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Influence of Corporate Social Responsibility Voluntary Disclosure on Financial Performance of Companies Listed in East Africa

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ABSTRACT

Although, all firms are geared towards profit maximization there is need to engage in non profit making activities which are geared towards cordial relationship between all stakeholders. Information asymmetry has great impact on financial performance since investment decision is based on information availability. Thus, there is need for all listed companies to freely share information on social engagement so as to eliminate speculation. This will minimize information costs and consequently trigger positive financial performance. Currently, the influence of corporate social responsibility voluntary disclosure and how it impacted financial performance of listed companies in East Africa securities exchanges. Regression analysis was applied to analyse secondary data collected from annual financial statements. Positive and significant relationship was reported between social, environmental disclosures and financial performance of listed companies in East Africa securities exchanges.

KEYWORDS: Social disclosure, environmental disclosure, Financial Performance.

1. INTRODUCTION

The primary purpose for all companies is to increase shareholders wealth and maximize their return. Despite of this there is need for corporate to engage in social activities which will promote corporation positive image and foster growth (Crane, Mcwilliam, Matten, Moon & Siegel, 2008). Business engagement in these activities may not be mainly for profit purpose but can be agents to be breach the gap existing amongst stakeholders which may be affected indirectly by company's nature of business operations.

According to stakeholders theory there is need for management to deploy measures and mechanisms which are geared towards strengthening relationship between business entity direct and indirect partners (Barnett & Salomon, 2012). These stakeholders may have differing interest within a company for example employees are mostly interested with their welfare, suppliers and creditors are mostly interested with firms going concern capabilities and external parties such as neighbors are concerned about cordial existence of they and the corporate. All these may have impact of how an organization performance (Delmas & Toffel, 2008). Business entity should strive to cultivate a culture of positive coexistence and always promote maximization of shareholders wealth.

Although, there are different authors who have empirical examined the relationship between corporate social responsibility and financial performance, contextual inconsistencies have characterised these studies. There are some studies which have registered positive and significant relationship while others have reported inverse and curve linear relationship. Despite of all these, none of these studies there exists a knowledge gap on the relationship between corporate social responsibility and financial performance amongst those companies which hails from East Africa securities exchanges. Sharing of information to members of the public freely minimize the level of information asymmetry. Since there are some costs which have to be incurred while accessing these information its elimination may trigger positive information amongst different stakeholders who are involved in the running of listed companies. It is imperative to note that media and publicity may not be shareholders of listed companies but their stake on influencing financial performance cannot be ignored. Therefore, the current study sought to examine the influence of corporate social responsibility voluntary disclosure on financial performance of companies listed in East Africa securities exchanges. The main objective of the study was to establish the influence of social transparency disclosure on financial performance of listed companies in East Africa. Specifically, the study seeks to:

1. Establish the influence of social transparency disclosure and financial performance of companies listed in East Africa securities exchanges.

2. Determine the influence of environmental disclosure on financial performance of companies listed in East Africa securities exchanges.

2. REVIEW OF RELATED LITERATURE

An investigation of the impact of corporate social responsibility of financial performance of listed companies in Pakistan was brought forth by Kanwal, Khanam, Nasreen & Hameed (2013). The study adopted correctional research design and sample 15 firms which were listed in Karachi securities exchange for the period from 2008 to 2012. Descriptive and inferential statistics were used to analyse the data. Results of the study revealed positive and significant relationship between corporate social responsibility and financial performance. It would have been appropriate for the study to carry out diagnostic tests prior to drawing conclusion from the study data.

A study by Giannarakis, Konteos, Zafeiriou and Partalidou (2016) investigated the impact of corporate social responsibility on financial performance amongst companies hailing from United States. In this study corporate social responsibility was operationalized into three aspects which were social, governance and environmental. Correlational research design was adopted and secondary data was retrieved from annual financial statements. Fixed effects regression analysis revealed positive and significant relationship between social, governance and environmental disclosure on financial performance of US based companies from 2009 to 2013. Although, fixed effects regression was fitted it was appropriate to carry out granger causality of the study variables.

An Indian case to investigate the effect of social responsibility on financial performance of listed companies was put forth by Kamatra and Kartikaningdyah (2015). Quantitative research design was adopted and a sample of 24 listed companies from 2009 to 2013 was considered. Secondary data was collected from annual financial statements and analysed using multi linear regression analysis. Results of the study revealed positive and significant relationship between corporate social responsibility and financial performance of listed companies. Although, the data was panel in nature the study adopted regression analysis without carrying out diagnostic tests.

A Nigerian study investigating the effect of corporate social responsibility on financial performance of manufacturing companies was put forth by Enahoro, Akinyomi & Olutoye (2013). The study adopted descriptive research design and 20 firms were selected purposively from 2002 to 2011. Secondary data was collected from annual financial statements of listed companies. Correlation and regression analysis were used to analyse the data. Results of the study revealed positive and significant relationship between corporate social responsibility and financial performance of listed companies. It would have been very appropriate to carry out diagnostic tests prior to fitting regression model. Moreover, the most appropriate design was panel since the data was panel in nature.

An investigation on the impact of corporate social responsibility on banking financial performance in Nigeria was brought forth by Maduga and Okafor (2016). Correlation research design was applied and secondary data collected from annual financial statements of commercial banks from 2010 to 2014. Simple linear regressions were fitted to examine the relationship between return on capital employed, earnings per share, dividend per share and corporate social responsibility. Results of the study revealed inverse and significant relationship between EPS, DPS and corporate social responsibility. There was a positive and significant relationship between corporate social responsibility and return on capital employed.

An investigation on the impact of corporate social responsibility on commercial banks performance was brought forth by Ngari (2016). The study adopted descriptive research design and census approach of 39 licensed commercial banks operating in Kenya. Secondary data was collected from annual financial statements for period 2011 to 2015. Correlation and regression analysis were used to analyse the data. Results of the study revealed positive and significant relationship between corporate social responsibility and financial performance of commercial banks in Kenya.

Khurshid et al., (2017) investigated the impact of corporate social responsibility on financial performance of companies listed in Karachi securities exchange. Correlational research design was adopted and a sample of 120 non financial listed companies was selected. Secondary data was collected from annual financial statements for period 2009 to 2014. Regression analysis was used to analyse the data. Results of the study revealed positive and significant relationship between corporate social responsibility and financial performance and this relationship was partially mediated by intellectual property rights.

3. DATA AND METHODOLOGY

Research Design

A research design is schematic guideline showing how the research questions will be answered in a study (Kombo & Trump, 2016). Currently, correlation research design was adopted. According to Oso and Onen (2009) correlation research design is appropriate whenever the researcher seeks to examine causal effects between the study variables. This design was appropriate since the study sought to examine the causal effect between corporate social voluntary disclosure and financial performance of companies listed in East Africa securities exchange. Past studies such as Tarus and Omandi (2013), Githira and Nasieku (2015) and Ndili and Muturi (2015) applied similar design on their studies.

Target Population

According to Kothari (2011) a study target population refers to a complete enumeration of all the individuals under consideration. In the current study the target population consist of 65 firms listed in Nairobi securities exchange, 16 firms listed in Uganda securities exchange, 24 firms listed in Daresaalam securities exchange, and 7 companies listed in Rwanda Securities Exchange which have been listed from 2006-2015 were considered. Any cross listed firm were considered only in its home country to avoid duplication of the study variables.

Table 3.1 Distribution of Ccompanies per Country

Country	Number of companies
Kenya	65
Rwanda	7
Tanzania	24
Uganda	16
Total	**112**

Sample Procedure and Sample Size

According to Oso and Onen (2009) sampling is the processing a subset of the target population to be its true representative in the study. In the current study non-probabilistic sampling technique will be used to select the companies to be included in the study. Mugenda and Mugenda (2012) argued that non-probabilistic sampling techniques are used to select individual through subjectively defined methods whereby the researcher defines the minimum inclusion criteria in a given study. Purposive sampling was used select companies which have been quoted for last 10 years in the east African stock exchanges among 51 companies which have been quoted in Nairobi securities exchange, 16 companies quoted in Uganda securities exchange, 7 companies which has been quoted in Rwanda Securities Exchange and 24 companies listed in Daresaalam securities exchange between 2006 to 2015. In total 80 listed companies were considered yielding 70% of the target population. Mugenda and Mugenda (2012) argued that in social science a sample size of 10% is sufficient for the study.

Table 3.2: Sample Size

Country	Number of companies
Kenya	51
Rwanda	3
Tanzania	15
Uganda	11
Total	**80**

Data Collection Instrument

The study used secondary data drawn from financial report of listed firms. Therefore, the main data collection instrument for the secondary data was document disclosure check index on the specific study variables. Scoring approach was used on all the items as provided in the transparency index from which an overall score was calculated, if a company has provided the information it gets one (1) otherwise it will be awarded zero(0). Level of disclosure for every item will be calculated as:

$$\text{Level of disclosure} = \frac{\text{Actual items disclosed}}{\text{Total possible items in the index}}$$

Data Processing and Analysis

Data analyses include sorting, cleaning and organization of data collected from respondents in its raw form. This study adopted both qualitative data analysis. The analysis was based on research hypotheses and specific objectives of the study. Quantitative data was analysed using electronic software, STATA version 12 and presented in tables. Regression and correlation analysis were used to analyse the data. The regression model in the study was as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2\,it} + \acute{\varepsilon}.$$

Where; Y_{it} represent financial performance

X_{1it} represent Social Disclosure for firm i in period t

X_{2it} represent Environmental Disclosure for firm i in period t

$\acute{\varepsilon}$ represent error term.

4. RESULTS AND DISCUSSION

As shown in Table 4.1 the average return on asset was 9.9% with a minimum loss of 70% and maximum profit of 58%. Further the distribution was skewed to the right since the skewness coefficient was 0.196; the data was not normally distributed because the p value for Jarque Berra was less than 0.05. Although, there were fluctuations on financial performance as accounted for by standard deviation of 0.127, the ventures were generally profitable and they gave returns to investors. The average social voluntary disclosure was 89%, with a maximum of 100% and minimum of 2%. Regarding, environmental disclosure the average was 68% with a maximum of 88% and some firms did not disclose their environmental policy in some periods.

Table 4.1: Descriptive Statistics

	Financial Performance	Social Disclosure	Environmental Disclosure
Mean	0.099	0.89	0.68
Maximum	0.58	1	0.88
Minimum	-0.7	0.02	0.00
Std. Dev.	0.127	0.91	0.84
Skewness	0.196	-2.44	-2.70
Kurtosis	8.07	2.29	1.78
Jarque-Bera	785.26	967.53	587.82
Probability	0.00	0.00	0.00

Correlation Analysis

Pair wise correlation was carried to identify the strength of the relationship between variables. There was a positive and significant relationship between social disclosure and financial performance (rho = 0.62, p value <0.05). Secondly, there was a positive and significant relationship between environmental disclosure and financial performance (rho = 0.59, p value <0.05). This implies that an increase in corporate social disclosure increased financial performance of companies listed in East Africa securities exchanges.

Table 4.2: Correlation Analysis

	Financial Performance	Social Disclosure	Environmental Disclosure
Financial performance	1		
Social Disclosure	.62**	1	
Environmental Disclosure	.59**	.23	1

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

Regression Analysis

Fixed effects regression was fitted to show the nexus between corporate social transparency and financial performance of companies listed in East Africa securities exchanges. Results of the study revealed that 34% of the variations in financial performance can be explained by financial social disclosure and environmental disclosure while the remaining percentage can be explained by other factors which were excluded in the model. The relationship was significant and at least one of the slope coefficients was non zero since F statistics was 34.05 and p value of 0.00.

The first objective of the study sought to examine the influence of social disclosure on financial performance of companies listed in East Africa securities exchanges. Results of the study revealed that there was a positive and significant relationship between social disclosure and financial performance of companies listed in East Africa securities exchanges (β= 0.46, t=- 2.56, p value <0.05). This implies that a unit change in social disclosure while holding environmental disclosure constant increased financial performance by 0.46 units.

The second objective of the study sought to determine the influence of environmental disclosure on financial performance of companies listed in East Africa. Regression analysis revealed positive and significant relationship between environmental disclosure and financial performance of listed companies in East Africa securities exchange (β= 0.21, p value <0.05). This implies that a unit change in financial performance.

The finding on social transparency and financial performance come in handy with MolenKamp (2005) who found that social transparency was a show of innovativeness and customized way in which stakeholders enjoy benefits for a long term. This is due to the increase in esteem created by the shared reports which further gives company a competitive advantage over the rest thus increasing their performance. Similarly, Tsoutsoura (2004) investigation of standard and poor's 500 firms, reported that corporate social responsibility disclosure gave one bottom line of benefits to the stakeholders and may act as an attractive package that would push many to consume the companies' products or services.

Moreover, Brammer and Millington (2008) observed that companies stood to gain non-financial benefits like managerial benefits, once they employ their resources to socially responsible activities to serve the stakeholders. Despite this, other studies rooted in neoclassical economics argue that firm's costs are raised unnecessarily when a firm engages in corporate social responsibility (Tarus & Omandi, 2013). Further, the study mirrored the sentiments on the examination of corporate environmental disclosure by Lyon and Maxwell (2007) found that firms that are likely to engage in social transparency will have long term advantages in enhancement of company image and loyalty of the customer. In performance, this can be considered a powerful strategy of finding solutions to social problems. Lyon and Maxwell argued that firms that are likely to have partial disclosure produce positive environmental and social outcomes. When a firm engages in social transparency, benefits include bringing the market closer to state of common knowledge that improves market efficiency, rewards through indirect tax allowances and maintenance of the goodwill of stakeholders.

Further, the results of the study connect well with a study conducted in Nigeria on CSR disclosure and profitability by Abiodun (2012). Abiodun warned that there was need for sensitization in the use of CSR aimed at improving performance since relationship does not necessarily imply causation. This view was also upheld by Mujahid and Abdallah (2014) who averred that CSR has direct relationship with the shareholders wealth. This would be achieved effectively when the CSR are suited to fit societal needs that in future would create a greater impact. Murtaza et al., (2014) in Pakistan adds that study of this kind need to be so frequent since ethical issues continue emerging and most company are judge by the public by the way they engage in CSR which can only be recognized when communicated as and when they happen. Continued focus on CSR creates an importance and more will be sought from companies. So, the earlier the companies embrace them the better place the stand to gain much even financially.

Table 4.3 Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.25	0.52	0.49	0.000
Social Disclosure	0.46	0.18	2.56	0.000
Environmental Disclosure	0.21	0.08	2.58	0.000
R-squared	0.35	Mean dependent var		0.099
Adjusted R-squared	0.34	S.D. dependent var		0.127
S.E. of regression	0.082	Akaike info criterion		-1.81
Sum squared residuals	6.25	Schwarz criterion		-1.44
Log likelihood	236.56	Hannan-Quinn criter.		-1.15
F-statistic	34.05	Durbin-Watson stat		2.12
Prob(F-statistic)	0.00			

5. CONCLUSION AND RECOMMENDATIONS

Based on the study findings it would be imperative to conclude that corporate social responsibility transparency has influence on financial performance of listed companies in East Africa securities exchanges. In fact, 34% of the variations in financial performance can be attributed to social and environmental disclosure. Corporate engagement in social activities has an impact of creating its awareness and enhances sense of associations from the locals. In the current situation, there is an intensified campaign on the need to promote national habitats through planting of trees. Therefore, corporate engagement on environmental activities may signal acceptance of a responsibility to promote maintenance of their surrounding environment. Human beings are perceived to be social beings and they should interact freely. Therefore, corporate organization disclosure on the nature of activities which they have engaged in while supporting social activities may create a culture of cohesiveness and togetherness amongst employees. Although, it is not a regulatory requirement for listed companies to disclosure information freely to members of the public there is need to embrace the culture of sharing information freely to members since this would create a sense of association. More so when companies attend to needs which are currently facing the society. There is need to select specific sectors of listed companies and compare the extent of their involvement in corporate social responsibility and examine which sectors they have specialized at.

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