

Effect of the Size of the Firm on the Relationship between Corporate Social Responsibility Accounting and the Profitability of the Oil and Gas Companies in Nigeria

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Abstract: This study examines the effect of the size of firms on the relationship between corporate social responsibility and the profitability of the oil and gas companies in Nigeria. The study used a cross sectional survey design to carry out the research. The population of the study was all the oil and gas companies in Nigeria. Data collected were analysed through the Simple Regression Analysis and Partial Correlation. Results of the study revealed that the size of a firm greatly affects the profitability of the firm in terms of CSR. Hence, from the findings of this work the research concludes that there is a strong positive relationship between CSRA and profitability. And also; Size has a significant influence on the relationship between Net Profit and the CSRA of the oil and gas companies. Therefore all the null hypotheses have been rejected and the alternative hypotheses accepted. Based on the findings of the study, the following recommendations were made; Host communities and other stakeholders should hold the companies accountable for the performance of their corporate social responsibility. They should demand for proper operational impact evaluation and such evaluation should be reported to them timely; Host Community should request for detailed action plan on how to tackle issues arising from the operations of the companies in their area.

Keywords: Firm's Size; Profitability; Corporate Social Responsibility.

INTRODUCTION

The oil industry experienced a huge boost over the last decade with mining output increasing 5.6 times during the 2002–2011 period. However, accompanying this rapid growth was a lack of Corporate Social Responsibility (CSR), the presence of externalities, and many social conflicts, such as environmental pollution, security issues, employment of local residents, and illegal land use. All of these conflicts are closely associated with stakeholder interests. In recent years, the stakeholders of firms such as shareholders, employees, investors, governments, local communities, trading partners, consumers, and non-governmental organizations are conscious of their interests and corporate management. This directly or indirectly influences a firm's financial performance. In China, for example, many mineral enterprises have been shut down because of their significant environmental pollution and substandard security. At the present time, management usually ignores the stakeholder benefits outside the firms (such as the community and public) because the companies do not have an interest in adopting CSR spontaneously unless they could receive financial benefits. CSR is just a guise to cope with government regulation and fawn on the public. This phenomenon is also common in the

minerals sector of some natural resources-rich areas such as Ghana and sub-Saharan Africa where companies have little sense of who to target in their local economic development policies, and programs lead to conflicts and scrambles. To solve mineral conflicts and to maintain the sustainable development of the Chinese mineral industry as well as social harmony, minerals firms must adopt CSR ideas. Milton Friedman argued that it is the firm's nature to pursue its interests and that the social responsibility of a business is to increase its profits. To solve this problem, it is important to ask whether CSR has effects on Corporate Financial Performance (CFP) in the Chinese mineral industry. This paper aims to answer this question. In previous studies, scholars sought to find the linkage between CSR and CFP. The earliest study of this subject began in the 1970s and, came of age in the 1980s, and has continued in recent years. However, even in recent years, the empirical research has not arrived at a consensus. There have been different results about the relationship between CSR and CFP. The different opinions are mainly sorted into three types: positive, negative, and neutral. Vance found that firms considered having good CSR performance may not do well in the stock market, and his research shows that CSR and return of equity

(ROE) have a negative relationship. Some studies also find that if managers pursue their own interests, they may sacrifice the interests of shareholders and stakeholders. Related opinions that hold that the two have a negative relationship argued that managers pursuing CSR will come into conflict with value maximization. Blowfield found there is usually a neutral and negative correlation between social or environment issues and companies' business performance. This situation is even more so in developing countries. The idea that business is an agent to solve international development problems such as poverty is insufficient and unjustified. Frynas argues that private firms are unlikely to act as successful development actors without corporate governance reforms, which would align the interests of non-traditional stakeholders with corporate interests. There are fundamental problems surrounding the capacity of private firms to deliver development and the aspiration of achieving development through Corporate Social Responsibility (CSR) based on the evidence from multinational oil companies. Scholars holding the neutral relationship opinion said that the two do not have a significant interaction because profits from socially responsible conduct will compensate for the cost in market equilibrium. The linkages are quite complex. Some academic research shows that a social orientation does not have any linkage with the firm's financial performance.

Statement of the Problem

The establishment of corporate social responsibility by a firm will result in the creation of assets, liabilities, and expenses. How these transactions are treated in the book and reported in the financial statement is the concern of CSRA. As stated CSRA is an area where few researches have been carried out especially as it affects the oil and gas industry in Nigeria. Social and environmental concern in Nigeria is a big issue, the high level of poverty and political unrest is not unconnected to this concern. In the face of economic downturn and dwindling resources in Nigeria, it is obvious that the Nigerian government is not able to meet the obvious needs of her citizenry. There is a wide gap between what the responsibilities of the government are in terms of economic, social and environmental requirements and what they are able to take responsibility of. Corporate organizations that operate among the citizens are looked upon as alternatives to assist in providing these unavailable services. When this is not done, skirmishes arise between the companies and the host communities. Yet it is obvious that companies are not also living up to expectation concerning corporate social responsibility. The existence of CSR may place restriction in companies operations; appropriate accounting should provide the required data to evaluate the risk associated with this restriction for investment decisions [1]. "Problems of poverty in the midst of plenty,

environmental negligence and bureau-political corruption implicate both the behavior of the Nigerian government and those of multinational oil companies in particular [2]." According to Adeyemo *et al.* [3] who quoted [4]. In Nigeria context, many organizations implemented CSR as a mere superficial window-dressing. It is widely believed by many that CSR efforts are mere campaigns by organizations to promote corporate brands. It therefore follows that Nigeria is yet to get the dividends of corporate social responsibility practices. From many researches available on CSR, we can aver that it can increase profitability of a company; this position has been proven by many researches including this. Corporate social responsibility involves both the welfare of a company's staff, environmental and social welfare of the host community to a certain degree. The researcher researched on how these affect profitability. Though there is growing demand for responsible business behavior, yet in the developing countries "the knowledge of about the practice of corporate social responsibility is in low ebb" [1]. It is more obvious that business organizations are deeply interested in anything that will increase their profit that they tend to overlook environmental hazards that may be caused by their activities. Even though there are laws that regulate some of these hazards how effective are they in terms of identification and enforcement? There is need for the enforcement of CSR in the oil and gas industry. But for there to be effective enforcement the awareness must be created first and the benefits highlighted properly in the accounting for it.

Purpose of the Study

- To determine the effect of the Size of the firm on the relationship between CSRA and the profitability of the oil and gas companies in Nigeria.

LITERATURE REVIEW

Corporate Social Responsibility and the Society/Community/People

The business organization operates in a society. Its operation impact both human beings and the environment. The impact could be negative or positive. It should be a corporate social responsibility to drive the impact of their operation on the environment, community and the people (i.e. their employees, customers, suppliers, landlord etc) towards positivity by making sure that all negative impacts are mitigated. CSR is a commitment by businesses to consider, not just the shareholders of an enterprise, but the interests of all stakeholders impacted by its activities. These include the employees, the consumers and suppliers of the business, the community in which it operates, and the environment.

CSR contemplates more than pure legal obligations imposed by statute. The commitment is a

holistic approach to business that, in light of the state of the environment, attempts to address more than the financial bottom-line. CSR is predicated on the belief that going about 'business as usual' is simply not sustainable.

The global environmental movement, recognizing this risk, highlights the rapid rate at which industry is depleting the environment and thus threatening the prosperity of business in the long-term, in an attempt to encourage companies to amend their current business practices and incorporate CSR[4].

In order to achieve this, the business organization will consider investing in activities that will bring about improvement in the society. Making money available in form of donations to assist in community projects, society education, skill acquisition, scholarship to youth, build recreational centers. The business should contribute in disaster relief. Waste Management should be a core value of the business to be able to properly dispose of their waste without posing problem to the immediate environment or the host community.

The business must have well planned out sustainability programme. For the business to be sustained all the stakeholders must be sustained. We have a lot challenges affecting sustainability development in Nigeria. The following are challenges to sustainable development in Nigeria:

- Poverty
- Malnutrition
- Education and health
- Reconstruction and development
- Peace, conflict resolution and reconciliation
- Realization of social well being

The business organization should endeavor to assist in curbing all these identified challenges in discharge of their corporate social responsibility.

Corporate Social Responsibility and Disclosure

Corporate Social Responsibility Disclosure (CSR/D) is a key tool for achieving effective communication of a company's social and environmental responsibility activities to stakeholders. CSR/D is the process of communicating the social and environmental effects of organizations' economic actions to particular groups within society and to society at large [5]. CSR is mostly seen as voluntary that is why the eurocommerce quoted above was not at comfortable with the model definition given to it by the European Commission; they said that the voluntary aspect of CSR must be emphasized. This is how disclosure of social responsibility is also seen to be voluntary [6]. Most corporate social responsibility undertaken by a company is not tax deductible. For

example, only of net profit is deductible for tax purposes as donation no matter the amount donated while some community projects and the likes are not tax deductible. The tendency for the firm to hide this expenditure under some heading that will be tax deductible is very high and tempting. This will hamper full disclosures of CSR. In the short run it will lead to profit but in the long run the expected effect of CSR which will not be fully reported in the financial statement will not be seen. This is because since it is not disclosed fully, due to fear of tax, an analysis of the financial statement will not show any significant investment on CSR this will affect the goodwill that would have been enjoyed by the company and therefore hamper the ability to make profit. There are various areas that CSR can be disclosed. Sufian [6] identified 35 areas in which CSR disclosures can be made and he termed them disclosure index as reproduced below:

Disclosure Index

- Pollution control or voice for the prevention or repair of environmental damage
- Tree Plantation
- Conservation of natural resources
- Energy Conservation
- Energy efficiency of products
- Water discharge information
- Solid waste disposal information
- Recycling plant of waste products
- Installation of biomass processing plants
- Installation of Effluent Treatment Plants (ETPs)
- Employment of minorities
- Equality to all races, gender and religions.
- Creation of on-farm /off-farm employment
- Socially responsible practices abroad
- Employee health and safety
- Employee training and education
- Employee benefits / welfare / recreation
- Share option for employee
- Award program for employee or scholarship for child of workers
- Profiles of employees
- Employee and management relation
- Charity program
- Scholarship program
- Supporting national pride
- Public Health related activities
- Education facilities for general people
- Support to organization working with autistic and physically challenged children
- Sponsor for Sport, Art & Cultural program
- Cash donation program for disaster people
- Beautification activities
- Transferring technology and information related to social awareness
- Product Safety

- Reducing pollution from product use
- Product quality disclosure
- Product development or research and development

Corporate Social Responsibility and Operational Impact Evaluation and Reporting

The Institute of Internal Auditors in their practice guide [7] identified three major approaches for evaluating. These approaches are: Auditing, Facilitating and Consulting.

Auditing

The internal audit may choose to evaluate the CSR programme to determine whether the organization has adequate control to achieve its CSR objectives. This can be done by auditing all the different elements of CSR engaged in by the corporation or by auditing CSR programmes related to each stakeholder that are affected by the CSR activities. They can equally decide to directly audit the workplace as it affects the employee safety and health and others related issues; marketplace as it affects product quality, advertising, supply chain, etc; environment as it affects clean air, water, waste management, etc and community philanthropy as it affects donation, skill acquisition and so on.

Facilitating

The internal audit activity may facilitate a management self-assessment of CSR controls and results. This process would be developed based on a risk assessment and results in action items for control improvements.

Consulting

“The internal audit activity may consult on project design and implementation for CSR programs and reports or serve as an adviser on CSR governance, risk management, and internal controls [8].”

Reporting

The result of this operational impact evaluation must be made known to the stakeholders who are affected by the impact of the organizational activities. Due to the risk the organization is exposed to as a result of CSR, the organization must perform risk assessment what control that need to be put in place and how to communicate to the stakeholder without damaging the reputation of the company. The liability of the organization must be communicated and also the level of compliance should be included. A report on the plan for remediation actions in areas where compliance is yet to be met is very necessary to be communicated to the stakeholders. The researcher is of the view that this operational impact evaluation and reporting of CSR will have an impact on the profitability of the organization.

RESEARCH METHODOLOGY

Research Design

The study made use of cross sectional survey design. In this type of study, subjects are contacted at a fixed point in time and relevant information is obtained from them. On the basis of this information, they are then classified as having or not having the attribute of interest [9].”

Population of the Study

The target population is the entire group of items which the researcher wishes to study and about which he plans to generalize [10]. The population of this study is the entire oil and gas companies operating in Nigeria. Due to inaccuracy of data available and the fact that most of the oil and gas companies in Nigeria are just portfolio companies that you can neither trace nor access their offices, the researcher through judgment used three oil and gas companies which are most relevant to the study and are both traceable and accessible. Total E&P Nigeria Limited, Nigerian Agip Oil Company Limited and Schlumberger Nigeria Limited were used in the study. 137 staff consisting of staff in the finance, human resources and community affairs, safety and health environment of the companies: Agip, Total and Schlumberger. These are Departments that can adequately supply information on CSR and CSRA and also profitability. Specifically all the members of staff of these Departments were not involved. Only those whose job has direct bearing on the study were selected. Junior staff, supervisors and management staff in the three Departments who have adequate knowledge of the variables studied were interviewed. These made up the target population.

Sample Size

The sample of the study is 102 staff. This was drawn from the three companies using proportional random sampling technique.

The sample size was obtained by using the Taro Yamane formula as follows:

$$n = \frac{N}{1+N(e)^2}$$

Where n = Sample size

N = Population size

E = Level of significant

$$n = \frac{137}{1 + 137(0.05)^2}$$
$$n = \frac{137}{1 + 0.3425}$$
$$n = \frac{137}{1.3425}$$
$$n = 102$$

Thus the sample size (n) for the study is = 102

Data Collection Method

Primary and secondary source of data collection were used for the purpose of this study. Primary data collection involved the administration of copies of questionnaire to respondents in the three departments of the companies under investigation. The secondary data collection method involved the review of relevant literature.

Questionnaire Design

The questionnaire was designed to be clear, concise, factual and easy to achieve the purpose of the research. The Likert type questionnaire with five points ranging from strongly agree to strongly disagree were used to obtain data from the respondents. The questionnaire was made up of two sections (i.e. section A and B). Section A contained questions on the personal data of the respondents while section B contained questions based on the hypothesis and stated research questions.

Test of Validity

The researcher after designing the questionnaire reviewed each items to assess its content as to the extent it relates to the variable under investigation. The researcher achieved the validity of this study by seeking for opinions of experts and the research supervisors for proper scrutiny and evaluation of the survey instrument so as to ensure its relationship with the variables under investigation. The instrument was subjected to face and content validation by experts in the field of Accounting. This was to ensure clarity in words in writing the items of the questionnaire. Also, it aimed at ensuring that the items of the questionnaire cover the content (variables) to be measured. Afterwards, the instrument was sent to experts in educational Measurement and Evaluation for construct validation.

Test of Reliability

The instrument being a multivariate instrument has three sections namely sections A, B and

C measuring the demographic data, the independent variables and the dependent variables. The reliability of instrument was established using test re-test method.

Data analysis Technique

The research questions were answered and hypotheses tested with one or more of the following statistics: mean, standard deviations, simple regression analyses and partial correlation as it applies to each situation. These were analyzed with the Statistical Package for Social Science (SPSS) Version 21.0. Testing of hypotheses was done at 0.05 level of significance. Hence, if the probability levels which was computer generated, is equal to or less than 0.05, the null hypothesis is rejected and the alternative hypothesis accepted and vice versa.

Operational Measure of Variable

This study examines two major variables: the independent and dependent variables. The study is basically on the test of the hypothesis whether there is a relationship between the independent variable and the dependent variable. The independent and dependent variable under empirical test are CSRA and profitability.

To score the responses, the modified five point Likert scale instrument were used in the design. This is designed to measure the degree of intensity of the effect of the independent variables. The modified five-point Likert scales are designed as follows: Strongly agreed -5, agreed -4, neutral 3, disagree -2, strongly disagree-1 for positive questions while the reverse is the case for negative questions.

DATA PRESENTATION AND ANALYSIS

Data Analysis

The Influence of Size on the Relationship between Corporate Social Responsibility Accounting and Profitability of Oil and Gas Companies in Nigeria

Table-1: Numbers and Percentages of Questionnaire Distributed and Retrieved

Companies	No. Distributed	Percentage	No. Retrieved	Percentage
AGIP	45	44.1	43	44.3
Total	48	47.1	45	46.4
Schlumberger	9	8.8	9	9.3
Total	102	100	97	100

Table-2: Descriptive Statistics of Responses on Corporate Social Responsibility Accounting (CSRA)

Descriptive Statistics			
	Mean	Std. Deviation	N
Profit	19.1546	2.50142	97
CSRA	16.3402	3.19142	97
SIZE	18.3608	2.51324	97

Source: Research Output 2016

Table 2 above shows that 97 individuals responded to the items of the questionnaire on Net Profit, CSRA and Size. Scores on Net Profit had a mean of 19.1546 and a standard deviation of 2.50142.

Scores on CSRA had a mean of 16.3402.3402 and a standard deviation of 3.19142, lastly, scores on size of companies had a mean of 18.3608 and a standard deviation of 2.51324.

Table-3: Partial Correlation Analysis of the Responses on Corporate Social Responsibility Accounting (CSRA), Net Profit and Size

Control Variables			Profit	CSRA	SIZE
-none ^a	Profit	Correlation	1.000	.540	.793
		Significance (2-tailed)	.	.000	.000
		Df	0	95	95
	CSRA	Correlation	.540	1.000	.678
		Significance (2-tailed)	.000	.	.000
		Df	95	0	95
	SIZE	Correlation	.793	.678	1.000
		Significance (2-tailed)	.000	.000	.
		Df	95	95	0
SIZE	Profit	Correlation	1.000	.005	
		Significance (2-tailed)	.	.959	
		Df	0	95	
	CSRA	Correlation	.005	1.000	
		Significance (2-tailed)	.959	.	
		Df	95	0	

a. Cells contain zero-order (Pearson) correlations.

Source: Research Survey, 2016

Table 3 shows that 97 respondents were used in the analysis. Three variables namely Net Profit, CSRA and size were subjected to partial correlation analysis to control for the influence of size on the relationship between Net Profit and CSRA. Before removing the influence of size, the correlation coefficient between responses on Net Profit and CSRA was 0.54 which implies a moderately high positive relationship. The $r = 0.54$ is significant at $df = 95$, sig. value = $0.000 < 0.05$. The Pearson correlation analysis between responses on Net Profit and CSRA after the removal of the influence of size yielded a coefficient of .005 which indicates a very weak positive relationship between Net Profit and CSRA. The $r = 0.005$ is not significant at $df = 95$, sig. value = $0.959 > 0.05$. This implies that a significant aspect of the relationship between Net Profit and CSRA ($r=0.54$) was contributed by size. In other words, size has a significant influence on the relationship between Net Profit and the CSRA of the companies. Hence, reject the null hypothesis which stated that size has no significant influence on the relationship between Net Profit and the CSRA of the oil and gas companies.

Summary of Findings

Size has a significant influence on the relationship between Net Profit and the CSRA of the oil and gas companies.

CONCLUSION

From the findings of this work the research concludes that there is a strong positive relationship

between CSRA and profitability. Also; Size has a significant influence on the relationship between Net Profit and the CSRA of the oil and gas companies. Therefore all the null hypotheses have been rejected and the alternative hypotheses accepted.

RECOMMENDATIONS

Based on the findings of the study, the following recommendations were made:

- Host communities and other stakeholders should hold the companies accountable for the performance of their corporate social responsibility. They should demand for proper operational impact evaluation and such evaluation should be reported to them timely
- Host Community should request for detailed action plan on how to tackle issues arising from the operations of the companies in their area.

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