CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF OIL AND GAS INDUSTRY IN NIGERIA

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Abstract

The paper investigated the effects of corporate social responsibility on financial performance of listed oil and gas sector in Nigeria and necessary information was obtained from secondary data. Its sample size selected was five quoted oil and gas sectors with the financial statements run from 2011-2020. The regression analysis was employed for the running of the data collected from Nigerian exchange group. The corporate social responsibility ensures environmental stability and improvement in the financial statement of an organization. However, in the result displayed, it was discovered that economic, donation and legal responsibilities had non-significant influence on return on assets (ROA) and return on equity (ROE) of the oil and gas firms in Nigeria. The study concluded that corporate social responsibility had non-significant relationship with financial performance of listed oil and gas industry in Nigeria

Keywords: ***Environment Responsibility, Regression and Social Disclosure***

1. Introduction

The corporate social responsibility is a major issue attracts attention of many researchers in the world regarding the responsibility of firms towards its immediate environment and society that can bring tremendous development to the economy and socio-political relationship. This is an integrated economy in the world where many challenges faced by firms can be solved amicably in order to ensure business survival in a competitive environment (Abubakar, 2016). This is a way of integrating social and environmental demand for the purpose of achieving the needs of various stakeholders within and outside business operation (Uadiale & Fagbemi, 2012).

The previous development of oil and gas firms in Nigeria was characterized with several financial and social challenges regarding corporate social responsibility to the people living within the business environment. Over the past decade, Nigerian firms especially oil and gas industry had faced tremendous financial and social challenges that resulted to low development among firms (Gauobadia, 2002). It was said by various promoters that firms should integrate social, cultural, economic and environmental issues into business policy for the purpose of meeting needs of various stakeholders (Lee & park, 2010).

The oil and gas sector in Nigeria had been criticized by many people regarding its failure to render social and environmental responsibility to the people in its immediate environment; and it was also noted that environmental degradation regarding air and water pollutions had affected drinkable water, ocean fish and destruction of industrial machine (Uwaoma & Ordu,2016). The demand for stable environment and minimization of cost especially operation of oil and gas sector in the world had necessitated firms to address the menace brought to the stakeholders and society (Uwuigbe & Jimoh, 2012).

In the study above, it was realized that some listed firms were not disclosing their social and environmental responsibility towards people in the society, and this resulted to land, sea and air pollutions which call for a gap to be filled in examining the current position of corporate social responsibility and financial performance of oil and gas sector in Nigeria. This paper divided into some headings and subheads including introductory, literature reviews, data and methods, data analysis and discussions of findings, conclusion and recommendations.

2. Literature Review

This section captured conceptual, theoretical and empirical reviews.

2.1 Conceptual Review

2 Corporate Social Responsibility

Jamali and Mirshak (2017) said that corporate social responsibility ensured actualization of societal needs and reduction of negative signal in the economic development through economic, legal and ethical responsibility. This is a method of assessing economic value in a country through various initiatives set up within business operation for a given period (Nkanbra & Okorite, 2007). There is a cordial relationship between corporate social responsibility and financial performance that serves as a suitable method of assessing firm's prosperity and objectives for a specific period (Sendil, 2015).

2.1.2 Firm Financial Performance

This is a measurement of activity of an organization regarding its profitability, operation, growth, social and economic performance for a specific period of time (Bobakova, 2003). The assessment of profitability is done through feasibility studies by earnings ratio where income is greater than its expenditure which serves as a major key for its existence (Ajanthan, 2013).

2.2 Theoretical Review

2.2.1 Instrumental Theory

It was propounded by Friedman (1970) through Jensen (2000) stated that corporate social responsibility was designed for exploiting business opportunity, expansion of firms and its immediate environment. The actualization and maximization of organization goal and objectives depend on environmental protection and safeguard (Harashid & Azlan 2015).

2.2.2 Shareholder Value Theory (SVT)

Morin and Jarrel (2001) said that profit maximization was a driving force for a firm existence in an environment with the multiplier effect on economic value.

2.2.3 Stakeholder Theory

These are the resources released for the running of a business by different stakeholders with a consideration of environmental issues surrounding its activities for a specific period (Harashid & Azlan 2015).

This study anchored on a stakeholder theory with the purpose of considering various stakeholders' role in the operation of a firm that gave more information on how oil and gas sector could increase its responsibility towards its immediate environment by providing social and corporate services.

2.3 Empirical Review

Emezi (2015) examined the relationship between corporate social responsibility and profitability of Nigeria Breweries PLC and Lafarge Africa PLC with the utilization of profit after tax and investment that were sourced from secondary data on its annual reports from 2005-2014. The analysis was conducted with the utilization of simple regression and discovered that there was a positive relationship between the variables. Das and Halder (2011) examined corporate social responsibility of oil and gas sector and economic development of Assam. The data were collected from both primary and secondary; and it was concluded that positive relationship existed between the variables.

Amole *et. al* (2012) conducted research on corporate social responsibility and profitability of First Bank of Nigeria Plc within 2001-2010; and the data were analyzed through ordinary least square (OLS), and concluded that positive relationship existed between the variables. Choi *et. al* (2010) stated that there is a cordial relationship between corporate social responsibility and financial performance of Banks in Korea for 2002-2008 with utilization of time series.

Richard and Okoye (2013) examined corporate social responsibilities and financial performance of First Bank plc in Nigeria with application of descriptive statistic; and it was discovered that societal and infrastructural development greatly depended on the social responsibility towards its environment. Bessong and Tapang (2012) argued on corporate social responsibility and banks 'operation in Nigeria with the use of ordinary least square; and discovered insignificant relationship between the variables.

Ugochukwu and Okafor (2006) examined corporate social responsibility and financial performance of listed banks in Nigeria. A regression analysis was used for the data collected within 2010-2014; and discovered insignificant relationship between the variables. Bhunia and Das (2015) investigated the relationship between corporate social responsibility and profitability of Maharatna companies in India. The time series and regression analysis were used and discovered an insignificant relationship between the variables.

Nelling and Webb (2009) examined corporate social responsibility and financial performance of listed manufacturing companies. The time series were used and discovered insignificant relationship between the variables. Carlsson and Akerstom (2008) examined corporate social responsibility and profitability of Ohrling Price water house Cooper in Sweden for 2000-2007; and it was discovered that insignificant relationship existed between the variables. Balabanis *et. al* (1998) examined corporate social responsibility and financial performance of firms in United Kingdom and discovered insignificant relationship between the variables.

2.4 Hypotheses Development

The following hypotheses were formulated and tested;

H_{01}: Corporate social responsibility does not have any significant effect on profit after tax of oil and gas industry in Nigeria.

H_{02}: There is no significant relationship between corporate social responsibility and return on equity of oil and gas industry in Nigeria.

H_{03}: There is no mutual relationship between corporate social responsibility and return on capital employed of oil and gas industry in Nigeria.

3. Methodology

3.1 Research Design

An ex-post facto was used to obtain the secondary data in determining the relationship between corporate social responsibilities and financial performance of oil and gas sector in Nigeria. The population covered twelve (12) with the sample size of five (5) quoted oil and gas sector in Nigerian exchange group from 2011 to 2020 with the application of judgmental sampling technique.

3.2 Model specification

The functional form of linear regression model adopted in this study is given by;
Y = f(x); FP =f(CSR)
To capture the study objective, the explicit form of the finance was adopted; Where
FP = PAT + ROE + ROCE
CSR = Ethical + Economic + Legal
$PAT = \beta_0 + \beta_1 D + \mu$ ……………………………………………………… …i
$ROE = \beta_0 + \beta_2 D + \mu$ …………………………...…………………………… ii
$ROCE = \beta_0 + \beta_3 D + \mu$………………………………………………………iii
Ethical= Social Donation (D)
Economic= Earnings per Share; Legal= Director Remuneration+ Auditors' Fees+ Tax Paid + Interest Expenses + Staff Costs; FP = Financial Performance; CSR = Corporate Social

Responsibility; ROE = Return on equity; PAT = Profit after Tax; ROCE = Return on capital employed; $B_{0,}$ β_1 = Estimated coefficients of variables used; μ= Error term.

3.3 Data Analysis Techniques

The data collected (audited financial statement) were analysed from panel data by using regression analysis (E-views software).

4. Results and Discussions

The findings are analysed through Ordinary Least Square Analysis.

Table 1 Corporate Social Responsibility and Profit after Tax

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.450629	1.821899	-0.247340	0.8109
C	28.86207	6.232540	4.630868	0.0017

R-squared	0.007589	Mean dependent var	27.46530
Adjusted R-squared	-0.116462	S.D. dependent var	7.892250
S.E. of regression	8.339171	Akaike info criterion	7.256661
Sum squared resid	556.3341	Schwarz criterion	7.317178
Log likelihood	-34.28331	Hannan-Quinn criter.	7.190274
F-statistic	0.061177	Durbin-Watson stat	1.363607
Prob(F-statistic)	0.810874		

Source: Researcher's computation 2022

The coefficient showed -0.450629 and interpreted as a strong negative relationship between the corporate social responsibility and profit after tax. The R-squared is 7% and interpreted as non-relationship between the variables.

Table 2 Corporate Social Responsibility and Return on Capital Employed

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.049447	0.362227	-0.136508	0.8948
C	4.164065	1.239143	3.360440	0.0099

R-squared	0.002324	Mean dependent var	4.010800
Adjusted R-squared	-0.122386	S.D. dependent var	1.564978
S.E. of regression	1.657980	Akaike info criterion	4.025933
Sum squared resid	21.99117	Schwarz criterion	4.086450
Log likelihood	-18.12967	Hannan-Quinn criter.	3.959546
F-statistic	0.018634	Durbin-Watson stat	1.140663
Prob(F-statistic)	0.894793		

Source: Researcher's computation 2022

The coefficient showed -0.49447 and interpreted as a strong negative relationship between the corporate social responsibility and profit after tax. The R-squared is 2% and interpreted as non-relationship between the variables.

4.3 Corporate Social Responsibility and Return on Asset

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.450629	1.821899	-0.247340	0.8109
C	28.86207	6.232540	4.630868	0.0017

R-squared	0.007589	Mean dependent var	27.46530
Adjusted R-squared	-0.116462	S.D. dependent var	7.892250
S.E. of regression	8.339171	Akaike info criterion	7.256661
Sum squared resid	556.3341	Schwarz criterion	7.317178
Log likelihood	-34.28331	Hannan-Quinn criter.	7.190274
F-statistic	0.061177	Durbin-Watson stat	1.363607
Prob(F-statistic)	0.810874		

Source: Researcher's computation 2022

The coefficient showed -0.450629 and interpreted as a strong negative relationship between the corporate social responsibility and profit after tax. The R-squared is 7% and interpreted as non-relationship between the variables.

5. Conclusion

The corporate social responsibility ensures environmental stability and improvement in the financial statement of an organization. However, in the result displayed, it was discovered that economic, donation and legal responsibilities had a non-significant influence on the return on assets (ROA) and return on equity (ROE) of the oil and gas firms in Nigeria. The study concluded that corporate social responsibility had non-significant relationship with financial performance of listed oil and gas industry in Nigeria.

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