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SUSTAINABILITY REPORTING DISCLOSURE AND FINANCIAL PERFORMANCE OF LISTED OIL AND GAS COMPANIES IN NIGERIA: AN EMPIRICAL ANALYSIS

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Abstract

Issues regarding corporate sustainability have gained global relevance in recent times owing to the increasing awareness that activities of most organizations may have adverse implicational effects on the ecosystems, societies, and environments of the future. Thus, companies are now being required to extend their strategic policies and information reportage to encompass sustainability reporting practices in order to meet the environmental and social needs of both current and future stakeholders. It is on this light that this study was set out to examine the effect of sustainability reporting on the financial performance of listed oil and gas companies in Nigeria. This study examined the effect of Economic performance disclosure, Environmental performance disclosure and social performance disclosure on the performance of listed oil and gas companies. Using quota system sampling technique the study sampled four oil and gas companies out of eleven. The data were collected from annual reports and accounts of the companies using content analysis. The findings show that Economic performance disclosure significantly affects the performance of listed oil and gas companies. However, the result reveals that Environment performance disclosure and Social performance disclosure do not significantly affect the performances of listed oil and gas companies. The study recommends the relevant regulatory authorities should encourage sustainability reporting practices among Nigerian companies by aligning the existing global sustainability standards to reflect the social and environmental challenges peculiar in the Nigeria context.

Keywords: Sustainability, Disclosure, Performance, Reporting, Financial, Corporate.

1. Introduction

Maximizing shareholders' interests have traditionally dominated the corporate strategy of many organizations in the past. The clear reason is that since the management (agents) runs the affairs of the organization on behalf of the owners (principals), the major interest of the latter (profit maximization) would often be considered paramount in order for the business to retain its capital. However, happenings in the last decade, such as concerns on global warming and the likes, demand that since the activities of most business organizations may have adverse environmental degradation effect on humans and its environments, companies may need to soft-pedal on the narrow version of classical economic theory and embrace sustainable corporate strategies that include goals that go beyond just maximizing shareholders' interest (Aman, 2015).

In line with the foregoing, companies world over are increasingly being challenged to extend their accounting information reportage to include sustainability reporting practices as part of their corporate strategy and competitive advantage. Aside adequate financial capital, companies also require strong governance and workplace practice that recognizes environmental and social needs of current and future stakeholders for it to achieve long term sustainability.

PricewaterhouseCoopers stated 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). In essence, 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. These three lines of values (Triple bottom line), according to Kaur (2020) which are targeted at the economy, society and environment respectively Studies on the effect of corporate sustainability on the overall performance of listed corporations have gathered momentum in recent times. The reasons are quite understandable considering the state of the world's environment and the adverse effect of most organizations' activities on the ecology of host communities leading to increased public concern and criticism due to some socially irresponsible firms.

Aman (2015) noted that it was no good having great corporate profits and material well- being if they come at the cost of large scale of ecosystem by which humans and environment are negatively affected. Thus, the principles of corporate sustainability demand that companies should be responsible for the consequential environmental and social impact, which their activity incurs on the environment of host communities and other stakeholders, assuming such responsibilities (Alamro et al., 2023). This will go a long way in pacifying the long-run losses likely to be borne by the stakeholders of the immediate environment where the companies operate.

In Nigeria for instance, one sector of the economy that has attracted a lot of public outcry on issues relating to environmental concerns is the oil and gas Industry. This sector is a major source of revenue to the Nigerian State. Their activities are often associated with severe health implications and environmental degradation, which in the past have caused social disputes and disruption of some multinational companies' economic activities (Kumo et al., 2023).

The Department of Petroleum Resources estimated 1.89 million barrels of petroleum were spilled into the Niger Delta between 1976 and 1996 out of a total of 2.4 million barrels spilled in 4,835 incidents. A UNDP report states that there have been a total of 6,817 oil spills between 1976 and 2001, which account for a loss of three million barrels of oil, of which more than 70% was not recovered.69% of these spills occurred off-shore, a quarter was in swamps and 6% spilled on land.

The Nigerian National Petroleum Corporation places the quantity of petroleum discard into the environment yearly at 2,300 cubic meters with an average of 300 individual spills annually. However, because this amount does not take into account "minor" spills, the World Bank argues that the true quantity of petroleum spilled into the environment could be as much as ten times the officially claimed amount. The largest individual spills include the blowout of a Texaco offshore station which in 1980 dumped an estimated 400,000 barrels (64,000 m3) of crude oil into the Gulf of Guinea and Royal Dutch Shell's Forcados Terminal tank failure which produced a spillage estimated at 580,000 barrels (92,000 m3). In 2010 Baird reported that between 9 million and 13 million barrels have been spilled in the Niger Delta since 1958. One source even calculates that the total amount of petroleum in barrels spilled between 1960 and 1997 is upwards of 100 million barrels (16,000,000 m3). In 2017, Royal Dutch Shell last year experienced a sharp rise in the number of oil spills caused by pipeline theft in Nigeria, which the company said it was a result of larger output and higher oil prices. The number of numbers of spills caused by sabotage and theft in Niger delta raised from 62 to 111 the Anglo Dutch company said in its sustainability report. The volume of oil split as a result rose to 1600 tonnes from 1400 tonnes.

The concerns are been increased due to stakeholders and host community's increased awareness of environmental degradation issues such as air and water pollution from heavy industrial machines, lack of clean-fresh water, lack of sea foods due to oil spill, and the likes Simrit (2020). The need for sustainable environmental cost management in the oil and gas sector has thus become the concern and focus of most nations and responsible corporate managements the world over. Organizations are now expected to be able to demonstrate that they are aware and addressing the impact of their operations on the environment and society in General (Cherian et al., 2019).

2. Literature Review

2.1 Conceptual Issues

Sustainability has been defined by so many researchers in so many ways. But I have deduced from their definitions that they all centered on the common dimensions of sustainability which are economic, environmental, and social and governance. According to the International Institute of Sustainable Development (IISD), the concept of Sustainability Reporting has evolved since 1980s when the first environmental report appeared. It is sometimes also referred to as Corporate Responsibility Reporting (CRR) or Triple Bottom Line (TBL) Reporting.

However, under GRI Sustainability Reporting Guidelines (G4), sustainability reporting is defined as "a process that assists companies in setting goals, measuring performance and managing change towards a sustainable global economy – one that combines long term profitability with social responsibility and environmental care. Sustainability reporting is the key platform for communicating the company's economic, environmental, social and governance performance, reflecting positive and negative impacts." Aman (2015) defines sustainability report as "a report prepared and published by an organization which includes important environmental, social and economic impacts caused by its operations" It helps organizations communicate the relationship between their strategies and their commitment to sustainable development to the stakeholders.

One of the objectives of any organization is to grow and progress and this can be achieved through continuous performance (Javed, 2022). The concept of corporate performance has not been unanimously defined. Ibrahim et al. (2023) defined corporate performance as the ability of the organization to meet its targets by using the available resources in a more efficient and effective way. Hamidu (2015) gave a set of definitions to the concept of organizational performance: Performance is a set of financial and nonfinancial indicators which give information on the extent of achievement of objectives and results; Performance is dynamic, requiring judgment and interpretation; Performance may be illustrated by using a causal model that describes how current actions may affect future results; Performance may be understood differently depending on the person involved in the assessment of the organizational performance (e.g. performance can be understood differently from a person within the organization compared to one from outside);To define the concept of performance is important to understand its characteristic looking at each area of responsibility; and To report an organization's performance level, it is necessary to be able to quantify the results.

Aman (2015) divide corporate performance into operational and financial performances. Operational performance includes: (i) market share, (ii) product quality, and (iii) marketing effectiveness. Financial performance is broken down into two subcategories: (i) market-based performance (e.g., stock price, dividend payout and earnings per share) and (ii) accounting-based performance (e.g., return on assets and return on equity). The corporate performance in accounting literatures refers normally to financial aspects such as profit, return on assets (ROA) and economic value added (EVA), using the nick name of 'the bottom line' (Rosikah et al., 2018; Felix, 2019). Nguyen et al., (2023) coined the extended measurement of corporate performance as balanced scorecard, where the core idea is to balance the domination of financial and non-financial aspects in corporate performance. Laskar (2019) opined that corporate performance is a function of market mechanism reflected in the way the company interacts with the financial, factor and customer product markets. In the financial market, corporate performance strives to satisfy shareholders and creditors in the form of financial indicators (Humphrey, 2012).

In the factor market, such as suppliers and other production owners, the corporate ability to pay in time and in agreed amount are important in evaluating corporate performance (Aman, 2015). Finally, from the perspective of customer product market, corporate performance will be evaluated by parties in the market based on the ability of the corporation to deliver value to customers with affordable price which is the net effect, in turn, will be indicated in the corporate revenue (Chang, 2015).

In line with the above definitions, the concept of financial performance can be seen as what depicts the manner in which an organization operates especially in managing its monetary resources in an attempt to achieve its goal; which can be measured either through accounting based or market based.

Studies on financial performance in relation to sustainability disclosures are of two fold. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The second examines the relationship between corporate sustainability disclosures and financial performance by using accounting measures of profitability. The latter is the focus of this study.

Burhan (2012) studied the impact of sustainability reporting on company performance in Indonesia. Using a sample of 32 companies listed in Indonesian stock exchange for a period of 4 years from 2006-2009. Their result shows that sustainability reporting influences company performance.

Aggarwal (2013) studied the impact of sustainability reporting on the financial performance of listed Indian companies. Using secondary data and by employing multiple regression and correlation for the period of two years. The study finds that there is no significant association between overall sustainability rating and financial performance. However, four components of sustainability which include community, employee, environment and governance have significant but varying impact on financial performance.

Nwobu et al (2017) studied sustainability reporting in financial institutions: a study of the Nigerian banking sector. The study focused mainly on measuring the level of sustainability disclosures in banks in Nigeria. The source of data is annual reports and checklist of 20 items was used. It sampled 14 banks from 2010 – 2014. The finding shows that disclosures on climate change were few and that it possess challenge to financial institution. Again, environmental indicators of sustainability were not given much attention when compared to social and economic indicators. Result further shows that there was initial rise in reporting but this fell slightly by 2011. Again, majority of the banks engaged in social disclosure in a four-year period.

Chairina and Enny (2018) studied The Effect of Sustainability Reporting Disclosure and Its Impact on Companies' Financial Performance. They studied 20 non-financial companies, which are listed on the Indonesia Stock Exchange (IDX) from 2016-2017 using secondary data and Multiple Linear Regression. The study concluded that the economic dimension disclosure has effect on financial performance because the information contained in economic performance is considered more transparent when compared to the financial performance of the company, because stakeholders consider economic performance to be higher in accuracy for predicting and analyzing information at lower risk, whereas the environmental and social dimensions have no effects.

Bodhanwala (2022), explored the relationship between sustainability and firm performance in travel and tourism industry. Using Secondary data and Ordinary regression analysis, the result of the study shows that Economic Performance disclosure (ECN), Environmental Performance disclosure (ENV) and Social Performance disclosure (SOC) have significant effect on the performance.

Priyanka Garg (2018) studied Impact of Sustainability Reporting on Firm Performance of Companies in India. Using Secondary data and multiple regression analysis on eleven companies listed on BSE GREENEX Index of

Bombay Stock Exchange for a period of five years 2008-2012. The study examined the pattern of sustainability reporting practices of selected companies in India. The results of the study confirm that sustainability-reporting practices of companies have improved over study period of five years. Further, the study tested the impact sustainability reporting practices of any firm have on its performance. The results reveal that sustainability reporting practices of a firm impact its performance negatively in short run while positively in long run.
Mamun (2022) studied The Impact of Sustainability Reporting on financial performance in Australia's electricity companies. Using Secondary data and multiple regression analysis, he studied 95 publicly traded American firms s from various sectors in 2015-2016. The study finds a positive and significant effect of sustainability reporting on a firm's return on equity, return on assets, and profit margin in the subsequent year. This study provides an important guide to managers by demonstrating not all companies should engage in CSR reporting – only companies with low institutional ownership. These findings suggest that by engaging in sustainability reporting, firms with lower institutional ownership show significant improvements in financial performance in the subsequent year after reporting. For companies that lack a large amount of institutional ownership and are not necessarily interested or motivated to pursue an active role in the corporation, it would be expected that they do not exert much influence over corporate governance. Engaging in sustainability reporting for these firms would prove to be quite beneficial in realizing increases in profitability, allowing them an alternate measure or strategy to potentially reap huge gains to increase shareholder value when there is an absence or lack of institutional ownership.

Antonio, Francisco and David (2019) studied The Relationship between Social Responsibility and Business Performance: An Analysis of the Agri-Food Sector of Southeast Spain. They studied 164 companies in the fruit and vegetable marketing sector in Almería (southeast Spain) using Secondary data and Partial least square method. The results of this study show that the firm commitment of companies in the agri-food sector in southeastern Spain for CSR helps them increase their economic benefits in addition to their intangible assets, difficult to imitate, which can guarantee their viability and competitiveness in the future.

Minghui, Paulo, Ahsan (2019) conducted a study titled, Does CSR Influence Firm Performance Indicators? Evidence from Chinese Pharmaceutical Enterprises in China. They studied 125 Chinese Pharmaceutical companies listed on the Shanghai and Shenzhen stock for a period of six years 2010–2016, Using Secondary Data and Multiple regressions. The study reveals that the overall CSR score has a positive and significant influence on a firm's financial indicators.
Faisal, Faisal Qadeer, Usman, Antonio, Maria, Jaffar. (2020). they studied Corporate Social Responsibility and Firms' Financial Performance: A New Insight. They studied 60 manufacturing firms listed on the Pakistan Stock Exchange (PSE) using Primary and secondary and multiple regression analysis. The research found that competitive advantage significantly mediated the indirect impact of perceived CSR and disclosure on FFP.

2.2 Hypotheses Development

Sustainability Reporting is a global concept which organizations use as a means of communicating its performance to all the stakeholders with regard to economic, environmental, social and governance performance (Laskar, 2019).
Corporate performance is a concept which entails the means through which firms are being assessed on the bases of their operations. Stakeholders are really interested in evaluating the performance of firms; to enable them know whether they are managing their assets effectively and efficiently. This will invariably inform them whether the business can be sustained or not. The most widely used performance measure in accounting is financial ratios. They are used to establish relationship between one value and another to show the strength or weakness of a firm's performance over a given period.

A lot of guidelines have been put in place to ensure that firms practice sustainability reporting but the most widely used among them is the global reporting initiative (GRI) with the most recent version called fourth generation (G4). The GRI was developed to promote transparency and accountability in organizations (Kolk, 2016).

Sustainability reports have to do with statement prepared by organizations showing information on how its operations affect the economic, social, and environmental performance (Ibrahim, 2013). The GRI has streamlined performance indicators in each performance area to serve as a base to disclose sustainability reports (Arindam & Sourav, 2016). The researcher will adopt this performance indicator in developing Sustainability Reporting index for use in model specification.

However, all the stakeholders have varying interest in the organization (Klassen & McLaughlin, 1996). Within the normative context of stakeholder theory, they have some right that has to be respected and protected. One of the rights is free access to information on the impact of organization operations on them and their environment. Therefore, sustainability reporting tries to satisfy this interest of the stakeholders thereby creating value for them. This study is anchored on stakeholder theory since the theory has established that managers should manage a firm in the best interest of all stakeholders.

This is in harmony with legitimacy theory which states that organizations should always ensure that they operate within the bounds, norms and expectations of their societies and therefore, a company should maintain its survival and continuity by voluntarily disclosing detailed information to stakeholders to prove it is a good citizen.
Therefore, based on the forgoing literature review, the following hypotheses were formulated:

H_{01}: Economic performance disclosure has no any significant effect on financial performance of listed oil and gas companies in Nigeria.

H_{02}: Environment performance disclosure has no any significant impact on the financial performance if listed oil and gas companies in Nigeria.
H_{03}: Social performance disclosure has no any significant influence on the financial performance of listed oil and gas companies in Nigeria.

3. Methodology

The research design adopted for this study is an ex-post facto design. Information on sustainability reporting and firms financial performance can best be obtained by exploring the annual reports and accounts of the companies. The population of this study consisted of the entire oil and gas companies listed on the Nigerian Stock Exchange (NSE) as at 31st December 2019. Using quota system of sampling technique four out of eleven listed oil and gas companies was selected. Data for the study was collected from annual reports and accounts of the sampled companies for a period of ten years (2010-2019). The variables of the study are financial performance proxied by return on assets while the independent variable is sustainability reporting disclosure proxied by Social performance disclosure (SPD), Economic performance disclosure (EPD), Environment performance disclosure (EPD).

For the purpose of the empirical analysis, the study used descriptive statistics and multiple regressions analysis. A descriptive analysis of the data was conducted to obtain the variables characteristics and to observe the level of sustainability disclosure among the companies. The multiple regression analysis was performed to test the effect of the independent variables; sustainability reporting using the components of corporate sustainability reporting, which are social, Economic, Environment, on the dependent variable, return on assets.

4. Result and Discussions

This section presents the result of the analysis conducted on the data collected from the annual reports and accounts of the sampled listed oil and gas companies for the period of nine years (2010-2019). It presents the descriptive statistics, correlation and multiple regression result of the study.

4.1 Descriptive Statistics

This sub section provides descriptive statistics result of the data generated in STATA on dependent and explanatory variables of the study. It gives the summary of collected data of both dependent and independent variables. Table 1 present the descriptive statistics for dependent and explanatory variables.

Table 1: Descriptive Statistics of the variables

Variables	Obs	Mean	Std. dev	Minimum	Maximum
ROA	40	.0676478	.0667461	.0068127	.3627447
EDP	40	2	.8697185	1	4
ENDP	40	2.025	.5419575	1.2	3.6
SPD	40	2.025	.5394679	1	3.25
LEV	40	1.10457	2.261695	.0701043	14.98601
FSIZE	40	10.98573	.2736941	10.61363	11.70991

Source: Computed by the authors using STATA 13

Table 1 shows the descriptive statistics of the sustainability reporting disclosure and performance measures that formed the independent and dependent variables used in the study. As observed, an overall average of 6.76% of ROA (return on assets) with a maximum average of about 36.27% is an indication of an increasing profit earnings margin in relation to the overall resources of the sampled firms.

Table 2 Correlation matrix

	ROA	EPD	ENDP	SPD	LEV	FSIZE
ROA	1.0000					
EPD	-0.1325	1.0000				
ENDP	-0.0699	-0.0653	1.0000			
SPD	0.0656	0.3757	-0.0153	1.0000		
LEV	-0.0288	0.3153	0.0908	-0.1074	1.0000	
FSIZE	0.3098	0.3290	-0.0923	0.5962	-0.0404	1.0000

Source: Computed by the authors using STATA 13

Table 2 shows the result of the correlation analysis of return on asset and the explanatory variables. The result shows that there is perfect positive relationship between return on asset and return on asset of 1.0000. There a strong negative relationship between return on asset and economic performance disclosure of about -0.1325. Results also reveal that there is a negative relationship between return on asset and Economic performance disclosure of -0.0699. There is a positive but very weak relationship between return on assets and social performance disclosure 0.0656. There is negative relationship between return on assets and leverage -0.0288. There is a positive but weak relationship between return on assets and firm size 0.3098.

There is also strong negative relationship between Economic performance disclosure and Environmental performance disclosure of -0.0653. Economic performance disclosure and social performance disclosure have a positive relationship of 0.3757. Economic performance disclosure and leverage have significant relationship of 0.3153. Economic performance disclosure and Firm size also have positive relationship of 0.3098.

There is negative relationship between Environmental performance disclosure and Social performance disclosure of -0.0153. Environmental performance disclosure and leverage have positive relationship of

0.0908. Environmental performance disclosure and firm size have negative relationship of -0.0923. There is negative relationship between leverage and firm size of -0.0404. There also positive relationship between firm size and firm size of 1. 0000.

Table 3: Regression Result

ROA	Coef.	Std. Err.	t-value	P-value
EDP	.020802	.0142119	-1.46	0.0342
ENDP	.0065826	.0194951	-0.34	0.003
SPD	.0119919	.0253772	-0.47	0.064
LEV	.0020508	.005061	0.41	0.068
FSIZE	1.07338	.5047825	-2.13	0.041
F(5,34) =1.41 **Prob. > F =** 0.2442 **R-squared =** 0.1721 **Adj. R-squared =** 0.0504				

Source: Computed by the authors using STATA 13

Table 3 present the regression result of return on asset and explanatory variables. From the table the result shows that Economic performance disclosure has a positive and significant impact on return on asset with a coefficient value of .020802 and a P value of 0.0342. The findings also show that Environmental performance disclosure composition has a positive and significant effect on return on asset with a coefficient value of .0065826 and a P value of 0.003. Social performance disclosure has a positive and significant impact on return on asset with a coefficient value of .0119919 and a P value of 0.064. Leverage has a positive but insignificant impact on return on asset with a coefficient value of .0020508 and a P value of 0.068. Firm size has a positive and significant impact on return on asset with a coefficient value of 1.07338 and a P value of 0.041.

From Table 3 the multiple coefficient of determination of R-squared =0.1721 means 17% changes in return on asset is caused by changes in the explanatory variables. This means that only 83% is caused by other variables unknown to the researcher.

The overall result shows that the effect of sustainability reporting on financial performance is significant. This led to the acceptance of the null hypotheses formulated in section two. The study concluded that Social performance disclosure has significant influence on the financial performance of listed oil and gas companies in Nigeria.

4.2 Multiple Regression Result

This sub section present regression analysis result that is utilize in testing the hypotheses.

5. Conclusion and Recommendations

Based on the findings of the study, it is concluded that sustainability reporting practices of the Nigerian oil and gas companies strongly affect their financial performance. This result is in agreement with the findings of Komathy (2019). All things being equal, the higher the level of sustainability disclosures in the Nigerian oil and gas companies, the higher will be their financial performance. Thus, the findings have agreed with the prior expectations of the study.

Based on the findings of this study, the followings were recommended: The relevant regulatory authorities should encourage sustainability reporting practices among Nigerian companies by aligning the existing global sustainability standards to reflect the social and environmental challenges peculiar in the Nigeria context. Despite the fact that sustainability reporting is still an evolving concept in Nigeria, its compliance level among companies can be rapidly enhanced if it is made mandatory to a specified magnitude rather than its current voluntary-nature.

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