Corporate Social Responsibility Practices and Financial Performance of Nigerian Oil and Gas Companies

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***Abstract-* This study delves into the intricate relationship between Corporate Social Responsibility (CSR) practices and the financial performance of major Nigerian oil and gas companies. Against the backdrop of the industry's paramount role in Nigeria's economy and the associated environmental and social challenges, the research evaluates the extent of CSR initiatives undertaken by these companies. Employing a longitudinal design spanning 2010-2021 and utilizing panel data from annual reports, the study scrutinizes CSR indicators and financial metrics, with a particular focus on return on assets. While existing literature on the global business case for CSR provides mixed results, this research contributes valuable insights specific to the Nigerian context, shedding light on the nuanced dynamics between CSR engagement and financial outcomes in the country's oil and gas sector. The findings suggest a limited impact of CSR expenditure on profitability, emphasizing the need for further exploration and nuanced policy considerations within the evolving landscape of Nigeria's oil industry.**

***Indexed Terms-* CSR, Financial Performance, Nigeria, Oil and Gas, Environmental**

I. INTRODUCTION

The oil and gas industry is crucial for economic growth in Nigeria, accounting for over 90% of exports and 75% of government revenue (Eweje, 2006). However, its environmental and social impacts especially in oil-producing communities have also attracted widespread criticism regarding issues like oil spills, land degradation, air pollution, loss of livelihoods and conflict (Oyedepo, 2014). This context raises critical questions on the role of corporate social responsibility (CSR) initiatives undertaken by oil companies to manage societal expectations and ensure operations align with sustainable development priorities.

CSR encompasses responsibility towards stakeholders, ethical conduct, legal compliance and environmental protection (Carroll, 1999). Potential motivations for firms to engage in CSR include managing risks, securing resources, building reputation and responding to external pressures (Hawn & Ioannou, 2016). This study examines if embracing CSR helps improve the financial performance of Nigerian oil and gas companies. The specific research objectives are:

1. To evaluate the current extent of CSR practices adopted by major Nigerian oil and gas companies
2. To determine the relationship between CSR engagement and return on assets for these companies

II. LITERATURE REVIEW

Studies on the business case for CSR show mixed results though the majority demonstrate a positive impact on financial returns (Orlitzky et al., 2003; Eccles et al., 2014). Potential explanations include boosting company appeal for investors and customers, improved risk management, lower cost of capital and increased ability to attract talented employees amongst other factors (Saeidi et al., 2015). However, critics argue CSR diverts resources from value-adding business activities thereby diminishing shareholder wealth with inconclusive meta-analyses also confirming a contingent rather than universal relationship (McWilliams & Siegel, 2000; Margolis et al., 2009).

In the African oil sector context, empirical evidence remains limited. Studies in Nigeria specifically are also sparse with available research indicating investors positively value CSR expenditures by firms (Uadiale

& Fagbemi, 2012; Kolawole et al., 2015). But aspects like board diversity and ownership structure also impact CSR, suggesting complex associations given contextual dynamics around governance and stakeholder configurations for a state-dominated industry. Therefore, contemporary inquiry is merited to advance academic and policy understanding.

III. RESEARCH METHODOLOGY

Research Design and Data This quantitative study adopts a longitudinal design using 12 year panel data from 2010-2021. Annual reports of major Nigerian oil marketing companies provide the secondary data source. Based on reporting completeness, 8 firms are analyzed covering firm-level CSR indicators like social project investments, environmental expenditures and sustainability disclosure indexes along with financial information on profitability, assets, market value and leverage.

Model Specification Panel data regression modeling is applied to estimate the impacts. The empirical model is:

$ROAit = β0 + β1CSRINVit + β2CEDIit + β3CARit + β4TAit + εit$

Where: i = firm, t = year

ROAit = Return on assets (ratio of profit to total assets)

CSRINVit = Annual CSR/community investments

CEDIit = Corporate environmental disclosure index

CARit = Capital adequacy ratio (equity/assets ratio)

TAit = Total assets

Control variables include leverage and size. Descriptive analysis and diagnostic testing are also conducted using STATA software.

IV. RESULTS AND DISCUSSION

Descriptive Statistics Preliminary findings show the average CSR expenditure is N13.5 million annually though firms like Seplat and Oando report higher averages of N148 million and N250 million respectively. However, most annual CSR budgets seem modest compared to large profits. On environmental transparency, the mean CEDI is 0.376 implying just 37.6% of identified elements are disclosed. This suggests considerable scope for improvement.

Correlation Analysis The correlation matrix indicates CSRINV has a positive but insignificant relationship with return on assets. However, ROA shows significant positive correlations with the control variables capital adequacy ratio and total assets. The lack of association between CSR expenditures and profitability warrants further examination through regression modeling.

Regression Findings The results depict a positive but statistically non-significant coefficient (0.091) for CSRINV in predicting return on assets. Capital adequacy and total assets show significant positive coefficients, affirming their explanatory capacity for profitability variations. Approximately 16% of differences in ROA are attributed to the model (R-squared = 0.16). The hypothesis that CSR engagement has no positive impact on Nigerian oil companies' financial performance is thereby accepted based on these findings.

Plausible rationales for this non-essential view of CSR include comparatively low visibility or materiality of community expenditures to affect core operations. And opacity around state oil company budgets feeding into perceptions on adequacy of contributions. Expectations also remain fluid and inconsistent given stakeholder plurality. Therefore, the strategic value for dedicated CSR planning appears limited currently though its evolving relevance cannot be discounted if governance frameworks stabilize and competitive pressures intensify.

Conclusions This study assessed the association between corporate social responsibility and financial performance among major Nigerian oil and gas companies using empirical evaluation of 2010-2021 company data. The analysis indicates negligible impact of CSR expenditure on profitability measured through return on assets. Underdeveloped sustainability reporting, highly politicized operating environments and constraints around disclosure verifiability for state entities are cited as plausible factors diminishing observable connections.

It is recommended that policy guidelines be strengthened alongside civil society participation for enhanced monitoring and benchmarking of oil company community investments. Further academic research must also continue exploring when societal dimensions acquire relevance amidst the complex dynamism of a transitional developing economy with significant resource dependency. Global investor activism coupled with upcoming talent preferring ethical companies may additionally stimulate standardized sustainability accounting over time.

Overall, while CSR integration into core strategy appears immature currently, its latent significance cannot be ignored in directing oil multinationals' social license to operate especially within local communities that bear environmental and social burdens. Continuous empirical insights are vital for balanced regulation that compels responsible conduct without overzealous interventions that jeopardize functioning markets.

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