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EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON CORPORATE SOCIAL RESPONSIBILITY OF NIGERIAN LISTED FINANCIAL SERVICE FIRMS

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Abstract

It has been indicated in the literature that corporate governance practices play important role in determining the corporate social responsibility (CSR) of organization. However, CSR may differ from sector to sector. One of the sectors worth investigating is the financial sector, which this study examines. This study provides new insight from 46 selected financial service firms using Krejcie and Morgan's formula. Annual panel data sourced from the sampled firms between 2011-2020 were used. The Hausman test was conducted and the random effect model was selected as the consistent and efficient model fit for the study. The findings from the random effect model suggest that board composition and board diversity individual coefficients show strong significantly associated with the corporate social responsibility of listed financial service firms in Nigeria. While board independence and audit committee independence were found to be significant and negatively related to corporate social responsibility. Further evidence revealed that board size is not a significant predictor of corporate social responsibility. Based on the findings the study recommends, financial service firms to revisit the practices of audit committee independence and board diversity to enhance and improve upon such practices. Also, financial service firms should consider appointing a good number of directors for adequate supervisory and monitoring roles. By implication, these findings have demonstrated that corporate governance mechanisms influence CSR in Nigerian listed financial service firms.

Keywords: Corporate, corporate social responsibility, corporate governance, finance service firms, social.

.1.1 Introduction

Corporate social responsibility is the commitment by businesses to behave morally and contribute to economic development while improving the quality of life of the workforce and their family as well as the local community (Jurgenne et al., 2019). It helps in forming a positive image of the company. Corporate social responsibility (CSR) considers the impact of the company’s action on society. Lei (2011) in his analysis on the evolution of CSR definitions maintained that the area of focus to all analyzed definitions are sustainability and social obligations like economic, legal, ethical, and discretionary responsibilities. Dahlsrud (2008) analyzed 37 definitions used by researchers on CSR and concluded that they are based on five dimensions; environmental; social, economic, stakeholder and charity dimension. In a similar vein, Shafiq (2011) gave ten-dimensional points on CSR definitions, which gives a full summary of all issues mentioned in various definitions of CSR, are Obligation to the society, stakeholder’s involvement, improving the quality of life, economic development, ethical business practice, law-abiding, voluntariness, human rights, environmental protection, transparency, and accountability.

Corporate social responsibility is being increasingly considered vital for organizational success and sustainable growth, especially because corporations operate in an environment with multiple stakeholder interests (Dorasamy, 2013). Investment in CSR should not be seen as an expense, but rather the allocation of resources to strengthen relationships with stakeholders to reap the multifaceted benefits of such investments. Financial institutions like banks need to be seen as leading organizations that engage in social activities that uplift society, the environment, and the economy.

In today's world, corporations are increasingly receiving more pressure on compliance with regulations on environmental protection, transparency, and to remain profitable despite the introduction of CSR's burden. Ecological problems have become major headlines due to the negative effects they bring to the stability of the ecosystem (Uwuigbe&Ajibolade, 2013). Therefore, in the period of increasing negative companies' activities on the environment the need to create and intensify awareness of corporate social responsibility in the society. Although the subject of corporate social and environmental disclosure was proposed in the early 20th century, great importance was not attached to it until an outbreak of a series of events (Uwuigbe &Ajibolade, 2013).

Since corporate social responsibility's importance has grown over the years, financial institutions are also obliged to comply with regulatory requirements to do business. Financial institutions need to fulfill their ethical role as legal corporations operating in society. Financial institutions need to be seen as good corporate citizens who contribute to the maximum development of the economy and society (Dorasamy, 2013). These complex relationships with different stakeholders have made corporate social responsibility and the existence of financial institutions interdependent and inseparable. Financial institutions need to be socially responsible to be able to build their "reputational capital", thereby enabling them to attract high-quality employees, negotiate better contracts, expand their customer base, attract investors, and win public trust and confidence (Achua, 2012:59). Banks play a critical role in financial and economic development, especially in developing countries that are rapidly expanding (Dorasamy, 2013). In Nigeria, where the social and economic challenges are generally felt most, banks have a huge corporate social responsibility. This is exacerbated by the global crisis which placed greater responsibility on banks to ensure that their financial management systems do not negatively impact society.

For this reason, corporate governance mechanisms need to be considered in determining CSR, especially board composition and board diversity because CSR reporting is affected by the motives, values, and choices of those who are involved in the organization's decision-making process (Lau et al., 2016). Since both board composition and board diversity significantly differ not only across firms but also across industries, nations, and time, it is predicted that CSR will also vary subsequently (Kabir & Ibrahim, 2020). In a firm with a high level of board diversity concentration, the incentive should be higher to support the controlling owner entrenchment. Nevertheless, it will be difficult for management to use CSR to mask their opportunistic behaviors if an effective system exists to monitor their decisions (Gul et al., 2017). However, Choi et al. (2013) opined that in weakly governed firms CSR involvement induced by opportunistic managers would be more prominent to fulfill personal objectives by overinvesting in CSR. Hence, the CSR debate continues to flourish without a clear consensus on its meaning or value. Even though CSR practice is beneficial to companies because of good CGM, there have been few studies conducted in this area. Consequently, there is a need to re-examine the rudimentary effect of CGM on CSR of listed financial services firms in Nigeria to determine the extent to which CGM impact CSR.

Given the above, it indicates that in recent times the structure of the board of directors has received considerable attention from academics, market participants, and regulators, due to its strategic role and importance in the smooth running of organizations. Several studies on corporate governance mechanisms have provided conflicting views as to the impact or effect of board structure on corporate social responsibility, while at the same time these empirical pieces of evidence are inconclusive. The desertion of studies on the effect of corporate governance mechanism on social responsibility which is an important issue created an empirical gap that has undermined policies' relevance of inferences from the empirical evidence, especially in Nigeria. In this light, this study extends the discussion with relevant variables and panel dynamic model analysis that captures the dynamic reality of the effect of corporate board structure on the financial performance of commercial banks in Nigeria.

1.2 Hypotheses

In the quest to understand the effects of corporate governance mechanism (board size, board diversity, audit committee independence, and board composition) on corporate social responsibility the following hypotheses were formulated in their null forms to guide the study:

H_{01}: Board Size has no significant effect on Corporate Social Responsibility in Nigerian financial service firms.

H_{02}: Board Independence has no significant relationship with Corporate Social Responsibility in Nigerian financial service firms.

H_{03}: Board Diversity has no significant influence on Corporate Social Responsibility in Nigerian financial service firms.

H_{04}: Audit Committee Independence has no significant impact on Corporate Social Responsibility in Nigerian financial service firms.

H_{05}: Board Composition has no significant effect on Corporate Social Responsibility in Nigerian financial service firms.

2.1 Literature Review

2.1.1 Concept of Corporate Governance

No unique all-encompassing definition came up throughout the history of the development of CSR (Kabir & Ibrahim, 2020). While according to Yousuf and Islam (2015), corporate governances are guidelines and methods through which corporations are governed. CGM helps to resolve the potential conflicts of interest amongst the stakeholders (shareholders, management, public administration, personnel dependent, consumers, etc.) in one corporate structure (Yousuf & Islam, 2015). A Corporate is a duly formed organization or corporation (corporate body). It is a duly formed collectivity of many individuals working together to accomplish pre-determined goals, while the word governance as defined by Oviasuyi (2020) refers to "the totality of the exercise of authority in the management of a country's affairs, comprising of the complex mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their legal rights, and mediate their differences. What this means is that governance encompasses the political, economic, legal, judicial, social, and administrative authority, and therefore, it includes government, the private sector, and civil society. In another word, governance can be seen as the process of steering the state, corporate organization, and society towards the actualization of collective goals. Generally, corporate governance is the principles and values that guide a company or institution in the conduct of its day-to-day activities or business and how stakeholders in the community or the larger society interact with it.

Wilson (2006) defines corporate governance as to how corporations are directed, controlled, and hold to an account with special concern for effective leadership of the corporation to ensure that they deliver on their promises as to the wealth-creating organ of the society in a sustainable manner. Similarly, OECD (2007) maintains that Corporate Governance refers to the system by which corporations are directed and controlled. The Governance structure specifies the distribution of rights and responsibilities among different participants in the corporation and specifies the rules and procedures for making decisions in corporate organizations such as the board, manager, shareholders and spells out the rules and procedures for deciding on corporate affairs.

According to Oso and Semiu (2012), the essential ingredients of corporate governance are honesty, trust and integrity, complete transparency, accountability and responsibility, protection of stakeholder's interests and satisfaction, participation, business ethics and values, performance orientation, openness, mutual respect and commitment to the organization, sincere Compliance or adherence to them would pave way for the sustenance of business corporations, the realization of corporate goals good and appreciable turn-over and a veritable global market place. Therefore, Corporate Governance refers to a set of systems, structures, and approaches that determine how a company is managed to achieve its objectives.

2.1.2 Concept of Corporate Social Responsibility

Corporate social responsibility (CSR) is viewed from different perspectives and angles. The perspectives vary from individual authors to organizations and as a result, there is no generally accepted unified definition of the concept (Ibrahim, 2019). For clarity, this study looks at the individual meaning of the words as they relate to the concept.

Social relates to society or its organization. It is concerned with the mutual relations of human beings or classes of human beings (Oviasuyi, 2020). While the term Responsibility means to act morally and accountable for one's actions. The word responsibility is from the word responsible which is to be capable of rational conduct. In other words, to be of good credit, position, or repute; respectable and trustworthy. Responsibility, therefore, is the state or fact of being responsible. Simply put, social responsibility (SR) is acting with concern and sensitivity, aware of the impact of your actions on others, particularly the disadvantaged. It is an idea that companies should embrace their social responsibilities and not be solely focused on maximizing profits (Oviasuyi, 2020). According to the International Organization for Standardization (ISO) cited in Oviasuyim (2020), this relationship to the society and environment in which they operate is "a critical factor in their ability to continue to operate effectively Similarly, Social responsibility (SR) is an ethical ideology or theory that posits that an entity, be it an organization or individual, must act to benefit society at large. Social responsibility is a duty every individual or organization must perform to maintain a balance between the economy and the ecosystem. A trade-off always exists between economic development, in the material sense, and the welfare of the society and environment. Social responsibility means sustaining the equilibrium between the two, (that is, the organizations/individuals/society on the one hand, and the environment on the other).

Corporate social responsibility is defined as the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders (Ibrahim, 2019). In the same vein, CSR is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (World Business Council Sustainable Development -WBCSD, 2000).

Considering the various definitions given, one could observe that they centered around three themes which include corporate relations to economic, societal, and environmental sustainability. Thus, it can be deduced from the foregoing that CSR refers to the decisions and actions taken by organizations for not only achieving the organizational direct economic or technical interest but also to meet the expectations of both internal and external stakeholders of the firm.

2.1.3 Corporate Governance Mechanism

The characteristics of the board of directors are important in determining CSR (Allegrini& Greco, 2013). In this study, the corporate governance mechanisms investigated include (i) Board size (ii) independent directors; (iii) board diversity (iv) audit committee independence (v) board composition. Both theoretical and empirical evidence in the literature points out that there is a relationship between these mechanisms and CSR. Liem (2016) opined that the CGM is to protect the principals' interest through established performance monitoring mechanisms, reduce inefficiencies that arise because of unethical practices and help eradicate the problem of asymmetric information. Corporate Governance Mechanism (CGM) includes monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. According to Basel Committee on Banking Supervision (2015) cited in Olayiwola (2018), a set of relationships exist between the shareholders, the board of directors, the management, and even the other stakeholders, thereby providing a structure through which the objectives of the company are attained, and performance monitored.

2.2 Theoretical Framework

2.2.1 Legitimacy Theory

Legitimacy is the generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. The theory is derived from the concept of organizational legitimacy defined by Dowling and Pfeffer (1975). Legitimacy theory is the most widely used theory to explain environmental and social disclosures (Degaan 2002, Oloyede et al., 2018). Legitimacy theory relies on the notion that there is a social contract between a company and the society in which it operates. Any social institution and business are no exception operate in society via a social contract, expressed or implied whereby its survival and growth are based on the delivery of some socially desirable ends to society in general and the distribution of economic, social, or political benefits to groups from which it derives its power. The social contract is used to represent numerous expectorations society has about how an organization should conduct its operations (Oloyedeet al., 2018). Specifically, it is considered that an organization's survival will be threatened if society perceives that the organization has breached its social contract (Oloyede *et al*., 2018). Where society is not satisfied that the organization is operating legitimately, society will revoke the organization's contract to continue its operations. This theory can be seen from two levels which institutional (Macro-level) concerned with how organizational structure gain approval and empowerment by the community at large which eventually make organizations seem natural and meaningful and organizational level which is concerned with how organization through their activities and procedures establish, maintain, extend, and protect their legitimacy.

Also, legitimacy theory is on the premise that organizations would want to operate within the limit and norms of their society by ensuring that their activities are perceived by society as being legitimate. Legitimacy theory rested upon the idea of the social contract between the organization and the society in which it operates. It thus predicts that organizations will adopt strategies to assure the society that the organization is complying with the society's values and norms (Oloyede *et al*., 2018).

However, there is no generally accepted theory for explaining CSR practices, recent research in the CSR literature has primarily relied on legitimacy theory (Guthrie, 2006). Indeed, "it is probable that legitimacy theory is the most widely used theory to explain environmental and social disclosures" (Guthrie, 2006), legitimacy theory has an advantage over other theories in that it provides disclosing strategies that organizations may adopt to legitimate their existence that may be empirically tested. For these reasons, this study adopts legitimacy theory as the theoretical perspective to explain variations in CSR. Legitimacy theory posits that organizations continually seek to ensure that they operate within the bounds and norms of their respective societies. In adopting a legitimacy theory perspective, a company would voluntarily report on activities if management perceived that those activities were expected by the communities in which it operates (Deegan, 2002).

2.2.2 Agency Theory

It is believed that the audit committee acts on behalf of the interest of the shareholders, and to ascertain the impact of audit committee independence on corporate social responsibility in Nigerian financial service firms. The study examined the agency theory to lend validity and support to the research.

The agency contract has been described by Jensen and Meckling (1976) as a contractual agreement between owners (principals) and managers (agents) to operate the firm in the interests of shareholders. In essence, agency theory seeks to reduce agency problems between shareholders and managers by aligning the interests of managers (agents) with those of shareholders (principals).

Agency theory suggests that corporate governance mechanisms can be introduced to mitigate managerial opportunism, thereby minimizing agency costs (Haniffa & Hudaib, 2006; Solomon, 2010). More specifically, agency theory calls for building an institution of governance structures through the establishment of a set of legal contracts by shareholders to monitor managers (Waleed, 2014). First, it suggests a reduction in the number of executive board members; which could enhance the board's independence (Solomon, 2010; Chen, 2011; Al-Janadi *et al*., 2013). Also, this may help shareholders hold board members to account (Fama 1980; Bebchuk & Weisbach, 2010; Conyon & He, 2011).

In summary, agency theory suggests that good governance through the establishment of effective corporate governance mechanisms can lead to a net decrease in agency costs (Waleed, 2014). In addition, it should mitigate monitoring and bonding costs, thereby leading to an overall improvement in governance practices, voluntary disclosure, and financial performance (Siddiqui *et al*., 2013).

Agency theory is simply the association between the principal and the agent such as shareholders and the company executives or managers. Kabir and Ibrahim (2020) opined that carrying out CSR activities can result in agency problems or conflict of interest between the directors and the shareholders. When companies engaged in CSR and the use of CSR funds to pursue their interest can result in agency problems. Since money spent on CSR activities amount to spending somebody's money and that can affect the company. This means that CSR investment would be wisely used for the improvement of the company's efficiency which is in line with the social perspective. On the effect of agency theory on CSR, it is good CG mechanisms should incorporate the adoption of CSR activities only when it leads to efficiency (Doshi & Lingadaran, 2018). Therefore, to constrain the agency problem and achieve a desired level of performance and credible financial reporting, agency theory provides a means of governing firms through its mechanisms.

2.3 Empirical Review

A study by Olayiwola (2018) investigated the influence of corporate governance (CG) on the CSR of companies. The objectives of this study were to respectively analyze and determine, individually and jointly, the influence of board size, board composition, and audit committee size on CRS. The study employed an exploratory research design. Ten (10) listed financial firms were chosen through a purposive sampling technique and data extracted from the annual reports of these firms from the year 2010 to 2016. A panel data regression was used to analyze the data. CG was proxied with a board size (BS), board composition (BC), and audit committee size (ACS) while CSR was proxied with expenditure on CSR. Findings revealed that board size had a significant negative correlation with CSR, board composition had a significant positive correlation with CSR, audit committee size had an insignificant correlation with CSR and board size, board composition and audit committee size had a significant joint effect on CSR. Thus, it was concluded in the study that a smaller board size will increase CSR and the board composition should consist more of the non-executive directors while the audit committee also should be reviewed from time to time.

Jibril and Muhammad (2016) studied the effects of corporate governance on corporate social responsibility disclosure of firms in the Nigerian food products industry. A sample of five food product companies was taken from 2008 to 2012. The research made use of secondary data generated from annual reports and accounts of the sampled companies. The data were analyzed through descriptive statistics and regression analysis using the STATA package. The results divulge that board size has a positive and significant association with CSRD, thus, the most important determinant of corporate social responsibility disclosure of food product companies. While CEO Duality has a positive but insignificant relationship with CSRD, However, board composition and Audit Committee Composition have negative effects on corporate social responsibility disclosure of the sampled firms. Based on the findings, the study recommends among others; Board size should not be less than 7 members given the magnitude number of the board size to greater disclosure of CSR activities of the sampled firms. Audit committee composition and board composition should comprise competent members. Primarily, the companies should ensure adequate adherence to the code of corporate governance because of its fundamental importance in the actualization of increased CSR disclosure.

Ghabayen et al. (2016) examined the impact of board characteristics on the level of corporate social responsibility (CSR) in the Jordanian banking sector for a sample of 147 banks/years during a period of 10 years (2004-2013). A checklist consisting of 100 items was developed to measure the disclosure level and the result indicates a relatively low level of effect in Jordanian banks. Multiple regression analysis was employed to examine the developed hypotheses. The results indicated that the larger board size and a higher level of CSR are correlated. However, a low level of CSR is associated with a higher proportion of independent directors and institutional directors. In addition, the female director is found to negatively affect the level of CSR.

Rehman et al. (2017) investigated the link between corporate governance characteristics and corporate social responsibility disclosure of listed companies in the Pakistan Stock Exchange (PSX), Pakistan. A sample of 179 companies from financial and non-financial sectors was studied from 2009 to 2015. Binary logistic regression analysis was employed to test the models. The results revealed that board size, number of meetings, and board independence are significant corporate governance characteristics to establish the link with corporate social responsibility disclosure.

Khan (2010) investigated the corporate social responsibility (CSR) of Bangladeshi-listed commercial banks and discovers the potential effects of corporate governance (CG) elements on CSR. The annual reports of all private commercial banks (PCB) for the year 2007-2008 were examined to analyze the banks' CSR practices using content analysis. The study also considered three elements of CG such as non-executive directors, the existence of foreign nationalities, and women representation in the board. Multiple regressions were used to measure the impact of CG elements on banks' CSR initiatives. The results of the study demonstrate that though voluntary, overall CSR by Bangladeshi PCB was rather moderate, however, the varieties of CSR items were impressive. The results also displayed no significant relationship between the women's representation in the board and CSR. Conversely, non-executive directors and the existence of foreign nationalities have been found a significant impact on CSR.

3.1 Methodology

3.1.1 Research Design

Based on the fact that the data collected on the selected variables had already existed, the study employed ex-post facto and panel data research design. The study relied on annual reports and accounts of quoted financial service firms listed on the Nigeria Stock Exchange from 2011 to 2020. The ex-post facto research design is suitable since it does not give room for data manipulation as the statistical data are compiled after the events have already taken place. The data for this study was taken from the combination of different financial firms which constituted the number of observations overtime on several cross-sectional units or financial firms to analyze the dynamics effect of CGM on CSR in short time-series data. Therefore, panel data research design is an appropriate research design for the study. to ascertain the effect of CGM on CSR within the listed financial service firms, a balanced panel data in which five explanatory variables and one dependent variable were used.

There were fifty-six (56) listed financial service firms on the Nigeria Stock Exchange as of 2012 to 2016 as stated in Umoh-Daniel and Uroghide (2018), however, this study found that a few numbers of these financial firms were acquired or merged with other institutions such as the case of Diamond Bank Plc and Access Bank Plc. A recent data released by the Central Bank of Nigeria on the list of financial institutions (https://www.cbn.gov.ng/Supervision/Inst-FC.asp?NAV=3) shows that 52 financial service firms existed. Therefore, the population of this study comprised 52 listed financial service firms. The problem of sample size was addressed using Krejcie and Morgan's formula of 1970 and 46 sampled firms were selected.

3.1.2 Model Specification

The general panel model adopted for the study is as follows:

Pooled Ordinary Least Squared Model

$$CSR_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 ACI_{it} + \beta_5 BC_{it} + \epsilon_{it} \text{----------(3.1)}$$

Where $\beta_0$is the constant term, i and t represent firm and time respectively. $\epsilon_{it}$is the error term assumed to be normally and identically distributed and uncorrected with the regressors?

The Random Effects Model

While the random effect model is specified as follows:

$$CSR_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 ACI_{it} + \beta_5 BC_{it} + \mu_{it} + \epsilon_{it} \text{----(3.2)}$$

While the addition to the equation is the μ_{it} is which the between entity error term. Below is the full meaning of the variables as used in the equations.

CSR = Corporate Social Responsibility
BS = Board Size
BI = Board Independence
BD = Board Diversity
ACI = Audit Committee Independence
FS = Firm Size
FL = Firm Leverage
e = Error Term
β_0- β_6 = intercept (constant)
i – Firm and tt = Time

4.1 Data Presentation and Analysis

4.1.1 Data Cleaning and Transformation

Data cleansing is the process of checking and removing data that do not belong in your dataset. Data transformation is the process of converting data from one format or structure into another. Data cleansing and transformation ensure that the data used is accurate, valid, complete, and consistent according to Redman (1998). In this study, after sorting the data using excel, the file was converted into CSV and imported to R for analysis. There were no missing values for this particular data set which was gathered directly from the websites of the 46 selected companies for the period of 10 years (2011-2020). To provide access to accurate and consistent data, consolidation of different data representations and elimination of duplicate information become necessary. Among the variables of this study, only corporate social responsibility was transformed into a logarithm to reduce variances.

4.2 Data Analysis

To select the most appropriate model, several tests can be done such as the Chow test, Hausman Test, and Lagrange Multiplier test. Therefore, Chow test was conducted to determine whether pooled OLS or fixed effect model was appropriate for this study. The Chow test is also known as the poolability test, which examines if the panel data are polable so that the slopes of the repressors are the same across individual entities or time periods. In other words, is the test of equality between sets of two linear regressions. To decide between these models, the study made use of a 5% significance level. If the p-value is greater than 5% (0.05) then the pooled OLS is better than the fixed-effect model and if the p-value is less than the 5% fixed-effect model it would be selected as the most appropriate model. Similarly, the study conducted the Hausman test to decide between the fixed effect model and the random effect model. The decision rule is that if the p-value of the test is greater than 5%, the random effect model will be appropriate and if the p-value is found to be less than 5% then the fixed effect model is most preferred. If the random effect model is preferred in the Hausman test, then the need to conduct Lagrange Multiplier test. This is to test whether the random effect model is better than pooled OLS. Before, then this study examines the descriptive statistics and correlation among the variables as follows.

4.2.1 Descriptive Statistics

Table 4.1 below shows the descriptive statistics of all the variables, namely, dependent and independent variables for all the 46 sampled financial firms with 460 observations. The average amount of CSR (corporate social responsibility) by all sampled firms for the year under review was ₦66,648.6m with a minimum and maximum of ₦0.900m and ₦1,728,794b respectively. The minimum board size for all the observations is 6 while the maximum number of board sizes goes up to 305,71 with an average number of 326.8. However, 1.94% of the board composition made up of a maximum of 18.8 with a minimum of .01 was found in the sampled firms for all observation years. The descriptive statistics also provided evidence that board independent, board diversity and audit independent committees have an average of 6.048; 5.44, and 2.33 respectively with their corresponding minimum and maximum values as 0.14; 16; 0.00; 15.3; 0.07, 8.31. These implied that some financial service firms do not have the required number of board members as shrined in the code of corporate governance.

Table 4.1 Summary of Descriptive Statistics (N = 460)

Variables	Mean	Median	Std. Dev	Min	Max
LNCSR	66648.6	846.6	227661	0.900	1728794
BS	326.8	13.00	2346	6	30571
BI	6.048	6.00	2.71	0.14	16.0
BD	5.44	4.90	2.65	0.00	15.3
ACI	2.33	1.7	1.89	0.07	8.31
BC	1.94	1.65	1.38	0.01	18.8

Source: Author's Compilation 2021 STATA 17

4.2.2 Correlational Analysis

To test for multicollinearity between the independent variables and also the dependent variables Pearson correlation matrix was used. In other words, the multicollinearity test was used to detect linear dependence between variables. The essence of the correlation matrix was used is to detect multicollinearity between independent variables. Table 4.2 indicates that out of the five independent variables, two are insignificantly positively correlated to CSR at 5%, while three of the independent variables are negatively associated with CSR.

Further analysis of the Pearson correlation matrix is used to check the multicollinearity problem between independent variables, and the result shows that board size has a low negative relationship with board composition, board independence, board diversity, and audit committee independence, however, significant with board independent and audit committee independent at 0% level of significance. In the same vein, board composition was significantly associated with board independence, board diversity, and audit committee independent. Similarly, board independence was found to be significantly related to board diversity and audit committee independence. Lastly, board diversity was highly significant with audit committee independence. From the foregoing, the cutoff point or the benchmark of 0.80 (Farrar & Glauber, 1957; Studenmund & Cassidy 2001; Gujarati, 2003) was not exceeded by the associations of the variables i.e. none of the correlation coefficients exceed this point. There seems to be no multicollinearity or linear dependence among the variables as the correlation coefficients were between ±0.335 to -0.219.

Table 4.2: Correlation Matrix of the Variables

Variable	LNCSR	BS	BC	BI	BD	ACI
LNCSR	1.000					
BS	-0.0392	1.000				
BC	0.1213	-0.112	1.000			
BI	-0.0950	-2187***	0.1726***	1.000		
BD	0.0709	-0.0624	0.2600***	0.1666***	1.000	
ACI	-0.1051	-0.1354**	.2226***	0.2571**	0.3347**	1.00

Note 1) sign. Code: 0 ‘ ***’, 0.001 ‘**’, 0.01 ‘*’
Source: Author’s Compilation 2021 STATA 17

4.2.3 Panel Model Selection

To select the best model to fit a linear least squares regression to the data to model the joint dependence of corporate social responsibility on board size, board composition, board independence, board diversity, and audit committee independence under the assumption that the relationship of corporate social responsibility to board size, board composition, board independent, board diversity and audit committee independent is additive and linear. The need to conduct three important tests which are poolability, Hausman, and Breusch Pagan LM test. Table 4.3 shows that with a large F-stats of 23.16 ($p<.0000$), the null hypothesis of the Chow test for cross-section was rejected. Also, the test for the time period indicates a small f-stat 0.13 ($p>0.05$) in this case the study failed to reject the null hypothesis of period effect of poolability test. However, the overall test for both individual entities and period was found to be significant. The study concluded that the intercepts are different across companies, but not time, therefore a fixed-effects model is preferred.

The next Hausman test was conducted and the test return a large Chi-Squared statistic of 5.83 ($p<.0000$). Then study failed to reject the null hypothesis. Hence, the random effects model was selected or preferred. The test implies that the company effects though present in the dataset are not correlated with the explanatory variables.

Since pooled OLS returns a similar result with the random effect model, the need to test between the random model and pooled OLS. The Breusch Pagan LM test shows a large Chi-Squared value of 904.80 ($p<.0000$), the study rejects the null hypothesis of Pooled OLS is preferred against the alternative hypothesis that the preferred model is a random effect model. Therefore, this study concludes that the preferred model for analysis of these datasets is the random effect model. The implication is that variation in board size, board composition, board independence, board diversity and audit committee independence in each bank affect the degree of corporate social responsibility i.e. there are reasons to believe that differences between entities exist, such as management styles .

Table 4.3: Chow, Hausman and Breusch Pagan Test

Test	Statistic/Chi-Square	d.f	Prob
Chow Test	Cross-section	Time	Both
	23.16	0.13	19.1
	(0.0000)	(0.9990)	(0.0000)
Hausman Test	Chi.Sq-Statistic		
	5.83		0.0000
LM Test	904.8		0.0000

Source: Author's Compilation 2021 STATA 17

4.2.4 Regression Result

Based on the result of the Hausman test random effect model is the most appropriate model for this study. Besides resolving any heteroskedasticity and autocorrelation the study used xtgls command to examine the relationships between board size, board composition board independence, board diversity, and audit committee independence on corporate social responsibility.

Table 4.4 Multiple Regression Result (N = 460)

Variables	**Coef.**	**Std. Err.**	**Z**	**P-value**
BS	-5.989037	4.537492	-1.32	0.187
BC	23274.52	7900.688	2.95	0.003
BI	-9317.275	4051.626	-2.30	0.021
BD	8484.119	4231.637	2.00	0.044
ACI	-17945.86	5985.948	-3.00	0.003
C	90058.38	31737.39	2.84	0.005

Source: Author's Compilation 2021 STATA 17

Table 4.4 above, the multiple regression model result shows that BS (β = -.5.989; p>0.05) has a negative and insignificant effect in shrinking the level of CSR in Nigerian financial service firms. Based on the agency theory, larger companies need larger boards to control and monitor the management actions. This result demonstrates the fact that the size of the firm is not an influential factor that determines CSR in Nigerian financial service firms. Firms with multiple lines of business need more members on their board because they need more guidance. This is as expected because only a few financial firms have appointed the required number of board members as enshrined in the corporate governance code. It is also argued that larger boards are likely to consist of more experts and knowledgeable directors, and offer better advice to the CEO. Thus, more members serving on the boards may lead to a wider exchange of ideas and experiences (Esa & Ghazali, 2010). However, in the case of Nigerian financial service firms in the sampled 46 firms with an average of 326.8 (see table 4.1) of the board serving do not provide enough information regarding CSR during their meetings, which has led to the size of the board to decrease CSR throughout this study.

The coefficient BC (β =.23274.52; p = 0.003<0.05) or the composition of the board of directors as one of the governance mechanisms is related to better CSR i.e. firms that tend to perform better in their governance increases CSR. As indicated by the random effect model. Board composition is found to be positively associated with CSR at a 5% level of significance, hence, an increase in the composition of directors will increase CSR by 33.9%.

Furthermore, the coefficient of BD (β = 8484.12, p = 0044<0.05) is consistent with the apriori expectation that higher board diversity is associated with larger CSR. This implies that firms with female directors increase the chances of a rise in CSR activities as indicated in the report of Waleed, (2014) who found a positive and significant relationship between board diversity and CSR.

The result of BI (β = -9317.275; p = 0.021<0.05) is unexpected, and indicates that the smaller proportion of the independent directors could lead to a higher decrease in the level of CSR. The proportion of independent directors and the level of CSR is found to be negatively associated at a 5% level of significance. This result is inconsistent to the agency theory which suggests independent directors are a good determinant in improving CSR level. Agency theory argues that independent directors are effective tools in improving the corporate governance system and enhancing the procedure of decision-making. This assumption is not empirically supported by this study. In the context of Nigerian financial service firms, very few executives are serving in the boards and the independent board has a negative significant influence on CSR.

The ACI (β = -17945.86; p = 0.03<0.05) was found to be negative and significantly associated with CSR in Nigerian listed financial service firms, as indicated by the random effect model, an increase in the audit committee independence holding other variables constant, decrease CSR as indicated within the period of the study.

4.2.5 Hypotheses Test

To ascertain the level of effect of board size, board composition, board independence, board diversity, and audit committee independence on CSR. The result was judged based on the coefficients of independent variables with their respective p-values in testing the five null hypotheses set in chapter one.

Hypotheses One: Board Size has no significant effect on Corporate Social Responsibility in Nigerian financial service firms.

Board Size was insignificant and negatively associated with corporate social responsibility. This conforms with the predicted null hypothesis (H_{01}). Hence the study failed to reject the null hypothesis. As indicated by the random effect model board size has insignificant effects on corporate social responsibility and is not a good predictor of CSR. This is because the p-value of the coefficient is larger than the preselected alpha level of 5% level of significance.

Hypotheses Two: Board Independence has no significant relationship with Corporate Social Responsibility in Nigerian financial service firms.

The random effect model result shown in table 4.4 indicates that board independence was found to be negative and statistically significantly related to corporate social responsibility. It indicates that board independence in Nigerian financial service firms had a significant effect on CSR within the period of the study. The result implies addition to board independence will however decrease CSR. Based on this result the null hypothesis of board independence has no significant relationship with CSR was rejected as the p-value associated with the coefficient was less than 1% level of significance.

Hypotheses Three: Board Diversity has no significant influence on Corporate Social Responsibility in Nigerian financial service firms.

Conversely, the finding indicates that a significant relationship exists between board diversity and CSR. In this case, the study rejects the null hypothesis of board diversity has no significant influence on CSR. It indicates that board diversity is a good predictor of CSR in Nigerian financial firms under the study period. The p-value was found to be less than a 5% level of significance.

Hypotheses Four: Audit Committee Independence has no significant impact on Corporate Social Responsibility in Nigerian financial service firms.

Contrary to the null hypothesis that audit committee independence has no significant impact on CSR, the study rejected the null hypothesis given that the p-value associated with the coefficient of ACI was less than a 5% level of significance. This implies that an increase in audit committee independence will bring about an increase in CSR in Nigerian financial service firms.

Hypotheses Five: Board Composition has no significant effect on Corporate Social Responsibility in Nigerian financial service firms.

The multiple regression model also shows a highly significant effect of board composition on CSR within the study period. This suggests that board composition is a good predictor of CSR in Nigerian listed financial service firms. The predicted null hypothesis of board composition has no significant effect on corporate social responsibility was rejected, since the p-values indicated a 5% level of significance.

4.2.6 Discussion of Findings

This study has provided sufficient statistical evidence which suggests that CGM can affect CSR both positively and negatively. CGM which was measured by board size, board composition, board independence, board diversity, and audit committee independence has proved to be a good predictor of CSR.

However, board size was negatively associated with corporate social responsibility Based on the agency theory, larger companies need larger boards to control and monitor the management actions. This means that the size of the firm is an influential factor that determines the board of directors' size and larger boards are likely to consist of more experts and knowledgeable directors and offer better advice to the CEO, which could probably influence CSR. This study has shown that board size has no significant effect on CSR in the case of Nigeria, the influence of BS seems to shrink CSR over time. This could be as a result of the small size of the directors in the financial service firms especially as most the financial service firms did not comply with the appointment of the required number of directors based on the corporate code. The descriptive statistic table 4.1 indicates that most of the financial service firms have not complied by appointing the required number of directors. However, in cases where the firms are large, it is very difficult for the small number of directors to effectively monitor the management.

In addition, an increase in board composition is also associated with an increase in corporate social responsibility. These findings demonstrate that board composition positively affects corporate social responsibility. This result does not come as a surprise because a board that consists of innovative directors will go a long way in voting in favour of corporate social responsibility. Board composition is very critical; for instance, if there are two or more specialists in finance, experts in business activities, and other specialists in strategic planning in the board structure, this could improve CSR as shown in the random effect model.

Concerning board independence, the study provides evidence of a strong negative and significant relationship between board independence and corporate social responsibility. The negative influence of board independence is explained theoretically by the literature. It can be argued that independent directors are abler to mitigate the agency problem by reducing managerial opportunism (Waleed, 2014). Contrary to the findings of Waleed (2014) independence of the board of directors have a strong negative affinity with CSR, i.e. companies with strong independent board members do not enhance CSR.

The result of the audit committee independence as indicated by the random effect model was significant and demonstrated to have a negative and significant association with CSR. This implies that financial service firms with large audit committee independence are associated with smaller CSR activities in Nigeria within the period of this study. This has proved that audit committee independence is a good predictor of CSR as against the doubt predicted by the null hypothesis. Audit committees support external auditors in assessing the effectiveness of the internal control system, thereby, however, the study showed audit committee independence does not help to improve the quality of financial information within the study period.

5.1 Conclusion and Recommendations

The current study examines the effect of corporate governance mechanisms on the corporate social responsibility of Nigerian listed financial service firms. Focusing on the financial sector, which has not been widely given much attention in the previous studies, this study employed panel data of 460 firms-years, for 46 financial service firms for the period 2011-2020.

Five corporate governance mechanisms were used in this study namely; board size, board independence, board composition, board diversity, and audit committee independence. The higher the proportion of board size the lower firms involve in CSR. The explanation of the negative effects of the board size on CSR could be due to the small size of the board of directors in financial service firms. The study finds that an average of 326.8 directors are responsible for monitoring and supervising roles which indicates difficult and enormous tasks for such a small size of directors over the study period. Therefore, this has resulted in a low level and a decrease in CSR. Furthermore, board composition in the Nigerian financial service firms has a strong positive effect on CSR this has been widely knowledge by the agency theory that a diverse board brings a variety of experience for observing functions that better address socially responsible investments. In addition to the fact that the board composition is a good predictor in Nigerian financial service firms, may not be the only factor that is responsible for significant changes in CSR, board independence and audit committee independence have a negative influence on CSR in Nigeria over the study period. However, board diversity was found to be significant and positively associated with CSR. The quantitative results show a positive role of corporate governance mechanisms on CSR. By implication, these findings recommend that board composition should be more of the non-executive directors than the executive directors to reduce the problem of agency cost that is intrinsic in agency relationships that exist between the shareholders and the executive directors; financial service firms should revisit the practices of the audit committee independence and board diversity in the light of the huge benefits that could be derived if improved upon; and lastly, financial service firms should have a moderate board size which should consist of more non-executive directors (representatives of the shareholders) and female directors on the board rather than the executive directors, a good number of directors would be adequate for supervisory and monitoring roles.

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