Environmental costs disclosure practices: by oil and gas companies operating in nigeria for greener future

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Abstract

Oil and Gas companies have been accused of "green washing' and having a conflict with the communities in which they operate, what the companies are saying about environmental friendliness in their annual reports appears not to reflect what they are actually doing. This study evaluates the environmental costs Disclosure practices in the oil and gas companies operating in Nigeria for greener future, so as to examine whether the disclosure reflects what companies are doing and saying about environmental costs. The content analysis method is used to obtain data from the annual reports of the companies. The results reveal that companies disclose environmental cost descriptively, that is there is limited numerical disclosure of environmental costs. This study recommends that oil and gas companies should be more sustainable if they focus more on environmental preventive measures for greener future rather than waiting to incur curative costs to cure the damaged environments

Keywords: oil and gas, environmental costs, disclosure, Greener Future, Nigeri

1.0 Introduction

Companies in oil and gas industry have been accused of "green washing" in their marketing campaigns in respect to environmental responsibility (Pulver, 2007). What companies are saying about environment friendliness appears not to reflect what they are actually doing towards greener future. It is common to find the companies' environmental policy to state that the companies are committed to environmental management by recognizing. Avoiding and or minimizing environmental impacts to society. Also, companies claim to be aware that protection of the environmental requires careful planning and commitments, further; some companies indicate a seriousness in protecting the nature by incurring a huge amount of environmental expenditure. However, (Jay, 2016). Assert that our generation is knowledgeable about environmental issues, but only with the firm, decisive, and collective action we can really create a greener world. Regardless of their commitments, some companies ended up being accused of damaging environmental and suffered a lot of fines, penalties, clean-up costs, and damaging their reputations.

1.1 Aims and objectives

The aim and objectives of this research is to examine the environmental costs disclosure practices of oil and gas companies operating in Nigeria. In order to capture the disclosure practices. The specific objectives are:

(i) To identify the type of information disclosure by the industries

(ii) To analyze the types of disclosure practices by the industries

2. Literature review

2.1. Overview of the oil and gas industry

According to Yergin (2008) and Schweizer (2010), there are three broad categories of the oil and gas companies: upstream, midstream, and downstream. The upstream companies deal with exploration and production of crude oil. This sector involves the researching for potential underground or underwater natural gas and crude oil fields, drilling of exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil and or natural gas to the surface. The midstream category deals with distribution of the crude oil and includes tankers and pipelines that carry crude oil to refineries. The downstream sector deals with refining, marketing, and retail distribution of refined oil, through gasoline stations and stores.

The current research is concerning with the upstream sector.

2.2 Theoretical perspective of the study

The theoretical perspective of this study is grounded in legitimacy theory According to suchman (1995) Legitimacy theory has become one of the most cited theories within the social and environmental accounting area. Legitimacy theory, at its simplest, argues that organizations can only continue to exist if the society in which they are based perceives the organization to be operating to a value system which is commensurate with the society's own value system the value system include sustainable greener future (Gray and Bebbinton, 2001). This theory is relevant for this study as it requires the organization to account for environmental impacts which are associated with the action of organizations therefore in order to continue operating successfully, organizations must act within the bounds of what society identifies as socially acceptable behavior.

2.3 Environmental and social impacts of oil companies in Africa

research on oil and gas companies have revealed that in 2010, Africa accounted for 13% of global oil production, and Sub-Saharan Africa, contribute 7.25% (Baumuller et al., 2011), and there were about 500 oil companies that were operating in the African upstream oil and gas industry. A Large part of the oil production comes from Nigeria and Angola. Research on oil and gas companies conducted in Sub-Sahara Africa (SSA), concluded that oil and gas companies are the "dirtiest" companies which pose major direct risks to environments and human health which consequently undermine economic activities such as fishing (Baumuller, Donnelly, Vines, and Weimer, 2011). The study by Baumuller ,(2011) on oil and gas companies observed the following to mention a few:

1. The oil and gas industry in sub-Saharan Africa (SSA), threatens not only the health of local communities but also the livelihoods of other creatures living in water, air or soil.
2. While oil and gas companies have policies to address environmental impact, actual practices largely remain piecemeal and short-term.
3. Members of the society are inadequately engaged in the companies' decisions about social responsibility and there is insufficient transparency about environmental degradation issues.

2.4 Environmental costs

Environmental costs emerge from companies' operations which intend to detect, prevent, eliminate or reduce releases of hazardous, remedy of the degraded environment, compensation of destructed human health, and cost related to compliance with environmental regulations (Kumaran, Ong, Tan, and Nee, 2002). In the process of production, oil and gas firms pollute air, water and or soil: these pollutions can either be prevented to reduce negative impact to society or they may be allowed to happen such that society suffer the consequences and corporations incur costs to compensate the suffered society, and recover the degraded environment through clean-up and compliance costs.

Previous researchers claimed that environmental insensitivity reduces firm's sales and increases firms operating costs (Porter and Linde., 1995). Similarly, it was also claimed that community pressure and informal sanctions on environmental degradation can penalize corporations' value (pargal and wheeler., 1996; Arora and cason., 1996). Likewise, it was noted that higher environmental costs lead to higher costs of capital and lower market value of firms (Konar and Cohen., 1998). Recently, Chika and Tomoki, (2014), observed that the impact of corporate carbon emissions reduces firms' market value of equity, and, the disclosure of carbon management has a positive relation with the market value of equity. This implies that well-designed disclosure of environmental information is important for enhancing firm value. Indeed, Branco, Emanuel, and Rodrigues, (2007), argued that categorical disclosure of environmental information in the annual report have a positive impact on the perceptions of investors because the information affects firm's cash flows. In these contexts, it is important to understand environmental information disclosure in the environmentally sensitive sector such as oil and gas especially in countries where this sector are doing their operations.

2.5. Disclosure of environmental costs

the international accounting standard (IAS) 1: presentation of financial statements sets out the overall requirements for disclosure of financial information in the financial statements, including how the structure of the financial statement would be, the minimum requirements for the financial statements contents and overriding concepts, the accrual basis of accounting in industries which are environmental sensitive can produce a separate environmental report, because Environmental information of the companies could in fluencies the economic decisions of the users of the financial statements. When the environmental cost is disclosed in a separate report, the accounting policies have to specify what the environmental costs represent. Absence of clear disclosure on environmental costs in environmentally sensitive industry such as oil and gas may cause criticism among investor and the community that may lead to firm value destruction (Branco , 2007; Perez, Ruiz, and Fenech, 2007)

Recently, researchers in environmental costs disclosure have affirmed that environmental costs are rarely shown separately in the financial statement unless they represent an exceptional item, and there is usually no reason to treat such costs in a different way from other costs (Ibanichukas and James., 2014). However, the explanatory and classified environmental costs information disclosure in environmental sensitive companies is important to users. Ibnichuka and James, (2014) argued that companies disclosing environmental costs, should clearly identify costs relating to "preventing, reducing or repairing damage environment" because disclosure of this type was argued to reduce negative environmental impacts (Letmathe and Doost, 2000), and enhance positive perceptions of investor as the information affects firm's cash flows (Branco 2007; Perez 2007). Letmathe and Doost., (2000) also noted that classified environmental costs should be taken into account in any assessment of environmental performance because they can provide information that can when properly used may reduce environmental costs in future.

2.6 Towards a greener duture of our environment

(Bridget, 2015) assert that Mahatma Gandhi once said, “Earth has enough resources to meet people's needs, but will never have enough to satisfied people's greed”. This quote holds a powerful truth of what human did to our planet; past generation and present society have caused more damage to the environment in the last few centuries then throughout its entire existence. The future of the world and humanity is at stake, now is the time to start using our short term actions to create a brighter, greener future. Humanity must demonstrate accountability in the harm it has done to the environment. However, (Beckwith, & Ryan 2015), is often difficult for people to be motivated to change their regular habit towards greener future, if they are not able to see this physical impact they are making, therefore, any harm done to the environment, therefore, is harm done to humanity. Whereas (Poladian, 2014). Argued that the entire globe is now affected by each country decision industrially, regardless of wealth distribution or international relations. This interconnectivity makes it vital that as a planet, we all get on the same page regarding how we consume our natural resources. Measures have to be taken to keep the world greener and sustainable.

3. Methodology

3.1. Data source

This study evaluates the environmental costs disclosure in nine oil and gas companies operating in Nigeria. From the annual reports through (NSE) Nigerian Stock Exchange Fact Book for the year, 2015 from the selected oil and gas companies operating in Nigeria are used to obtain information about disclosure of different categories of environmental costs. Also, corporate social responsibility or environmental report were also used where the annual reports indicated that the CSR or the environmental reports are documents which are produced regularly and comply with statutory requirements, therefore, they are reliable source of data and are largely used by previous researchers see for example (Beck, 2010; Owolabi, 2008; Enahoro, 2007; Guthrie and Abeysekera., 2006; Campbell, 2004; 2003) annual reports are the most important documents for the organization construction of their social image. Further, the audited annual reports are reliable and credible. The annual reports for research are obtained from the companies' websites.

3.2. Research design and data collection

The nature of this study is survey design which is entirely based on description and explanation of the environmental costs information disclosed from the companies' annual reports for the year 2015.

3.3. Content analysis

Content analysis method was used in this research because it allows corporate environmental disclosure to be systematically classified and compared, which is useful for determining trends and extent of disclosure. This research use interpretative content analysis and words in sentences are used as the unit of analysis. Environmental costs related sentences were coded manually and categorized into the two groups. Sentences which appear to reflect incurrence or expectation of incurring costs to prevent or protect environmental damages are hereby categorized as defensive disclosure, and the sentences which reflect incurrence or expectation of incurring costs to remedy the damaged environmental are hereby categorized as aggressive disclosure.

4. Results presentation and analysis

Table one below present results of environmental cost information disclosure for all companies under this study. Its shows that Con oil Company Plc discloses about 45% of the narrative defensive environment cost information and 27% of the total narrative aggressive information of all the nine companies involved in this study, this company is relatively small with (27,346 employees) as compared to Shell which has 73,346 employees, and Chevron which has 61, 456 employees. This may imply that firm size has little influence on environmental cost disclosure.

Table 1: Environmental cost disclosure by company

Company	Company size, 2014	Defensive Disclosure		Aggressive Disclosure	
	Number of Employee	NTV	QTY	NTV	QTY
Shell BP Nig Plc	74,365	14	0	8	3
Chevron Plc	61,456	1	0	2	0
Afro Oil plc	24,300	21	0	23	0
Forte Oil Plc	46,089	8	0	7	0
Con oil Plc	27,349	58	0	33	6
Eternal oil and Gas plc	23,489	8	0	8	0
Total Nigeria Plc	30,678	6	0	19	0
OANDO plc	31,344	9	0	22	0
Mobil Nig plc	19, 677	5	0	2	0
Total	338,747	130	0	124	9

*NTV Stand for Narrative Disclosure
*QTV Stand for Quantitative Disclosure

5. Conclusion and recommendations

This study aimed at examining environmental costs disclosure practices of oil and gas companies operating in Nigeria. Nine companies were used as a source of data, and content analysis method was employed to collect data for analysis. The results revealed that lack of legitimacy of international accounting standards and financial reporting standards to enforce companies to disclosure environmental costs and liabilities have a direct effect on the environment disclosure practices. In addition, the absence of clear environmental cost classification prohibits the need to disclose and classify these costs. It is evident that a firm operating in environmentally sensitive sectors does not incur considerable costs in an attempt to protect their operations from causing harm to environments and to reduce environmental externalities. I argue that classifying environmental cost into appropriate cost center will enable investors, shareholders, society and other stakeholders to determine how the companies respond: to corporate negative externalities and to their environmental responsibilities. Further, prevention is better than cure, thus, it is my argument that oil and gas companies should be more sustainable for greener future if they focus more on environmental preventive measures rather than waiting to incur curative costs to cure the damaged environments.

Further, the study recommends that environmental cost incurred to prevent, and compensate injuries should be reported in the financial statements as environmental cost, and the noted of financial statements should indicate the specific category of the environmental costs. In addition, because the international Accounting Standard (IAS) 1 requires that significant accounting policies should be disclosed in noted of the financial statements, because environmental issues are among the most significant growing issues that affect many businesses (Ibanichuka and James. 2014), the shareholders and other stakeholders may require knowing the nature of environmental liabilities and costs especially in firms operating in environmentally sensitive sectors, such as the oil and gas sector. It is, therefore, important that the nature of underlying costs. In this context, the categorical disclosure of such information with an appropriate explanation is important to users in this era of increasing importance of environmental issues.

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