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INVESTIGATE THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY COST AND FINANCIAL PERFORMANCE OF QUOTED OIL AND GAS COMPANIES IN NIGERIA FROM 2018-2023

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Abstract

Despite the increasing militancy pressures and agitations, the oil and gas firms operating in Nigeria have remained adamant to the discharge of their corporate social responsibility, on the inimical pretence that it constitutes a drain on their financial position. This study investigate the relationship between corporate social responsibility cost and financial performance of quoted oil and gas companies in Nigeria from 2018-2023. Community development cost, and employee benefits cost were the proxies corporate social responsibility while net profit margin and return on investment were the proxies of financial performance. The researchers adopted expost- facto research design for the study. The study used secondary data obtained from the audited annual reports and accounts of the nine quoted oil and gas firms' website and the Nigeria stock exchange fact

Keyword:
Corporate social responsibility, financial performance, upstream oil and gas companies.

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book as at November 8, 2024. The research data was analyzed using basic descriptive, Pearson product moment correlation and multiple regression in a cross sectional data with the aid of SPSS version 27. The findings revealed that all the CSR proxies significantly related with net profit margin and return on investment of listed oil and gas firms in Nigeria in the period of this study. We thus concluded that corporate social responsibility has significant relationship with financial performance of quoted oil and gas firms in Nigeria in the period of this study. We recommended that Management of oil companies should develop a well-articulated corporate social responsibility and prioritize their spending regarding human resource development, community development, and environmental protection in order to guarantee a conflict free corporate atmosphere needed by managers and workers for maximum productivity and robust financial performance.

Introduction

The conventional straight-jacket thinking strategy which is targeted at achieving strong financial performance with a view to maximize both shareholder and stakeholder wealth could be a mirage in the contemporary competitive and dynamically erratic global business space. The import is that in the era of industrialization, most corporations focus only on profitability, leaving their contribution to society limited only to available field-work for society and providing goods and services. Although scholars such Ofurum and Aliyu (2018); and Estelle and Luc (2015) among others emphasized and highlighted the central role of sound financial performance of business on the podium of going concern, in order to succeed and survive in the current reality, companies must think beyond profit maximization. Nowadays, society demands corporations to do more as there is glaring economy imbalance between owners and society. Companies in the digital age embrace other practices, including corporate social responsibility, which helps in building

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

competitive advantage (Madueño, Herrera, Jorge, Conesa & Martínez-Martínez, 2016).

Generally, corporate social responsibility emphasises that business entities should consider he interest of employees, communities, customers, shareholders, and the ecological footprint while pursuing their business obligations (Ofurum & Ngoke, 2022). Strictly speaking, it is the responsibility of an organisation for the impacts of its activities and decisions on the Society and the environment, designed to deliver sustainable value to the Society and the shareholders (Maheshwari 2020). It is worthy to note and appreciated that before the emergence of the concept of Corporate Social Responsibility, the sole objective or mandate of business entities was the maximisation of shareholders' wealth, with little or no consideration for the interest of the Society (Jhawar and Gupta (2017), (Galant and Cadez 2017). With the official recognition given to the concept by the United Nations and the European Union driven by an influential article published by an American economist, Howard Bowen, in 1953, entitled "Corporate social responsibility of the businessman," the story changed. Firms are now empowered to maximise wealth for the stakeholders and simultaneously incur costs on corporate social responsibility for the overall well-being of the Society (Carroll, 2008).

One of the essential management functions is to identify the users of the reported value or cost and their interests and hence incorporate the much-needed information into the accounts for their benefit. This act will create an interface between those who generate the economic values or costs and those who base their decision on such reported costs (Oyadonghan and Eze 2013). Where the reported values fail to be in tandem with the informed knowledge of the recipients, who determine the content of the information needed, then the financial statements would create a knowledge gap and goal incongruence (Essia 2005). Such inconsistencies are believed to have accelerated disputes, agitations, and the subsequent breakdown of law and order in some of the oil and gas producing communities in Nigeria (Branco et al., 2007). In light of the above development, the paper empirically investigates the relationship between Corporate Social Responsibility costs and the financial performance of listed oil and gas firms in Nigeria.

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Statement of the Problem

Over the years, oil and gas companies' continued exploitation, exploration and production of oil and gas resources have created enormoussocial and environmental hazards in Nigeria. Strange diseases, destruction of human, animal, and aquatic lives; hunger and deprivation are some of the results of these oil and gas spillages, gas flaring and discharges of poisonous wastes into the environment by the oil and gas firms operating in Nigeria (Allen 2012). Regrettably however, most of these oil and gas firms have not only failed but have also refused and or neglected to incur costs on Corporate Social Responsibility for the alleviation of the sufferings of the Society, on the notion that such cost constitutes a drain on firm's bottom-line (Mensah et al., 2017, Hossain et al., 2016) leading to intermittent hostilities and agitations between the oil and gas firms and their host communities in Nigeria.

Objectives of the Study

This study investigated the relationship between corporate social responsibility cost and financial performance of listed oil and gas companies in Nigeria with the specific objectives as follows:

1. Determine the relationship between community development cost and return on investment of listed oil and gas companies in Nigeria.
2. Evaluate the relationship between community development cost and net profit margin of listed oil and gas companies in Nigeria.
3. Investigate the relationship between employee benefits cost and return on investment of listed oil and gas companies in Nigeria.
4. Determine the relationship between employee benefits cost and net profit margin of listed oil and gas companies in Nigeria.

Research Questions

In line with the above aim and objectives, the study asked the following research questions;

1. What is the relationship between community development cost and return on investment of listed oil and gas companies in Nigeria?
2. How does community development cost costrelate tonet profit margin of listed oil and gas companies in Nigeria?

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

3. What is the relationship between employee benefits cost and return on investment of listed oil and gas companies in Nigeria?
4. How does employee benefits cost correlatenet profit margin of listed oil and gas companies in Nigeria?

Hypotheses

The following null hypotheses were formulated and tested at 0.05 level of significance:

$Ho_{1:}$ There is no significant relationship between community development cost and return on investment of listed oil and gas companies in Nigeria?

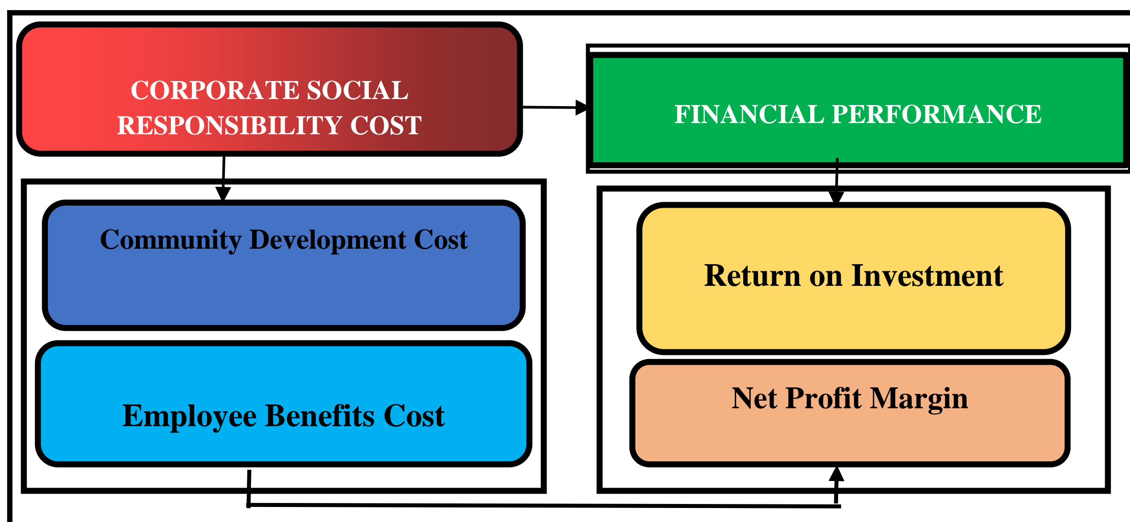
$Ho_{2:}$ Community development cost does not significantly relate to net profit margin of listed oil and gas companies in Nigeria?

$Ho_{3:}$ There is no significant relationship between employee benefits cost and return on investment of listed oil and gas companies in Nigeria.

$Ho_{4:}$ Employee benefits cost does not significantly relate to net profit margin of listed oil and gas companies in Nigeria.

Conceptual Framework

The fig 1. below guides the underpinning relationship and the interactions among the variables of the study with a view to achieve the research objective of the study.



Source: Ofurum and Ngoke (2022) and Ekiran & Olasehinde (2019)

LITERATURE REVIEW

Theoretical Foundation

This study is anchored on the stakeholders' theory. It is obligatory for firms to improve discretionary business practices and the use of resources to contribute to sustainable economic development, through collaboration with employees, the local community, and the public to improve quality of life that would be beneficial for both the business and society in general that would be beneficial to both the business and society.

Pirsch et al. (2007) attributed the origin of Corporate Social Responsibility (CSR) to Stakeholder Theory, which posits that an organization's success involves achieving both economic (such as profit maximization) and non-economic (such as corporate social performance) goals for the benefit of its stakeholders. Freeman (1984) defined stakeholders as groups or individuals who can impact or are impacted by an organization's objectives. This includes shareholders, employees, customers, suppliers, government, trade associations, and environmental groups. Donaldson and Preston (1995) suggested that stakeholder theory encourages companies to engage in CSR activities and consider the effects on all stakeholder groups. The theory asserts that a firm's financial success hinges on effectively managing relationships with stakeholders through a corporate strategy.

Stakeholder management can be approached normatively, instrumentally, or descriptively. Deegan (2000) introduces the ethical aspect of stakeholder theory, emphasizing fair treatment of all stakeholders and management of the organization for their collective benefit.

Conceptual Review

Corporate social responsibility cost is the total amount of money spent or expended by business entities to accomplish or fulfil their corporate social responsibility activities for the Society at a specific time (Iheduru and

Chukwuma 2019).This implies that corporate social responsibility cost arises from the actual implementation of straightforward corporate social responsibility programmes or initiatives that would benefit the Society, for example, rural electrification, road rehabilitation, skill acquisition programmes, scholarship awards, etc.(Kabir and Chowdhury (2022);(Babalola 2012). It is necessary that during and after the completion of a particular corporate social responsibility activity, proper records of all the associated costs be maintained in consonance with extant regulations for management and stakeholders' decision-making (Sprinkle & Maines, 2016). This practice is essential because that cost is the means of ascertaining the relationship between firms' activities and Society. (Nnaoma & Omotosho, 2017).

Okutu and Adegbie (2024) examined the financial performance and corporate social responsibility of Nigerian oil and gas companies. The research used panel data analysis to analyze profitability metrics like return on assets (ROA), return on equity (ROE), and return on capital employed (ROCE). The results showed that CSR reporting significantly impacted ROA, with a positive correlation between environmental sustainability and ROE. However, there was a statistically negligible association between ROI and social sustainability. The study concluded that companies' financial performance is significantly influenced by sustainability reporting, and recommended that they prioritize public disclosure of their sustainability efforts to improve their bottom lines.

Meanwhile, the concept of corporate social responsibility means different things to different people. For example, the European Commission (2011) defined corporate social responsibility as a concept wherein business entities contribute voluntarily to a better society and a cleaner environment while maximising value for their shareholders. On the other hand, Xie et al. (2017) defined it as the ethical obligation of the firm's operations to consider social and environmental matters. Moreso, Barnea and Rubins (2010) view corporate social responsibility as a firm's action regarding the employees,

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

communities, and the environment, which goes beyond the firm's legal requirements. To Brusseau (2016), corporate social responsibility is the action taken by firms to create wealth and interact ethically with the business community and includes the responsibility to make a profit and relate with the broader question of community welfare. But a more categorical definition of corporate social responsibility was believed to have been suggested by Carroll (1983). She defined corporate social responsibility as the conduct of a business to be economically profitable, law-abiding, ethical, and socially supportive (Maqbool & Zameer, 2018). Importantly, this study adopts the corporate social responsibility model enunciated by Caroll in 1979 and reviewed 2015 in the perspectives of economic, ethic, environment, and philanthropic model which will usher in peaceful coexistence for mutual symbiotic relationship for all the stakeholders including the host communities through healthy financial performance to breath fresh air of survival as a going concern.

Nevertheless, a critical look of the above definitions indicate that corporate social responsibility is all about a firm's voluntary contribution toward the well-being of Society. This assertion was amplified by Musa et al. (2015) when they opined that business enterprises should be socially responsible to all their stakeholders because there is an implied contract between the Society and the business organisations. They further contended that while the social environment provides the factors of production for the economic activities of the business enterprises, it is only natural that the business enterprises reciprocally carry out some social responsibility activities to the Society. Indeed, stakeholders' expectations of social services from business entities, especially the oil/gas firms, have today become very high in Nigeria; thus, the negligence of these expectations by the business entities is mainly responsible for the hostile business climate they are currently experiencing (Nnaoma & Omotosho, 2017).

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Furthermore, Osisioma et al. (2015) argued that the high rate of poverty, lack of infrastructure, bad roads, illiteracy, environmental pollution, etc., are some of the potential factors that are instrumental to the need for business entities to be actively involved in corporate social responsibility to the Society. Nnaoma and Omotosho. (2017) clarified that social responsibility entails the congruence of corporate behavior within the existing social norms, values, and performance expectations and is seen as a prescriptive concept. As a result, the moment there is a difference between corporate performance and social expectations, a legitimacy gap exists (Manuel et al., 2007). Similarly, Ejiba et al. (2016) disclosed that the activities of the oil companies in Nigeria had created economic challenges for the host communities. They further stressed that the challenges arising from the industry's activities include oil spills, air pollution, destruction of plants and marine lives, which affect the fundamental sources of livelihood of the people in this region. Likewise, Hashmi et al. (2015)opined that carbon emissions, illegal mining, and pollution that characterise oil and gas productions had given rise to a high spate of destruction to the environment, thereby affecting the social and economic conditions of the host communities.

Community Development Cost

The stakeholders of a business have one expectation or the other from the entity. A socially responsible business will seek to protect the interest of its stakeholders by seeking to satisfy the interest of both internal stakeholders (such as shareholders and employees) and external stakeholders (such as creditors, suppliers, host community, and the government). Managers must therefore consider how their activities will affect not just the shareholders but all other key stakeholders of the business. This is important as these stakeholder groups can enhance or frustrate an entity from achieving its goals. Put briefly, the stakeholder theory posits that there are many stakeholders in the environment in which a firm operates. Ignoring the

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Prof. R. Rena [South Africa]

interests of these stakeholders will imperil the performance of the business. Relying on the stakeholder perspective some studies have documented a positive relationship between community development activities and financial performance (Ashrat et al, 2017; Kaskeen, 2017; Manokaran et al., 2018)

Employee Benefits Cost

An entity which directs its CSR activities at its employees will enjoy numerous advantages. There will be reduction in absenteeism and labour turnover, a greater sense of belonging among staff, increased motivation, higher team spirit and an efficient workforce. The overall effect of staff-related CSR activities is improvement in productivity and enhanced financial performance. Employees constitute one of the critical categories of the internal stakeholders of any firm. Using the stakeholder perspective it has been shown that when employee welfare is adequately addressed beyond the industry requirement, the fortunes of the firm will be improved (Chukwu & Timah, 2018). The stakeholder theory proposed by Freeman (1984), suggests that firm value will be enhanced if a business recognises and respects the interest of its stakeholders. Chukwu and Etoko (2018) have argued that enhancing the welfare of employees in the oil industry in Nigeria positively affects a firm's wealth creation. This will result from increased commitment and consequent productivity. Umobong and Uche (2018) who examined the association between financial performance and corporate social responsibility of Nigerian firms (using data from 2005 to 2015) reported that employee had significant impact on financial performance. A similar finding was reported in Jordan by Hamdam et al. (2018), and in Uganda by Nassazi (2013) who focused on employee training in the telecommunication industry of that country. A positive relationship is therefore expected between employee welfare (a major CSR category) and financial performance.

Net Profit Margin

Profitability is commonly used to evaluate the ability of an organization to remain in operation but the ability of the organization to sustain that profitability becomes a challenge. Economists see it as a reward for risk-taking enterprise while accountants believe that benefit is the excess profits/income over costs expended to generate that income (Nwanyanwu & Nkiru, 2018). Net profit margin is a financial ratio used to quantify a company's gross income as the amount of profit; it tests the net profit per dollar of sales an organization receives (Mohamed & Ali, 2018). Net profit margin reflects the efficiency of a company in its inventory and the amount of sales a company receives from any pound of assets in the company (Ogbodo & Nzube, 2018). Thus, this paper views net profit margin as the percentage of net profit to revenue to figure out the efficiency of the company to make more profit. In the present study the net profit ratio has been calculated by using the following formula: **NPM = Net profit/Total Revenue.**

A high net profit margin ratio reflects a higher efficiency of core operations, meaning it can still cover operating expenses, fixed costs, dividends, and depreciation, while also providing net earnings to the business. On the other hand, a low profit ratio indicates a high cost of goods sold, which can be attributed to adverse purchasing policies, low selling prices, low sales, stiff market competition, or wrong sales promotion policies.

Return on Investment

This represents how much the market has returned to shareholders as a percentage of money they have invested or retained in the business. Unlike the usual return on investment ratio, this ratio accounts for all shares, common and preferred while it focuses on profit after tax which is considered the earnings available to shareholders. In Accounting for Management (2019), ROI is calculated as; ROI = Earnings after Taxes/total shareholders' equity. This study uses annual total equity instead of the average since our previous measures for other variables were based on annual figures rather than

averages. Furthermore, as we used annual profit after tax instead of average profit, it is rather justifiable to also use the annual closing figure for the denominator. The higher the ROI is the higher the market return to shareholders. This ratio helps in tracking the financial health of a company.

EMPIRICAL REVIEW

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).

Muhammad Isa Dattijo, et. Al, (2024)examined the effect of corporate social responsibility on financial performance of oil and gas firms in Nigeria from 2018 to 2023. The population of the study consisted of ten oil and gas firms in Nigeria that are listed on Nigeria Exchange Group as at December, 2023 while the sample size consisted of five (5) oil and gas firms in Nigeria. The study made use of secondary data which were sourced from Nigerian Exchange Group. Ordinary Least Square regression technique was the method of data analysis adopted. The results of the study revealed that: corporate social responsibility expenditure and corporate social responsibility disclosure have a positive and significant effect on net profit margin and return on asset of oil and gas firms in Nigeria. The study concluded that corporate social responsibility plays a significant positive role in improving the financial performance of oil and gas firms in Nigeria. The study recommended that management of oil and gas firms should ensure that social responsibility is inbuilt into their policy statements and back up with effective budget

Iloma and Chukwu (2023) investigated the effect of corporate social responsibility (CSR) activities on the profitability of oil firms listed in Nigeria by ascertaining how community development costs (CDC) and employee benefits are associated with the financial performance of the firms. Data on the study variables from thirteen oil and gas firms were collected over a period of twenty-one years (1998 to 2018), and analysed using a

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

heteroscedasticity and autocorrelation-consistent regression technique to determine the effect of CSR activities on the financial performance of the sampled firms. The results showed that community development cost (CDC) had a significant positive effect on profitability. Employee benfits also have similar effect on financial performance. These findings indicate that investing in CSR activities ultimately has a favourable impact on corporate financial performance.

Akinadewo et al. (2023) evaluated the impact of corporate social responsibility on the financial performance of Nigerian listed industrial goods enterprises. Panel data analysis and descriptive statistics such as mean, standard deviation, minimum and maximum values were employed to analyze the correlations between the variables. They found that economic sustainability practices have a significant positive association with changes in stock price and total assets, while environmental sustainability practices have a positive and significant impact on financial performance. Community involvement sustainability practices have a positive but less significant impact. The study suggests that environmental sustainability reporting can boost firm profits by encouraging managers to adopt sustainable techniques. The findings highlight the importance of sustainability reporting in enhancing the financial performance of listed enterprises in Nigeria.

Onoh, et al. (2023) examined Nigerian listed oil and gas companies' Tobin's Q value after environmental, social, and economic sustainability reporting. Secondary data from annual reports were examined while relationships and descriptive matrices were used as the analytical techniques. Economic sustainability reporting values showed that less sales growth and leverage negatively impacted sustainability reporting and firm value, while firm size positively impacted it. The research concluded that sustainability laws appealed to investors and increased firm value, and sustainable organizations require financial capital, good governance, and workplace practices that reflect stakeholders' environmental and social needs.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Okon et al. (2023) evaluated the impact of corporate social responsibility on the financial performance of listed oil and gas firms in Nigeria between 2012 and 2021. The Nigeria Exchange Group reports, annual reports, and retrospective studies were all consulted. Panel least squares regression was employed in the study to evaluate the three research hypotheses. The study found that Nigerian oil and gas businesses' return on investment is increased by social, health, and environmental transparency. The study found that Nigerian oil and gas businesses' return on investment is impacted by sustainability reporting. According to the study, petroleum corporations should mandate sustainability reporting for the entire industry and use a standard sustainability index to assess compliance.

Ofurum and Ngoke (2022)investigates the relationship between the corporate social responsibilitycost and the financial performance of oil and gas companies listed in Nigeria. Despite the increasing pressures and agitations, the oil and gas firms operating in Nigeria have remained indifferent to the discharge of their corporate social responsibility, on the notion that it constitutes a drain on their financial position. The study adopted a descriptive research design. Data for the Study obtained from secondary sources were analysed using Pearson Product Moment Correlation and Regression Statistical Techniques. HRDC, EPC and DCC were found to have positive relationships with the financial performance (ROA, ROE and NPM) of oil and gas companies listed in Nigeria. The study concludes that CSR costs are positively correlated with the financial performance of Nigerian-listed oil and gas companies.

Ezejioforand Emeneka(2022) assessed the effect of corporate social responsibility measures on the performance of corporate organisations in Nigeria, using the ex-post facto research design. Data for the study, which were analysed using regression analysis,were collected from annual reports and accounts of companies in Nigeria. The dependent variable is environmental cost,and the predictor variable is profit. The study found that

environmental costs do not positively impact the revenue of corporate organisations in Nigeria and that environmental costs positively impact the profit generation of corporate organisations in Nigeria.

Onyebuenyi and Ofoegbu (2022) embarked on a research project on the corporate social responsibility and financial performance of oil and gas companies in Nigeria. The empirical result shows that environmental reporting significantly influences financial performance.

Kurawa and Shuaibu (2022) empirically assessed the impact of corporate social responsibility on the performance of listed cement and brewery companies in Nigeria. The result indicates that quantitative environmental disclosure (EDQN) positively affects ROA and EPS. On the other hand, qualitative environmental disclosure (EDQL) positively affects ROAand EPS.

Ihenyen and Ikegima (2022) studied the effect of corporate social responsibility on the corporate performance of quoted Nigerian consumer goods firms. The research design was ex post facto and used time series data. The study tested hypotheses using regression analysis with the aid of SPSS. It concluded, among other things, that regular and continuous implementation of corporate social resposibility will improve organisations' sales and income while ensuring that environmental requirements and needs are met.

Emmanuel and Ifeanyichukwu (2021) investigated the relationship between corporate social responsibility disclosures and the financial performance of food and beverage companies in Nigeria. The secondary data were analysed using Pearson's correlation statistical technique and multiple regression with the aid of SPSS. The findings revealed a significant relationship between environmental accounting disclosures and the return on equity of selected companies. It also showed a negative relationship between environmental accounting disclosures, the return on capital employed, and the selected companies' net profit margin.

Ogoun and Ekpulu (2020) investigated the effect of corporate social responsibility and disclosure by listed firms operating within the

manufacturing sector in Nigeria on their operational performance. This study employed panel research design to ascertain how environmental reporting enhances firms' operational performance in Nigeria. The study also employed the Hausman test to select the appropriate (fixed-effect model) model andfound a positive relationship between environmental disclosure and operational performance.

Igwebuike (2020) explored the relationship between corporate social responsibility expenditure, pipeline vandalism and revenue losses of oil companies in Nigeria. Data were generated from primary sources and analysed using descriptive, correlational and multiple regressions. It was documented that increased corporate social responsibility funding reduces pipeline vandalism and revenue losses. In order words, increased funding for corporate social responsibility led to improvement in the financial performance of the studied oil companies.

Omesi and Berembo (2020) investigated the relationship between social accounting and the financial performance of listed oil/gas companies in Nigeria from (2012 – 2017). The variables under investigation were social accounting and return on asset. The study employed an explanatory and correlative research design, while data were obtained from a secondary source (Nigerian Stock Exchange). Data obtained were consequently analysed using regression analysis. It was found that there was no significant relationship between social accounting and the financial performance of oil and gas companies in Nigeria. Therefore, It is evident that empirical literature does not provide conclusive evidence on the relationship between corporate social responsibility costs and the financial performance of firms.

Aifuwa (2020) studied the effects of sustainability accounting and reporting on the financial performance of firms in Nigeria's brewery sector. The findings revealed that sustainability reporting has a positive and significant effect on the financial performance of the firms studied and recommendthat companies in Nigeria invest more in sustainability activities.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Falope et al. (2019) conducted a study to ascertain the degree to which pollution control costs affect the return on assets of a given firm. The study adoptedan ex-post factor research design and tested the hypotheses using linear regression analysis. The result revealed that environmental pollution prevention costs, environmental protection costs, and environmental recycling disclosure affectfirms' return on assets.

Jones et al. (2019) carried out an empirical study on the effect of social cost on the market capitalisation of listed firms in Nigeria. The study employed an ex-post facto research design. Data were obtained through 20 listed firms spanning (2005-to 2015). The unbalanced panel data techniques were adopted to analyse the relationship between the variables of study (education, health, social and recreational activities, as against current market price and outstanding shares). Findings indicate that social cost significantly affects the market capitalisation of listed firms in Nigeria.

Iheduru and Chukwuma (2019) studied the effect of environmental and social costs on the performance of manufacturing companies in Nigeria. Data were obtained from the annual reports and accounts of 14 randomly selected manufacturing companies in Nigeria and analysed with multiple regression models. The study variables were environmental and social cost against ROCE, EPS, NPM, and dividend per share. Findings revealed a significant negative relationship between environmental and social costs and ROCE and EPS, but an insignificant positive relationship between environmental and social costs, net profit Margin, and dividend per share.

Ohaka and Ogaluzor (2018) also studied corporate social responsibility accounting and the effect of donations on performance of oil companies in Nigeria, using a cross-sectional survey design. Data were collected from primary and secondary sources. Simple regression analysis and partial correlation were adopted for the analyses. Study variables were donations and profitability. The result indicated a strong positive relationship between donations and the profitability of oil/gas companies in Nigeria.

In the light of the preceding, it is therefore evident that empirical literature does not provide conclusive evidence on the relationship between corporate social responsibility costs and the financial performance of firms. Some found a positive relationship between corporate social responsibility costs and the financial performance of firms Kabir and Chowdhury (2022); Igwebuike (2020); others found a negative relationship, Iheduru and Chukwuma (2019); yet others like Hagberg, Johansson et al. (2015); Mulyadi and Anwar (2011); Iqbal, Ahmad et al. (2012) found no relationship between them. Thus, this study seeks to empirically examine the relationship between corporate social responsibility costs and financial performance of listed oil and gas companies in Nigeria with Human Resource Development costs and Environmental Protection costs, as well as NPM and ROI, as the proxies of corporate social responsibility cost and financial performance respectively.

Methodology

The study adopted ex-post facto research design. This research design was adopted because the data was generated from past or historical business operations. Such circumstances warrant the use of ex post facto design, which also requires that two groups of variables in the research are matched after the occurrence of the event (Ryan et al., 2002). The population of the study constitutes all nine (9) oil and gas companies listed and trading on the Nigerian Stock Exchange (NSE) as at July 30, 2024. Census sampling technique was adopted to study all since the sample size is not large. Data on CSR variables (community development cost and employee benefit cost) and financial performance (net profit margin and return on investment) were extracted from the financial statements of the sampled companies.

Data Analysis.

The formulated hypotheses statistically tested as shown in their null form. Hence, the rejection or acceptance of the hypotheses is guided by the

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

decision criteria and rule below: If the P-value is less than (or equal to) Alpha ($\alpha = 0.05$), then the relationship is significant and thus, the null hypothesis is rejected. But if the P-value is greater than Alpha (α), then the relationship is not significant and thus, the null hypothesis is accepted. This study involves a test of relationship, therefore, the Pearson's product moment correlation (PPMC) and simple regression technique will be adopted because they are the most suitable to test both relationship variables and the level of influence of independent variables on dependent variables. The data will be analyzed with the aid of SPSS 27.

Operational Measurement of Variables

Variables	Label	Measurement	Sources	
Criterion Variable				
Net Profit Margin	**NPM**	PAT/TR	Investopedia, (2023)	
Return on InvestmentROI**PAT/TI**			Rachael, Sunday, Rosemary & Happiness (2023)	VA RC
Predictor Variable				
Community Development Cost	CDC	Total Expenses on community project	Madubochi & Gospel (2023)	
Employee Benefits Cost	EBC	∑(Salaries + Allowances + Pension) cost	IAS 19; Madubochi & Gospel (2023)	

Source: Godspower, (2023) Research Desk

MODEL SPECIFICATION

Based on the linear regression function, the model for this study is specified as follows

Functional form of the model:

FP = f (CSRC)……… ………………………………… (1)

NPM = f (CDC, EBC) ………………………..………… (2)

ROI = f (CDC, EBC) ……………..…...…………..… (3)

Mathematical form of the model:

NPM = $\alpha_0 + \alpha_1 CDC + \alpha_2 EBC$……………………..…… (4)

EPS = $\beta_0 + \beta_1 CDC + \beta_2 EBC$…………..…………. (5)

Econometric form of the Model

NPM = $\alpha_0 + \alpha_1 CDC + \alpha_2 EBC + \varepsilon$…………………….…… (6)

ROI = $\beta_0 + \beta_1 CDC + \beta_2 EBC + \mu$…………..………… (7)

Where:

NPM = Net Profit Margin

ROI = Return On Investment

CDC = Community Development Cost

EBC = Employee Benefits Cost

$\alpha_{\&}\beta$ = Constants

$\alpha_{1-}\alpha_2 \& \beta_{1-}\beta_2$ = Coefficient of predictor variables

$\varepsilon_{,} \& \mu$ = Error terms

Data Presentation

The relevant data used in this study are legibly presented inthetablebelow.

S/No.	Oil and Gas Companies	CDC	EBC	NPM	ROI
		N'Billion	N'Billion	%	%
1	CAPITAL OIL PLC	64,845,723.00	21,822,000.00	0.69	0.04
2	CONOIL PLC	129,230,774.00	9,485,770.00	1.54	0.25
3	ETERNA PLC.	45,326,419.00	59,514,526.00	1.18	0.12
4	JAPAUL GOLD & VENTURES PLC	99,632,876.00	37,425,567.00	1.93	0.20
5	MRS OIL NIGERIA PLC.	158,016,192.00	55,721,552.00	5.11	0.08
6	OANDO PLC	117,328,843.00	89,936,514.00	1.71	0.07
7	RAK UNITY PET. COMP. PLC	96,675,407.00	02,175,952.00	1.53	0.11
8	SEPLAT ENERGY PLC	66,559,492.00	25,706,447.00	0.50	0.09
9	TOTALENERGIES MARKETING NIGERIA PLC	402,639,967.00	193,525,180.00	0.59	0.04

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Source: Godspower, (2023) via Annual Reports and Accounts of the Respective Years

Descriptive Statistics

The table below presents the descriptive statistics results with the minimum, maximum, mean and the standard deviation of variables used in our statistical models.

Table 9: Descriptive Statistics Results

	Minimum	Maximum	Mean	Std. Deviation
CDC	.04	.20	1.0932	.04678
EBC	.07	3.00	3.2341	.64521
NPM	42.31	502.41	93.3121	61.23410
ROI	3.25	8.51	3.2010	3.72351

Source: Authors' Desk, 2023 via SPSS 27

The above table shows that community development cost has a mean performance of ₦**1.09**million with a standard deviation of ₦**0.47 b**illion. Employee benefits cost has an average of ₦**3.23** billion with a standard deviation of ₦**0.65 b**illion. NPM has a mean of ₦**93.31** billionwith a standard deviation of ₦**61.23 b**illion. Finally, ROI has an average of ₦**3.20** billion with a standard deviation of ₦**3.72 b**illion**.**

Correlation Analysis

Table below presents the correlation analysis results in a correlation matrix with all the variables in the study.The essence of the correlation analysis was to examine the inter relationships between the independent variables to check for multicollinearity. Pearson correlation analysis was used to achieve this end at 95% confidence level through SPSS version 27.

Table 10: Correlation Matrix Results

		CDC	EBC	NPM	ROI
CDC	Pearson Correlation	1			

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

	Sig. (2-tailed)				
EBC	Pearson Correlation	.782*	1		
	Sig. (2-tailed)	.001			
NPM	Pearson Correlation	.885*	.672*	1	
	Sig. (2-tailed)	.002	.013		
ROI	Pearson Correlation	.902*	.741*	-.213	1
	Sig. (2-tailed)	.021	.024	.507	

Source: Authors' Desk, 2023 via SPSS 25

The results established that CDC positively related with NPM and ROI with coefficients of 0.782& 0.885 respectively. This means that corporate social responsibility cost of the oil and gas firms improves the level NPM and ROI implying that the host community agitations have subsided. The damage to the environment affects the livelihood of persons in the communities that host the firms, and even the workers in the industry are sometimes exposed to hazards in their work life. In response to the danger to life arising from the damage to the environment in the Niger Delta area in Nigeria, there have been protests from different communities in the area some of which have led to loss of lives and property. A number of oil firms have embarked on different forms of investments in CSR to enhance their reputation, ensure uninterrupted operations, and sustain a committed workforce.

Similarly, EBC showcased strong positive relationship with NPM and ROI with coefficients of 0.672& 0.741 respectively. This implies that corporate social responsibility of the oil and gas firms will improve the level NPM and ROI suggesting that employees are adequately compensated.

Summary of the Findings on Test of Hypotheses

Based on the results from the tested formulated hypotheses, we concluded that:

i) Corporate social responsibility cost via community development cost significantly relate with net profit margin of quoted oil and gas firms in Nigeria in the period of this study.

ii) Corporate social responsibility cost through community development cost significantly correlate with return on investment of listed oil and gas firms in Nigeria in the period of this study.
iii) Corporate social responsibility cost via employee benefits costs significantly relate with net profit margin of quoted oil and gas firms in Nigeria in the period of this study.
iv) Corporate social responsibility cost via employee benefits costs significantly connect with return on investment of quoted oil and gas firms in Nigeria in the period of this study.

DiscussionofFindings

The study investigated the relationship between corporate social responsibility cost and financial performance of quoted oil and gas firms in Nigeria. Grounded on the results from the hypotheses tested, it was established that corporate social responsibility proved statistical significant relationship with financial performance of quoted oil and gas firms in Nigeria in the period of this study.

Corporate social responsibility cost (community development cost) flagged by ($\beta = 0.885$, $p = 0.002$) was found significantly and positively correlated with net profit margin of the financial performance of quoted oil and gas in Nigeria. The finding is in consonant with **Ofurum and Ngoke (2022).** It has also been argued that satisfying the stakeholders of a business through CSR favourably disposes the business to sustained financial performance (Sameer, 2021). In Nigeria, the positive effect of community development costs (CDC) on financial performance may be due to the positive effect CSR has on the relations between the community and the firm. This favourable relationship ensures that the operations of the business are not interrupted through youth militancy and community protests. This result of the study is explained by the stakeholders' theory; implying that as the firm through CSR gets better reputation in the community that supports the business to be more

successful. Thus, HO_1 was not supported and this suggests that adequate corporate business fund will aid financial performance of quoted oil and gas firms in Nigeria. The results proclaimed that CSR is a valuable and rare resource that can be exploited to create competitive advantages of company over its rivals by increasing NPM through reducing transaction cost.

Similarly, the findings also revealed that corporate responsibility cost (community development cost) had a very strong positive and significant relationship with return on investment with statistical values of ($\beta = 0.902$, $p = 0.021$). The damage to the environment affects the livelihood of persons in the communities that host the firms, and even the workers in the industry are sometimes exposed to hazards in their work life. This finding implies that oil and gas top management were able to improve their relationship with the host communities to generate sufficient returns to the stakeholders. Therefore, HO_2 was rejected implying that the corporate business fund is significantly related to the financial performance. This finding is in line with the findings of **Kurawa and Shuaibu (2022)** empirically assessed the impact of corporate social responsibility on the performance of listed cement and brewery companies in Nigeria.

Furthermore, the findings indicate that corporate responsibility cost (employee benefit cost) had a very strong positive and significant relationship with net profit margin with statistical values of ($\beta = 0.672$, $p = 0.013$) and this agrees with Masoud and Halaseh (2017). Hence HO_3 was rejected meaning that corporate responsibility cost via employee benefits cost would improve financial performance of quoted oil and gas firms in Nigeria. The oil industry in Nigeria is the most attractive industry in terms of employee benefits and other compensations. The industry is therefore able to attract and retain good talents, and motivate its workforce to sustain expected level of productivity. This explains why employee focused CSR has a positive effect on profitability in the Nigerian oil sector.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

The findings of the study equally revealed that corporate responsibility cost (waste management cost) had a very positive relationship with return on investment as shown by the statistical values of ($\beta = 0.741$, $p = 0.024$) and this is in consonant with Madubochi and Gospel (2023).Employees constitute one of the critical stakeholders of any firm. Using the stakeholders' perspective, it has been documented that CSR investment in employees motivate the employees to work harder and this in turn increases firm's financial performance (Yoon & Chung, 2018). The oil industry in Nigeria is the most attractive industry in terms of employee benefits and other compensations. The industry is therefore able to attract and retain good talents, and motivate its workforce to sustain expected level of productivity. This explains why employee focussed CSR has a positive effect on profitability in the Nigerian oil sector. Thus, HO_3 was rejected meaning that corporate responsibility cost via employee benefits cost would improve financial performance of quoted oil and gas firms in Nigeria

Conclusion

This study looked at two dimensions of CSR – community development costs (CDC) and employee benefit costs (EPB). A number of prior studies have found a positive association between CSR and corporate financial performance. Accordingly, two hypotheses (based on the two dimensions of CSR studied) were formulated, and profitability was measured based on the earnings per share reported of the sampled firms. The data collected from the firms studied (for a period of twenty-one years) were analysed using autocorrelation corrected robust standard errors with the aid of SPSS version 27

The findings of this study support the assertion that addressing the needs of external stakeholders (such as host communities) and satisfying internal stakeholders (such as employees) has positive effect on the financial performance of a firm. The increasing destruction of the biosphere arising

from the operations of firms in the petroleum industry is still an issue of concern, and the consequential and continuous agitation of victim-communities degrade the financial performance of the oil industry in Nigeria. This perspective has been well supported by empirical studies by Kabir and Chowdhury (2022), Igwebuike (2020), Ahmed et al.(2013), Kwaning, Tandoh-Offin et al. (2014), etc. Their separate studies have established a positive relationship between corporate social responsibility costs and corporate financial performance.

Recommendations

In line with the above findings, the study recommends thus:

1. The listed oil and gas companies should prioritise spending or costs related to corporate social responsibility for human resource development, community development, and environmental protection. Doing so will yield positive impacts on the firm's financial performance.
2. The government of Nigeria, alongside the National Assembly, should quickly put in place legislation that would officially cater for all corporate social responsibility issues in Nigeria as it is obtainable in other countries of the world to prevent further misunderstanding between the communities and the oil/gas firms over corporate social responsibility issues.
3. Penalties and fines for failure to comply with corporate social responsibility rules should be increased and tougher. This position is critical because the study results have shown that the cost of regulation moderately influences how CSR costs and financial performance are achieved in Nigeria.

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