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Nexus Between Corporate Social Responsibility Disclosure And Profitability Of Firms Listed At Dar Es Salaam Stock Exchange.

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Abstract

Modern corporations are for people and the environment, making CSR disclosure essential. It is debatable if CSR disclosure influences corporate profitability. This study aims to demonstrate the relationship between CSR disclosure and the profitability of Dar es Salaam Stock Exchange-listed firms (DSE). The research used mixed methods with an explanatory sequential design on 21 publicly traded firms from 2006 to 2021. DSE and annual reports were mined for data. Interviews produced qualitative information. Using the Random Effect model with three estimates (1, 2, 3) and theme analysis, quantitative and qualitative data were analysed. Analysis revealed that CSR disclosure has a significant positive effect on firm profitability measured by ROA and ROE. Findings signify legitimacy and stakeholder theory in relation to CSR disclosure practices. CSR disclosure benefits the image, business, and public trust of a firm, as well as its sales. Manageuld encourage CSR for image and commercial enhancement. Community and the firm rely on one another. CSR disclosure enhances community-business connections. The mixed study design, new control variables, and paucity of literature on the relationship between CSR disclosure and corporate profitability in east Africa contribute to the originality of this research.

***Keywords**: Corporate social responsibility; profitability; listed firms; stock exchange; stakeholder*

INTRODUCTION

We exist in a world in which firms have a social responsibility that goes beyond serving the interest of their shareholders and other members interested in the profitability aspect of the firm (Mwenda, Ndiege, and Pastory , 2021) In the modern business environment firms are faced with stiff competition, if a firm desires to obtain competitive advantage, then among its strategies one has to be concerned with people they operate for and the planet in which they operate. It is quite possible to do good deeds and keep silent that is if marketing and publicity are not in firm's list of objectives. However where profits, publicity and marketing are concerned, a good deed should be accompanied with effective CSR reporting (Türkel, Uzunoğlu, Kaplan, and Vural, 2016). The ultimate goal being to provide the public with a glimpse of what the corporation is up to in serving societies and planet's interests. (Fahad and Busru 2020)

From the above stated viewpoint, it is quite logical for the firm to share to the public various information's in regard of its corporate social responsibility activities. CSR disclosure will enable all involved stakeholders to determine if the corporation is in pursuit of the socially responsible investment (CSR), a concept which has been gaining popularity in recent years (Razali et al., 2018 ; Fahad and Busru, 2020). Being socially responsible is no longer an option but rather it is becoming a necessity. Investors are increasingly becoming aware of the need to be responsible towards the planet and the people to the extent that there has been a rising concern in corporations CSR activities and their disclosure (Ehsan *et al*., 2018).

Perhaps the declining usefulness of financial reporting may be one factor that contributed to the growing need for CSR disclosure (Lev, 2018). Lev points out that executives have accepted the fact that financial data is losing its value over time and as a result are increasingly disclosing operating data that does not adhere to generally accepted accounting rules (GAAP). Disclosure of corporate social responsibility practices has recently come under heightened scrutiny as a result of multiple regulatory organizations located in various regions of the world taking an interest in the topic. When it comes to reporting on their corporate social responsibility (CSR) activities, firms of all sizes and in all parts of the world can use the criteria that are provided by the International Organization for Standardization (ISO) 26000. In addition, the global reporting programs of the United Nations have developed rules and criteria that companies must adhere to when reporting on their impact on people and the environment (GRI, 2021).

For the most part, reporting on corporate social responsibility in the context of Tanzanian firms is still done on a voluntary basis for private businesses, although it is obligatory for publicly listed organizations. Companies are allowed to decide, based on the features of the market in which they operate, which types of corporate social responsibility reporting should receive primary attention from their respective organizations (Kikwiye, 2019). On the other hand, there are a number of acts that make it obligatory for companies to report on the corporate social responsibility initiatives in which they engage. According to Magalla (2018), CSR disclosure in Tanzania is governed by the Companies Act [Cap.212, R.E. 2002], the Dar es salaam Stock Exchange (DSE) listing rules, and the Capital Markets and Securities Act No. 5 of 1994. When considered as a whole, these two acts and the regulations of the stock exchange oblige corporations to operate their businesses with honesty and integrity, as well as to take into account the requirements and concerns of the general public in their day-to-day operations. Practices that are very likely to generate chaos and unhappiness among the general public are aggressively discouraged and subject to harsh fines. As a direct consequence of this, firms are required to behave appropriately toward the society. Aside from that, the Tanzania Financial Reporting Standards No. 1 (TFRS, 2020) and the Environmental Management Act of 2004 both require publicly traded corporations to declare the steps they take regarding corporate social responsibility. Because of issues such as voluntarism and differences in CSR disclosure, it makes it imperative to investigate whether or not there is a connection between corporate social responsibility (CSR) disclosure and the profitability of companies that are listed on the DSE.

According to the viewpoints of a variety of academics, if there is any benefit to be gained from CSR disclosure to those who are interested in the firm's value, then an increase in profits would be among those goodies (Yang, 2017). This author argued that while a reduction in CSR practices and disclosure might not reduce profits in the short term, over a longer period of time, a reduction in CSR practices and reporting will eventually destroy firm value and might even cause the company to go out of business. It stands to reason that the positive attention provided to the company through CSR reporting will lead to a growth in the number of its clients, sales, and degree of confidence within the local community. All of these things should convert into financial and profit advantages for the company (Mwenda et al., 2021). Regardless of the validity of the preceding argument, there is always the possibility in the world of finance that one's anticipations will not always correspond to the actual results.

LITERATURE REVIEW

Review of literature has indicated that there is a Disparity existing among researchers who sought to link firm profitability to CSR disclosure. Al-Dah et al., (2018) conducted research on companies that are included on the FTSE 350 index, and they came to the conclusion that CSR reporting is not always favorable. They arrived to the conclusion that one of the most important factors that plays a role in determining the outcomes of CSR activities is the macroeconomic environment in which CSR is executed. When the economy is weak, customers have a tendency to concentrate more on their personal concerns, which makes them less tolerant of businesses that channel their resources into social objectives that don't generate a profit for the society as a whole. It was discovered that social disclosures made during times of crisis had a negative impact on businesses that had a high number of outside directors and a low accounting profit.

According to the findings of Wang et al. (2018), mandated CSR disclosure contributed to a decrease in the profitability of companies in China. It was also revealed that CSR reporting has a detrimental effect on profitability for Islamic banks in Yemen (Al-Homaidi et al, 2021). According to the findings presented in (Gara, 2020), CSR disclosure had a negative impact on the ROA of high profile firms listed in Indonesia, and it also had a negative impact on the ROE of both high profile and low profile enterprises. According to the findings of Sekhon and Kathuria (2020), the influence of CSR on the financial performance of large companies in India can either have no effect on ROA or a negative effect on ROE. According to the findings of Silaban and Purba's (2020) research on the Influence of CSR Disclosure on Earnings Per Share of Companies in the Basic and Chemical Industry Sector in Indonesia, CSR disclosure had a favourable and partially beneficial effect on earnings per share. According to Yang (2017)'s findings, CSRD had a large beneficial impact on the ROA of companies situated in eastern China, however it had no significant impact on the ROA of enterprises situated in western China.

Consesus on the nexus between CSR disclosure and profitability of listed firms can hardly be reached if there are different views from various research on similar topic in different context. Not basing on lack of consesus alone further research is necessary as little has been done to determine the link between CSR disclosure and firm profitability in sub saharan Africa. Not employing all the possible profitability proxies is another major reason for diging further into the subject matter. In adition to that profitability of a firm might be influenced by an array of factors such as strategies, market environment and business operations (Orlitzky *et al*, 2003). Not considerng other factors influencing profitability might lead to spurious and imprecise relationship between CSRD and profitability. Apart from that the main problem in this study is brought forth by a notion that CSR activities will at certain point in time will require the firm to incure expenditures of a certain sum of money (Hariyani, Purwati, Wasito, Ermawati, and Azizah, 2022).In the end, the firm will have no choice but to bear all the burden of such expenditure as it will be absurd to add such expenditure to the product or service cost, ultimately this scenario may result in reduction of firms revenue and profit. The dillema that faces the firms is that they have no choice but to engage in and report on CSR activities as required by the standard, guidelines and regulations, the question here is, is it worth it? With such perspective in mind this study was set on the path to fill the prevailing gap in research arena by providing further answers to the inconclusive question; is there a nexus between CSR disclosure and firms profitablity?

Theoretical framework

The theoretical underpinnings of this study are the stakeholder theory and the legitimacy theory. The fundamental theoretical framework that was utilized was the legitimacy theory, and the stakeholder theory was utilized as an additional theoretical pillar. Stakeholder theory helps to clarify how a company can leverage its legitimacy to boost performance and develop a positive business image by pointing out the specific stakeholders. Use of stakeholders' theory as an additional theory stems from the fact Legitimacy theory fails to reveal precisely the public that the firms go out of their way to gain the approval of.

Legitimacy Theory

According to Dowling and Pfeiffer's Legitimacy Theory, organizations should strive to achieve congruence between the social values connected with or indicated by their activities and the norms of acceptable behaviour in the larger social system of which they are a part (Lokuwaduge and de Silva, 2020). Whenever there is a disparity between the two value systems, whether that discrepancy is genuine or perceived, there is a danger to the organization's credibility. The legal system, the state of the economy, and various other forms of social pressure all pose a risk. Dowling and Pfeiffer want us to believe that society gives the Firm license to function and that the Firm must account to society for its acts. The criteria that determine whether an action is regarded as good or evil are the standards that have been established by society. Profit is one of the norms that are established by society, and in the end, society wants to see the earnings trickling down to cater to societal requirements that might not be prominent to the firms, such as planting trees and creating dormitories for schoolgirls. Disclosure of social responsibility operations that a company otherwise would have carried out in secret is ultimately the only way for it to demonstrate to the general public that it abides by social norms and maintains its legitimacy in relation to the community. This idea is also backed by Maignan and Ralston (2002), who said that CSR may be used as an excellent instrument to develop corporate legitimacy among diverse stakeholders. The assumption that the legitimacy of the company is founded on social contracts, on the other hand, throws open a can of worms. According to Deegan (2019), in the essence of a social contract, there exists a wide range of different perspectives. This is because no one group has monopoly power over other groups in determining what sorts of behavior are acceptable or not. When making such a pluralistic assumption about the world, one ignores concerns that relate to sectional (class) interests, the function of the state, structural conflict, and disparities that are typically present in our day-to-day lives. The fact that a number of different stakeholders are present and have a say in deciding which behaviours and activities are acceptable prompted the researchers to add another theoretical pillar to base this research work on and the stakeholder theory was selected to provide further clarifications of the findings.

Stakeholder Theory

Stakeholder's theory suggests that company ought to provide value for all of its stakeholders. A corporation's stakeholders are those parties that have the potential to either directly or indirectly influence the corporation or be influenced by it. Given that each party is capable of swaying the actions of the other, it is customary for the stakeholders to have the right of access to the information held by the company that has the potential to affect the choices made by the stakeholders. The instrumental approach of the stakeholder theory focuses on the improvement of firm performance through careful consideration of various stakeholders (Budi, 2021). Corporations should carefully consider their reasons for existence and act in a manner that brings about the greatest positive impact towards all of the parties involved with it. They should also make sure that all of these parties understand that the corporation operates with the best intentions possible for everyone. To a certain extent, the profitability of an organization is contingent on its capacity to appease its many different stakeholder groups (Orlitzky et al., 2003). When there is little to no information available from which such perspectives can be derived, stakeholders may use CSRD as a tool to provide informational signals that can be used as a foundation for assessing the company's reputation. This tool may be utilized as a tool for providing informational signals. In light of this idea, it is abundantly evident that a company ought to carry out and disclose the CSR activities it undertakes in order to produce more value for the stakeholders it serves. In this study, the idea is put to the test to determine whether or not CSRD can significantly affect the profitability of a corporation. One of the problems with the stakeholder theory is that it can be difficult to determine which groups of individuals have legitimate interests and so ought to be taken into account as stakeholders (Beltagui, Kunz, and Gold, 2020). When a group of people who have an interest in something does not have much authority, their requests for more socially responsible business practices may be ignored by senior management (Handoyo and Nurmeidita, 2020). In light of this, the researchers in this study also employed the legitimacy theory to operate in tandem with stakeholders theory in explaining the results of this research

METHODOLOGY

A mixed research techniques was employed and the Inferences were derived using both qualitative and quantitative data. The insight that was obtained from the examination of the quantitative data was gradually supplemented with the use of qualitative data to provide more explanation. This method had the advantage of offering greater validity and confidence due to the utilization of a variety of data to support the hypothesis, which was a distinct benefit of the strategy (Rutberg and Bouikidis, 2018). During the first phase, quantitative data was collected and analysed, and during the second phase, qualitative data was gathered and analysed. Quantitative data were prioritized because of their ability to provide clarity regarding the nature of the link that exists between the variables examined in the study.

The census method was utilized, and all 21 of the companies that were listed in DSE were chosen. Purposive sampling was used to locate a total of nine key informants for the purpose of conducting interviews. They consisted of one officer from CMSA and DSE, one broker, and six senior officers from firms that have a long history of engagement in DSE transactions. Knowledge and experience in the capital market were taken into consideration while selecting key informants.

Throughout the process of gathering primary data, ethical protocols were strictly followed at all times.

Panel data on the dependent variable firm profitability (ROA, ROE), independent variables CSRD, and control variables (firm size, percentage of government ownership, and multinational subsidiary) were obtained from audited annual reports of firms listed on the DSE. The panel data were collected for the time period extending from 2006 to 2021. The decision to use panel data was based on its capability to give for reduced collinearity while also providing for greater information and unpredictability (Barthelemy, 2017). The time period beginning in 2006 was chosen since that was the year that DSE first began storing data in an electronic format, making it simpler to retrieve the information when needed.

Interviews with a semi-structured format were carried out so the results of quantitative research could be supported. It is possible to combine interviewing with other types of research tools. They are a valuable source in offering greater insights from the viewpoints of many individuals who have a grasp of the internal affairs, procedures, and relations of the organizations analysed in this research (Maia, 2021). They were collected from both primary and secondary sources

In order to uncover the connection between CSR disclosure and the profitability of companies, regression models were utilized. The equations i and ii provide a presentation of the model that was used.

$$ROA_{it} = \beta_o + \beta_1 CSRD + \beta_2 FS_{it} + \beta_3 FA_{it} + \beta_4 \% \text{ of Govt Owner}_{it} + \beta_5 \text{Multi Sub}_t + FD_i + TD_t + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots(i)$$

$$ROE_{it} = \beta_o + \beta_1 CSRD + \beta_2 FS_{it} + \beta_3 FA_{it} + \beta_4 \% \text{ of Govt Owner}_{it} + \beta_5 \text{Multi Sub}_{it} + FD_i + TD_t + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots(ii)$$

where: ROA *and* ROE are dependent variables, β_0 is an unknown intercept of every company, β_1 *to* β_5 are coefficients of explanatory variables which included treatment variable *Corporate Social Responsibility disclosure* (CSRD) and control vectors FS, FA, *% of Govt Owner*, *Multi Sub*, FD_i and TD_t representing firm size, firm age, % of government ownership, ,Multinational Subsidiary, (firm dummy) capturing time invariant firm's specific effect and (time dummy) capturing time variant specific effect respectively. ε is error term, and *i* and *t* are firm and time units respectively. STATA 14 software was utilized to perform regression analysis.

Profitability of the firm was the dependent variable, and return on assets (ROA) and return on equity (ROE) were used as its proxies. The use of ROA and ROE stems from the notion that the primary objective of the company is to increase the value of its shareholders, and in order to accomplish this objective, the company must first generate profits (Yildirim, 2018). Therefore, an ultimate purpose of the company for its shareholders can be defined in metrics indicating the ability to earn profits, such as return on assets and return on equity (Zamfir et al, 2016). When examining CSR and the profitability of companies, many researchers have used ROA and ROE as performance measures ((Fahad and Busru, 2020); (Khodaparasti et al., 2015); (Althaf and Dalimunthe 2022)). The ROA measures the extent to which managers are able to generate profits through efficient utilization of the resources at their disposal. The following formula was utilized in order to establish ROA

$$ROA = \frac{\text{Profit before tax}}{\text{Total Asset}}$$

ROE is a profitability proxy which gauges the company's capability to earn a return on its equity investments. ROE was calculated using the formula below

$$ROE = \frac{\text{Profit after tax}}{\text{Shareholders' equity}} \quad \ldots\ldots\ldots\ldots(ii)$$

Because CSR disclosures are frequently of a qualitative nature (including images and narratives), a disclosure check index was developed to quantitatively indicate whether or not a company provided CSR information. A value of 1 was assigned for every item of CSR disclosed and a value of 0 for non-disclosure of the item as required by the checklist, a maximum score of 20 was awarded for full CSR disclosure, while a score of 0 was awarded for no disclosure at all. The point ratio was then translated into a percentage so that the extent of commitment to CSR reporting could be presented in a more understandable format. A dichotomous technique has been utilized in a number of the studies that have been conducted on CSR disclosure, including those that have been carried out by (Gull et al.,2022; Iqbal and Llewellyn ,2018; Hapsoro and Sulistyarini,2019). The values of the variables, as well as their expected signs, are presented in Table 1.

Table 1: Variables Measurement

Variables	Measurement	Expected Sign
Dependent Variable		
Return on Asset	Net profit before tax divided by total assets.	+ve or-ve
Return on Equity	Net profit after tax divided by shareholders' equity	+ve or-ve
Independent variable		
CSR disclosure	It is dichotomous i.e., 1 for disclosure and 0 if otherwise	+ve
Control variables		
Firm size	Natural logarithm of the total assets	+ve or-ve
Percentage of government ownership	Total shares owned by the government divide by total shares outstanding.	+ve
Firm age	Number of years since incorporated till the period of study	+ve or –ve
Multinational subsidiary	Dichotomous i.e., 1 for multinational and 0 for otherwise	+ve

Note that: +ve = positive and –ve = negative

The researcher considered all the criteria for data to concur with regression assumptions before proceeding with data analysis. Random effect model was utilized in this study after carrying out a Hausman specification test which determined that random effects were likely to be more consistent and efficient.

FINDINGS AND DISCUSSION

Descriptive Statistics Linking CSRD and Firm Profitability

The purpose of this study was to investigate how CSR disclosure influences the profitability of companies. Table 2 provides descriptive statistics, including the mean, minimum, and maximum values as well as standard deviations, for the dependent variables ROA and ROE, the independent variable CSRD, and the control factors (firm size, age, percentage of government ownership, and multinational subsidiary).

Table 2: Descriptive results for Dependent and Independent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
ROA	265	12.37785	25.21424	-163.77	69.26	-0.73949	2.50334
ROE	265	14.23746	24.30434	-143.83	62.46	-0.24847	2.46324
CSRD	265	0.685638	0.66768	0.58	0.69	-0.42227	2.24026
% GOVTOWN	265	0.589125	0.11513	0	1	0.25819	2.02709
MNCLSUB	265	0.550823	0.10649	0	1	0.45766	2.60608
FS	265	8.686076	1.15544	4.67	12.17	-0.21976	2.08439
FA	265	25.56637	18.19046	1	70	0.99074	2.02482

According to Table 2, the ROA spanned a wide range, going as low as -163.77% and going as high as 69.26% .ROA came out to an average of 12.38%. The large diversity in ROA that was seen across the market was shown by the fact that the ROA standard deviation was 25.21. The return on equity was as low as -143.8% and as high as 62.4% at various points in time with an average value of 14.2 %. Return on equity was extremely unpredictable in the market, as measured by a standard deviation of 24.3. The percentages for CSRD ranged from 58% to 69%, with 68.56% being the average. On the basis of these findings, we are in a position to state with that at any one moment, 68.56% of companies that are listed on the DSE disclosed CSR, whereas 31.44 percent did not. In addition, it is clear from these results that stakeholders were not given with the CSR information in which they had expressed an interest, which is a violation of the restrictions imposed by CMSA (2002). When there are holes in a company's reporting of its CSR activities, it can make agency problems worse and lead to a drop in earnings for the business (Nyeadi et al, 2018). The companies had an average age of 25 years based on the year of its creation, and their average size received a score of 8.6 out of a possible 10. According to the descriptive statistics, the government owned an average of 59% of all of the businesses that were registered with the DSE, and 55% of those businesses belonged to multinational corporations, either as subsidiaries or as parent companies. All of the variables have absolute values of skewness that fall between 0 and 0.9, and the range for their kurtosis values is between 2 and 2.6, which indicates that the data follows a normal distribution with medium tails (Jaume et al, 2020).

Regression Analysis for CSR disclosure and Firm Profitability.

A random effect model was utilized in order to investigate the relationship that exists between the dependent and independent variables. In order to improve robustness and ensure reliability, three separate regressions were carried out. The outcomes of the aforementioned regression analysis are presented in tables 3 and 4, respectively.

Table 3: Result of model 1 on CSRD and Firm Profitability (ROA)

	(1)	(2)	(3)
VARIABLES	ROA	ROA	ROA
Corporate social responsibility disclosure	192.4745***	168.1306***	166.3195**
	(73.78)	(56.22)	(63.89)
Percentage of government ownership	12.7874**	13.2753**	
	(6.36)	(6.44)	
Multinational subsidiary	47.0078***		54.6723***
	(11.94)		(12.28)
Firm size	3.3706**	4.0176***	
	(1.38)	(1.42)	
Firm age	1.6723***		1.8129***
	(0.45)		(0.46)
Firm dummy	Yes	Yes	Yes
Time dummy	Yes	Yes	Yes
Constant	-88.1655***	-73.7924**	-80.0658**
	(16.33)	(32.38)	(35.65)
Observations	265	265	265
Number of FIRMS	21	21	21

Standard errors in parentheses Key: * Significant at 10%, ** significant at 5%, *** significant at 1%

According to the findings shown in Table 3, CSR disclosure had a positive and statistically significant impact on ROA across all three estimations. Such positive influence might be connected to firm positive image and good publicity resulting from CSR disclosures. Positive image and publicity confers room for easy access to customers and other stakeholder in operational environment, which in turn boosts sales volume and productivity leading to increased profits. A combination of all those factors enhances firm effectiveness in generating profits from the equity it has been allotted by the shareholders and from the assets that's are at its disposal. We can make an inference from the results that the disclosure of CSR will lead to increased levels of profitability.

Results are robust as three different estimations have been tested, with other models dropping certain control variables and, in all models, it was concurred that CSR disclosure had a positive effect on profit. Other researcher such as, (Yusoff *et al*, 2018);(Mita *et al*, 2018);(Dilrukshi, 2021) , also came to the same conclusion. While researcher such as (Fahad and Busru, 2020);(Chen, Hung, and Wang, 2018);(Althaf and Dalimunthe, 2022); (Ngoc, 2018) found that CSR disclosure had a negative effect on profit. Such contradiction in outcome might be due to the result of methodological approach, operational environment differences and strategies used by the management to disclose CSR. Stakeholder theory and legitimacy theory are embraced by the findings of this paper. To obtain any positive value from the surrounding community firms have to legitimise their activities and operate in a manner that soothes its surroundings. Disclosure of CSR activities concurs with as per stakeholders' interests whose positive feedbacks act as the corner stone of firm's good reputation and image through which goodwill and trust are generated which eventually will lead to enhanced profitability.

Control variables utilized in this research had a significant and positive effect on the firm's profitability. We are in agreement that other than the factors of interest in the study, all control variables (firm age, firm size, percentage of government ownership, and the presence of multinational subsidiaries) were linked to the profitability of firms that were listed on the DSE. The findings are consistent with those of (Mohd et al., 2018), although they differ from those presented by (Yang, 2017)

To obtain a deeper a far clear picture of the link between CSRD and profit, selected key informants (KIs) were interviewed. The results obtained from their perspective revealed that CSRD induces regulators, stakeholders, investors and other relevant players to believe in social responsiveness of the firm. With CSRD disclosure everyone involved feels like the firm is executing its own bargaining in its unstated social contract. The public has a greater tendency to trust businesses when they disclose CSR information. During the interviews on of the firm manager stated that;

"We *have obtained a plethora of benefits from our CSR and outreach services. When we gave back to the community and disclosed the information in the financial statements our fame increased and we were able to lure majority of the surrounding community into using our products. I remember we once visited an orphanage and contributed specific sum to repair the buildings and pay for school fees. Everybody in the community was ecstatic in disbelief, they couldn't fathom that our corporation would be that concerned and I trended in social Medias as one of the neighbour was praying, blessing and wishing our firms all the success in the world. The next day our phone calls surged by 50% and majority of the calls were requesting for information on where to obtain our products so as to continue supporting our social course" (Firm representative).*

Table 4: Results of model 2 on CSRD and Firm Profitability (ROE)

	(1)	(2)	(3)
VARIABLES	ROE	ROE	ROE
Corporate social responsibility disclosure	145.0390***	148.4297***	185.1208***
	(42.51)	(41.28)	(64.82)
Percentage of government ownership	18.2345**	18.4427**	
	(8.72)	(8.80)	
Multinational subsidiary	56.1387***		76.2220***
	(20.51)		(19.63)
Firm size	3.5686**	3.6201**	
	(1.70)	(1.65)	
Firm age	2.9788**		3.0837**
	(1.41)		(1.40)
Firm dummy	Yes	Yes	Yes
Time dummy	Yes	Yes	Yes
Constant	-81.2587***	-82.6575***	-68.8936*
	(23.67)	(23.72)	(37.77)
Observations	265	265	265
Number of FIRMS	21	21	21

Standard errors in parentheses Key: * Significant at 10%, ** significant at 5%, *** significant at 1%

According to the findings presented in table 4, CSR disclosure had a positive and statistically significant influence on ROE across all three estimations. . The observed outcomes display positive influence of firm image and publicity emanating from the surrounding community and environment. Such circumstances lead increment in shareholders trusts on company's operations and its dealing with the public at large. These results are in line with (Yusoff *et al*, 2018); Dilrukshi, 2021). However other researcher (Fahad and Busru, 2020 ; Althaf and Dalimunthe, 2022) found that CSR disclosure had a negative effect on profit tested on ROE. These results are in line with the Stakeholder theory and legitimacy theory. Firms have to legitimise their activities and operate in a manner that soothes both its stakeholders and surrounding operational environment.

During the interview with one of the representative from the regulatory bodies the following was stated

"We *as the regulatory authority have the main intention of protecting the interest of the shareholders. Every firm that lists on the stock market must follow the disclosure requirement which is one of the mandatory requirements for listing. We think that a firm which discloses its CSR activities in the financial reports raises its shareholders value as it gains trust and popularity in the public eyes. When the firm is viewed as doing good to the society and the environment a lot can be gained from the goodwill" (CMSA representative)*

Proposition testing of the nexus between CSR disclosure and firm profitability

In this paper it was proposed that there is nexus between CSR disclosure and profitability of firms listed in DSE. Findings have failed to reject the propositions and conclude that a nexus exists between firm profitability and CSR disclosure. In essence CSR disclosure positively affects firm profitability.

CONCLUSION

Conclusion

This paper set forth to uncover the nexus between CSR disclosure and profitability of firms listed in DSE. It was determined that CSR disclosure had a positive link to firm profitability. We can comfortably generalize that CSR disclosure enhances firm image, sales volume, earnings, trust from the public and reputation. Firms wishing to remain sustainable will fare better if they opt to disclose CSR activities. CSR disclosure accompanied with activities that engages and touches the public might attract more investors. As the world becomes more connected investors are becoming increasingly concerned with what firms are doing to protect the planet and enhance lives of the surrounding community members while making profits at the same time.

Recommendations

From established results and conclusion, we recommend that those charged with governance make certain that CSR information is disclosed in the financial reports. Such information creates a better firm image in front of the customers and other stakeholders. Effort should be made to make sure that the CSR information is not only disclosed in the financial reports but also is reported in various news outlet channel.

Even though we have established a nexus between CSR disclosure and firm profitability, care should be taken on deciding which CSR activities to engage on. Often time CSR activities requires resources that will be sunk forever, cost benefit analysis should be applied in selecting the appropriate CSR activities that will create potential positive yield in the future once they are disclosed and hence contribute to firm profitability.

We also recommend that regulators closely follow up on all listed firms to make sure that they comply with standards and acts that requires them to disclose CSR activities. In depth check of submitted audited reports has to be carried out to identify if all the required CSR information has been disclosed. Such close supervision might lead to high level of compliance in CSR disclosure in the financial reports.

Contribution of the paper

The findings of the research indicate that CSR disclosure might serve as a strong bond between the firm and the community. The corporation is accountable to the whole community, and the community and the company are interdependent. Consequently, CSR disclosure benefits both the business and society in its daily operations. This study adds to the knowledge gap by using mixed methods and providing qualitative evidence to support the empirical results. From the viewpoints of business executives and experts, interviews provided an in-depth examination of the link between CSR disclosure and corporate profit. Other studies that have primarily focused on statistics have missed this perspective. This is significant because empirical data does not necessarily represent the thinking habits and perspectives of individuals. CSR may have empirically favourable consequences, yet management and experts may see it as detrimental to firm profitability. Consequently Interviews give a deeper understanding of the components of CSR disclosure regarded essential for business success from the viewpoints of several stakeholders involved with the company. Clearly, empirical evidence demonstrates a positive correlation between CSR disclosure and business profitability; therefore, managers who have not previously participated in CSR activities and reporting can learn from the empirical evidence and participate in CSR and its disclosure for the benefit of the organization.

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