

**THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON THE
PERFORMANCE OF DOWN STREAM OIL & GAS COMPANIES
QUOTED IN NIGERIA**

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ABSTRACT

The continuous demand by stakeholders for firms to be socially responsible, calls for management adopt corporate social responsibility (CSR) strategies in order for them not only to attract such stakeholders and investors, but also to create a conducive business environment. Many firms across the world have to contend with the need to satisfy the requirement of international CSR practices and standards. Hence in this study, we examined the effect of corporate social responsibility on the financial performance of downstream oil and gas companies quoted in Nigeria. The dependent variable corporate social responsibility (CSR) was represented by the actual cost incurred in CSR activities as contained in the annual reports of the companies, while return on asset (ROA), return on equity (ROE) and return on sales (ROS) were used to measure performance of the firms. The study covers a period of ten (10) years. (2009- 2018). The data collected was tested using the Ordinary Least Squares (OLS) technique involving simple regression analysis, the result show a no significant relationship between corporate social responsibility and firm's performance. We recommended that firms should still continue to be socially responsible though there are no immediate effect on their financial performance, in the long run they will reap the dividend of being socially responsible.

Keywords: Corporate Social Responsibility, Firms Performance.

1.0 INTRODUCTION

“...there can be little doubt that a certain amount of corporate philanthropy is simply good business and works for the long-term benefit of the investors.”

John Mackey (Chairman and CEO, Whole Foods Market)

The business environment is a dynamic one, as such business executives have to deal with the changing business environment. The business environment is made up of both internal and external components. Dynamic executives, in allocating resources will not only consider financial outcomes but also the expectation of the society and various stake holders that make up the external environment. Social and environmental interest have become very important factors that influence corporate strategy. (Ebrahimi,2011). It has become obvious that the survival of a business firm no longer depends on liquidity and profitability alone, but also on the cordial relationship between the business firm and its environment; (internal and external)

Stakeholders and investors have continually demanded that firms give back part of what they have collected from the society to the society. Because of the continuous demand for firms to be socially responsible, top management find that they are under great pressure to adopt corporate social responsibility (CSR) in order to attract such stakeholders and investors (Berete, 2011).

According to Ismail (2009), corporate social responsibility generally refers to the strategies implemented by corporations to conduct their business in a way that is ethical, society friendly and beneficial to community in terms of development.

Corporate social responsibility practices include providing quality products, building employee relations, to protect the environment and contribute to the general wellbeing of the society. Schwartz observed that socially responsible behavior of the firms in 1970 is,

- i. Disclosure all information to stakeholder.
- ii. Appointing disclosure of board of director.
- iii. Minority's protection/equality.
- iv. Profit sharing.
- v. Ethics in advertisement base.
- vi. Disclosure of social impact of technology.
- vii. Protection of environment.
- viii. Disclosure of charities.
- ix. Investment in local business.
- x. Employee's Schemes (Health and Safety measures, flexibility in jobs).

Because of the importance of corporate social responsibility (CSR) to firms, researchers have conducted several studies on CSR and organizational performance in different settings (Onyekwelu, U.L et al 2018; Elif, A. S. and Halil, K. 2017; Bala, M.2015; Mohamed, A.K.B, et al 2014; Muntaz,M. and Syed. S.P. 2014; Adeyanju, O.D. 2012; Wibowo, A.J. 2012;). However, none of the studies I reviewed investigated the effect of CSR on firm performance with reference to the downstream oil companies in Nigeria, hence this study examines the effect of corporate social responsibility on firm's performance with particular reference to downstream oil companies in Nigeria.

1.1 Objectives of the Study

The objective of this research is to examine the effect of Corporate Social Responsibility accounting on the performance of Down-stream oil companies in Nigeria; and others are

1. To analyze the relationship between CSRA and Return on Asset (ROA)
2. To examine the relationship between CSRA and Return on equity (ROE)
3. To determine the relationship between corporate social responsibility accounting and
4. Return on Sales (ROS)

1.2 Research Hypotheses

1. **Ho:** There is no significant relationship between corporate social responsibility accounting and return on asset.
2. **Ho:** There is no significant relationship between corporate social responsibility accounting and return on equity.
3. **Ho:** There is no significant relationship between corporate social responsibility accounting and return on sales.

2.0 REVIEW OF RELATED LITERATURES

2.1 Conceptual review

2.1.1 Corporate social responsibility

Corporate social responsibility which is also called corporate conscience, corporate citizenship differ from place to place, industry to industry, that is why it is difficult to have a precise definition of CSR as it will always have location specific context (Worlu, 2018).

First known use of the concept of CSR was in 1953 by Bowen, he perceived it as the “obligation of business to pursue desirable policies from the perspective of society’s goals and values, and make decisions or conduct business within the context of them”. Furthermore, several scholars in the 60s improved on Bowen’s thought. Prominent among the contributors include Davis (1960), Fredrick (1960), McGuire (1963) and Walton (1967) (Aras and Crowther, 2008). Modern scholars have also attempted defining the concept of CSR. The world bank (2004) defined CSR as “the commitment of business to contribute to sustainable economic development by working with employee, their families, local communities and society at large to improve their lives in ways that are good for business and developments”. To corroborate this view, Orji and Giami (2015), sees CSR as not just a commitment but the sense of obligation that management of organizations fells toward the public, as such certain social criteria are considered when making decision. CSR is not just a business concept but a public relations philosophy that holds that a “corporate organization is morally, socially and economically indebted to its immediate constituent or environment which is aimed at enhancing the standard of living of the people especially their host communities” (Orji and Giami, 2015). It is aimed at promoting no loss relationship between companies and their host community. Good CSR programs are voluntary and obligatory on the part of corporate organization. Anything less cannot be accepted as corporate social responsibility (Kreitner, 1995).

Blasi, Carponi and Fontini (2018) defined CSR broadly as “the positive or responsible attitude of a company toward all its stake holders.” Oh, Hong and Hwang (2017) summed up the definitions as all the activities that business organizations engaged in other for them to satisfy values and goals of the society, which are outside the business profit motive. The need for corporate social responsibility is arises from the fact that a business firm has to relate with its environment (internal and external) in such a way that both parties’ interest is taken care of. (Mullins, 2002). In contemporary Nigeria, Corporate Social Responsibility reporting according to Olanrewaju (2012) is of great interest to numerous interest parties including the regulatory authorities, the corporate organization itself and the general public. Much of the conflicts between the oil companies and their host communities especially in the Niger delta region of the country is largely due to these companies neglecting their CSR to their host

communities. While it is the government's responsibility to provide social amenities for its citizens, it is obvious that the government can't do it alone they need the support of the private sector, in the light of this by means of the National Economic Empowerment Development strategy the government stated that the private sector is expected to be socially responsible by engaging in activities that will improve the living condition of its citizens such as creation of jobs.

2.2 Corporate performance

Firm performance is a measure of how well a firm is doing or has done in the past. The question usually is how you measure firm's performance. There are two main approaches to determination of firm's performance Hornsen & Wernerfelt (2009). One is based on sociological and behavioural paradigm which looks at how firms fit into the environment as a determinant of the firm's success. The other approach is based on economic tradition which sees external factors of the market as determinants of success. Managers need to keys track of how the firm is doing, the need to see aware of major drivers of the firm and how they attend the firm's performance. Financial performance of the firm is of concern to us in this study. Key indicators include cash flow and liquidity, return on investment, return on asset, loan uptake. (Wintner, 2008)

3.0 THEORETICAL REVIEW

3.1 Stakeholders theory

Stakeholders theory was first included in management literature by standford research institute (SRI) in 1963. The defined stakeholders as a group that is fundamental to the existence of an organization which management of an organization must remain responsive to (Freeman, Harrison, Wicks Parmar & Colle, 2010) the stakeholders are suppliers, employee, financials, customers and people within the community whom the firm does business with (Freemen etal 2010). Considering our country Nigeria and indeed the Niger Delta, stakeholders will be incomplete without mentioning the host communities, the area boys, and militants. One may say that this group of persons do not transact any business with the firm, but we know that for the firm to carry on its business, the interest of this group needs to be taken into consideration. Just as freeman (1984) rightly noted that when executives treat all their stakeholders fairly, value is created and trade in the society improves.

3.2 Empirical review,

Onyekwelu, (2018), assessed the effect of corporate social reporting on the financial performance of banks in Nigeria. The study measured corporate social report with expenditure disclosure and financial performance was measured with gross earning, profit after tax and share price. Using export factor research design and sample regression as the analytical tool, he found that social responsibility expenditure does not have any significant effect on gross earnings, profit after tax of banks. He also found little or no significant relationship between social responsibility expenditure and share price of banks in Nigeria.

Mohammed et al (2014), in a related study investigated the effect of corporate social responsibility on the performance of non-financial companies in Egypt. Using regression

analysis to analyze cross sectional data derived from the compass Egypt data base, they found a positive and significant effect of CSR on firm performance. They concluded that firm size has a positive effect on financial performance which will enhance their use of effective CSR practices.

Elif, and Halil, (2017), looked at the relationship between corporate social responsibility and performance of firms listed on Borsa Istanbul within the period of 2009-2011. In this study they made use of content analysis of annual report/web site of the firms. Their findings reveal a negative relationship between financial performance and corporate social responsibility of the firms under studies.

Adriana, and Simon (2017), review the various operationalization and measurement approaches for corporate social responsibility and corporate financial performance that have been used in studying the effect of corporate social responsibility on corporate financial performance. They found that in the literature, operationalization of CSR ranges from many dimensional to single dimensional, CSR measurement indices include reputation indices, content analysis, questionnaire-based survey, and one-dimensional measures. While financial performance proxies include market based, accounting based, and combined measures. They also found that all CSR measurement approaches have two general shortcomings-subjectivity and section bias- as well as their specific shortcomings.

Marwan, (2015) in his paper, corporate social responsibility and firm performance: the moderating role of reputation and institutional investors, seeks to determine the moderating effect of corporate reputation and institutional investors on the relationship between firm performance and corporate social responsibility. He found that corporate ownership structure and consistent reputation affects the degree of benefit a firm derives from its CSR activities, and that both reputation and institutional investors have a positive effect on the relationship between corporate social responsibilities and firm performance.

Chutimant, et al (2017) under study the relationship between corporate social responsibility disclosure and the performance of firms listed in Thailand. They collected data based on content analysis from annual report of 394 companies quoted on Thailand stock exchange in 2014. The data collected was analyzed using multiple regression analysis. They found a positive relationship between corporate social responsibility and firms' performance.

Wekesa, & Kimutai, (2018), carried a study to determine the effect sustainability management system of corporate social responsibility have on the performance of sugar cane companies in Kenya, with a target population of 528 employees and sample size of 228 employees. Ex-post factor research design was used, while correlation and multiple regression was used to analyze the data collected. The study shows that there is a relationship between sustainability management system and the performance of firms.

4.0 METHODOLOGY

In order to examine the independent variable for its possible relationship with the dependent variable ex-post factor research design was used. The sample consists of six (6) downstream companies quoted in Nigeria stock exchange. Though there are more than six companies that are quoted, only these six have complete data for the period under review. This research used

the total cost of charitable donation published in the annual report of these firms as a measure for corporate social responsibility cost. The period covers 2009-2018 (10 years), while firm performance was measured with return on asset (ROA), Return on Equity (ROE), and Return on Sales (ROS). The data generated was analyzed using descriptive statistics, correlation and linear regression.

The relationship between the variable of the study is as expressed in the model below:

Generally, the model is

$$y = a + bx + ei$$

Where y = dependent variable, a = constant
 b = coefficient of independent variable
 x = independents variable and
 ei = error term

Adapting this model

$$ROA = a+b (CSRC) + ei$$

$$ROE = a+b (CSRS) + ei$$

$$ROS = a+b (CSRC) + ei$$

4.1 Data presentation and analysis

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.435 ^a	.189	.088	.64723

a. Predictors: (Constant), Corporate Social Responsibility

Table 2: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.784	1	.784	1.870	.209 ^b
	Residual	3.351	8	.419		
	Total	4.135	9			

a. Dependent Variable: Return on Asset

b. Predictors: (Constant), Corporate Social Responsibility

Table 3: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.265	.512		-.518	.619
	Corporate Social Responsibility	1.304E-8	.000	.435	1.368	.209

a. Dependent Variable: Return on Asset

From the model summary we can see that there is a correlation between CSRC and ROA as indicated by R value of 0.44. R.squared of 0.189 shows that 18.9% of the variation in ROA is accounted for by CSR. The regression coefficient of 0.21 shows that there is no significant relationship between CSR and ROA. The result further reveal that 1 unit increase in CSR will lead 1.3x10⁸ unit increase in ROA. This suggest that even though there is positive correlation between CRS and ROA, such correlation is insignificant.

Hence, we accept the null hypothesis (H₀-1) that there is no significant relationship between CSR and ROA.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.577 ^a	.333	.250	1.82204

a. Predictors: (Constant), Corporate Social Responsibility

Table 5: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.256	1	13.256	3.993	.081 ^b
	Residual	26.558	8	3.320		
	Total	39.815	9			

a. Dependent Variable: Return on Equity

b. Predictors: (Constant), Corporate Social Responsibility

Table 6 : Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.404	1.442		-.974	.359
	Corporate Social Responsibility	5.366E-8	.000	.577	1.998	.081

a. Dependent Variable: Return on Equity

H₀2: There is no significant relationship between CSR and ROE.

The result shows that there is a positive correlation between CSR and ROE, (R=0.577) however CSR accounts for only 33.3% of the variation in ROE (R² = 0.333).

The test of significant shows that there is no statistically significant relationship between CSR and ROE (P=0.081 is greater than 0.05) we therefore accept the null hypothesis that there is no significant relationship between CSR and ROE.

Table 7 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.477 ^a	.228	.117	.81195

a. Predictors: (Constant), Corporate Social Responsibility

Table 8: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.359	1	1.359	2.062	.194 ^b
	Residual	4.615	7	.659		
	Total	5.974	8			

a. Dependent Variable: Return on Sales

b. Predictors: (Constant), Corporate Social Responsibility

H03: there is no significant relationship between CSR and ROS.

From the model summary in table 7, we could see that there is a positive correlation between corporate social responsibility and return on sales. This correlation is shown by the R value of 0.477. However corporate social responsibility accounts for only 22.8% of the variations in return on sales as indicated by the value of R square which 0.228. (R=0.477, R=0.228). The relationship is not statistically significant as indicated by a p-value of 0.194. We therefore accept the null hypothesis that there is no significant relationship between CSR and ROS.

Based on the results above we therefore conclude that there is no significant relationship between Corporate Social Responsibility and firm performance.

5.0 CONCLUSION AND RECOMMENDATION

The study reveals, that although CSR have a correlation with the variables for firm performance, in all the three cash the correlation is insignificant. From the analysis of data, we conclude that there is no statistically significant relationship between corporate social responsibility and firm performance. Though the study reveals that there is no relationship between CSR and firms' performance we still recommend that firms should continue to invest in CSR and report such investment because in the long run it will pay off as indicated by the positive tough insignificant correlation that exist between the two variables.

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