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Moderating Role of Earnings Management on the Relationship Between Social Responsibility Disclosure and Performance of Listed Oil and Gas Firms in Nigeria

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Abstract: The study investigated the moderating role of earnings management on the relationship between social responsibility disclosure and financial performance of listed oil and gas firms in Nigeria. Specifically, the study determined the extent to which earnings management moderates the relationship between social responsibility disclosure and return on assets of listed oil and gas firms in Nigeria. The study used ex-post facto research design on the population of ten (10) listed Oil and gas firms in Nigeria. Purposive sampling was used to select six (6) firms. The data used for this study was secondary data extracted from the audited financial statements and annual reports of the sampled firms from 2012 to 2022. Moderated regression analysis was used to validate the hypothesis. It was found that earnings management significantly increases the relationship between social activities and the performance of listed oil and gas firms in Nigeria during the period under investigation. In conclusion, earnings management potentially enhances the perceived positive impact of social responsibility disclosure on financial performance, thereby leading to more favourable evaluations by stakeholders, investors, and analysts. Based on the result, it was recommended that listed oil and gas firms should adhere to ethical reporting principles and avoiding aggressive earnings management in order to ensure that the positive impact of their genuine social responsibility efforts is accurately reflected in financial performance metrics.

Key words: Earnings Management, Social Responsibility, Financial Performance, Return on Asset.

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Introduction

Social responsibility (SR) disclosure is characterized as a strategic approach whereby businesses prioritize the well-being of the entire society while conducting their operations. According to Khan, Israr, and Khan (2020), social responsibility disclosure encompasses activities that a business undertakes as obligations to various stakeholders, including the immediate community, customers, contractors, employees, government, and the environment. These activities aim to mitigate the impacts of the business's operations and demonstrate care for the rights of future generations. Furthermore, social responsibility disclosure which can be alternatively called corporate social responsibility (CSR) involves responsible utilization of natural resources, adherence to industrial best practices, and avoidance of harm to the health, livelihoods, and lives of indigenous people in the host community where extractive activities occur.

Numerous researchers have reported that engagement in CSR initiatives contributes to increased overall growth and performance of businesses (Arshad, Anees, & Ullah, 2015). CSR practices significantly enhance firms' financial performance, underscoring the importance of businesses adopting CSR to bolster stakeholder satisfaction and augment overall growth and performance. Financial performance of a firm gauges how efficiently it utilizes its key resources to generate revenues or profits, encapsulating its operations within monetary metrics (Nworie & Agwaramgbo, 2023). Various studies have explored the relationship between CSR and financial performance. Olaniyan, Efuntade, and Efuntade (2021) established a positive and significant impact of corporate social responsibility, particularly through employee performance, on financial performance. Pham and Tran (2020) demonstrated that the positive effect of CSR on a firm's reputation translates into a substantial contribution to its financial performance. Similar findings emerged from research conducted in Nigeria by Ibrahim and Hamid (2019), affirming a positive link between CSR and financial performance. This alignment with stakeholder theory underlines the business's responsibility to various community groups that exert influence on it, as its conduct impacts societal well-being. Strong ties between the business and society foster community support, leading to loyal customers and motivated employees who contribute to financial success.

There exists a contentious debate surrounding the role of Corporate Social Responsibility (CSR) in influencing Key Performance Indicators (KPIs). One perspective argues that CSR enhances corporate image, leading to increased patronage and revenue, while an opposing view asserts that CSR has no tangible impact on performance, serving merely as a means to give back to the firm's physical and social environment (Idemudia, 2014). From a firm's standpoint, embracing CSR could entail resource allocation for the betterment of the immediate surroundings, potentially resulting in diminished bottom-line values in the income statement. Additionally, firms might engage in CSR as a form of "tokenism," deploying CSR activities to create a misleading appearance of impact-awareness to attract investors, especially those keen on CSR disclosures, and to evade stringent penalties from regulatory bodies and governments. However, such tokenistic approaches to CSR offer only short-term solutions to underlying issues that could have enduring effects on corporate value and image. The nominal attention and meager funding allocated to CSR efforts often fail to match the substantial negative impacts of business operations, like environmental degradation and resource depletion in host communities. This incongruence contributes to hostilities toward oil and gas firms, partially fueling activities like crude oil theft, pipeline vandalism, and shutdowns of major oil fields. Persistent violent conflicts ensue due to unaddressed grievances and pleas from affected communities, resulting from the neglect of pertinent bodies and companies whose actions adversely affect their living conditions. Without a comprehensive and holistic approach to CSR, these ongoing attacks may perpetually obstruct the productivity and profitability of oil and gas firms.

While prior research has explored the connection between CSR and firm performance, the results have yielded mixed outcomes, falling into three main categories: positive, negative, and neutral relationships. For instance, proponents of the positive relationship include studies by Price and Sun (2017), and

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Olayinka and Fagbemi (2012), while contrasting research, such as Kwaning et al. (2014), Folajin et al. (2014), and Bessong and Tapang (2012), highlights a negative link between CSR and financial performance. Some studies, like Abdullahi and Okoh (2017), Marfo et al. (2015), and Chen et al. (2019), have found no discernible correlation between CSR and profitability. Despite these prior empirical investigations, the evidence remains inconclusive, necessitating more robust and up-to-date data to arrive at definitive conclusions regarding the relationship between Corporate Social Responsibility and Financial Performance (CSR-FP). As the mixed findings from existing literature persist, a demand emerges for additional research in the contemporary context, particularly in developing economies such as Nigeria.

In contrast to the methodological simplicity of earlier studies that examined the causal relationship between CSR and FP, introducing a moderating variable into this relationship expands the investigation beyond a linear equation. Such an approach transcends the examination of a basic link between the two variables, offering a more comprehensive depiction of real-world dynamics. Consequently, the study will progress from a straightforward analysis to a more advanced exploration of the interplay between the variables in question.

Objectives of the Study

The objective of this study is to investigate the moderating role of earnings management on the relationship between social responsibility disclosure and financial performance of listed oil and gas firms in Nigeria. The specific objective of the study is:

1) To determine the extent to which earnings management moderates the relationship between social responsibility disclosure and return on assets of listed oil and gas firms in Nigeria.

Literature review

Conceptual Issues

Corporate Social Responsibility

Corporate social responsibility (CSR) has been defined in various ways. Majority of these definitions integrate the three dimensions: economic, environmental and social aspects into the definition, usually called the triple bottom line. In contemporary times, the landscape of corporate reporting has undergone a notable transformation due to the growing emphasis on corporate sustainability. This evolution has brought about a departure from the conventional focus solely on profitability. Instead, companies are now tasked with pursuing not only financial gains but also with contributing positively to the environment and society at large (Nworie, Obi, Anaike & Uchechukwu-Obi, 2022). In discussing CSR, four responsibilities are central. That is, economic, legal, ethical and philanthropic (Kabir & Mohammed, 2020). The economic responsibility is concerned with making profit, the legal responsibility relates to complying with the rules, the ethical responsibility is concerned with doing right and fair acts and the philanthropic responsibility has to do with sharing resources to serve the society in general. Krishnan (2012) stated that a set of policies, practices and programmes which are incorporated into business processes and include issues related to business ethics and socially responsible investment is termed CSR. Similarly, Alkababji (2014) defined CSR as a situation where companies take into account the concerns of most of the stakeholders such as shareholders, employees, suppliers, customers, government and the host community and include the of social justice and sustainability into the process of carrying on business. The concept of CSR is one that views business organizations as embodiment of diverse interest groups beyond the traditional view of the firm that organization exists for economic reason only (Fatima & Elbanna, 2023) and considers the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment.

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Financial Performance

Financial performance is a measurement of how effectively and efficiently a firm utilizes its crucial resources to produce revenues or profits so it can be defined as the measurement of a firm's operations and in term of monetary policies (Nworie & Agwaramgbo, 2023). These monetary terms can be measurement through different means and there is no such a consensus on the proper measurement method. Financial performance can be measured in the form of accounting returns and investor's returns (El Khoury, Nasrallah & Alareeni, 2023).

In order to evaluate the financial performance of a firm, researchers broadly employ either accounting-based indicators or market-based values. Measures of financial performance include: profitability, cash flow, sales growth and market to book value, return on assets, return on investments, return on equity, return on capital employed (Iqbal, Nawaz & Ehsan, 2019). In this study we used accounting-based indicator for a better empirical investigation. In this regard, financial performance was represented by Return on Asset (ROA) which represents the ratio of earnings after-tax to total asset.

Earnings Management

Earnings management refers to the strategic utilization of managerial discretion and judgment to influence a firm's reported profits, leading to the manipulation of earnings (Price & Sun, 2017). This practice is closely intertwined with the process of generating profits, as the financial performance of a business often hinges on the profits it generates. These profits serve as a key metric for financial statement users in assessing the company's overall performance. Consequently, management may engage in tactics to smooth out earnings, yet this may introduce uncertainty into the accuracy of the financial statements' portrayal of the company's true financial standing (Zang, 2012).

Earnings management is classified as either accrual or real depending on the nature of manipulation. Accrual manipulation includes shifting the timing of expense and revenue recognition between periods like meeting earning thresholds by delaying expense recognition and advancing revenue recognition. Similarly, real activities can be manipulated by decreasing the discretionary expenses like advertising and maintenance expenditure or by postponing or decreasing research and development expenditure. Firms that manipulate earnings do so to disclose financial reporting that does not match with actual performance (García, Gill De Albornoz & Gisbert, 2005). The outcome of earnings management methods decreases corporate value, its reputation and its corporate image (Roychowdhury, 2006). On the other hand, it incites the misfortune of stockholders, investors and other partners and causes an increase in activism and observation by interested groups and regulatory authorities (Price & Sun, 2017).

Theory and evidence indicate that managers' concerns overcurrent performance motivate them to engage in manipulating current period earnings at the expense of future period earnings (Zang, 2012). Given the inherent risk of stock-based compensation incentives, earnings management is driven by managers with the intention of obtaining some private gain at shareholders' expense. One of the fundamental drivers of earnings management is the pressure on managers to deliver short-term performance that is used in contracting and firm valuation.

Theoretical Framework

Stakeholders' theory

The stakeholders' theory was propounded by Edward Freeman in 1984. He pointed out that the theory is to 'force organisational managers to be more responsive to the external environment' (Freeman 1984). The Stakeholder theory is built upon the assumption that businesses should serve a variety of interests rather than just those of shareholders and in so doing businesses will achieve superior performance. Another assumption is that 'there is a multiplicity of groups having a stake in the operation of the firm – all of whom merit consideration in managerial decision making, according to Educba (2023). The theory

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is also hinged on principles that guide the consideration of stakeholders and include the principle of agency, governance (the governance aspect of this study, externalities, entry and exit, and contract cost. The principles of governance, agency and externalities relate to this study as they represent the governance aspect of the study, top management role in CSR, and the environmental and social aspect of this study respectively.

The theory states that stakeholders are those people that can affect or be affected by the organization's activities and the main stakeholders are consumers, employees, communities, suppliers, the public, regulators, government, policymakers and shareholders. Thus, directors should increase the welfare of all the groups that can directly or indirectly affect or be affected by the company to maximize the stakeholders' benefit and guarantee the company's long-term financial performance and survival. The proponents of stakeholder theory contend that company leaders seeking to address social and environmental issues in a proactive manner will manage the needs of a wider stakeholder to benefit from improved financial success. CSR management model suggests that engagement with the expectations of the different interest groups involved, results in creating value for all the stakeholders and increased financial success (Pérez & Del- Bosque, 2014).

Empirical Review

Husnaini and Khusnah (2021) conducted a study titled "Can Corporate Social Responsibility Enhance Firm Performance?" aiming to investigate whether this year's CSR activities can positively impact future firm performance. The research encompassed 79 manufacturing firms listed on the Indonesian Stock Exchange, which disclosed Corporate Social Responsibility expenditures from 2014 to 2017. The outcomes derived from hypothesis testing using linear regression revealed a significant negative influence of CSR activities in the current year on future firm performance. Specifically, CSR activities in the present year were found to diminish the subsequent firm performance (ROAt + 1), suggesting that the current year's Corporate Social Responsibility expenditure does not lead to improved future firm performance.

Olaoye and Olaniyan (2021) contributed to the field through their study "The Effects of Corporate Social Responsibility on Corporate Reputation and Firm Financial Performance: Mediating on the Role of Operating Cash Flow, Profitability, and Financing." Their research delved into the connections between various financial factors and CSR. While operating cash flow exhibited an insignificant relationship with CSR, profitability and financing demonstrated positive and significant associations. Utilizing secondary data from Keystone Bank Plc's annual financial reports, the study employed the Ordinary Least Square (OLS) Estimation technique and Granger-causality tests to illuminate the intricate relationships between financial factors and CSR.

Asma, Hamid, and Maeen (2020) conducted a study titled "Moderating Effect of Earnings Management on Relationship between Corporate Social Responsibility and Financial Performance." This empirical study investigated earnings management's role as a moderating variable in the connection between corporate social responsibility and financial performance. Analyzing data from 80 firms listed on the Pakistan Stock Exchange, chosen through stratified random sampling over the period 2013 to 2017, the study utilized multiple linear regression, descriptive statistics, and moderated regression analysis via SPSS. The findings demonstrated that CSR has a positive impact on ROA and price-to-earnings ratio. However, when earnings management intervened in the CSR-ROA relationship, the substantial CSR impact on ROA diminished. Interestingly, earnings management did not moderate the CSR-PE ratio relationship. Market metrics appeared unaffected by direct CSR and earnings management activities, revealing that management's initiation of CSR practices subsequent to higher earnings may negatively affect financial performance.

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Guo, Hou, and Li (2020) examined "Corporate Social Responsibility and Firm Value: The Moderating Effects of Financial Flexibility and R&D Investment." Through an analysis of multiple archival data encompassing 2,311 companies from 2010 to 2016, their study unveiled that Corporate Social Responsibility acts as a "double-edged sword" for firm value. Specifically, CSR was found to elevate systematic risk while concurrently reducing firms' idiosyncratic risk and Tobin's q. Interestingly, the study highlighted that financial flexibility and R&D investment can mitigate the negative correlation between CSR and firm value. By introducing these moderating factors into the discourse on how CSR impacts firm value, the study contributes insights that resonate with both scholars and practitioners.

In their work titled "The Moderating Effect of Corporate Governance on the Relationship Between Corporate Social Responsibility and Financial Performance of Listed Non-Financial Services Companies in Nigeria," Kabir and Mohammed (2020) explored how corporate governance influences the relationship between CSR and financial performance of non-financial services companies listed in Nigeria. Employing ex-post facto research design, they collected secondary data from the reports of 23 sampled listed non-financial services companies spanning from 2008 to 2017. Utilizing descriptive statistics, correlation analysis, and GLS Fixed Effect with Stata Version 14.0, the study revealed that larger board sizes provided more resources for consulting and monitoring roles, addressing socially responsible investments and subsequently enhancing financial performance. Similarly, board independence enhanced the board's oversight efficiency and decision-making regarding socially responsible investments, leading to improved financial performance. Moreover, board gender diversity fostered creative thinking about qualitative matters such as social responsibility, contributing to better financial performance.

Sial, Chunmei, Khan, and Nguyen (2018) explored the relationship between corporate social responsibility (CSR) and firm performance, while also considering the moderating influence of earnings management on this dynamic. They employed an empirical approach utilizing an updated dataset encompassing 3,481 unbalanced observations spanning the period of 2009 to 2015. The data was drawn from Chinese publicly listed companies on the Shenzhen and Shanghai stock exchanges. The analysis adopted the generalized method of moments (GMM) statistical methodology. The findings illuminated a positive and statistically significant correlation between CSR and firm performance. Furthermore, it emerged that earnings management played a moderating role, dampening the positive connection between CSR and firm performance. The outcomes highlighted the detrimental impact of excessive earnings management, leading to an elevation in symbolic CSR actions, ultimately culminating in subpar performance for Chinese firms. This underscores how manager-driven CSR measures aimed solely at masking profit manipulation can adversely affect a company's overall performance.

Similarly, Suteja, Gunardi, and Mirawati (2016) undertook a study centered on the interface of earnings management (EM) as a moderating factor within the context of corporate social responsibility (CSR) and profitability. Their investigation concentrated on a sample of banking entities listed on the Indonesia Stock Exchange between 2010 and 2014. Through purposive sampling, they assembled the necessary data and employed moderated regression analysis as their statistical tool. The findings revealed a positive and statistically significant correlation between CSR disclosure and a firm's profitability. In contrast, earnings management exerted a negative and significant influence as a moderating factor in the link between CSR and profitability. This pointed to the fact that heightened levels of EM, even when aiming to augment CSR initiatives, corresponded with weakened profitability among the banking institutions.

A study conducted by Setiawati, Tandry, and Setiawan (2014) titled "The Effect of CSR Disclosure to Firm Value with Earning Management as Moderating Variable: Case study: Non – Financing Firms listed at Indonesia Stock Exchange" investigated the intricate relationship between CSR disclosure and firm value while incorporating earnings management as a moderating variable. The research sampled 55 non-financial companies listed on the Indonesia Stock Exchange during the years 2008 to 2011, employing a purposive sampling technique. The data underwent scrutiny through multiple regression analysis. The

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outcomes of the study unveiled that CSR disclosure did not exert a significant impact on the company's value. In contrast, earnings management and firm size demonstrated a noteworthy positive effect on firm value. On the other hand, CSR disclosure and leverage exhibited no significant effect on firm value. Additionally, the study illuminated a significant negative influence of earnings management on the connection between CSR disclosure and firm value.

Method

The study used *ex-post facto* research design on the population of ten (10) Oil and gas firms in Nigeria listed on the Nigeria Exchange Group. According to Nigerian Exchange group Website, there are ten (10) listed Oil and gas firms as at 31st December 2021. They are:

1. Ardovaplc
2. Conoilplc
3. Eterna plc
4. Jaypaul gold and ventures plc
5. Mrs oil Nigplc
6. Oando plc
7. Seplat petroleum development company plc
8. Total energies marketing Nigplc
9. Capital oil plc
10. Rakunity petroleum company plc

Purposive sampling technique was applied to select the following six (6) out of the ten listed oil and gas firms: Ardova plc., Conoil plc., Eterna plc.,Jaypaul gold and ventures plc., Mrs oil Nig plc. and Total energies marketing Nig. Plc.

The data used for this study was secondary data extracted from the audited financial statements and annual reports of the sampled firms from 2012 to 2022. The data was got from the internet site of Nigerian Exchange Group and from firms' corporate site in alternative. Descriptive statistical analysis applied comprised of the mean, median, standard deviation, minimum and maximum values statistics. Finally, moderated regression analysis was used to validate the hypothesis. There are three sets of variables in this study: dependent, independent, and moderating variables. The variables were measured thus:

Table 1: Operationalisation of Study Variables

Variable Type	Variable Name	Formula	Disclosure Items
Dependent	ROA	$\frac{ProfitAfterTax}{TotalAssets}$	N/A
Independent	Social Responsibility	$\frac{Totalobtaineditems}{TotalObtainableitems}$	Employment Quality; Health and Safety; Training & Development; Diversity; Human Rights; Community; Product Responsibility
Moderating	Earnings Management	$TA_{it} = \Delta CA_{it} - \Delta cash_{it} - \Delta CL_{it} - DAE_{it}$	N/A

Source: Authors concept 2023

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In order to examine the moderating effect of Earnings Management on the SR-FP, the following moderator regression model was proposed and employed

$ROA = \beta_0 + \beta_1(SOC_{it\ t} * EM_{it}) + \mu_{it}$ ……. (1)

Where:

ROA	= Return on Assets in year t;
β_0	= constant;
β_1	= Slope Coefficient
SOC_{it}	= social activities in year t;
EM_{it}	= Earnings Management year t;
i	= i^{th} company
t	= time /period

Results and Discussion

Descriptive Statistics

Table 2 displays the descriptive statistics for the study.

Table 2: Descriptive Statistics

VARIABLES	MEAN	STAN. DEV.	MIN.	MAX.	NO OBS
ROA	-1.38	13.48	-71.36	10.81	59
EM	-0.42	1.33	-4.33	5.57	60
SOC	0.33	0.12	0	0.64	60

Source: Authors computation (2023)

From the table, it is observed that the mean of the dependent variable of financial performance when measured in terms of return on asset (ROA) is -1.38 with a standard deviation of 13.48. The table also shows that on the average, the minimum and maximum value of return on asset was -71.36 and 10.81 respectively during the period under study. The result indicates that on the average, the oil and gas firms under study were at a loss as reveal by the variable of return on asset. In the case of the moderating variable, the result from table 1 reveals that the mean of earnings management (EM)when measured in terms of Jones Discretionary accrual was -0.42. Finally, the study shows that the mean of social activities (SOC) was 0.33 with a standard deviation of 0.12. This implies that on the average, about 33% of the firms under study disclose information about their social activities.

Test of Hypotheses

Specifically, to examine the moderating effect of earnings management on the relationship between social responsibility disclosure and return on assets, this study employed the moderated pool OLS results and proceeded to validate the estimates of the OLS results. The results obtained are presented below:

Table 3: Moderated Robust Regression Results

	ROA Model (Robust Regression)
Constant	-82.466 {0.000} ***
SOC*EM	16.168 {0.009} **

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F-Stat	48.13 (0.0000)
R- Squared	0.5578

Note: (1) bracket {} are p-values; (2) **, ***, implies statistical significance at 5% and 1% levels respectively**(Source: Stata 13)**

The table above represents the results obtained from the regression results for this study. The result indicates that the moderated model had an R-squared value of 0.5578. This implies that the independent variable of the study could explain about 56% of the systematic changes in the dependent variable of firm performance when proxied using return on asset during the period under study. However, the unexplained part of financial performance has been captured in the error term. The result of the F-statistics of 48.13 for the moderated model of the pool OLS regression for the sample firms with an associated p-value of 0.0000 indicates that the pool OLS regression model on the overall is statistically fit at 5% level of significance and can be employed for statistical inferences.

Hypothesis 1: Earnings management does not significantly moderate the relationship between social responsibility disclosure and the return on asset of listed oil and gas firms in Nigeria.

The results obtained from the robust regression model revealed that earnings management [coef. = 16.168 (0.009)] has a significant positive moderating effect on the relationship between environmental activities and firm performance of listed oil and gas firms in Nigeria when measured in terms of return on asset during the period under study. The impact is 16.168 revealing a large influence of earnings management on the relationship between social activities and return of assets. The result shows that earnings management has a significant increasing effect on the relationship between social activities and the performance of listed oil and gas firms in Nigeria.

Decision Rule: Accept null hypothesis if p value is above 0.05; Reject null hypothesis if p value of regression estimate is below 0.05. Hence, the null hypotheses that earnings management has no significant moderating effect on the relationship between social activities and the return on asset of listed oil and gas firms in Nigeria is rejected.

Discussion of Findings

In the context of the study, it was found that manipulating earnings has a notable impact on the connection between a company's social activities and its performance in the Nigerian oil and gas sector during the time of research. This finding contrasts with the outcomes of a study by Sial, Chunmei, Khan, and Nguyen (2018). According to their research, when a company increases its CSR efforts through earnings manipulation, the positive link between CSR and performance might actually decrease significantly. This difference in findings suggests that the influence of earnings management on the relationship between corporate social responsibility (CSR) and firm performance could be influenced by various factors, possibly including the specific industry and regional context. Further research and exploration are needed to fully understand the dynamics at play in these situations

Conclusion and Recommendation

On the interaction of earnings management on the relationship between CSR and firm performance, the study found that earnings management significantly increases the effect of social responsibility disclosure activities on the financial performance of listed oil and gas firms in Nigeria during the period under investigation. The positive moderation observed suggests that when firms engage in earnings management practices, the effect of their social responsibility disclosures on their return on assets becomes more pronounced. In other words, earnings management amplifies the influence of social responsibility disclosure activities on the firm's return on assets. This finding underscores the complex nature of the nexus between financial reporting practices, corporate social responsibility initiatives, and financial performance outcomes. Therefore, earnings management potentially enhances the perceived

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positive impact of social responsibility disclosure on financial performance, thereby leading to more favourable evaluations by stakeholders, investors, and analysts. This alignment could result in increased investor confidence and improved market perception, subsequently reflecting positively in the return on assets.

Based on the finding, it was recommended that listed oil and gas firms prioritize ethical and transparent financial reporting practices. While the positive moderation suggests the potential for enhanced financial outcomes through such interactions, it is crucial to strike a balance between optimizing return on assets and maintaining integrity in financial disclosures. By adhering to ethical reporting principles and avoiding aggressive earnings management, firms can ensure that the positive impact of their genuine social responsibility efforts is accurately reflected in financial performance metrics. This approach not only strengthens investor confidence and market perception but also upholds the firm's long-term sustainability and accountability to stakeholders.

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