# Determinant of Corporate Social Responsibility Disclosure in Nigeria

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**Abstract**
*This study focused on determinants of corporate social responsibility disclosure in Nigeria. Data was collected from the annual report and account of quoted banks in Nigeria stock exchange market. The result was presented in a tabular form of which the panel regression model was used to analysis the data collected. The result showed that firm size and return on asset was positively related to corporate social responsibility disclosure while leverage was found to exhibit a negative relationship with corporate social responsibility. It was therefore recommended that further research is need to explore the debt/equity hypothesis in other context or different time periods, that inconsistency of previous results is a common feature of CSR research.*
**Keyword:-** Corporate Social Responsibility, Disclosure, Determinants, Nigerian Listed Banks, Leverage

## 1.0 Introduction

Over the last few periods there has been a growing global public awareness of the role of corporations in society. Many companies which have been charged with contributing to economic growth and development process have been criticized for creating social problems issues such as resources depletion, waste, pollution, product quality and safety, the rights and status of workers and the power of large corporations have become the focus of increasing attention and concerns. In this context, corporations have been increasingly urged to become accountable to a wider group of stakeholder rather than shareholder and creditor groups. As a matter of fact, public awareness and interest in environmental and social issues and increased attention in mass media have resulted in more social disclosures from corporations (Gray, 1995; Deegan & Gordan, 1996; Kolk, 2003; Carmelo, 2009). In the European Union context, the publication of the Green paper (2001) by the European commission launched a wide debate on how the EU could promote corporate social responsibility (CSR). Although, there is still no universal definition of CSR. (Godfrey and Hatch, 2007) as cited in Carmelo (2009), opined that most definitions describe it as a concept whereby companies integrate social and environmental concerns in their business operation and in their interaction with their stakeholders to the variety of social, environmental, and economic pressures, companies respond to the expectations of the various stakeholders with whom they interest, such as employees, shareholders, investors, consumers, public authorities creditors, and non-governmental organizations (NGOs).

Corporations usually inform of their CSR activities in the annual reports or in separate social reports (CSR Reports or Sustainability Report). However, there is no standardization or uniformity in terms of the items reported or the way of reporting (Carmelo, 2009). Consequently, various corporation have started developing framework for reporting on CSR, such as the ISO14001 (Internationally Standards Organization), World Resources Institute (WRI) and the Global Reporting Initiative (GRI).

With regard to the empirical research on CSR, three types of empirical studies characterize the research in this field, the first one relates to descriptive studies, which report on the nature and extent of CSR with some comparisons on countries and period. The second one is related to explicative studies, which focus on the potential determinants of social and environmental reporting. The third one is interested in the impact of social and environmental information on various users, mainly on market reaction. Our studies adopt the second orientation, as it focus on the potential determinants of CSR disclosure practices by Nigeria listed firms. Empirical studies have shown that CSR disclosure activism varies across companies, industries and time (Gray, 1995).

This paper is focused on the Nigerian setting for a number of reasons. First, as explained in Musa (2010) that Nigerian company was to provide the mandatory disclosure requirement (i.e financial statement) to the public. Due to the growing and global awareness of the role of the companies in the society, however, some Nigerian listed companies report CSR information in their annual reports, but the levels of this information is lower than expected (Olayinka & Temitope, 2011).

Therefore the broad objective of this study is to evaluate the determinant of corporate social responsibility in Nigeria and the specific objective are: To determine if there is a relationship between firm size and corporate social responsibility; To ascertain the association between leverage and corporate social responsibility and to find out if there is a relationship between return on asset and corporate social responsibility.

## 2.0 Literature Review

### 2.1 Corporate Social Responsibility

Most organizations are expected to be responsible to their clients as well as their immediate environment and society as a whole. Corporate social responsibility is a way in which firms communicate society to win the minds of the public by meeting their social expectations (Branco & Rodrigues, 2008). The concepts of corporate social responsibility (CSR) refers to the universal opinion held by researchers, by a raising number of ethical professionals and citizens that modern business have obligations to society that extends beyond the responsibilities to the stakeholders or investors of the firm (Ness & Mirza, 1991).

According to the European commission (2006) CSR can be defined as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. CSR can be described conceptually as an obligation that is required by the law and economy, for a firm to pursue long term goals that are good for society. Margana and Ferrell, (2004) described CSR as an instrument to increase firms' legitimacy in the eyes of their stakeholders and to develop positive social responsibility images to burnish their reputations.

### 2.2 Prior Literature and Hypotheses Development

A considerable number of theoretical and empirical research on CSR disclosure have been undertaken throughout the world due to the continuing emphasis on green awareness (Basalamah and Jermias, 2005). Prior research focused on two research issues. First, the nature and extent of disclosure; second, the determinants of CSR disclosure. CSR disclosure studies have been so far in context of developed countries like United States (US), United Kingdom (UK), Japan and Australia (Belal and Owne, 2007; Gray, 1995), other studies have been done in other developed countries including Canada, Germany and New Zealand, which indicate that the number of companies engaging with CSR practices is increasing (Adams, 2002). The present paper aims to identify the main factors that affect the Egyptian listed companies' decision to disclosure CSR information in their annual report narratives.

Empirical studies concerned with CSR disclosure by Nigerian companies mainly include Olayinka and Temitope, (2011), Musa (2010), Orji, (2007) and Zakaria, (2011). Musa (2010) investigates the CSR in the annual reports of Nigeria firms listed on the Nigeria stock exchange for the period 1998-2001. He compares the general patterns of CSR between Nigeria and Developed countries, and finds that the CSR was lower in Nigerian companies; the patterns of reporting were similar. Both countries had a dominance of employee-related information, subsequently came the environmental and community, followed by consumer information which why some Nigerian firms disclosure CSR information, while others do not. In other words we are interested to examine the factors affecting Nigerian firms' decision to report CSR information in their annual reports.

Second, Nigeria is chosen as the country for study because of the rapid growth of the Egyptian compared with other emerging economies (Musa, 2010). Musa (2010) argue that Nigeria has taken major strides in economic reform, improving investment climate and attracting local, regional and foreign direct investments. In addition, Adams (2002) argues that the Nigerian stock exchange is prepared for the globalization era. Therefore, Nigerian listed companies are more likely to learn from international experience and start reporting CSR information in their annual reports to attract more foreign investors.

Third, recent evidence from Olayinka and Temitope, (2011) shows that the level of CSR disclosure is relatively low; however, these studies did not examine the factors that affect a firm's decision to disclose or not disclose CSR information in their annual reports. The present paper, therefore, complements and extends prior research on CSR in Nigeria by explaining potential reasons for different CSR disclosure levels in Nigeria.

Finally, as discussed by Adams (2012), the energetic growth of the Nigerian accounting system is mainly derived by the level of the economy and the political environment; therefore, we do expect that these developments would affect the degree to which CSR information is disclosed by Nigerian listed companies. This is particularly important given the present debate on the weakness and the irrelevances of the present financial reporting model to provide value-relevant information for potential users (Roberts, 2012).

In extant literature it has been well documented that certain variables might jointly impact on the level of disclosure. Some studies have proved that there exists a positive association between profitability of firm and corporate social responsibility expenditure (Olayinka & Temitope 2011). Similarly Cormier and Magnan (2003) carried out a study in Malaysia to examine the impact of firm size, leverage and ROA on corporate social responsibility and found out they positively impact on corporate social and environmental disclosure. However, Servaes & Tamayo (2013) concluded that there is no direct relation between corporate social responsibility and firm value. Also Stefan, Georgeta and Diana (2015) carried out a research in Romania, on relationship between corporate social responsibility ratings and companies value using a multivariate model and found out that firm size and leverage have a negative impact on corporate social responsibility.

Prior research on the CSR in Nigeria is descriptive. To the best of our knowledge, there is no attempt, to data, to examine the potential factors affecting CSR disclosure practice by Nigerian companies. The study is motivated primarily by such an apparent gap in prior research. Therefore, we examine the extent and the determinants of CSR disclosure in Nigeria for a sample of Nigeria listed banks for the period of 2011-2015. We examine the degree to which firm characteristics (i.e., company size, gearing, and Bonus plan) affect CSR disclosure.

### 2.2.1 Firm size and corporate social responsibility

Large firms are more politically sensitive than small firms and face differential incentives in their choice of accountability procedures that leads them to defer reported earnings from current to future periods (Watts & Zimmerman, 1986). Hence under political cost hypothesis, managers consider that as they are under a great deal of political cost hypothesis, managers consider that as they are under a great deal of political scrutiny and public pressure, this could motivate them to disclosure social reporting.

Ness and Mirza (1991) argue that the larger the firm the more chance it is to disclose social responsibility. Cormier and Magnan (2003) also found a positive relationship between firm size and corporate social responsibility.

Belkaoui and Karpik (1989) examined the association between the decision of firms to disclosure corporate social responsibility information and economic performance in their research work. They found out that corporate social responsibility correlated with firms that are perceived to be responsive socially. In Indonesia, Sarumpaet (2005) finds that the influence of company size of environmentally friendly technology and management. Thus, considering the argument above, it invest in more environmentally friendly technology and management. Thus in line with the above augment it is hypothesized that

**$H_1$: Firm's size is positively associated with corporate social responsibility**

### 2.2.2 Leverage and Corporate Social Responsibility

Debt financing could impact on the level of disclosure of a firm the higher the debt employed by a firm the more likely managers use an accounting method that boost the income level of the organization. It has been argued that when a firm is making a large use of debt, a monitoring problem arise between stockholder and creditors thus voluntary disclosure can be expected to increase with leverage.

Positive accounting sees risk as an important role in decision making companies which disclose less information or information with poor quality relative to other companies of similar size and risk characteristics are perceived by lenders as been secretive and less forth coming in disclosing information useful for decision purpose and thus are considered more risky (Christina et al., 2012). Also higher level of disclosure is argued to lead to lower cost of debt capital (Hibbit, 2003). It therefore implies that if a firm has entered into agreement with lenders, and these agreement involves accounting-based debt covenants, then the managers have an incentive to adopt accounting method that relax the potential impact of the constraints (Deegan & Unerman, 2005). Therefore it can be observed more increase in corporate social responsibility disclosure could lead to the possibility that debt ratio will increase (Banwarie, 2011).

Prior studies indicates that a positive relationship exist between leverage and corporate social responsibility. In an attempt to avoid any hurdle of the debt convents, management is said to choose accounting method that increase the current periods reported earnings for example by reducing discretionary social and environmental programs or by not engaging in any program which reduce reported earnings in the short term (Hibbit, 2003). Orij (2007)carried out a study on corporate social responsibility and found out that a positive relationship exist between corporate social responsibility and leverage. Ahmad, Hassan, and Mohammad (2003) in their study used corporate size, financial leverage, profitability, industry membership, auditor type and effective tax rate as corporate characteristics in Malaysian listed companies and found that financial leverage and auditor type are significantly associated with environmental disclosure.

Belkoui and Karpik (1989) found a negative relationship between leverage and corporate social responsibility disclosure level. They are of the view that firms with a high leverage must adhere to strict debt covenant which in turn as every tendency of reducing their ability to spend resources on corporate social responsibility as well as disclose information about corporate social responsibility. Based on the above statement the following hypothesis is proposed.

**$H_2$: Firms leverage is positively associated with corporate social responsibility disclosure level**

### 2.2.3 Bonus Plan (ROA) and Corporate Social Responsibility

The bonus plan hypothesis state that a manager of firm with bonus plan is more likely to use accounting techniques that increase current period reported income. In the area of corporate social and responsibility, some researchers have found a positive relationship between bonus plan and the social and environmental disclosure. For example, Robert (1992) finds that the social and environmental disclosures were positively related with corporate profitability. Likewise, Chan (2003) examines the relationship between ROE and social

disclosure and the result is positive. Using ROA as a proxy of bonus plan has been widely used by other researchers (Barako, Hankcock, & Izan, 2006; Haniffa & Cooke, 2005. Zakaria (2011) investigates the impact of political sensitivity on the quality and quantity of annual bonus plan disclosure in a sample of 400large UK firms by running two separate models, one for disclosure quantity, she finds that disclosure quantity increased with political sensitivity, but disclosure quality decreased as firms became more politically sensitive. The findings recommend that managers mask their rent extraction activities, in this case, excessive remuneration, by providing high volume but low quality of corporate disclosure. Zakaria uses ROA as a proxy of bonus plan in her study. ROA as a proxy of bonus plan was also used by other researchers (e.g. Masodah,2007; Rahman et al., 2015). Hence, according to PAT, firms that disclose their social and environmental activities tend to have greater rate of return. Thus it is hypothesized that:
**$H_3$: Firm's bonus plan is positively associated with its social and environmental disclosure level**

### 2.3 Theoretical Framework

Corporate social responsibility is a topic that has gained interest by most researchers from various theoretical perspectives. The most popular perspective is positive accounting theory from Watt and Zimmerman (1986). Positive accounting theory is premised on the neo-classical economic theory. Fundamental to it is a belief in rational choice theory, that is material self-method self-interest (opportunistic behavior) is the reason for the choice of accounting method and procedure as well as policy decision. Positive accounting came as a result of the Jensen for positive accounting approach because he was of the view that research in accounting has been unscientific because the focus of this research in accounting has been overwhelmingly normative and definitional (Belkaoui, 2014). Belkaoui (2014) hypothesized for the development of positive theory of accounting which explains why accountants do what they do and what affects these phenomena has on people and resources utilization (Belkaoui, 2014). The major focus of positive accounting approach is to explain as well as predict management choice standards by analyzing the cost and benefit of particular financial disclosure in relation to various individual and to the allocation of resources within the economy (Belkaoui, 2014).

The theory is based on the proposition that managers, shareholders and regulators are rational and that they attempt to maximize their utility which is directly related to their compensation as well as their wealth. Thus the central ideal of the positive approach to develop hypothesis about factors that influence the world of accounting and test the validity empirically (Belkaoui, 2014).

Unlike income smoothing hypothesis, positive theories in accounting assume that the stock price depends on cash flows rather than on reported earnings. The impact of the choice of accounting method contracting wealth is a function of the relative magnitude of the contracting cost. This contracting cost include: (i) Transaction cost (ii) Agency cost (iii) Information cost bankruptcy cost (iv) Bankruptcy (v) Disclosure cost

The choice of optimal accounting procedure for a given purpose rest on variables representing management incentives to choose accounting method under bonus plan debt contract and political process. Thus the following hypothesis where put forward.

**Bonus plan hypothesis**

The management compensation hypothesis state that managers who have accounting incentive or their remuneration that is tired with the firms accounting performance will tend to manipulate accounting method and figures to show the accounting performance better than it should be. Such as managers electing to use different depreciation method allowing lower profit at the short and higher profit toward the end. Older managers will tends to ignore any research and development cost because it will lower current year profit affecting their income.

**Debt-equity hypothesis**

The debt to equity hypothesis state that managers will tends to show better profit as similar to the bonus plan in the intention of having a better performance and liquidity position to pay the interest and principal of the debt they have accumulated in the business. The higher the debt to equity level the more likely it is that managers will tends to use accounting methods and procedures in increasing accounting profit.

**Political cost hypothesis**

The political cost hypothesis assumes that firms will tend to show their profit lower by using different accounting method and procedures so that the firm does not attract the attention of politicians, who will have an eye on high profit industries. Allowing lower profit steers away any attention by the public and the eye of the government who will place higher regulation on high earning firms.

The firm under positive accounting theory is described in terms of a collection of contract (a nexus of contract). The contract aid individuals' parties to act to maximize the wealth of the owners (shareholders). Positive accounting holds that firms will seek to minimize the contracting cost (Graffikin, 2007). Watt and Zimmerman (1986) stated that the objective of positive accounting theory is to describe, explain and predict accounting practice of managers. This will enable users of information know which firm publish information about corporate social.

## 3.0 Methodology

The data for this study were obtained mainly from secondary sources which were collected from the audited annual reports and accounts of the listed Deposit Money Banks in Nigeria. The population of the study consists of all bank quoted on Nigeria stock exchange as at 2015 there were 15 banks quoted on Nigeria stock exchange. This reason for choosing Nigeria listed banks is because of the level of their compliance to financial reporting standards. This research work is descriptive and highly empirical as it embraces the use of panel regression techniques as tool of analysis.

**Model Specification:**

In order to examine the determinant of corporate social responsibility a multiple regression model was built. The model captures the degree of relationship the explanatory variables exert on the dependent variable

CSR =β0+ β1Fsizeit + β3ROAit +£

Where CSR= corporate social responsibility measured using CSR disclosure index

Fisze: Firm size measured as the log of total asset

LEV: Leverage measured as ratio of debt to equity

ROA: Return on asset measured as profit after tax divided by number of ordinary shares

β1- β3 are the coefficient of the parameter estimate

**4.0 Data presentation and analysis**

**Descriptive statistics**

| | CSR | Fesize | LEV | ROA |
|---|---|---|---|---|
| Mean | 0.607042 | 658.6081 | 7.246334 | 0.247054 |
| Median | 0.600000 | 5.295735 | 7.019817 | 0.019603 |
| Maximum | 1.000000 | 12090.26 | 9.279750 | 10.03326 |
| Minimum | 0.300000 | -10235.60 | 4.860386 | -2.422443 |
| Std. Dev. | 0.165895 | 2700.157 | 1.450070 | 1.267768 |
| Skewness | 1.400021 | 1.212964 | 0.013730 | 6.546755 |
| Kurtosis | 4.067403 | 11.68711 | 1.367243 | 51.82467 |
| Jarque-Bera | 26.56403 | 240.6633 | 7.888837 | 7559.395 |
| Probability | 0.000002 | 0.000000 | 0.019362 | 0.000000 |

**Source: Researcher compilation**

From the table above shows the descriptive statistics for sample companies. An examination of the result reveals that CSR revealed a mean value of 0.60 therefore indicating that on the average only 60% of sample companies disclose their level of engagement in corporate social responsibility activities. This is further explained in the minimum and maximum values respectively. The standard deviation measuring the spread of the distribution stood at a value of 0.17. The Jarque-Bera statistics stood at a value of 26.7 with an associate probability of 0.00 therefore indicates that the variables are normally distributed when measure at critical level. This therefore implies that the possibility of outlier does not exist in the distribution. A further examination of the other variables reveal they are all normally distributed when tested at 5% critical level.

**Regression Result**

Dependent Variable: CSR

Method: Panel Least Square

Sample (adjusted): 2011-2015

Periods included: 3
Cross-sections included: 14
Total panel (balanced) observations: 40
White cross-section standard errors & covariance (d.f. corrected)
Convergence achieved after 10 iterations

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 2.838605 | 0.556629 | 5.099637 | 0.0000 |
| Fsize | 0.025164 | 0.006892 | 3.651200 | 0.0014 |
| LEV | -0.299819 | 0.079925 | -3.751239 | 0.0011 |
| ROA | 2.53E-05 | 1.08E-05 | 2.331143 | 0.0293 |
| AR(2) | 0.200702 | 0.025524 | 7.863209 | 0.0000 |
| Effects specification | | | | |
| Cross-section fixed (dummy variables) | | | | |
| R-squared | 0.851367 | Mean dependent | 0.620000 | |
| Adjusted R- | 0.736515 | var. | 0.175704 | |
| squared | 0.090190 | S.D. dependent | -1.671629 | |
| S.E. of regression | 0.178954 | var | -0.911634 | |
| Sum square resid | 51.43259 | Akaike info | -1.396839 | |
| Log likelihood | 7.412693 | criterion | 2.075183 | |
| F-statistic | 0.000013 | Schwarz criterion | | |
| Prob(F-statistic) | | Hannan-Quinn | | |
| | | criter | | |
| | | Durbin-Watson | | |
| | | stat | | |

Source: Researcher compilation

The table above shows the regression result carried out using the fixed effect model. For the result above it can be observed the $R^2$ reveal a value of 0.85 therefore indicating that the model account for 74% of the systematic variation exhibited by the dependent variable. While the remaining 15% left unaccounted for is been captured by the stochastic error term it was also observed that the Fstat value of 7.41 with an associate probability value of 0.00 gives a clear indication that the model is statistically significant when tested at 5% level of significance.

On the bases of individual coefficient, from the result it can be observed that firm size exhibited a positive relationship with corporate social responsibility disclosure as revealed by the positive coefficient value there for indicating that a unit change in the size of a firm will lead to a 2% increase in the disclosure of CSR. This therefore implies that the size of a firm can impact on the level of corporate social responsibility disclosure. Leverage was found to exhibit a negative relationship with corporate social responsibility disclosure as depicted by the negative coefficient value. Therefore implying that a unit change in the debt financing of an organization will lead to a 29% decrease in the level of disclosure. It was also found to been statistically significant at 5% level of significance. Return on asset of a company was found to have a positive impact on the level of disclosure. Therefore indicating that the level of disclosure is determined by returns made by management. This was further explained by the coefficient value which stood at 2.5 there for indicating that the return on asset of organization has the tendency of increasing the level of disclosure by 3%.

## 4.2 Discussion

From the result firm size was found to be positively related with corporate social responsibility. This therefore indicates that larger firms have the tendency to engage more in CSR activities than small firms. It also validates theory as regards to Political Cost hypothesis put forward by positive accounting theory. Thus ceteris paribus, large firms are more politically sensitive than small firms and face differential incentives in their choice of accounting procedures that lead them to defer reported earnings. This therefore implies that managers of this kind of firm consider that they are under great deal of political scrutiny and public pressure, this could this could make them to disclosure social reporting. This finding is tandem with the findings of Watt and Zimmerman (1986). Leverage which was the second explanatory variable was found to exert a negative relationship on corporate social responsibility disclosure. This therefore indicates that companies with high leverage have the tendency to adhere to strict debt covenant which in turn will bring about a reduction in their ability to spend resources on corporate social responsibility. This finding is consistent with the findings of Belkoui and Karrpik (1989) but at variance with the finding of Ahmad, et al (2003). Return on asset was found to have a positive relationship with corporate social responsibility. This implies that firms that engage in corporate social responsibility there is a probability there is a probability that they have greater returns compare to firms that don't engage in CSR activities. This finding is in line with the finding of Zakaria (2011) as well Rahman (2005).

## 5.0 Conclusion and Recommendation

This study is undertaken in a Nigerian setting. Using a CSR disclosure index, we scored a sample of 15 Nigerian listed banks. We examined the main drivers of Nigerian listed banks to report CSR in their annual reports. We found that company profitability is the key driver for Nigeria listed banks to disclosure CSR information. We also found that firms' size and return on asset was positively related to corporate social responsibility disclosure while leverage was found to exhibit a negative relationship with corporate social responsibility.

There are several implications of the study's findings for both academics and /or practitioners. The study contributes to the accounting literature and more specifically to the literature on CSR disclosure for the listed banks. The findings of this study will advance our understanding of CSR practices in a developing country context by demonstrating how company's characteristics could determine the level of a company's CSR disclosure practices. Given these results in Nigeria, researchers could reasonably anticipate finding similar results in other countries.

In this study our contribution for the first time demonstrates the importance of company's characteristics that play a vital role in CSR company disclosure practices. Moreover, the findings reported in this paper have three important practical implications. First, investors may find this study useful as it provides analysis of the relationship between the levels of CSR company disclosure practices and the company's characteristics within a developing country context. Second, the subject firms (Nigerian listed banks) may use the findings of the study of improve their accounting disclosure systems. Finally, the Stock Market Authority in Nigeria and other emerging countries in that region can use the findings of the study to improve their CSR disclosure regulations and practices.

Like most research of its kind, the results of the study are subject to several limitations. One potential limitation of the current study is its use of a CSR disclosure index to investigate the phenomenon. The existing disclosure literature does not provide a great number of alternatives for measuring disclosure. We acknowledge that, as in in other disclosure studies, the selection of the items included in the disclosure index inevitably involved some degree of judgment and subjectivity (Marston and Shrives, 1991). Another limitation of the current study is that population and sample are limited to only listed banks in Nigeria stock exchange.

Further research could be undertaken to examine other factors that might affect CSR disclosure. It might be of interest of study the effect of internal control, the existence of internal auditor on CSR reporting. It might also be important to examine the effect of corporate governance internal and external mechanisms on CSR reporting. Finally, it might be of interst examining the extent to which CSR information provides value relevant information to the stock market. In this line of research, we recommend that further research is needed to explore the debt/equity hypothesis in other context or different time periods, that inconsistency of previous results is a common feature of CSR research.

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**APPENDICES**

**Appendix 1: REGRESSION RESULT**

Dependent Variable: CSR
Method: Panel Least Square
Date: 02/14/16 Time: 04:23
Sample (adjusted): 2011-2015
Periods included: 3
Cross-sections included: 14
Total panel (balanced) observations: 40
White cross-section standard errors & covariance (d.f. corrected)
Convergence achieved after 10 iterations

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 2.838605 | 0.556629 | 5.099637 | 0.0000 |
| Fsize | 0.025164 | 0.006892 | 3.651200 | 0.0014 |
| LEV | -0.299819 | 0.079925 | -3.751239 | 0.0011 |
| ROA | 2.53E-05 | 1.08E-05 | 2.331143 | 0.0293 |
| AR(2) | 0.200702 | 0.025524 | 7.863209 | 0.0000 |
| Effects specification | | | | |
| Cross-section fixed (dummy variables) | | | | |
| R-squared<br>Adjusted R-squared<br>S.E. of regression<br>Sum square resid<br>Log likelihood<br>F-statistic<br>Prob(F-statistic) | 0.851367<br>0.736515<br>0.090190<br>0.178954<br>51.43259<br>7.412693<br>0.000013 | Mean dependent var.<br>S.D. dependent var<br>Akaike info criterion<br>Schwarz criterion<br>Hannan-Quinn criter<br>Durbin-Watson stat | | 0.620000<br>0.175704<br>-1.671629<br>-0.911634<br>-1.396839<br>2.075183 |
| Inverted AR Roots | .45 | -45 | | |

**Appendix 2: DESCRIPTIVE STATISTICS**

| | CSR | Fesize | LEV | ROA |
|---|---|---|---|---|
| Mean | 0.607042 | 658.6081 | 7.246334 | 0.247054 |
| Median | 0.600000 | 5.295735 | 7.019817 | 0.019603 |
| Maximum | 1.000000 | 12090.26 | 9.279750 | 10.03326 |
| Minimum | 0.300000 | -10235.60 | 4.860386 | -2.422443 |
| Std. Dev. | 0.165895 | 2700.157 | 1.450070 | 1.267768 |
| Skewness | 1.400021 | 1.212964 | 0.013730 | 6.546755 |
| Kurtosis | 4.067403 | 11.68711 | 1.367243 | 51.82467 |

| | | | | |
|---|---|---|---|---|
| Jarque-Bera | 26.56403 | 240.6633 | 7.888837 | 7559.395 |
| Probability | 0.000002 | 0.000000 | 0.019362 | 0.000000 |
| Sum | 43.10000 | 46761.18 | 514.4897 | 17.54084 |
| Sum Sq. Dev. | 1.926479 | 5.10E+08 | 147.1893 | 112.5065 |
| Observation | 71 | 71 | 71 | 71 |

**Appendix 3: TEST FOR HETEROSKEDASTICITY**

Heteroskedasticity Test: Breusch-Pagan-Godfrey

| | | | |
|---|---|---|---|
| F-statistic | 0.237573 | Prob. F(3,67) | 0.8699 |
| Obs*R-squared | 0.747319 | Prob. Chi-Square(3) | 0.8620 |
| Scaled explained SS | 1.020746 | Prob. Chi-Square(3) | 0.7962 |

Source: Eviews 8.0

**Appendix 4: TEST FOR ALTOCORRELATION**

Breusch-Godfrey Serial Correlation LM Test:

| | | | |
|---|---|---|---|
| F-statistic | 0.644269 | Prob. F(2,61) | 0.5286 |
| Obs*R-squared | 1.406689 | Prob.Chi-Square(2) | 0.4949 |