The Impact of Company Size on Corporate Social Responsibility: Empirical Evidence from a Developing Economy

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Abstract

Corporate social responsibility is a company's way of expressing good citizenship and managerial stewardship of the firm's resources to pursue the common good. The determinants of corporate social responsibility have been studied for some time now however most of the studies emphasize developed economies. This study investigates the determinants of corporate social responsibility in a developing economy with special emphasis on the impact of firm size on corporate giving in a developing economy. Understanding the role of company characteristics on corporate social responsibility (CSR) have increasingly become important in the recent years. Using 2013 data from companies listed in the financial sector of Nigerian Stock Exchange, an empirical analysis was performed to determine whether the size of company significantly impact the company's involvement in CSR in Nigeria. The results show that company size is a significant determinant of CSR in Nigeria.

***Keywords*:** Community Relations, Corporate Culture, Executives, Social Responsibility, Corporate Governance, Corporate Charitable Contributions.

JEL Classification: M14

1. Introduction

Corporate social responsibility is a company's way of expressing good citizenship and managerial stewardship of the firm's resources to pursue the common good. Through social disclosure the firm gives account of its corporate social activities to all parties affected by its activities in their financial statements. The determinants of corporate social responsibility have been studied for some time now however most of the studies emphasize developed economies. This study investigates the determinants of corporate social responsibility in a developing economy with special emphasis on the impact of firm size on corporate giving in a developing economy.

Perceptions of businesses in Nigeria have generally been negative in recent years as the public questioned the involvement of businesses in enhancing the standards of living of their communities. Researchers have expressed concern about the prevalent shortage of corporate commitment to ethical behavior (Wild, Cant, & Niekerk, 2013), and the poor appreciation of the importance of CSR (Ndu, & Agbonifoh, 2014). According to Adeyanju (2012), many corporations are more concerned about what they can take out of the society, and tend to deemphasize the need to give back to their communities. Since corporations' directors and other executives have responsibilities to owners, and the communities they operate in, researchers have studied the effects of corporate governance such as the composition of the directors and executive officers on the company's CSR. Large companies play significant roles in developing economies. They also serve as role models for other businesses in the countries. Considering this, understanding the role of company size on a company's willingness to participate in corporate social responsibility (CSR) have increasingly become important in the recent years. CSR has long been debated and generally suggested to contribute to the performance of corporations.

CSR has been shown to be critical in creating and maintaining valuable relationships with several of the company's stakeholders (Hillman & Kein, 2001; Brammer & Millington, 2006). Alshammari (2015) argued that a firm can best benefit from CSR activities when it has a good reputation among major stakeholders. In Nigeria, companies, especially listed companies are beginning to report specific corporate social activities in their annual reports though the recognition, manner and style of CSR in annual financial reports are not standardized (Kuye, Fagboro, & Akerele, 2014). In addition, information about corporate charitable donations are made public by both companies and news media however in Nigeria CSR is still underreported (Nwagbara, 2014). This has led to enormous publicity and visibility for the companies involved. Gove and Janney, (2011) suggested that firms can benefit from CSR enhanced reputation when faced with major scandals. Some researchers argue that companies that are poor in corporate social activities have made more charitable contributions than companies that are more socially responsible (Chen, Patten, & Roberts, 2008).Though these benefits accrue to companies by being involved in corporate charitable activities, there are other views that the visibility created by corporate charitable activities exposes the company to more scrutiny by external stakeholders (Bramer & Millington, 2006) leading to increased levels of regulation. This paper studies the relationship between company size and CSR in a developing economy. Using 2013 data from companies listed on the Nigerian Stock Exchange, an empirical analysis is performed to determine whether the size of a company impacts the company's involvement in CSR.

2. Literature Review

Interest in CSR continue to persist long after it was brought to the forefront of research by Bowen in the 1950's (Carroll, 1999). The concept of CSR has numerous interpretations. Corporate social responsibility has to do with an organization going out of his way to initiate actions that will impact positively on its host community, its environment and the people generally (Adeyanju, 2012). Measurement of CSR is not an easy task because of these diverse definitions of CSR. In addition, many of the definitions of CSR involves activities that cannot be objectively measured including employee relations, environmental attitude, community involvement, and provision of safe products. Turban and Greening (1999), defined CSR as a construct that emphasizes a company's responsibilities to multiple stakeholders, such as employees and the community at large, in addition to its traditional responsibilities to economic shareholders (Chen & Delmas, 2011). Helg (2007) defined CSR as the set of standards to which a company subscribes in order to make its impact on society. All of the definitions agree that corporate social responsibility is in the company's strategic interest. The measurement of a company's involvement in corporate social responsibility is difficult. Some studies used surveys to measure CSR while others use company contributions. In advanced economies, more specialized indexes are used to measure a company's CSR for example, the KLD index, and Fortune Reputational Survey in the United States.

Studies dealing with the determinants of corporate social responsibilities have explored various aspects of corporate performance and organization to determine which factors contribute to corporate participation in CSR. Chi, Chi, and Chen (2010) studied the factors that determine a corporation's involvement in CSR using data for 520 financial firms in 34 countries, between 2003 and 2005. They found that the size of the corporation, market competitiveness, level of legal enforcement, self-regulation within the financial industry, cooperative employer/employee relations, and macroeconomic environment increased corporate involvement in CSR while stronger shareholder rights tended to reduce involvement in CSR. In a study using data from India, Kansal, Joshi, &Batra (2014) derived a similar result for corporate size. Their results also show that a company's industry affiliation and profitability significantly influence CSR reporting.Hyun, Yang, Jung, andHong (2016) studied the composition of the board of directors in the United States and found that the number and percentage of female membership on the board of directors positively affected corporate social responsibility. In studying the effect of independent members of the board of directors, they also found that the percentage of female independent members of the board of directors positively affected corporate social responsibility.Chang, Oh, Park, and Jang, (2015) also studied the role of board of directors composition and found that the percentage of independent members of the board positively impacted corporate social responsibility.

The concept of CSR has been generally accepted in almost all countries and some components of CSR have been identified including economic, legal, ethical, and philanthropic responsibilities (Rowe 2015). In Nigeria, economic responsibility still gets the most emphasis while philanthropy is given second highest priority, followed by legal and then ethical responsibilities (Adeyanju, 2012). In Nigeria, corporate social reporting is still largely voluntary and companies exercise considerable control over the choice to report or disclose their CSR related activities (Ebiringa, Yadirichukwu, Chigbu, & Ogochukwu, 2013).

The emphasis of this paper is philanthropic responsibility because of the difficulty of measuring the other three components. In particular, we study the effect of company size on company charitable donations.

3. Methodology

This study uses the quantitative method to estimate the impact of company size on company charitable contributions in Nigeria. The sample for this study consists of all 192 companies listed on the Nigerian Stock Exchange with annual reports for 2013. Because some of the companies did not have complete information, the final sample included 76 companies. The selection of these companies was based on data availability for the study. Since the companies are required to provide audited reports annually, the data were assumed to be credible. The selection of 2013 was mainly because it was the latest year in which most of the financial companies submitted their reports. These financial reports were obtained from the websites of the companies, and from the website of the Nigerian Stock Exchange. Since the companies were not required to report detailed corporate social activities, some of the companies did not report any activity. Moreover, while some of the companies expressed their performance in the area of CSR, they did not provide detailed information to enable their measurement. This limitation led us to use corporate monetary contributions as a measure of CSR. Adeyanju (2012) showed the importance of philanthropy in the Nigerian CSR case.

3.1 Dependent Variable

The dependent variable is DONATE measured as the amount of charitable donations made by the corporation in 2013. The average donations made by the companies in our sample were 95.17 million naira with a range of 0 naira to 856 million naira. Researchers have used different measures to represent CSR, particularly reporting. CSR reporting has been measured as the number of word count, number of sentences, or number of pages of the report (Majeed, Aziz, & Saleem, 2015), however the volume of report may not be representative of the actual amount of CSR involvement. This study uses the amount of monetary charitable contributions made by the company in 2013 because of the difficulty in using subjective measures such as the length of CSR involvement reported by the company since that can be easily manipulated. Using the actual amount of money contributed, while being an objective measure has some limitations because it assumes that all of a company’s involvement in CSR is captured in donations. This is not necessarily correct because some aspects of CSR do not involve the disbursement of money.

3.2 Independent Variables

The independent variables for this study include corporate size and four control variables. SIZE is measured as the company’s total assets in Nigerian naira (N1 = $164.38, 2013), while the control variables are SUBS measured as the number if subsidiaries operated by the company at locations different from the head office, EXTLBOD measured as the percentage of board members who are not shareholders in the company, PROF measured as the return on assets, and RISK measured as the debt ratio.Table 2 shows the descriptive statistics for the variables.

Table 2Descriptive statistics

Variable	Mean	StDev	Minimum	Maximum
DONATE*	95.17	171.48	0.00	856.00
SIZE*	215,910.31	491,959.80	628.28	2,642,296.00
PROF	0.54	3.72	-0.17	29.14
RISK	0.70	0.68	0.01	5.62
SUBS	1.87	2.73	0.00	18.00
EXTLBOD	34.64	24.60	0.00	82.00

1 USD = 160.38 NGN (2013). *Values in millions of naira.

SIZE is a measure of the size of the company and is defined as the company’s total assets in 2013. The mean of the total assets was 215,910 million naira. The effect of company size has been studied in developed economies extensively however evidence on the effects of company size on corporate social responsibility in Africa is still scarce. Very few studies have been conducted on the effect of company size using data from developing countries and Nigeria in particular.

EXTLBOD is defined as the percentage of external members of the board of directors. This represents the percentage of the membership of the board of directors that are not shareholders in the company. The maximum percentage of external directors was 82% while the minimum was 0% with a mean of 34.64%. ROA is the return on assets which is a measure of the profitability of the company. This is calculated as net income divided by total assets. The mean return on assets was 0.54. Profitability is expected to have a positive effect on a company's involvement in corporate social responsibility since the company has the resources to make charitable donations. RISK is a measure of company riskiness. It is defined as the ratio of total debt to total assets. This variable has a mean of 0.70. It is expected that companies with high debt ratios would be less likely to make monetary contributions in their communities.

SUBS represents the dispersion of operations measured as the number of subsidiaries owned by the company at locations different from the head office. The average number of subsidiaries was about 2. It is anticipated that the number of subsidiaries operated by the company would have a positive effect on corporate charitable contribution. This is more so if the subsidiaries are located at different locations from the mother company. Dispersed companies are in more communities and therefore are expected to be involved in more communities than companies without subsidiaries.Pearson's correlation analysis was performed using the dependent and independent variables. The results of the correlation analysis are presented in Table 2. The result shows that the independent variables were generally not highly correlated with each other except for COMPL and SIZE. This correlation was expected to be high because many of the large companies have more subsidiaries. When two or more independent variables are significantly correlated, one way to deal with it is to drop one of the variables. Since multicollinearity does not bias the estimates we decided not to drop one of the variables because the impacts of both variables are of interest to this study. Given these values we suspect that multicollinearity was not a major problem.

Table 2Pearson's correlation analysis

	DONATE		SIZE		PROF	RISK	EXTBOD
SIZE	0.482	***					
	0.00						
PROF	0.397	***	-0.049				
	0.00		0.67				
RISK	-0.042		0.080		0.022		
	0.72		0.49		0.85		
EXTBO	0.285	***	0.137		0.092	-0.164	
	0.01		0.24		0.43	0.16	
SUBS	0.276	**	0.667	***	0.141	0.062	0.180
	0.02		0.00		0.23	0.60	0.12

***p<.01, **p<.05

4. *Econometric Model and Results*

This paper seeks to estimate the effect of corporate size on CSR. A cross-sectional data was used for this analysis. Multiple regression analysis was utilized for this analysis. The regression model is specified as:

$DONATE_i = \alpha_0 + \beta_1 SIZE_{i1} + \delta_1 PROF_{i1} + \delta_2 RISK_{i2} + \delta_3 SUBS_{i3} + \delta_4 EXTLBOD_{i4} + \varepsilon_i$

Where α_0 is the constant term, $\beta_i$is the estimated parameters for company size variable δ_i are estimated parameters for the control variables, and ε is a random error. SIZE, PROF, RISK, SUBS, and EXTLBOD are as defined earlier.

4.1 Results

The results of the regression analysis are presented in Table 3. The regression model explained 44% of the variations in corporate charitable contributions by companies listed on the Nigerian Stock Exchange (R = 44.02%, F = 12.8, p < .01). The results show that out of the four control variables used three, company profitability (β_1 = 27,645.00, p < .01), EXTBOD (β_1 = 1,668.00, p < .05), and SUBS (β_1 = -21,849.00, p < .05), impact corporate charitable contributions. Company profitability is positively related to corporate contributions. Profitable corporations have more financial resources for charitable contributions (Youn, Hua, & Lee, 2015). Corporate riskiness was not significantly related to corporate charitable contributions.

Table 3Regression results for determinants of corporate social responsibility

Term	Coef		SE Coef	T-Value	P-Value
SIZE	0.000324	***	0.000059	5.48	0.000
PROF	30,220.00	***	6,028.00	5.01	0.000
RISK	-20,864.00		32,033.00	-0.65	0.517
SUBS	-21,849.00	***	10,457.00	-2.09	0.040
EXTBOD	1,668.00	***	786.00	2.12	0.037
R2	44.02%				
F-value	12.8	***			

$^{***}p<.01$, $^{**}p<.05$, $^{*}p<.10$

The variable of interest in this study is SIZE. Company size variable, SIZE, was significantly related to the amount of corporate charitable contributions made by companies listed on the Nigerian Stock Exchange in 2013 ($\beta_1 = 0.000324$, $p < .01$). This implies that larger companies tend to contribute more toward their charitable causes that smaller corporations in Nigeria. This is consistent with previous studies that show that there is a positive relationship between company size and corporate social responsibility (AL-Shubiri, 2010; Cominetti, Poddi, & Vergalli, 2013; Youn, Hua, & Lee, 2015; Uwuigbe, 2011). There is no consensus on the reason for this effect of size on corporate social contribution however one can assume that larger companies have the resources to contribute more money to their communities. Larger companies have both material and human resources to make an impact on their communities also. Larger companies tend to be more concerned with their corporate image since they are more visible to external stakeholders who constantly demands for a higher corporate social environmental performance (Uwuigbe, 2011). In addition, 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 (Uwuigbe, 2011). It is possible that because the larger companies are regulated more closely than smaller companies, and are more in the public view, they are forced to participate more in CSR (Ebiringa, Yadirichukwu, Chigbu, & Ogochukwu, 2013).

Previous studies of the relationship between corporate social responsibility and company size in Nigeria used company CSR disclosure as their dependent variable. Ebiringa, Yadirichukwu, Chigbu, and Ogochukwu, (2013) studied 20 companies listed in the oil and gas sector of the Nigerian stock exchange and found that size was not a significant determinant of CSR disclosure. In their study using data for 31 companies in the financial sector of the Nigerian Stock exchange, Uwuigbe, (2011) obtained a conflicting result, finding company size to be a significant determinant of corporate social responsibility disclosure.

Profitability is positively associated with corporate social responsibility. Profit provides companies with resources which can be reinvested in corporate activities or distributed to owners in form of dividends. Since investment in society is sometimes seen as a corporate goal, and believed to have some effect on the public's perceptions about company, It is in the company' interest to contribute more to society when its profit is higher. The number of subsidiaries is negatively associated with the amount of corporate social contributions made by the company. This result was not expected however an explanation may be that as the company spreads into different branches, its commitment to the branch societies diminish hence its corporate social contributions diminishes. The percentage of external members on the board of directors is positively associated with corporate social contributions. This is consistent with previous literature in this area which show that the number of independent directors positively affected corporate social responsibility (Chang, Oh, Park, & Jang, 2015).Hyun, Yang, Jung, and Hong, (2016) suggested that this is so because independent directors have fiduciary duties to shareholders, as a guardian of shareholder interests preventing the use of firm resources for purposes other than increasing shareholder wealth, and are expected to ensure that the firm is compliance with regulatory standards, which are often related to CSR issues. They argued that increased board capacity, which is likely to be attributed to the increase in the number of independent directors, tends to improve the firm's CSR performance.

5. Conclusion

The purpose of this study was to determine the role of corporate size on corporate social responsibility, particularly corporate charitable contributions among corporations listed in the financial sector of the Nigerian Stock Exchange.

Five independent variables were included in the analysis consisting of four control variables and company size variables. Company size was found to be positively related to corporate charitable contribution. This study highlighted the need for more research on the role of company size on corporate social responsibility. This is important because it could provide proponents of corporate social responsibility with tools to properly evaluate companies' involvement in CSR.

This study contains some limitations. Data for this study was obtained from the financial sector of companies listed on the Nigerian Stock exchange therefore the results may not be applicable to other companies. Another limitation is that corporate social contributions were used as a measure of CSR. This measure does not capture the roles of companies that perform other forms of CSR such as encouraging their workers to perform voluntary work, or operating in a clean environment.

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