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ACCOUNTING PERSPECTIVE OF CORPORATE SOCIAL RESPONSIBILITY: IMPLICATIONS ON BANKS' COST OF CAPITAL

Abasiofon Inimfon Ubokudom[1], Eno Gregory Ukpong[2], and Nkanikpo Ibok (Prof.)[3]

[1]Department of Accounting, Faculty of Management Sciences, Akwa Ibom State University, Obio Akpa Campus.
Email: abasiofonenwenwen@gmail.com; Tel.: 08030749551

[2]Department of Accounting, Faculty of Management Sciences, Akwa Ibom State University, Obio Akpa Campus.
Email: enoukpong@aksu.edu.ng; Tel.: 08035016155

[3]Department of Marketing, Faculty of Management Sciences, Akwa Ibom State University, Obio Akpa Campus.
Email: nkanikpoibok@aksu.edu.ng; Tel.: 08106088451

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ABSTRACT: *The disclosure practices of firms may send strong signals to investors thus influencing their perceptions of the company's risk and ethical standing and this potentially affects the company's cost of capital. This study therefore examined the effect of corporate social responsibility disclosures on the cost of equity of listed deposit money banks in Nigeria. The research design adopted for this study was ex post facto and secondary data were used. The population of this study consisted of 13 deposit money banks and the sample size of this study was 11 purposively selected banks. The ordinary least square regression analysis was employed in analysing the data and the statistical package employed was E-views version 14. The findings of this study revealed that customer disclosures have a significant positive effect on the cost of equity; environmental responsibility disclosures have a positive but not statistically significant effect on the cost of equity while indigenous venture support disclosures have a significant negative effect on the cost of equity of listed deposit money banks in Nigeria. Based on the above findings, it was concluded that corporate social responsibility disclosures have a significant effect on the cost of equity of listed deposit banks in Nigeria. It was therefore recommended among others that management of deposit money banks should actively seek opportunities to engage with and support local entrepreneurs and transparently disclose these practices as investors are attracted to sustainable and eco-friendly firms thus reducing their risk premium in the cost of capital.*

KEYWORDS: CSR disclosures, cost of capital, customer disclosure, employee relations, venture support disclosures.

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INTRODUCTION

The premium attached to eco-friendly and sustainable companies has made banks and other companies actively engage in corporate social responsibility practices. The increase in global environmental awareness and the campaign for sustainable economic development has redirected the attention of firms towards social and environmental sensitivity. Engagement in corporate social responsibility has been shown to be a strategic choice to improve financial performance. According to Ullah et al. (2019), rather than purely altruistic behaviour or simply an effort to enhance the image of the company, companies engage in CSR as a central part of their management strategy. Corporate social responsibility 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. These activities form part of the overall corporate responsibilities that the firm owes its stakeholders and the natural environment within its scope of operations. Uwuigbe and Egbide (2022) described corporate social responsibility disclosures as disclosures relating to the interaction between an organisation and its physical and social environment. This study considered three aspects of corporate social responsibility disclosure which were: customer and customer complaints, environmental responsibility and venture support disclosure.

Customer disclosures entail 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. From a business perspective, feedback from complaints provides valuable insights that help companies identify weaknesses and areas for improvement (Wirtz et al., 2019). Environmental responsibility disclosures refer to the practice of companies and organisations transparently reporting their environmental impacts, risks, and sustainability efforts to stakeholders. Environmental corporate social responsibility (ECSR) is a concept where companies integrate environmental concerns into their business operations and the interaction with stakeholders, without compromising economic performance. After witnessing an increase in environmental catastrophes that were contributed by unscrupulous business interests and careless human attitudes (Banyte et al., 2010), business organisations are turning to CSR as their payback tool. According to Godefroit-Winkel et al. (2022), indigenous venture support is a crucial aspect of corporate social responsibility (CSR). This entails offering both monetary and non-monetary support to native company owners and entrepreneurs. This assistance can come in several forms such as loans, grants, training, mentorship, and access to markets and networks (Haalboom, 2022). While supporting indigenous initiatives is a new and important facet of corporate social responsibility (CSR), it also reflects a dedication to supporting community development, cultural preservation, and economic empowerment among indigenous groups (Breuer et al., 2018).

The deposit money banks are financial institutions that accept deposits from customers and provide loans and other financial services. These banks play a critical role in the economy by facilitating capital allocation, promoting financial inclusion, and supporting economic growth. Hence it is important to ascertain how the corporate social responsibility practices of these banks impact their cost of equity. When these banks fail to adequately disclose their corporate social responsibility strides, providers of funds may be unaware of the risks and opportunities they are exposed to by investing in such banks. Thus, they can adjust their cost of capital upward or downward depending on the risk exposure level. On the other hand, many banks in Nigeria are investing significantly in CSR initiatives but there is limited empirical evidence on

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whether these disclosures translate into tangible financial benefits, specifically in terms of reducing the cost of equity. The cost of equity is a crucial determinant of a bank's overall financial health and its ability to attract investment. The empirical studies reviewed revealed some gaps. The review revealed that some sets of studies focused on other sectors of the economy (Iloma & Chukwu, 2023; Ayon & Oyedokun, 2022). It was also noticed that other measures of CSR other than the ones used in this study were used (Gallo & Serluca, 2024; Al-Akayleh & Saaydah, 2022). Worst still there was no unanimous agreement from the previous studies as a result of varying findings. Thus it was as a result of the identified gaps that this study was instigated. The outcome of this study will be significant to a broad spectrum of stakeholders especially the management of deposit money banks as the outcome of this study will help review their CSR policies and match them with investors' expectations.

LITERATURE REVIEW

Corporate social responsibility disclosures

According to Uwuigbe and Egbide (2022), corporate social responsibility disclosures are disclosures relating to the interaction between an organisation and its physical and social environment inclusive of disclosures relating to human resources, community involvement, the natural environment, energy, and product safety. However, in the views of Yeh et al. (2020) CSR is the commitment of businesses to contribute to sustainable economic development by working with employees, the local community, and the society at large to improve their lives in ways that are good for business and for development. According to Uwa et al. (2018), social disclosure is the giving of account, of firms' social activities to all those affected by their activities in their financial statements. Originally businesses were accountable to their private shareholders or institutional investors in the financial markets. In recent times however, because of the increasing adverse impact of corporations on aspects of social life and the environment, a diversity of stakeholders now demand accountability about the impact of corporate activities on the life of the society (Alotaibi 2016). The considerable emphasis placed on the societal role of business is in accordance with the spreading belief that measures of company success must go beyond profit and should relate to the needs of stakeholders and society at large. Lantos (2021), also noted that the perceived role of business firms worldwide especially in developing countries has changed over time from a classical profit maximisation approach to a socially responsible approach. Additionally, the research by Xie et al. (2017) states that CSR can be characterised as the behavior associated with business ethics Uwa et al. (2018) submitted that it is the ethical obligation of the firm's operations to consider social as well as environmental matters.

Cost of capital

The cost of capital in this study was considered in terms of the cost of equity. The cost of equity is an important component of a company's weighted average cost of capital (WACC), which is used 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). It is described by Ghoul et al. (2020) as the internal rate of return and is also referred to as the discount rate. Sharfman and Fernando (2018) explain this by stating

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that investors demand the expected rate of return for the capital they provide to the firm. The higher the cost of equity, the more expensive it is for the firm to be profitable despite the level of revenues generated. Financial managers are responsible for understanding the timing and amount of capital expenses required to fund the company's investments (Arief, 2019). The cost of equity financing is intricately tied to the necessary level of profit. When a company generates a higher rate of return than its cost of equity, it leads to an increase in the value of the company's ordinary shares and ultimately benefits the shareholders by boosting their wealth. On the other hand, if the internal rate of return is lower than the cost of equity, it will result in a decrease in shareholders' wealth (Keown et al., 2020). The cost of equity represents the risk premium that investors are willing to accept when investing in a company. From an investor's point of view, there are potential returns that can be achieved through dividends or an appreciation in the investment's value. The expected return or cost of equity is determined by the financial risks associated with the investments made in the company's business activities (Tanjung, 2024). Thus, several factors affect the firm's cost of equity including its corporate sustainability reporting practices.

Customer disclosures and cost of capital

Customer 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. According to Refmasari and Supriyono (2019) by sharing what customers are complaining about, companies can identify common problems faced by consumers. As noted by Yilmaz et al. (2020) the benefits of customer complaints information disclosure are numerous. First, enhanced transparency is one of the foremost advantages, as openly sharing information about complaints helps companies build trust with their customers. From a business perspective, feedback from complaints provides valuable insights that help companies identify weaknesses and areas for improvement (Wirtz et al., 2019). This fosters a culture of continuous improvement and accountability within the organisation. In some industries, regulatory bodies require the disclosure of complaint information to ensure companies meet certain standards of consumer protection. When companies openly share information about the nature and resolution of customer complaints, they signal a commitment to addressing issues and improving customer satisfaction. This transparency reduces perceived risks and can lower the cost of capital. Brown et al. (2016) report that firms with better governance practices, which include transparency and disclosure, tend to have a lower cost of capital. Additionally, by disclosing customer complaints and their resolutions, companies can reduce information asymmetry between management and investors. Such a reduction in uncertainty lowers the risk premium required by investors, thereby decreasing the cost of capital. Healy and Palepu (2001) argue that improved disclosure practices reduce information asymmetry and can lead to a lower cost of capital. Gunny (2020) viewed that companies engaging in operational improvements based on feedback, including customer complaints, tend to exhibit better financial performance, which is often rewarded by lower costs of capital. Therefore, addressing and disclosing customer complaints can also lead to operational improvements as companies identify and rectify systemic issues. Karpoff et al. (2018) found a negative relationship between customer disclosures and firms' performance; Verrecchia (2021) found a negative effect of customer disclosure on the cost of capital; Tetteh et al. (2023) found that negative news and disclosures can lead to short-term stock price declines and increased volatility, impacting the cost of capital; while Beyer et al. (2020) found

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a positive relationship between customer disclosures and cost of capital. Based on the above findings, it was hypothesised that;

Ho_1: Customer complaint disclosures have no significant effect on the cost of equity capital of listed interest-taking banks in Nigeria.

Environmental responsibility disclosures

Environmental corporate social responsibility (ECSR) is a concept where companies integrate environmental concerns into their business operations and the interaction with stakeholders, without compromising economic performance. Environmental responsibility disclosures are crucial in today's corporate and regulatory landscape. These disclosures, often embedded within sustainability reports or integrated annual reports, provide stakeholders with insights into a company's environmental impact and its efforts to mitigate adverse effects. William et al. (2023) transparency in environmental reporting fosters trust and can enhance a company's reputation, attracting investors who prioritise sustainability. According to the Global Reporting Initiative (GRI), robust environmental disclosures can lead to better risk management and operational efficiencies (GRI, 2023). Environmental information disclosures can have a significant impact on a company's cost of equity. By providing transparent and regular disclosures about their environmental performance, companies can demonstrate their commitment to sustainability and reduce their cost of equity (Clarkson et al., 2013). This is because investors view companies that prioritise environmental sustainability as less risky and more likely to achieve long-term success (Sharfman & Fernando, 2018).

Numerous research has established various benefits of environmental corporate social responsibility. Molina-Azorín et al. (2009) examined the impact of environmental activities on firm performance and found a positive relationship between them. Weber (2017) also found that environmental activities have a positive influence on the performance of firms. Similarly, Partalidou et al. (2020) found that environmental investment has a significant impact on the performance of firms. The same finding was made by Phan et al. (2020) in their study of textile firms. On the other hand, Ho-Jin et al. (2019) found that corporate performance has been negatively impacted by the increase in costs for environmental CSR activities. Akpan, and James (2024) and Ime et al (2024) found no relationship between environmental responsibility disclosure and the weighted average cost of capital. Thus, based on the above findings, this study hypothesised that;

Ho_2: Environmental responsibility disclosures have no significant effect on the cost of equity capital of listed interest-taking banks in Nigeria.

Indigenous venture support and disclosure

According to Ime et al. (2024), indigenous venture support entails offering both monetary and non-monetary support to native company owners and entrepreneurs. It is a crucial aspect of corporate social responsibility (CSR). This assistance can come in a number of forms, such as loans, grants, training, mentorship, and access to markets and networks (Haalboom, 2022). While supporting indigenous initiatives is a new and important facet of corporate social responsibility (CSR), it also reflects a dedication to supporting community development, cultural preservation, and economic empowerment among indigenous groups (Breuer et al., 2018). In order for corporate social responsibility (CSR) to be effective, companies must work

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in partnership with indigenous organisations, communities, and leaders in order to understand local needs, co-design initiatives, and ensure that support aligns with the aspirations and priorities of the indigenous population (Hamrouni et al., 2022). In the literature, there are very few empirical studies on indigenous venture support disclosure. However, Racine (2023) found that indigenous CSR influences financial performance positively. While Ime et al., (2024) found that indigenous venture support disclosures have a significant negative effect on the weighted average cost of capital of listed pharmaceutical firms in Nigeria; Thus based on the above, this study hypothesised that;

Ho3: Indigenous venture support disclosures have no significant effect on the cost of equity capital of listed interest-taking banks in Nigeria.

Theoretical framework

The major theory that this study anchored on was the legitimacy theory propounded by Suchman in 1995. According to Suchman (1995), legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Legitimacy theory relies upon the fact that a social contract exists between an organisation and the society in which it operates (Omran & Ramdhony, 2015). When there is a disparity between two value systems, there is a threat to the company's legitimacy. Guthrie and Parker (1989), opine that if the legitimacy theory holds true, then corporations will react by disclosing more information when there are major social and environmental events. Consequently, firms ensure that they operate within the bounds and norms of the societies they operate in and legitimise their actions by engaging in corporate social disclosure to obtain approval from society and thus guarantee their continued existence.

According to legitimacy theory, companies encounter diverse political and social pressures from various stakeholders, compelling them to adopt social behaviours to legitimise their operations (De Villiers & Van Staden, 2006). Firms may disclose CSR information and facilitate media coverage to gain societal acceptance for their business practices (Li et al., 2017). However, these disclosures can sometimes be manipulated to project a socially responsible image (De Villiers & Marques, 2016). Industries that are controversial or sensitive, such as mining, tobacco, gambling, and sexual activities, often generate negative externalities (El Ghoul et al., 2011). These firms are therefore expected to provide more detailed CSR information to legitimise their operations and reduce their cost of equity capital by adhering to social norms, thereby establishing positive business relations with stakeholders (Li et al., 2017). CSR is crucial for enhancing a firm's legitimacy among stakeholders by securing favourable news coverage and bolstering its credibility through external assurance (Martínez-Ferrero & García-Sánchez, 2017).

According to William et al. (2023), the concept of legitimacy is crucial as it influences the social acceptance and, ultimately, the survival and success of the organisation According to legitimacy theory, companies must align their actions with societal values, norms, and expectations to maintain legitimacy. This alignment often involves transparent communication and proactive engagement in activities that demonstrate social responsibility. The theory emphasises the role of corporate communication in CSR. Transparent and consistent communication about CSR efforts is essential for maintaining legitimacy. Companies must effectively disclose their CSR activities and outcomes to stakeholders to build trust and

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demonstrate accountability (Gray et al., 2019). This communication can take the form of sustainability reports, social media updates, or community engagement programs, all aimed at reinforcing the company's commitment to socially responsible behaviour.

This theory is significant to this study because CSR is a means by which companies can align themselves with societal values and expectations. Engaging in CSR activities helps businesses build and maintain their legitimacy by demonstrating a commitment to ethical practices, social welfare, and environmental sustainability (Deegan, 2001).

Empirical review

Akpan and James (2024) examined the relationship between corporate social responsibility disclosure and the weighted average cost of capital of listed consumer goods companies in Nigeria. Secondary data was extracted from the annual report of the company under study and was analysed using panel data. The study used an ex post facto research design. The findings of this study revealed that philanthropic responsibility disclosure has a significant negative effect on the weighted average cost of capital; Community responsibility disclosures have no significant effect on the weighted average cost of capital and environmental responsibility disclosure has a non-statistically significant effect on the weighted average cost of capital of listed consumer goods firms in Nigeria.

Ashurov et al. (2024) delved into the conceptualisation of corporate social responsibility (CSR) as a crucial factor for fostering sustainable development and enhancing social welfare. The research utilised the R Biblioshiny software for data analysis incorporating descriptive, annual scientific production and trend analyses to chart the progression and influence of CSR within these realms. Findings underscore a marked expansion in CSR-related research, spotlighting its evolution from mere charity to an integral component of strategic business operations. Emerging patterns reveal that businesses increasingly view CSR as a pivotal part of their value proposition rather than an optional extra.

Ime et al., (2024) examined the effect of corporate social responsibility disclosures on the cost of capital of pharmaceutical firms listed on the floor of Nigeria Exchange Group from 2013 to 2022. Ex post facto research design was used, secondary data used were analysed using the 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 no significant effect on the weighted average cost of capital while indigenous venture support and staff welfare disclosures have a significant negative effect on the weighted average cost of capital of listed pharmaceutical firms in Nigeria. They concluded that firms that engage and disclose their corporate social responsibility initiatives would have improved financial performance through a reduction in the cost of capital. Nkanga et al. (2023) examined the effect of voluntary disclosures on firms' value by taking samples from deposit money banks listed on the floor of the Nigeria Exchange Group from 2012 to 2021. The research design adopted for this study was *ex post facto,* a purposive sampling technique was employed and a secondary source of data used was obtained from the studied companies' annual report and Nigeria Exchange Group fact book. Dummy Least Square Variable regression was adopted to analyse and test the two hypotheses formulated for the study. The findings of the study revealed that social donation and gifting disclosure has a positive significant effect on the market value of deposit money banks while employee health and safety disclosure has no significant effect on the market value of listed deposit money banks in Nigeria.

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Iloma and Chukwu (2023) investigated the effect of corporate social responsibility (CSR) activities on the profitability of oil firms listed in Nigeria by ascertaining how community development costs (CDC) and employee benefits are associated with the financial performance of the firms. The results showed that community development cost (CDC) had a significant positive effect on profitability. Employee benefits also have a similar effect on financial performance. These findings indicate that investing in CSR activities ultimately has a favourable impact on corporate financial performance. Meiryani et al. (2023) scrutinised the influence of corporate social responsibility (CSR) on the financial performance of manufacturing firms listed in the LQ45 Index. The study used an ex post facto research design. Secondary data was extracted from the annual report of the company and the analysis was done using panel data regression analysis. The findings indicated that CSR had a significant impact on ROA but did not significantly affect ROE and NPM in LQ45 manufacturing companies.

Olorunnisola and Usman (2023) examined the effect of the corporate social obligation exposure file on business execution in various Nigerian sectoral ventures. With the end goal of this review, distinct insights, cross-sectional investigations, and a relationship relapse board were utilized. The revelations uncovered that associations in Nigeria are yet to through and through use CSR to propel their displays like what is done by firms in made economies. Subsequently, as a part of the proposition from this survey, Nigerian firms are urged to zero in more enthusiastically on being CSR reliable and find ways by which this can mean predominant advantage and improvement of their overall displays.

METHODOLOGY

The research design adopted for this study was ex post facto. The population of this study consisted of 13 deposit money banks listed on the floor of the Nigerian Exchange Group (NGX) during the period between 2014 and 2023. 11 deposit money banks constituted the sample size of this study purposively selected. The data used in this study were secondary and were obtained from the Nigeria Exchange Group Factbook and the annual report of the companies under study. Furthermore, Content analysis is used as an instrument of secondary data to collect the necessary information for the proxies of corporate social responsibility disclosure. A disclosure checklist developed in accordance with the Global Reporting Initiatives disclosure guidelines was used. Each reporting item on the checklist was assigned a value of ‘1’ if disclosed and ‘0’ if not disclosed. The score or disclosure index for CSR parameters was the ratio of actual disclosure to the expected disclosure. This is given thus;

$$The\ disclosure\ index\ = \frac{Aggregate\ actual\ disclosure\ score}{Total\ Expected\ disclosure}\ x\ 100$$

The model used in this study was adapted from the model of Ime et al. (2024) and this was modified to suit this study as stated below;

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

$$COEQ_{ij} = \alpha_0 + \alpha_1 CCCD_{ij} + \alpha_2 ENRD_{ij} + \alpha_3 INVD_{ij} + u_{ij} \quad (2)$$

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Where:

COSQ = Cost of equity capital

CCCD = Customer disclosure

ENRD = Environmental responsibility disclosure

INVD = Indigenous venture support disclosure

i & j = Time (i) Frame & cross sections (j)

Table 3.1 Operationalization of variables

Variable	Measurement	Source	A prior expectation
Cost of Equity	Dividend Discount Model	Richardson and Welker (2019)	
Customer & Customer Disclosure	Dummy variables that proxy disclosure of Customer Complaints information in annual reports with "1" and "0" for otherwise.	Nkanga et al. (2023)	-
Environmental responsibility disclosure	Dummy variables that proxy disclosure of environmental information in annual reports with "1" and "0" for otherwise.	Ramirez et al. 2022	-
Indigenous venture support disclosure	Dummy variables that proxy disclosure of indigenous venture support information in annual reports with "1" and "0" for otherwise	Ime et al., 2024	-

Source: *Author operationalisation (2024)*

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DATA PRESENTATION AND DISCUSSION OF RESULT

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

Variable	Obs	Mean	Std. Dev.	Min	Max
Coeq	110	3.324	2.625	0.000	45.230
Cccd	110	0.918	0.201	0.200	1.000
Enrd	110	0.973	0.121	0.330	1.000
Invd	110	0.711	0.182	0.430	1.000

Source: *Authors' computation (2024)*

Table 4.1 shows the descriptive statistics of the study and from this table cost of equity (COEQ) has a mean value of 3.324 with a standard deviation of 2.625, indicating considerable variability among the banks. Customer disclosures (CCCD) are also widely practised, with a mean of 0.918 and a standard deviation of 0.201. This high level of disclosure indicates that banks place considerable importance on customer relations and addressing customer complaints. Environmental has a mean value of 0.973 and standard deviation of 0.121 and this reveals a high level of disclosure of environmental practices. In terms of support for indigenous ventures, the indigenous venture support disclosures (INVD) have a mean of 0.711 and a standard deviation of 0.182. This data reveals a moderate level of engagement among banks in disclosing support for indigenous ventures, with some variability across the sector.

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

Variables	Coeq	Cccd	Envd	invd
coeq	1.000			
cccd	0.462	1.000		
enrd	-0.145	0.189	1.000	
invd	-0.032	0.117	-0.471	1.000

Source: *Authors' computation (2024)*

Table 4.2 shows the correlation analysis of the association between the variables. The table shows that customer disclosures (CCCD) have a significant positive association (0.462) with the cost of equity (COEQ), suggesting that greater transparency in handling customer relations and complaints is correlated with higher equity financing costs. Environmental responsibility disclosures (ENRD) show a negative association (0.145) with COEQ, though the relationship is relatively weak. This indicates a slight tendency for banks that disclose more about their environmental responsibilities to face lower costs of equity financing. Conversely, indigenous venture support disclosures (INVD) have a weak negative association (-0.032) with COEQ, suggesting that support for indigenous ventures is slightly related to lower costs of equity financing, though this relationship is minimal.

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Regression analysis

Table 4.3 Regression analysis of the effect of corporate social responsibility disclosures and cost of capital.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.969534	1.167500	4.543246	0.0000
CCCD	0.313528	0.979783	2.321567	0.0128
ENVD	0.277454	0.937384	0.358896	0.0501
INVD	0.190286	0.939501	4.234567	0.0026

R-squared	0.304900	Mean dependent var	5.593597
Adjusted R-squared	0.285227	S.D. dependent var	1.230100
S.E. of regression	1.244825	Akaike info criterion	3.312533
Sum squared resid	159.6076	Schwarz criterion	3.412452
Log-likelihood	-173.2205	Hannan-Quinn criteria.	3.353039
F-statistic	7.169055	Durbin-Watson stat	2.379968
Prob(F-statistic)	0.000250		

Source: *Author's computation (2024)*

The pooled OLS regression table above shows an F-statistic of 7.169055 with a p-value of 0.000250 indicating that the model is fit for statistical inference and that overall, corporate social responsibility disclosure has a significant effect on the cost of capital of listed deposit money banks. The model gave an R-squared value of 0.304900 which means that 30% of the changes in the dependent variable can be explained by the independent variables of this study. However, the unexplained part is captured in the error term.

DISCUSSION OF FINDINGS

Customer complaints disclosures and cost of equity capital

The results obtained from the regression model in Table 4.3 revealed that customer complaint disclosure (Coef.; 0.3135 [0.0128] has a significant positive effect on the cost of capital of listed deposit money banks in Nigeria. This result implies that as banks increase transparency regarding customer relations, the cost of equity rises. Investors may interpret these disclosures as indicators of potential operational issues, customer dissatisfaction, or inefficiencies in service delivery, leading to a higher perceived risk and thus higher required returns on equity. Ime et al. (2024) argue that the financial impact of CSR activities depends on how they are perceived by investors. In this case, disclosures about customer complaints might be seen as

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red flags rather than indicators of transparency and commitment to improvement. In contrast, Dzage and Szabados (2024) highlight that effective management of customer relations and transparent reporting can enhance a company's reputation and financial performance.

Secondly, the study found that environmental responsibility disclosures (Coef.; 0.2774 [0.0501] have a positive but not statistically significant effect on the cost of equity of listed deposit money banks. This result can be interpreted as suggesting that, although environmental initiatives are recognised, they do not yet play a decisive role in influencing the financial metrics for these banks. Finally, the result of the analysis revealed that indigenous venture support disclosures (Coef.; 0.1902 [0.0026] have a significant effect on the cost of capital. It indicates that these disclosure practices significantly reduce the cost of equity financing for listed deposit money banks in Nigeria. This suggests that such disclosures are viewed favourably by investors, who likely perceive them as a commitment to supporting local economic development and fostering strong community relations. This perception could translate into a lower risk profile for the banks, thus leading to a reduced required return on equity. Comparing these results with the literature, several studies provide supporting evidence. Maama and Marimuthu (2022) highlight that CSR activities focusing on local development can strengthen corporate reputation and investor confidence. Similarly, the work of Yi et al. (2020) on community engagement reflects the benefits of local support initiatives in enhancing firm value. Their findings align with the significant negative effect observed in this study, indicating that investors might see indigenous venture support as reducing risk and promoting goodwill, which can be financially advantageous.

CONCLUSION

Overall, the study provides valuable insights into how different CSR activities influence the cost of equity financing in the Nigerian banking sector. On the whole, it was concluded that corporate social responsibility disclosures have a significant effect on the cost of equity of listed deposit money banks in Nigeria. Generally, it was recommended that banks should strategically manage their CSR activities and disclosures to optimise financial performance and enhance investor perceptions. The management of deposit money banks should focus on aligning CSR initiatives with business objectives to maximise their benefits. Banks should continue to support indigenous ventures, as these disclosures significantly reduce the cost of equity financing. The management of deposit money banks should actively seek opportunities to engage with and support local enterprises, ensuring transparent reporting of these activities.

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