

**EFFECT OF ECONOMIC AND GOVERNANCE DIMENSION OF
SUSTAINABILITY REPORT ON FINANCIAL PERFORMANCE OF LISTED OIL
AND GAS COMPANIES IN NIGERIA**

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Abstract

This study examines the effect of economic and governance sustainability report on financial performance. Data were extracted of listed oil and gas companies who published sustainability reports between 2013-2022, and we used GRI4 sustainability reporting index as a measurement. Multiple regression analysis method was utilized to analysed data. The findings indicate that economic disclosure had no significant effect. Similarly, governance disclosure has negative not significant effect on financial performance. Again, good governance, though positive, does not improve financial performance.

Keywords: Financial Performance, Economic, Corporate Governance, Sustainability Report.

1. Introduction

Arguably, sustainability reports make companies bear additional costs that decreases companies' earnings. As a way to improve performance, the company will depend on executive autonomy and corporate governance to monitor and control sustainability report activities through efficient decision making. Good corporate governance quality in this research is the quality or level of good or bad of a company in implementing the principles of good corporate governance as measured by GRI 4 sustainability reporting index.

Many organizations follow the framework and standard of disclosing sustainability report according to GRI. The perspective of this sustainability provides a framework to create value which refers to both achieving sufficient profits and to satisfying the request of a diverse group of stakeholders (Ershadi et al., 2024). There is a growing recognition among investment analyst that numerous business drivers upstream of a company's profit and loss statement, including environmental, social, and governance, contribute to long-term financial performance and investment returns (Yusuf et al., 2023).

Many researchers in Nigeria undertook studies with the objective of evaluating the effect of SR on FP, for instance, Agu and Amedu (2018) assessed the impact of SR on the profitability of pharmaceutical companies listed in Nigeria. Asuquo et al. (2018) evaluated the impact of SR on business FP in some selected listed breweries firms in Nigeria.

Based on the above empirical studies, only few studies consider oil and gas firms. Similarly, most studies make use of their local sustainability reporting index or social responsibility reporting index. Therefore, this study will consider listed Nigerian oil and gas firms using the GRI G4 sustainability reporting index. The study will also use firm leverage as control variable. The justification for using leverage as control variable is that finance charge usually reduces the amount of firm's distributable profit and as a result affect the firms overall financial performance

2. Literature Review

This paper deal on effect of economic and governance reporting on the financial performance of Oil and gas companies in Nigeria, it carries out a conceptual review, empirical review and the theoretical theory that back the paper.

2.1 Conceptual Review

2.1.1 Concept of Sustainability Reporting

A sustainability report is the disclosure of non-financial performance policies, methodologies and metrics to stakeholders, including investors, employees, customers and the public. The practice encompasses environmental, social, economic and governance (ESEG) metrics. According to Global Reporting Initiative (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.”

Sustainability is complex, so there are many reporting frameworks for companies, usually covering important topics like sustainable development, carbon emissions, supply chain and corporate social responsibility (CSR). Sustainability reporting has been defined by so many researchers in so many ways. But this paper took from the many researchers to disclose that they all center on the following four common dimensions of sustainability which are environmental, social, economic, and governance. But the paper focus on two i.e. economics and governance reporting.

2.1.2 Economic Reporting

Economic reporting refers to the impact of the entity on the economic systems in which it operates. The economic performance can be measured through analyzing the impact of the organizations on the stakeholders on a local, national and global level (Okudo, 2021). Economic performance can influence the intangible assets of the organization, such as human capital and reputation. Economic reporting includes investment in non-core business infrastructure, economic value generated, value and supply chain,

climate change -implications, risks, opportunities and risk management (Sustainability Reporting Guide, 2020).

2.1.3 Good Corporate Governance Reporting

Corporate governance includes the practices and procedures that corporations rely on to make sound decisions in corporate affairs, and it delineates the roles and responsibilities of many different individuals, including, boards of directors, managers, shareholders, stakeholders, vendors, creditors, auditors, regulators. Governance reports offer detailed accounts of an organization's progress on particular compliance initiatives or, taken collectively, can provide a broad summary of your company's compliance efforts.

2.1.4 Concept of Financial Performance.

Financial performance is a description of the company's financial condition during the period concerning fund raising and fund distribution aspects, as measured by capital coverage, liquidity, and profitability indicators. Financial performance can be reflected through the analysis of financial ratios of a company; one of the measurements of financial performance is profitability. Chikwendu et al. (2019). Financial performance is a subjective measure of the ability of a firm to use assets from its primary mode of business to generate revenue. In other words, it is a general measure of a firm's overall financial health over a given period. Uwalomwa et al. (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 (Tobin's Q).

2.2 Empirical Review

2.2.1 Empirical Review on ECONOMIC reporting and Financial Performance

Akinleye and Owoniya (2024) examined sustainability reporting and performance of selected quoted firms in Nigeria. Some 153 publicly listed companies on Nigerian Exchange Group (NGX) were sampled for the period of 2012 – 2021. Data was analysed using descriptive statistic and multiple regression analysis. The study was able to find a positive and significant effect of economic reporting on financial performance using NPM

Ihsani et al. (2023) examine the topic does ESG performance affect financial performance: Evidence from Indonesia. They used 23 listed Oil and gas companies in Indonesia for the period of 2018 – 2020. Data was analysed using descriptive statistic, correlation matrix and multiple regression analysis. The study was able to find a positive and significance effect of economic reporting on financial performance using ROA, while on the other hand there is a positive and non-significance effect of economic reporting on financial performance using TQ.

2.2.2 Empirical Review on GOVERNANCE reporting and Financial Performance

Akinleye and Owoniya (2024) examined sustainability reporting and performance of selected quoted firms in Nigeria. Some 153 publicly listed companies on NGX were sampled for the period of 2012 – 2021. Data was analysed using descriptive statistics

and multiple regression analysis. The study finds a positive and significant effect of governance reporting on financial performance using NPM.

Ershadi et al. (2024) examine the effect of sustainability reporting on financial performance. There were 450 companies in Iran capital market and 196 was sampled for the period 2012 – 2021. Data was analysed using descriptive statistic and multiple regression analysis. The study was able to find a positive and significant effect of governance reporting on financial performance using ROA, similarly the study has a positive and significant effect of governance reporting on financial performance using ROE and also a positive and significant effect on governance reporting on financial performance using EVA.

2.3 Theoretical Review

The paper is backed up by the stakeholder theory and signaling theory.

2.3.1 Stakeholder Theory.

Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between the internal stakeholders and external stakeholders of whom they are employees, manager, owner (Internal), supplier, society, government, creditor, shareholder and customer (external) all that have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders. It addresses morals and values in managing an organization, such as those related to corporate social responsibility, market economy, and social contract theory.

2.3.2 Signalling Theory

Signaling theory was initially developed by Spence (1973) based on observed knowledge gaps between organizations and prospective employees, its intuitive nature led it to be adapted to many other domains, such as Human Resource Management, business, higher education, advertisement, cultural consumption, aggressive behaviour, and decision-making in social dilemmas and financial markets. It has also been used to understand how firms can mitigate the effects of negative country stereotypes by addressing information asymmetry. The theory when developed is to clarify the information asymmetry in the labour market (Spence, 1973). As a result of the information asymmetry problem, companies signal certain information to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing a favorable reputation.

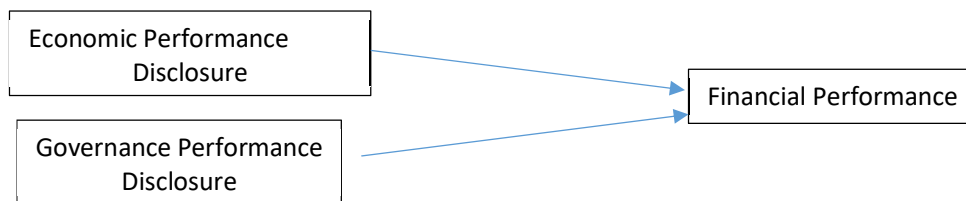


Figure 1: Theoretical Framework

Based on the framework and preceding arguments, the hypotheses proposed in this study are as follows:

H₀₁: There is no significant effect of Economic Sustainability Reporting on financial performance of listed oil and gas companies in Nigeria.

H02: There is no significant effect of Governance Sustainability Reporting on financial performance of listed oil and gas companies in Nigeria

3. Method

The population of the study comprised of twelve oil and gas firms in Nigeria that are listed on NGX as at December, 2022. Secondary data were used for this study and these data were sourced from the annual reports of listed oil and gas firms in Nigeria. The study period is from 2013 to 2022, totaling 10 years. The decision is based on the fact that they fully satisfied the listing requirement of Nigerian stock Exchange and have available data required for the study. The method used to analyse the effect between variables is Moderated Regression Analysis.

3.1 Model Specification

In this study, Test was conducted to examine the effect of economic, social, environment and governance performance on financial performance, the following model was used:

$$ROA_{it} = a_0 + \beta_1 EC_{it} + \beta_2 EN_{it} + \beta_3 SO_{it} + \beta_4 GO_{it} + \beta_5 LV_{it} + \beta_6 SZ_{it} + \beta_7 BS_{it} + \beta_8 DR_{it} + \varepsilon (i)$$

Where,

ROA = Return on assets

EC_{it} = Economic sustainability reporting

EN_{it} = Environmental sustainability reporting

SO_{it} = Social sustainability reporting

GO_{it} = Governance sustainability reporting

LV = Financial leverage SZ = Firms Size DR = Debt Ratio BS = Board Size

a₀ = constant term

ε = error at 5% level of significance

β_{0-n} = coefficient of the independent variables

3.2 Variable Definition and Measurement

Table 1: Variables and Measurements

S/N	Variable	Acronym	Measurement	Source
1	Dependent Variable (Financial Performance)	ROA	Earnings before interest and tax (EBIT) / Total Assets	Mcclure (2021); Priyanka (2015)
2	Independent Variable (Sustainability Reporting)	Social (SO)	Sustainability Disclosure Index (SDI) using GRI 4	Uwuigbe et al, (2018), Ifeanyi et al, 2020, Oshiole et al, 2020)
		Economic (EC)	Sustainability Disclosure Index (SDI) using GRI 4	Uwuigbe et al, (2018), Ifeanyi et al, 2020, Oshiole et al, 2020)
		Environmental (EN)	Sustainability Disclosure Index (SDI) using GRI 4	Uwuigbe et al, (2018),Ifeanyi et al, 2020, Oshiole et al, 2020)

		Governance (GO)	Sustainability Disclosure Index (SDI) using GRI 4	Uwuigbe et al, (2018), Ifeanyi et al, 2020, Oshiole et al, 2020
3	Control Variables	Firm Size (FS)	Log of Total Asset	Jehu and Ibrahim (2019)
		Financial leverage (FL)	Total Liabilities / Total Assets	Jehu and Ibrahim (2020)
		Board Size (BS)	Total number of directors on the board	Jehu et al. (2022)

Source: Compiled by the researcher from empirical literature

4. Results and Discussion

The following are the descriptive statistic, correlation matrix, and the result using return on asset (ROA).

Table 2 Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max
ROA	.021	.221	-.994	1
EN	.884	.070	.647	1
SO	.830	.102	.604	.958
EC	.767	.113	.556	1
GO	.803	.099	.625	1
FL	.749	.351	.023	1
FS	7.51	.738	5.52	8.50
DR	.546	1.67	-9.9	8.92
BS	9.51	2.50	5	14

Source: Stata 13 output based on study data

Table 3: Correlation Matrix

ROA	EN	SO	EC	GO	FL	FS	DR	BS	
ROA	1.000								
EN	-0.061	1.000							
SO	0.120	0.159	1.000						
EC	0.056	0.165	0.414	1.000					
GO	0.061	0.457	0.495	0.495	1.000				
FL	-0.421	0.055	-0.175	0.096	-0.134	1.000			
FS	-0.070	0.007	0.125	0.116	0.034	0.459	1.000		
DR	0.077	-0.029	0.107	-0.052	-0.121	-0.182	0.085	1.000	
BS	-0.018	0.379	-0.188	-0.063	0.112	-0.012	-0.048	0.015	1.0000

Source: Stata 13 output based on study data

Table 4: Regression Result of Pooled OLS for ROA

ROA	COEF	P> t
EN	-.104	0.774
SO	.013	0.959
EC	.244	0.231
GO	-.160	0.593
FL	-.328	0.000
FS	.048	0.042
DR	-.005	0.718
BS	.002	0.808

F	(8, 82)	3.03
Prob>F	0.0046	
R ²	0.210	
Adj R ²	0.141	

Source: Stata 13 Output based on study data

4.1 Effect of Economic Reporting on Financial Performance (using ROA)

The regression coefficient for economic reporting is 0.244 and has a p-value of 0.231. This signifies that economic reporting has a positive and insignificant effect on the financial performance (ROA) of listed oil and gas firms in Nigeria. This implies that, for every increase of one point on economic reporting, the dependent (ROA) is predicted to be higher by .244 points of the listed oil and gas firms. This finding is in line with Ihsani et al. (2023) and Tyokoso et al. (2020).

4.2 Effect of Governance Reporting on Financial Performance (using ROA)

The regression coefficient for governance reporting is -.160 and a p-value of 0.593. This signifies that governance has a negative and not significant effect on the financial performance (ROA) of listed Oil and gas companies in Nigeria. This means that for every unit increase in governance reporting, there is a -.160 unit decrease in the financial performance (ROA) of listed Oil and gas companies in Nigeria while holding all other variables constant. This finding is not in line with Ershadi et al. (2024) and Ihsani et al. (2023).

5. Conclusion

Based on the results of the analysis to the listed oil and gas companies in Nigeria it will be concluded that economic and governance reporting has no effect on financial performance (i.e. ROA) of the listed oil and gas companies in Nigeria. Notwithstanding on these findings, some suggestions may be given: (1) Disclosure of sustainability reports is important to do because by disclosing non-financial information such as economic and governance performance can provide more benefits not only to the company, but also more benefit for stakeholders. For the Government, it is recommended that there be regulations and standards governing the sustainability report, given the reporting of sustainability report which is still voluntary. (2) In addition to preparing annual reports, it is important for the company to create a Sustainability Report (SR) because the sustainability report is a report that responds to the public or stakeholders' desire to concern corporation about environment. And now the sustainability report has been used as one of the strategies to increase the image of the company which will also improve the financial performance of the company in the future.

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