

Sustainability Disclosure and Corporate Financial Performance of Listed Oil & Gas Firms in Nigeria

¹ C.P Ugwu, ² E Emengini, ³ Dr. O.Lude

^{1, 2&3} Accountancy Department, University of Nigeria, Enugu Campus

Abstract: The study examined the effect of sustainability disclosure on financial performance of oil and gas companies in Nigeria. The main objective of this study therefore was to examine the effect of sustainability disclosures on the financial performance of listed oil and gas firms in Nigeria. The independent variable, sustainability disclosures, was proxied by sustainable economic disclosure, sustainable environmental disclosure and sustainable social disclosure while the dependent variable, financial performance, was proxied by return on assets (ROA), return on Equity (ROE) and Profit after Tax. The research design adopted for this study was ex post facto, secondary data were used and the population of the study was 11 listed oil and gas firms in Nigeria while the sample consisted of all the 11 listed oil and gas firms. In order to ensure robustness in the analysis of the data and hypothesis testing, it incorporated two control variables, which are total assets and firm size. Pretest estimations like descriptive statistics, Spearman's correlation test, Levine, Lin, and Chu (LLC) Unit Root Test, Pedroni Residual Co integration Test was carried out and panel regression analysis was used for the analysis. The findings revealed that economic sustainability disclosure for the period of this study has negative and significant impact on return on assets of listed oil and gas firms in Nigeria, environmental sustainable disclosure for the period of this study had positive but insignificant impact on return on equity of listed oil and gas firms in Nigeria, social sustainable disclosure for the period of this study had negative and insignificant impact on profit after tax of listed oil and gas firms in Nigeria.

Keywords: Sustainability Disclosure, Financial Performance, Sustainable Economic Disclosure, Sustainable Environmental Disclosure, Sustainable Social Disclosure.

Introduction

Profit making organizations are established mainly with an objective to satisfy consumers at a profit. To do this, they indulge in so many activities which tend to have some impact on the environment, employees and the society at large. To put it differently, business activities not monitored could, produce unfortunate negative environmental and social (E&S) impacts including air and water pollution; destruction of biodiversity and ecosystems; threats to human health and safety; violations of labour rights; displacement of livelihoods; shortages in freshwater availability, global warming, extreme weather events, environmental noise and utter neglect and disregard for the protection of the immediate environment as well as the future environment (Asuquo, Dada & Onyeogaziri 2018). All these activities have detrimental effects on the environment, economy, and society as a whole (Gold & Taib, 2020), thereby affecting the ability of firms to maximize profit. These negative trends in the corporate activities of these firms have aroused the need for more sustainable and responsive business practices which have compelled corporations to respond actively to environmental concerns by reporting adequately, the initiatives and systems they have instituted to mitigate environmental and social issues (Adams & Frost, 2008). Price water house Coopers (2017) states that recognizing and incorporating such social and environmental factors into the governance and strategic operations of the firm is referred to as Corporate Sustainability (CS). The concept of sustainability disclosure maintains that while a firm strives to achieve its traditional objectives of profit maximization, it is important that this profit is maximized through activities that seek to integrate social and environmental considerations into the decision-making process.

Statement of Problem

These negative trends in the corporate activities of these firms have aroused the need for more sustainable and responsive business practices which have compelled corporations to respond actively to environmental concerns by reporting adequately, the initiatives and systems they have instituted to mitigate environmental and social issues (Adams & Frost, 2008). Consequently, in response to the petitions from their host communities and other interested stakeholders, these oil and gas firms tend to engage in activities that promotes variety of compensations to the affected parties and strive to capture same in their annual financial statements.

More so, the organizations make efforts to align their business activities towards meeting the short-term needs of the current stakeholders without jeopardizing the long-term ability of future stakeholders in meeting their own needs, thereby adding economic, environmental and social values. It is hoped that paying attention to sustainability reporting would lead to increased trust among the many stakeholders, which in turn would help the oil and gas firms or businesses achieve lower operating

expenditures (Abdulsalam, Abdulraham, Garba, Mohammed, & Abubakar, 2020). However, cursory observations of findings from empirical studies have often failed to produce corroborated and consistent results on the connection between corporate sustainability disclosure and financial performance of firms will remain unexhausted. This has aroused curiosity as to whether these disclosures would impact on the financial performance of oil and gas firms in Nigeria.

Objective of the Study

1. Determine the effect of sustainable economic disclosure on the return on assets of listed oil and gas firms in Nigeria
2. Examine the effect of sustainable environmental disclosure on the return on equity of listed oil and gas firms in Nigeria
3. Evaluate the effect of sustainable social disclosure on profit after tax of listed oil and gas firms in Nigeria

Literature Review

Corporate sustainability entails aligning the competitive activities of the organization to meeting the short-term needs of the current stakeholders without jeopardizing the long-term ability of future stakeholders in meeting their own needs, thereby adding economic, environmental and social values. It could also be described as an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques. The concept of sustainability disclosure maintains that while a firm strives to achieve its traditional objectives of profit maximization, it is important that this profit is maximized through activities that seek to integrate social and environmental considerations into the decision-making process.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. This term is used as a general measure of a firm's overall financial health over a given period. To Uwalomwa, Obarakpo, Olubukola, Ozordi, Osariemen, Gbenedio and Oluwagbemi (2018), the performance of firms can be measured in terms of growth in its size (total assets), profitability (return on assets, return on equity, earnings per share) and via market-based proxies (market price per share). Profitability is the ability of a given investment to earn a return from its use. Despite the fact that profitability is an important yardstick for measuring efficiency, it is not synonymous to efficiency because the extent of profitability cannot be taken as a final proof of efficiency. Profitability is an index of efficiency; and is regarded as a measure of efficiency. Sometimes satisfactory profits can mark inefficiency and conversely, a proper degree of efficiency can be accompanied by an absence of profit.

In the same light, Utile (2016) sees financial performance as a measure of how an organisation is able to satisfy the owners typically by way of profit maximization or shareholders wealth. Owners here, connotes firm's stakeholders which include trade creditors, bondholders, investors, employees and management. Each group has its own interest in tracking the financial performance of a firm. While creditors view financial performance in terms of the firm's ability to pay her bills at and when due, investors see it as a return on their investments. Arjowo and Nugroho (2014) view firm performance as the result of a social contract based on an assessment towards the ability of the company both from the aspect of liquidity, activity, solvency and profitability which was made by parties related to the company. Firm performance reflects a company's fundamental performance which is measured using data derived from financial statements.

In 2024, a study analyzed the link between sustainability reporting and the financial performance of quoted firms in Nigeria (Akinleye & Owoniya, 2024). Through quantitative methods, the study assessed the extent and quality of sustainability reporting among Nigerian companies and its relationship with financial performance indicators. The research employed an ex-post facto research approach, utilizing data from annual reports, financial statements, and sustainability reports of 153 publicly listed companies on the Nigerian Exchange Group (NGX). A purposive sampling method was used to select a sample of 10 firms known for their voluntary disclosure of information in financial reports. The study spanned from 2012 to 2021, totaling 10 years, and involved both descriptive and inferential statistical analyses of the collected data. Using regression analysis, the study found a statistically significant positive impact of sustainability reporting metrics, including governance information disclosure, credibility information disclosure, and environmental profile disclosure, on firm performance. The authors concluded that companies that engage in transparent reporting regarding governance policies, credibility, and environmental practices demonstrate better financial performance. Based on the findings, the study recommended that Nigerian regulators and policymakers encourage and support sustainability reporting initiatives among quoted firms.

Method

This study utilises ex post fact research design to examine the effect of sustainability disclosure on financial performance of listed oil and gas firms in Nigeria. The study examined 11 oil and gas firm utilising annual data from 2013 to 2023.

Objective One: Sustainable economic disclosure and return on assets

$$ROA_{it} = \beta_0 + \beta_1 SECD_{it} + \mu$$

Where: ROA= return on assets, SECD= sustainable economic disclosure, β_0 = Constant Term, β_1 = Coefficient of SECD, μ = Error Term

Objective Two: Sustainable environmental disclosure and return on equity

$$ROE_{it} = \beta_0 + \beta_1 SEND_{it} + \mu$$

Where: ROE= return on equity, SEND= sustainable environmental disclosure, β_0 = Constant Term, β_1 = Coefficient of SEND, μ = Error Term

Objective Three: Sustainable social disclosure and profit after tax

$$PAT_{it} = \beta_0 + \beta_1 SSOD_{it} + \mu$$

Where: PAT = profit after tax, SSOD= sustainable social disclosure, β_0 = Constant Term, β_1 = Coefficient of SSOD, μ = Error Term

Result

Sustainable Economic Disclosure (SECD) had negative and significant effect on Return on Assets ($\beta = -0.291$; $p < 0.05$). This revealed that the increase in economic sustainability disclosure will lead to significant decrease on return on assets. Sustainable Environmental Disclosure (SEND) had positive but insignificant effect on Return on Equity ($\beta = 0.310$; $p > 0.05$). This suggests that the increase in sustainable environmental disclosure will lead to insignificant increase on return on equity. Sustainable Social Disclosure (SSOD) had a negative and insignificant effect on Profit after Tax. ($\beta = -0.374$; $p > 0.05$). Suggesting that the increase in sustainable social disclosure will lead to insignificant decrease on profit after tax.

Conclusion

This study examined sustainability disclosure and corporate financial performance of listed oil and gas firms in Nigeria. Sustainability disclosure, was proxied by economic sustainability disclosure, environmental sustainability disclosure, social sustainability disclosure while return assets, return on equity and profit after tax measured financial performance as dependent variables. In order to ensure robustness in the analysis of the data and hypothesis testing, it incorporated two control variable, which are total assets and firm size. Pretest estimations like descriptive statistics, Spearman's correlation test, Levine, Lin, and Chu (LLC) Unit Root Test, Pedroni Residual Cointegration Test was carried out. The findings revealed that economic sustainability disclosure for the period of this study has negative and significant impact on return on assets of listed oil and gas firms in Nigeria, environmental sustainable disclosure for the period of this study had positive but insignificant impact on return on equity of listed oil and gas firms in Nigeria, social sustainable disclosure for the period of this study had negative and insignificant impact on profit after tax of listed oil and gas firms in Nigeria

Recommendation

The study recommends that Nigerian firms should adopt mandatory economic reporting to strengthen financial performance and urged regulators to enforce standardized sustainability frameworks. It recommends that financial institutions should strengthen environmental policies and invest in green technologies to boost ROA, ROE while also advocating for standardized ESG reporting to enhance comparability. Finally, the study recommended that policy makers in government should enforce the inclusion of social sustainability disclosure in the annual reports by listed oil and gas companies. This will make sustainability disclosure a compulsory report rather than a voluntary disclosure.

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