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Corporate Social Responsibility Disclosures and Cost of Equity Capital Evidence from Listed Interest Taking Banks in Nigeria

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Abstract: *Disclosure of corporate social responsibility is strategic to the sustainability of any firm especially banks that have contributed to the economic development of Nigeria. When firms fail to adequately disclose their corporate social responsibility practices, providers of funds may be unaware of the risk and opportunities they are exposed to by investing in sech banks. The main objective of this study therefore was to examine the effect of corporate social responsibility disclosures on cost of equity of interest taking banks listed on the floor of the Nigerian Exchange Group from 2014-2023. The research design adopted for this study was ex post facto and secondary data were used. The population of this study consisted of 13 interest taking banks and 11 of these banks were purposively selected as the sample size. The panel regression analysis was employed in analyzing the data set and the statistical package employed was STATA version 16. The findings of this study revealed that community relations disclosures have a significant negative effect on the cost of equity capital; social donations disclosures have a positive but not statistically significant effect on the cost of equity capital while employee relations disclosures have a significant positive effect on the cost of equity capital of listed interest-taking banks in Nigeria. Based on the above findings, it was concluded that corporate social responsibility disclosures help*

reduce cost of equity of listed interest-taking banks in Nigeria. It was therefore recommended among others that management of these banks should be actively involved in community development and ensure transparent disclosure of these practices to stakeholders as this promote their sustainability and inclusiveness.

Keywords: CSR disclosures, cost of equity, community relation, employee relations, social donations.

INTRODUCTION

Corporate social responsibility (CSR) has become an increasingly important aspect of business operations in today's global economy. Companies are expected to not only focus on profit-making activities but also consider their impacts on society and the environment. CSR initiatives encompass a wide range of activities, including philanthropy, community development projects, environmental sustainability efforts, employee well-being programs, and ethical business practices. CSR has emerged as a crucial element in the strategic framework of businesses worldwide. According to Ime et al (2024), the integration of CSR practices is increasingly recognized not only as a moral obligation but also as a potential driver of financial performance and long-term sustainability. Given that business organizations operate within a society; it is crucial for them to make positive contributions to the development of the society which justifies the importance of corporate social responsibility as a key tool for societal progress. This study considered three aspects of corporate social responsibility which were: community relations information, social donations information and employee relations information disclosure.

Community relations information disclosure involves the transparent communication of a company's interactions, engagements, and initiatives with local communities, aiming to foster trust, goodwill, and sustainable relationships while addressing community concerns and contributing to social development. According to Ohaka and Ogaluzor (2018), in its stronger form, the concept of community relations affirms that corporate organizations own a duty to bear in mind the wellbeing of their host communities in every portion of their operations. Social donations and gifting information disclosure entails transparently communicating a company's philanthropic activities, including charitable donations, sponsorships, and community investments, with the aim of showcasing its commitment to social responsibility and community well-being. Donation is one corporate practice that help to enhance the image of the organization thereby leading to acceptability of the organization (Ohaka & Ogaluzor).

Employee relations information disclosure involves transparently communicating information about a company's policies, practices, and initiatives related to its workforce, including employee benefits, diversity and inclusion efforts, labor relations, and training programs, aiming to foster trust, engagement, and satisfaction among employees and stakeholders. Ofurum and Adeola,

(2018) opined that the success or failure of any organization is directly related to how employee can effectively and efficiently manage and organize other factors of production or resources. Employee relations information disclosures are critical for fostering transparency, trust, and engagement within an organization. Effective communication of this information not only complies with legal requirements but also promotes a positive organizational culture (Armstrong & Taylor, 2020). For instance, transparent disclosure of health and safety policies can significantly reduce workplace accidents and enhance employee well-being. Customer & customer complaints information disclosure entails openly sharing details about a company's interactions with customers, including feedback, complaints, and resolutions, to demonstrate accountability, improve customer satisfaction, and foster trust and loyalty.

The cost of equity is an important component of a company's weighted average cost of capital (WACC), which is used in to evaluate investment opportunities and make decisions about financing and capital structure. It represents the opportunity cost of investing in the company's shares. The cost of equity plays a crucial role in the corporate financing and operations decisions of a firm (Dhaliwal et al., 2021). Corporate social responsibility can have a positive effect by attracting financial resources from socially responsible investors and by providing better access to value-enhancing resources (Chen et al., 2019). Corporate social responsibility can have a positive effect by attracting financial resources from socially responsible investors and by providing better access to value-enhancing resources. Also, proponents argue that robust CSR activities can enhance a company's reputation, mitigate risks, and improve stakeholder relations, ultimately lowering the cost of capital (Margolis & Walsh, 2023).

Statement of problem

Corporate social responsibility is a very important aspect of sustainability as the companies try to give back to the society from which they derive their economic activities. Disclosure of corporate social responsibility is strategic to the sustainability of any firm especially banks that have contributed to the economic development of Nigeria. But some of these banks do not show commitment to the impact of their business activities on the society by giving back to them through social donations, community development and support to staff welfare. This, according to them may not add up to their financial bottom lines. The empirical studies reviewed revealed some gaps. The review revealed that most of the studies examined the effect of CSR on financial performance (Dattijo et al., 2024; Meiryani et al., 2023); sustainable development (Ashurov et al., 2024; Megawati & Pratama, 2024); and market value. Another major gap observed in the literature was that indigenous venture support disclosure was lacking as a measure of CSR in previous studies. In addition to this, other measures of cost of capital such as weighted average cost of capital, cost of debt were used in previous studies other than cost of equity (Ime et al., 2024; Akpan & James, 2024; Bonetti, 2023). Unfortunately, the findings of these studies were not unanimous because of varying findings. It was as result of these identified gaps that this study was undertaken to ascertain

the effect of CSR disclosure on cost of equity capital of listed interest taking banks in Nigeria from 2014 to 2023.

Objectives of the study

The main objective of this study was to examine the effect of corporate social responsibility disclosures on cost of equity capital of listed interest taking banks in Nigeria. However, the specific objectives were to:

1. examine the effect of community relations disclosures on cost of equity capital of listed interest taking banks in Nigeria.
2. investigate the effect of social donation disclosures on cost of equity capital of listed interest taking banks in Nigeria.
3. evaluate the effect of employee relations disclosures on cost of equity capital of listed interest taking banks in Nigeria.

Research questions

In order to achieve the above objectives, the following research questions were raised:

1. What is the effect of community relations disclosures on cost of equity capital of listed interest taking banks in Nigeria?
2. What effect does social donation disclosures have on cost of equity capital of listed interest taking banks in Nigeria?
3. What effect does employee relations disclosures have on cost of equity capital of listed interest taking banks in Nigeria?

Research hypotheses

In order to answer the above questions, the following research hypotheses were formulated;

Ho_1: Community relations disclosures have no significant effect on cost of equity capital of listed interest taking banks in Nigeria.

Ho_2: Social donations disclosures have no significant effect on cost of equity capital of listed interest taking banks in Nigeria.

Ho_3: Employee relations disclosures have no significant effect on cost of equity capital of listed interest taking banks in Nigeria.

LITERATURE REVIEW

Corporate social responsibility information disclosures

Corporate social responsibility information disclosure involves communicating a company's social and environmental efforts to stakeholders, aiming to enhance transparency, accountability, and corporate reputation while potentially influencing financial performance and risk perceptions (Ime et al., 2024). The World Business Council for Sustainable Development defines Corporate Social Responsibility as "the continuing commitment by business to contribute to economic development

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while improving the quality of life of the workforce and their families as well as of the community and society at large" (Asemah, et al., 2013). However, the definition of corporate social responsibility lacks universality, and different interpretations have been given to it. It is a multifarious concept that lends itself to multiplicity of meanings. However, for the purposes of this study, corporate social responsibility is described as a collection of activities which are of direct benefit to the society that a firm voluntarily or involuntarily undertakes. These activities form part of an overall corporate responsibilities that the firm owes its stakeholders and the natural environment within its scope of operations (Duke & Kankpang, 2013).

Similarly, Nwanne (2020) define corporate social responsibility as the act of taking care of ones' immediate community. It could be through provision of electricity, pipe bore water, building of good roads and ensuring security in the society or environment where you are situated. According to Ohiokha, et al. (2023), the concept of corporate social responsibility requires that companies should map out and give effect to specific programmes in accordance with a well-defined social policy. Business social responsibility exists and can be felt in many facets in the companies' corporate relationship with stakeholders such as suppliers, customers, employees, host community, owners of businesses, creditors, management, government, and the society. This concept may relate to the tackling of pollution problems, poverty and ethnic discrimination and parochial interests, product safety, misleading advertising, consumer complaints and smuggling (Duke & Kankpang, 2013).

Community relations disclosures

Community relations information disclosure involves the transparent communication of a company's interactions, engagements, and initiatives with local communities, aiming to foster trust, goodwill, and sustainable relationships while addressing community concerns and contributing to social development. Nonetheless, corporate community relation is that branch of accounting that assists a company to be accountable to its host community in all its operations and activities (Daferighe, et al., 2019). According to Ohaka and Ogaluzor (2018), in its stronger form, the concept of community relations affirms that corporate organizations own a duty to bear in mind the wellbeing of their host communities in every portion of their operations. As opined by Omesi and Berembo (2020) community relations disclosure is an approach that informs users of corporate report about the activities of a society and emphasizes the need to identify socially relevant behaviors, the determination of those to whom the company is responsible for its social performance and its development of appropriate measures and reporting techniques.

According Ime et al. (2024) community relations is a set of strategic and deliberate initiatives or programmes implemented by a business organization for the benefit of members of its host community in order to advance mutually-beneficial and cordial relationships with the host community (Chepkirui & Naserian, 2020). It is simply the establishment, nurturing and sustenance of harmonious and productive relations between a corporate entity and the community which hosts

its structures and operations. The underlying principle of community relations is that when a company accepts its civic responsibility and takes an active interest in the wellbeing of its community, then it gains a number of long-term benefits in terms of community support, loyalty and goodwill. Community involvement builds public image and employee morale and fosters a sense of teamwork that is essential in long-term success (Farhad, 2019).

Social donations & gifting disclosures

Social donations and gifting disclosure entails transparently communicating a company's philanthropic activities, including charitable donations, sponsorships, and community investments, with the aim of showcasing its commitment to social responsibility and community well-being. Donation is one corporate practice that help to enhance the image of the organization thereby leading to acceptability of the organization (Ime et al.,2024). Corporate donations, according to Obi (Akpan & James, 2024) include all those issues that are within the corporation's discretion to do to improve the quality of life of employees, local communities and ultimately the society at large. In this regard, Obi (2021) buttresses that corporate behaviour must not only ensure adequate returns to shareholders, adequate wages to employees, quality products and services to customers, it must also respond to societal and environmental concerns.

From the dimension of Emamoke and Omodero, (2021), the term corporate donation refers to any financial contribution made by a corporation to another organization that furthers the contributor's own objectives. Transparency in social donations and gifting is vital to ensure accountability and build trust among donors, recipients, and the public. It allows stakeholders to verify that donations are used effectively and for the intended purposes (Charity, 2023). These disclosures help to maintain the integrity of the organizations and provide donors with confidence that their contributions are making a difference (Hajiha & Sarfaraz, 2019). Additionally, transparency in gifting can deter fraud and misuse of funds, ensuring that resources are directed to where they are most needed. Effective regulation and clear guidelines can help organizations navigate these challenges and foster a culture of openness and accountability in the philanthropic sector.

Employee relations disclosures

Employee relations disclosure involves transparently communicating information about a company's policies, practices, and initiatives related to its workforce, including employee benefits, diversity and inclusion efforts, labor relations, and training programs, aiming to foster trust, engagement, and satisfaction among employees and stakeholders. Ofurum and Adeola, (2018) opined that the success or failure of any organization is directly related to how employee can effectively and efficiently manage and organize other factors of production or resources. Nihat, et al. (2024) documented that before now, employee were assessed just like any other factor used for production but nowadays it seems to be the most important factor in the field of production. Little wonder why Adebawojo, et al. (2015) sees corporate employee relations disclosure as the systematic accumulation of information about changes in investments made in human resources

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and reporting back the information to operating managers to assist them make better decisions than they would have been able to make without such additional information**.** The authors noted that one of the key contributory factors to organizational performance is the employee of an organization who play significant roles in coordinating all organizations' activities, towards the achievement of corporate goals and objectives. With machines, materials, and money little or nothing could be achieved without human contributions (Olaniyan & Lucas, 2018). Kin and Zakiah (2018) opined that "the revolution or transformation into globalization, computerization and information technology has called for urgent need to recognize employee relations disclosure".

Cost of equity capital

According to Utami (2015), the cost of equity financing refers to the rate of return on the shares that investors expect to receive from investing in a company. It represents the minimum rate of return required by shareholders to justify their investment in the company. According to IASB (2018), equity is the residual interest in the assets of an entity a after deducting all its liability. In order words, it is the contract that gives the holder a right to residual interest in the net assets of any entity. Beneda (2013) also noted that the cost of equity is a vital base of comparing investment opportunities. Equity capital plays a fundamental role in the development of a firm due to its advantages when compared to other financing forms. The cost of equity is a critical measure in a firm's capital budgeting decisions when making such evaluations (Gray, 2019). Furthermore, firms that are unable to gain access to lower cost of equity will have no choice but to forgo potentially profitable investments. The firm's access to external finance is limited by market imperfections in the form of information asymmetry and agency problems. The mechanisms that can mitigate these imperfections have significant implications for the firm's cost of equity. Therefore, it can be reduced with voluntary (non)financial disclosure or alleviated with managerial social capital (Francis et al., 2020).

Theoretical framework

Stakeholders' theory by Freeman (1984)

The stakeholder theory sees the firm as part of a larger social system**.** The theory argues that the firm has a wider group of stakeholders who are affected by or affects the activities of the firm other than its shareholders. This theory advances the sole responsibility of firms beyond just making profits for its shareholders to enhancing stakeholder relationships that are mutual. Hence the success of the firm is dependent on how well these stakeholder relationships and needs are managed as it concerns corporate social disclosure. The objective of CSR disclosures for firms is to inform stakeholders about their diverse socially responsible endeavors, aiming to sustain business operations, mitigate financial risks, and consequently reduce the cost of equity capital (Li & Foo, 2015). As defined by Freeman (1984), stakeholders encompass any group or individual capable of influencing or being influenced by the organization's objectives. This theory argues that companies have a responsibility to various groups, including employees, customers, suppliers, communities, and the environment, in addition to their investors (Freeman, 1984). The

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fundamental premise of stakeholder theory is that the long-term success and sustainability of a business depend on its ability to create value for all these stakeholders, rather than focusing solely on maximizing shareholder returns.

Stakeholders theory is the anchor theory for this study as it underscores the advantages of disclosing non-financial information to diverse stakeholders through CSR initiatives, with the aim of reducing the firm's cost of equity capital. Moreover, stakeholder theory provides a framework for addressing conflicts of interest among different stakeholder groups. It encourages companies to engage in dialogue and negotiation, seeking mutually beneficial solutions rather than prioritizing one group's interests over another's (Akpan & Nkanta, 2023). This balanced approach can help prevent potential disputes and build a more cooperative and supportive business environment.

Empirical review

Dattijo et al. (2024) examined the effect of corporate social responsibility on financial performance of oil and gas firms in Nigeria from 2018 to 2023. The results of the study revealed that: corporate social responsibility expenditure and corporate social responsibility disclosure have a positive and significant effect on net profit margin and return on asset of oil and gas firms in Nigeria. Dzage and Szabados (2024) examined the role of corporate social responsibility (CSR) in achieving sustainability and in meeting the expectations of stakeholders Using a collection of 2173 publications on CSR. The results reveal a mild rate of growth in scholarly interest around the field of CSR and business performance until 2022, where a manifold increase in publications was recorded. An expanding focus on human, social and organizational behavior, economic systems, financial and social performance, leadership, stakeholder management and management science was identified, although there is a scarcity of studies around issues regarding developing countries, climate change, CSR disclosure and small businesses.

Ime et al. (2024) examined the effect of corporate social responsibility disclosures on cost of capital of pharmaceutical firms listed on the floor of Nigeria Exchange Group from 2013 to 2022. *Ex post f*acto research design was used, secondary data used were analysed using ordinary least square regression technique and the statistical package employed was SPSS version 20. The findings of this study revealed that environmental responsibility disclosures have an insignificant but positive effect on weighted average cost of capital while indigenous venture supports and staff welfare disclosures have significant negative effect on weighted average cost of capital of listed pharmaceutical firms in Nigeria. Akpan et al. (2024) examined the effect of environmental disclosure on the cost of equity of listed consumer goods firms in Nigeria. Ex- post facto research design was adopted, and panel data covering ten (10) years (2013-2022) were collected across eighteen (18) listed consumer goods firms in Nigeria which formed the sample size of the study. The data collected were analysed using panel multiple regression analysis via E-views 10.0 statistical package. The study findings revealed environmental risk disclosure (Coeff. = -0.0269{0.0107}) and waste management disclosure (Coeff. = -0.0178{0.0009}) have significant

negative relationships on cost of equity (COE) of listed consumer goods firms in Nigeria while greenhouse gas emission disclosure (GGED) has an insignificant negative effect (Coeff. = -0.0075{0.3966}) on cost of equity (COE) of listed consumer goods firms in Nigeria. It was thus concluded that environmental accounting disclosure plays a crucial and significant role in shaping the cost of equity of listed consumer goods firms in Nigeria. The study recommended, amongst others, that regulatory bodies and industry associations.

Bonetti (2023) investigated the relationship between environmental disclosure and the cost of capital, utilizing the Fukushima nuclear disaster as a natural experiment to gauge the relevance of environmental information for investors. Drawing from a substantial, manually collected sample of Japanese firms, the findings indicated that firms disclosing carbon emissions experienced a less significant increase in the cost of capital compared to non-disclosing firms. Cross-sectional analyses suggested that the connection between disclosure and the cost of capital was influenced by the rise in investor uncertainty surrounding the energy supply shortage following the disaster, rather than anticipation of future regulatory costs.

Coelho et al. (2023) scrutinized the relationship between corporate social responsibility (CSR) and performance. The findings of the study indicated a direct impact of CSR on a company's financial performance, with this impact becoming more pronounced as the company's environmental, social, and governance (ESG) scores improve. Chen et al. (2023) assessed the impact of environmental protection, social responsibility, and corporate governance (ESG) performance on the cost of equity (COE) capital within the context of Chinese A-Share companies during the period from 2010 to 2020. Through benchmark analysis, it was determined that ESG performance had a significant and consistent effect in lowering the cost of equity capital for listed companies.

Fandella et al. (2023) tested whether corporate social responsibility (CSR) performance affects the costs of debt, equity, and a weighted average of those two components in BRICS countries. A panel regression analysis was conducted to test whether (1) the inclusion in the ESG combined ranking or (2) the level of the scores for ESG combined is linked to a decline in the cost of capital. Empirical evidence suggested that the level of the ESG combined score did not affect the firm's financial risk. Inclusion in the ESG combined index decreased the cost of equity and the average cost of capital instead. Firms that received an ESG combined score paid lower returns to investors.

Akpan and Nkanta (2023) investigated the effect of green accounting practices on shareholders' value in Nigeria by drawing samples from listed consumer goods firms on the floor of the Nigerian Exchange Group from 2012 to 2021. Ex post facto design was used, secondary data were employed and least square dummy variable regression was used in analyzing the data. The result showed that biodiversity disclosure and compliance to environmental laws disclosures have a positive significant effect on shareholders' value added; water & effluents disclosures have a positive significant effect on shareholders' value added of listed consumer goods firms in Nigeria during the

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period under study. Simo et al. (2023) explored the question of whether it paid off for microfinance institutions (MFIs) to be socially responsible. The findings suggested that a discernible relationship between social performance and capital structure was evident among investors, particularly when factoring in subsidies.

METHODOLOGY

The research design adopted for this study was ex-post facto research design which connotes that the event has already occurred. One key advantage of the ex-post facto research design is that it is less costly and less time-consuming to conduct.The population of this study consisted of 13 interest taking banks listed on the floor of the Nigerian Exchange Group (NGX) during the period between 2014 and 2023. The sample size of this study consisted of 11 purposively selected interest taking banks. The data used in this study were secondary and were obtained from the Nigeria Exchange Group Fact book and the annual report of the banks under study. Furthermore, Content analysis was used as an instrument of secondary data collection for this study. The panel least square regression analysis was used analyzing the data for this study

Model specification

The econometric model for this study is specified as given below;

Cost of Equity = f(corporate social responsibility disclosure) (1)

Cost of equity = **f**(Community relations disclosure, social responsibility donation & gifting disclosure, employee relations disclosure) (2)

$$COSE_{ij} = \alpha_0 + \alpha_1 CDIS_{ij} + \alpha_2 SDIS_{ij} + \alpha_3 EMYD_{ij} + u_{ij} \quad (3)$$

Where:

COSE	=	Cost of equity capital
CDIS	=	Community relations disclosure
SDGI	=	Social responsibility donation & gifting disclosure
EMYD	=	Employee relations disclosure
U	=	stochastic error
i & j	=	Time (i) Frame & cross sections (j)

Measurement of variables

Independent variable

The instrument employed for collection of the data for CSR was the researcher designed checklist. This checklist was developed based on Global Reporting Initiatives disclosure guidelines. Each reporting item on the checklist was assigned a value of ‘1’ if disclosed and ‘0’ if the item is assumed relevant but not disclosed. The score or disclosure index for CSR parameters was the ratio of actual disclosure to the expected disclosure. This is given thus;

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$$\text{The disclosure index} = \frac{\text{Aggregate disclosure score}}{\text{Total Expected disclosure}} \times 100$$

Dependent variable: The cost of equity in this study was measured using Dividend yield model and this is given as;

$$\text{Cost of equity} = \frac{\text{dividend paid}}{\text{Market capitalization}}$$

DATA PRESENTATION AND DISCUSSION OF RESULT

Table 4.1: Descriptive statistics of the effect of corporate social responsibility on cost of equity capital

Variable	Obs	Mean	Std. Dev.	Min	Max
cose	110	6.974	5.409	0.000	30.140
cdis	110	0.902	0.223	0.400	1.000
Sdgi	110	0.952	0.200	0.125	1.000
Emyd	110	0.898	0.268	0.200	1.000

Source: Authors' computation (2024)

The descriptive statistics provide a snapshot of the data collected from the 110 observations of listed interest-taking banks in Nigeria from 2014 to 2023. The dependent variable, cost of equity financing (COSE), has a mean value of 6.974 with a standard deviation of 5.409, indicating considerable variability among the banks. The minimum value of COSE is 0.000, suggesting that some banks might not be paying dividends relative to their market capitalization, while the maximum value reaches 30.140, pointing to significant outliers or exceptional cases where dividends are relatively high. The community relation disclosure (CDIS) has a mean of 0.902 and a low standard deviation of 0.223, indicating that most banks are actively engaging in and consistently disclosing information about their community relations activities.Similarly, social donations information disclosures (SDGI) and environmental relations disclosures (ENRD) exhibit high mean values of 0.952 and 0.973, respectively. The standard deviations for these variables are relatively low, at 0.200 for SDGI and 0.121 for ENRD, pointing to uniformity in these disclosures. Employee relations disclosures (EMYD) present a mean of 0.898 and a standard deviation of 0.268.

Table 4.2: Spearman's rank correlation of the relationship between corporate social responsibility and cost of equity capital

Variables	Cose	Cdis	Sdgi	emvd
cose	1.000			
cdis	0.083	1.000		
sdgi	0.194	0.218	1.000	
emyd	0.334	-0.095	0.269	1.000

Source: Authors' computation (2024)

The Spearman Rank Correlation analysis results indicate various associations between the dependent variable of cost of equity financing (COSE) and the independent variables of corporate social responsibility disclosures. The results show a weak positive association between community relations information disclosures (CDIS) (0.083) and COSE, suggesting that as banks disclose more about their community relations, there might be a slight increase in their cost of equity financing. Social donations information disclosures (SDGI) exhibit a positive association (0.194) with COSE, indicating a moderate relationship where increased disclosures on social donations are linked with higher costs of equity financing. Employee relations information disclosures (EMYD) display a stronger positive association (0.334) with COSE, implying that banks that are more transparent about their employee relations tend to have a higher cost of equity financing.

Regression analyses

Table 4.3 Regression Results

Variables	(1) OLS	(2) FE	(3) RE
cdis	-2.058	-2.248	-2.372
	(0.130)	(0.143)	(0.012)**
sdgi	2.315	2.620	2.576
	(0.260)	(0.265)	(0.233)
emyd	1.744	3.564	3.050
	(0.235)	(0.066)	(0.006)**
Intercept	-44.102***	-59.585***	-52.216***
	(0.000)	(0.007)	(0.001)
Observations	110	110	110
R^2	0.362	0.342	0.348
Adj R^2	0.318	0.082	
Year Dummy	No	No	No
Hettest	6.63{0.010}		
FE/RE		3.71{0.000}	15.45{0.000}
VIF	1.39		
Hausman			1.34{0.987}

*Notes: p-values are in parentheses. *** p<.01, ** p<.05*

Source: Authors' computation (2024)

The Table above represents the results obtained from the estimation of the model of this study. The results show that the dependent variable of cost of equity financing (COSE) when analyzed using the Ordinary Least Squares (OLS) method has an R-Square value of 0.362. This implies that the independent variables of the study could explain approximately 36.2% of the systematic change in COSE. However, the unexplained part of the changes in COSE has been captured by the error term. To further validate the estimates of the OLS results, this study also tests for multicollinearity and heteroscedasticity. The mean Variance Inflation Factor (VIF) of the regression models was 1.39. The analysis reveals that the average VIF (Variance Inflation Factor) for all the models was 1.39 and is below the threshold of 10, which suggests the absence of multicollinearity. The Breusch-Pagan test revealed a significant p-value (Hettest = 6.63, p-value = 0.010) and this suggests the presence if heteroscedasticity. Thus the fixed and random effect regression analysis was estimated to overcome this violation. The hausman test revealed a non-significant p-value of 0.987 implying that the random effect model is preferred to the fixed effect model.

DISCUSSION OF FINDINGS

The result from the random effect regression in table 4.3 revealed that community relations disclosure (coef. - 2.372; p-value 0.233) has a negative significant effect on cost of equity of interest taking banks in Nigeria. This revealed a critical insight into the impact of corporate social responsibility (CSR) practices on financial metrics. This result suggests that banks that actively disclose their community relations activities can benefit from reduced costs of equity. Essentially, the market perceives such disclosures as a positive signal, potentially reflecting better risk management, enhanced reputation, and stronger stakeholder relationships. Investors may interpret these disclosures as indicative of a bank's commitment to social responsibility, which in turn could lead to a more favorable assessment of the bank's risk profile and a lower required return on equity.

The results from the random effect regression in table 4.3 also revealed that social donations disclosure (coef. 2.576; p-value 0.012) has a positive but no significant effect on cost of equity of interest taking banks in Nigeria. This suggests a complex relationship between these disclosures and the financial perceptions of investors. This result implies that while there is an association, indicating that more social donations disclosures could lead to higher costs of equity financing, the lack of statistical significance means this relationship is not robust enough to draw definitive conclusions. The implication is that simply increasing social donations disclosures may not have a meaningful impact on reducing finance costs and might even be viewed with some skepticism by investors. Finally, the result from the random effect regression in table 4.3 revealed that employee relation disclosure (coef. 3.050.576; p-value 0.006) has a significant positive effect on cost of equity of interest in Nigeria and this indicates a counterintuitive relationship. Specifically, the result suggests that increased transparency and reporting on employee relations leads to increased costs of equity capital. Coelho et al. (2023) and Dattijo et al. (2024) emphasized that

transparent CSR practices, including employee relations, enhances firm's reputation and long-term financial stability. However, our findings suggest that while such disclosures are well-intentioned, they might not always be perceived positively by all investors. Similarly, Ime et al. (2024) argue that the financial impacts of CSR disclosures are highly context-dependent, supporting the notion that the positive effects of employee relations disclosures might not be universal.

CONCLUSION

This study addressed the need to understand how different types of corporate social responsibility (CSR) disclosures impact the cost of equity of listed interest-taking banks in Nigeria. This issue is particularly relevant given the increasing emphasis on CSR in global financial markets and the potential for CSR activities to influence investors behavior and financial performance. Based on the findings of this study, it is clear that different types of corporate social responsibility (CSR) disclosures have varying impacts on the cost of equity. Thus, it was concluded that when companies transparently disclosure their sustainability strides the investors perceive their investment safe and thus reduce their risk premium thus leading to a reduced cost of equity. It was recommended that managers of interest taking banks should promote their community relations activities, and thus ensure comprehensive and transparent disclosures. These initiatives not only build stronger community ties but also improve the bank's reputation and lower the cost of equity capital. Also, banks should continue to engage in social donations and also strive to communicate the strategic alignment and impact of these donations more effectively. Corporate managers should also ensure that these activities are not perceived as mere charity but as integral to the bank's social responsibility strategy.

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