EFFECT OF CORPORATE SOCIAL RESPONSIBILITY REPORTING ON PERFORMANCE OF OIL AND GAS COMPANIES IN NIGERIA

[1]Ogala, Isiaka Isah, [2]Falope, Femi Joshua and Audu, Friday[3]
[1&2]Department of Accountancy, Faculty of Management Sciences, Nnamdi Azikiwe University, Awka. Email: ogalaisiaka@gmail.com[2] & fj.falope@unizik.edu.ng[3]
[3]Department of Accountancy, Kogi State University, Anyigba

Abstract
The study examined the effect of corporate social responsibility reporting on oil and gas businesses' return on assets in Nigeria. It has been presumed that much budget in corporate social responsibility by oil and gas firms would negatively affect their returns. Could this be true in Nigeria? A sample of ten (10) oil and gas businesses was chosen, and data was taken from the sampled companies' annual reports and accounts. The "ex-post facto" research design and content analysis were used in the study. The hypothesis was investigated using E-view and linear regression analysis. According to the study, corporate social responsibility reporting has a negative impact on return on assets, however this impact is not considerable. The study recommends among others that appropriate regulatory agencies should encourage Nigerian enterprises to report on sustainability by lessening total cost and disposing some investments or cease from procuring more assets in the company.
Keyword: Corporate Social Responsibility, Responsibility, Performance, Reporting, Return on Assets

Introduction

Corporate Citizenship, Corporate Social Opportunity (CSR), Responsible Business, and Corporate Responsibility are all terms used to describe corporate social responsibility. It has the ability to contribute positively to societal and business development (Khan, 2009) and (Sharma, 2020).

Nigeria, being one of Africa's fastest-growing economies, offers a plethora of fresh options for businesses to expand their goodwill. The continuing agitation of stakeholders for environmental friendly production and competition in market for market shares have made CSR a veritable tool for improved goodwill. Of course, CSR is becoming increasingly crucial for growing businesses, and corporations have known that they cannot be successful unless they safeguard and promote the interests of all stakeholders. Good reporting of these will add value to the firms.

CSR reporting is currently voluntary in the United States. A legislative framework for it does not exist, and sustainability reporting on CSR is not required, despite many voluntary initiatives by businesses, industries, and local governments to assess environmental, social, and governance issues (Sharma, 2017). Traditional production and promotional operations were favoured by European countries (Forte, 2013). Despite this, in the United States, corporations have been investing time and money to a variety of charitable causes. The emphasis on certain social efforts varies among companies.

Wang and Tuttle (2014) argue that the benefits of high corporate social activities are stronger for managers seeking long-term credibility than for managers seeking short-term results. This is also due to the fact that long-term management may afford to pay higher costs associated with CSR efforts since they expect future revenues. Thus, corporate social responsibility has no direct impact on financial performance. It has a direct impact on an investors' impression of the company (Marly, 2016).

The scenario is quite different in India. India's economic sector is confronted with major societal concerns such as poverty, inequality, population increase, and environmental damage, among others. As a result, it is critical for Indian enterprises to be honest in announcing their CSR operations in order to foster an environment of true engagement between business and society. This link has been the subject of numerous investigations.

Related studies have yielded contradictory outcomes, owing in part to the inconsistency of CSR and financial performance indicators. Perhaps, the methodologies used in different studies differ. Therefore, many distinct research investigations have shown varying degrees of positivity, negativity, and neutrality in this link. Using the reports of oil and gas firms in Nigeria on CSR, this study seeks to analyze the relationship between corporate social responsibility (CSR) and financial success. This study examined the effect of corporate social responsibility reporting on return on assets of oil and gas companies quoted on the Nigerian Stock Exchange. The study hypothesized that corporate social responsibility reporting has no significant effect on return on assets of Oil and Gas Companies listed on the Nigerian Stock Exchange.

Literature Review

Conceptual review and Theoretical Framework:

The study discussed CSR and Return of Assets to show the link of the investigation.

Corporate Social Responsibility and financial performance:

CSR consist of deliberate decisions taken by companies to integrate social and environmental concerns in their business activities in response to stakeholders' expectations. The primary purpose being to identify with the societal causes aimed at positive social values; and somehow building a positive brand for the company. The increasing relevance of CSR for businesses has resulted from the pressure that many stakeholders have placed on these businesses to increase their CSR investments over time (McWilliams & Siegel, 2000). Managers from various companies, on the other hand, do not have the same views on these CSR concerns.

Many research studies on corporate social responsibility and financial performance have been undertaken. For instance, Maqbool and Zameer (2018) investigated the link between corporate social responsibility and Indian bank financial performance and discovered that CSR has a favorable impact on bank financial performance. Krishana (2018), concluded that CSR spending contributes to the environment in such a way that it affects the environment in some way at the operational stage. As a result, CSR spending in manufacturing is higher than in service.

A study conducted in Bangladesh, on the impact of CSR on the financial success of Bangladeshi agribusiness. According to the findings, ROE and net income have a considerable impact on financial performance, favoring companies that engage in corporate social responsibility (Belal, 2001). In their research focusing on the influence of corporate social responsibility on financial performance in TWC, Islam, Begum, and Hassan (2018) found that ROA and earnings per share have no significant impact on financial performance. Financial statements, websites, publications, and annual reports were used to gather data for the study. At TWC, it was discovered that CSR and CFP have a favourable association. It was shown that CSR is vital for increasing financial performance firm. Shimin, (2017) has emphasized the CSR practices followed by SBI and ICICI banks in India in their study: "A Comparative Study of CSR Practices of Selected Banks in India". Along with it, the proportion of net profit donated to CSR activities was discovered, as well as whether the banks had reached the legal criterion of 2% profit on CSR. In their study "Corporate Social Responsibility of Indian IT Organizations - A Study on CSR Activities of Select Companies," Ramana and Reddy (2017) using ten IT companies, discovered that all of the companies chosen prioritized the adoption of a variety of environmental initiatives, with community development receiving the least attention.

There is no consensus on the best financial performance assessment instrument to use, just as there is no consensus on CSR measurements. Accounting measurements such as Return on Equity (ROE), Return on Assets (ROA), Return on Sales (ROS), Return on Capital Employed (ROCE), and Earnings per Share (EPS) are commonly used by researchers (Waddock & Graves, 1997). Others, like Vance (1975), utilize market-based financial performance indicators like investor returns, while others, like Balabanis *et al.* (1998) and Choi *et al.* (2010), use a blend of accounting and market-based measurements. Accounting and market-based metrics offer distinct viewpoints on financial performance.

Return on Assets (ROA):

The return on assets (ROA) indicates the profitability of a company's assets after all expenses and taxes have been paid. It calculates the firm's profit after taxes for every dollar invested in assets (Horne & Wachowicz, 2005). It is a measure of a manager's effectiveness. When evaluating a company's financial health, it is critical to know how well it converts what it already has into new income for its owners and shareholders. The ROA formula is a simple computation using components that may be found easily on a company's financial accounts. As a result, a greater ratio value indicates superior managerial success (Ross, Westerfield & Jaffe, 2005). Increased profit margins or asset value can boost ROA. The return on assets (ROA) is one of the proxies used in this study to quantify financial performance. The return on assets (ROA) is computed by dividing net profit by total assets. This result indicates what the company can do with what it has, i.e. how much more money they can make from each dollar of assets they own. It indicates the company's capital intensity, which varies by industry; enterprises that require substantial initial investments will typically have lesser return. ROAs over 5% are generally considered good.

Another related indicator of financial performance is return on investment. The return on investment (ROI) is a basic measure of business success in the corporate sustainability literature, as well as in the majority of strategy research (Barnett & Salomon, 2012).

Empirical Studies

Evidence from a variety of empirical studies concludes that developed and developing economies demonstrate mixed results on the relationship between CSR and Corporate Financial Performance (CFP).

The influence of CSR on the financial performance of selected manufacturing and service sector enterprises in India was investigated by Raj, Asha, Sajid, and Jyoti (2021). The research used financial data from the manufacturing and service industries in India from 2008 to 2017. The research found a link between CSR score and ROE, ROA, and ROCE. The association between the CSR score and the financial metrics was investigated using the correlation technique. The findings demonstrate that ROE, ROA, and ROCE have a negative relationship with Manufacturing Sector Companies' CSR Score.

Amidu Liu and Sesay (2017) examined the influence of CSR disclosure (CSRdisc) on African enterprises' financial performance in the short and long term. They used accounting to assess a company's financial success: return on assets [ROA] for short-term, and return on equity [ROE] for long-term. A sample of panel data for a period of 11 years was used in a multiple linear regression analysis (2005-2015). Their empirical findings revealed that, unlike in the sales and manufacturing, health and pharmacy, and other businesses, CSRdisc had a negative short-run (ROA) impact on the mining, investing, and transportation companies. Marly's study is unique in that it examines both accounting and market-based financial performance measurements. The dataset comprises the majority of the S&P 500 companies and spans the years 2005 to 2014. Cross-sector/panel data time-series regressions are used to test the relationships. CSR and financial performance accounting measurements were positively associated. CSR and market-based financial performance assessments have a negative relationship. This shows that CSR has a beneficial impact on profitability while having a negative impact on future stock returns. This result can be interpreted as implying that socially responsible equities have lower necessary rates of return.

Grigoris, George, Eleni, and Xanthi (2016) studied if Corporate Social Responsibility (CSR) has an impact on US company financial performance. The influence of CSR on financial performance is studied in terms of participation in socially responsible activities rather than the end result. The findings revealed that participating in socially responsible activities has a considerable positive impact on financial performance. Furthermore, control variables such as total compensation for directors, CEO duality, and the presence of women on the board of directors are statistically significant in terms of financial performance.

Nor (2016) created a CSD index for significant firms operating in Malaysia based on 20 disclosure items. The outcomes of the environmental disclosure index and financial performance were mixed. Companies that disclose environmental information, on the other hand, acquire a competitive advantage and the opportunity to profit from investments.

Nigerian Liquefied Natural Gas Company (NLNG), according to Ajayi and Ovwarhe (2016), employs CSR as a fundamental approach in establishing an enabling environment that fosters support from all of the company's stakeholders, resulting in high performance and growth. The NLNG's CSR operations in Nigeria is a role model for CSR in the Nigeria. An exploratory research design was adopted in order to gain a deeper grasp of the research issue and to collect detailed information on the research aims. The study shows that the Nigerian Liquefied Natural Gas Company's Corporate Social Responsibility has a major impact on the Nigerian economy and employee organizational cohesion.

Nze, Okoh, and Ojeogwu (2016) investigated the impact of corporate social responsibility on earnings of Nigerian publicly traded companies. The study's secondary data came from financial statements of companies and the Nigerian Stock Exchange's fact book. Using a simple random sample technique, the two companies analyzed were selected from Nigeria's oil and gas business. The research was conducted over a ten-year period. Ordinary regression analysis was used to analyze the data. The findings revealed that corporate social responsibility has a favorable and considerable impact on the earnings of the companies analyzed.

Chen, Feldmann, and Tang (2015) used a content analysis technique to investigate the Global Reporting Initiative G3 standards as a proxy for environmental performance and discovered that companies with higher GRI levels perform better financially across Europe, America, and Asia.

Using multiple-linear regression analysis, Yahya and Ghodratollah (2014) evaluated the impact of corporate social responsibility disclosure (CSRD) on the financial performance of companies listed on the Tehran stock exchange. The CSRD was the independent variable, as measured by economic, social, and environmental factors, while financial performance was measured using Return on Assets, Return on Equity, and Price Earnings Ratio.

Juhmani (2014) investigated Corporate Social and Environmental Disclosure. The focus of this research was on reviewing and disclosing information about companies and websites. The study employed a historical research design and relied on secondary data. According to the data, 57.57 percent of the sampled corporations included social and environmental information in their annual reports and websites in 2012. Businesses in the hotel and tourism industries and the industrial sector made the least disclosure of social and environmental accounting, while commercial banks and insurance companies made the most.

Becchetti (2012) studied the Domini 400 Social Index, and conducted their research in the United States, using the 1990 to 2004 sample period. They discovered a strong negative effect on anomalous returns after exit announcements from the Domini 400 Social Index. When financial crisis shocks and stock market seasonality were taken into account, this association still existed. The above are only a few of the mixed results that have been obtained in this field. Because not all SRI indexes publish why corporations are added or removed from their Index, the share price may not be a clear measure of the relationship between CSR activities and CFP.

The evidence from these previous studies shows that the link between corporate sustainability and firm performance has been based on empirical and theoretical arguments ranging from those claiming that sustainability practice reduces organizational profits to those claiming that it can be used to gain a competitive advantage. This observed lack of convergence, which leads to mixed results, indicates that this topic of study has yet to be empirically settled, necessitating more research. The majority of prior studies were conducted in industrialized countries, with developing countries such as Nigerien receiving significantly less attention.

Methodology

The structure for answering research questions or testing study hypotheses is known as research design (Avwokeni, 2016). For this study, an *ex-post facto* research design was used. The researcher's decision to use this design was based on the nature of the study, which looked at the effect of corporate sustainability reporting on business financial performance.

The population of this study consisted of the entire oil and gas firms listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2019. As at year ended 31st December 2020, there are a total of fifteen (15) oil and gas firms listed in the Nigeria Stock Exchange (NSE). The list of these companies are attached in appendix 1.

The study utilized purposive sampling techniques. In this method, the sample is chosen based on what the researcher thinks is appropriate for the study. A total of five (5) out of the fifteen (15) companies were inevitably excluded during the data collection process due to incomplete data.

The study used secondary sources of data. Historical data was gathered from the Nigerian Stock Exchange's library, as well as annual financial reports and accounts of individual companies retrieved from the companies' websites. The study used descriptive statistics and regression analysis techniques to conduct the empirical analysis.

Model Specification:

This study model is shown as:

$$ROA = f\,(SOCP) \qquad \text{(i)}$$

$$ROA_{it} = \beta_0 + \beta_1 SOCP_{it} + e_{it} \qquad \text{(ii)}$$

Where:

ROA_{it} = Return on Asset of company *i* in year *t*

$SOCP_{it}$ = Social Performance disclosure of company *i* in year *t*

β_0 = represents the constant or intercept

β_1 = represents estimated parameters

e_{it}= represents the error term

Data Analyses:
The processed data are attached in appendix 2. The descriptive statistics was shown in Table 1 and the regression output parameters were displayed in Table 2.

Table 1: Descriptive Statistics

	ROA	CSRR
Mean	-0.073410	0.158600
Median	-0.031300	0.167000
Maximum	0.018300	0.188000
Minimum	-0.260400	0.125000
Std. Dev.	0.095491	0.019344
Skewness	-1.296553	-0.685828
Kurtosis	2.983889	2.442177
Jarque-Bera	28.01858	9.135854
Probability	0.000001	0.010379
Sum	-7.341000	15.86000
Sum Sq. Dev.	0.902740	0.037044
Observations	100	100

Sources: E-view output data

The descriptive statistics indicated that the maximum ROA was 0.018 and the minium was -0.26; and for CSRR 0.188000 and 0.125000 respectively); the Jarque-Bera value of 28.01855 and 9.135854 respectively were of high scores and probability were significant (ROA: 0.000001 and CSRR: 0.010379). We conclude that the distribution is normal and can used to run regression model.

The hypothesis was tested using p-value at 5 % level of significance. **The decision rule** is if the probability value is less than 0.05, the null hypothesis is rejected and alternate hypothesis accepted.

Table 2: Regression analysis between CSRR and ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.059735	0.057998	1.029945	0.3057
CSRR	-0.235093	0.246729	-0.952838	0.3431

R-squared	0.121609	Mean dependent var	0.020184
Adjusted R-squared	0.084625	S.D. dependent var	0.125952
S.E. of regression	0.120504	Akaike info criterion	-1.344161
Sum squared resid	1.379527	Schwarz criterion	-1.213902
Log likelihood	72.20803	Hannan-Quinn criter.	-1.291443
F-statistic	3.288085	Durbin-Watson stat	2.042636
Prob(F-statistic)	0.014327		

Source: E-view version 8 output data

The R-squared value of 0.121609 (and adjusted R-squared value of 0.08625) indicate that only 12.16% (and adjusted shocks of only 8.62%) variations in the dependent variable (ROA) were explained by the CSRR. Thus, other factors explained about 88% of the variations on ROA of the Oil and Gas Firms in Nigeria.

The Durbin Watson Statistic of 2.04 is within the benchmark 0f 2.0; and the Prob (F-statistic) of 0; 014327 is less than 0.05 level of significance benchmark. We conclude that the model is useful for testing the hypothesis.

The study hypothesized that corporate social responsibility reporting has no significant effect on return on assets of Oil and Gas Companies listed on the Nigerian Stock Exchange.

The coefficient of CSRR was -0.235093 indicating negative relationship with ROA. The p-value of 0.3431 > 0.05. We have no reason reject the null hypothesis. Thus, corporate social responsibility reporting has negative and no significant effect on return on assets of Oil and Gas Companies listed on the Nigerian Stock Exchange.

Conclusion

The results demonstrated that the influence of social and environmental sustainability on return on assets is not significant. As a result, the first null hypotheses (Ho) were accepted.

The hypothesis of the CSRR tends to support most existing schools of thought (such as Ezejiofor *et al*, (2016) that argue that engaging in sustainability practices has a high negative fiscal effect on the organization's resources. However, our result in terms of return on assets (ROA) contradicts the findings of most foreign authors such as Amacha & Dastane (2017) and Maletic *et al* (2015) who found that both social and environmental sustainability have a high negative fiscal effect on the organization The non-significant character of our conclusion can be attributed to the sampled companies' generally weak sustainability disclosures (at 13 percent on average), compared to most advanced countries (such as the United States), which has a rate of above 25%, (Ameer & Othman, 2012).

Recommendations

Based on the findings, it is recommended that oil and gas companies must ensure the lessening of their total cost by aggressively aggregate turnover whilst cutting cost and without having to escalate total cost and also dispose some investments or cease from procuring more assets in the company.

References

Amidu P. M., Liu Y., & Sesay B. (2017). The impact of corporate social responsibility disclosure on financial performance of firms in Africa. *International Journal of Economics and Financial Issues 7,* (5), 137-146.

Anderson, H. L., & Landau, E. (2000). Corporate social responsibility in Australia: A review. SSRN *Electronic Journal*, 1-32.

Ajayi, S.D. & Ovwarhe, L.U. (2016). The effect of corporate social responsibility on the performance and growth of the oil & gas Industry in Nigeria: A case study of Nigeria LNG Limited, *Social Science Research Network.* Retrieved fromhttp://papers.ssrn.com/sol3/papers.cfm?abstract_id=2745079

Aras, G., Aybars, A., & Kutlu, O. (2009). Managing corporate performance: investigating the relationship between corporate social responsibility and Financial Performance in Emerging Markets. *International Journal of Productivity and Performance Management*, 59 (3), 229-254.

Barnett, M.L. (2007). Stakeholder influence capacity and the variability of financial returns to corporate social responsibility. *Academy of Management Review, 32*(3), 794-816.

Belal, A. R. (2001). A study of corporate social disclosures in Bangladesh. *Managerial Auditing Journal*, *16*(5), 274-289.

Ducassy, I. (2013). Does corporate social responsibility pay off in times of Crisis? An Alternate Perspective on the Relationship between Financial and Corporate Social Performance, *Corporate Social Responsibility and Environmental Management*, 20(3), pp. 157-167.

Chen, L., Feldmann, A. & Tang, Q. (2015). The relationship between disclosures of corporate social performance and financial performance: Evidences from GRI reports in manufacturing industry. *International Journal of Production Economics*, 170, pp. 445-456.

Emmanuel E. D. (2019) Empirical investigation of determinants of financial performance of oil and gas companies in Nigeria

Forte, A. (2013). Corporate social responsibility in the United States and Europe: How Important Is It? The Future of Corporate Social Responsibility. *International Business & Economics Research Journal, 12* (7), 815-824.

Grigoris, G., George, K, Eleni, Z. Xanthi, P., (2016). The impact of corporate social responsibility on financial performance. *Investment Management and Financial Innovations*, 13(3).

Griffin, J. J. & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate twenty-five years of incomparable research. *Business and Society, 36* (1), 5-31.

Heese, H. (2005). The development of socially responsible investment in South Africa: Experience and evolution of SRI in global markets. *Development Southern Africa, 22*(5), 729-739.

Isabel, C. L., Manuel, C. B., Jose, D. C. & Teresa, E. (2012). How does the market value corporate sustainability performance? *Journal of Business Ethics, 108*(4), 417-428.

Jamali, D., & Mirshak, R. (2007). Corporate social responsibility (CSR): Theory and practice in a developing country context. *Journal of Business Ethics, 72*(3), 243-262.

Juhmani, O. (2014). Determinants of corporate social & environmental disclosure on website: The case of Bahrain. *Universal Journal of Accounting & Finance. 2*, 77-87.

Khan, S. (2009). Corporate social performance of Indian FMCG companies. *Issues in Social and Environmental Accounting, 3* (2), 180-201.

Krishnan, A. (2018). Comparative analysis study on CSR expenditure in India: The case of manufacturing and service industries. *International Journal of Pure and Applied Mathematics, 118*, 421-443.

Lin, C. H., Yang, H. L., & Liou, D. Y. (2009). The impact of corporate social responsibility on financial performance: Evidence from business in Taiwan. *Technology in Society, 31*(1), 56-63.

Margolis, J. D. & Walsh, J. P. (2003). Misery loves companies: rethinking social initiatives by business, *Administrative Science Quarterly*, *48* (2), 268-305.

Makni, R., Francoeur, C. & Bellavance, F. (2009). Causality between corporate Social performance and financial performance: Evidence from Canadian firms. *Journal of Business Ethics*, *89*(3), pp. 409-422.

Marly, M. (2016). The Effects of Corporate Social Responsibility on Financial Performance. Honors Undergraduate Theses. *UCF Theses and Dissertations* 2016

Maqbool, S. & Zameer, M. N. (2018). Corporate social responsibility and financial performance: An empirical analysis of Indian banks. *Future Business Journal*, 4, 84-93.

McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: a theory of the firm perspective. *Academy of Management Review*, 117-127.

Nor, N. M., Shaiful Bahari, N. A., Adnan, N.A., Sheh Kamal, S.M.Q.A. & Mohd Ali, I. (2016). The Effects of Environmental Disclosure on Financial Performance in Malaysia, *7th International Economics & Business Management Conference*, 5th & 6th October 2015.

Nze, D. O., Okoh., J. & Ojeogwu, I. C. (2016). Effect of corporate social responsibility on earnings of quoted firms in Nigeria. *ESUT Journal of Accountancy*, *4*(1), 260-267.

Orlitzky, M. F. (2003). Corporate social and financial performance: A Meta-Analysis. *Organization Studies*, 403-41.

Pandey, I. M. (2004). *Financial Management*. (7th ed.) New Delhi: VIKAS Publishing House, PVT Ltd.

Ross, S. A., Westerfield, R.W.& Jaffe, J. (2005). *Corporate finance.(7th ed.*). New York. McGraw-Hill Inc.

Reinhardt, F.L. & Stavins, R.N. (2010). Corporate social responsibility, business strategy, and the environment. *Oxford Review of Economic Policy*, 26(2), pp. 164-181

Sharma, S. (2017). Examining CSR Practices in India and the United States. *International Journal of Social Science and Humanities Research*, 5 (3), 9-15.

Sharma, R. B. (2020). Corporate Social Responsibility and Financial Performance: Evidence from Manufacturing and Service Industry. *Academic Journal of Interdisciplinary Studies* 10(3) *www.richtmann.org*

Yahya, H. Y. & Ghodratollah, B. (2014). The effect of. Disclosure level of CSR on corporate financial performance in Tehran stock exchange. *International Journal of Accounting Research*, *1*(11): 43-51.

Waddock, S. A. & Graves, S.B. (1997). The corporate social financial performance link. *Strategic Management Journal*, *18*(4), 303-319.

Wang, L., & Tuttle, B. (2014). Using Corporate Social Responsibility Performance to Evaluate Financial Disclosure Credibility. *Accounting and Business Research*, *44*, 523-544.

Weber, O., Koellner, T., Habegger, D., Steffensen, H. & Ohnemus, P. (2008). The relation between the GRI indicators and the financial performance of firms, *Progress in Industrial Ecology*, 5(3), pp. 236-254.

Wood, D. (1991). Corporate Social Performance Revisited. *Academy of Management Review*, 691-718.