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Original Research Article

Corporate Governance and Corporate Social Responsibility Disclosure in Nigerian Financial Sector

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Abstract

The broad objective of this study is to examine the impact of corporate governance on corporate social responsibility (CSR) disclosure in Nigerian financial sector. However, the specific objectives were to investigate the relationship between board size, foreigners on the board, board gender diversity and CSR disclosure. The research sample comprises of 49 companies in the financial sector of the Nigerian Stock Exchange. Secondary data was used for this study from 2012-2016 financial years. Using panel regression analysis, this study found that, board gender diversity has a positively significant relationship with the CSR disclosure while foreigners on the board exhibited a negatively significant relationship. The study also found that board size did not indicate any significant relationship with CSR disclosure. The study concluded that the impact of corporate governance on CSR disclosure cannot be overemphasized. The study therefore recommended that, there is need for increased corporate governance interest in promoting CSR disclosures.

Keywords: Corporate social responsibility, governance, foreigners, gender diversity, size

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1.0 INTRODUCTION

Corporate governance (CG) is one of the outcome that sprouted from new thinking on the part of government when the investment of stakeholders in high profiled organizations sank in the face of financial impropriety. It is grossly associated with the way corporations are directed, controlled, and monitored (Cadbury Report, 1992). In the context of CSR disclosure, CG is a

JEL Classification Codes: *G300, G390, M140*

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potent tool to weigh corporations and societal values which span from economic to social goals. Its potency can also be applied on agency problems which is occasioned by information asymmetry. Agency problem arises when control is separated from ownership and goal congruence is shoved aside. According to the Institute of Chartered Accountants of Nigeria (2014), CG can be applied on agency problems by ensuring board of directors monitor the executive management, attractive remuneration package for agents to mention a few. Whether corporate scandals which occurred in high profile organizations were perpetuated through asset misappropriation or financial statement misrepresentation, stakeholders lost some of their investment.

According to the Central Bank of Nigeria (CBN) annual report and statement of account (2008), the Nigerian financial system consists of the CBN, the Nigerian Deposit Insurance Corporation, Securities and Exchange Commission, the National Insurance Commission, National Pension Commission, deposit money banks, microfinance banks, finance companies, bureau-de-change, stock exchange, 1 commodity exchange, primary mortgage institutions, development finance institutions, discount houses, insurance companies and registered insurance brokers.

The Nigerian financial sector entails the totality of regulatory and participating institutions including instrument utilized in the process of financial intermediation (Agbadua, 2002). Extant literature averred that growth in the financial sector would result to growth in the real sector (McKinnon, 1973). Therefore, to the researcher's best knowledge, the financial sector of a country could be a viable tool for measuring the level of development. Although, the Nigerian financial sector is one of the most dynamic and diversified in sub-saharan Africa (International Finance Corporation, 1995); safety and stability of the sector is daily threatened by distress which emanate either from fraudulent practices or inefficiencies. The sector can be distressed when frauds are carried out either at the point of inflows or outflows. When CSR are performed, funds flow out of an entity. Hence, the need for stakeholders to appropriate close marking to Corporate Social Responsibility Disclosure (CSRD) to ensure that such outflows are actually expended on what is disclosed in the annual report.

According to Setyawan and Kamilla (2015), CSRD is a reflection of corporate responsibility beyond shareholders. Again, Dutta and Bose (2008) opined that, CSRD is defined as the process of sharing information about the resources and social performance of a reporting entity. Aside disclosure of information that indicates financial returns, CSRD is another kind of disclosure that facilitates continuous interaction among the economic units within and outside the country. Dutta and Bose (2008) also opined that, disclosures on corporate responsibility issues do not only have the potential to increase stakeholders' wealth but could also be a pointer to the fact that the corporation is well directed and controlled.

Albeit, it is not news that CSRD was reawakened by the blow of environmental disasters in India (1984) and Alaska (1989) respectively, recent business scandals (like Tyco International, Enron, Halliburton, Worldcom) have heightened stakeholders concern towards their investment. These scandals burrowed the pillars of public confidence and created concern for business ethics and governance with particular reference to Nigeria. This study was motivated by the view of Igalens and Point (2009), who opined that CG is presently moving from its conventional focus on agency conflicts to addressing issues that are critical to CSR disclosure such as ethics, accountability, transparency and disclosure. One of the challenge of CSR disclosure in developing countries id the voluntary and unregulated nature. Ironically, some companies are adjusting their reportage to suit global best CG practices in order to attract substantial institutional investment. It becomes vital to examine if the possibility that CG and CSRD are mutually exclusive or otherwise especially in a developing economy with unregulated disclosure practices. More so, developed countries are on the lead with research in response to these scandals, corporate responsibility disclosure and environmental disasters compared to developing countries. To this end therefore, the researchers intend to fill the gap in literature by examining the relationship between some corporate governance structures and CSRD among listed companies in the Nigerian financial sector.

Against the above backdrop, the broad objective of this study is to examine the impact of corporate governance on CSR disclosure amongst companies listed in the financial sector of Nigerian Stock Exchange. The specific objectives of the study are to: evaluate the relationship between board size and CSRD; ascertain the relationship between board gender diversity and CSRD; and assess the relationship between foreigners on the board and CSRD

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Over the years CSR reports are now disclosed alongside financial returns-inclined reports. According to Kolk (2006), CG is a veritable tool for incorporating reports that can significantly influence business decisions. Corporate governance is a set of mechanisms through which outside investors protect themselves against expropriation by insiders (LaPorta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). It can also be regarded as the private and public institutions, including laws, regulations and accepted business practices, which together govern the link in a market economy between corporate insiders and those who invest resources in corporations (Organisation for Economic Cooperation {OECD}, 2001). CG identifies the rights of stakeholders and encourage vigorous cooperation between corporations and stakeholders (OECD, 2001).

According to European Union (2006), CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis. CSRD is the systematic disclosure of social and environmental effects of corporations' economic action to particular interest groups within society and the society at large (Gray, Owen, & Manders, 1987). Corporations in some developed countries mandatorily undertake CSRD unlike those in developing countries that voluntarily disclose CSR in that there are no forceful regulations to that effect. Extant literature abounds with respect to the relationship between diverse corporate governance structures and CSRD. Sahin, Basfirinci, and Ozsalih (2011) conducted a study on Turkish companies listed in Istanbul Stock Exchange. He reported that small board size and the presence of independent directors foster good financial performance. Effendi, Lia, and Yulianto (2012) did a study on Indonesian listed companies and reported that board size, chairman educational background and proportion of independent directors do not have effect on environmental disclosure. Kathyayini and Carol (2012) also conducted a study on the variables and found that institutional ownership, board size, independent directors and board gender diversity have impact on environmental disclosure. However, in consonance with the specific objectives of this study, the following CG structures are considered:

Board Size

The board of directors is to corporations what a rudder is to a ship. The board determines the strategies and policies of corporations in its entirety. The board therefore, is capable of influencing management to display CSR. Studies opined that large board results to greater experience, eases all supervisory functions as well as propelled appropriate disclosures (Xie, Davidson & Dalt 2001 and Halme & Huse, 1997). Again, research has also averred that smaller boards foster quick decisions while larger boards facilitate easy control and accelerate the corporations' worth (Post, Rahman & Rubow, 2011). Sahin, et al, (2011); Yuliana, Purnomosidhi & Sukoharsono (2008); Sulastini, (2007) and Sembiring, (2003) also found that larger board influences more CSRD. There are more mixed results in literature in respect of the relationship between board size and CSRD. Some studies did not find any relationship between the variables (Cheng & Courtney, 2006; Donnelly & Mulcahy, 2008). Astuti (2015) found that board size does not have significant effect on CSRD while in another study, Setyawan and Kamilla, (2015) found that board size did not affect CSRD. Byard, Li and Weintrop (2006) observed a negative association between board size and CSRD. In contrast, some studies reported positive relationship between the variables (Gandia, 2008; Kent & Steward, 2008; Halme & Huse, 1997 and Barakat, Lopez & Rodrigues, 2014). From the foregoing, it is hypothesized that there is no significant relationship between board size and CSR disclosure.

Board Gender Diversity

This is gradually becoming a topical theme in academics in that equal opportunity at the work place is a basic human right. It is not news that the quest to divest board composition is global. In the view of Labelle, Francoeur and Lakhal (2015), countries have been adopting either the coercive, enabling or laissez-faire approach to change board composition. According to study, Financial Times Stock Exchange (FTSE) 100 boards in the United Kingdom should aim at 25% female representation by 2015 while the European Commission set 40% target by 2020 (UK Government, 2013). In Australia, the target of female representation was placed at 22% by 2016 financial year (Australian Stock Exchange, 2010). Previous study stated that women are capable of introducing democratic and communal leadership style (Eagly, Johannsen-Schmidt, & Van Eagen, 2003) to board which may lead to improved effectiveness (Gul, Srinidhi, & Ng, 2003). Mullen (2011) nailed the spot when he averred that corporations with not less than three (3) women in board donated CSR funds more than 28% compared to those without female board members. There have been mixed outcome in past studies with respect to the effect of board gender diversity on CSRD. Some studies have found positive relationship between the variables (Bernardi & Threadgill, 2010; Bear, Rahman and Post, 2010; Campell & Minguez-Vera, 2008; and Frias-Aceituno, Rodriguez-Ariza, & Garcia-Sanchez, 2013). On the other hand, Prado-Lorenzo and Garcia-Sanchez (2010) found that board gender diversity has no significant influence on CSRD. More so, Handajani, Subroto, Sutrisno, and Saraswati (2014) reported a significantly negative association between the variables. Premised on the foregoing, it is hypothesised that there is a significant relationship between board gender diversity and CSR disclosure.

Foreigners on the Board

This structure of governance is keen to CSRD. In this context, foreigners are assumed to be those who are from both developed and developing countries where social and environmental issues receive varying degree of consideration. The assumption is that; their culture will be transferred to the boards that stir this vital economic unit. Studies opined that foreigners on the board will not only improve its efficiency but also have substantial impact on how the firm is directed and controlled (Li & Harrison, 2008 and Ruigrok, Peck, & Tacheva, 2007). Again, Haniffa and Cooke (2002) reported that due to foreigners on the board, there would be need to increase disclosure so as to link the gap occasioned by the culture of directors. Past studies are not devoid of mixed result in terms of the relationship between the variables. Che-Ahmad and Osazuwa (2015) found a positively significant association between foreign directorship and environmental disclosure. Haniffa and Cooke (2002) also found a positively significant relationship between foreign investors and the extent of voluntary disclosure. Khan (2010) also found that voluntary social disclosure was significantly correlated with the proportion of foreigners on the board. In contrast, Barako and Brown (2008), found an insignificant relationship between foreigners on the board and corporate social reporting. Albeit, this study hypothesized that there is a significant relationship between foreigners on the board and CSR disclosure.

3.0 METHODOLOGY

Theoretical Framework and Model Specification

Stakeholder theory is one of the prominent theories used to buttress the relationship between CG and CSRD. This is in line with Wan and Idris (2012) who opined that researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization beyond her shareholders. Stakeholders are those who have interests in the actions of an organization. This theory stipulates that an organization strive to obtain a balance between the interests of her stakeholders so as to achieve an extent of satisfaction (Abrams, 1951). Therefore, organizations' have obligation to ensure that all stakeholders (whether consubstantial, contractual or contextual) receive adequate yield from their stake in the company (Donaldson & Preston, 1995; Rodriguez, Ricart & Sanchez, 2002). Stakeholder's theory is considered in this study in consonance with Rajan and Zinghales (1998) who averred that organizations have to secure the interest of all who are relevant to value creation. Against the above backdrop, we expect a functional relationship between corporate governance and corporate social responsibility disclosure of the form:

$$CSRD_{it} = \beta_i + \beta_1 BDSIZE_{it} + \beta_2 BDGDIV_{it} + \beta_3 FGNRBD_{it} + \mu_{it}$$

Where CSRD = corporate social responsibility disclosure; BDSIZE = Board size; BDGDIV = Board Gender Diversity; FGNRBD = Foreigners on the board
β_i = intercept; $\beta_{1....}\beta_3$ = coefficients; u = error term; t = time dimension of the variables; $\beta_1 < 0$; $\beta_{2\,\&}\,\beta_3 > 0$.

Research Design

The population of the study comprised of companies listed in the financial sector of Nigerian Stock Exchange (NSE). The financial sector is a delicate sector that distinguishes itself in every economy. This study is focused on the financial sector because, it plays a very significant role in the development of the economy. As at 2016, the NSE had fifty-six (56) listed companies in the sector (Appendix 1). This study employed longitudinal research design because it entails repeated observations of the same variables over lengthy period of time in the past. Data for the variables were retrieved from corporate websites and audited corporate annual reports which spanned 2012-2016 with the aid of content analysis. Based on Yamane's (1967) formula with 95% confidence level, forty-nine (49) companies were sampled for this study. The formula is presented as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where; n = the sample size
N = the population size
e = the acceptable sampling error

Substituting numbers in the formula:

$$n = \frac{56}{1 + 56(0.05)^2} = 49 \text{ companies}$$

Panel regression technique was utilized for data analysis. Using the Hausman test, choice was made between fixed effects and random effects estimation. Thus, fixed effect estimation would be preferred if Hausman p-value is less than 0.05 otherwise, random effect estimation would be used. The model for this study is stated as follows:

Operationalisation of Variables

The measurement of variables and apriori expectations are presented in Table 3.1

Table 3.1: Measurement of variables

Variable	Measurement (operational definition)	Source of information	Apriori Expectation
Corporate social responsibility disclosure (CSRD)	CSRD was measured as a ratio of number of CSR items disclosed in annual reports to total items on disclosure check list developed for the study. (appendix II)	Jaggi & Zhao (1996) Cormier, Gordon & Magnan (2004) Chen, Hsie-Liao & Tsang (2017)	
Board size (BDSIZE)	Board size; measured through the number of board members.	Astuti (2015); Setyawan & Kamilla (2015); Byard, Li & Weintrop (2006)	Negative
Board gender diversity (BDGDIV)	Board gender diversity; measured as the number of females on the board	Campell & Minguez-Vera (2008); Bernardi & Threadgill (2010)	Positive
Foreigners on the board (FGNRBD)	Foreigners on the board; measured as the number of foreigners on the board	Che-Ahmad & Osazuwa (2015); Haniffa & Cooke (2002)	Positive

Source: Researcher's compilation (2018)

4.0 ESTIMATION RESULTS AND DISUSSION OF FINDINGS

Table 4.1: Descriptive statistics

	BDGDIV	BDSIZE	FGNRBD	CSRD
Mean	0.075948	9.079625	6.877143	0.677833
Median	0.080000	9.000000	6.810000	0.695652
Maximum	0.400000	17.00000	10.65000	0.956522
Minimum	0.000000	4.000000	3.700000	0.000000
Std. Dev.	0.088613	2.568906	1.311686	0.159753
Jarque-Bera	72.64947	15.02715	11.59275	139.8029
Probability	0.000000	0.000546	0.003039	0.000000

Source: Researcher's compilation (2018)

The descriptive statistics of the data is presented in table 4.1 above. As observed, CSRD has a mean of 0.6778 with maximum and minimum values of 0.96 and 0 respectively. The standard deviation showing the dispersion of the data about the mean is quite low at 0.1597 which further suggest clustering of the firm specific scores around the mean. BDGDIV has a mean value of 0.0759 which suggest that on the average, boards in the sample have about 7.5% of directors as females with maximum and minimum values of 0.40 and 0 respectively. The standard deviation of

0.0886 which reveals the dispersion of the firm specific values from the distribution mean is low and suggests clustering about the mean.

The mean for BDSIZE is 9.079 which indicate the average board size for firms in the sample with maximum and minimum values of 17 and 4 respectively with a standard deviation of 2.56. The mean value for FGNRBD stood at 6.877 which suggest that on the average foreigners on the board for the firms in the sample is about 6.88% with maximum and minimum values of 10.65 and 3.7 respectively with a standard deviation of 1.3117. The Jacque-bera (JB) statistics for all the variables reveal that the series are normally distributed given that the probability for the J.B values are all less than 0.05. This implies the absence of significant outliers in the data.

Table 4.2: Multicollinearity Test

Variable	VIF
C	NA
BDGDIV	4.64891
BDSIZE	4.0002
FGNRBD	1.8089

Source: Researcher's compilation (2018)

According to Iyoha (2004), if some or all of the explanatory variables in a multiple regression analysis are highly inter-correlated, the problem of multicollinearity arises. The Variance Inflation Factor (VIF) statistics will be used to ascertain the presence of multicollinearity. The decision rule being that VIF-statistic above ten (10) indicates multicollinearity, otherwise it does not give cause of concern and observed, none of the variables have VIF's values more than 10 and hence none gave serious indication of multicollinearity.

Table 4.3: Regression Result

	Aprori sign	**RE-Result**	**FE-Result**
C		0.6553* (0.0624) {0.000}	0.7514* (0.0176) {0.0000}
BDGDIV	+	0.1192 (1.2469) {0 .2132}	0.1007* (0.05173) {0.0504}
BDSIZE	-	-0.00222 (0.0033) {0.5373}	-0.0012 (0.0007) {0.1141}
FGNRBD	+	0.0004 (0.0065) {0.9498}	-0.00571* (0.0015) {0.0000 }
AR(1)			0.3921* (0.0488) {0.0000}

R^2	0.0056	0.8272
Adj R2	0.0037	0.7947
F-Stat	0.5992	25.5031
P(f-stat)	0.6634	0.000
D.W	0.9949	1.9
Hausman		0.011
B-G for serial corr.		0.5363
B-P-G for Hetero.		0.1121
Ramsey Test		0.4531

Source: Researchers compilation (2018), ( ) are standard errors; { } are p-values, * sig at 5% ,** sig @ 10%

The result showed a Hausman test p-value of 0.011 which means that, the fixed effects (FE) estimation is preferable to the random effects (RE) estimation and confirms that the unobserved heterogeneity correlated with the betas. The R^2 for the FE estimation stood at 0.8272 which suggest that corporate governance accounts for about 82.7% of the systematic variations in CSRD and this is quite impressive with an adjusted R^2 value which stood at 79.47%. The goodness of fit of the model depicted by the f-stat (25.5031) is significant at 5% (p=0.000) which indicates the existence of a significant linear relationship between the dependent and independent variables. The Durbin-Watson test for first order serial correlation is at 1.9 which suggest that the existence of stochastic dependence between successive units of the errors is unlikely.

The analysis of coefficients reveal that BDGDIV has a positive beta (0.1007) and significant (p=0.0504) at 5%. Hence we accept the hypothesis that board gender diversity has a significant impact on CSRD. This is in line with literature which opined that, the presence of more females on the board is good for CSRD concerns as women tend to be more relational and generous towards communities, employees and the environment (Kruger 2009). Our finding is in tandem with Bernardi and Threadgill, 2010; Bear, Rahman, and Post, 2010; and Frias-Aceituno, Rodriguez-Ariza, and Garcia-Sanchez (2013) that found a significant relationship between the variables. But, this study finding is in contrast with Prado-Lorenzo and Garcia-Sanchez (2010) which found that board gender diversity has no significant influence on CSRD.

The effect of FGNRBD on CSRD was found to be negative (-0.0057) and significant at 5% (p=0.000) which implies that lower presence of foreigners on the board will signal higher CSRD. Hence, we accept the hypothesis that the presence of foreigners on the board has a significant impact on CSRD. The negative coefficient suggests the possibility that a lesser rather than higher number of foreign presence may be instrumental in improving CSRD. Nevertheless, the significance of FGNRBD is supported by Che-Ahmad and Osazuwa (2015), Haniffa and Cooke (2002) and Khan (2010) but in contrast with Barako and Brown (2008).

The effect of BDSIZE on CSRD was found to be negative (-0.0012) though not significant at 5% (p=0.1141). Hence, we accept the hypothesis that board size has no significant impact on CSRD. Our finding is in tandem with Astuti (2015) Setyawan and Kamilla, (2015) but in contrast, with Gandia, (2008); Kent and Steward, (2008); Halme and Huse, (1997) and Barakat, Lopez & Rodrigues, (2014). Looking at the other diagnostics, we find that the Breusch-Pagan-Godfrey test confirms the absence of heteroskedasticity in residuals as the results showed probabilities in excess of 0.05. The

Breusch-Godfrey Serial Correlation test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. Finally, the Ramsey-reset test confirms the absence of specification bias.

5.0 CONCLUSION AND RECOMMENDATIONS

This study examined the impact of corporate governance on CSR disclosure and provision was made to explain the relationship between the variables. The role of CG in directing and formulating corporate strategy is becoming increasingly acknowledged. The aftermath of the failure of some globally recognized corporations like Enron, Worldcom etc in the United States of America and other emerging markets have attracted a lot of attention to CG. Consequently, it is within this context of the enlarged functional space for CG in today's business environment that, their role in influencing CSR practices of companies is being examined. There is a growing expectation that in the spirit of the implied social contract between corporations and the society in which they operate, CG can play a key role in ensuring that organizations uphold socially responsible practices. Upon the application of some statistical tools, the study found significant relationship between board gender diversity, foreigners on the board and CSR disclosure. The study therefore recommends that there is need for increased corporate governance interest in promoting CSR policies.

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APPENDIX I

The following are companies listed in the financial sector of Nigerian Stock Exchange as at December 2016.

1. Abbey Mortgage Bank Plc
2. Access bank plc.
3. Africa prudential Registrars plc
4. African alliance insurance company plc
5. Aiico insurance plc.
6. Aso savings and loans plc
7. Axamansard insurance plc
8. Consolidated hallmark insurance plc
9. Continental reinsurance plc

34. Omoluabi savings and loans plc
35. Prestige assurance co. Plc.
36. Regency alliance insurance company plc
37. Resort savings & loans plc
38. Royal exchange plc.
39. Sim capital alliance value fund
40. Skye bank plc
41. Sovereign trust insurance plc
42. Stanbic IBTC Holdings Plc

10. Cornerstone insurance company plc.
11. Custodian and allied plc
12. Deap capital management & trust plc
13. Diamond bank plc
14. Ecobank transnational incorporated
15. Equity assurance plc.
16. Fbn holdings plc
17. Fcmb group plc.
18. Fidelity bank plc
19. Fortis microfinance bank plc
20. Goldlink insurance plc
21. Great Nigeria insurance plc
22. Guaranty trust bank plc.
23. Guinea insurance plc.
24. Infinity trust mortgage bank plc
25. International energy insurance company plc
26. Lasaco assurance plc.
27. Law union and rock ins. Plc.
28. Linkage assurance plc
29. Mutual benefits assurance plc.
30. N.e.m insurance co (nig) plc.
31. Niger insurance co. Plc.
32. Nigeria enerygy sector fund
33. Npf microfinance bank plc
43. Standard Alliance Insurance Plc.
44. Standard Trust Assurance Plc
45. Sterling Bank Plc.
46. Unic Insurance Plc.
47. Union Bank Nig.Plc.
48. Union Homes Savings and Loans Plc.
49. United Bank for Africa Plc
50. United Capital Plc
51. Unity Bank Plc
52. Unity Kapital Assurance Plc
53. Universal Insurance Company Plc
54. Wapic Insurance Plc
55. Wema Bank Plc.
56. Zenith International Bank Plc

APPENDIX II

These are the annual report social and environmental disclosure codes and description used for this study.

Code	**Description**
SQD	Short qualitative discussion (not in the footnotes and less than a page)
EQD	Extended qualitative discussion (not in the footnotes and a page or more)
LPGm	Labour practices and grievance mechanisms
FA	Freedom of association
FN	Footnote discussion
HE	Healthy work environment
V3	Liability or associated costs cannot be estimated
RGL	Response to government legislation
CMCD	Monetary gifts and donations
EPC	Employment of physically challenged persons
ET	Employee training
CBP	Involvement in community-based projects
SP	Social policies adopted
WPS	Work place safety
DE	Diversity and equal opportunity