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AUDIT FIRM SIZE AND VOLUNTARY CORPORATE SOCIAL DISCLOSURE AMONG SELECTED LISTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

The study investigates the effect of audit firm size on voluntary corporate social disclosure of selected listed manufacturing firms in Nigeria. The study employs ex-post facto design and secondary data. The population consisted of thirty seven (37) consumer and industrial goods manufacturing firms listed in the Nigerian Stock Exchange as at December, 2017. The final sample consisted of thirty (30) firms selected using purposive sampling. We applied linear regression analysis with the aid of SPSS 20.0 software for the panel data in order to determine the relationship between the variables. The study observed that firms audited by big auditing firms with international affiliations tend to have a significant high level of corporate social disclosure than others that are audited by small local audit firms. The study recommends among others that the small local audit firm should try to emulate the big auditing firms with international affiliations.

Keywords: audit firm size; manufacturing firms; stakeholders; voluntary corporate social disclosure.

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Introduction

The operation of manufacturing firms has contributed immensely to the development of Nigerian economy. The contribution of manufacturing firms was accompanied with some adverse effect on social and natural environments of the hosting communities. According to Okoye & Adeniyi (2018) some manufacturing organizations has poor waste management, little or no regards to employee welfare, lukewarm attitude toward biodiversity, pollution of air and water among others. These problems have negative effect on both the hosting villages and their employee. In order to reduce conflict between the manufacturing firms and her stake holders, the organization have to engage in corporate social responsibility. To show that the firms are responsible corporate citizen, it is necessary for them to report and account for their activities on natural and social environments in which they are operating.

In Nigeria, it is not compulsory for listed companies to report their corporate social responsibility in their financial report. However some firms are reporting their social responsibility to their stakeholders while some firm are not reporting. Some studies conducted on the influence of audit firm size on voluntary corporate disclosure showed that there are positive significant relationships between audit firm size and voluntary corporate disclosure while some studies found no significant relationship between audit firm size and voluntary corporate disclosure. For instance; Samaha & Dahawy (2010); Uwuigbe (2011) discovered positive significant relationship between audit firm size and voluntary corporate social disclosure, while Ballou, Heitger & Landes (2006) found no significant relationship between audit firm size and voluntary corporate social disclosure in their studies.

The design and method used by some studies like, AL- Shubiril, Al-abedallat, & Abu Orabi, (2013), Bakr & Redhwan (2016), Chutimant, Wanchai, & Panarat (2017) among others, varies greatly. Due to inconsistent results of previous studies on audit firm size and voluntary corporate social disclosure and methodology differences indicate a research gap this study tends to examine.

The specific objective of the study is to ascertain the effect of audit firm size on voluntary corporate social disclosure of selected listed manufacturing firms in the Nigeria.

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The study will be guided by the null hypothesis that audit firm size does not significantly affect voluntary corporate social disclosure

The study covers thirty seven (37) consumer and industrial goods manufacturing firms listed on the Nigerian Stock Exchange for the period of the study. The study covers the period of 2008 to 2017 for statistical analysis.

Review of Empirical Literature

Tareq, Reza & Aminu (2017) found that audit firm size have significant influence on corporate social disclosure among listed firms on Jordan Stock Exchange. The study developed a disclosure index to measure corporate social disclosure when there is a standardized disclosure index from Global Reporting Initiative (GRI). The researcher self-developed disclosure may be prone to personal bias and may affect the content analysis used for the study. In the same vein, Umoren, Isiavwe – Ogbari, & Atolagbe (2016) discovered positive relationship between auditor type and corporate social responsibility disclosure.

Bakr & Redhwan (2016) crafted a disclosure index to measure corporate social responsibility information disclosed by the examined firms because the researchers said there is no generally accepted disclosure index. However, according to Tschopp & Nastanski (2014) the Global Reporting Initiative (GRI) is the most accepted and applied standard for corporate responsibility guidance and reporting. The study found a positive relationship between the audit firm size and corporate social responsibility disclosure among listed firms on Saudi Stock Exchange. However, the study did not state the research design used for the study.

Ali, Merve & Nizamettin (2013) discovered that audit firm size has significant effect on voluntary corporate disclosure among Turkish listed companies. Uwuigbe & Egbide (2012) found a positive significant relationship between audit firm size and corporate social responsibility disclosures. The study was silent about its research design but used content analysis in eliciting data from annual report of selected sample.

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Echave & Bhati (2010) investigated auditor type with corporate social and environmental disclosure practices among listed firms in Spain without taking economic environment into consideration. The study found significant relationship between auditor type and level of corporate social and environmental disclosure practices.

However, Barako, Hancock & Izan (2006) investigated the influence of audit firm size on voluntary disclosure practices among Kenya listed firms and discovered that audit firm size do not have significant influence on the level of voluntary disclosure. Ahmed & Courtis (1999) in their study found no positive significant relationship between audit firm size and corporate social disclosure.

Review of previous studies on audit firm size and voluntary corporate social disclosure practices shows inconsistencies in the results, some studies are silent about their research design and there are differences in methodology applied, hence the gap this research intends to cover.

Design and Methodology

This study used *ex-post facto* design because Louis, Lawrence & Keith (2005) in Okoye & Adeniyi (2018) described the design as a method of teasing out possible antecedents of events that have happened and cannot be manipulated by the researcher. The study is made up of thirty seven (37) consumer and industrial goods manufacturing firms listed in Nigeria as at December, 2017 out of the number; only thirty (30) firms have their financial statements available either on their website or in the office of the Nigerian Stock Exchange. Accordingly, the sample population of the study consists of the thirty (30) firms that satisfy the criterion. The sources of data used for the study include annual reports and accounts of companies, corporate website of companies and the Nigerian Sock Exchange Fact books. We applied linear regression analysis with the aid of SPSS 20.0 software for the panel data in order to determine the relationship between the variables.

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Model specification

The linear regression model to empirically test the hypothesis formulated is:

$LOGCSDI_{it} = \beta_{0it} + \beta_1 LOGaudsize_{it} + e_{ij}$

Where:

i. CSRD Index = corporate social disclosure score for company. It is the aggregate model of total disclosure index of Economic performance, Environmental performance and Social performance. Therefore, CSDI= Σ (TDIECN + TDIENV+ TDISOC).
ii. audsize = audit firm size
iii. it= time period of study
iv. $\beta > 0$; $r2 > 0$.
v. $\beta 0$ = intercept
vi. eij = error term
vii. β_1 measure the effect of audit firm size on voluntary corporate social disclosure.

Variable measurement

To measure audit firm size, dummy variable was created. 1 was assigned to company that her auditor's firm is an international audit firm (Big 4). While 0 was assigned to company that her auditor's firm is not an international audit firm (Big 4).

The dependent variables were measured by scoring index based on performance indicators selected from Global Reporting Initiative guidelines as applied in previous studies (Burhan & Rahmanti, 2012, Okoye &Adeniyi, 2018).The global report initiatives (GRI) indicators are international rules that are widely recognized. Nurdin (2009) said that content analysis is very good to measure economic, social and environmental disclosure index. In consistent with Al-Shammari*et* al. (2008); Aljifriet al. (2014); Okoye & Adeniyi, (2018); each disclosure requirement mentioned in the global reporting initiative (GRI) is assigned an equal weight. Each disclosure is coded one (1) if the required disclosure was made and zero (0) if it was not

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Data Analysis and Results

Null hypothesis

There is no significant relationship between audit firm size and voluntary economic disclosure.

Table 1: ANOVA Result: Voluntary corporate social disclosure index on audit firm size

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2518.742	1	2518.742	23.818	.001[b]
	Residual	10257.803	298	105.751		
	Total	12776.545	299			

a. Dependent Variable: corporate social disclosure
b. Predictors: (Constant), audit firm size
Source: Extract from SPSS output

Table 2: Regression coefficient for social disclosure index on audit firm size

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	54.147	1.764		30.702	.000
	audit firm size	10.622	2.177	.444	4.880	.001

a. Dependent Variable: corporate social disclosure
Source: Extract from SPSS output

Table 3: Model summary for voluntary corporate social disclosure index on audit firm size

Model	R	R Square	Adjusted R. Square	Std Error of the Estimate	Durbin – Watson
1	.444[a]	.197	.189	.1028351	.615

Note: $r^2 = .197$, $f(1, 298) = 23.818$, $p = .001$
Source: Extract from SPSS output

The *f*-ratio (23.818) shows that the variable (audit firm size) is the major determinant in explaining voluntary corporate social disclosure. It can be observed that the independent variable does not give a significant effect on the dependent variable based on the *f*-ratio; audit firm size explains 19.7 percent of the variation experienced in voluntary corporate social disclosure among selected manufacturing firms listed on Nigerian Stock Exchange. The independent variable is statistically significant because its significance value is 0.001, which means $P < 0.05$.

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Decision:

Based on the analysis above, the null hypothesis (Ho) is rejected while alternative hypothesis (Hi) is accepted; which state that audit firm size has significant effect on voluntary corporate social disclosure among selected listed manufacturing firms on Nigerian Stock Exchange.

Discussions, Conclusion and Recommendations

Audit firm size has significant effect on voluntary corporate social disclosure among selected listed manufacturing firms on Nigerian Stock Exchange. This study revealed that firms audited by big auditing firms with international affiliations (such as the KPMG, the PricewaterhouseCoopers and the Akintola Williams Deloitte) tend to have a significant high level of corporate social disclosure than others that are audited by small local audit firms. This result is consistent with Uwuigbe & Egbide (2012); Uwuigbe (2011); Samaha & Dahawy (2010) who discovered significant relationship between audit firm size and voluntary corporate social disclosure. The implication of this finding is that big auditing firms do comply with international reporting standards. However, small audit firms have to dance to the tune of their clients in order to protect their job by complying with the directive of company board of director at the expense of international reporting standards. This study revealed that firms audited by big auditing firms with international affiliations tend to have a significant high level of corporate social disclosure than others that are audited by small local audit firms. Therefore, audit firm size significantly affects voluntary corporate social disclosure among the sample population used for the study.

Based on this finding, we hereby recommend that the small local audit firm should try to emulate the big auditing firms with international affiliations. This will help firms to report their corporate social responsibilities activities to their stakeholders. Moreover there should be a law to protect small auditing firms in discharging their legitimate duties without fear of been sack by the company for strictly comply with international standards.

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