Security Cost and Financial Performance of Selected Oil and Gas Firms in Nigeria

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ABSTRACT

The study investigated the effect of security cost on the financial performance of quoted oil and gas firms in Nigeria. The objective was to examine the extent to which security cost affect corporate financial performance. The study adopted ex-post facto research design. Stratified and random sampling methods were used to select 10 out of the existing oil and gas firms. Secondary data were obtained from the Central Bank of Nigeria publications and financial statement of the quoted oil and gas firms. Return on equity, return on assets and net profit margin were used as dependent variables while corporate security cost and public security cost were used as independent variables. Diagnostic tests were conducted using Hausman specification test. Fixed effects estimator was employed and regression analysis to test the formulated hypotheses. The study established that 63.8 percent variation in return on equity of the oil and gas firms were explained by variation in the independent variables while corporate security have positive and significant effect on return on equity while public security cost have positive but no significant effect on return on equity. 74 percent variation in return on assets of the oil and gas firms was explained by variation in the independent variables. Corporate security have positive and significant effect on return on assets while public security cost have positive but no significant effect on return on assets. 25 percent variation in net profit margin of the oil and gas firms was explained by variation in the independent variables. Corporate security have negative and significant effect on net profit margin while public security cost have positive but no significant effect on net profit margin. From the findings, the study conclude that security cost have greeter effect on return assets, return on equity than net profit margin. The study recommends that corporate and public cost on security should be advanced to increase financial performance of the quoted oil and gas firms.

Keywords: *Security Cost, Financial Performance, Oil and Gas, Corporate Security Cost, Public Security Cost*

INTRODUCTION

The opinion that the oil producing firms have major developmental role to the host communities has long been advocated and documented in literature (Adagba, Ugwu, & Eme, 2012). The last three decades have witnessed a substantial increase in the security cost undertakings by firms and government in both developed and the emerging economies. Security cost has emerged as a business approach for addressing the social and environmental impact of oil production and exploration on the host communities and the environment. The objective is to have competitive advantage, a stable work environment, good external perception and motivate employees for greater productivity, efficiency and effectiveness (Adebanjoko & Okorie, 2014). The concept of security cost has been referred to all internal and external expenditure incurred by corporate organizations and government (Ali, 2013). The

increased demand for firms to be responsive to security needs of the employees, equipment and their host environment becomes more pronounced with the nature of the firm and how the productive activities impact on the amenities (Adegbami, 2013).

Performance of corporate organization is a matter of concern to stakeholders Kaplan and Norton (1990) formulated performance measurement framework known as the balanced score card that added strategic non-financial performance measures to the traditional matrices to give managers and executive directors more balanced view of organizational performance. A firm can be said to be performing to expectations if there is learning and growth among the employees in form of human resources development. A high performance system can also be measured in realization of the vision and mission of the firm. Conservative environment is one of the corporate visions of the oil and gas industry (Amahalu, Egolum, Obi & Iliemena, 2016). This has not been achieved as environmental degradation in the oil producing areas attracts attention of international organizations. The restiveness in the region can no doubt be traced to this fact. Scholars in management have shown that a company can perform beyond expectations if employees are secured and therefore form a performance indicator. The traditional measure using financial indices remain important as the major business objective is to maximize shareholders' wealth.

Oil and gas firms incurs security cost inform of salaries for security personnel, purchases of security gadgets and donations such as vans to the host communities while significant proportion of government budgets is allocated for security. Inadequate security is considered as a threat to employees, host communities and the society at large. The implication of the insecurity situation in Nigeria for business activities can be viewed from two broad Perspectives according to Davidsson and Honig (2010) the perspective of potential business investment and the perspective of existing business enterprise.

The 1999 Constitution of the Federal Republic of Nigeria specifically states that the security and welfare of the people shall be the primary purpose of government. Unfortunately, government on this constitutional responsibility has failed to provide a secured and safe environment for lives, properties and the conduct of business and economic activities. The alarming level of insecurity in Nigeria has increased the crime rate and terrorists attacks in different parts of the country, leaving unpalatable consequences for the nation's economy. Thus the alarming level of insecurity in Nigeria has made the economy unattractive to foreign investors and has slowed down the level of business activities and this has impacted negatively on corporate performance.

Security challenges in any environment constitute threat to lives and properties, hampered business activities, and discourage local and foreign investors, all of which stifle and retards development of a country. It is therefore apparent that national security is a desideratum, sine qua non for business and economic growth and development of any country (Eme & Onyishi, 2011). The Federal Government formulates and effectively implements policies and programmes capable of addressing the root causes of insecurity in Nigeria such as Ethno-religious conflict, systemic and political corruption, weak security system and unemployment among others. Federal government establishes more viable and result oriented agency capable of addressing the problem of abject poverty/ unemployment among large population of Nigerians to enhance stable work environment.

Government proactive in dealing with security issues and threats, through training, modern methods of intelligence gathering and intelligence sharing, logistics and deploying advanced technology in managing security challenges involves monetary cost. This will add more values in checking incessant bombings, robbery, kidnapping and violent crimes/crises by hoodlums in most oil producing communities.

Theoretically, the scope of security cost and performance of the oil and gas cover the economic motive, the legal framework, the ethical perspective and philanthropic view (Ibrahim & Igbuzor, 2002). The fact that economic organizations are built and operate in a normative value giving environment or are linked in an input-output nexus with other subsystems, implies that firm's responsibility extends beyond mere productive efficiency and the maximization of shareholder's wealth. Adequate security remains a critical success factor and determines the performance of the oil and gas industry.

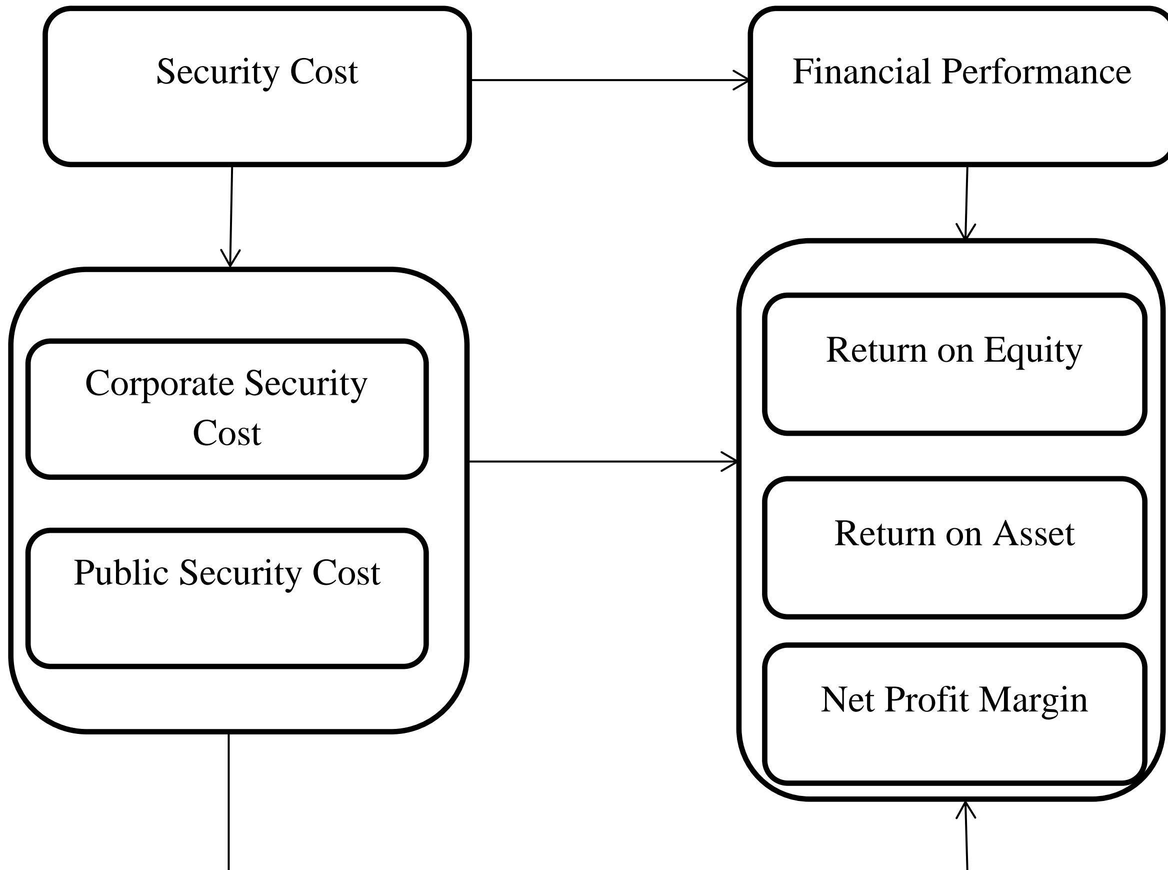
The issue of security of the oil and gas gained increasing attentions in the past few decades. Inadequate security can negatively affect the performance of the Nigerian oil and gas. This is a critical issue in management. Many firms are facing challenges from their host communities as a result of inadequate security; if the oil producing firms embark have adequate security for employees, equipment and the host communities, it will enhance the relationship between the host communities and the firm thereby impacting positively on the performance. However, if they failed to do so, it will be the major threat to the survival and performance of the firm. For instance, the restiveness and destruction of equipment in the Niger Delta region, against the oil producing firms has been blamed inadequate security and politic of security personnel from the oil and gas producing firms and the government (Janssen, 2009).

An increased challenge for the firms from the host communities such as pipeline vandalism, kidnapping and destruction of facilities affect the productive capacity of the firms, diminishes financial performance and increase cost. Inadequate security initiatives do not affect the firms only but also the communities. For instance, pipeline vandalism does not only negatively affect the firms but result in environmental pollution that threatens even lives (John, Efiok & Ime, 2015). Therefore, security cost be given due consideration because of its adverse effect on the performance of the oil firms and the host communities.

Performance of the oil and gas has been studied by different researchers in different countries (Babalola, 2012 Escobar and Vredenburg, 2010, Govindarajan and Amilan, 2013). Though, there are a number of studies that have been conducted at a global level on factors that determine the performance of oil and gas firms, however most of the studies focused on environmental accounting, corporate disclosure and corporate social responsibility accounting and corporate performance, this study focused on security cost and financial performance of quoted oil and gas firms in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review



Concept of Security Cost

Security cost refers all expenses incurred to protect the operation of the organization internally and externally. According to Nwanegbo and Odigbo (2013), Olabanji and Ese (2014) the divergent approaches to the conceptualization of human security in the theoretical literature can be categorized into two major strands. One is a neo-realist theoretical strand that conceptualizes security as primary responsibilities of the state. The second strand, a postmodernist or plural view, conceptualizes security as the responsibilities of non-state actors and displaces the state as a major provider of security. Proponents of this approach argue that the concept of security goes beyond a military determination of threats. They are of the view that government should be more concern with the economic security of individual than the security of the state because the root causes of insecurity are economic in nature.

Security embraces all measures designed to protect and safeguard the citizenry and the resources of individuals, groups, businesses and the nation against sabotage or violent occurrence (Ogunleye, Adewale, Alese and Ogunde, 2011). Some scholars in conceptualizing security placed emphasis on the absence of threats to peace, stability, national cohesion, political and socio-economic objectives of a country (Igbuzor, 2011; Oche, 2001; Nwanegbo and Odigbo, 2013, Olabanji and Ese 2014). Omede (2012) sees security as a dynamic condition which involves the relative ability of a state to counter threats to its core values and interests. The concept of insecurity connotes different meanings such as: absence of safety; danger;

hazard; uncertainty; lack of protection, and lack of safety. Beland (2005), insecurity is "the state of fear or anxiety stemming from a concrete or alleged lack of protection." It refers to lack or inadequate freedom from danger.

Achumba, Ighomereho and Akporobaro (2013) defined insecurity from two perspectives. Firstly, insecurity is the state of being open or subject to danger or threat of danger, where danger is the condition of being susceptible to harm or injury. Secondly insecurity is the state of being exposed to risk or anxiety, where anxiety is a vague unpleasant emotion that is experienced in anticipation of some misfortune. These definitions of insecurity underscore a major point that those affected by insecurity are not only uncertain or unaware of what would happen but they are also vulnerable to the threats and dangers when they occur. People engaged in business activity, either directly or indirectly, to satisfy unlimited human wants. Therefore, business has become part and parcel of human existence in particular and global world in general. Mohddeeb (2011) define business as an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants. According to Henry (2011) it is human activity directed towards producing or acquiring wealth through buying and selling of goods. Stephenson (2011) sees business as the regular production or purchase and sales of goods undertaken with the aim of making profit and acquiring wealth through the satisfaction of human wants.

Prospective businesses insecurity in Nigeria weakens prospective businesses and border countries of (Cameroon, Niger, and Chad). World Bank study on African's investment climate in countries upheld that 29% of investors in Africa and 36% of investors in Nigeria acknowledged insecurity as the primary factor diminishing investment rate in Africa and Nigeria. This translates to a drop in FDI by 27% from $4.7billion in 2014 to an estimated $3.4billion in 2015 and in the 3rd quarter of 2018 drop to $2.9billion (World Investment Report, 2018).

Prevailing businesses insecurity in Nigeria has not only crowd-out over 56% of small and medium scale business and cut off the supply of raw materials. But has also affected the labour force, ease, and cost of doing business in Nigeria, findings revealed that consumer goods companies in Nigeria suffer the direct effect of insecurity due to a shortage of raw materials and low customer's patronage. States and local governments-impose curfew which led to early close down of businesses and cutoff financial inflow from banks (Somendra & Mahapatra, 2018).

In the bid to improve internal security status quo, various administrations paid diverse attention to this problem. The diverse attention is evidence in the fluctuating internal security expenditure in Nigeria. The fluctuating internal security expenditure accounts for the failure and government inability to provide contemporary scientific security apparatus such as (Biometrics, Perimeter Control, Radio Frequency Identification (RFID) technologies, and computer security) and training of security operatives. The lack of scientific management of security apparatus inventory also affects security expenditure in Nigeria (John, Etim, & Ime, 2018).

Insecurity discourages business investment as it makes investment unattractive to business investors. This is because it accelerates the cost of doing business either through direct loss of goods and properties or the cost of taking precautions against business risks and uncertainty. These costs could have a negative impact on business development and progress. This situation

has the damaging consequence of giving signal to the international community that Nigeria is not a safe and secure place and as such not suitable for investment and business activities. In that case, foreign firms and entrepreneurs would decline to invest and this is particularly important in view of the efforts being made to create the desired atmosphere to attract foreign direct investment. So, it is a strong disincentive to business investment as it scares away potential investors. This is because such environments or economies are considered high risk zones due to the high level of uncertainty about the safety of investment and lives of the managers and their staff.

The Nigeria insecurity situation can, and in many cases, actually halted business operations during the periods of violence and also caused the outright closure of many enterprises especially in the areas or zones where incidences of insecurity is rife and are on daily occurrence, in a bid to protect lives of operators and business property. Generally, if there is no peace and security, it is extremely difficult for businesses to survive. Ordinary citizens having small and medium scale businesses cannot open shops for business transactions. Insecurity everywhere is a risk factor which business owners and managers dread and wish to avoid by relocating their businesses elsewhere. In the case of Nigeria, there is also evidence of some businessmen and manufacturing companies having to relocate particularly from the North in recent time, to other peaceful parts of the country (Nwagbosa 2012). Non indigenes especially Igbos and Yorubas have to return to their home states before they are killed by Boko Haram (Suleiman, 2012). In addition, some firms may shift their operations to other countries like Ghana which is deemed to be more peaceful.

Concept of Firm Performance

Firm performance management consists of a set of management and analytic processes, supported by technology, that enable businesses to define strategic goals and then measure and manage performance against those goals. Core business performance management processes include financial planning, operational planning, business modeling, consolidation and reporting, analysis, and monitoring of key performance indicators linked to strategy. Firm performance management involves consolidated data from various sources, querying, and analysis of the data, and putting the results into practice.

The term performance has been defined by different authors in different ways. According to Drucker (1954), when discussing the issue of performance, the issues of effectiveness and efficiency are interrelated and that efficiency refers to the ability of an organization to do things rights while effectiveness is about doing the right things. Kohli and Jaworski (1996), observe that organizational performance consists of cost based performance measures, which reflect performance after accounting for the cost of implementing a strategy (sales and market share). Aluko (2003) defined performance as execution or accomplishment of work tasks or goals to a certain level of desired satisfaction and that organizational performance is defined in terms of the ability of an organization to satisfy the desired expectations of three main stakeholders comprising; owners, employees and customers. An institution that persistently makes will ultimately deplete its capital base, which in turn put equity and debt holders at risk. Moreover, since the ultimate purpose of any profit-seeking organization is to preserve and create wealth for its owners the bank's return on equity (ROE) needs to be greater than it costs of equity in order to create shareholder's value. Dauda (2010) highlighted organization performance is determined by the demand by its products or services. Many organizations put in place methods

and strategies that could enable them attract customers and improve the quality and quantity of their product.

From the foregoing definitions, it can be deduced that performance is efficient and effective use of resources by an organization for accomplishment of its objective or goal leading to increase in the following: share price, sales, market share, sustainable profitability, taking, leverage and demand of its product or service and satisfying and desired expectations of its three main stakeholders comprising owners, employees and customers.

Firm performance from an accounting literature perspective hinges on company profitability and performance of stocks in the capital market. The measures of firm performance based on literature can be broadly classified into two namely the market oriented measures and the accounting oriented measures. Furtado & Karan, (1994) provide evidence that boards prefer accounting measures market to measures in evaluating managerial performance Accounting based measures are adopted in the study as performance measures because they provide the most available data. This section gives a brief overview of the prominent market and accounting based measures. Return on Assets Accounting performance measures (like ROA) have an advantage because they are backward looking (Jong, Gispert, Kabir, & Renneboog, 2002).ROA gives an idea as to how efficient management is at using its assets to generate earnings (Khatab, Masood, Zaman, Saleem, & Saeed, 2011) It is often computed by dividing Profit after tax by total assets alternatively, it can be calculated by dividing Earnings before Interest and Tax (EBIT) by total assets.
This accounting based performance measure can be tagged as forward looking because profit for the period is measured against sales for the current period. Profit margin is calculated as profit after tax divided by turnover or net sales. The essence is that it provides information on the percentage of profit that sales are able to generate. The concept of firm performance is of vital importance to accounting research because explaining variation in performance is the core focus in this study. Firm performance is conceived as a multidimensional concept that comprises different aspect and metrics such as financial performance, operational effectiveness, corporate reputation and organizational survival (Richard, Devinney, Yip, & Johnson, 2009). According to Gentry and Shen (2010), firm performance has also been classified into two dimensions, financial (which is the focus of this study is viewed as the fulfilment of economic goals of the firm) and non-financial performance (customer satisfaction, quality of output, attitudes of employees, innovation, among others).
Historically, researchers in the early 1980s used accounting based profitability ratios such as ROA, ROCE and ROE as measures of financial performance until the mid-1980s, finance theories (clean surplus, stock valuation among others) and market based performance measures (most common stock market-based measures of performance are: share price, stock return, market to book ratio, price to earnings ratio and Tobin's Q) were introduced into management research (see Bromiley, 1990 as cited in Gentry and Shen, 2010) many companies began adopting shareholder value maximization as the stated objective following the rise of shareholder activism in the 1990 (Useem, 1993).

This development gave rise to the adoption of market based performance measures in management research and its subsequent use since then (Hoskinsson, Hitt, Wan, & Yiu, 1999; Gentry & Shen, 2010). These authors (Hoskisson et al., 1999; Gentry and Shen, 2010) noted that organizational researchers generally use either some of the most popular and most common accounting-based measures of profitability (such as revenues, operating income, earnings

before interest and tax, net income, comprehensive income, earnings per share, or ratios such as return on assets (ROA), return on investment (ROI), return on equity (ROE), return on sales (ROS) among others) or market based performance measures (such as share price, stock return, market to book ratio, price to earnings ratio, Tobin's Q among others). Ratios are designed to improve the usefulness of performance indicators since absolute line item amounts from the income statement line may not be sufficient for meaningful comparison; however, there is no consensus about the relationship between past/short-term performance and future/long term performance.

Theoretical Framework

Resource-Based View Theory

The proponents of the resource-based view (RBV) of the firm (Barney, 1991; Wemerfelt, 1984) further picked up the view of corporate social responsibility as a strategy for achieving competitive advantages. The number of studies devoted to corporate social responsibility which adopt a RBV has grown in recent years. This tendency began with a focus on environmental aspects (Russo and Fouts, 1997; Sharma and Vredenburg, 1998) but has subsequently extended to more general issues of corporate social responsibility (Bansal, 2005; Hillman and Kein, 2001).

This perspective maintains that the ability of a firm to perform better than its competitors depends on the unique interplay of human, organizational and physical resources over time. The resources that are likely to lead to competitive advantage are valuable, rare and inimitable, and must be deployed effectively by the organization. They include the assets that firms use to accomplish the activities they are engaged in to convert inputs into outputs, and can be classified as tangible or intangible (Mathews, 2002). Russo and Fouts (1997) resources are not productive on their own and can only be a source of competitive advantage if they are used by firms to perform their activities. Thus, the analysis also needs to consider a firm's abilities to assemble, integrate, and manage these bundles of resource. Firms provide social members with the products or services that will fulfill their needs and establish relations with each other. They control the resources needed for such activities, build the processes through which resources are used, in terms of their own goals (Mathews, 2002).

Organizational assets, such as culture, human resource management policies and organizational structure, can also resist the imitation efforts of competitors, as they represent high levels of asset specificity and time compression diseconomies. These assets are seen as contributing order, stability and quality to the firm. On the other hand, contracts, such as franchise or licensing agreements, may be important resources for some firms, as they are legally enforceable and thus competitors may be prevented from replicating the benefits derived from such agreements (Matthews, 2002).

Reputational assets, although not legally protected by property rights, are considered path dependent assets characterized by high levels of specificity and social complexity. Reputation is built, not bought, thus it is a non-tradable asset that can affect corporate performance that will enhance corporate social responsibility. These assets can inform external constituents about the trustworthiness, credibility, and quality of the firm. Therefore, reputational assets can be key drivers of external constituents' positive reactions toward a firm vis-a-vis its competitors, thus positively affecting firm success. Barney and Muhanna (2004) noted that tangible resources, whether physical or financial assets are easier to imitate or substitute even if they are valuable and rare.

On the other hand, intangible resources and capabilities are difficult and costly to create because they tend to be historically contextualized, path dependent, socially complex and

causally ambiguous. Therefore, it is reasonable to expect that they are more likely to be a source of competitive advantage than are tangible resources (Conner and Prahalad, 1996). However, the RBV has been criticized firstly, for its non-political view and its failure to recognize that resources and capabilities are contested (Moldaschl and Fischer, 2004). For example, critics pointed out, management does not easily control those intangible assets, such as employee knowledge, and employees' actions may have either positive or negative consequences for the firm.

Thirdly, another weakness associated with the RBV is the inability to explain the influence that the relationship between a firm and its environment has on the firm's success. As Moldaschl and Fischer (1989) suggested firms are embedded in specific political, social, cultural, legal conditions and rules. Not only do they pursue their activities in a given market system, but they also aim at exerting influence on the conduct of other actors and on the rules of the system. Additionally, their activities have numerous unintended consequences, i.e. externalities". The need to see firms as social actors embedded in society within the resource-based perspective stems from the fact that numerous authors as key determinants of a firm's success see intangible resources as internal factor that affect corporate performance.

Stakeholder Theory

The stakeholder theory is a notion of organizational management and business ethics that focuses on issues of morals and values in managing an organization. It was originally proposed and elaborated by Freeman (1984). It identifies and patterns the groups that are stakeholders of a corporation as well as describes and suggests devices by which corporation's management can accord proper matter to the interests of those groups. In the shareholder view of the firm the shareholders or stockholders are the owners of the company and the firm has an obligatory and primary duty of trust to pursue their interests and needs, to multiply and intensify value for them. The stakeholder theory, however, argues that there are other parties encompassed in the aims and aspirations of the firm (Fassin, 2012). Sometimes even competitors are counted as stakeholders, their eminence resulting from their ability to determine and shape the firm and its other ethically justifiable stakeholders.

The nature of what is a stakeholder is highly contested, with hundreds of definitions standing in the literature (Miles, 2012). The stakeholder view of strategy is an influential theory of the corporation, assimilating both the resource-based view and the market-based view of the firm, as well as adding a socio-political dimension. The stakeholder view of the firm is used to delineate the identifiable stakeholders of a firm (the normative theory of stakeholder identification) and to examine the conditions under which the contingent parties and variables should be treated as stakeholders (the descriptive theory of stakeholder salience). These two issues structure the avant-garde study of the stakeholder theory.

The stakeholder theory asserts that a company should create and distribute value to a large number of stakeholders depending on the support and cooperation of the stakeholders themselves. The survival of a company is conditional on the benefits the stakeholders receive from the company, and it is the full responsibility of the company to provide these benefits (Freeman and Velamuri, 2006). The stakeholder theory encourages businesses to heed all their stakeholders. This implies fair treatment, consideration and respect of all the stakeholders of the firm. This theory urges and fosters transparency between the company and its stakeholders (Frooman, 1999; Frooman and Murrell, 2005; Elijido-Ten, Kloot and Clarkson (2010) (Freeman et al., 2006).

The Traditionalist View of the Firm Theory

Friedman's (1962) contributions in promoting the traditional view of the firm have been popularly acclaimed in several works. Friedman (1962) argues that managers have fiduciary responsibility as agents of the shareholders to maximize their wealth. Thus, they have no business with engaging in socially responsible projects that are inconsistent with profit maximization. It is also argued that the firms' Corporate Social Responsibility engagements not only detract from the managers' fiduciary obligation to the shareholders, but also amount to mere waste of shareholders' wealth (Harrison and Coombs, 2012).

In the same vein, allocating resources to other social objectives may be incentive compatible with fueling managerial opportunism and may accelerate the agency problem between managers and shareholders. This is predicated on the fact that managers may use security investments to boost their opportunistic goals like promoting their public image and competitiveness in managerial market; that may not be consistent with maximization of shareholders' wealth (Reinhardt et al., 2008). Moreover, it is argued that investment in Corporate Social Responsibility may not be determined by what Kotler (1989) calls the law of demand and supply; and may lead to distorted prices and input-output decisions (Wang *et al.,* 2008). Friedman (1962) maintains that Corporate Social Responsibility doctrine is fundamentally subversive, and managers' attempt to engage in such practices would simply be unjustified taxation on shareholders' profit (Pava and Krausz, 1996).

The Heterodox View of the Firm Theory

An alternative conceptual framework perceives business enterprises as operating within a larger social network than that of market transactions, with the complex interconnectedness of all the supra-system (Birch and Jonker, 2006). This heterodox view of the firm widens the ambience of economics to incorporate the complex interface between the firm and other elements of the society. This is the central issue underpinning stakeholder management theory, which extends the horizon of managers' responsibility to include not only the maximization of shareholders' wealth, but also the interests of the host communities and other external stakeholders of the firm (Jonker and Foster, 2002). Polyani (1957) had long before maintained that the traditional view of the economy as a self-regulating system of exchange governed and sustained by individual choice, scarcity and prices is based on an impoverished and asymmetric conception of the workings of an economy. This distorted view assumes that the marketplace will assure macroeconomic equilibrium (Klein, 2009); as long as the inbuilt 'invisible hand' propounded by Smith (1776) regulates the market forces of demand and supply.

In the real world, market clearing equilibrium may not always be attained (Sloman, 1998; Lopez and Galinato, 2007), and this may not only elicit the need for government's intervention in the free market economy, but may also extend the web of firms' duties to include social responsibility issues (Goodin, 1988; Matten and Crane, 2005; Scherer and Palazzo, 2011). Along this view, it is argued that the concentration of firms' responsibility in the economic matrix of profit maximization alone leads to what Monsen (1974) calls the "Friedman Misconception". The Friedman Misconception is the view that the firm is solely an economic unit that is unconnected with host communities, and has the sole responsibility of making as much profit as possible for the principal-shareholders. Several works argue against this traditional view of the firm and maintain that firms may have an enlarged responsibility to contribute, not only in solving social problems of the global macro-economy (Idemudia and Ite, 2006) but also in correcting the negatives externalities of their productive activities via investments in Corporate Social Responsibility practices (Scherer and Palazzo, 2011). Thus, it is argued that there is need for a new paradigm shift in the context of firms' responsibility as

mere profit maximizes to a more organic social responsibility that extends to their host communities and other external stakeholders (Birch and Jonker, 2006).

Empirical Review

Mukolu and Ogodor (2018) studied Insurgency and its implication on economic growth, the study revealed a linear relationship between economic growth and insurgency in Nigeria. Ewetan and Urhie (2014) reported that insecurity thwarts business activities and depress foreign and domestic investors in Nigeria. Odita and Akan (2014) observed that insurgency is the fundamental factor in decreasing FDI and economic development in Nigeria. Adebanjoko and Okorie (2014) investigated the relationship between political and economic corruption of insecurity in Nigeria. Findings showed that corruption fuels insurgency through frustration. Garba (2014) examined poverty acknowledged insurgency in Zaria metropolis as the prime factor thwarting operational economic and financial activities in Zaria metropolis. Largely studies in Nigeria focus on insecurity on economic growth, the sustainability of democracy and corruption ignoring the rippling down effect on the economic and business climate.
Ben, Abner, Mmanuel and Lovlyn (2019) tested the long run effect and cause of insecurity from 2007-2017 in Nigeria, using a framework of the Auto-Regressive Distributed Lag Model (ARDL) and Error Correction Model (ECM). Findings revealed that insecurity in Nigeria is majorly internal factors and government expenditure on security in Nigeria is far below the United Nations Standard. The ECM report that disequilibrium caused by internal factors instigating insecurity can be revised back to equilibrium at 25% annually to improve the economic and business climate competitive advantage.

Oshiole, Elamah and Ndubusi (2020) examined the effect of environmental cost disclosure on profitability of oil and gas firms listed on Nigeria Stock Exchange between 2010 and 2019. Eleven (11) listed oil and gas firms were purposively sampled. The proxies for environmental cost disclosure include waste management cost disclosure, employee health and safety cost disclosure and environmental remediation cost, while net profit margin was employed as profitability measure. Content analysis was employed while Pearson Correlation Coefficient and Panel Least Square (PLS) Regression analysis via STATA 13 statistical software were used to test the hypotheses of the study. The result of this study showed that waste management cost disclosure, employee health and safety cost disclosure and environmental remediation cost disclosure have a significant positive effect on net profit margin at 5% level of significance respectively.

Amahalu, Egolum and Obi (2017) examined how corporate social responsibility (CSR) relates with financial performance of quoted deposit money banks in Nigeria from 2010-2016. Specifically, this study aimed to ascertain the extent of relationship that exists between donation and return on assets; determined the extent of relationship that exists between donation and return on equity and to evaluate the extent of relationship between donations and market-to-book value of quoted deposit money banks in Nigeria. The study employed ex-post fact research design. The sample size of this study consists of the fifteen quoted deposit money banks in Nigeria. Pearson Coefficient Correlation, Panel Least Square (PLS) regression analysis and Granger Causality test were employed via E-View 9.0. The study found a significant positive relationship between return on asset, return on equity, market-to-book value and donations at 5% level of significance. The implication of the findings is that CSR implementation maximizes future returns for deposit money banks in Nigeria.

Okafor (2018) ascertained the effect of environmental costs on firm performance. To achieve the objective, the study made use of financial reports of Oil and Gas Companies quoted in the Nigerian Stock Exchange Market from years 2006-2015. Regression analysis was employed with the aid of Statistical Package for Social Sciences (SPSS). The results of the statistical analysis indicated that better environmental performance positively impact business value of an organization. Moreover, environmental accounting provides the organization an opportunity to reduce environmental and social costs and improve their performance. Nyirenda *et al.* (2018) examined the impact of environmental management practices on the financial performance of a South African mining firm. The major aim of the study was to investigate whether such practices have a close relationship with the mining firm's financial performance (represented by return on equity [ROE]). The approach was a case study of a South African mining firm listed under the socially responsible index (SRI) of the Johannesburg Stock Exchange (JSE). It uses Green-Steel (pseudonym used in place of the real name) as a case study. Using multiple regression statistics, the return on equity of Green-Steel regressed on three environmental management practices of Green-Steel (carbon reduction, energy efficiency, and water usage). The result showed there is no significant relationship between the variables and this lends credence to information gathered from Green-Steel environmental reports that Green-Steel's environmental management practices are driven mostly by a desire to abide by regulations and also by a moral obligation to use environmental management practices to mitigate climate change impact.

Opusunju, Akyuz, and Ibrahim (2019) examined insecurity and business performance: the operation management challenge in Ikot Ekpene, Akwa Ibom State using small business owners. The study used survey research design using structural questionnaire administered to the respondents who are small business owners in Ikot Ekpene. The study used regression analysis and correlation as statistical tools to analyse the data. The study found that there is a positive significant effect of insecurity on small business performance and also there is a significant relationship between operation management challenge and small business performance. The study suggested that Small business should try to adopt more principles of operation management in dealing with insecurity situation in Ikot Ekpene, Akwa Ibom State. They should monitored external and internal business environment because it posse challenge to operation management among the owners of small business in Ikot Ekpene, Akwa Ibom State. Abbas and Sani (2016) found that there is a significant relationship between insecurity and performance. The study also is in line with the traditional view (dominant from the late nineteenth century until the mid-1940s) assumes that conflict/insecurity is bad, always has a negative impact, and leads to declines in performance as the level of conflict increases.

Literature Gap

Ben, Abner, Mmanuel and Lovlyn (2019) tested the long run effect and cause of insecurity from 2007-2017 in Nigeria, using a framework of the Auto-Regressive Distributed Lag Model (ARDL) and Error Correction Model (ECM). Oshiole, Elamah and Ndubusi (2020) examined the effect of environmental cost disclosure on profitability of oil and gas firms listed on Nigeria Stock Exchange between 2010 and 2019. Eleven (11) listed oil and gas firms were purposively sampled. Amahalu *et al.* (2017) ascertained how corporate social responsibility (CSR) relates with financial performance of quoted deposit money banks in Nigeria from 2010-2016. None of the studies above focused on the effect of security cost on financial performance of quoted oil and gas firms, this study therefore examined the effect of corporate and public security cost on the financial performance of quoted oil and gas firms in Nigeria.

METHODOLOGY

The research designs employed in this study are content analysis and ex-post facto research design. Content analysis method is concerned with the number of words and sentences on particular information while ex-post facto research design, was utilized in order to establish the meaningful relationship between the dependent and the independent variables in the study. Nogales (2002) defined population as the total number of elements that conform to the characteristics needed for the purpose of the study. The population of this study consists of all the of the fifty four (54) upstream oil and gas companies listed on the Nigerian Stock Exchange as at 31st December, 2019. Ten (10) Oil and Gas companies were selected as the sample size of this study with the utilization of Purposive sampling method. This study made use of secondary data precisely. The data were sourced from publications of the Nigerian stock exchange (NSE), fact books and the annual report and accounts of the selected quoted Oil and Gas companies and stand-alone sustainability report.

Model Specification

The study adopts the panel data method of data analyses which involve the fixed effect, the random effect and the Hausman Test.

Pooled Effect Model

$$ROE_{it} = \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 1$$

$$ROA_{it} = \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 2$$

$$NPM_{it} = \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 3$$

Fixed Effects

To further investigate the fraud effect, Adebayo (2012) analysed whether the independent variables affect the dependent variable, this regress the effect of the independent variables on the dependent variables.

$$ROE_{it} = \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 4$$

$$ROA_{it} = \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 5$$

$$NPM_{it} = \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 6$$

Because the fixed effects account for both cross-sectional and time-series data, the increased covariance caused by individual-firms differences is eliminated, thereby increasing estimation-result efficiency.

Random Effects

Random effects focus on the relationship with the study sample as a whole; thus, the samples are randomly selected, as opposed to using the entire population. The total sample regression (a function of the random effect) can be expressed as:

$$ROE_{it} = \sum_{j=1}^{N} \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 7$$

$$ROA_{it} = \sum_{j=1}^{N} \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 8$$

$$NPM_{it} = \sum_{j=1}^{N} \beta_0 + \beta_1 CSC + \beta_2 PSC + \varepsilon_{it} \quad 9$$

If this is represented with random variables, then $\beta_{oj} = \overline{\beta}_0 + \mu_j$, which indicates that the difference occurs randomly, and the expectation value of $\beta_{oi}\ is\ \overline{\beta}_0^{\ 5}$. ....(10)

Where

ROE = Return on equity as profit after tax to total equity

ROA = Return on equity as profit after tax to total assets

NPM= Net profit margin

CSC = Corporate security cost proxy by monetary value expenditure on security to total operating cost

PSC = Public security cost proxy by federal expenditure on security as percentage of GDP

A-Priori Expectations of the Variables

Model I: $CSC_{it} > 0 \quad PSC_{it} > 0$

Model II: $CSC_{it} > 0 \quad PSC_{it} > 0$

Model: III $CSC_{it} > 0 \quad PSC_{it} > 0$

Hausman Test

The Hausman test YairMundlak (1978) is the most commonly used method for evaluating fixed and random effects. If variables are statistically correlated, then the fixed-effects estimation is consistent and efficient, whereas the random- effects estimation is inconsistent, and the fixed-effects model should be adopted. Conversely, if the variables are statistically uncorrelated, then the random-effects estimation is consistent and efficient, whereas the fixed-effects estimation is consistent but inefficient, and the random-effects model should be adopted

ANALYSIS AND DISCUSSION OF FINDINGS

Table 1 Test of Models

Redundant Fixed Effects Tests

Correlated Random Effects - Hausman Test Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Model 1: Security Cost And Return On Equity			
Cross-section random	8.063527	4	0.0041
Redundant Fixed Effects Tests			
Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Model 1: Security Cost And Return On Assets			
Cross-section random	9.014538	4	0.0036
Redundant Fixed Effects Tests			

Correlated Random Effects - Hausman Test

Model 1: Security Cost And Net Profit Margin

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.738993	4	0.0171

Source: extract from E-view 9.0

The objective of testing the models is to select between fixed effect and random effect models. In testing the validity of the models, the fixed effects on the cross section Redundant Fixed Effect- Likelihood Ratio, the P- value is 0.0041 indicating that the effects are significant. Select the random effect and perform the Correlated Random Effects- Hausman test, testing the random effects model against the fixed effects model. The null hypothesis in that case is that both tests are consistent estimators and the fixed effects model is efficient. Under the alternative hypothesis, only the fixed effect is consistent. Since the p- values of 0.0041, 0.0036 and 0.0171 the null hypothesis is rejected and, therefore, the fixed effects model is to be preferred.

Table 2: Security Cost and Return on Equity

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Pooled Regression Results				
CSC	-2.137717	5.963135	-0.358489	0.7206
PSC	8.261119	7.250469	1.139391	0.2568
C	102.9928	89.38915	1.152185	0.2515
R-squared	0.333634	Mean dependent var		18.47656
Adjusted R-squared	0.202208	S.D. dependent var		80.29805
S.E. of regression	80.20936	Akaike info criterion		11.64544
Sum squared resid	791325.6	Schwarz criterion		11.75684
Log likelihood	-740.3079	Hannan-Quinn criter.		11.69070
F-statistic	1.070253	Durbin-Watson stat		2.165178
Prob(F-statistic)	0.374222			
Fixed Regression Results				
CSC	0.044807	0.634969	3.474150	0.0000
PSC	0.180066	0.374641	0.387254	0.6993
C	-0.802864	0.992540	-0.218129	0.8277
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.792636	Mean dependent var		18.47656
Adjusted R-squared	0.638156	S.D. dependent var		80.29805
S.E. of regression	81.81561	Akaike info criterion		11.76994
Sum squared resid	743011.2	Schwarz criterion		12.14872
Log likelihood	-736.2760	Hannan-Quinn criter.		11.92384
F-statistic	7.708272	Durbin-Watson stat		2.308725
Prob(F-statistic)	0.000000			
Random Regression Results				
CSC	-2.137717	6.082552	-0.351451	0.7259
PSC	8.261119	7.395666	1.117022	0.2662
C	102.9928	91.17924	1.129564	0.2609
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000

Idiosyncratic random		81.81561	1.0000
	Weighted Statistics		
R-squared	0.433634	Mean dependent var	18.4765 6
Adjusted R-squared	0.302208	S.D. dependent var	80.2980 5
S.E. of regression	80.20936	Sum squared resid	791325. 6
F-statistic	1.070253	Durbin-Watson stat	2.16517 8
Prob(F-statistic)	0.374222		
	Unweighted Statistics		
R-squared	0.333634	Mean dependent var	18.4765 6
Sum squared resid	791325.6	Durbin-Watson stat	2.16517 8

Source: extract from E-view 9.0

Based on the validity of the fixed effect model, the study established that 63.8 percent variation in return on equity of the oil and gas firms were explained by variation in the independent variables. The model is statistically significant if valued by the f-probability while the Durbin Watson indicates that there is no autocorrelation among the variables. corporate security have positive and significant effect on return on equity while public security cost have positive but no significant effect on return on equity.

Table 3: Security Cost and Return on Assets

Variable	Coefficient	Std. Error	t-Statistic	Prob.
		Pooled Regression Results		
CSC	0.150843	0.286569	0.526378	0.5996
PSC	0.014040	0.070477	0.199217	0.8424
C	0.141333	6.716740	0.021042	0.9832
R-squared	0.006597	Mean dependent var		2.412692
Adjusted R-squared	0.033460	S.D. dependent var		2.255380
S.E. of regression	2.292802	Akaike info criterion		4.542481
Sum squared resid	651.8608	Schwarz criterion		4.674829
Log likelihood	-289.2613	Hannan-Quinn criter.		4.596259
F-statistic	0.164680	Durbin-Watson stat		0.398295
Prob(F-statistic)	0.975044			
		Fixed Regression Results		
CSC	0.150843	0.143592	1.950497	0.0358
PSC	0.014040	0.035314	0.397579	0.6917
C	0.141333	3.365590	0.041993	0.9666
		Effects Specification		
Cross-section fixed (dummy variables)				
R-squared	0.774718	Mean dependent var		2.412692
Adjusted R-squared	0.740523	S.D. dependent var		2.255380
S.E. of regression	1.148866	Akaike info criterion		3.243315
Sum squared resid	147.8280	Schwarz criterion		3.640358

Log likelihood	-192.8155	Hannan-Quinn criter.		3.404647
F-statistic	22.65609	Durbin-Watson stat		1.383020
Prob(F-statistic)	0.000000			
	Random Regression Results			
CSC	0.150843	0.143592	1.050497	0.2955
PSC	0.014040	0.035314	0.397579	0.6916
C	0.141333	3.411765	0.041425	0.9670
	Effects Specification			
			S.D.	Rho
Cross-section random			2.016999	0.7550
Idiosyncratic random			1.148866	0.2450
	Weighted Statistics			
R-squared	0.325766	Mean dependent var		0.427693
Adjusted R-squared	0.213518	S.D. dependent var		1.141179
S.E. of regression	1.148866	Sum squared resid		163.6667
F-statistic	0.655899	Durbin-Watson stat		1.213627
Prob(F-statistic)	0.657554			
	Unweighted Statistics			
R-squared	0.206597	Mean dependent var		2.412692
Sum squared resid	651.8608	Durbin-Watson stat		0.398295

Source: extract from E-view 9.0

Based on the validity of the fixed effect model, the study established that 74 percent variation in return on assets of the oil and gas firms were explained by variation in the independent variables. The model is statistically significant if valued by the f-probability while the Durbin Watson indicates that there is no autocorrelation among the variables. Corporate security have positive and significant effect on return on assets while public security cost have positive but no significant effect on return on assets.

Table 5: Security Cost and Net Profit Margin

Variable	Coefficient	Std. Error	t-Statistic	Prob.
		The Pooled Effect Regression Model		
CSC	-2.48E-08	1.19E-06	-0.020861	0.9834
PSC	0.142584	0.057225	2.491640	0.0140
C	1.269103	0.332269	3.819507	0.0002
R-squared	0.105273	Mean dependent var		2.076667
Adjusted R-squared	0.068902	S.D. dependent var		0.894398
S.E. of regression	0.863035	Akaike info criterion		2.588672
Sum squared resid	91.61399	Schwarz criterion		2.721686
Log likelihood	-160.9693	Hannan-Quinn criter.		2.642718
F-statistic	2.894428	Durbin-Watson stat		1.503603
Prob(F-statistic)	0.016613			
		The Fixed Effect Regression Model		
CSC	-1.36E-07	1.12E-06	-2.121934	0.0032
PSC	0.120507	0.091220	1.321049	0.1892
C	0.223585	0.946338	0.236263	0.8137
		Effects Specification		
Cross-section fixed (dummy variables)				

R-squared	0.355670	Mean dependent var		2.076667
Adjusted R-squared	0.256989	S.D. dependent var		0.894398
S.E. of regression	0.770954	Akaike info criterion		2.446411
Sum squared resid	65.97505	Schwarz criterion		2.845455
Log likelihood	-139.7935	Hannan-Quinn criter.		2.608551
F-statistic	3.604234	Durbin-Watson stat		2.045278
Prob(F-statistic)	0.000021			
The Random Effect Regression Model				
CSC	-7.31E-08	1.10E-06	-0.066281	0.9473
PSC	0.121159	0.075504	1.604681	0.1111
C	1.129116	0.534335	2.113123	0.0366
Effects Specification				
			S.D.	Rho
Cross-section random			0.518145	0.3112
Idiosyncratic random			0.770954	0.6888
Weighted Statistics				
R-squared	0.770802	Mean dependent var		0.886723
Adjusted R-squared	0.733029	S.D. dependent var		0.774489
S.E. of regression	0.761648	Sum squared resid		71.35330
F-statistic	1.874434	Durbin-Watson stat		1.880105
Prob(F-statistic)	0.103562			
Unweighted Statistics				
R-squared	0.695910	Mean dependent var		2.076667
Sum squared resid	92.57277	Durbin-Watson stat		1.487656

Source: extract from E-view 9.0

Based on the validity of the fixed effect model, the study established that 25 percent variation in net profit margin of the oil and gas firms were explained by variation in the independent variables. The model is statistically significant if valued by the f-probability while the Durbin Watson indicates that there is no autocorrelation among the variables. Corporate security have negative and significant effect on net profit margin while public security cost have positive but no significant effect on net profit margin.

Discussion of Findings

From model one; the study established that corporate and public security cost explained 63.8 percent variation in return on equity of the quoted oil and gas firms, this implies that corporate security cost and public security cost explained significant variation in return on equity of the oil and gas firms within the periods covered in the study. the study findings revealed that corporate security cost have positive and significant effect on the return on equity of the oil and gas firms while public security cost have positive but no significant effect on return on equity. The positive effect of the variables confirms the a-priori expectations of the study and the objectives of investing on security. The positive effect of the variables is in line with the theory of the firm and the normative objective of the firm. Empirically, the findings confirm the findings of Mukolu and Ogodor (2018),Ewetan and Urhie (2014), Odita and Akan (2014), Adebanjoko and Okorie (2014), Garba (2014) and Abbas and Sani (2016) found that there is a significant relationship between insecurity and performance.

The estimated model two results proved that that corporate and public security cost explained 74 percent variation in return on assets of the quoted oil and gas firms; this implies that corporate security cost and public security cost explained significant variation in return on assets of the oil and gas firms within the periods covered in the study. The study findings proved that corporate security cost have positive and significant effect on the return on assets of the oil and gas firms while public security cost have positive but no significant effect on return on equity. The positive effect of the variables confirms the a-priori expectations of the study and the objectives of investing on security. The positive effect of the variables is in line with the empirical findings of Ben, Abner, Mmanuel and Lovlyn (2019) that insecurity in Nigeria is majorly internal factors and government expenditure on security in Nigeria is far below the United Nations Standard, Oshiole, Elamah and Ndubusi (2020) that waste management cost disclosure, employee health and safety cost disclosure and environmental remediation cost disclosure have a significant positive effect on net profit margin at 5% level of significance respectively. Amahalu *et al.* (2017) that CSR implementation maximizes future returns for deposit money banks in Nigeria.
From model three; the study established that corporate and public security cost explained 25 percent variation in net profit margin of the quoted oil and gas firms; this implies that corporate security cost and public security cost does not explain significant variation in net profit margin of the oil and gas firms within the periods covered in the study. the study findings revealed that corporate security cost have negative and significant effect on the net profit margin of the oil and gas firms while public security cost have positive but no significant effect on net profit margin. The negative effect of the variable contradicts the a-priori expectations of the study and the objectives of investing on security. The negative effect could be traced to factors within the operating environment. The finding is empirically in line Opusunju, Akyuz, and Ibrahim (2019) that there is a positive significant effect of insecurity on small business performance and also there is a significant relationship between operation management challenge and small business performance.

CONCLUSION AND RECOMMENDATIONS

Conclusion

From the findings, the study conclude that corporate security costs have significant effect on return on equity of quoted oil and gas firms in Nigeria. Public security costs have no significant effect on return on equity of quoted oil and gas firms in Nigeria. Corporate security costs have significant effect on return on assets of quoted oil and gas firms in Nigeria while public security costs have no significant effect on return on assets of quoted oil and gas firms in Nigeria. Corporate security costs have significant effect on net profit margin of quoted oil and gas firms in Nigeria while public security costs have no significant effect on net profit margin of quoted oil and gas firms in Nigeria.

Recommendations

i. The study suggested that the oil and gas firms should adopt more principles of operation management in dealing with insecurity situation Nigeria. They should monitored external and internal business environment because it posse challenge to operation management among the operating domains of the oil and gas firms.

ii. The study found that security cost is a major determinant to financial performance. Thus, oil and gas firms should constantly reposition their security apparatus in order to secure employees, equipment and the host communities to enhance the financial performance of the oil and gas firms.

iii. Public have a positive and significant relationship with financial performance of the oil and gas firms, thus government should enhance its security structure to ensure that corporate originations such as the oil and gas are secured to carry on the expirations in Nigeria.

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