INVESTMENT IN COMMUNITY DEVELOPMENT AND RETURN ON ASSETS: DOES IT MATTER?

Ahannaya, C. G.¹
Iwala, A. T.²
Umukoro, J. E.³

¹School of Management Sciences, Accounting, Babcock University, Ilishan-R emo, Ogun State, Nigeria.
²Email: ahannuyae@babcock.edu.ng
³Business Administration, Babcock University, Ilishan-R emo, Ogun State, Nigeria.

ABSTRACT

The debate as to what drives return on assets has remained unabated. Contextual reports have shown that despite organizations declaring several corporate responsibility initiatives to collaborate with the host communities, financial pointers of Oil firms such as, return on assets have maintained fluctuating performance and a steady decline. Thus, this paper probed into the impact investment in community development has on return on assets. The paper employed an Ex-post facto research design with a focus on the population of five multinational oil firms in Nigeria based on availability of data. The study made use of secondary data sourced from the annual reports of the sampled oil companies for a period of ten years (2006 - 2015). The study adopted inferential statistics for panel data analysis. Results revealed that investment in community development had a positive significant impact on ROA ($R^2 = 0.44$, $t$-statistic is -3.486992 and $p = 0.0011$) of multinational oil companies in the Niger Delta Nigeria. The study recommended that management of companies should adopt viable strategies to explore community development for the host communities and improve companies host communities’ liaison to achieve sustainable development and guarantee enabling business operating environment in return.

Contribution/Originality: This study contributes empirically to existing works on investment in community development and return on assets in Nigeria by applying panel data analysis in order to intellectualize the impact of the predictor variable on the dependent to achieve sustainable development for both the host communities and the organization.

1. INTRODUCTION

The concept that organizations do not exist in a vacuum hence are required to collaborate with the host communities to guarantee a sustainable development has remained persistent. In the views of the neo-classical economists, the traditional objective of firm is to maximize the shareholders’ wealth (Arias & Patterson, 2009). More so, Fodio, Abu-Abdissamad, and Oba (2013) surmised that, an investor would have no business in business other than to earn returns or/and capital accretion on his investment. Nevertheless, strategic management experts have argued that financial performance indicators alone are not sufficient to measure the performance of an organization, rather corporate social responsibility principles and stakeholder approaches should be integrated into mainstream business strategy (Arias & Patterson, 2009; Katsoulakos & Katsoulacos, 2007). According to Asaolu, Agboola, Ayoola, and Salawu (2011) this argument has further been strengthened by the recurring global financial crisis with its profound implications on accounting and auditing and hence a call for better corporate governance,
transparency and accountability as traditional financial statement do not provide a full measure of business performance and shareholder value creation.

Scholars have maintained that the interest of the stakeholders rather than the narrow interest of the shareholders should be factored in by corporate managers for sustainability (Miles, 2012; Noodezh & Moghimi, 2015). Whetten, Rands, and Godfrey (2001) had opined that customers, employees, community, investors, government, and all other stakeholders are factors to reckon with in order to stimulate a harmonious business environment. Likewise, Noodezh and Moghimi (2015), and Adeneye and Ahmed (2015) claimed that how much an organization is able to compensate the community for the adverse effect of environmental degradation and pollution which typically trails its operation is a thing of greater global attention. Accordingly, the community is increasingly becoming one of the players highly influencing corporate behaviours as an integral part of an organization (Anochie & Onyinye, 2015; Ligi, 2014).

In light of these commentaries, scholars have highlighted the imperativeness of equitable treatment of the host communities where the oil is extracted, as these host communities are directly impacted by the oil and gas exploration and production activities of the multinational companies. These communities are not only deprived of their means of livelihood due to oil spillage, indiscriminate running of pipelines and atmospheric polluting gas flaring that destroy the ecosystem and aquatic life which happens to be their means of livelihood but they are also exposed to health hazards due to recklessness or outright neglect of maintenance of the pipelines and oil production facilities littering the landscape of the host communities (Andrews, 2015; Egbe & Paki, 2011; Ndu & Agbonifoh, 2014; Onkonkwo, 2014; Phillips, 2016).

Therefore, this paper considered the seeming scantiness of corporate social responsibility disclosures measured by investment in community development as a barometer for return on assets by multinational oil companies operating in the Niger Delta (Eljayash, 2015; Itie, Ibok, Ite, & Petters, 2015). The territory of the Niger Delta cuts across Nine (9) of Nigeria’s Thirty-six (36) States, but the core areas are within the States of Akwa Ibom, Bayelsa, Cross River, Delta, Rivers and Edo. They constitute what has been referred to as the “South-South” geopolitical region of Nigeria. Oil exploration is the major economic activity in the Niger Delta (Natufé, 2001) and this region contains approximately 15 percent of the Nigerian population (Ojo, 2012). According to the study of Anochie and Onyinye (2015), the unsustainable environmental management practices of the oil firms located within the region has rendered the Niger Delta region one of the five most severely petroleum damaged ecosystems in the world due to the process of crude oil exploration. Also, the exploitative tendencies of the oil firms in plundering for fossil fuel had truncated the sustainability of the Niger Delta environment; in addition to gas flaring for 24 hours a day for 40 years in close proximity to human habitation in nineteen oil locations in a 40+ square mile area with population density of 1,250 per square mile (Ziegler, 2018).

Further, the socio-political and security implication of this corporate environmental neglect is thus a common knowledge in Nigeria (Adeyemi & Owolabi, 2007; Owolabi, 2008). The CSR practices of the oil companies and how they fit into the overall sustainable development plan is of little prominence in the region. Instead, there have been claims and counter claims over the practice of CSR initiatives between the Oil companies’ officials and the host communities (Ojo, 2012). Olujimi, Emmanuel, and Sogbon (2011) identified among other problems large-scale environmental pollution and degradation of agricultural land which serves as source of income for the people couple with social unrest arising from unpaid claims of compensation and lack of concern for the people in the exploration area. Poor corporate relations with host communities, oil infrastructure vandalization, severe ecological damage, and personal security problems throughout the Niger Delta oil producing region continue to plague Nigeria’s oil sector. As such, previous literatures provided evidence on the impact of corporate social responsibility on firm’s corporate performance (Alabi & Ntukeko, 2012; Ibaboye & Omosye, 2013; Okafor & Oshodi, 2012). Also, the studies of Ebiringa, Yadirichukwu, Chigbu, and Ogochukwu (2013) and Oroxom, Glassman, and Mcdonald (2018) identified various reasons such as size, regulations, external economic events and pressure from external stakeholders why investment in communities’ development are made by companies other than to impact return on
asset. However, there seem to be little evidence in Nigeria to support or refute these claims in the oil and gas industry and it is on this premise that this study was conducted.

2. REVIEW OF LITERATURE

2.1. Return on Assets

Return on Assets (ROA) is the general purpose financial ratio used to measure the relationship of profit earned to the investment in assets required to earn that profit (Lindo, 2008; Siminica, Circiumaru, & Simion, 2012). ROA measures how well firm resources are being used to generate income. It is the ratio of net profit after tax divided by total assets and is the most popular ratio for measuring the relative performance of firms (Weygandt, Kieso, & Kimmel, 2008). \( \text{ROA} = \frac{\text{Net profits after taxes}}{\text{total assets}} \). Lindo (2008) argued that, the ROA percent is a baseline that can be used to measure the profit contribution required from new investments. As such it identifies the rate of return needed to at least maintain current performance that can be used to establish a hurdle rates all new investments must meet for approval. Return on Assets (ROA) represents the amount of earnings (before interest and tax) a company can achieve for each naira of assets it controls and is a good indicator of a firm’s profitability. It is a measure commonly utilized when estimating a firm’s economic performance and profitability. For instance, Tang, Hull, and Rothenberg (2011) submitted that, a large body of previous research has utilized ROA when examining the relationship between CSR and financial performance. As such, ROA is used as a measure in order to see if environmental performance were positively related with a firm’s financial performance. Therefore, knowing the relationship of dependence between the return and the factors of influence is important for investors, creditors and for other categories of stakeholders who have different interests in the firm (Siminica et al., 2012).

2.2. Investment in Community Development

Aggarwal (2013) posited that the community component of corporate sustainability covers the company’s commitment and effectiveness within local, national and global community in which it does business. It reflects company’s citizenship, charitable giving and volunteerism. This component covers company’s human rights record and treatment of its supply chain. It also covers the environmental and social impacts of company’s products and services, and development of sustainable products, processes and technologies. According to Hashimu and Ango (2012), economic development is a primary goal of society and, as a consequence, it transcends beyond the satisfaction of basic material needs to the provision of the resources needed to improve the quality of life including meeting the demands for healthcare, education and a good environment. The enormous increase in business power, the widespread incidence of corporate misdemeanors, issues of ethics and the increasing inability of governments to meet their basic responsibility to society, as well as regulate business activities, have meant that the acceptance of social responsibility by business has been both inevitable and necessary (Ighodalo, 2013).

This explains the re-invigoration of the idea that business has social responsibility that goes beyond profit making to include helping to solve social and environmental problems that is corporate social responsibility (CSR). Some of the world’s largest companies have made a highly visible commitment to CSR, for example, with initiatives aimed at reducing their environmental footprint.

These companies take the view that financial and environmental performance can work together to drive company growth and social reputation (Ismail, 2009). Shell that accounts for 40 per cent of Nigeria’s total crude oil production and has interests in five companies in Nigeria under the umbrella of SPDC Companies in Nigeria asserted that its business model contributes to local development in two ways. The first is through efficient and ethical pursuit of its core business activities in a way that maximizes beneficial spin-off for host countries and communities, and the second is through social investment that goes beyond philanthropic grants to actual technical and financial support for local development initiatives.
2.3. Multinational Companies

Multinational company is a corporation that has production operations in more than one country for various reasons. Law (1990) defined multinational company as the efficient form of organization making effective use of the world resources and transferred technology between countries. Multinational corporation (MNC) can also be defined and described from differing perspectives and on a number of various levels, including law, sociology, history, and strategy as well as from the perspectives of business ethics and society. Multinational corporations (MNCs) can spur economic activities in developing countries and provide an opportunity to improve the qualities of life, economic growth, and regional and global commons. At the same time, they are often also accused of destructive activities such as damaging the environment, complicity in human rights abuses, and involvement in corruption (Hashimu & Ango, 2012). Richard, Devinney, Yip, and Johnson (2009) argued that the successful performance of multinational companies depends to a great extent on the political environment of the host country. According to these scholars, political environment refers to forces and issues emanating from the political decisions of government, which are capable of altering the expected outcome and value of a given economic action, by changing the probability of achieving business objectives.

2.4. Investment in Community Development and ROA

A study by Malik and Nadeem (2014) found that a positive relationship existed between CSR and ROA. The sustainable community development (SCD) strategy emerged as an approach of social uptake. The primary focus of SCD approach was on economic empowerment, human capital development, healthy living and basic services and the overall goal was to leverage the resources that a company can offer and empower local communities to taking the lead on issues for their own development (Ekanem, Nwachukwu, & Etuk, 2014). Olujimi et al. (2011) study identified a large scale environmental pollution and degradation of agricultural land which serves as source of income to the people. In what seems to be the most recent evaluation conducted by Anochie and Onyinye (2015) on some oil companies in the Niger Delta region found that the region consisted of diverse ecosystems of mangrove swamps freshwater swamps rainforest and is the largest wetland in Africa among the ten most important wetland and marine ecosystems in the world, but due to oil pollution caused by exploration the area is now characterized by contaminated stream and rivers, forest destruction and biodiversity loss, in general, the area is ecological wasteland. Thus, a study by Erhinyoja and Marcella (2019) showed that social sustainability reporting exerts negative effect on all three performance proxies (Return on Assets, Return on Equity, and Return on Capital) howbeit only its effect on return on equity was statistically significant. As such, Powei (2020) found that CSR was positively and significantly correlated with relational capital with regards to firm financial performance.

According to Sobrasuaipiri (2014) and other scholars, the overall interest of stakeholders rather than the narrow interest of the shareholders are of importance to the measurement of corporate performance (Ayuso, Rodríguez, García-Castro, & Ariño, 2007; Harrison & Wicks, 2013; Ighodalo, 2013; Smith, 2011). From the results of various studies carried out, scholars hypothesized that since an organization does not exist in a vacuum, it should collaborate with its host communities for a sustainable development that would in turn guarantee its business success. Likewise, the outcome of study carried out by Okafor and Oshodin (2012) showed that positive significant relationship existed between profitability and companies’ contribution towards community development in the areas of education and health. These assertions have been gathered from various scholars in their attempts to evaluate how the concept of corporate social responsibility (CSR) affects firms’ ability to remain in business (Adediran & Alade, 2013; Ebirin, et al., 2013; Iqbal, Sutrisno, & Rosidi, 2013; Makori & Jagongo, 2013; Okafor & Oshodin, 2012; Santos & Brito, 2012). For instance, Ilahoya and Omoje (2013) found that corporate social responsibility has a profound positive impact on corporate financial performance of firms.

By extension, Mousa and Hassan (2015) study lend credence to the need for corporate environmental disclosure as a response to public pressure, regulation and external economic events. Despite all the environmental disclosures
made by the multinational oil companies, Egbe and Paki (2011) however concluded in their study that, the CSR undertaken by SPDC in oil host communities are inadequate and there is need for improvement for the desired impact to be made in these communities. The result of the study conducted by Uwuigbe, Uwuigbe, and Ajayi (2011) however suggested that the influence of company size to corporate social responsibility disclosures is quite predictable as it was argued that big companies can afford to invest in more environmentally friendly technology and management. More so that, they are more susceptible to inquiry from stakeholder groups and are highly visible to external groups and are more vulnerable to adverse reactions among them. The study conducted by Ojo (2012) highlighted a major gap in the nature of the regulatory mechanism and institutions in the oil sector which tends to favour capital investment and profits over the people and their environment.

2.5. Theoretical Review

2.5.1. Agency Theory

The theory of principal–agent problem (also known as agency dilemma or theory of agency) occurs when one person or entity (the "agent") is able to make decisions on behalf of, or that impact, another person or entity: the "principal". The dilemma exists because sometimes the agent is motivated to act in his own best interests rather than those of the principal (Mcmemamin, 1999). A common example of this relationship is between a corporate management (agent) and shareholders (principal). The first scholars to propose explicitly that a theory of agency be created, and to actually begin its creation in the 1970 were Stephen Ross and Barry Mitnick, independently and almost simultaneously. The problem of agency arises where the two parties have different interests and asymmetric information (the agent having more information), such that the principal cannot directly ensure that the agent is always acting in its (the principal's) best interests, particularly when activities that are useful to the principal are costly to the agent, and where elements of what the agent does are costly for the principal to observe (Bebchuk & Fried, 2004). Eisenhardt (1989) posited that, the problem potentially arises in almost any context where one party is being paid by another to do something, whether in formal employment or a negotiated deal.

Moral hazard and conflict of interest may arise. Indeed, the principal may be sufficiently concerned at the possibility of being exploited by the agent that he chooses not to enter into a transaction at all, when that deal would have actually been in both parties' best interests: a suboptimal outcome that lowers welfare overall (Bebchuk & Fried, 2004). The cornerstone of agency theory is the assumption that the interests of principals and agents are diverge. According to the theory, the principal can limit divergence from his/her interests by establishing appropriate incentives for the agents, by incurring monitoring costs designed to limit opportunistic actions by the agent. Other contracts that could be considered within an agency framework include those between managers and various primary interest groups or stakeholders (Hill & Jones, 1992). To this end, this study is of the view that the concept of Environmental Justice could be related to a principal – agent relationship where management of multinational oil companies can be regarded as agents to all stakeholders including the local community, as supported the study of Germanova (2008), business enterprises in general could be either agents or principals depending on the character of the relationship.

2.5.2. Legitimacy Theory

Friedman (1970) propounded this theory and supported this classical view on CSR by his statement “The responsibility of business is to maximize profits, to earn a good return on capital invested and to be a good corporate citizenship obeying the law no more and no less. Legitimacy theory can be regarded as a conceptual framework based on the existence of social and exchangeable relationships between a company and the community (Mousa & Hassan, 2015). It is used to explain disclosures with regard to the environmental and social behaviour of companies (Deegan, 2002; Deegan, Rankin, & Tobin, 2002; Milne & Patten, 2002; Neu, Warsame, & Pedwell, 1998; O’Donovan, 2002; Reich, 1998). The importance of corporate social and environmental disclosures stems from a
number of factors. Companies are currently faced with an increasing number of environmental laws and pressures from a variety of stakeholders regarding environmental performance. Stakeholders ask for information about environmental impacts on business (Mousa & Hassan, 2015). Much of the extant research into why companies disclose environmental information in the annual report indicates that legitimacy theory is one of the more probable explanations for the increase in environmental disclosure since the early 1980s (Mousa & Hassan, 2015). Gibson (1996) argued that there are many factors, which motivate firms to take their responsibility towards the environment seriously by reducing pollution. One of them is competitive advantages from a clean public image, limiting corporate environmental liabilities. Suchman (1995) described Legitimacy as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." O’Donovan (2002) argued that, based on experimental evidence, that the lower the perceived legitimacy of the organisation, the less likely it is to bother providing social and environmental disclosure.

2.5.3. Stakeholder Theory

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization (Freeman, 1984). In his book: Strategic Management: A stakeholder approach; Freeman identifies and models the groups which are stakeholders of a corporation, and also describes and recommends methods by which management can give due regard to the interests of those groups. The stakeholder theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. The stakeholder theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions (Peters & Bagshaw, 2014). Frederick (1998) opined that, the belief that business and society are intricately linked had long been muted. Some scholars have also argued that business is an obligation to provide service beyond profits, yet without denying profits. Despite these early theoretical concerns, Freeman (1984) in his book Strategic Management: A Stakeholder Approach served as the forerunner of the stakeholder theory. In his discourse, Miles (2012) argued that, in the traditional view of a company, only the owners or shareholders of the company are important, and the company has a binding fiduciary duty to put their needs first, to increase value for them. Stakeholder theory instead argues that there are other parties involved. It is the centrality of the stakeholder theory that businesses have obligations, aside shareholders, to a broad range of interests in society, which Freeman (1984) called stakeholders (any group or individual who can affect or is affected by the achievement of the firm's objective). Stakeholder theory is considered as a necessary process in the operationalisation of corporate social responsibility, as a complimentary rather than conflicting body of literature (Matten, Crane, & Chapple, 2003). The stakeholder theory offers a social perspective to the objectives of the firm and, to an extent, conflicts with the economic view of value maximization (Santos & Brito, 2012). The range of stakeholders varies widely to include employees, customers, competitors, governments, communities among others.

3. METHODOLOGY

The study adopted ex-post facto design to provide evidence on the impact of investment in community development on return on assists in the oil and gas multinationals in Nigeria. The reason for using this design was because all the information needed could be derived from the annual reports of the sampled companies and the statistical bulletin of the Nigerian National Petroleum Company (NNPC). This was an after-the-fact research that was undertaken whereby secondary data that are already in existence are used. Content analysis is used which involves tracing of sentences of each component of the corporate social responsibility disclosed in annual reports of multinational oil companies in the sample. This study was based on the voluntary disclosure index constructed using the annual reports of the sampled multinational oil companies.
The independent variables could not be manipulated because they already existed as published in the annual reports of the various oil companies. A panel data analysis of the information extracted from the annual reports of the five oil multinational companies and the NNPC Bulletin for a period of fifteen years spanning 2005-2019 was used for the study. The results and findings from data gathered were presented and analyzed using inferential statistics. This research design is in consonance with the study by Uadiale and Fagbemi (2011) on ‘Corporate social responsibility and financial performance in developing economics: The Nigeria experience’, and Makori and Jagongo (2013) on ‘Environmental accounting and firm profitability: An empirical analysis of selected firms listed in Bombay Stock Exchange, India. The statistics were tested at 5% significance level using t-statistics as well as F-statistics. The population of the study consisted of the nine multinational oil companies (MNCs) operating in Nigeria from 2005 and 2019 (NNPC, 2019).

<table>
<thead>
<tr>
<th>S/N</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shell Production &amp; Dev. Company (SPDC)</td>
</tr>
<tr>
<td>2</td>
<td>Mobil Producing Nig. Unlimited</td>
</tr>
<tr>
<td>3</td>
<td>Chevron Nigeria Limited</td>
</tr>
<tr>
<td>4</td>
<td>Total Exploration &amp; Producing Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>Nigerian Agip Oil Company Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>Statoil Nigeria</td>
</tr>
<tr>
<td>7</td>
<td>Seplat Petroleum Development Company</td>
</tr>
<tr>
<td>8</td>
<td>Petrobras</td>
</tr>
<tr>
<td>9</td>
<td>Addax Petroleum</td>
</tr>
</tbody>
</table>


3.1. Sample Size and Sampling Technique

Five (5) out of the nine (9) multinational oil producing companies listed in the NNPC annual statistical bulletin from 2005 to 2019 were adopted for this research. The choice of this technique was informed by the need to research on the foremost multinational oil producing companies with prominent presence in the Niger Delta, the major oil producing region of Nigeria and such that would provide representative information needed to ensure that the objective of this study is achieved. This purposive sampling procedure was adopted in selecting the sample, and the data gathered were considered adequate for the study since the samples provided the basic data required.

4. FINDINGS AND DISCUSSIONS

4.1. Test of Hypothesis (H$_0$)

The hypothesis tested the impact of investment in community development on return on assets of the multinational oil companies in Nigeria. This hypothesis was tested using the model stated below.

\[ Y = f(X) \]

\[ \text{ROA}_{it} = \alpha_2 + \beta_2 \text{ICD}_{it} + \mu_2 \]

where:

- \( Y \) = Return on Assets (ROA).
- \( X \) = Investment on Community Development (ICD).
- \( \alpha_2 \) are the intercepts (constants).
- \( \beta_2 \) is the coefficient.
- \( \mu_2 \) is the stochastic variables of each model.
- \( i \) represents in firm “i” in year “t”

**Research Hypothesis (H$_0$):** Investment in community development have no significant impact on return on assets of multinational oil companies in Nigeria.
Table 2. Regression Estimate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>Std Error</td>
<td>T</td>
</tr>
<tr>
<td>Constant</td>
<td>0.334328</td>
<td>0.072205</td>
<td>4.630265</td>
</tr>
<tr>
<td>ICD</td>
<td>-0.015167</td>
<td>0.004350</td>
<td>-3.486992</td>
</tr>
</tbody>
</table>

**R-Square: Overall** 0.44

**F-Test** 6.987 0.000*

**Hausman Test** 8.953 0.0028*

Note: Dependent Variable: ROA *significance at 5%.

4.2. Diagnostics Test Result

From Table 2 the Hausman test was first used to determine whether fixed or random effect is suitable for the model. The probability of this test showed 0.0028 which is less than the acceptable 5%, thus, the null hypothesis to estimate random effect was not accepted. Thus, fixed effect was estimated for model 1.

Model and *A priori Expectation*

\[ \text{ROA} = \alpha + \beta \text{ICD} + \mu \]

4.3. Interpretation

The regression estimate of model 1 showed that investment in community development had impact on return on assets \( (R^2 = 0.44, p < 0.05) \). This is indicated by the signs of the coefficients, that is \( \beta \) is -0.015 which is less than 0. However, this \( (\beta) \) result is not consistent with *a priori* expectations that investment in community development will have a positive impact on return on assets.

Further, from Table 2, the overall \( R^2 \) of the model showed that 44% variations in ROA can be attributed to investment in community development used in this study, while the remaining 56% variations in ROA are caused by other factors not included in this model. This showed a moderate explanatory power of the model existed among the variables. Nevertheless, the size of the coefficient of the independent variable \( (\beta) \) showed that a 1% increase in investment in community development would lead to a 0.015 decrease in ROA of the sampled multinational oil companies in the Niger Delta of Nigeria.

4.4. Decision

The size of the coefficient of the independent variable in Table 2 indicated that a 1% increase in the investment in community development would lead to a 0.015 decrease in return on assets of the sampled oil multinationals in the Niger Delta region of Nigeria. This implies that in the short run, investment in community development have not yielded the expected improvement in profitability (ROA) of the multinational oil companies in the Niger Delta region of Nigeria. This disagrees with the *apriori* and theoretical expectations which predicted that ICD will have positive impact on ROA, an indication for oil multinationals in the Niger Delta region of Nigeria to focus more on investment in community development to enhance ROA. The \( t \)-statistic is -3.486992 while the \( p \)-value of the \( t \)-statistic is 0.0011 which is less than 0.05 level of significance adopted for this study. Therefore, the model is statistically significant. Thus, the null hypothesis that investment in community development has no significant impact on return on assets of multinational oil companies in the Niger Delta of Nigeria was rejected.

4.5. Discussion of Findings

Empirical findings from the paper hypothesis revealed that ICD had a significant impact on ROA. Although, in the regression co-efficient result, ICD and ROA are negatively related. These finding aligns with the study of Okafor and Oshodin (2012) that a positive significant relationship existed between profitability and companies’ contribution towards community development. Likewise, Iqbal et al. (2013) and Register (2018) found that environmental accounting implementation is significantly impacted by environmental performance and
environmental information disclosure. Also, Malik and Nadeem (2014) found that a positive relationship existed between CSR and ROA. Similar assertions had been gathered from various scholars’ that corporate social responsibility which involves investment in community development has a profound positive impact on corporate financial performance of Nigerian firms’ ability to remain in business (Adediran & Alade, 2013; Ebiringa et al., 2013; Erhinyoja & Marcella, 2019; Garriga & Mele, 2004; Ilaboya & Omoye, 2013; Iqbal et al., 2013; Makori & Jagongo, 2013; Mousa & Hassan, 2015; Okafor & Oshodin, 2012; Oroxom et al., 2018; Powei, 2020; Santos & Brito, 2012). This negates the integrative social contract theory which substantially aligns with empirical studies of Adediran and Alade (2013) and Malik and Nadeem (2014).

Further, the fact that this paper result showed that there is negative relationship between the explanatory variables and the explained variable ROA supported the findings of Egbe and Paki (2011) that, the CSR undertaken by SPDC in oil host communities are inadequate and there is need for improvement for the desired impact to be made in these communities and on the oil firm. Ojo (2012) study result is in line with previous results, that there is a major gap in the nature of the regulatory mechanism and institutions in the oil sector which tends to favour capital investment and profits over the people and their environment. Thus, scholars are of the opinion that the overall interest of stakeholders rather than the narrow interest of the shareholders are of importance to the measurement of corporate performance (Ayuso et al., 2007; Harrison & Wicks, 2013; Smith, 2011; Sobrasuaipiri, 2014). However, this position would eventually affect ROA negatively due to community instability as a result of what (Olujimi et al., 2011) identified to be a large scale environmental pollution and degradation of agricultural land and water which serves as sources of income to the people. Therefore, the researchers position in this paper aligns with previous findings that since an organization does not exist in a vacuum, it must collaborate with its host communities for a sustainable development that would in turn guarantee its business success (Anochie & Onyinye, 2015; Ligi, 2014; Miles, 2012; Noodezh & Moghimi, 2015). As such, Ite et al. (2015) and Okafor and Oshodin (2012) postulated that favorable relationship existed between profitability and companies’ contribution towards community development

5. RECOMMENDATIONS

On the basis of the findings and conclusion derived from this study, the following recommendations are offered to address the issue of investment in community development and return on assets: More viable strategies that would ensure investment in community development in the host communities/ region should be explored by the oil multinationals. The corporate social responsibility investment should be redirected to achieve the desired effect on return on assets of the multinational oil companies. Also, there should be improved companies’/host communities’ liaison that would lead to sustainable development which would in turn guarantee enabling business operating environment in the region. Further, positive social change through investment in community development described as those positive changes in the social-economic lives of inhabitants of host communities in the Niger Delta should be made visible in human capital development, economic empowerment, social infrastructure, improved societal health, and a general reduction in conflicts being experienced in the region which is negatively impacting on firms ROA.

6. CONTRIBUTION TO KNOWLEDGE

An essential aspect of research is how the work contributes to the body of knowledge; as such, this work contributed to the body of knowledge in the following areas; (a) the extent of prior research literature available on the impact of investment in community development and return on assets of multinational oil companies in Nigeria is limited. This paper contributed to literature in order to establish the impact of investment in community development and return on assets of multinational oil companies in Nigeria; (b) the study incorporated environmental disclosure which has hitherto been ignored into models that are to explain return on assets of
multinational oil companies in Nigeria; (c) the analytical models used in this study have theoretically demonstrated the impact investment in community development would have on multinational oil firms’ return on assets. Lastly, the study reinforced the need for Nigerian companies to take the issue of sustainable development more seriously and work towards improving environmental performance, and subsequent sustainability reporting. Future studies should be carried out in other sectors and apply other firms’ performance measures such as return on equity (ROE), return on investment (ROI) and current ratio (CR), among others.

**Funding:** This study received no specific financial support.

**Competing Interests:** The authors declare that they have no competing interests.

**Acknowledgement:** All authors contributed equally to the conception and design of the study.

**REFERENCES**


Available at: https://doi.org/10.11634/216825851403583.


Powei, M. D. (2020). *Corporate social responsibility and organizational performance of Oil companies in Southern Nigeria.* Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy Management at Walden University, Minneapolis, Minnesota USA.


*Views and opinions expressed in this article are the views and opinions of the author(s), International Journal of Business Strategy and Social Sciences shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.*