

OIL AND GAS ACCOUNTING PRACTICES AND IMPLICATIONS FOR CORPORATE SOCIAL RESPONSIBILITY

¹**Tolani Agboola Hassan**

Department of Business Education,
Tai Solarin University of Education, Ijagun, Ijebu Ode,
Ogun State.

hassanta@tasued.edu.ng+2348034777854

²**Gabriel Taiwo Ogunwole**

Department of Accounting,
School of Business Education,
Federal College of Education (Technical) Akoka - Yaba, Lagos.
taiwoife2018@yahoo.com / ifewumi2004@yahoo.com +2348164994900

Abstract

Maximizing shareholders' interests has traditionally dominated the corporate strategy of many organizations in times past. The apparent reason being that since the management (agents) runs the affairs of the organization on behalf of the owners (principals), the major interest of the latter (profit maximization) would often be considered paramount in order for the business to retain its capital. Hence, this study examined the implications of oil and gas accounting practices on their corporate social responsibility. The study raised two hypotheses and adopted ex-post factor method, while 10 years (2010-2019) annual reports of seven selected oil and gas companies listed on the Nigerian Stock Exchange were analysed, using content analysis, Pearson Product Moment Correlation Coefficient, and Simple Linear Regression analysis with the use of the Statistical Package for Social Scientists (SPSS 23.0). This study found that a significant relationship exists between accounting practices and corporate social responsibility of oil and gas companies in Nigeria, and also that corporate social sustainability disclosure of oil and gas companies in Nigeria significantly affects their financial performance. Hence, this study recommends that oil and gas companies in Nigeria should adopt the best accounting practices recommended by both the local and global financial reports regulatory bodies, so as to ensure the satisfaction of all stakeholders, which in turns would enhance their performance.

Keywords: Sustainability reporting, accounting practice, corporate social responsibility, oil and gas companies, financial performance.

Introduction

The behaviour of corporations has never been more under the spotlight (McIntosh, Thomas, Leipziger, & Coleman, 2003). Although this was not considered to be a new issue even in the 1960s (Drucker, 1969), or 1950s (Heald, 1957), public awareness of the environmental, social and economic impacts of business has increased at a dramatic rate over the last decades. Companies now face increased pressure from investors, governments, customers and others to demonstrate

their efforts to manage the impacts of their operations (Scott & Jackson, 2002). Accounting, as “a set of socially conditioned practices which have various significant impacts on the operation of our society” (Bebbington, 2004), is called upon to assist in demonstrating the accountability and integrity of business actions.

Maximizing shareholders’ interests has traditionally dominated the corporate strategy of many organizations in time past. The apparent reason being that since the management (agents) runs the affairs of the organization on behalf of the owners (principals), the major interest of the latter (profit maximization) would often be considered paramount in order for the business to retain its capital. However, happenings in the last decade, such as concerns on global warming and the likes, demand that since the activities of most business organizations may have adverse environmental degradation effect on humans and its environments, companies may need to soft-pedal on the narrow version of classical economic theory and embrace sustainable corporate strategies that include goals that go beyond just maximizing shareholders’ interest (Lourenco, Branco, Curto, & Eugenio, 2012).

In line with the foregoing, companies world over are increasingly being challenged to extend their accounting information reportage to encompass sustainability reporting practices as part of their corporate strategy and competitive advantage (Nnamani, Onyekwelu, & Ugwu, 2017). Aside adequate financial capital, companies also require strong governance and workplace practice that recognize environmental and social needs of current and future stakeholders for it to achieve long term sustainability. PricewaterhouseCoopers stated that recognizing and incorporating such social and environmental factors into the governance and strategic operations of the firm is referred to as Corporate Sustainability (CS). In essence, corporate sustainability entails aligning the competitive activities of the organization to meeting the short-term needs of the current stakeholders without jeopardizing the long-term ability of future stakeholders in meeting their own needs, thereby adding economic, environmental and social values (PricewaterhouseCoopers, 2016). These three lines of values (Triple bottom line), according to Asaolu, Agboola, Ayoola and Salawu (2011) are targeted at the economy, society and environment respectively.

In Nigeria for instance, one sector of the economy that has attracted a lot of public outcry on issues relating to environmental concerns is the oil and gas Industry. This sector is a major source of revenue to the Nigerian State. Their activities are often associated with severe health implications and environmental degradation which in recent past have caused nagging social disputes and disruption of some multinational companies’ economic activities (Uwaoma & Ordu, 2016). The concerns are being heightened due to stakeholders and host community’s increased awareness of environmental degradation issues such as air and water pollution from heavy industrial machines, lack of clean-fresh water, lack of sea foods due to oil spill, and the likes. The need for sustainable environmental cost management in the oil and gas sector has thus become the concern and focus of most nations and responsible corporate managements the world over. Organizations are now expected to be able to demonstrate that they are aware and addressing the impact of their operations on the environment and society in general (Uwuigbe & Jimoh, 2012).

Oil companies and industry groups have also recognized that international oil companies operating in emerging economies such as Nigeria, with inadequate environmental laws should adopt best practice. For example, members of the American Petroleum Institute are responsible for “obeying all laws and best practice” as part of the pledge to a program of continuous health, safety and environmental improvements, while the 1997 *Environmental Policy* of the Australian Petroleum Production and Exploration Association (APPEA) states that APPEA encourages and

supports member companies to “comply, at a minimum, with applicable laws, regulations, standards and guidelines for the protection of the environment and in their absence adopt the best practicable means to prevent or minimize adverse environmental impacts” (Uwaoma&Ordu, 2016).

The oil and gas industry also recognizes that reporting on sustainability or non-financial indicators to those who are affected by or can benefit from oil and gas operations and products is a valuable tool in managing and measuring progress. Reporting is also one important approach, among others, for developing constructive stakeholder dialogue and thereby fostering a better understanding of stakeholders’ concerns. It is against this background that this study investigates oil & gas accounting practices and implications for corporate social responsibility in Nigeria.

According to Haslinda, Alia, and Faizah (2016) Corporate social responsibility is when firms incorporate the economic, legal, ethical, and charitable demands of the community into their business plans. This demonstrates corporations should offer community needs. CSR may also help firms live longer. Communities should support and help companies achieve their economic goals by ensuring product safety and employee wellness. Communities expect firms to perform their ethical responsibilities by adhering to societal ideals. Finally, voluntary responsibilities are higher than economic, legal, and ethical commitments.

Presently, Ali and Isa (2018), Enuoh and Eneh (2019 in Abdulkadir&Alifiah, 2020) and Dima, Jamali, and Charlotte (2018 in Abdulkadir&Alifiah, 2020) incorporate social and environmental activities like philanthropy and community involvement. Companies determine CSR kind, strategy, and method. Samson, Joseph, Nixon, and John (2018) define CSR as a company's above-legal-requirements community impact control. Corporate social responsibility protects employees, suppliers, customers, and society from social and environmental dangers. CSR is defined in this study, as integrating environmental and social policies, activities, and goals to promote stakeholder satisfaction (employees, customers, and community). Economic, ethical, social, and philanthropic firm actions can help rebuild company-community relations.

ROA measures a company's profitability after expenses and taxes (Rose, Westerfield, & Jaffe, 2005). When examining a company's financial health, it's crucial to know how well it turns existing assets into income for owners and shareholders. The ROA formula is easy to calculate from a company's financial information. Higher ratio suggests superior managerial performance (Barnett & Salomon, 2012). Profit margin or asset turnover boost ROA. This paper measures financial performance using ROA. ROA is a basic performance statistic in corporate sustainability literature and strategy research (Lopez, Garcia, & Rodriguez, 2007). $ROA = \text{net profit} / \text{total assets}$. Over 5% ROA is good. According to Lopez, Garcia, and Rodriguez, changes in management practices and disclosure should reflect in the profit and loss statement of organizations that have adopted sustainable practices (Epps & Cereola, 2008). Accounting-based research link sustainability reporting and financial performance more strongly than market-based ones (Gregory, Tharyan, & Whittaker, 2011).

This study adopts the agency, stakeholders, and the legitimate theories. Fama (1980) introduced the principal-agent theory. The operative agency idea results from management's separate ownership. Agents usually control company procedures. Separating ownership and control produces agent-principal conflicts. Therefore, agency

theory was created to examine financial reporting methods, verify management activities, and reduce or restrict management selfishness (Muhamma, Xiaoming, Riaz, & Rehman, 2017). Academically, a higher level of accountability may reduce agency conflict between owners and management. In this circumstance, agency theory acts as a monitoring tool (Miras-Rodriguez, Martinez-Martinez, & Escobar-Pérez, 2018). Advanced disclosure means corporations participate in extra CSR and transparency (Henritte & Anna-Retha, 2015).

Hassan and Kouhy (2015) note that stakeholder theory discusses management and stakeholder relationships. This topic covers stakeholders' rights, strengths, and needs. Companies must keep consumers, suppliers, employees, communities, and shareholders happy to succeed. For this, firms must be environmentally and socially responsible. The stakeholder theory is one of the most important ideas of corporate governance influences, because it states that corporate purposes should balance the interests of shareholders, employees, consumers, government, and the community. Along this line, the ability to control opposing stakeholder needs is crucial. Stakeholder theory influences CSR spending and reporting on environmental and social requirements.

Legitimacy theory addresses CSR actions as a standard, ethics, duties, and techniques to attaining legitimacy. Legitimacy is a method of making a corporation appropriate, sustainable, and good for the community and operating under a socially built system of norms, ethics, and beliefs (Odoemelam & Okafor, 2018). This study uses legitimacy theory to disentangle legitimacy from community forecasts. According to legitimacy theory, a corporation must respect community standards and customs to advance economically, socially, politically, and culturally. Similarly, the best approach to maintain legitimacy is through CSR and its report (Beddewela & Herzig, 2013; Kolk & Pinkse, 2010).

Furthermore, several scholars have studied CSR and accounting in Nigeria's oil and gas business. Erhirhie and Ekwueme (2019) investigated Nigeria's Oil and Gas Industry's CSR reporting and financial performance. The study examined the impact of corporate social sustainability reporting on oil and gas businesses listed on the Nigeria Stock Exchange. Study sampled 10 oil and gas businesses. The study included secondary data including financial ratios, accounts, and content analysis. Social sustainability reporting negatively affects all three performance proxies, but only return on equity. The study advises aligning sustainability reporting standards with country-specific social and environmental concerns and making compliance mandatory rather than voluntary. Adewoye, Olaoye, and Ogundipe (2018) researched oil and gas CSR in Nigeria. The study used an ex-post facto research design to estimate the model; Breusch Pagan Lagrangian Multiplier (LM) and Hausman tests were used to examine the data. The study found mixed effects of ethical, environmental, and societal social responsibilities on performance, but the F-ratio 3.109387 (P value= 0.002652 0.1, 0.05, & 0.01 levels of significance) indicated a significant relationship between corporate social responsibilities and oil and gas company performance in Nigeria. The research suggested firms examine CSR spending. Uwaoma and Ordu (2016) studied Nigerian oil and gas environmental reporting. The

study assessed the reporting requirements and what is commonly stated in the financial statements of Oil and Gas businesses vis-à-vis standard disclosure standards. Consistent reporting format ensures openness in company activity reporting. Considering environmental performance indicators, reporting formats, and Normalization variables, the biggest obstacles in sustainability performance reporting are measuring, defining, and selecting relevant indicators.

To achieve this goal, therefore, the following hypotheses were raised:

Study Purposes

- 19 To examine whether there is any significant relationship between accounting practices and corporate social responsibility of Oil and Gas companies listed on the Nigerian Stock Exchange and
- 20 To evaluate the effect of corporate social sustainability disclosure on the financial performance of Oil and Gas companies listed on the Nigerian Stock Exchange; and

Research Questions

1. What is the relationship between accounting practices and corporate social responsibility of Oil and Gas companies listed on the Nigerian Stock Exchange?
2. What is the effect of corporate social sustainability disclosure on the financial performance of Oil and Gas companies listed on the Nigerian Stock Exchange?

Research Hypothesis

H₀₁: There is no significant relationship between accounting practices and corporate social responsibility of Oil and Gas companies listed on the Nigerian Stock Exchange.

H₀₂: There is no significant effect of corporate social sustainability disclosure on the financial performance of Oil and Gas companies listed on the Nigerian Stock Exchange; and

Methodology

This study adopted the ex-post facto research design as it analysed already existing information over a number of years. Ex-post facto research deals with the determination, evaluation and explanation of past events essentially for the purpose of gaining a better and more reliable prediction of the future (Amahalu, *et al*, 2015). The research methods involved an initial scrutiny of the selected oil and gas companies' annual reports to observe their accounting practices and corporate social responsibility disclosure. The population of this study consisted of all the 13 oil and gas companies listed on the Nigerian Stock Exchange (NSE) (<https://www.african-markets.com/en/stock-markets/ngse/listed-companies>).

However, seven of the firms were selected based on the availability of their annual reports for the period of 10 years (2010-2019). Hence, required data were extracted from

the annual reports, using content analysis. The extracted data were analysed using Pearson Product Moment Correlation Coefficient (PPMC) to test hypothesis one and Simple Linear Regression analysis to test hypothesis two, with SPSS 23.0, at 0.05 level of significance.

Result and Discussion

Hypothesis One: There is no significant relationship between accounting practices and corporate social responsibility of Oil and Gas companies listed on the Nigerian Stock Exchange.

Table 1: Pearson Correlation Statistics

| | | Corporate Social Responsibility |
|----------------------|-------------------------|---------------------------------|
| Accounting Practices | Pearson Correlation (r) | .801 |
| | Sig. (2-tailed) | .004 |
| | N | 70 |

Table 1 data shows the relationship between accounting practices and corporate social responsibility. The correlation coefficient $r=.801$, indicates a very strong association between accounting practices and corporate social responsibility, while $p=.004$ shows a significant relationship between the two variables. Hence, the hypothesis is rejected and its alternative is accepted.

Hypothesis Two: There is no significant effect of corporate social sustainability disclosure on the financial performance of Oil and Gas companies listed on the Nigerian Stock Exchange; and

Table 4.2 Regression Statistics

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | .255 | 13.707 | | .019 | .986 |
| Corporate Social Sustainability Disclosure | 3.997 | 1.065 | .647 | 3.753 | .003 |

Dependent Variable: Financial Performance (ROA)

$R = 0.827$, $R^2 = 0.759$, Adjusted $R^2 = 0.699$, Durbin Watson = 1.723

F-value = 11.231 (p-value = $0.003 < 0.05$)

Data in Table 2 above shows that corporate social sustainability disclosure immensely contributed to financial performance with a co-efficient of 0.647 ($Sig. = 0.003$), which shows that its contribution is significant. Since the P-val. above = $0.003 < 0.01$ ($F\text{-Change} = 11.231$), then we conclude that the model is 99% significant. In essence, the model

explains the deviation in the Oil & Gas financial performance during the period under review. Hence, we conclude that there is a significant effect of corporate social sustainability disclosure on the financial performance of Oil and Gas companies listed on the Nigerian Stock Exchange.

The R-coefficient of regression ($R=0.927$) implies that the relationship between the independent and dependent variables is positively very strong. The R-square coefficient of determination ($R^2=0.759$) indicates that 75.9% of the changes in Oil & Gas financial performance (2010-2019) was caused by the corporate social sustainability disclosure. While the adjusted R^2 also shows that 79.9% of the variance in Oil & Gas financial performance was explained by the model.

Conclusion

The results of this study showed that there is a significant relationship between accounting practices and corporate social responsibility and that corporate social sustainability disclosure has a significant effect on the financial performance of Oil and Gas companies in Nigeria.

Recommendations

This study recommends that oil and gas companies in Nigeria should adopt the best accounting practices recommended by both the local and global financial reports regulatory bodies, so as to ensure the satisfaction of all stakeholders, which in turns would enhance their performance.

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