INFLUENCE OF CORPORATE GOVERNANCE ON ENVIRONMENTAL ACCOUNTING DISCLOSURE OF LISTED OIL AND GAS COMPANIES

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Abstract

This study investigates the influence of corporate governance on environmental accounting disclosure of listed oil and gas companies. The study adopts a qualitative research design and conducts review of existing literature related to this topic. The findings reveal that in certain countries, such as Nigeria, there has been a transition from voluntary to regulated environmental disclosure procedures, although compliance remains a voluntary choice, leading to inconsistencies in the extent of disclosure. The Petroleum Industry Act (PIA) 2021 in Nigeria specifically addresses issues related to Host Community Development (HCD) by instituting Host Community Trust Funds and establishing dispute resolution mechanisms though there are some identified lacunas regarding measures to address strategies for transitioning to cleaner energy sources and modality for selecting HCD representatives. Corporate governance is dynamically evolving to tackle environmental concerns and meet the expectations of stakeholders. The relationship between stakeholder, legitimacy, and agency theories sheds light on how governance shapes the practice of environmental accounting disclosure. The study advocates for mandatory disclosure practices by corporate entities rather than leaving them as optional measures.

Keywords: Corporate Governance; Environmental Accounting Disclosure; Host Community Development

JEL classification: M41, M49

1. INTRODUCTION

The dynamic change in the corporate environment has necessitated more serious considerations for the mechanism put in place to control and direct the affairs of a firm's activities in a lawful manner. This mechanism has been established to ensure that those appointed to direct and control a firm's activities execute them in conformity with the ethical and social standards, as well as the relevant regulations (Isa et al., 2021). It is to protect and safeguard all stakeholders' interest. It is also expected to recognize the stakeholders' theory by fulfilling their moral, legal, social and environmental obligations, which include management of social and environmental footprints (Indriastuti & Chariri, 2021; Ajibolade & Uwuigbe, 2013).

In international communities, the issue of environmental reporting disclosure is one of the main features of corporate social responsibility reporting (Adinehzadeh et al., 2018). These disclosures are completely voluntary though in the European Union firms are recently required to add some environmental information in their yearly business review. Firms can then determine what to include and to exclude (Ahmed & Simon, 2020). Environmental reporting is now universally accepted as being the preparation of narrative as well as numerical information on a company's environmental footprint for the accounting period under examination. The narrative is employed to reveal every objective, explanation, vision, and justifications for achievement or failure against objectives and expressing specific stakeholder concerns. Numerical data are employed to put across messages in areas that can be substantially evaluated, like pollution amounts, resources consumes and land use (Aliyu, 2018).

The crises in the global stock market and corporate fraudulent practices in Nigeria's economy have raised concerns about the effectiveness of corporate governance in the country (Jinadu et al., 2018). 'The environmental impact of industries such as oil extraction, farming, mining, and manufacturing has also prompted stakeholders to demand better corporate reporting (Jinadu, 2021; Igbekoyi et al, 2021). The idea is to improve shareholders' trust, corporate interactions, and environmental information disclosure, with the goal of enhancing corporate governance and increasing shareholders' wealth (Adegbei & Nwobodo, 2020).

In the light of the above the Multinational firms operating in Nigeria are required by foreign regulations to provide sustainability reports covering economic, social, and environmental aspects (Ndlovu & Dzomira, 2021). However, despite some firms publishing environmental information, many doubt the accuracy and completeness of this information due to the dynamic nature of corporate governance and influencing factors, particularly in the oil and gas sector (Ndlovu & Dzomira, 2021; Oladimeji & Folayan, 2018). This uncertainty is exacerbated by recurring instances of environmental mismanagement by multinational firms. While a few firms do release sustainability reports, doubts persist about the extent to which they adhere to environmental reporting guidelines (Okeke, 2021). The pursuit of profit and changing stakeholder demands has led many firms to consider social and environmental concerns, yet their activities often negatively impact local communities and ecosystems (Igbekoyi et al., 2021). This has prompted calls for increased environmental disclosure in line with global best practices, to balance economic growth with environmental protection (Agyemang et al., 2020; Akbas, 2016; Khlif et al., 2015).

Numerous studies have explored the link between corporate governance and environmental disclosure, considering factors at the firm, country-specific (Ienciu et al., 2012), and cross-country levels (Odoemelam & Okafor, 2018; Baboukardos, 2017; Akbas, 2016). However, these studies often focus on legal frameworks and companies in common and civil law economies, neglecting the complexities of weak and robust accounting systems and the unique challenges

faced by oil and gas companies (Khlif et al., 2015). The demand for robust environmental accounting practices has led to research into the relationship between corporate governance mechanisms and environmental accounting disclosure. While this has been extensively studied in developed economies, there is a lack of emphasis on developing economies like Nigeria. Additionally, research on the correlation between corporate governance attributes and environmental reporting quality has yielded inconsistent results, highlighting the complexity of this relationship across different economic contexts (Nguyen & Tran, 2019; Osemene et al., 2021).

Indeed, there has been a relatively limited amount of research conducted on corporate governance and environmental accounting disclosure within the oil and gas sector, particularly following the enactment of the Petroleum Industry Act in 2021. This is especially notable when considering the extensive body of research in the broader field of management sciences. Given the recent nature of the Act, there is a pressing need to actively encourage and support a substantial body of research that delves into the various challenges and gaps associated with these specific areas.

Given these gaps, more research is needed to assess the environmental reporting conformity of listed companies in Nigeria, particularly those involved in activities affecting the environment such as mining. Oil drilling and explorations in the Niger Delta regions. This study aims to investigate how corporate governance influences environmental accounting disclosure in listed oil and gas companies. The study's objectives include examining the historical evolution of corporate governance and environmental accounting in the oil and gas sector, analyzing corporate governance structures for managing environmental risks, assessing the extent and nature of environmental accounting disclosures by oil and gas firms, understanding stakeholder influences, and identifying commonalities and variations in corporate governance and environmental accounting practices across regions and cultures within the oil and gas sector.

By addressing these objectives, this study contributes to a deeper understanding of how oil and gas companies have responded to environmental challenges through corporate governance enhancements and increased environmental accounting disclosure, ultimately shedding light on the broader transition towards sustainable and responsible business practices in the energy sector.

2. CORPORATE GOVERNANCE

Corporate governance is defined as "the role of individuals entrusted with the supervision, control, and direction of an entity," as outlined in the Financial Reporting Council of Nigeria (Amendment) Act, 2023. It is further considered as the process and structure put in place to guide and regulate the business and affairs of the firm, aiming for organizational prosperity and corporate accountability. The primary objective is to achieve long-term shareholders' value while also considering the interests of other stakeholders, including environmental disclosure

(Bateman et al., 2017). Corporate governance structure varies across the globe, and acts as vital driver of corporate performance by the business community as well as capital market regulators (Okaiwele & Ikhatua, 2018). It became fame after encountering the Asian Financial Crisis (AFC 1997–1998) by listed corporate companies in Asia and the Global Financial Crisis (GFC 2008) in Western nations (Khan et al., 2019).

According to Khan et al. (2019) AFC 1997/98 triggered the relevance of corporate governance mechanisms in East Asian economies and its critical position in business activities, and listed multinational companies are recognized. Prior to AFC 1997/98, there was a miniature function of corporate structure and its principles in the practice of listed multinational companies. These crises influence unconstructively the corporate financial feat of listed firms in emerging economies in East Asia and view the corporate governance structure as the yardstick set of regulations for the firm's structure to be carried out in the company's practice.

Jinadu (2021) is of the opinion that high-profile corporate scandals gave rise to issue about the efficiency of corporate boards worldwide, concerns about the feat of corporations and the manner they are managed by their board of directors; for instance the incidents in the United Kingdom (the collapse of Maxwell Publishing Group), the United States (World Com, Enron fiasco and Tyco scandal), Germany (Holtzman, Berliner Bank and HIH), Switzerland (Swissair), Australia (One Tel and Ansett Airlines), India (Satyam and NSEL scam) and France (Credit Lyonnais and Vivendi) (Rajagopalan & Zhang, 2009). The board of directors is the critical internal monitor as well as the most outstanding internal governance system in aligning the interests of shareholders and managers (Fama, 1980) and the effectiveness of disclosure of environmental footprints rest upon the corporate governance mechanism (Mayorga & Trotman, 2016); thus board of directors must be faithful in rendering relevant and reliable information to all stakeholders.

The application of the corporate governance structure varies in different countries, which depends on a political situation, business, industrial, economic, and social environment (Guo & Kga, 2012). In the European Union, many listed firms are required to conform with an established code of corporate governance, give reasons for non-compliance and prepare a corporate governance statement every year which includes annual report and accounts. In Africa, a good number of steps have been put in place in order to fortify corporate governance structure like South Africa and Nigeria (Isukul & Chizea, 2017), in South Africa starting from King report on corporate governance in 1994 to King III report (Ofoegbu et al., 2018).

In Nigeria, the Artedo Peterside committee constituted by the Securities and Exchange Commission (SEC) in 2003 and developed a code of best practice for public companies in Nigeria (Ofoegbu et al., 2018). In the same economy every public listed firm is required to disclose in its annual report how it has applied the code of corporate governance and the extent of its compliance with the Code. Similarly, the OECD principles request for disclosures by firms concerning governance issues. Disclosure refers to as making data available so that there is

transparency. It may be a mixture of mandatory and voluntary items and is a medium through which a firm states its environmental activities to its stakeholders (Hendri & Puteri, 2015).

In Nigeria, the issue of corporate governance came on board with the detection of overstatements in Cadbury Nigeria Plcs accounts in 2007. Many cases thereafter followed. According to Ofoegbu et al. (2018) corporate governance is embraced in Nigeria as a result of previous experiences of corporate collapse which necessitates development of corporate governance regime. It explains that corporate practice in 18th century was not popular. It was more of speculative as well as fraudulent schemes evaluated for unethical issue rather than trading. It became point of reference, after independence when the Companies Ordinance was replaced with the Companies Act of 1968. This Act made provisions for direction and control of the affairs of companies with attention to the roles of the Board of Directors and the responsibilities of the members at Annual General Meeting (AGM). However, the Companies and Allied Matters Act (CAMA, 2020) replaced it due to its inadequacy to appreciate the economic realities and Nigeria's settings. Although provisions of CAMA were fundamental to corporate governance yet more attentions were not given to it until after the collapse of some major firms such as Cadbury Nigeria Plc, which has been tagged as Nigerian example of Enron, as case study. These events shed light to the essence of having sound corporate governance (Ofoegbu et al., 2018).

Sound corporate governance structure strengthens a firm's competence to not only efficiently handle the risks in its operating environment, but also to identify and achieve the opportunities that are available. The board is accountable for making available this underpinning, like the sustainable development of the firm should be managed as an integral aspect of the performance of the board (Manning et al., 2018). They explained further that the corporate governance performs its responsibilities for sustainability by providing governance mechanisms and by delegating to structures that may involve a committee accountable for sustainability. The benefit of this structure (sustainability structure) is that it underpins those who are saddled with responsibilities and oversight of sustainability in a targeted and coordinated manner across the firm. A board sustainability committee is normally established by the board which appoints the committee members as well as approves their directive. The structure has four levels, basic practices, intermediate practices, good international practices and leadership (Mahmood et al., 2018).

To strengthen corporate governance, organizations establish committees to aid the board of directors in effectively achieving organizational objectives. These committees are tasked with monitoring financial integrity, internal controls, business risk, and environmental concerns (Osemene et al., 2021).

2.1. BOARD INDEPENDENCE

Association of Chartered Certified Accountants [ACCA] (2019) defines independence as the quality of being unaffected by undue influence or restrictions,

vital for professionalism. In the context of non-executive directors (NEDs), independence ensures a clear and transparent decision-making process. NEDs represent shareholder interests and are fiducially bound to them. The selection of NEDs from outside the company can enhance their independence by avoiding internal network influences (ACCA, 2021).

ACCA (2021) argues that practical approaches often combine NEDs with diverse expertise to form an effective non-executive board. While internal knowledge might provide technical insights, external NEDs can offer an unbiased perspective. Provisions in company law and governance codes across jurisdictions are designed to reinforce NED independence. Typically, NEDs should not have recent business, financial, or other affiliations with the firm. Cross-directorships, share options for NEDs, external advisory access, and term limits are also implemented to maintain independence (ACCA, 2021).

Board independence, particularly with a higher proportion of independent non-executive directors, enhances governance. These directors are motivated to uphold their professional reputation and adhere to established standards and regulations. Independence aligns with agency theory, allowing independent directors to monitor self-interested managerial actions and reduce agency costs (Aliyu, 2018; Peters & Romi, 2015). Board independence strongly influences the level of environmental accounting disclosures, as independent directors encourage transparent reporting and influence other directors to disclose more information to stakeholders (Aliyu, 2018; Kilincarslan et al., 2020).

2.2. BOARD SIZE

Some researchers define board size as the total count of directors on a firm's board (Ofoegbu et al., 2018; Aliyu et al., 2018; Ndubuisi & Okafor, 2018; Rabi, 2019; Issa et al., 2021; Osemene et al., 2021). Agyemang et al. (2020) characterize board size as a component of corporate governance that facilitates the inclusion of numerous directors with diverse expertise. This attribute is linked to environmental disclosure. The literature presents mixed findings on this matter (Moussa, 2019; Coffie et al., 2017; Kolsi, 2017; Trireksani & Djajadikerta, 2016). Kabiru et al. (2019) argue that a board's responsibility is to uphold company behavior, ensure legal conformity, and maintain integrity through appropriate and suitable disclosure. It is expected that board size can scrutinize management's decisions regarding financial disclosure. Janggu et al. (2014) suggest that boards with over seven to eight members might be ineffective, as larger boards could disrupt coordination, communication, and decision-making efficiency, potentially leading to managerial influence (Aliyu, 2018).

2.3. RISK MANAGEMENT COMMITTEE

A risk management committee aids the board in its corporate governance oversight role by identifying, evaluating, and mitigating operational, strategic, and external environment risks. It oversees and approves risk policies and practices, ensuring effective internal controls are in place (ICAN, 2019). The Nigerian Code on Corporate Governance allows boards to establish risk management committees

for risk oversight, strategy, and report review (Aliyu, 2018). Risk management's integration with corporate governance improves board oversight, enhancing governance quality, reporting, and reducing audit committee workload (Yatim, 2010). Researchers advocate separating the risk management committee from the audit committee, especially for complex industries, emphasizing the importance of independent non-executive directors and their role in effective risk monitoring (Bhakti, 2020). The risk management committee annually reviews policies, evaluates exposures, and coordinates with the audit committee when needed (ICAN, 2019). ACCA (2020) concurs, stating that the committee devises risk management strategies, reports to the board, and ensures alignment with company policies.

2.4. ENVIRONMENTAL COMMITTEE

The environmental committee assesses natural capital and demonstrates a transparent approach to environmental concerns (Liao et al., 2015). While its existence indicates attention to environmental issues, its effectiveness varies (Berrone & Gomez-Mejia, 2009). The committee showcases proactive governance for carbon-constrained futures (Rankin et al., 2011). It is a mechanism for specialized reflection on pertinent issues, akin to an audit committee (Lorsch & MacIver, 1989). Specialized committees, like environmental committees, positively influence disclosures and long-term strategies, especially for climate change (Peters & Romi, 2014; Berthelot & Robert, 2012). Evidently, specialized committees promote information disclosure and the execution of climate change strategies (Aliyu, 2018; ACCA, 2020).

3. ENVIRONMENTAL ACCOUNTING DISCLOSURE

Environmental accounting disclosure portrays the act of disseminating the environmental accounting information to every stakeholder as a type of accountability of adhering to the suppositions of environmental standards (Alok et al., 2018). Disclosure of environmental performance in an annual report is to indicate the level of accountability and firm transparency to all stakeholders (Setyawan & Kamilla, 2015). The concept of environmental accounting disclosure, as defined by Alok et al. (2018) serves as an overarching term encompassing the various methods companies employ to communicate information about their environmental activities to diverse users of financial statements. Essentially, it involves companies willingly or as legally required integrating environmental management and developmental costs into their annual reports.

Companies might use environmental accounting disclosure to shape public perception of their operations. By quantitatively presenting the results of their environmental conservation efforts, this function acts as an external tool enabling companies to influence decisions made by stakeholders like consumers, investors, and local communities. Environmental information serves as a communication channel between the company and its stakeholders. Disclosure is crucial due to the pivotal role of the environment and the negative impact of a company's activities

on it. This disclosure could be included within a company's annual reports or presented as a separate entity (Solomon, 2020).

The philosophy of environmental accounting disclosure is not a function of a firm's model, but a statement of stewardship in the public attention (Vanda et al, 2014). Nevertheless, efforts have been made to recast environmental accounting disclosure from different dimensions and conceptual perspectives. This study conversely views the concept from the standpoint of the laid down pointers that are employed to appraise the environmental responsibility level of companies. The environmental disclosure index built by the global reporting initiative (GRI) has been progressively accepted as a structure of environmental disclosure benchmark and it has received global approval.

The corporate environmental report is instituted to give environmental information such as corporate activities in safeguarding and preserving the immediate environment. This report reveals the firm's step towards the environment and strategies employed to supply alternative yardsticks that are not harmful to it. The firms are projected to voluntarily institute an account of their non-financial activities that promote the well-being of humans, societies, workplace, and competition (ACCA, 2020). However, Rouf (2011) asserts that, many times, disclosures of corporate environmental accounting do not meet up with the demand of external stakeholders. This usually results from the fact that the corporate management of the firm is more likely to promote their personal interests when making managerial decisions and the consequential impacts are more disclosure gaps like the discrepancy between actual and projected disclosure. The option to disclose or not to disclose more information mostly rests on numerous drivers such as firm and board characteristics (Osemene et al, 2021).

4. THEORETICAL REVIEW

It is essential to explore various theoretical viewpoints to comprehend how corporate governance affects environmental accounting disclosure. These different theories work together to support rather than oppose the topic at hand. This research is centered on the integration of three theories. The study combines the principles of stakeholder, legitimacy, and agency theories to form a cohesive framework.

4.1. STAKEHOLDER THEORY

The stakeholder theory is one of the theories that underpin this study. The theory was the proposal of Johnson (1971) who believed that a socially accountable company is an entity that stabilizes a multiple interests alongside that of the owners which, while pursuing to attain expected profits for the shareholders, is also mindful of the interests of the workforces, suppliers, investors and communities at large (Osemene et al., 2021). It argues that agents who are executive directors of firms are charged with the ethical obligation to consider all stakeholders' interests and suitably balance the same.

However, another school of thought believes that stakeholders theory was model of Edward Freeman in 1980. Edward Freeman developed the theory in the early 1980s. Freeman is a prominent scholar in the field of business ethics and management. He introduced the stakeholder theory as an alternative perspective to traditional shareholder-centric views of business. The stakeholder theory suggests that organizations should consider the interests of all individuals or groups (stakeholders) who can affect or are affected by the company's actions and decisions, rather than focusing solely on maximizing shareholder value. This theory emphasizes the importance of ethical and responsible management that considers a wide range of stakeholders, including employees, customers, suppliers, communities, and the environment (Igbekoyi et al., 2021). Freeman (1984) considers a stakeholder as any set or a person who can influence or is influenced by the attainment of the firm's goals. The stakeholder theory is centered on the stakeholders of a multinational firm and its competing priorities (Shahab et al., 2020).

A multinational firm generates value by networking with stakeholders in a reciprocal reliance network (Freeman et al., 2007). Reciprocity imposes a moral responsibility on multinational firms to hit a balance between the preferences of stakeholders (Huang & Kung, 2010). There is emergent substantiation that stakeholders are anxious on how companies deal with their responses towards environmental issues (Cormier et al., 2004). Industries gradually involve in environmental governance initiatives in an attempt to address these apprehensions. According to Rodrigue et al. (2013), environmental governance means the board's plan that goes beyond the ceremonial governance systems as stated by the significant institutional structure. Such a plan may engage the establishment of committee on environmental matters or the setup of different boards in terms of independence or NED to make sure that environmental issues are discussed.

This theory is also referred to as an explainable theory for corporate environmental accounting (Liao et al., 2015). It involves the acknowledgment and recognition of the association that exists between the firm’s conduct and its influence on its stakeholders. The theory viewpoint takes cognizance of the firm’s environment, including customers, suppliers, employees, and other segments of the community. Due to this relationship, the firm needs corroboration of all stakeholders to survive. The corporate governance must manage this cordial relationship once they are considered important. One of the means of sustaining the relationship is by disclosing relevant information via voluntary environmental disclosures in order to have the support and endorsement of the stakeholders (Fasua & Osifo, 2020). The extant literature evidently suggest that stakeholders play an imperative role in companies’ sustainability issues (Osemene et al., 2021; Ndubuisi & Okafor, 2018) and are critical to corporate performance and survival (Igbekoyi et al., 2021). The major argument of the theory is that multinational companies should carry out their business activities so that the value of every stakeholder will be considered, and not only that of shareholders.

4.2. LEGITIMACY THEORY

Dowling and Pfeffer in 1975 propounded the legitimacy theory (Ihimekpen, 2021). The theory refers to the observation that companies and communities are involved in a social contract, where the firms are identified by the communities as being socially responsible. Legitimacy is defined as an insight that the actions of a firm are attractive, suitable, or proper within some communally constructed mechanism of norms, values, beliefs, and definitions (Suchman, 1995). Firms disclose environmental reporting to achieve legitimacy. Legitimacy theory centers on how board size and environmental feat are employed by firms to acquire endorsement on their decisions from the broader community, which is expected to make the firms to be thriving and sustainable (Elmagrhi et al., 2019; Haque & Ntim, 2018). Entities can get legitimacy and safeguard access to financial/nonfinancial resources (Shahab et al., 2020) by conforming to the environmentally sociable codes of conduct.

In view of the fact that legitimacy theory seeks to explain firms' motivation for environmental disclosure, it may assist to explain the motivation for any multinational company. In an environment where multinational companies' activities systematically generate environmental harmful footprint impacts, effective regulations need to put in place to check mate all these multinational companies' activities. Organization for Economic Cooperation and Development [OECD] work on environment aids countries design and carry out effective regulations to address environmental problems (OECD, 2022). Little wonder Gray (2001) asserted that if environmental accounting disclosure be systematic, widespread and functional, it must be backed up by recognized regulations. On other hand, Deegan (2007) argued that every stakeholder has a right to know about the environmental impacts of multinational companies' activities, not only when management has shocked into actions by legitimacy-threatening issues. Regulations might be essential to make sure that the right to know is contented (Ihimekpen, 2021).

4.3. AGENCY THEORY

According to Ihimekpen (2021), the agency theory was initially worked on by Alchian and Densetz but later developed by Jensen and Meckling (1976). They centered entirely on the optimistic phase of the agency association as it applies to firms. The theory reveals the structural contractual connection between the owners and managers where the managers have preference for self-maximization having known that uncertainty and imperfect monitoring subsist as a result of disconnection of ownership from management. Environmental accounting disclosures decrease information asymmetry as well as risks foreseen by investors, raises market efficiency, and lessens the cost of capital to companies (Jinadu, 2021). Viewing this theory, the researcher can construe that the shortcoming of it is that the theory has ignored other stakeholders as it centers only on the association between the shareholders and the management of firms' activities. The question arises as to what then happens to the rest stakeholders such as the employees, customers, government, suppliers and the immediate environment where the

multinational companies exist? However, environmental accounting disclosure aids to lessen information asymmetry that subsists between the principal and the agent.

On this point of view, the corporate governance stands for a monitoring mechanism focuses on balancing the interests of management and shareholders in respect to financial facts and to non-financial facts such as environmental disclosures (Osemene et al., 2021). Consequently, board monitoring serves as a means of promoting the disclosure of high quality facts, thereby minimizing information asymmetry together with the connected agency matters. Board efficiency in its monitoring capacity rests on particular qualities of the board members such as size, independence, expertise, and committees (Igbekoyi et al., 2021). According to OECD (2022), based on agency theory, NEDs usually pay more interest to corporate social, economic and environmental impacts on environment. In the same vein, Ihimekpen (2021) revealed that sound board independence promotes not only the environmental disclosure, but also the disclosure quality of either financial or other matters and at the same time reduces the benefits of suppressing the facts of the disclosure. The argument is in line with agency theory where it shows that the higher the number of members of the board, the more the effectiveness of the board members as well as quality of their dealings, thereby ensuing an enhancement on disclosure.

Among some theories that are used to explain the impact of corporate governance on environmental accounting disclosure of multinational firms, legitimacy theory is found appropriate in this study since it explains the impacts of multinational companies on their environments. It details companies' motivations for environmental disclosures, presents how firms can use legitimacy strategies and ascertains the influence of environmental disclosures on communities which can be voluntarily functional to the Nigerian situation where environmental degradation is on the rise.

5. REVIEW OF CURRENT STATE OF CORPORATE GOVERNANCE AND ENVIRONMENTAL ACCOUNTING DISCLOSURE OF OIL AND GAS FIRMS

The oil and gas sector plays a pivotal role in driving global economic growth and industrialization. The operations within the oil and gas industries encompass a range of activities spanning upstream, midstream, and downstream segments. In the upstream sector, activities involve exploring for and uncovering hydrocarbons such as crude oil and natural gas. This phase also encompasses developing the identified hydrocarbon reserves, resources, and subsequent extraction or production. The natural resources discovered by companies within this industry constitute their most vital economic asset. The financial stability of these entities relies on the quantity and quality of these resources, which dictate their ability to extract and sell. These resources serve as the foundation for future cash inflows from hydrocarbon sales and play a pivotal role in securing financing through borrowing and equity issuance. Moving on to midstream and downstream

operations, they address various issues including product valuation, revenue recognition, asset depreciation within the downstream sector, and participation in emission trading schemes (PricewaterhouseCoopers [PwC], 2017).

However, this emphasis on production and profits has historically overshadowed environmental concerns. Inadequate corporate governance systems have resulted in sporadic environmental reporting (Ofoegbu et al., 2018). The period from the 1960s to the 1980s saw a shift in perspective. Environmental problems such as oil spills and air pollution led to heightened public awareness. Regulatory measures like the U.S. Clean Air Act and Clean Water Act established initial benchmarks for safeguarding the environment. During this time, corporate governance began recognizing the significance of incorporating environmental considerations into decision-making (Osemene et al., 2021). The 1990s to the early 2000s marked a phase of internationalization and collaboration for the industry. Global expansion included regions like Africa, the Middle East, and Asia. Initiatives like the Global Reporting Initiative (GRI)' encouraged sustainability reporting across borders." Heightened investor interest in environmental factors prompted companies to enhance their governance frameworks (Mulyanto et al., 2018; Votsi et al., 2017).

5.1. PECULIAR ISSUES IN OIL AND GAS SECTOR

Nigeria, a key oil producer, confronted environmental hurdles due to oil spills, flaring, and community impacts. Pressure from local and international sources compelled Nigerian oil enterprises to enhance transparency and tackle governance deficiencies. Regulatory authorities in Nigeria introduced environmental guidelines, compelling companies to integrate environmental concerns into their governance models (Mgbame & Onoyase, 2015). The period spanning the 2010s to the 2020s witnessed a growing emphasis on sustainability and climate change on a global scale (Fawzy et al., 2020). The Task Force on Climate-related Financial Disclosures (TCFD) encouraged oil and gas firms to divulge climate-related risks. Leading companies responded by establishing sustainability committees within their governance structures, dedicated to overseeing environmental matters (Osemene et al., 2021). The 2020s brought about a new era characterized by the ascendance of renewable energy sources. This development prompted oil and gas companies to diversify their portfolios. Additionally, the adoption of circular economy models and responsible decommissioning gained prominence. Consequently, integrating environmental considerations into core business strategies became imperative, underscoring the need for robust governance frameworks (Albasteki, 2021; Jinadu, 2021).

Examining governance frameworks in the global oil and gas industry, including Nigeria, unveils a multifaceted interplay between corporate choices, regulatory frameworks, stakeholder pressures, and evolving environmental considerations. These structures hold a pivotal role in shaping how companies handle environmental risks, incorporate sustainability, and disclose their performance (Jinadu, 2021). From a global standpoint, oil and gas corporations have come to acknowledge the significance of diversity and expertise within their

boards. Boards now actively seek directors with backgrounds in fields like environmental science, sustainability, and energy transition. Independent directors introduce an impartial viewpoint to environmental decisions and strategies for disclosure.

A number of multinational oil and gas enterprises have implemented distinct sustainability or environmental committees within their governance setups (Igbekoyi et al, 2021). These committees take charge of overseeing environmental risks, ensuring conformity to regulations, and steering the assimilation of sustainability objectives into business strategies. The establishment of Chief Sustainability Officers (CSOs) and Chief Environmental Officers (CEOs) in numerous companies demonstrates a strategic commitment to sustainability and creates a direct connection between environmental considerations and top-level management (Gary et al., 2019).

In Nigeria, the National Oil Spill Detection and Response Agency (NOSDRA) holds authority over environmental affairs in the oil and gas sector (Ezenwa-Ohaeto et al., 2020). Prior to commencing operations, companies are obliged to formulate Environmental Impact Assessments (EIAs), thereby infusing environmental concerns into their decision-making processes. According to sections 6 (2 & 3) of the NOSDRA Act, anyone responsible for an oil spill must inform the Agency in writing within 24 hours after the spill occurs. Failing to do so would result in a penalty of Five Hundred Thousand Naira (₦500,000.00) for each day of non-compliance. Additionally, if the spill site is not cleaned up, a further fine of One Million Naira (₦1,000,000.00)' will be imposed (Ezenwa-Ohaeto et al., 2020).

Given that Nigerian oil and gas firms often operate in ecologically sensitive regions and within close proximity to host communities, engagement with stakeholders becomes imperative to address concerns and mitigate environmental repercussions. Stakeholder input could potentially influence governance structures by advocating for more stringent environmental oversight. To tackle environmental and societal challenges, Nigerian companies frequently embark on Corporate Social Responsibility (CSR) initiatives. These initiatives are often intertwined with governance frameworks, assuring proper supervision and alignment with corporate values (Jemialu, 2022).

A prevailing global trend illustrates how investors wield considerable influence in urging companies to confront environmental hazards and divulge their performance records. This growing investor impact drives governance frameworks to give precedence to the trio of Environmental, Social, and Governance (ESG) factors (World Bank, 2020). The international landscape features widely accepted reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), which offer guidance in the domain of environmental reporting. The onus lies on governance structures to ensure strict adherence to these benchmarks, thus facilitating precise and comparable disclosure practices (Inderst & Stewart, 2018).

The setting of governance structures within the worldwide oil and gas industry, including the Nigerian context, is in the midst of transformation to accommodate the mounting environmental apprehensions and stakeholder requisites (Adegbei & Nwobodo, 2020). This transformation holds a pivotal role in harmonizing corporate choices with sustainability ambitions, infusing environmental contemplations into business strategies, and guaranteeing open and honest disclosure mechanisms. The Nigerian scenario introduces its own set of distinctive challenges and opportunities, molded by local regulations, interactions with stakeholders, and the imperative to strike equilibrium between economic advancement and ecological accountability (Igbekoyi et al, 2021).

5.2. CORPORATE GOVERNANCE CODE AND APPROACHES AS RELATING TO OIL AND GAS FIRMS

Evaluating reporting approaches in the global oil and gas industry, with a particular emphasis on Nigeria, offers insights into how corporations convey their environmental achievements and involve stakeholders. Effective reporting is pivotal in showcasing transparency, responsibility, and dedication to sustainable operations.

From a worldwide standpoint, numerous international oil and gas enterprises adhere to established reporting frameworks such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD) to ensure uniformity and comparability in their environmental disclosures. These frameworks offer guidance to companies in presenting metrics encompassing carbon emissions, energy consumption, water utilization, and waste management (Annabelle & Patrick, 2022). Corporations incorporate Environmental, Social, and Governance (ESG) parameters into their reporting, furnishing a comprehensive view of their sustainability performance. Environmental data is presented alongside details of social impact and governance practices, providing stakeholders with a holistic assessment of the company's endeavors towards sustainability. While certain nations mandate environmental disclosure through regulatory measures, others rely on voluntary reporting. Companies operating in regions with robust regulations generally furnish more extensive environmental information (European Commission, 2022).

In accordance with PricewaterhouseCoopers' (PwC) report from 2017, the European Union (EU) was obligated by the Kyoto Protocol to lower greenhouse gas emissions across its member nations. To address this challenge, the EU introduced the EU Emissions Trading Scheme (EU ETS) in 2005, which represented a significant policy response. The EU ETS has progressed to its third phase (2013 – 2020). Within this framework, member states of the EU established emission limits for companies with high energy consumption, using a 'cap' and 'trade' approach. Each year, emission allowances are determined for EU companies, which are allocated through auctions during specific compliance periods. Companies have the flexibility to trade these allowances among themselves as needed. Annually, companies must surrender sufficient allowances to account for their emissions. Beyond the EU, there are additional non-Kyoto carbon markets

like the New South Wales Greenhouse Gas Abatement Scheme, the Regional Greenhouse Gas Initiative, the Western Climate Initiative in the United States, and the Chicago Climate Exchange in North America. The International Accounting Standards Board (IASB) is engaged in an ongoing project related to emissions trading; however, this project has seen minimal recent activity.

Emission rights grant entities the authorization to release pollutants up to a designated threshold. In tradable emissions rights systems, entities have the flexibility to: emit fewer pollutants than their allocated allowances and sell the surplus allowances; emit pollutants within the limits of their allowances; or emit pollutants exceeding their allowances and subsequently acquire extra allowances or face penalties. International Financial Reporting Interpretations Committee (IFRIC) 3, which pertains to emission rights, was issued in December 2004 with the aim of offering direction on the accounting procedures for cap and trade emission programs. However, this interpretation encountered controversy and was retracted in June 2005 due to apprehensions regarding the potential financial repercussions of the prescribed accounting methods. The primary concern revolved around the substantial fluctuations it introduced in the income statement. While the guidance within IFRIC 3 remains applicable, various alternative approaches have come to the fore in practical application. Under a cap and trade system, several financial aspects may be recognized, including the acknowledgment of assets (allowances), the cost of emissions (PwC, 2017).

Nigeria's set of rules and instructions for oversight, along with the involvement of institutions like the National Oil Spill Detection and Response Agency (NOSDRA), directs oil and gas enterprises to provide information about their impact on the environment. These companies must furnish Environmental Impact Assessment (EIA) documents before starting operations (Ezenwa-Ohaeto et al., 2020). Nigeria contends with recurrent instances of oil spills and environmental disruptions caused by operational difficulties. The disclosure approach primarily revolves around notifying about incidents, steps taken to minimize damage, and endeavors to address community-related concerns. Nigerian corporations frequently interact with stakeholders through Corporate Social Responsibility (CSR) projects, with these endeavors often being publicized to showcase dedication to community advancement and safeguarding the environment (Noah, 2022). Globally, maintaining the precision and credibility of disclosed environmental data remains a hurdle. The utilization of independent validation and assurance mechanisms is growing as a means to enhance credibility. Businesses are progressively concentrating on divulging data that holds significance for their operations and is pertinent to stakeholders. This approach streamlines disclosure practices by prioritizing information that offers valuable insights (Hans et al., 2021).

Corporations are incorporating enduring sustainability objectives, such as goals for emission reduction and the adoption of renewable energy, within their disclosures. This transition underscores a proactive approach and dedication to tackling environmental predicaments (Osemene, 2021). Digital platforms and

technology are facilitating more interactive and transparent methods of reporting. Enterprises are employing digital tools to provide stakeholders with immediate access to environmental data (Khan et al., 2023).

Disclosure practices in the global oil and gas sector, Nigeria included, are shaped by regulatory structures, involvement with stakeholders, and worldwide reporting benchmarks. The Nigerian context introduces challenges linked to environmental mishaps, community repercussions, and adherence to regulations (Jinadu, 2021). As the industry trends towards heightened transparency, precise data, significance, and forward-looking ambitions are evolving into fundamental aspects of effective environmental disclosure practices (Pérez et al., 2022).

Examining stakeholder influence as it relates to corporate governance in oil and gas companies across the globe, including Nigeria, reveals the evolving dynamics between companies and their various stakeholders. Stakeholder pressures have increasingly shaped corporate governance structures, disclosure practices, and strategic decision-making. Institutional investors, including pension funds and asset managers, exert significant influence on oil and gas companies. Investors are increasingly integrating Environmental, Social, and Governance (ESG) factors into their investment decisions, pushing companies to enhance sustainability practices and disclosure (Aldowaish et al., 2022). Shareholder activism involves investors using their influence to advocate for changes in a company's policies and practices. Activist shareholders often demand greater attention to environmental risks, climate change, and sustainable practices. Non-governmental organizations (NGOs) play a vital role in pressuring oil and gas companies to address environmental and social concerns. Campaigns, protests, and public awareness initiatives led by NGOs encourage companies to adopt more responsible practices (Barros et al., 2023).

In Nigeria, local communities in oil-producing regions exert significant influence due to the direct impacts of oil and gas operations on their lives and livelihoods. Community protests, legal actions, and advocacy campaigns have compelled companies to address environmental and social concerns (Fasua, 2021; Jinadu, 2021; Asume, 2007). Regulatory and Governmental Pressure: Nigerian government agencies, such as NOSDRA, regulate oil and gas operations and environmental compliance. Government pressure can lead to changes in corporate governance structures and disclosure practices. Transparency and Accountability Demands: Nigerian civil society organizations demand transparency and accountability in the oil and gas sector. Stakeholders expect companies to disclose environmental data, address community grievances, and contribute to local development (Ezenwa-Ohaeto et al., 2020).

Oil and gas companies must navigate the diverse interests of various stakeholders, including investors, communities, governments, and NGOs. Striking a balance between profit generation and sustainable practices is challenging. Changing regulations and increased focus on ESG factors influence stakeholder expectations and the regulatory environment. Companies must adapt their governance structures to align with evolving requirements (Norhasni et al., 2022).

Shifting public perception involves increasing public awareness of environmental issues and social justice concerns shapes stakeholder expectations. Companies need to address these concerns transparently to maintain their reputation and social license to operate. The transition to renewable energy and low-carbon technologies influences stakeholder demands for more sustainable practices. Stakeholders are increasingly interested in companies' strategies for managing the energy transition (Komendantova, 2021).

Stakeholder influence is a driving force in shaping corporate governance practices within the global oil and gas industry, particularly in Nigeria. Stakeholder pressures, including investor expectations, community demands, regulatory requirements, and NGO advocacy, compel companies to adopt more responsible and sustainable practices. As stakeholder priorities evolve, companies must engage proactively, align governance structures with stakeholder interests, and transparently disclose their efforts to address environmental and social challenges (Komendantova, 2021).

5.3. THE PETROLEUM INDUSTRY ACT (PIA) (2021) IN NIGERIA

The Petroleum Industry Act (PIA) (2021) in Nigeria is a comprehensive legislation that seeks to regulate the petroleum industry in the country. Host community development is a significant aspect of this act, as it aims to address the concerns and issues related to the communities where oil and gas operations are conducted. The following are the salient issues regarding host community development in the PIA (2021):

The PIA establishes Host Community Trust Funds, which are designed to receive contributions from oil and gas companies operating in host communities. These funds are intended to finance projects and programs for the development of host communities, with a focus on infrastructure, social amenities, and economic empowerment. Oil and gas companies are required to contribute 3% of their annual operating expenses to the Host Community Trust Funds. This provision aims to ensure that host communities receive a portion of the revenue generated by petroleum operations in their areas. The act outlines the governance structure of the Host Community Trust Funds, which includes a Board of Trustees responsible for managing the funds. Representatives from the host communities are to be part of the board, ensuring their involvement in decision-making processes (Anyiam et al., 2023).

The PIA provides mechanisms for the resolution of disputes between host communities and oil and gas companies. This is crucial for addressing conflicts that often arise over issues such as environmental damage, compensation, and community development. The act emphasizes transparency and accountability in the administration of the Host Community Trust Funds. It requires regular audits and the publication of financial reports to ensure that funds are used for the benefit of the communities. The PIA encourages oil and gas companies to engage with host communities in the development and implementation of community

development projects. This is aimed at ensuring that projects align with the actual needs and priorities of the communities (Akinduyite et al., 2022).

The act mandates that oil and gas companies conduct Environmental and Social Impact Assessments (ESIAs) before commencing operations in host communities. This is crucial for mitigating the negative environmental and social impacts of petroleum activities. The PIA contains provisions for fair compensation and resettlement of communities affected by oil and gas operations. It seeks to ensure that communities are adequately compensated for the use of their land and resources (Akinduyite et al., 2022).

While the PIA contains provisions related to environmental protection, including the establishment of the Nigerian Upstream Regulatory Commission (NURC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), there might still be gaps in environmental regulations that need to be addressed to fully mitigate the environmental impact of the industry (Akinduyite et al., 2022).

The PIA seeks to address host community concerns through the establishment of the Host Community Trust Funds. However, issues related to community development, compensation, and stakeholder engagement may still need further refinement to address the unique challenges faced by these communities effectively. While the PIA promotes transparency and accountability in the petroleum industry, there may still be gaps in practice. Ensuring that oil and gas companies adhere to these principles and those regulatory bodies have the necessary resources and authority for oversight may be ongoing challenges (Anyiam et al., 2023).

The PIA introduces changes in revenue sharing in the industry. Managing and distributing revenues equitably among the federal government, state governments, and host communities may require ongoing monitoring and adjustments to ensure fairness and effectiveness. The promotion of local content development in the PIA is crucial for enhancing the participation of Nigerians in the oil and gas sector. However, there may still be challenges in fully realizing the potential of local content policies (Anyiam et al., 2023).

The PIA aims to attract more investment into the Nigerian petroleum industry. Ensuring a stable and attractive investment climate, free from regulatory uncertainties, is essential for the long-term success of the sector. As global concerns about climate change and sustainability continue to grow, there may be lacunas in the PIA regarding measures to address these issues comprehensively, such as strategies for transitioning to cleaner energy sources (Anyiam et al., 2023).

The impact of corporate governance mechanisms like the board independence, size, risk management and environmental committees on environmental accounting disclosures quality can be considered from different theoretical viewpoints, which over and over again overlap with each other. This is why the main viewpoints of this study hinge on the stakeholder, legitimacy and agency theories.

6. CONCLUSION

This study investigates the influence of corporate governance on environmental accounting disclosure in oil and gas companies. Objectives include examining historical corporate governance practices and environmental accounting disclosure within the industry, assessing corporate governance structures for managing environmental risks, analyzing the extent and nature of environmental disclosures, investigating stakeholder influence, and identifying regional variations in practices. By addressing these objectives, the research seeks to contribute to a better understanding of how companies and governments respond to environmental challenges through governance enhancements and increased disclosure, fostering sustainable practices in the energy sector.

Some countries, like those in the European Union, have established corporate governance codes that mandate annual disclosure of compliance or non-compliance. In Nigeria, corporate governance gained importance after corporate collapses, leading to the development of governance regimes and best practice codes for public companies. While numerous studies have explored the link between corporate governance and environmental disclosure, outcomes vary based on contextual factors and research methodologies. In some countries, such as Nigeria, there has been a shift from voluntary to regulated environmental disclosure practices, though compliance remains optional, resulting in disparities in disclosure levels.

The oil and gas sector, a significant driver of global economic growth and industrialization, has traditionally emphasized production and profitability over environmental concerns. However, a change in perspective emerged in the 1960s with increased public awareness of environmental issues such as oil spills and air pollution. Regulatory measures like the U.S. Clean Air Act and Clean Water Act set initial benchmarks for environmental protection. Stakeholders, including investors and NGOs, exert influence on corporate governance, promoting the adoption of Environmental, Social, and Governance (ESG) factors. International reporting frameworks like GRI and SASB ensure adherence to environmental disclosure standards. The Petroleum Industry Act (PIA) in Nigeria addresses host community development, establishing Host Community Trust Funds and mechanisms for dispute resolution. It emphasizes transparency, accountability, and environmental impact assessments.

In the worldwide oil and gas sector, encompassing Nigeria as well, corporate governance is adapting to address environmental issues and satisfy the expectations of stakeholders. The interaction of stakeholder, legitimacy, and agency theories will provide insights into how governance influences environmental accounting disclosure. The study recommends that disclosure practices by corporate bodies should be mandatory and not optional.

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