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THE ROLE OF BOARD IN CORPORATE SOCIAL RESPONSIBILITY: A NORMATIVE COMPLIANCE PERSPECTIVE

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Abstract

This paper focuses on the board's influence on CSR among public liability companies (PLCs). The paper uses normative compliance theory to develop the theoretical framework thereby advocating and complementing other theories of CSR by using a balanced random effect regression model to estimate the relationship between board characteristics (such as board composition, diversity and size on CSR). This involved the use of balanced panel data of 174 PLCs from 2003 to 2009. The random effect estimator was used to test the specific effects of board composition, board size and board diversity on CSR of PLCs in Nigeria. The data was obtained from Nigerian Stock Exchange (NSE) factbook from 2003 to 2009. The paper found that NEDs and board size were positively significantly correlated with CSR, while the executive director was negative and significantly related with CSR. The testing of the theory in the context of Nigeria contributes to the body of knowledge on Sub-Sahara Africa, particularly Nigeria which offers a developing country perspective. The paper explores the relationship between board characteristics and CSR thereby contributing to the governance processes of listed companies and how good governance should be encouraged by understanding the board dynamics.

Keywords: Board of Directors, Board Size, Board Composition, Board Diversity, Corporate Social Responsibility, Public Liability Companies, Nigeria

Authors' individual contribution: Conceptualization – L.O.; Methodology – L.O.; Formal Analysis – L.O. and N.O.; Investigation – L.O. and N.O.; Writing Original Draft – L.O.; Writing – Review & Editing – R.O.; Supervision – R.O.; Project Administration – N.O. and R.O.

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1. INTRODUCTION

Corporate social responsibility (CSR) is gaining attention and prominence both in the business and academic community (Beesley & Evans, 1978; Carroll, 1991; Rao & Tilt, 2016; Hoi, Wu, & Zhang, 2018; Yuan, Lu, Tian, & Yu, 2020) thereby putting more pressure on companies to become more accountable to stakeholders (Aras & Crowther, 2008a; Benson, Davidson, & Wang, 2010; Bingham, Gibb Dyer, Smith, & Adams, 2010; Sandberg, 2011). This development has made the board of directors central to making strategic decisions and policies that not only help the companies better their financial performance but also guarantee their continual survival in a competitive global market (Baysinger & Butler, 1985; Waddock & Graves, 1997).

Broadly speaking, pressure groups and stakeholders are demanding that business organisation formulates CSR policies that favour various stakeholders including employees, shareholders, and others (Freeman, 1984; Donaldson & Preston, 1995; Carroll, 1999; Kassinis & Vafeas, 2002; Mahoney & Thorn, 2006; Wahba, 2010). As a result, society expects companies and their board to be stakeholder-oriented by being good corporate citizens (Freeman, 1984; Amaeshi, Adi, Ogbechie, & Amao, 2006). Recently, stakeholders such as shareholders, employees, communities, and public environmentalists, expect companies to manage, mitigate or prevent the adverse social and environmental impacts that may be associated with a company's operations (Mahoney & Thorn, 2006; Altschuller, 2011).

In companies, decisions and influence on CSR policies are being made by employees implying that they are centrally important in deploying CSR strategies (Greening & Turban, 2000; Brammer, Millington, & Pavelin, 2009). As a result, an effective CSR program was implemented through corporate-level policies and standards and supported by oversight mechanisms, training programs, and accountability measures. The CSR programs ensure that companies are responsive to these social concerns. Likewise, the top management team (TMT) and the board (Baysinger & Hoskisson, 1990) were responsible for the formulation and implementation of CSR policies that serve the interest of all stakeholders (Coffey & Wang, 1998; McGuire, Sundgren, & Schneeweis, 1988; McGuire, Dow, & Argheyd, 2003; Galbreath, 2017). In this regard, the paper examines the board co-ordination, influence, and orientation towards CSR.

Failure to address stakeholder concerns effectively can expose companies to a range of financial and non-financial risks, including loss of access to finance, poor employee morale, community opposition, and heightened exposure to regulatory fines and lawsuits (Del Brio, Gomez, & Perote, 2006; Altschuller, 2011). Adverse impacts, even those that result from a single incident, expose companies to lasting reputational damage (Brammer, Millington, & Pavelin, 2009). This reputational harm can impair a company's capacity to leverage relationships with key public and private stakeholders and to implement short- and long-term business strategies (Gabrielsson, 2007; Goss & Roberts, 2009). While directors may recognize these concerns and the strategic value of CSR initiatives, recent studies have found that board oversight of social and environmental practices is lacking (Ogbechie, Koufopoulos, & Argyropoulou, 2009; Wahba, 2010; Altschuller, 2011).

It was noted also that CSR is multidimensional in nature (Husted, 2000; Wood, 1991; Carroll, 1991; Maroun, 2020) resulting in different CSR meanings and empirical findings (Carroll, 1999; Aguilera, Williams, Conley, & Rupp, 2006). As such, several authors have attempted to define CSR from different perspectives (Coffey & Fryxell, 1991; Carroll, 1979; Griffin & Mahon, 1997; Carroll, 1999). Carroll (1979) defined CSR based on social issues using four principles such as economic, ethical, legal, and philanthropy responsibility. Carroll (1979) illustrates this in a pyramid form by stating that economic responsibility is more important to the company followed by ethical, legal, and philanthropic responsibility. Others defined CSR based on stakeholder management (Freeman, 1984; Agle, Mitchell, & Sonnenfeld, 1999), while the European Commission (2006) views CSR as a concept and voluntary practises by firms to widen their responsibility to include a social and environmental concern to satisfy a wider stakeholder group such as shareholders, employees, customers, society, community, environment, and suppliers.

Social and environmental issues have been known to cause legitimacy problems for companies in communities where they operate (Webb, 2004; Wahba, 2010; Gul, Krishnamurti, Shams, & Chowdhury, 2020); an example of such is the oil spillages by big oil companies such as Shell, Chevron and British Petroleum (BP). The question, therefore, is whether board characteristics matter to social performance? While the board role on CSR may be the main issue of discourse in the developed countries such as the United States of America (USA) and Europe, coupled with the fact that empirical evidence and research studies abound in these areas, the same cannot be said of the developing countries such as Africa (Ezirim, Muoghalu, & Nkwuocha, 2005; Amaeshi et al., 2006; Rwabizambuga, 2007; Amao & Amaeshi, 2008; Wahba, 2010).

Hence, this study focuses on Nigeria and the effect of board characteristics on CSR practices of publicly listed companies (PLC) thereby adding to the body of literature and the debate on CSR. From that rationale, this study discusses the following: the theoretical literature and conceptual framework, methodology, findings, and discussion followed by the conclusion.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

In corporate governance and social responsibility extant literature, the agency, stewardship, resource dependence, and stakeholder theories have been used frequently to explain the rationale between the role of the top management team, in this case, the board and CSR (Jensen, 1993; Jensen & Meckling, 1976; Fama & Jensen, 1983; Donaldson & Preston, 1995; Kassinis & Vafeas, 2002; McGuire, Dow, & Argheyd, 2003; Webb, 2004; Norman, 2011). While the agency theory focuses on incentives to monitor executive managers and ensures that diversity of opinions promote board independence, the opposite is true for normative compliance theory that view the board as having the moral imperative to make policies that better the environment (Carroll, 1999; Hillman & Dalziel, 2003). Notably, society places a moral imperative on companies to uplift the community they operate in by making the public a better place. Therefore, this study adopts the normative compliance theory in exploring the link between the board and CSR, thereby contributing to the body of literature.

2.1. Normative compliance theory

The normative compliance theory expects the board to influence the company to contribute to the community (Lunenburg, 2012). The theory derives its meaning from the compliance theory, a psychological theory concerning changing one's behaviour due to a request or direction of another person or group (Breckler, Olson, & Wiggins, 2006; Lunenburg, 2012). Sometimes it involves changing behaviour to fit within the group, while still disagreeing with the group. Breckler, Olson, and Wiggins (2006) state that compliance refers to a change in behaviour that is requested by another person or group to influence the behaviour of a person in a certain way because others asked him or her to do so while having the choice to refuse or decline.

This means the company and board were originally expected to satisfy shareholders alone (Jensen, 1993; Jensen & Meckling, 1976; Fama & Jensen, 1983) but recently companies are being forced by the society in general to pursue a more inclusive stakeholder-oriented approach. Therefore, the normative compliance theory argues that companies have the moral obligation to satisfy various stakeholders including the community, shareholders, and employees. It hinges on the fact that businesses and societies are interwoven rather than separate entities. The above definition of CSR highlights and supports this assertion (Carroll, 1979; Agle, Mitchell, & Sonnenfeld, 1999). However, according to Sacconi (2007), compliance theory suffers from motivational and trust gaps thereby rendering enforcement and implementation ineffective. Also, Sutinen and Kuperan (1999) in explaining compliance behaviour by companies argue that compliance to regulation or practice is anchored on not only on the severity and certainty of sanctions but also on moral obligation and social costs.

Some scholars (Norman, 2011) believe that the boards are not only influenced by society but also by the need to gain legitimacy to engage in CSR. In other words, the fines, and also the need to maintain corporate reputation influence companies to engage in CSR (Brammer, Millington, & Pavelin, 2009). Moreover, normative compliance theory expects the board and companies to invest in CSR. Certainly, the directors on the board are expected to use their knowledge, experiences, and skills to create policies, strategies, and programs that enhance the corporate performance of companies (Baysinger & Hoskisson, 1990), such as corporate social performances. If this is not done, companies may be perceived to be indifferent to its corporate and social responsibilities function and therefore adjudged to be irresponsible hurting its legitimacy and reputation (Brammer & Millington, 2005; Brammer & Pavelin, 2006; Wahba, 2010). Therefore, to avoid these fines and fees, companies with good social responsibility values strives to satisfy its stakeholders.

2.2. The relationship between the board and corporate social responsibility

The board as earlier mentioned is responsible for making decisions and policies of companies particularly policies that address social concerns (oil spills and climate change). In this regard, the chief executive officer (CEO) who run the day to day affairs of the company are also expected to perform their duties in a way that serves the best interest of not only the shareholders but to other stakeholders (Baysinger & Hoskisson, 1990; Coffey & Wang, 1998). The board has initially been accused of the abuse of power and poor performances of companies (Daily & Dalton, 1994). For instance, corporate scandals have been attributed to directors such as the case of Enron collapse which further increased the pressure of companies to be more ethical in their approaches (McGuire, Dow, & Argheyd, 2003; Webb, 2004).

Previous studies on the characteristics of the board and CSR are in developed countries and the results are varied and uncertain (Johnson & Greening, 1999; Rodriguez-Dominguez, Gallego-Alvarez, & Garcia-Sanchez, 2009). However, there are very few studies on the effect of the board characteristics on CSR practices in developing countries (Gao, 2008), particularly in Nigeria where there are no studies or scanty research on CSR (Helg, 2007). Hence, there exists a gap in the impact of board characteristics on CSR in a developing country. This study attempts to fill this gap using the balanced panel data of 174 public listed companies (PLCs) from Nigeria between 2003 and 2009 on CSR to investigate and identify the effect of the board size, board composition and board diversity on CSR.

2.3. Formation of hypothesis: Board composition and corporate social responsibility

The variation of the composition of the board and how it affects CSR has attracted many scholars (Coffey & Wang, 1998; Kassinis & Vafeas, 2002; Webb, 2004, Galbreath, 2017). Some argue for directors' independence in the board (Sonnenfeld, 2002; Kemp, 2011), while others suggest board enlargement as a way of addressing the social and environmental concerns (Pfeffer, 1972, 1973; Coffey & Wang, 1998; Wahba, 2010). In their study, Coffey and Wang (1998) argue for the enlargement of the board, by introducing more non-executive directors (NEDs) into the board as a way of strengthening their independence and their ability to focus on CSR. They noted that NED helps the board to improve its strategic processes and stakeholder's representations. The presence of NED in the board is one of the solutions offered in the monitoring of management and a way of avoiding corporate collapse (Kesner, Victor, & Lamout, 1986; Daily & Dalton, 1994).

Furthermore, the NEDs as part of the board helps to monitor the executive directors in implementing CSR policies. Still, high expectations are required from the NEDs to create an effective and vigilant board aimed at limiting managerial hegemony and opportunism (Coffey & Wang, 1998; Schaffer, 2002; Sanda, Mikailu, & Garba, 2010) and also enhance corporate and social performances (Kassinis & Vafeas, 2002). The NEDs confer independence to the board (Kesner, Victor, & Lamout, 1986); help to reduce CEO duality role by encouraging the separation of the joint structure role of CEO and chairperson to be handled by separate individuals and the monitoring role of management (Daily & Dalton, 1994).

Fernandez-Gago, Cabeza-Garcia, and Nieto (2016) examined Spanish listed companies on IBEX 35 from a period of 2005 to 2010. They found that the percentage of independent directors has an effect on firm CSR activities. On the contrary, Salehi, Tarighi, and Rezanezhad (2017) examined the effect of the structure of the board of directors and company ownership on CSR disclosure of 125 listed companies on the Tehran Stock Exchange. They found there was no significant relationship between the independent board of directors, institutional ownership, managerial ownership, family ownership and the level of CSR disclosure

Empirically, Johnson and Greening (1999) analysed the relationship between board composition and CSR by using secondary data and found a positive relationship between NED and CSR. Other previous empirical studies support the presence of NED in the board (Wang & Coffey, 1992; Coffey & Wang, 1998). Johnson and Greening (1999) found the inclusions of NED in the board to be positively related to CSR. Johnson and Greening (1999) suggest that NEDs bring their skills, connection, and contact to the board; thereby encouraging the long-term survival of the company through the enhancement of product quality and good environmental practices with the aim of satisfying a wider group of stakeholders. Based on the above arguments and empirical findings, the following hypothesis was formulated.

Hypothesis 1 (H1): There is a positive relationship between NED dominated board and CSR.

However, there is a counter-argument that executive directors are believed with time to become self-serving or opportunistic (Jensen & Meckling, 1976; Fama & Jensen, 1983). It is noted that the executive directors may suffer from a conflict of interest as a result of their desire to retain loyalty from close associates or friends thereby compromising their position and power (Agle, Mitchell, & Sonnenfeld, 1999). Also, the executive directors may suffer from fear of revenge or retaliation from the CEO, who in most cases, appoint them into the board (Johnson et al, 1996; Slater and Dixon-Fowler, 2009). According to Johnson, Daily, and Ellstrand (1996), executive directors find it difficult to blame the CEO in periods of poor performances during boardroom meetings, particularly with CEO in attendance; as their presence, power and influence become prominent.

Moreover, agency theory usually views CSR activities by companies as anti-profit. Friedman (1970) argues that profit maximization is the sole responsibility of business organisations and the author further detests corporate attempts to invest in other stakeholders' welfare such as environmental concern, consumers' protection, and employee welfare. Also supported by the above arguments are Hughes (2001) and Bakan (2004) that pointed out that the legal responsibility of companies is to make a profit for investors by providing goods and services demanded by society.

Also, oppose to NED pro-CSR agenda is Vance (1964) who argues that executive directors rather than the NEDs help to improve the corporation's performance when they are in the majority on the board. By so doing, they create wealth and satisfy shareholder's interest (Fama & Jensen, 1983), given the profit maximisation motives, executive directors find it difficult to engage in CSR. Given the review of the arguments above, the following hypothesis was formulated.

Hypothesis 2 (H2): There is a negative relationship between executive directors' dominated board and CSR of companies.

2.4. Board size and corporate social responsibility

Several authors argue that the board provides a pool of potentially valuable resources for the firm (Pfeffer, 1972; Hillman, Cannella, & Paetzold, 2000). Among these authors is Pfeffer (1972) who emphasised that larger board size assists the board to connect the corporation to its external stakeholders and gather resources, reputation, and good corporate brand (Conyon & Peck, 1998). This assertion is supported by the resource dependence view. Pfeffer (1972) argues that increased resources could enhance the chances of the corporation's boards adopting CSR. Also, a large board provides enhanced expertise and skills that can be used to monitor an entrenched executive management team. This indicates that larger boards are well-positioned to make strategic decisions. In his study, Pfeffer (1972, 1973) found board size to be positively related to CSR and concludes that a larger board can act as a linkage between the community and environment because the board is interested in the long term interest of the firm.

Other supporters of large board size were McKendall and Wagner (1997) and Kruger (2010). They argue that expert skills and advice are vital to the board by helping to reduce lawsuits against the corporation due to violations of environmental and human rights. Harjoto and Rossi (2019) studied 156 Italian listed companies during the 2002-2014 period and found that there is a positive relationship between the presence of female directors and CSR. Fernandez-Gago, Cabeza-Garcia, and Nieto (2016) found that CSR plays a mediating role in the relation between the independence of the board of directors, the board size, women as directors, and firm value. Kruger (2010) in examining the relationship between board and CSR using a panel of 2417 PLCs in the US between 1999 and 2007 found that the board size was positively related to CSR suggesting board size, especially with a higher fraction of insider and experienced directors, have less negative events that lead to poor performances.

Similarly, Kyereboah-Coleman (2007) found board size to be positively related to maximisation of shareholders' value and corporate performance arguing that given higher financial performances, mangers engage in CSR. This according to the author suggests that the board is not independent. Kyereboah-Coleman (2007) uses panel data from 1997-2001 in four African countries, namely, South Africa, Ghana, Kenya, and Nigeria in their study. Based on the above arguments of a positive relationship between board size and CSR, the following hypothesis was formulated.

Hypothesis 3 (H3): There is a positive relationship between board size and CSR.

2.5. Board diversity and corporate social responsibility

Generally, diverse boards help the board to reach decisions quickly concerning environmental and other CSR issues, because the minority groups as members of the board bring their personal experiences, interests, and commitments to the board (Baysinger & Butler, 1985; Campbell & Minguez-Vera, 2008). Also, Post, Rahman, and Rubow (2011) argue that female directors favour CSR only if they are more in number on the board. For example, three female directors or more are expected to have an impact on the board, for them to engage in CSR. However, according to the author, if the number falls below a minimum of three female directors on the board, the tendency is that there is little or no impact of female directors on CSR.

Empirically, the inclusion of women, ethnic minorities, and people of different racial backgrounds into the board was found to be positively related to CSR (Johnson & Greening, 1999; Post, Rahman, & Rubow, 2011). Also, Coffey and Wang (1998) argue that the diversity of the board was positively related to CSR because charities and donations are in line with the long-term goal of the company, and altruistic in nature. Coffey and Wang (1998) and Bear, Rahman, and Post (2010) argue that board diversity reduces managerial control, improve board effectiveness in decision making by checking management excessiveness. Moreover, the diversity of the board encourages the board to be responsive to a wider group of stakeholders (Goodstein, Gautam, & Boeker, 1994; Coffey & Wang, 1998, Williams, 2003). However, it was noted that in the absence of diversity in the board, managerial opportunism thrives which leads to inefficiency and poor performances (Coffey & Wang, 1998).

Similarly, in their methodological approach, Bear, Rahman, and Post (2010), Coffey and Wang (1998), and Williams (2003) used secondary data and multiple regression models to analyse the relationship between corporate governance and CSR. As a result, they found women on board to be positively correlated to CSR. Williams (2003) notes that women directors are more inclined in using part of the corporation's fund for charitable causes compared to less inclined male directors. The author concluded that charitable giving by firms may be a way of enhancing their reputation and image, especially firms with a bad corporate image may adopt corporate philanthropy as a way to amend their image and increase societal acceptability (Williams, 2003).

Likewise, the board reaches quick decision concerning environmental issues when the board is diversified, particularly ethnic minorities who have superior knowledge of their communities will encourage the company to invest in CSR as a way of improving their relationship with the communities (Johnson & Greening, 1999; Huse, Nielsen, & Hagen, 2009). Therefore, based on the above arguments and their empirical findings, the following hypothesis was proposed.

Hypothesis 4 (H4): There is a positive relationship between board diversity and CSR.

3. RESEARCH METHODOLOGY

The research is designed to use a random effect estimator to test the specific effects of board composition, the board size, and board diversity on CSR. This involves the use of balanced panel data of 174 PLCs from 2003 to 2009. The data were obtained from the Nigerian Stock Exchange (NSE) factbook and supplemented by information from the annual reports.

To ensure validity, reliability, and replicability of the research study, the problem of multicollinearity (when two or more independent variables are correlated) were checked using the variance inflation factor (VIF) while heteroscedasticity (when residual error term variance not constant) was checked using Breusch-Pagan test (Baltagi, 2009). These problems were corrected using the robust standard error. The Hausman test was used to discriminate between the fixed effect and random effect estimators (Gujarati & Sangeetha, 2007). The Ramsey RESET test results indicate no omitted variables while the Woodridge test for autocorrelation results means there was no autocorrelation (Baltagi, 2009). Stata 11 software was used for the econometric analyses of the panel data.

3.1. Data collection

This study uses secondary data including CSR investments. The CSR investment is the amount spent by the company on CSR activities per year. The amount invested in CSR is measured in Nigerian currency (the naira). In this study, CSR data was obtained from audited annual financial statements and annual reports of companies. This is the pre-tax earnings donated to charities, philanthropic activities, and community development projects (Coffey & Fryxell, 1991; Bartkus, Morris, & Seifert, 2002). This method of data collection is in line with Chai (2010) that employed philanthropy and charitable funds as a proxy for CSR. Chai states that the data has more reliability because it measures the actual amount spent on CSR.

The NEDs were measured as the percentage of non-executive directors to the total number of directors on the board, while the executive directors were measured as the percentage of executive directors to the total number of directors (Berrone & Gomez-Mejia, 2009). The executive directors and NEDs' information were obtained from NSE factbook 2003-2009 (Dalton, Daily, Ellstrand, & Johnson, 1998; Filatotchev & Bishop, 2002; Kassinis & Vafeas, 2002). As for the board size, it is the total sum of all directors at the end of the last fiscal year (Kassinis & Vafeas, 2002) and it was derived from the NSE factbook from 2003-2009. The natural logarithm for the board size (*lnBsize*) was used.

Gender diversity refers to the presence of women and ethnic minorities on the board (Johnson & Greening, 1999). In this study, due to the unavailability of data, board diversity was measured as the percentage of women on the board compared to the total board members (Coffey & Wang, 1998). Therefore, the number of women on the board was used as a proxy for board diversity. However, the number of ethnic minorities was not considered in this study due to incomplete data. Therefore, the information on board diversity regarding the number of women was obtained from the NSE factbook between the period 2003 and 2009.

The following control variables were used, financial performance, firm value, environmental risk, firm size, company age, industry effect, intangible assets, and debt. Expectedly, this information was also obtained from the NSE factbook from 2003 to 2009 (Balabanis, Phillips, & Lyall, 1998).

3.2. Model specification

This study uses balanced panel data of 174 PLCs in Nigeria between 2003 and 2009. The panel data regression is expressed as follows:

$$Y_{i,t} = \alpha + X_{i,t}\beta + E_{i,t} \quad (1)$$

where, $i = 1 \dots N$; $t = 1 \dots T$; i denotes PLC and t denotes time. α is the scalar (constant), β is the coefficient of determination, and $X_{i,t}$ is the observation of the independent variables. $E_{i,t}$ is the error term. Expanding model on equation (1) to include the control variables (*Z*), the following model is specified as:

The model specification is given as:

$$Y_{i,t} = \alpha_i + \beta_1 X_{i,t} + \beta_2 Z_{i,t} + E_{i,t} \tag{2}$$

where, Y = CSR investment (as the amount spent on CSR practices per year); X = Board size, board composition, and board diversity; Z = Control variables; i = Public listed companies (PLC) observations; t = Time period observation; E = Error or disturbance term.

The error components term (E):

$$E_{i,t} = v_i + u_{i,t} \tag{3}$$

The error term $E_{i,t}$ comprises two parts, namely, the time-invariant unobserved variable that does not change with time (Greene, 1993). This time-invariant firm-specific error term is denoted as v_i (see equation (3)). The second part of the error term, $u_{i,t}$, is the time-variant unobserved variable that varies with time and across firms. For example, factors such as general confidence in the company and board of directors' ability may have an effect on market valuation, and influence managers to engage in CSR. Failure to control this correlation within the model would yield biased results that will be unreliable (Del Brio, Gomez, & Perote, 2006; Ramasamy, Ling, & Ting, 2007).

More importantly, the panel data study the dynamics of change and help to investigate the behavioural model over a time period. The panel data takes a closer look at the evolution of CSR in Nigeria as it varies from 2003 to 2009. Besides, the panel data enables the researcher to gain insights into the role of BOD as it affects CSR investment among 174 PLCs in Nigeria from 2003 to 2009 (Baltagi, 2009, Goss & Roberts, 2009).

Therefore, adding the time-invariant firm-specific error term (v_i). The panel data regression is expressed as follows:

$$Y_{i,t} = \alpha_i + \beta_1 X_{i,t} + \beta_2 Z_{i,t} + v_i + u_{i,t} \tag{4}$$

3.3. The effect of board of director characteristics on CSR

Model 1 tests *H1*. Model 1 estimates the effect of NED on CSR when all the control variables are held constant. In this study, Model 1 was illustrated below as:

$$\begin{aligned} lnCSR_{i,t} = \alpha + \beta_1 NED_{i,t} + \beta_2 lncompage_{i,t} + \beta_3 Intang_{i,t} + \beta_4 lnNoemployee_{i,t} + \beta_5 Industry_{i,t} + \beta_6 Beta_{i,t} + \\ + \beta_7 ROA_{i,t} + \beta_8 Tq_{i,t} + \beta_9 lnDebt_{i,t} + \beta_{10} lnEPS_{i,t} + E_{i,t} \end{aligned} \tag{5}$$

Model 2 tests *H2*. Model 2 estimates the effect of the executive directors (ED) on CSR when all the control variables are held constant. In this study, Model 2 was illustrated below as:

$$\begin{aligned} lnCSR_{i,t} = \alpha + \beta_1 ED_{i,t} + \beta_2 lncompage_{i,t} + \beta_3 Intang_{i,t} + \beta_4 lnNoemployee_{i,t} + \beta_5 Industry_{i,t} + \beta_6 Beta_{i,t} + \\ + \beta_7 ROA_{i,t} + \beta_8 Tq_{i,t} + \beta_9 lnDebt_{i,t} + \beta_{10} lnEPS_{i,t} + E_{i,t} \end{aligned} \tag{6}$$

Model 3 tests *H3*. Model 3 estimates the effect of the board size on CSR when all the control variables are held constant. In this study, Model 3 was illustrated below as:

$$\begin{aligned} lnCSR_{i,t} = \alpha + \beta_1 lnBsize_{i,t} + \beta_2 lncompage_{i,t} + \beta_3 Intang_{i,t} + \beta_4 lnNoemployee_{i,t} + \beta_5 Industry_{i,t} + \\ + \beta_6 Beta_{i,t} + \beta_7 ROA_{i,t} + \beta_8 Tq_{i,t} + \beta_9 lnDebt_{i,t} + \beta_{10} lnEPS_{i,t} + E_{i,t} \end{aligned} \tag{7}$$

Model 4 tests *H4*. Model 4 estimates the effect of the board diversity on CSR when all the control variables are held constant. In this study, Model 4 was illustrated below as:

$$\begin{aligned} lnCSR_{i,t} = \alpha + \beta_1 Div_{i,t} + \beta_2 lncompage_{i,t} + \beta_3 Intang_{i,t} + \beta_4 lnNoemployee_{i,t} + \beta_5 Industry_{i,t} + \beta_6 Beta_{i,t} + \\ + \beta_7 ROA_{i,t} + \beta_8 Tq_{i,t} + \beta_9 lnDebt_{i,t} + \beta_{10} lnEPS_{i,t} + E_{i,t} \end{aligned} \tag{8}$$

$$\begin{aligned} The\ control\ variables\ (Z) = lncompage_{i,t} + lnNoemployee_{i,t} + Industry_{i,t} + Beta_{i,t} + \\ + ROA_{i,t} + lnDebt_{i,t} + lnEPS_{i,t} \end{aligned} \tag{9}$$

Table 1. Variables and its meaning

Variables	*Meaning*
$lnCSR_{i,t}$	Log of corporate social responsibility investment for *i-th* firm and time *t*
$lnBsize_{i,t}$	Log of board size for *i-th* firm and time *t*
$ED_{i,t}$	Executive director for *i-th* firm and time *t*
$NED_{i,t}$	Non-executive director for *i-th* firm and time *t*
$Div_{i,t}$	Board diversity for *i-th* firm and time *t*
$lncompage_{i,t}$	Log of company age for *i-th* firm and time *t*
$Intag_{i,t}$	Log of intangible assets for *i-th* firm and time *t*
$lnNoemployee_{i,t}$	Log of the number of employees for firm size for *i-th* firm and time *t*
$Industry_{i,t}$	Industry effect or type for *i-th* firm and time *t*
$Beta_{i,t}$	Firm beta or risk for *i-th* firm and time *t*
$ROA_{i,t}$	Return on assets for *i-th* firm and time *t*
$Tq_{i,t}$	Tobin q for *i-th* firm and time *t*
$lnDebt_{i,t}$	Log of debt for *i-th* firm and time *t*
lnEPS	Log of earnings per share for *i-th* firm and time *t*
a	Alpha for *i-th* firm and time *t*
$E_{i,t}$	Error term or disturbance term
ln	Natural logarithm of variables

Source: Own computation.

Additionally, this study uses the regression instrument, random effect estimator to capture the effect of the board size on CSR and assume that, if the p-value of the coefficient of board size is positively statistically significant, then we cannot reject the null hypothesis.

Therefore, this research expects the coefficients of the following; non-executive directors $(\beta_1 NED_{i,t}) > 0$, executive directors $(\beta_1 ED) > 0$, BOD size $(\beta_1 lnBsize_{i,t}) > 0$, BOD diversity $(\beta_1 Div_{i,t}) > 0$, and all to be statistically significant.

Using the aforementioned variables in the model, the non-executive directors $(\beta_1 NED_{i,t})$ estimate the impact of non-executive directors on CSR. $(\beta_1 ED)$ estimates the effect of executive directors on CSR. $(\beta_1 lnBsize_{i,t})$ measures the impact of board size on CSR. $(\beta_1 Div_{i,t})$ measures the impact of board diversity on CSR.

Table 2. Hypotheses, variables and model assumptions (A priori assumption)

Hypotheses	*Dependent variable*	*Explanatory variable*	*Model*	*Model assumption*	*Signs*
H1	CSR investment	Non-executive director	Model 1	B1 > 1	+Ve
H2	CSR investment	Executive director	Model 2	B2 > 1	+Ve
H3	CSR investment	Board size	Model 3	B3 > 1	+Ve
H4	CSR investment	Board diversity	Model 4	B4 > 1	+Ve

Source: own computation

4. RESEARCH RESULTS

The random effect estimator was used to test the effect of the different board characteristics on CSR because a random effect estimator not only measures the effects of the unobserved variables but also reduces the omitted variable bias in the model (Wooldrige, 2003; Stock & Watson, 2007). In this study, the random effect estimator captures the model and the effects of all the independent variables on CSR. Likewise, the random effect estimator captures the individual level differences among corporate bodies over time leading to a better finding for the regression coefficients (Gujarati, 2003). The next part of this section discusses the findings concerning the effect of NEDs on CSR.

4.1. The effect of NEDs on CSR

Table 3 presents the findings on the effect of NEDs on CSR. The results show the relationship between NEDs and CSR investment was positive and significant at 1% (b = 0.78; p < 0.01). The positive correlation means that as the proportion of NEDs increases the CSR investments increases. The coefficient of determination of overall R^2 is 0.07, implying that the explanatory variables in the model accounted for a 7% variation in CSR investment (Benson, Davidson, & Wang, 2010). The R^2 obtained in this study is higher than the findings of Benson, Davidson, and Wang (2010), which is 0.0086-0.017, and less than the findings of Andayani, Mwangi, Sadewo, and Atmini (2008) where R^2 is 0.37. However, the coefficient of determination (R^2 within) is 0.21, implying that the explanatory variables in the model account for a 21% variation in CSR investment within the firm.

Table 3. The effect of NEDs and executive directors on CSR

Variables	*Random effect estimator*	
	Model 1	*Model 2*
NEDs	0.78(0.00)** *	
Executive directors		-0.85(0.00)***
Intangible asset	0.01(0.10)*	0.012(0.14)*
Number of employee	0.50(0.00)***	0.49(0.00)***
Age of company	0.37(0.00)***	0.36(0.00)***
EPS	-0.00(0.99)	-0.00(0.95)
Risk	-0.02(0.08) *	-0.24(0.08) *
ROA	0.01(0.07) *	0.02(0.06) *
Industry effect	-0.21(0.23)*	-0.22(0.22)
Tobin q	-0.00(0.98)	-0.000(0.98)
Debt	0.01(0.45)	0.49(0.56)
Number of groups(n)	174	174
Number of observation(N)	1151	1151
Within R^2	0.21	0.21
Between R^2	0.06	0.07
Overall R^2	0.07	0.07
Intercept	9.52(0.00)***	11.32(0.00) ***
Heterosedasicity (chi^2 = 4.84; p = 0.028 i.e. p < 0.05)		
Multicollinearity (Mean VIF = 1.25)		
Ramsey RESET test (chi^2 = 21.83; p = 0.00 i.e. p < 0.05)		
Woodridge test for autocorrelation results (0.2913)		

*Note: * significant at level p < 0.1; ** significant at level p < 0.05; *** significant at level p < 0.01. The results in parenthesis mean that the b-value is the coefficient while the p-value indicates the level of significance.*

4.2. The effect of board size on CSR

The effect of board size on CSR is presented in Table 4. The coefficient for board size in the random effect estimation was positive and significant (b = 0.78; p < 0.01). The effect of board size on CSR investment was positive and statistically significant at (1%). The positive result implies that larger board size increases corporate investment on CSR, whilst for board diversity, the findings reveal the effects of board diversity on CSR as insignificant. The presence of female directors was used as a proxy for board diversity. The random estimator produces insignificant results (b = -0.010; p = 0.92).

Table 4. The effect of board size and board diversity on CSR

Variables	***Random effect estimator***	
	Model 3	***Model 4***
Board size	0.78(0.00)***	
Board diversity		-0.010(0.92)
Intangible asset	0.012(0.13)	0.492(0.082)***
Number of employees	0.46(0.00)***	0.647(0.241)***
Age of company	0.34(0.00)***	0.005(0.012)
EPS	-0.001(0.90)	-0.022(0.011) *
Risk	-0.03(0.07) *	-0.001(0.014)
ROA	0.01(0.09) *	0.02(0.06) *
Tobin q	0.001(0.87)	0.001(0.88)
Debt	0.01(0.46)	0.49(0.55)
Number of groups(n)	174	174
Number of observation(N)	1151	1218
Within R^2	0.22	0.23
Between R^2	0.07	0.08
Overall R^2	0.08	0.08
Intercept	9.51(0.00)***	7.94(0.888)***
Heteroscedasticity (chi^2 = 4.84; $p = 0.028$ i.e. $p < 0.05$)		0.88(0.349)
Multicollinearity (Mean VIF = 1.25)		1.49
Ramsey RESET test (chi^2 = 21.83; $p = 0.00$ i.e. $p < 0.05$)		10.08(0.002)
Woodridge test for autocorrelation results (0.2913)		

*Note: * significant at level $p < 0.1$; ** significant at level $p < 0.05$; *** significant at level $p < 0.01$. The results in parenthesis mean that the b-value is the coefficient while the p-value indicates the level of significance.*

5. DISCUSSION OF RESULTS

The findings of a positive and significant relationship to CSR imply that the NEDs favor companies to engage in CSR because of their long term interest for the company. The reasons could be attributed to companies' compliance to the recommendations of the code of best practices earlier established in 2003 and revised in 2011 (SEC, 2003, 2011; Okike, 2007) which provides support for the board to invest in CSR, by recommending that companies be socially, ethically and environmentally responsible in their business conduct (Ibrahim & Angelidis, 1995; Ibrahim, Howard, & Angelidis, 2003). The code also recommends that a minimum of 2 independent NEDs be employed into the board. As a result, the NEDs on the board should at least be 50% of total board members and independent with a lot of skills, knowledge, and experiences. This empowers the NEDs to enhance board effectiveness by implementing all the code of corporate governance recommendation to the latter and at the same time, influence the board to invest in CSR, particularly if they perceive CSR as a positive tool for achieving competitiveness and corporate reputation (Johnson, Hoskisson, & Hitt, 1993). These findings are consistent with the results of Johnson and Greening (1999) that found the inclusions of NEDs on board to be positively related to CSR. In addition, Coffey and Wang (1992) reported a positive and significant correlation between NEDs' and CSR.

For the board size, the findings indicate a positive and significant relationship with CSR. The increase in board size is attributed to the inclusion of NEDs, ethnic minorities, and women into the board which helps not only to diversify the board but to improve the board independence and its effectiveness (Coffey & Wang, 1998; Post, Rahman, & Rubow, 2011). This supports the work of Harjoto and Rossi (2019) where they found that there is a positive relationship between the presence of female directors and CSR. In this paper, the authors considered only gender diversity, but not board diversity as a whole.

From international perspectives, an increase in board size is viewed as occurring due to the rise of globalization. Groups such as Non-Governmental Organisations (NGOs), government, media, investors, and communities request the board to become stakeholder-oriented especially by including NEDs, women, ethnic minorities and employees into the board, thereby giving them access to influence the board to invest in CSR. Also, the introduction of new directors into the board from diverse backgrounds, skills, and knowledge can change the overall perception of the board and its directors and further influence them to invest in CSR. In addition, the effect of board size on CSR can also be explained by the perception of the new board members. If the new board members are inclined to CSR, then they are more likely to influence the board to engage in CSR practices. Likewise, the presence of ethnic minorities on the board can also influence the board members to engage in CSR. Certainly, the ethnic minority directors want their community to believe they are using their presence on the board to influence policies that favor the community. By influencing the board, the company invests in projects that create developments in the community they operate (Dunn & Sainty, 2009).

In contrast to both the NEDs and board size, the results for the executive directors show that the executive directors are negative and significantly related to CSR at 1%. This result shows that higher numbers of executive dominated board do not favor CSR. The executive directors are members of the board that run the day to day operations of the company. They are very concerned about satisfying the shareholder's interest and making profits. This profit motive may hinder the executive directors from investing in CSR practices of the company. Second, if CEOs are not interested in CSR practices because of the negative perception of CSR which the CEO perceives as a fine or cost that reduces profits, then the CEO can influence the board not to invest in CSR. Expectedly, Friedman (1970) along with Hughes (2001) and Bakan (2004) supports the above assertion that the legal responsibility of companies is to make a profit for investors and also that profit maximization is the sole responsibility of business organisations.

6. CONCLUSION

This paper focuses on the fairness and moral obligation of companies in making contributions to society. The normative compliance theory supports the findings and expects directors to bring their contacts, experiences, and skills to the board for the benefit of the stakeholders. It is true that not every law has to be enforced through mandatory CSR, however, so many regulations are still laiz-fair or voluntary CSR. The argument focuses on the moral obligation of the board being in a position of power and authority to morally make decisions that better the society or community.

The study not only contributes to the understanding of how board characteristics affect CSR but make a theoretical contribution concerning the role of companies in society particularly the role of the board in satisfying multiple stakeholders. The normative compliance theory offered an explanation that the board uses its resources and directors' skills to enhance not only social responsibility and firm performances but also the corporate reputation of the firm.

Conversely, the findings between board diversity and CSR contradict the normative compliance theory that argues that the diverse board should invest in CSR. Generally, diverse boards help reach decisions quickly concerning environmental and other CSR issues because the minority directors bring their personal experiences, interests, and commitments to the board (Baysinger & Butler, 1985; Post, Rahman, & Rubow, 2011).

In practice, companies should change the way they view their responsibilities as solely an economic interest but know that they also have a moral obligation to be stakeholder-oriented in their approach. They should extend their philosophies and policies beyond the economic interest to include social interest. Also, their CSR practices should be embedded in their corporate philosophies and culture for the long term survival of the company. The paper also contributes to the literature on corporate governance regulation in Sub-Sahara Africa and how companies and managers take CSR, whether seriously or not. The board ensures the implementation of policies, assessment mechanisms, and internal oversight and control systems that identifies and addresses the actual CSR practices associated with a company's operations. By this, companies can effectively compete and survive in the long run.

In essence, the board has an important oversight role to play in ensuring that companies have systems in place to effectively manage risks such as reputational harm and legal liability associated with adverse social and environmental impacts. Also, the boards should ensure that they have the information they need to evaluate the effectiveness of a company's existing management systems with regard to social and environmental hazards. As a result, they are in a position to raise questions regarding the processes and criteria by which management personnel evaluates the social and environmental risks that may be associated with particular operating environments or business relationships, including those with host governments and joint venture partners.

Also, the board members should emphasize the importance of ensuring that management personnel has the needed resources to respond to shifting stakeholder concerns and expectations in a manner consistent with the company's values and strategic priorities. The board should employ their oversight approach that monitors compliance with established governance standards while also evaluating the potential impact of future expectations. Boards have a significant role to play in establishing and reinforcing an overarching set of expectations with regard to the short- and long-term management of social and environmental risks.

Finally, this paper contributes to the boards and CSR debates and research by extending the literature on organisational governance and commitment towards their social obligation. Based on research findings on how the board influences CSR, one can conclude that the social performance of the company is very important and should be taken seriously if organisations are to stay competitively. The paper explores this through the normative compliance perspectives noting that the size of the board and non-executive directors are very effective determinants and bears influence on CSR adoption by listed companies. The results of a positive and significant relationship between Non-executive directors and board size with CSR are similar to what is obtained by authors in developed countries. By this, the study not only contributes to the understanding of how board characteristics affect CSR but also contributes to knowledge concerning the role of companies in society particularly the role of the board in satisfying multiple stakeholders.

Also, the research points out the implication of the normative compliance theory and how good governance should be encouraged by understanding the board dynamics. The testing of the theory in the context of Nigeria contributes to the body of knowledge in Sub-Sahara Africa, particularly Nigeria which offers a developing country perspective.

However, the limitation of this study is that the number of ethnic minorities was not considered in this study due to incomplete data. Therefore, the information on board diversity regarding the number of women was obtained from the NSE factbook between the period 2003 and 2009. Also, data employed for this paper is majorly limited to listed companies on the NSE and the study covers firms and industrial sectors within a single country but does not cover the country to country differences or factors.

Finally, the areas of future research should concentrate on the use of other methods such as the interview and survey methods. Also, the research in the future should be extended to cover other developing countries particularly in the Africa region, to determine the country to country-specific effect in developing countries. Most empirical studies on country-specific effects of the relationship between board characteristics and CSR policies and practices as it stands today, appear to be based on developed countries, therefore, calling for the need to examine these factors within the parameters of emerging economies, is important.

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APPENDIX

List of abbreviations

Abbreviation	*Definition*
BOD	Board of director
BP	British Petroleum
CEO	Chief executive officer
CSR	Corporate social responsibility
ED	Executive director
FP	Financial performance
MNC	Multinational company
NED	Non-executive director
NGO	Non-governmental organisation
NSE	Nigerian Stock Exchange
PAT	Profit after tax
P/E	Price per earnings
E/S	Earnings per share
PLC	Public liability company
PRO	Public relations officer
R&D	Research and development
ROA	Return on assets
ROE	Return on equity
ROS	Return on sales
SEC	Security and Exchange Commission
SIC	Standard industrial classification
SMEs	Small and medium enterprises
TMT	Top management team
UK	United Kingdom
USA	United States of America