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The Impact of Corporate Social as One of Sustainability Report Dimension on Information Asymmetry: Evidence from EGX

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Abstract: *This study aims to examine the effect of corporate sustainability success on the basis of knowledge inconsistency: an applied analysis on the Egyptian stock exchange- tracking the flourishing interests of international organizations and programs in the Social Responsibility Report, where GRI 4 was published in 2013 by the Global Reporting Initiative, in addition to the 2010 Egyptian Corporate Responsibility Index (Represented by the Ministry of Investment) released by the Egyptian Government (Represented by the Ministry of Investment), researchers conveyed the information content of the Social Responsibility Report in 41 items categorized into types of information. According to the Egyptian Corporate Responsibility Index, the Community dimension information and customer / product dimension information have a significant negative impact on information asymmetry from corporate sustainability results. In general, there is a greater demand for company-specific information by leveraging interpersonal gaps between firms. Nonetheless, disclosure requirements only partly serve this need as they focus on corporate sustainability's corporate governance aspect. In particular, knowledge on the social pillar complements investors and drives the overall effect. Our research adds to the literature on corporate sustainability performance's positive capital market impact by demonstrating its strength in the proposed effect on Egyptian stock markets and institutional determinants.*

Keywords: *Corporate social responsibility, corporate sustainability performance, Information asymmetry, stock market.*

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I. Introduction:

Milton Friedman (1970) famously stated that" business's social responsibility is to maximize its income." Thus, this view focuses on maximizing profit and can be viewed as a strict theory of shareholder value (Rappaport 1986). Any undue consideration of social or ecological issues would therefore result in costs that could be avoided and shareholder value would be decreased.This view, however, has been strongly questioned in recent years. While Friedman suggests a negative relationship between corporate sustainability performance (CSP) initiatives and financial performance, Edward Freeman (1984) argues that such initiatives result not only from an abstract moral obligation to benefit society, but also to ensure the business's continuing concern. CSP initiatives do not, therefore, traverse the creation of shareholder value, but are an important means for this purpose (Freeman et al. 2010).

With these two opposing positions as starting points, a stream of empirical research has evolved that in vestigates whether CSP and financial results are associated positively or negatively (Barnett and Salomon 2012), especially with regard to accounting-based profitability measures, market-based financial performance measures, or both.

Despite extensive work on CSP, very few studies have examined its effect on asymmetry of information (IA). This situation is shocking because knowledge on both corporate finance (Myers and Majluf 1984) and market efficiency in general (Fama 1970, 1991) is unquestionably relevant in capital markets (Healy and Palepu 2001).Management usually has more knowledge about the related features and activities of a company than do external shareholders (Jensen and Meckling 1976). Due to a prevailing lack of extensive compulsory sustainability reporting, knowledge on sustainability activities is particularly prone to asymmetry (Tschopp 2005).
IA is considered as a means of achieving CSP's capital market effects, such as lower corporate risk, lower capita l costs, and higher shareholder value (Lopatta et al. 2015).

Although there is some evidence that information asymmetry may be reduced by CSR disclosure, studies or research on the impact of CSR on information asymmetry has not been completed or performed. (Cui et al. 2012; Cho et al. 2013; Lopatta et al. 2015; Lu and Chueh, 2015; Semenescu and Curmei, 2015;Diebecker and Sommer, 2017; Cui et al.

2018).The direct correlation between CSR and financial performance has been explored by many previ ous studies (Guidry and Patten 2010; Hermawan and Mulyawan 2014; Firli and Akbar 2016).

There was also no comprehensive review of CSR and information asymmetry study in Egypt, since there were not many studies investigating the disclosure of CSR to information asymmetry. Existing research has focused on the motivation of CSR implementation, CSR's success relationship, and how customers respond to CSR disclosure. This research fills the gap in previous empirical studies in order to obtain more empirical evidence on CSR, which is potentially expected to help reduce information asymmetry (Cui et al. 2012; Cho et al. 2013; Lopatta et al. 2015; Lu and Chueh, 2015; Semenescu and Curmei, 2015; Diebecker and Sommer, 2017; Cui et al. 2018).Second, this research adds to the expansion of previous empirical evidence of a reduction in information asymmetry in the sustainability coverage of CSR activities.

II. Theoretical framework and development of research hypotheses:

2.1 Sustainability reporting

Sustainability is defined as "creation that meets present needs without sacrificing future generations ' ability to meet their own needs" (WCED 1987, 41). Therefore, sustainability means balancing three dimensions: economic, ecological and social (Zimmermann 2016, 5). The economic dimension's goal is to ensure long-term returns. To achieve this, resource optimization is required. Sustainable management limits this use by the other two dimensions and therefore offers a rational framework for practice. The ecological dimension illustrates nature's intangible importance and the finiteness of the wealth of nature. Our emphasis is on preserving the environment as the cornerstone of human existence. Distributive justice is the subject of the social element. This deals with equal opportunities and access to resources for nations, communities and generations (Bansal 2005, 198f). The idea of corporate social responsibility (CSR) is the entrepreneurial approach to translate the philosophy of sustainability into economic action. (Zimmermann 2016, 17).It refers to a wide range of activities by which companies incorporate social and sustainability interests, mostly on a voluntary basis, into their business activities. (ISO 2010, 3;

Zimmermann 2016, 11). In doing so, any organization must take into account stakeholders ' expectations, that is, any group or individual that is affected by achieving corporate goals (Bundesministeriumfu ¨r Arbeit und Soziales 2011, 12; Freeman 2010, 46f). Therefore, the participation of stakeholders to business activities is vital. Companies must interact with those concerned directly and indirectly (Bundesministeriumfu ¨r Arbeit und Soziales 2011, 26f).

A sustainability report is, according to the Global Reporting Initiative (GRI) (KPMG 2013, 12), the main forum for communicating qualitative market analysis (2019) 12:143–173 145 123and quantitative corporate sustainability success and effect in both positive and negative dimensions (GRI 2016, 3 and 13). The information contained in the reports, according to Fifka (2014), serves internally for more sustainable control and process optimization. Outside, the communication with stakeholders is supported. A sustainability report may also form part of a larger integrated report that includes indicators of financial performance.

In addition, we concentrate on non-financial category sustainability reports in all three dimensions. Exemplary material is descriptions or key figures of predicted future trends, strategic orientations and goals, corporate research and development announcements, corporate energy consumption, workplace injuries, or funded social projects.

Credibility doubts:

Reporting mechanisms such as the GRI, which complied with EU Directive 2014/95/EU to a large extent before it became compulsory legislation, are commonly used. Nevertheless, there are sometimes questions as to whether the published reports are true to the word (Fifka 2014, 5; Weber 2014, 97). There is a tendency on the communicator side to gain advantages from favorably communicated sustainability activities without making the necessary efforts (Zimmermann 2016, 10 and 17). It's called greenwashing this deceit. Companies seek to be viewed in a more environmentally friendly and responsible way by intentionally exaggerating or misreporting (Weber 2014, 104). The aim is to gain benefits such as enhanced credibility, increased consumer perception of purchasing or improved motivation and employee recruitment. (Fifka 2014, 12; Weber 2014, 103).On the other hand, if information isdisregarded, the integrity is at risk because of (unintentional) deceit. In his or her interpretation of reality, a knowledge receiver does not differentiate between these possibilities. (Kohnken 1990, 4).

2.2. Information Asymmetry

Information asymmetry describes a situation where one party has more information (Nestorowicz, 2014; Martinez et al. 2015) and is not passing it on to others (Boujelbene and Besbes, 2012).Externalparties, such as management and board members (BoD) have more advantages than external stakeholders when it comes to information about business activities, sales, incidents or company decisions that may impact stock prices and future performance companies (Lopatta et al. 2015; Liu et al. 2013). Investors need clear information to determine the real company. (Scordis et al. 2008).

If the transparency level is insufficient, those who believe they have inadequate information such as investors will protect themselves by offering lower prices than the actual price or refusing to make transactions that eventually lead to higher bid-ask spreads. (Dhaliwal et al. 2011; Thorne et al. 2014).This is in line with what Akerlof (1970) suggested that due to the widening gap with the real information, the information asymmetry effect causes a good car to be priced as much as a lemon car.

Referring to Cormier et al. (2011), Cho et al. (2013), Hung et al. (2013), Lu and Chueh (2015), Cui etal. (2018), Diebecker and Sommer (2017), this study utilizes the bid-ask distribution to calculate information asymmetry. Bid-ask spread illustrates the difference at the agreed price between the prices bid. The wider the spread; the higher the asymmetry of information (Diebecker and Sommer, 2017).

2.3. Hypothesis Development

A CSR activity as an aspect of the Stakeholder Theory (Carroll, 1991; Branco and Rodrigues, 2007), where the organization tries to satisfy all stakeholders ' interests (Elijido-Ten, 2007). It allows companies to report on CSR activities (Joseph, 2009; Cormier et al., 2011; Cho et al., 2013; Diebecker and Sommer, 2017). The decision of the client to report CSR is an indication that the product is a good company (Mahoney, 2012; Thorne et al. 2014). Not only is the organization aiming for economic performance, it is also morally responsible for all stakeholders (Cormier et al. 2011; Lu and Chueh, 2015). CSR transparency increases the information available to investors (Su et al. 2014; Martinez et al. 2015).

In order to increase information transparency, higher CSR reporting will provide more non-financial information (Liu et al. 2013; Cui et al. 2018). This will result in a reduction in information asymmetry (Diamond and Verrecchia, 1991; Reverte, 2011; Cui et al. 2012, 2018; Cho et al. 2013; Lopatta et al. 2015). Investors are expected to be able to provide an appraisal as anticipated by the organization with the that amount of information (Kirmani and Rao, 2000; Scordis et al. 2008; Dhaliwal et al. 2011; Mahoney 2012; Su et al. 2014). Investors with more information about the company's position will set a bargaining price similar to the agreed price or in the bid approaching offer. This will trigger the difference between the bid and request that the offer-ask spread be narrowed (Akerlof, 1970; Greenstein and Sami, 1994; Cormier et al. 2011).

Previous research has consistently stated that knowledge asymmetry is caused by corporate social responsibility (CSR). Cormier et al. (2011) found that social and environmental disclosure, with a sample of large Canadian firms in 2005, decreased information asymmetry as expressed in stock price volatility and lower bid-ask spreads.Lopatta et al. (2015), Cui et al. (2012, 2018) and Cho et al. (2013) U.S. companies investigated to find consistent findings that the relationship between CSR engagement and knowledge level asymmetry is reversed.

Similar results were expressed in Hung et al. (2013), and Liu et al. (2013), who researched companies in China, found that CSR could play the same role as financial disclosure in promoting transparency on the stock market and affecting investor behavior. With CSR reporting, information asymmetry may decrease. In Indonesia, Hapsoro and Zidni (2015) conducted a study of 167 high-profile companies listed on the Indonesia Stock Exchange (IDX) found that overall CSR performance disclosures had a negative and relevant bid-ask spread relationship.Based on the explanation above and previous research studies, the hypothesis proposed in this study are:

H1: The level of corporate sustainability performance disclosure is negatively associated with information asymmetry in Egyptian stock markets.

III. Measures:

In addition to the conceptual framework for the Corporate Social Responsibility Study, the researchers focused on both inductive and deductive methods through the theoretical analysis of previous studies, as well as some of the parameters applicable to the Social Responsibility Report, the definition of knowledge similarity and the factors affecting it. The researchers also performed an applied analysis to determine the effect of corporate sustainability success on information asymmetry, using companies included in the 2011-2018 Egyptian Corporate Responsibility Index and using the Pearson correlation matrix and a simple linear regression model to interpret the results of the applied study. In order to achieve the research's objectives, the researchers relied on the actual data of the S&P EGX ESG index (the Egyptian index of corporate responsibility) published during the period from 2011 to 2018 on the Egyptian Stock Exchange website

Empirical analysis must follow two analytical requirements. First, information asymmetry, corporate sustainability efficiency, and organizational climate strategies need to be identified. Second, given potential endogeneity problems, a suitable statistical model must be established to analyze the relationship between corporate sustainability success and capital market knowledge asymmetry.

Measuring the study's variables:
The variables of this study were measured as follows:
Measuring the dependent variable: Information Asymmetry

Information asymmetry is a very complex structure, as a result; it is extremely difficult to find an accurate or precise scale to represent it. That is why the standards used by researchers to represent it may vary. (Martinez-Ferrero et al., 2017)

Therefore the researcher may use the relative price difference measure of the stock in a similar way; where the relative price difference per share indicates the difference between the highest price and the lowest price for a specific company's share during the year, attributable to the opening price per share at the beginning of the year, and this is as follows:

Relative price difference per share = (Highest price per company share **i** per year **t –** lowest price per company share **i** per year **t**)/ opening price per share **i** at the beginning of the year **t**.

Measuring the Independent variable: Voluntary disclosure for Corporate Social Responsibility information

The researcher relies on the method of content analysis of the annual reports of companies, including the annual board of directors' form attached to the financial statements prepared in accordance with the provisions of Article 40 of the registration rules and its website based on indicators of disclosure of the social responsibility of companies that the researcher developed in accordance to the Egyptian index of corporate responsibility S&P/EGX ESG. In addition to following the CSR indicators in accordance with the guidelines of the global initiative for preparing reports: GRI. Eventually, Academics and practitioners agree that these indicators are significant in terms of measuring the volume and quality of CSR information disclosure. (e.g. Martinez-Ferrero et al., 2016; DiebeckerandSommer, 2017, Martinez-Ferrero et al., 2016, Sila and Sek 2017; Sassen and Azizi, 2018).

According to the Egyptian Index of Corporate Responsibility, the evaluation methodology is based on evaluating the 100 most active companies listed on the Egyptian Stock Exchange based on environmental dimensions, social responsibility and governance.

In order to evaluate each of the sample companies regarding disclosure of their social responsibility, the researcher relied on CSR information disclosure indicators. These are 55 indicators (19 indicators for the governance dimension, 27 indicators for social dimensions, 9 indicators for environmental dimensions), where the company obtains a point in the evaluation if the required criteria is successfully met or achieved or receives a zero in case the requirement is not achieved. The level of information disclosure for each company of the sample companies is calculated by adding the points obtained by the company and then dividing these points by the 55 points or indicators for all the dimensions.

Such that:
CSR Disclosure Index:
X_{it}= a variable that represents the value of the indicator for all the dimensions of CSR information disclosure (1 …, n) **X** for the company **i**per year **t**, its value becomes (1) in case of disclosure and becomes (0) in case if it is not disclosed.
N= the overall number of the elements/dimension of CSR information disclosure.
CSR Disclosure Index= ($\sum_i^n$= 1 x it)/N

IV. Results

As mentioned previously, the researchers relied on the actual data of the S&P EGX ESG index (the Egyptian index of corporate responsibility) published during the period from 2011 to 2018 on the Egyptian Stock Exchange website. Using the SPSS package, the results of the statistical analysis are shown to us as follows.

According to the statistical analysis results present in Appendix 2; we've observed the increase of the regression model's explanatory ability after inserting the control variables. The coefficient of determination r^2 for the model was 0.175 before inserting the variables. This indicates that 17.5 % of the changes associated with the asymmetry of information in the Egyptian capital markets can be traced back to the changes in the level of voluntary disclosure of the social responsibility information of these companies.

While these coefficients' values rose to 0.252 after taking the control variable into consideration; which highlights the significance of the control variables' role in improving the regression model's explanatory ability.

The following table highlights the Multivariate Regression analysis:

Research Variables	Beta Coefficients	Type of Association	Asymp. Significance
Constant (ßo)	0.532	Positive	0.019 significant
CSR	-0.525	Negative	*0,000 insignificant
Size	0.052	Positive	** 0.058 significant
Leverage	0.010	Positive	0.605 insignificant
Growth	0.004	Negative	0.786 insignificant

ROA	0.015	Positive	0.826 insignificant
Ownership	0.009	Negative	0.812 insignificant
Sensitivity	0.053	Negative	0.111 insignificant
Year	0.006	Positive	0.755 insignificant
Overall Asymp. Significance			0.002 significant
R square			0.252

Source: SPSS software
*Significant at 0.01 (significance level 99%)
**Significant at 0.10 (significance level 90%)

According to the previous table of regression analysis, the overall significance level of the model reached (a= 0.002) which is lower than the significance level 0.01. In addition, the value of the regression coefficient is ß1 -0.525 for the level of voluntary disclosure of the social responsibility information; which indicates the validity of the assumption that the voluntary disclosure of the social responsibility information has a negative or adverse effect on Information asymmetry in the stock markets. This is consistent with previous studies that have provided sufficient evidence that voluntary disclosure of the social responsibility information of companies will eliminate the issues of information asymmetry in the stock markets.

As for the size of the company, the analysis indicate that (the regression coefficient a= 0.058 ß2 = 0.052, significant at significance level 0.10). These results indicate that there is a positive association between the size of the company and information asymmetry. In other terms, the bigger the size of the company the higher the information asymmetry becomes. These results are consistent with the results of (Chui et al., 2016)'s study. However, it is not consistent with the studies of (Martinez-Ferrero et al., 2016; DiebeckerandSommer, 2018) which indicated that there is a negative association between company size and information asymmetry in stock markets.

In addition, the analysis indicated the presence of a positive association between leverage and information asymmetry a= 0.605 insignificant ß3 = 0.010, which indicates an increase in the amount of asymmetric information with the increase in the company's debt ratio. This result is consistent with (Michael and Gruning, 2018)'s study that highlighted the presence of a positive association between company's debts value and information asymmetry. However, the results are inconsistent with (Cho et al., 2013)'s study which indicated that there is a negative association between company's debts ration and information asymmetry in the stock markets.

The analysis indicate a negative association between growth and information asymmetry, a= 0.786 ß4 = 0.004. this value indicates denotes a non-significant decrease in the amount of asymmetric information with an increase in the market value of the company's shares in comparison with its book value. This result is consistent with (Michael and Gruning, 2018)'s study that indicated the presence of a negative insignificant association between the two variables.

Furthermore, the results indicate a positive insignificant association between ROA and information asymmetry a= 0.826 ß5 = 0.015, this means that information asymmetry increases with the increase of ROA; and this is consistent with (Martinez-Ferrero et al., 2018).

Additionally, the results observed a negative insignificant association between ownership and information asymmetry a= 0.812 ß6 = 0.009. this result denotes a slight decrease in the amount of asymmetric information as the value of family stock ownership increases. This is consistent with the assumption that has been introduced by the hypothesis of information efficiency.

This explains the fact that enthusiastic investors are using their own information proactively with the purpose of inside trading. This helps in transferring a huge amount of information to market participants which is vital in terms of minimizing and eliminating information asymmetry. This is consistent with (Cho et al., 2013)'s study however it is inconsistent with (Martinez-Ferrero et al., 2018)'s study which revealed that there is a positive significant correlation between ownership and information asymmetry.

Moreover, the study's analysis indicate a negative insignificant correlation environment & industrial sensitivity and information asymmetry a= 0.111 ß7 = 0.053. This result indicates a slight decrease of the asymmetric information as the sensitivity of environment to pollution increases due to the company's industrial activities. This indicates that Industries with high environmental sensitivity; including construction materials, chemicals, gas & petroleum, food & beverages, vehicles etc. has higher disclosure of CSR activities which helps in minimizing the issue of asymmetric information in the stock markets. This result is inconsistent with (Michael and Gruning, 2018)'s study and (Martinez-Ferrero et al., 2018)'s study which denoted that there is a positive significant correlation between environmental sensitivity of the company and information asymmetry in the stock markets. However, this result is consistent with (Lee et al., 2018)'s study which indicated that there is a positive insignificant correlation between environmental sensitivity of the company and information asymmetry in the stock markets.

As for the "Year" variable, the results indicate the presence of appositive insignificant correlation between the year of the study and information asymmetry a= 0.755 ß8 = 0.006. This indicates the increase of asymmetric information as the time passes from a year to another, however the increase is insignificant. This also reveals that the amount of information disclosure of corporate CSR activities decreases as time passes. This result is inconsistent with (Meligy, 2014)'s result which denoted the increase of CSR information disclosure in the banks operating in Egypt. The amount of information disclosure was observed at 0.45 in 2009 and increased to 0.57 in 2013. This variation or difference might be due to the difference in the sample & time frame in which the studies where carried out in.

V. Discussion

The findings and statistical analysis revealed contrary evidence other than predicted; the degree of corporate social responsibility disclosure (CSR) had a significant positive impact on information asymmetry as calculated by the bid-ask spread.This result is not consistent with previous studies such as Cui et al. (2012), Cormier et al. (2011), Cho et al. (2013), Hung et al. (2013), Liu et al. (2013), Lopatta et al. (2015), Lu and Chueh (2015), Martinez et al. (2015), Semenescu and Curmei (2015), Cui et al. (2018), Diebecker and Sommer (2017), which states that CSR has a negative influence on information asymmetry.

This study found that the higher the level of Corporate Social Responsibility Disclosure (CSRD), the higher the knowledge asymmetry, expressed in the higher bid-ask spread (SPREAD) ratio.Jaggi and Freedman (1992) Say that organizations revealing CSR initiatives do not receive positive input from investors. Investors do not find the breadth of the company's transparency to include additional information.(Jaggi and Freedman, 1982).Investors interpret the actions of the organization that provide extensive transparency as an attempt of the company to be considered a good company.

We claim that higher IA is induced by CSP. Nevertheless, we agree that lower capital costs by lower IA (Verrecchia 2001; Bae et al. 2008) could also result in additional CSP investment funds. For the relationship between CSP and IA, which is in line with Surroca and Tribo's (2005) findings, we can rule out this reverse causality principle.Who indicates that free funds are the result of higher CSP participation and not the trigger.

VI. Conclusion

This study attempted to examine the impact on information asymmetry of the level of disclosure of corporate social responsibility; however, the study found the opposite result other than what was assumed. Sustainability reporting of CSR disclosure hurts decreasing asymmetry of information. The higher counterproductive disclosure scores with a reduction in asymmetry of information.

An interesting phenomenon in developing countries where the level of transparency to disclose information is still perceived as an activity designed to redirect investor attention to the company's actual condition.The skepticism of the investor is entirely rational, however; given the additional test results, there is a significant negative association between companies with negative earnings and the magnitude of CSR disclosures.

The research has limitations as some businesses do not consistently send reports through SR, so it is not possible to obtain consistency in the effect of CSR disclosures on information asymmetry reduction.The number of firms reporting on CSR activities through SR is still extremely inadequate; less than 10 percent of the total firms listed on the S&P EGX ESG, thus restricting the overall results of this study.

Companies of different nature (whether industrial or service) must believe that social responsibility is not a work of charity. Social obligations are tasks that combine with economic work in order to achieve and maintain the growth of the society, which ultimately reflects on companies in general.

Companies must realize that their responsibility to the societies in which they operate is an inherent part of their business, as well as the need for responsibility arising from the certainty of the companies that this community is their main supporter,But it is their success in establishing a positive relationship with the society in which they operate that is one of the most important reasons for their success.

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