



**THE ROLE OF CORPORATE GOVERNANCE ON CSR
DISCLOSURE AND FIRM PERFORMANCE IN A VOLUNTARY
ENVIRONMENT**

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THE ROLE OF CORPORATE GOVERNANCE ON CSR DISCLOSURE AND FIRM PERFORMANCE IN A VOLUNTARY ENVIRONMENT

ABSTRACT

Purpose: This study investigates the impact of corporate social responsibility disclosure (CSR) on firm performance and the moderating role of corporate governance on the CSR-firm performance relationship of listed companies in Nigeria.

Design/methodology/approach: The paper uses a panel dataset comprised of 841 firm-year observations for the period covering 2007-2016. Fixed effect regression analysis was used to examine the relationship between CSR and firm performance, and the moderating role of corporate governance in the CSR-firm performance relationship.

Findings: The results of the study show that there are positive performance implications for firms that engage in CSR. Although we find no effect of board size on the CSR-firm performance relationship, we provide strong evidence of a positive effect of board independence on the CSR-firm performance relationship.

Theoretical and Practical Implications: The study contributes to the understanding of CSR-firm performance relationship by providing evidence of the moderating role of corporate governance. It is, therefore, recommended that a stronger regulation be put in place for CSR engagement and the disclosure of same in Nigeria as well as robust measures for the enforcement of corporate governance mechanisms as there are economic benefits to be derived.

Originality/value: The findings contribute to the literature by providing up-to-date and original insights on the CSR-firm performance link within a developing country context. It also employs an uncommon method of measuring CSR, taking into account the institutional biases that may arise from other methods employed in studies on developed countries.

Keywords Corporate governance, CSR disclosure, board size, board independence, firm performance, Nigeria.

Introduction

Corporate social responsibility (CSR) continues to be an issue of interest to a diverse range of stakeholder groupings. This is largely because it is the primary means of ascertaining the extent of an organisation's contribution to the welfare of its environment. Consequently, interest in CSR has grown in the literature as firms continue to consider means of simultaneously pursuing economic profits and contributing to societal well-being (Oh, Hong, and Hwang, 2017). One way of being accountable to society and stakeholders is for organisations to engage in CSR practices and disclose the outcome of those practices. Corporate social responsibility disclosure (CSRSD) entails communicating CSR outcomes which helps to legitimise organisations' activities.

An organisation's profitability, as well as its existence, could be affected by its form and extent of CSRSD which can be driven by the governance structure in place. Corporate governance is premised on the need to reduce the dichotomy and asymmetry that exist between the principal (shareholders) and agents (management) in an organisational setting. Due to the principal-agent conflict posed by the separation of ownership from control, agency theory was introduced by Jensen and Meckling (1976) as a lens through which corporate governance can be viewed. This theory suggests that agents, as individuals, can be self-interested and opportunistic (Aguilera, 2005) and less likely to protect the principals as owners in terms of their interests, but rather pursue their personal gains, including risk avoidance, financial manipulation for compensation, optimization and embezzlement of corporate resources (Dey, 2008).

CSR can be utilised as a tool by managers to foster their personal interests which might negate those of the shareholders. The strength of the corporate governance mechanisms in place would serve to either forestall or encourage the achievement of managers' individualistic interests in the utilisation of CSR decisions. This, therefore, portrays that the financial outcome (profitability) of CSR activities and their attendant disclosures could be affected by the nature

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3 and effectiveness of the corporate governance mechanisms that exist in the organisation.
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5 Therefore, in aiding a concise understanding of the relationship that exists between CSRD and
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7 financial performance, it becomes expedient to analyse the moderating effect of corporate
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9 governance on the aforementioned relationship.
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12 In Nigeria, CSRD in annual reports is not a mandatory process, hence acting in a socially
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14 responsible manner is not necessarily guaranteed. Despite this voluntary regime, it has been
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16 observed that some listed companies in Nigeria have decided to engage in CSR activities and
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18 disclose this in their annual report. It is therefore imperative to examine the effect, if any, of
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20 CSRD on the performance of companies in Nigeria. In addition to the voluntary system,
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22 Nigeria, like most developing countries, is plagued with weak institutions, poor governance
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24 practices, weak enforcement agencies and corrupt practices (Adegbite, 2015, Amaeshi et al.,
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26 2016; Chijoke-Mgbame and Mgbame, 2018). These shortcomings in the system no doubt
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28 provide an enabling environment for firms not to engage in CSR activities and also not to
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30 disclose the same in any format. Nonetheless, some companies have decided not to capitalize
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32 on the loopholes in the system, but have gone ahead to engage and disclose their CSR activities,
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34 given that there may be financial consequences. This, therefore, provides the motivation for
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36 the current study. The first objective is to examine the economic impact of CSRD on the
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38 performance of companies in Nigeria. The second objective is to empirically provide evidence
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40 of the role of corporate governance on the CSRD-performance relationship. We examine
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42 corporate governance, as the decision to engage in CSR-related activities lies with the
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44 management, of which the board is a part. To the best of our knowledge, no study in Nigeria
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46 has examined the combined effect of corporate governance and CSRD on firm performance.
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48 We add to the current research on CSR in the following ways. Firstly, we provide empirical
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50 evidence on the effect of CSRD on firm performance in a developing country context, with a
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52 focus on Nigeria where there are relatively few studies. Given that Nigeria is one of the largest
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3 countries in Africa, the findings of this research serve as a building block for further scholarship
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5 in the region. Secondly, we go beyond other CSR-performance studies, to provide evidence on
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7 the moderating role of corporate governance on the relationship between CSR and firm
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9 performance. Specifically, we examine the size and independence of the board, as Bebchuk
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11 and Fried (2004) note that they are direct outcomes of a firm's governance process. Thirdly,
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13 we employ a different approach in the way we measure CSR. Specifically, we examine the
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15 annual report using content analysis to see if there is a dedicated section for CSR. Companies
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17 in Nigeria are not under any obligation to report on their CSR activities in the annual report.
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19 For companies to dedicate a section of the annual report to CSR, it, shows that such activities
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21 are of great importance to the reporting entity.
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26 The rest of the paper is organized as follows: Section 2 provides the theoretical background.
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28 Section 3 provides a review of the literature and develops the hypotheses. The penultimate
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30 section discusses the research methods, data analyses and results, while the last section
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32 concludes the study.
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35 **Theoretical Background**

36 ***Corporate Social Responsibility***

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38 In the past, businesses have traditionally been seen as economic actors (profit driven) and
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40 government as political actors encumbered with the responsibility of societal development
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42 (Sundaram and Inkpen, 2004). Early attempts on the study of CSR have defined the concept
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44 as obligations of businesses to "pursue those policies, to make those decisions, or to follow
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46 those lines of action which are desirable in terms of the objectives and values of our society"
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48 (Bowen, 1953, p6). However, the dramatic increase in globalization and international trade
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50 across the world has seen new demands for improved transparency and corporate citizenship
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52 that aligns the process and outcomes of businesses to the needs and expectations of society.
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54 This has led to a range of concepts that can be linked to CSR, including corporate social
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3 performance (Wartick and Cochran 1985) and corporate social responsiveness (Sethi, 1979).
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5 These notions create a level of varying definitions with various perspectives¹ that seek to align
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7 the economic and social orientation of businesses as important actors in firm performance. That
8
9 notwithstanding, CSR has been described as “*an ill and incompletely defined concept*” (Baron,
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11 2010, p9), making it prone to a number of conflicting interpretations (Amaeshi and Adi, 2007).
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13 Notwithstanding the lack of consensus on the definitions of CSR (McWilliams et al., 2006), a
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15 common trend in the various definitions is the notion of responsible and sustainable corporate
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17 behaviour that facilitates a firm’s long-term interest.
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21 In a bid to understand the rationale and strategies for CSR engagement, a number of theories
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23 have emerged. For instance, the stakeholder theory (Freeman, 1984) postulates that the
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25 objectives of a firm should go beyond maximizing the wealth of shareholders and incorporate
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27 the needs of its numerous stakeholders, such as employees, customers, community and
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29 suppliers. This argument is also premised on the broader conception of corporate governance,
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31 which suggests, “companies and societies are interdependent” (Kiel and Nicholson, 2003, p31).
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33 Another important theoretical explanation of CSR is legitimacy theory (Gray et al., 1995;
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35 Deegan, 2002) which stems from the notion of a social contract that exists between the business
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37 organisation and the society in which it operates. To survive and progress in society, business
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39 organisations must, therefore, fulfil their part of the contract by taking into consideration the
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41 values and norms of society. Organisations therefore engage in CSR activities in order to
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43 legitimise their behaviours and actions. One way for firms to legitimise their actions is through
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45 the disclosure of their CSR activities in their annual reports. The resource dependency theory
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47 (Pfeffer and Salancik, 1978) has also been used to explain the notion of CSR. This theory
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49 argues that it is the amount of resources available to the organisation that determines the extent
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51 of its CSR activities. These resources could be tangible or intangible, financial and non-
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¹ See Idowu and Papasolomou (2007) for various definitions of CSR

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3 financial, internal or external. Institutional theory (Campbell, 2007), on the other hand, argues
4 that the institutional environment of the organisations determines their CSR. These could be
5 the regulations provided by private and public bodies, the existence of non-governmental
6 agencies and the monitoring role they perform, the institutionalised norms of society and the
7 behaviour of other organisations within the industry or sector.
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14 ***Corporate Governance***

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16 The concept of corporate governance is based on the underlying principle of separation of
17 ownership and management, as first identified by Berle and Means (1932). In order to
18 minimize the potential conflict of interest that may arise as a result of the separation of
19 ownership and control, the agency theory (Jensen and Meckling, 1976) proposes corporate
20 governance as a means to address the principal-agent conflict. Proponents of corporate
21 governance mainly fall into two categories – those who consider corporate governance as a
22 tool to protect shareholder/owner interests (the narrow perspective), and those who consider it
23 within the wider spectrum of protecting stakeholder interests (the broader perspective). While
24 proponents of the broader perspective of corporate governance may have been policymakers
25 or advocates, proponents of the narrow perspective are advocates of agency theory in favor of
26 shareholders wealth maximization. There are however, limits to which the agency theory can
27 be applied (Kolk and Pinske, 2010). That notwithstanding, the broader perspective of corporate
28 governance has evolved to include the relationship between companies and a wider range of
29 stakeholders, such as shareholders, employees, creditors, suppliers, communities and
30 customers, as being equally significant investors (Jamali et al., 2008; Monks and Minow,
31 2004). These stakeholders provide the resources that contribute to the firm's survival, success
32 and competitiveness. The narrow perspective, on the other hand, considers the return on
33 investment to suppliers of finance as the major focus of the firm with very minimal
34 consideration of social and environmental activities (Saravanamuthu, 2004).
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3 Regardless of the narrow (shareholder) or broader (stakeholder) perspective, the impact of
4 corporate governance on firm performance (financial and non-financial) cannot be over-
5 emphasized. The board of directors and the role boards play as major actors in corporate
6 governance have attracted considerable attention in recent times (Darko et al., 2016). This has
7 also led to the emergence of various theories of corporate governance to strengthen debates on
8 the link between the board of directors and firm performance. The agency theory situates the
9 role of the board as a custodian charged with the day-to-day management of the company on
10 behalf of shareholders. One key mechanism relevant to this theory is board independence as a
11 monitoring tool to control management actions (Tricker, 1994). Over time, the agency theory
12 has led to a number of controversies, leading to the development of new theories; for instance,
13 stewardship theory, which is based on the premise that managers are predominantly trustworthy
14 and essentially reliable custodians of resources given to them, in which monitoring and
15 independence are irrelevant (Donaldson and Davis, 1991). The resource dependence theory, as
16 noted by Pfeffer and Salancik (1978), considers that firms are dependent on external
17 constituents as a means of procuring and transacting with necessary resources in order to
18 survive. The board of directors is therefore viewed as the unit through which crucial resources
19 such as legitimacy and counsel are linked to the firm (Hillman and Dalziel, 2003). Finally,
20 stakeholder theory goes a step further in emphasizing the role of boards beyond shareholder
21 protection and management monitoring to include wider social responsibilities of stakeholder
22 accountability, corporate citizenship and societal stewardship in forms such as reporting and
23 disclosure (Keasey and Wright, 1997). As noted by Kiel and Nicholson (2003, p31) “the board
24 of directors should be able to judge whether the interests of all stakeholders are being justly
25 balanced”. The various theories discussed above suggest a relationship between the board of
26 directors, as active participants in corporate governance with the potential to influence CSR
27 and overall firm performance.

Literature review and hypotheses development

The above theoretical exposition has laid the foundation for numerous studies on the effect of the two concepts (corporate governance and CSR) on firm outcomes, such as firm risk (Jo and Na, 2012), earnings management (Kim et al., 2012), reputation (Lev et al., 2010), profitability (Mishra and Suar, 2010), amongst others. The majority of these studies, however, focus on either of the two concepts with few examining the joint effect of corporate governance and CSR on firm performance. In addition, most of the prior studies focus on developed economies with a strong institutional framework and effective governance systems. For example, in the UK, Qiu et al., (2016) find that there is increased market value for firms with higher social disclosures. When compared with environmental disclosure, they conclude that social disclosure is more important to stakeholders of the firm. Servaes and Tamayo (2013) find a positive relationship between CSR and firm performance for a sample of US firms. Moreover, the relationship is mediated by consumer awareness. Specifically, they find that for firms with low customer awareness, there is a negative or insignificant relationship between CSR and performance. From a transitional economy perspective, Wang et al. (2015) show that, using a quantile regression analysis for a sample of Taiwanese firms, the positive relationship between CSR and firm performance is driven by brand equity. Further analysis reveals that this positive relationship is driven by brand equity. In contrast, they find that brand loyalty negatively impacts on the relationship between CSR and firm performance. Relatedly, Mishra and Suar (2010) find that for Indian firms, there is a positive relationship between CSR and firm performance across different dimensions of CSR activities.

A review of prior empirical studies reveals contradicting viewpoints on the relationship between corporate governance mechanisms and firm performance, with divergent results. For instance, Cheng (2008) provides evidence of a negative relationship between board size and the performance volatility of firms in the US. They argue that as board size increases, firms are

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3 less likely to take extreme decisions which, in turn, leads to lower variation in corporate
4 performance. Similarly, Ujunwa (2012), Guest (2009) and Lasfer (2004) find a negative
5 relationship between board size and firm performance measured by return on asset employed,
6 Tobin's q and stock returns for UK companies. From the banking industry, Liang et al., (2013)
7 find that board size reveals a negative association with firm performance in China. Using board
8 size as a control variable, Bennouri et al., (2018) find that there is a negative effect of board
9 size on Tobin's q. On the contrary, some studies provide evidence that board size positively
10 affects firm performance (see Belkhir, 2009; Bhagat and Black, 2002; Guest, 2009), while
11 others find no effect of board size on firm performance (Assenga et al., 2018; Duru et al., 2016).
12 The independence of the board is another governance mechanism that is strongly debated in
13 the literature. The argument shows that independent directors serve as better monitors of the
14 firm on behalf of shareholders (Adams et al., 2010). Independent directors have also been found
15 to be a source of additional resources for the firm (Duppatti et al., 2019). While some studies
16 show there is a positive relationship between board independence and firm performance, others
17 provide a negative or insignificant relationship. For instance, O'Connell and Cramer (2010)
18 find a strong positive association between board independence and firm performance for Irish
19 firms. Joh and Jung (2012) find that board independence positively affects firm value in a
20 sample of Korean firms; however, they document that this positive relationship exists when
21 there are low information transaction costs. Duppatti et al. (2019) conclude that there is a
22 positive relationship between board independence and firm performance in Spanish firms.
23 Similarly, Liu et al., (2015) show that there is a positive relationship between board
24 independence and firm operating performance for Chinese firms. The positive effect is stronger
25 for government-controlled firms. Similar positive findings have been documented in early
26 studies for the UK (Ezammel and Watson, 1993) and the US (Pearce and Zahra, 1991). In
27 contrast, Erkens et al., (2012) document a negative effect of independent directors on firm
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3 performance for Bank Holding Companies in a cross-country analysis, whereas, Adams and
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5 Mehran (2012) find no relationship between board independence and firm performance. From
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7 the family business perspective, García-Ramos and García-Olalla (2011) reveal a negative
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9 effect of board independence on performance when the descendants of the founder are in charge
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11 of running the firm, but for the founder-controlled firm, they find a positive effect of board
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13 independence on performance.
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17 In light of the foregoing, there are obvious conflicting results on the relationship between CSR
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19 and firm performance on the one hand, and corporate governance and firm performance on the
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21 other. The decision to engage in CSR activities is one strategic decision made by the board.
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23 Our argument is that given the weak governance system in Nigeria, firm-specific corporate
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25 governance practices may play a moderating role in the CSR-firm performance relationship.
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27 We, therefore, propose the following hypotheses;
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31 *H1: There is a positive relationship between CSR and firm performance*

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33 *H2: Board size positively affects the relationship between CSR and firm performance*

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35 *H3: Board independence positively affects the relationship between CSR and firm performance*
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39 **Data, methodology and model specification**

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41 The population of the study consists of listed companies on the Nigerian Stock Exchange, with
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43 the exclusion of financial firms due to a more regulatory requirement for financial firms. We
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45 also deleted firms without relevant information for analysing the hypothesized relationships.
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47 The final sample is an unbalanced panel data which is made up of 83 companies with 841 firm-
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49 year observations for the period covering 2007-2016.
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53 The dependent variable for our study is return on asset (ROA) this is measured as earnings
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55 before interest, taxes, depreciation, and amortization (EBITDA) divided by total assets. The
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57 advantage of using EBITDA rather than net income is that it allows for comparison across
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59 forms. Following Chijoke-Mgbame and Mgbame (2018), the independent variable CSR is
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measured as a dummy variable taking the value of 1 if there is a section in the published annual report dedicated to CSR activities and 0 otherwise. Given the voluntary disclosure system in Nigeria, companies that decide to dedicate a section in their annual report to discuss and present their CSR activities demonstrate the importance of such activities to the company. To obtain this information, the annual reports for each company were downloaded from the respective companies' websites in order to determine if there is a section dedicated to the disclosure of CSR activities of the company or not.

Next, we collected data for our two measures of corporate governance which are used as the interaction variables; board size and board independence. Board size is measured as the number of directors on the board; board independence is measured as the percentage of independent directors on the board. We collected the data from both Bloomberg and the annual reports. For those without information on Bloomberg, we hand collected the information from the annual report; the same applies to the control variables. **To minimize the effects of outliers, all variables except the dummy variables were winsorized.** We specify the model in line with the hypotheses:

$$ROA = \beta_0 + \beta_1 CSR_{it-1} + \beta_2 BSize_{it-1} + \beta_3 BInd_{it-1} + \beta_4 Control\ Variables_{it-1} + \mu \dots (1)$$

$$ROA = \beta_0 + \beta_1 CSR_{it-1} + \beta_2 BSize * CSR_{it-1} + \beta_3 BSize_{it-1} + \beta_4 Control\ Variables_{it-1} + \mu \dots (2)$$

$$ROA = \beta_0 + \beta_1 CSR_{it-1} + \beta_2 BInd * CSR_{it-1} + \beta_3 BInd_{it-1} + \beta_4 Control\ Variables_{it-1} + \mu \dots (3)$$

-----Insert Table 1 here-----

Presentation and analysis of data

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3 Table 2 presents the descriptive statistics of the variables. We observe that the mean for the
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5 CSRD is 0.44 which indicates that 44% (less than half) of the sampled firms have a dedicated
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7 section for CSRD. The standard deviation of 0.5 indicates the degree to which CSRD for the
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9 sample exhibits significant clustering around the mean. ROA, the performance measure, has a
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11 mean of 2.74 with a standard deviation of 17.05. The average board size in the sample is 8.91,
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13 with a minimum of 4 and a maximum of 19. The level of board independence in the sample is
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15 between 16.67 and 88.89 with an average of 62.38. This shows that more than half of the
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17 sampled firms have an independent board. The mean age of the sampled firms is 24.58 with a
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19 minimum of one year and a maximum of 56 years. The statistics on leverage reveal a mean of
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21 76.77, with an approximate standard deviation of 140. This suggests that there is a huge
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23 variation in the level of debt amongst the sampled firm. This supports the use of EBITDA as a
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25 more appropriate measure of firm performance. Table 2 also shows the results of the test for
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27 multicollinearity in the last column (VIF). The presence of multicollinearity could lead to
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29 unreliable coefficient estimates. We conduct the VIF (Variance Inflation Factor) test to check
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31 for this problem. Landau and Everitt (2004) suggest that a VIF value of 10 and above is a cause
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33 for concern. The results reveal that there is no multicollinearity problem as all VIF values are
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35 below 10².
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-----Insert Table 2 here-----

-----Insert Table 3 here-----

51 The nature of the data used for this study suggests that there may a problem of causality
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53 between the dependent and independent variables. Also, there may be some time-invariant
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59 ² We also check for high correlations among the variables. But the correlation results reveal that there is no
60 cause for concern. We do not report the results due to word count limits.

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3 firm-specific characteristics in the data. Therefore, the use of ordinary least squares will not be
4 appropriate for this study. To proceed, we conduct the Hausman test to decide between the use
5 of a fixed effect or a random effect model; the Hausman test supports the use of a fixed effect
6 estimation.
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12 Table 3 presents the results of four regression analyses³ using the fixed effect model. Model 1
13 shows the effect of CSR disclosure on firm performance. We find that there is a statistically
14 positive relationship ($\beta=0.236$, $p\leq 5\%$) between CSR and firm performance. This provides
15 support for hypothesis 1, that, for Nigerian companies, engaging in CSR disclosure positively
16 affects firm performance. One possible reason for the positive result is that firms which engage
17 in CSR-related activities are likely to have a good reputation and also attract the attention of
18 consumers in society which can positively affect firms' financial performance. The results are
19 in tandem with prior studies, such as Saeidi et al. (2015), which find that CSR positively affects
20 firm performance through reputation and customer satisfaction amongst Iranian firms.
21 Similarly, Madueño et al., (2016) show that there is a positive relationship between CSR and
22 firm performance for Spanish SMEs (see also, Qiu et al., 2016; Servaes and Tamayo, 2013).
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37 Next, in Model 2 of Table 3, we include an interaction variable to capture the mediating role
38 of corporate governance (board size) on the relationship between CSR and firm performance.
39 The coefficient of the interaction variable, although positive, is not statistically significant.
40 Thus, we fail to accept hypothesis 2. The results suggest that the size of the board does not
41 affect the relationship between CSR and firm performance. Prior studies (Assenga et al.,
42 2018; Duru et al., 2016) find no evidence of a relationship between board size and firm
43 performance. In Model 3 of Table 3, we include an interaction variable CSR*BInd. This is
44 to capture the moderating effect of independent boards on the relationship between CSR and
45 firm performance. We find that there is a statistically positive relationship between the
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³ For brevity we have included all regressions in one table.

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3 interaction term (CSR_D*BInd; $\beta=0.014$, $p\leq 5\%$) and firm performance. This result suggests that
4 having independent directors on the board enhances the CSR_D, which increases the financial
5 performance of the company. Thus, providing support for hypothesis 3. The results also support
6 advocacy for more independent boards as independent directors serve as useful resources for
7 the firm, especially for countries with weak institutions and poor governance. Furthermore,
8 prior studies find that there is a positive relationship between board independence and CSR.
9 For example, Lone et al., (2016) provide evidence of a positive relationship between board
10 independence and CSR disclosure for selected firms in Pakistan. Also, Ducassy and
11 Montandrou (2015) find a positive association between CSR and firm performance in France,
12 while Malik and Makhdoom (2016) and Liu et al., (2015) provide a positive association
13 between board independence and firm performance.
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15 In addition to the main variables, we have included a number of control variables. In model 1,
16 we include both corporate governance variables. However, we include one of the governance
17 variables at a time in models 2 and 3 respectively to avoid capturing the effect of the other
18 governance variables in the interaction models. In model 1, we find a statistically positive
19 relationship between board size and firm performance. This is in support of prior studies, which
20 find that large boards are advantageous to firms. Large boards tend to bring various ideas and
21 opinions, which could improve the quality of decision-making. However, a few studies (see,
22 Bennouri et al., 2018; Guest, 2009) have found a negative effect of large boards on firm
23 performance, citing long decision-making processes and the potential for 'group think' which
24 can result in poor firm performance. In model 1, we also include board independence as a
25 control variable. We find a statistically positive effect of board independence on firm
26 performance; this suggests that more independent boards increase firm performance. The
27 results are consistent with Liu et al., (2015) who find a positive effect of board independence
28 on firm performance. To control for firm specific factors, we include a host of control variables
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3 in all models. We do not find a significant relationship between firm size and ownership
4 structure in all models. We find a marginally significant positive effect of firm age on
5 performance in Model 2. In all models, we find a statistically significant relationship between
6 firm cash and big4auditors on firm performance, thus suggesting that cash availability increases
7 firm performance and that the use of one of the big 4 audit companies positively affects firm
8 performance. For leverage, we find a statistically negative relationship with firm performance.
9 This result suggests that debt reduces firm performance, as observed in Singh and Faircloth
10 (2005) and Assenga et al., (2018). Lastly, ownership structure, although negative, exhibits no
11 statistical effect on firm performance, (see, Demsetz and Villalonga, 2001). As a robustness
12 check, we include both interaction variables and control variables in Model 4; we find that the
13 results remain the same.

29 **Conclusion**

31 This paper attempts to contribute to the broader literature of CSRD by examining the nexus
32 between CSRD and firm performance. Drawing on the legitimacy and stakeholder theories, we
33 extend this line of inquiry by moderating the corporate governance factor on the perceived
34 relationship within a voluntary environment. Whilst most studies focus on the direct
35 relationship between CSRD and firm performance, we ventured to provide evidence as to how
36 corporate governance could influence the aforementioned relationship. Consequently, the
37 study adopted a novel approach by confirming the perceived relationship and showing how
38 specific corporate governance mechanisms affect the relationship.

39 Although companies have been credited with engaging in CSR, they have also been criticized
40 for either no, or inadequate, disclosures of their activities. Despite the fact that some countries
41 are promoting mandatory disclosure, while others operate a voluntary regime, CSRD has
42 increased universally in both complexity and dimension over the past two decades. In most
43 developing countries such as Nigeria, CSRD still relies on the voluntary initiatives of the
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3 reporting entity. Undoubtedly, in the absence of any mandatory requirement, with the weakness
4 of institutions and paucity of laws, companies operating in this kind of environment are likely
5 to take advantage of the poor governance system to de-emphasize disclosure. It is against this
6 backdrop that we consider the imperativeness of examining the financial performance
7 consequences of firms that have decided to look beyond the weaknesses in the system to do
8 what is right.
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10 The results of the study show that there are positive performance implications for firms that
11 engage in CSR. Notwithstanding the poor governance system, some firms in Nigeria still
12 adhere to the statutory governance mechanisms of appropriate board size and board
13 independence. Since the board is involved in steering the strategic direction of the firm, we
14 investigate the effect of these two governance tools on the relationship between CSR and
15 firm performance. Although we find a direct effect of board size on firm performance, we do
16 not find any significant moderating effect of board size on the CSR-firm performance
17 relationship. However, we provide strong evidence of a positive effect of board independence
18 on the CSR-firm performance relationship.
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20 This study, therefore, recommends stronger legislation and regulation for CSR engagement and
21 disclosure amongst Nigerian companies as there are economic benefits to be derived whilst
22 addressing the needs and improving the lot of society. In addition, the corporate governance
23 systems in Nigeria should be rebranded and made stronger with the formulation of relevant
24 policies that can promote implementation and enforcement. This is important as this study has
25 shown that the governance system can improve the associated effect of CSR on firm
26 performance. For instance, this study provides evidence to support the fact that the promotion
27 of independent boards can improve firm performance.
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29 We acknowledge there are some limitations of our study but these provide interesting avenues
30 for future studies. Although our study spans a number of years and firms, some governance
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mechanisms were not tested due to unavailability of data. In addition, we only consider listed firms; therefore, an examination of private firms may add to the findings. The unavailability of authentic data also prevented the inclusion of such firms. Nevertheless, the aforementioned limitations do not affect the validity of the results obtained.

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Tables

Table 1 Variable Definition

Variable	Acronym	Definition
Return on Asset	ROA	The ratio of earnings before interest, taxes, depreciation and amortization divided by total assets
Corporate Social Responsibility Disclosure	CSR	This is a dummy variable with a value of 1 if there is a section in the published annual report dedicated to CSR activities and 0 otherwise
Board Size	BSize	The number of directors on the board
Board Independence	BInd	The percentage of independent directors on the board
Firm Size	FSize	The log of total assets
Firm Age	FAge	The number of years a company has been listed on the exchange
Firm Cash	FCash	The total of cash and cash equivalents scaled by total assets
Leverage	Lev	The ratio of total debts to total assets
Ownership	Own	This is a dummy variable indicating 1 if more than 20% of the firm is owned by institutional investors and 0 otherwise
Big4auditor	B4Aud	This is a dummy variable with a value of 1 if the firm is audited by one of the big four auditors and 0 otherwise.

Table 2 Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Min	Max	VIF
ROA	816	13.290	37.841	-149.687	172.053	
CSR	810	0.44	0.50	0	1	1.13
Bsize	803	8.91	2.44	4	19	1.37
BInd	726	62.38	14.25	16.67	88.89	1.06
FSize	809	6.94	0.77	4.84	9	1.59
FAge	818	24.58	12.65	1	56	1.08
FCash	808	9.44	11.42	-6.06	96.73	1.06
Lev	808	76.77	140.44	4.71	1797.72	1.06
Own	811	0.19	0.39	0	1	1.06
B4Aud	818	0.60	0.49	0	1	1.28

Table 3 Fixed effect regression of CSR-firm performance and CSR* Corporate

Governance and firm performance

Dependent variable= ROA	Model 1 Without Interaction	Model 2 With Board Size Interaction	Model 3 With Board Independence Interaction	Model 4 With both Interaction Variables
CSR	0.236** (0.098)	0.607* (0.326)	0.319*** (0.095)	0.246** (0.119)
CSR*BSize		0.037 (0.035)		0.034 (0.329)
CSR*BInd			0.014** (0.006)	0.019* (0.010)
BSize	0.507** (0.201)	0.054* (0.028)		0.056** (0.028)
BInd	0.309* (0.176)		0.254** (0.103)	0.365** (0.186)
Firm Size	-0.092 (0.084)	-0.087 (0.074)	-0.033 (0.067)	-0.024 (0.077)
Firm Age	0.005 (0.004)	0.006* (0.004)	0.006 (0.004)	0.011 (0.007)
Firm Cash	0.023*** (0.004)	0.164*** (0.031)	0.181*** (0.031)	0.011** (0.005)
Leverage	-0.006*** (0.002)	-0.011*** (0.002)	-0.012*** (0.002)	-0.014*** (0.003)
Ownership	-0.002 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.006 (0.003)
Big4Auditors	0.340*** (0.113)	0.248** (0.100)	0.198* (0.101)	0.291** (0.123)
Industry	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Observations	725	725	725	725
R ²	0.140	0.186	0.201	0.174

Notes: This table shows the results of the fixed effect regressions. Model 1 shows the regression without the governance variable interaction. Model 2 shows the interaction effect with board size. Model 3 shows the interaction effect with board independence. Model 4 includes both interaction variables. Robust standard errors are in parenthesis. *, **, ***, represent significance at 10%, 5% and 1% respectively. All variables are as defined in Table 1.