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The Effect of Corporate Social Responsibilities on Financial Risk of Listed Oil And Gas Companies in Nigeria

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Abstract

Corporate Social Responsibility (CSR) is a concept that ensures that firms particularly the Oil and Gas firms are responsible for their impact or society and environment. Thus a socially irresponsible firm may experience reputational damage which could ultimately result in financial loss. This study investigated the effect of CSR on financial risk of listed oil and gas companies in Nigeria. The study employed an ex post facto research design using es secondary data extracted from the audited annual financial reports of seven selected oil and gas firms, from 2015 to 2023. A purposive sampling technique was used to ensure the inclusion of only the companies with complete required data. The data was analyzed using regression analysis with the aid of SPSS to examine the effect of CSR on financial risk, measured by the Altman Z-Score. The results reveal a statistically significant effect of CSR expenditures on financial stability of the Nigeria listed Oil and Gas firms with F-Statistics of 6.764, P-value=0.012, and R-Square= 0.100. The researchers concluded that Corporate Social Responsibility expenditure significantly affected the financial risk of the listed Oil and Gas firm in Nigeria. The study recommended that, the management of the Nigerian Oil and Gas companies in Nigeria should strategically manage and control Corporate Social Responsibility expenditures to mitigate likely financial risk.

Keywords: Corporate Social Responsibility, Financial Risk, Oil and Gas Sector, Nigeria, Financial Stability.

Introduction

Corporate social responsibility is an important issue for the government and all other stakeholders in Nigeria. Businesses and society are thought to gain when corporations, such as Oil and Gas, actively participate in social responsibility programs. Businesses get a competitive edge, improve their reputation, and draw in more customers and society benefits from the social projects these businesses undertake. Referencing the banking industry, Dianita and Rahmawati (2022) claimed that socially conscious bank practices in every country's economy not only support government initiatives but also create an atmosphere that is favorable for corporate operations and the general public.

In essence, CSR encapsulates the principle that organization should evaluate the effects of their operations and business practices on shareholders, customers, suppliers, employees, community members and environment. CSR is the idea that businesses should think about how their operations and business practices affect not just shareholders but also consumers, suppliers, workers, the community, and the environment. It is an expression of appreciation and admiration for each and every stakeholder in the organisation. It reflects a conscious effort to give back to the society from which the corporation has benefitted immensely. CSR proponents argue that businesses with solid social and environmental records will probably do better in the long run. This is because consumers would prefer to support businesses that have positive social and environmental impact records because, such business would be regarded as socially and environmentally responsible businesses that places premium on community’s values.

In Nigeria, business organisations such as banks and manufacturing firms including oil and gas like other parts of the world are known to be profit driven. However, some of these companies tend to meet their profit targets at the expense of adequate response to the need of their host communities, employees welfare, environmental protection and community development. Such actions or inactions could either directly or indirectly impact on corporate financial risk. This position suggests that corporate social responsibility, or CSR, could be highly sensitive to financial risk, particularly in sectors like oil and gas where operations are usually characterised with huge social and environmental effects. Coelho et al., (2023) noted that companies that prioritise CSR activities are usually favoured by investors. Such favouritism could result in increased investment and low financial risk for such companies.

Financial risk can be defined as the possibility of losing money on an investment or business operation. In the oil and gas sector, where public scrutiny is particularly intense, CSR initiatives can help companies navigate regulatory challenges and mitigate reputational risks associated with environmental degradation (Saeed & Gul, 2023). This is particularly relevant in Nigeria, where the oil and gas industry has continually faced heavy significant criticism for its environmental impact and social injustices (Angraini, 2024).

Despite the growing body of literature on CSR and financial performance, there remains a notable gap in research specifically examining the interplay between CSR and financial risk, particularly within the context of Nigerian oil and gas companies. Most existing studies like Li et al (2025), Dela et al (2024), Maome et al (2023), Zhang and Liu (2023) and Ogungbade (2021), have focused on the positive impacts of CSR on financial performance without adequately addressing how CSR can directly influence financial risk metrics such as the Altman Z-score. Hence, this study aims to fill this gap by investigating the effect of CSR of oil and gas companies and their financial risk as measured by the Altman Z-score between 2015 and 2024 with the following specific objective:

1. To determine the effect of corporate social responsibility expenditures of oil and gas on the financial risk measured by Altman Z-score.
2. For the researcher to achieve the stated objective the following research question was raised:
3. How would corporate social responsibility expenditure affect the financial risks of listed Oil and Gas companies in Nigeria?

In order appropriately answer the research question that was raised, we formulated the research hypothesis:
H_0: Corporate social responsibility does not significantly affect the financial risk of the listed Oil and Gas companies in Nigeria

Literature Review
2.0. Conceptual Review
2.1. The concept of Corporate Social Responsibility (CSR)
Corporate social responsibility (CSR) has emerged as a critical concept in the discourse surrounding corporate governance and ethical business practices. According to Oztop and Kuyu (2020), corporate social responsibility (CSR) is the dedication of companies to make constructive contributions to society while juggling economic, social, and environmental factors. It includes a variety of endeavours, such as environmental stewardship, ethical labour practices, and philanthropy.

In developed countries, CSR is often linked to enhanced corporate reputation and improved financial performance, with studies demonstrating that firms engaging in CSR activities tend to experience lower financial risk (Akıncı, 2013). Conversely, in Nigeria, the oil and gas sector has faced scrutiny for its environmental impact, prompting companies to adopt CSR initiatives as a means of addressing stakeholder concerns and enhancing their legitimacy (Hevia & Servén, 2016). The characteristics of CSR include its voluntary nature, the emphasis on stakeholder engagement, and the potential for long-term benefits that extend beyond immediate financial gains (Marchettini & Maino, 2015).

Moreover, CSR is increasingly recognized as a strategic tool for managing financial risk, particularly in industries with significant social and environmental impacts. Research indicates that companies that invest in CSR can mitigate reputational risks and foster stronger relationships with stakeholders, ultimately leading to improved financial stability (Yao et al., 2011). In Nigeria, the integration of CSR into corporate strategies has been shown to enhance firm performance and reduce financial distress, particularly in the oil and gas sector, where public perception plays a crucial role in operational success (Demirgüç-Kunt et al., 2017). Synthesizing these perspectives, CSR can be understood as a multifaceted approach that not only addresses ethical obligations but also serves as a strategic mechanism for enhancing corporate resilience and mitigating financial risk

Financial risk
Financial risk is a multifaceted concept that has been defined in various ways by different authors. For instance, it is often described as the potential for financial loss or the uncertainty surrounding financial outcomes, which can arise from market fluctuations, credit defaults, or operational failures Tan et al. (2022). In developed countries, financial risk is frequently analyzed through the lens of market volatility and the impact of economic cycles on corporate performance (Akın et al., 2016). In contrast, studies in developing nations, including Nigeria, highlight the influence of external factors such as political instability and regulatory challenges on financial risk (Mendoza

et al., 2009). Characteristics associated with financial risk include its dynamic nature, as it can change rapidly in response to market conditions, and its interdependence with other financial metrics, such as liquidity and leverage (Pagano & Pica, 2012). Furthermore, financial risk is often characterized by its quantifiable aspects, allowing for measurement through various financial ratios and indices, such as the Altman Z-score (Tangcharoensathien et al., 2020). Synthesizing these definitions, financial risk can be understood as the potential for loss arising from uncertainty in financial markets, influenced by both internal and external factors, and characterized by its dynamic and quantifiable nature.

2.2 Theoretical Review

Stakeholder theory

According to stakeholder theory, which was mainly developed by R. Edward Freeman in the 1980s, companies should not only focus on shareholders but also take into account the interests of all parties that have an impact on or can have an impact on the business (Freeman et al. 2004). The key assumptions of this theory include the belief that stakeholder relationships are essential for the long-term success of a business and that ethical considerations should guide corporate decision-making (Donaldson & Preston, 1995). Supporters of stakeholder theory argue that it leads to better organizational performance by fostering a more inclusive approach to management that reconciles the diverse interests of various stakeholders, including employees, customers, suppliers, and the community (Mbo & Adjasi, 2017). Critics, however, contend that stakeholder theory can lead to conflicts of interest and complicate decision-making processes, as it may be challenging to balance the often-competing demands of different stakeholder groups (Freeman, 1994). Despite these criticisms, stakeholder theory remains relevant to contemporary discussions on corporate social responsibility (CSR) and financial risk, particularly in sectors like oil and gas, where stakeholder engagement is crucial for managing reputational and operational risks (Čutura et al., 2021).

The relevance of stakeholder theory to the study of CSR and financial risk in listed oil and gas companies in Nigeria is particularly pronounced. In this context, stakeholder theory provides a framework for understanding how CSR initiatives can mitigate financial risks by addressing the concerns of various stakeholders, including local communities affected by environmental degradation (Dmytriyev et al., 2021). By prioritizing stakeholder interests, companies can enhance their legitimacy and reduce the likelihood of conflicts that could lead to financial distress (Harrison & Wicks, 2013). The oil and gas sector in Nigeria has faced significant scrutiny over its environmental practices, making stakeholder engagement essential for maintaining social license to operate and ensuring long-term financial viability (Villamor, 2024). Thus, adopting stakeholder theory allows for a comprehensive analysis of how CSR activities can serve as a strategic response to financial risk, ultimately contributing to sustainable business practices in the industry.

Justifying the adoption of stakeholder theory for this study involves recognizing its ability to provide a nuanced understanding of the interplay between CSR and financial risk. By framing CSR as a mechanism for addressing stakeholder concerns, this theory highlights the potential for companies to achieve both ethical and financial objectives (Phillips et al., 2003). Furthermore, stakeholder theory encourages organizations to adopt a proactive approach to risk management by fostering open communication and collaboration with stakeholders, which can lead to more informed decision-making and enhanced corporate resilience (Dwyanti, 2024). In the context of Nigeria's oil and gas sector, where stakeholder dynamics are complex and often contentious, stakeholder theory offers valuable insights into how companies can navigate these challenges while simultaneously pursuing their financial goals (Schaltegger et al., 2017). Ultimately, this theoretical framework not only enriches the understanding of CSR's role in mitigating financial risk but also underscores the importance of ethical considerations in corporate governance.

2.3 Empirical Review

The relationship between Corporate Social Responsibility (CSR) and financial performance has been a subject of extensive empirical research, revealing a complex interplay that varies across different contexts and industries. A significant body of literature suggests a positive correlation between CSR initiatives and financial performance metrics such as Return on Assets (ROA) and Return on Equity (ROE). For instance, Lestari (2024) highlights that companies engaged in CSR activities in the United States tend to exhibit superior financial performance, attributing this to enhanced operational efficiency and reputation. Similarly, Nyahuna & Doorasamy (2023) assert that CSR initiatives improve competitiveness, leading to better financial outcomes, a view echoed by (Nyahuna & Doorasamy, 2023). This positive relationship is further supported by (Kristari, 2022), who found that Indonesian manufacturing firms that disclose carbon emissions and engage in CSR practices also report improved financial performance.

However, the literature also presents contrasting findings that challenge the notion of a universally positive relationship between CSR and financial performance. For example, Maqbool and Hurrah Maqbool & Hurrah

(2020) discuss instances where CSR can impose additional costs on firms, potentially leading to a negative impact on financial performance due to agency problems and inefficient resource allocation. This perspective is reinforced by (Li & Li, 2018), who argue that the costs associated with fulfilling CSR obligations can place firms at a competitive disadvantage, ultimately impairing profitability. Such findings underscore the importance of context and the potential for CSR to yield varying financial outcomes depending on the specific circumstances of a firm.

The role of mediating factors in the CSR-financial performance nexus has also been explored. Carroll & Shabana (2010) emphasize the significance of stakeholder influence capacity, suggesting that the impact of CSR on financial performance may depend on situational contingencies and the presence of mediating variables. This view is supported by (Akben-Selçuk, 2019), who controlled for endogeneity in CSR activities and found that the relationship between CSR and financial performance is more nuanced than previously thought. The complexity of these relationships is further illustrated by (Kim et al., 2019), who examined how CSR assurance affects the CSR-performance link, indicating that the effectiveness of CSR initiatives may be contingent upon the quality of their implementation and reporting.

Moreover, the meta-analytic review by Wang et al. (2016) highlights the disparities in CSR measures, which complicate the ability to draw consistent conclusions across studies. This inconsistency suggests that while many studies report a positive relationship between CSR and financial performance, the mechanisms underlying this relationship are not fully understood and may vary significantly across different sectors and geographic regions. For instance, Nguyen and Nguyen (2020) provide a comprehensive overview of CSR research in Vietnam, indicating that while CSR contributes positively to financial performance, the degree of impact can differ based on local economic conditions and cultural factors.

In addition to financial performance, the literature has begun to explore the implications of CSR on financial risk. Although empirical studies specifically addressing the relationship between CSR and financial risk are limited, some insights can be drawn from the broader discourse on CSR's impact on firm stability and resilience. For example, firms that engage in proactive CSR practices may mitigate financial risks by enhancing their reputational capital and stakeholder trust, which can buffer against market volatility (Torugsa et al., 2011). This perspective aligns with the findings of (Oware & Mallikarjunappa, 2020), who suggest that CSR expenditure can be associated with improved financial performance, potentially indicating lower financial risk.

The integration of CSR into core business functions has also been posited as a strategy to enhance both financial performance and risk management. Rinawiyanti et al. (2022) argue that effective integration of CSR can lead to improved company performance, suggesting that firms that embed CSR into their operational strategies may achieve better financial outcomes and lower risk exposure. This is particularly relevant in the context of the oil and gas industry, where CSR initiatives can address environmental and social concerns that are critical to maintaining operational licenses and stakeholder support.

In conclusion, the empirical literature presents a multifaceted view of the relationship between CSR and financial performance, with evidence supporting both positive and negative associations. The complexity of this relationship is influenced by various mediating factors, contextual elements, and the specific nature of CSR activities undertaken by firms. As my study focuses on the effect of CSR on financial risk among listed oil and gas companies in Nigeria, it is crucial to consider these nuanced findings. Understanding how CSR initiatives can not only enhance financial performance but also mitigate financial risks will provide valuable insights into the strategic importance of CSR in this sector.

Methodology

The research design adopted for this study was an ex-post facto design. This design is appropriate as it allows for the analysis of existing data to identify relationships between CSR and financial risk without manipulating any variables. The population of study contained all the listed Nigerian Oil and Gas companies as of 2023. A purposive sampling technique was used to selected 7 out of the 9 Oil and Gas companies listed on Nigeria Exchange group. The purposive sampling technique was adopted to allow the researcher select the seven (7) companies that have completed set of data for the period covered by this study (2015-2023). The study utilized secondary data sourced from the audited annual financial statements of the selected oil and gas companies, covering the period from 2015 to 2023. The validity and reliability of the secondary data for this study was hinged on the statutory audit of the financial reports of this companies by qualify and reputable external auditors. The data collected 023 was analyzed using an inferential statistic a simple regression with the through the aid of SPSS.

The model for this study will be expressed as follows:

$FR = \beta_0 + \beta_1 CSR + u$
Where FR = Financial Risk measured by Altman Z Score
CSR = Corporate Social Responsibilities measured by Donation
In terms of variable measurement, financial risk was measured using the Altman Z-score, a widely recognized metric that combines various financial ratios to predict the likelihood of bankruptcy and assessment of organization's financial health. The Z-score was calculated using the following formula:
$Z = 1.2\times Y_1+1.4\times Y_2+3.3\times Y_3+0.6\times Y_4+0.999\times Y_5$
Where:

- Y1 = Working Capital/Total Assets (*Measures liquidity).*
- Y2 = Retained Earnings/Total Assets (*Measures profitability and long-term viability).*
- Y3 = Earnings Before Interest and Taxes (EBIT)/Total Assets *(Measures operating efficiency).*
- Y4 = Market Value of Equity/Total Liabilities (*Measures leverage).*
- Y5 = Sales/Total Assets (*Measures asset turnover).*

Interpretation of the Z-Score:

- **Z > 2.99**: Company is in the "Safe Zone" (low risk of bankruptcy).
- **1.81 ≤ Z ≤ 2.99**: Company is in the "Grey Zone" (moderate risk of bankruptcy).
- **Z < 1.81**: Company is in the "Distress Zone" (high risk of bankruptcy).

Results Presentation and Discussion of Findings

4.1 Test of hypothesis

1. **Objective one of the study:** To determine the effect of Corporate social responsibility expenditures of oil and gas on the financial risk measured by Altman Z-score.
2. **Research question one:** How would corporate social responsibility expenditures affect the financial risks of listed Oil and Gas companies in Nigeria?
3. **Research Hypothesis one:** H_0: Corporate social responsibility does not significantly affect the financial risk of the listed Oil and Gas companies in Nigeria

Table 1. Regression Table Showing the Effect of Corporate Social Responsibility Expenditures on Financial Risk

Model	Sum of Square	Df	Mean Square	F-Statistics	Sig	R Square
Regression	98.440	1	98.440	6.764	0.012	0.100
Residual	887.747	61	14.553			
Total	986.187	62				

From table 1, the results of the regression analysis revealed that Corporate Social Responsibility expenditures significantly affected the financial risk of listed oil and gas companies in Nigeria with F-statistics of 6.764, P< 0.05 and R-Square of 0.100. This implies that the Corporate Social Responsibility expenditure is responsible for 10% variation in Financial Risks of the listed oil and gas companies in Nigeria and the effect is statistically significant. It further implies that the remaining 90% would be explained by factors that can affect financial risks which were not considered in this research model. Hence, there is need for oil and gas companies in Nigeria to strategically manage their corporate social responsibility expenditures in order to minimise the likely associated financial risks.

Decision:
Going by the results indicated in table 1, which indicates that P-value is 0.012 which is less than 0.05 adopted level of significance with F-statistics of 6.764, the study rejected null hypothesis. Thus corporate social responsibility expenditures have significant effect on the financial risk of listed Nigerian oil and gas companies.

Table 2: Regression Table Showing the Relative Contributions of Corporate Social Responsibility Expenditures to Financial Risks

Model	Unstandardized Coefficients		Standardised coefficients	t	Sig.
	B	Standard Error	Beta		
1 Constant	-4.271	1.903		-	0.028

CSR	0.710	0.273	0.316	2.244 2.601	0.012

The regression results as presented in table 2 revealed that B Coefficient CRS is 0.710. This implies that 1% change in Corporate Social responsibility expenditures would be responsible for 0.710 variation in the financial risk of the listed oil and gas companies in Nigeria. This was significant with t value =2.601 and P-value of 0.012. The constant value of -4.271 indicates the baseline for the dependent variable (Financial Risk) when corporate social responsibility expenditures is Zero. Although, this is significant with t= -2.244 and P-value=0.028, in practice corporate social responsibility expenditure would not zero. Hence the regression model can be restated as follows:

$FR = -4.271 + 0.710CSR + U_{it}$

4.3 Discussion of Findings

The findings of this study indicate a significant positive effect of Corporate Social Responsibility (CSR) on financial risk mitigation, particularly in the oil and gas sector. This aligns with the findings of Tran and O'Sullivan, who noted that firms with robust CSR practices are less likely to engage in financial misstatements, thereby enhancing their financial stability and reducing the likelihood of regulatory scrutiny (Tran & O'Sullivan, 2018). Similarly, Jia et al. highlighted that CSR investments can act as a form of insurance against stock price volatility, suggesting that firms view CSR as a strategic tool for risk management (Jia et al., 2019). This perspective is further supported by Brooks and McGuire, who found that CSR engagement is inversely related to future bankruptcy risks, reinforcing the notion that CSR can serve as a buffer against financial distress (Brooks & McGuire, 2022).

Contrastingly, some studies present a more nuanced view of the CSR-financial performance relationship. For instance, while Al-Hadi et al. found a significant negative association between CSR performance and financial distress, they also noted that this relationship varies across different firm life cycle stages, indicating that the impact of CSR may not be uniformly beneficial across all contexts (Al-Hadi et al., 2017). Furthermore, the findings of Khan et al. suggest that while CSR can reduce financial distress, the extent of this effect may vary based on the firm's operational environment and market conditions (Khan et al., 2021). This complexity is echoed in the work of Farooq and Noor, who argue that while CSR activities generally mitigate financial distress, the effectiveness of these initiatives is contingent upon the firm's level of international involvement and market dynamics (Farooq & Noor, 2021). Such contrasting results highlight the need for a deeper understanding of the contextual factors that influence the CSR-financial performance nexus.

In conclusion, the regression analysis substantiates the claim that CSR significantly contributes to financial risk reduction in the oil and gas sector, with statistically significant coefficients reinforcing this relationship. However, the mixed findings from the literature suggest that while CSR can be a powerful tool for enhancing financial stability, its effectiveness may be influenced by various external and internal factors.

Conclusion and Recommendations

5.1 Conclusion

This study Investigated the effect of Corporate Social Responsibility expenditures on the financial risk of listed Nigerian Oil and Gas using Altman Z score value as a measure of financial risk. Based on the results presented from the tested research hypothesis and the subsequent discussion of the research finds, the study concluded that Corporate Social Responsibility expenditures have significant positive effect on mitigating financial risks thus enhancing financial stability in the Nigerian listed Oil and Gas companies as indicated by the Altman Z-score. The findings underscore the importance of integrating CSR into corporate strategies to enhance financial resilience in a sector characterized by volatility and regulatory scrutiny

5.2 Recommendations

Based on the methodology adopted and the findings of this study, it is recommended that oil and gas companies in Nigeria prioritize CSR initiatives as a strategic tool for financial risk management. Companies should adopt a comprehensive approach to CSR that goes beyond mere donations, incorporating broader social and environmental responsibilities to enhance their corporate reputation and stakeholder trust. Furthermore, firms should consider conducting longitudinal studies to assess the long-term impacts of CSR on financial performance and risk, as well as exploring the influence of regulatory frameworks on CSR practices. This will provide a more holistic understanding of the CSR-financial performance nexus and guide effective decision-making.

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