of corporate social responsibility as a field of study and a framework in society for business corporations and financial institutions. It outlines the standard behavior to which firms must subscribe to impact society in a positive and a productive manner, at the same time abiding by values which exclude profit seeking at any cost. In developed economies (e.g. United Kingdom, United States etc.), the concern for ethical investment and socially

responsible behavior of firms has grown in popularity since the mid-1970s; however, the same cannot be said of developing and transition economies (e.g. Nigeria, Ghana, South Africa, Egypt, Bangladesh, etc).

Over the years there have been mounting social, political, and economic pressures on corporate managements to pay greater attention to the wider social and environmental consequences of corporate activities in decision-making process (Spicer, 1978). The increasing demands for clear and hard facts about the corporate social performance of a financial institution by an increasingly well-informed breed of stakeholders have made corporate social disclosure an essential issue of debate. Also, recent business scandals and fraud cases have also contributed to the increasingly importance of corporate social reporting practices. In America, financial scandals at Enron, Arthur Andersen, Halliburton, Tyco International, and charges of fraud on WorldCom, have showed unethical behaviors from organizations (Agrawal, 1997). These scandals have shaken public confidence in both business leaders and the economy; creating concern about business ethics and governance. In responding to these scandals and social responsibility issues, a number of studies on corporate social responsibility have been documented in developed economies; however, in developing countries the same is not true (Ite, 2004). To this end therefore, this study builds on existing research literature by examining the association between a firm's characteristics (such as profitability, size, and size of audit firm) and the extent of corporate social disclosure among listed firms in the financial sector of the Nigeria Stock Exchange Market.

SCOPE OF STUDY

In other to achieve the objectives of this study, corporate annual reports for the period 2005-2009 will be analyzed. Also, using the judgmental sampling technique, a total of 31 firms from the financial sector of the Nigerian stock exchange was selected for this study (see appendix). The preference for these firms is motivated by the fact that their annual reports are easily accessible, making it simpler for comparisons. More so, they are directly responsible for the financing of most firms from the manufacturing industry.

CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

In recent years, the terms corporate social responsibility and sustainability have become commonplace. There has been a growing awareness of the impact of corporate behavior, not just on shareholders, but on other stakeholders (Juliette, 2007). The concept of corporate social responsibility disclosure has gained currency in response or as a reaction to shareholder primacy. This doctrine typically places the profit-seeking interests of shareholders ahead of all others in the corporate decision-making process. However many factors, including the impact of globalization, and concern about the effects of socially irresponsible behavior of organizations, have lead to dissatisfaction with the view that shareholders' interests are always paramount, and given an increased impetus to the corporate social responsibility movement. It is almost trite to say that corporations and corporate activity have an enormous impact on the natural environment. This is particularly true when considering the use of primary resources for the manufacture of products, the utilization of energy and water, the production of waste and emissions, and a growing awareness of climate change. The result is greater attention is being paid to these impacts. For this reason, the activities and behaviors of organizations cannot be ignored or overlooked when considering appropriate measures to be taken in relation to environmental protection and sustainable development. Thus, a desire to

encourage organizations to act in a socially responsible manner, to ensure development is sustainable, and to allow all stakeholders to make informed assessments of corporate activities and practices.

THE LINK BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY DISCLOSURE

There is no generally accepted or universal definition of corporate social responsibility, even though many versions have been proffered. Corporate Sustainability can be described as that process which involves the practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable developments. Corporate sustainability is a business approach that creates long term shareholder value by embracing opportunities and managing risk deriving from economic, environmental and social developments (Hopwood, Mellor, & Brien, 2005).

Indeed, while corporate sustainability still recognizes the importance of corporate growth and profitability, it also requires the corporation to pursue goals relating to sustainable development- environmental protection, social justice and equity, and economic development. The concept of "triple-bottom-line" reporting is an example of an initiative arising from the "corporate dimension" of sustainability. Triple-bottom-line reporting can be described as a voluntary form of reporting on the environmental, social and economic impact of corporate activities. This form of reporting stems from a recognition that the financial success of a company is not reliant only on economic sustainability, but also social and environmental sustainability. "Sustainability reporting" or "sustainability disclosure" can be considered as an extension of triple-bottom-line reporting. Sustainability disclosure focuses on the appropriate management of all material business risks faced by an organization and "non-financial" reporting. In other words, it has become mainstream, driven by the potential business values generated through enhanced stakeholder reporting and communication.

CORPORATE SOCIAL DISCLOSURES IN THE FINANCIAL INDUSTRY

The continuous interactions of businesses with the environment and the exchange between them confer some responsibilities on business to the society in which they operate, and vice versa. The stakeholders' theory maintains that firms are socially responsible to stakeholders for allowing their existence (O'Brien, 1996). This situation requires firms to improve on the economic satisfaction of consumers and employees without impairing the environment, depleting natural resources, nor subjecting their employees to dehumanizing working conditions. Such vices have systematically worsened the position of some stakeholders (Achua, 2004). The definition of corporate social responsibility disclosure is not abstruse. According to Tilt (1999), corporate social disclosure is seen as a mechanism whereby companies disclose the social and environmental aspects of their corporate activities to their stakeholders. It is also seen as the process of communicating information (both financial and non-financial) about the resources and social performance of the reporting entity (Dutta and Bose, 2007). It is further seen as an organization's commitment to operate in an economically and environmentally sustainable manner while recognizing the interests of all its stakeholders (Carrol, 1991). Hence, the success of any organizations corporate social disclosure is dependent upon its corporate social orientation, values, and largely, on its ethical orientation (Logsdon & Yuthas, 1997). Moreover, with the current global trend, the structure of the financial sector may be far more complex than can be readily envisaged. Besides, the dynamism of modern society continues to change the composition and intricacies of

CSD requirements of the financial sector. The complexities and indispensability of these interrelationships have made CSD and corporate existence of financial institutions inseparable.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

There has been extensive research in the developed countries to measure the corporate disclosure in financial and non-financial companies (Ahmed & Nicholls, 1994; Buzby, 1974; Cooke, 1989; Hossain, M., 2001; Hossain, M. A., 2000; Inchausti, 1997; Kahl & Belkaoui, 1981; Singhvi & Desai, 1971; Wallace, 1987; Wallace & Naser, 1995). However, Jones, Frost, Loftus, and van der Laan (2005) examined sustainability/triple bottom-line reporting in Australia across a broad range of private and public sector entities, including a limited number of local government authorities. Results suggested that few councils in Australia report on their sustainability performance, rather confining their sustainability disclosures to general statements of policy. Other related studies that have examined types and patterns of sustainability disclosures include Farneti, Guthrie, and Siboni (2010), and Scuilli (2009) with the general consensus being low levels of disclosure with sustainability reporting in local government clearly in its infancy.

Nevertheless, Kahl and Belkaoui (1981) while investigating the overall extent of disclosure by 70 banks located in 18 countries, they observed that the extent of disclosure was different among the countries examined, and there was a positive relationship between the size of the bank and the level of disclosure indicated. Spicer (1978) suggests firm size as a factor influencing pollution control, as larger companies had a better record in this regard than smaller firms. Watt and Zimmerman (1978) argue that because political costs reduce management wealth, companies attempt to reduce costs by such devices as social disclosure campaigns. Nevertheless, findings from the above studies are contradicted by Halme and Huse (1997), and Mohamad and Ahmad (2001), who concluded that there is no association between environment disclosure and a company's size, therefore no significant relationship between environmental reporting and companies' size was found.

Empirical evidence on the relationship between size of an audit firm and the amount of disclosure are also mixed. Hossain, Tan, and Adams (1994), and Ng and Koh (1993) found a positive relationship between auditor and voluntary disclosure. Some found no relationship between audit firm and disclosure. For example, Malone, Fries, and Jones (1993) found no relationship between auditor and disclosure in the United States oil and gas industry. Mohamed and Janggu (2006) also did not find any support of a relationship between the audit firm and disclosure relationship in Malaysia. Similarly, prior research on the relationship between firms' profitability and corporate social disclosure has also provided conflicting results. For example, while Belkaoui (1976) and Preston (1978) found a positive relationship between profitability and corporate social disclosure; on the other hand prior studies by Freedman and Jaggi (1982) and Ingram and Frazier (1983) found a negative relationship between firms' profitability and corporate social disclosure. This research supports the view that the cost of being socially responsible forces the firm into an unfavorable financial position versus firms that are not socially responsive (Aupperle, Carroll, & Hatfield, 1985). These studies generally suggest a nexus between corporate social disclosures and firms' characteristics (such as size, profitability, financial leverage, firms' auditor, board size, etc). More so, the overall empirical evidence on these possible linkages has been inconclusive, ranging from findings of positive association to neutral association to negative association.

Despite the dearth of prior literatures in developing economies (especially Nigeria), the research generally found that the extent of social environmental disclosures in annual reports is lower than in the developed countries. In the Nigerian content, the conclusions derived from existing prior studies are mixed. Amaeshi, Adi, Ogbechie, and Amao (2006) looked at corporate social responsibility in Nigeria, a western mimicry of indigenous practices. They explored four key sectors of the Nigerian economy and came up with the conclusion that firms are socially constructed and their behavior must reflect the society in which they are embedded, thus they must be socially responsible to the environment in which they operate. Also, Ngwakwe (2009) titled environmental responsibility and firms' performance in Nigeria, investigated the relationship between firms social responsibility practices and their performance. The study while focusing only on the manufacturing industry concluded that a positive relationship exists between the social responsibility practice of firms and their performance. In addition, prior studies by Guobadia (2000) and Minga (2010) reported a similar finding on the state of corporate social responsibility in Nigeria.

Nonetheless, due to the paucity in literature and the difference in methodology and the scope, it is difficult to compare the findings of these studies. In addition to the increasing pressure from stakeholders arising from the increasing levels of education and heightened awareness on issues related to the social and environmental responsibility, neither of these studies from developing countries has attempted to address these issues and how it impacted the level of corporate social disclosure. To this end, this study intends to add to the body of existing literatures by empirically examining the relationship between firms' characteristics and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange.

HYPOTHESIS DEVELOPMENT

With the mixed results provided by prior researches and the dearth of literature in this area of accounting in a developing country like Nigeria, the following hypothesis is stated below in the null form:

H_1: there is no significant relationship between firms' size and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange

H_2: there is no significant relationship between firms' profitability and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange

H_3: there is no significant relationship between the size of audit firm and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange

RESEARCH METHODOLOGY

This study basically investigates whether there is a significant relationship between firms' characteristics and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange. Using the judgmental

sampling technique, a total of 31 listed firms have been selected for this study based on their level of market capitalization and direct financing of most firms from the manufacturing industry. This investigation has adopted the use of the corporate annual report of firms as its data source. This choice arises due to the fact that they are readily available, accessible and also provides a greater potential for comparability of results. The annual reports of the selected listed firms for the time period of 2005-2009 will be used due to heighted interest and increased awareness noticed among stakeholders within these periods (especially within the Niger delta region of Nigeria were there continues to be cases of youth and civil unrest). To achieve the aforementioned objectives, the content analysis method of data analysis will be used. This is due to the fact that the content analysis method is the most commonly used method of measuring a firms' corporate social responsibility disclosure (Hackston & Milne, 1999; Milne & Adler, 1999). Nevertheless, for the purpose of this study; twenty (20) content category items within four (4) testable dimensions of corporate social disclosure was developed for coding, from other relevant prior literatures (Hossain, 2008; Pramanik & Shil, 2008). They include: theme, evidence, location in corporate annual reports, news type and time (see appendix). However, using accounting based measures; size of firm as an independent variable in this study was measured by the natural logarithm of firms' total assets. Also, profitability and audit firms which are both independent variables in this study were measured by return on assets and size of audit firms respectively. Moreover, a dichotomous procedure known as the kinder Lydenberg Domini (KLD) social environmental performance rating system was used to measure the total disclosure score. A score of one (1) was awarded if an item was reported; otherwise a score of zero (0) was awarded. Consequently, a firm could score a minimum of 0 and a maximum of twenty (20) points. The formula for calculating the total reporting score by using these 20 attributes are expressed below as:

$$TD = \sum_{I=1}^{20} d_i$$

Where:

TD = Total disclosure score

d_i = 1, if the item d_i is disclosed and 0 if the item d_i is not disclosed or reported

i = 1, 2, 3........20

However, for us to measure the relationship between the firms' size, profitability, size of audit firms and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange, a linear regression model was developed as shown below in functional form:

Model Specification

$$CSD_t = f(SIZE_t, ROA_t, AUD_t) \ldots \quad (1)$$

This can be written in explicit form as:

$$CSD_t = \beta_0 + \beta_1 SIZE_t + \beta_2 ROA_t, + \beta_3 AUD_t + U_t \ldots \quad (2)$$

Where:

CSD = Corporate Social Disclosure (Dependent variable)

SIZE = firms' size is measured in terms of the natural logarithm of total assets

ROA = Return on assets used as a proxy for firms' profitability

AUD = Size of audit firm

U = Stochastic or disturbance term

T = Time dimension of the Variables

β_0 = Constant or Intercept

β_{1-3} = Coefficients to be estimated or the Coefficients of slope parameters

Table 1: Proxies and Predicted Signs for Explanatory Variables

Variable	Predicted Sign	Type	Data Type	Scale
SIZE	+	Independent	Continuous	logarithm of firms' total assets
ROA	+	Independent	Continuous	Return on assets
AUD	+	Independent	Ordinal	1= Auditor affiliated with the big four auditing firm 0= Auditor not affiliated with the big four auditing firm

EMPIRICAL FINDINGS

Based on the hypotheses earlier identified in this study, findings from the Pearson correlation analysis result is presented in Table 2, clearly showing a positive association existed between the dependent variable (CSD) and the independent variables that is (SIZE, ROA and AUD) and the correlation are all significant at 0.01level. These results further provide an insight to the fact that to a very large extent, firms attributes such as size of firms, profitability and the size of audit firms do plays a very significant role in or has a strong influence on the level of disclosure among the selected listed firms in Nigeria.

Also, the result of coefficient of determination as reflected in Table 3 indicates that 0.89 of the variation noticed in corporate social disclosure can be explained by the independent variable. This means that about 11% of variations in corporate social disclosure (CSD) noticed among the selected firms are accounted for by other factors not captured by the model. Similarly, the result on the Goodness of Fit test as depicted in Table 3, complements the coefficient of determination result indicates clearly that the value of the dependent variable can be explained or predicted by about 88% of the independent variables. This value can be considered sufficient because the disclosures of social information are influenced by other factors beside firms' characteristics. However, the F-test result as presented in Table 4 indicates clearly that the model as specified significantly explains the variations in the level of corporate social disclosures. It in essence shows simultaneously that the independent variables altogether are significantly associated with the dependent variable.

Table 2: Pearson Correlations for Selected Listed Firms

		CSD	SIZE	ROA	AUD
CSD	Pearson Correlation	1	.917(**)	.609(**)	.837(**)
	Sig. (2-tailed)		.000	.000	.000
	N	31	31	31	31
SIZE	Pearson Correlation	.917(**)	1	.512(**)	.783(**)
	Sig. (2-tailed)	.000		.003	.000
	N	31	31	31	31
ROA	Pearson Correlation	.609(**)	.512(**)	1	.439(*)
	Sig. (2-tailed)	.000	.003		.014
	N	31	31	31	31
AUD	Pearson Correlation	.837(**)	.783(**)	.439(*)	1
	Sig. (2-tailed)	.000	.000	.014	
	N	31	31	31	31

Note: ** Correlation is significant at the 0.01 level (2-tailed)

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

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F change	df1	df2	Sig. F Change
1	.948[a]	.899	.888	.44159	.899	80.436	3	27	.000

a: Predictors: (Constant), AUD, ROA, SIZE

Table (4): ANOVA [b]

Mode		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	47.055	3	15.685	80.436	.000[a]
	Residual	5.265	27	.195		
	Total	52.320	30			

a: Predictors: (Constant), AUD, ROA, SIZE

b: Dependent Variable: CSD

Table (5): Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
1 Constant)	-1.515	.467		-3.246	.003
SIZE	.960	.165	.599	5.825	.000
ROA	1.24E-008	.000	.174	2.436	.022
AUD	.768	.259	.292	2.966	.006

a: Dependent Variable: CSD

Consequently, a quick review of the of the regression analysis as depicted in Table 5 reveals that consistent with our a priori expectation (predicted signs) a significant positive relationship exists between the size of firms (financial sector) and the level of corporate social disclosure. This finding is in line with previous research by Dutta and Bose (2008), Mohamed and Janggu (2006), Spicer (1978), and Watts and Zimmerman (1978) which found a positive relationship between corporate social responsibility and company's size. This result simply implies that the larger the size of a firm, the more they will be willing to invest on resources and corporate environmental technologies that are environmentally friendly. Moreso, larger firms tend to be more concerned with their corporate environmental reputation and image; since they are more visible to external stakeholders who constantly demands for a higher corporate social environmental performance. Furthermore, larger companies are more susceptible to inquiry from stakeholder groups since they are highly visible to external groups and more vulnerable to adverse reactions from them. For the second hypothesis, the findings are consistent with previous research (Abbot & Monsen, 1979; Inchausti; 1997; Mohamed & Janggu, 2006). The study found out that a significant positive relationship does exist between firms' profitability and the level of corporate social disclosure. This implies that profitable companies tend to disclose more social issues as compared to less profitable ones. This means that companies are more likely to disclose social responsibility information when their financial statements indicate favorable financial performance. Finally for the third hypothesis, the study found out that there is a significant positive relationship between the size of audit firms and the level of corporate social disclosures among listed firms in the financial sector of the Nigerian stock exchange. This result nevertheless corroborates the findings provided in a similar study by Ahmed, and Courtis (1999) Ahmed and Nicholls (1994), Malone et al. (1993), and Singhvi & Desai (1971). This outcome indicates that firms' audited by the big four auditing firms operating in the country with international affiliations, had a significantly positive influence on the social disclosure level of firms, than not affiliated with international firm. This is due to the fact that big auditing firms tend to follow internal procedures and controls that are required by their affiliated international auditing firms. These requirements eventually lead to higher level of disclosures among the selected firms.

CONCLUSION AND RECOMMENDATIONS

This study investigates the relationship between firms' characteristics and the level of corporate social disclosures among listed firms in the Nigerian financial sector. On the whole, findings from this study suggest that there is a significant positive

relationship between firms' size and the level of corporate social disclosure among listed firms in the Nigerian financial sector. This outcome validates the findings of Cowen, Ferreri and Parker (1987), Pattern (1991), and Watts and Zimmerman (1978) which suggested a positive correlation between size and social disclosure. More so, a similar association was also found for profitability, size of audit firm and the level of corporate social disclosure. Interestingly, it was also observed that there are no existing corporate social reporting standards as far as social disclosure is concerned in the country. Moreover, there are no mandatory requirements for companies to undergo social environmental audit. The paper consequently concludes that corporate social disclosure among firms in this sector is very low. However, this paper accordingly believes that the long-term profitability of firms in this sector of the Nigerian economy depends on the integration of sustainability programs: social and environmental goals into business plans to benefit shareholders, consumers, society and the community at large. When sustainability delivers results that advance business strategies of social and environmental performance, it supports economic productivity and profitability goals. In other words, sustainability promotes greening that incorporates social equity, environmental restoration/renewal and financial performance. The paper there calls for standard setting bodies to set up a social environmental reporting framework in order to improve the level of corporate social /sustainability disclosures among of listed firms. This paper also suggests that future research in this area of study should be extended into other sectors of Nigerian economy, in order to paint a meaningful comparison about the whole picture of corporate social disclosure in Nigeria. In addition, future research may adopt content analysis to examine the quantity, quality and nature of corporate social reporting; such a study will help validate the conclusions of this study.

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APPENDIX

Table 6: List of Selected Listed Firms in the Nigerian Financial Sector

S/N	SELECTED LISTED FIRMS
1	IBTC
2	UNITED BANK FOR AFRICA
3	UNITY BANK
4	WEMA BANK
5	ZENITH BANK
6	ACCESS BANK
7	DIAMOND BANK
8	ECO-BANK
9	FIDELITY BANK
10	FIRST BANK
11	FIRST CITY MONUMENTAL BANK
12	GUARANTEE TRUST BANK
13	OCEANIC BANK
14	UNION BANK
15	STERLING BANK
16	INTERCONTINENTAL BANK
17	SKYBANK
18	STANBIC IBTC
19	BANK PHB
20	FIN BANK
21	FIRST INLAND BANK
22	SPRING BANK
23	PLATINUM HABIB BANK
24	ACEN INSURANCE COY. PLC
25	AIICO INSURANCE PLC
26	AMICABLE INSURANCE PLC
27	BAICO INSURANCE PLC
28	CONFIDENCE INSURANCE PLC
29	CORNERSTONE INSURANCE PLC
30	UNIVERSAL INSURANCE PLC
31	GOLDLINK INSURANCE PLC

Table 7: Twenty Testable Environmental Disclosure Items

S/N	Environment	Energy	Research & Development	Employee Health and Safety
1	Environmental pollution	Firms energy policies	Investment in research on renewal technology	Disclosing accident statistics
2	Conservation of natural resources	Disclosing energy savings	Environmental education	Reducing or eliminating pollutants, irritants, or hazards in the work environment
3	Environmental management/ Environmental policies	Reduction in energy consumption	Environmental research	Promoting employee safety and physical or mental health
4	Recycling plant of waste products	Received awards or penalties	Waste management/reduction and recycling technology	Disclosing benefits from increased health and safety expenditure
5	Air emission information	Disclosing increased energy efficiency products	Research on new method of production	Complying with health and safety standards and regulations and Establishment of Educational Institution

***Source**: Hackston & Milne (1996); Milne & Adler (1999)*