

# Does Oil Marketing Companies in Nigeria Complied with Ipieca 2015 Guidelines on Voluntary Disclosure?

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**Abstract:-**This paper used Content Analysis designed to provide an insight into the trend and variability in Sustainability Information Disclosure (SID) of oil marketing companies in Nigeria. The paper also examine whether Oil Marketing Companies disclosure practice conformed to the IPIECA, 2015 guidelines on voluntary sustainability information disclosure. A total of Eight (8) Oil Marketing Companies are used, using census, covering eleven year period (2003-2013). Secondary data was adopted from three sources (NSE factbook, IPIECA 2015 guidelines and NNPC Statistical Bulletin. An unweighted approach for disclosure scoring was adopted, using binary numbers, where one (1) was used as reported item of disclosure and zero (0) as item of disclosure not reported. The findings of this paper revealed that Oil Marketing Companies in Nigeria do not comply with the IPIECA 2015 on voluntary disclosure. The paper recommends that Nigerian stock exchange should make it compulsory, that oil marketing companies in Nigeria to comply with the provision of disclosure practices of IPIECA, 2015 on voluntary sustainability disclosure by setting up a unique regulatory section within the SEC, that will be saddled with the responsibility of collecting and collating sustainability information related data and constructing the relevant indices to facilitate SID by OMC's in Nigeria.

**Keywords:** Sustainability reporting, Content Analysis and Oil marketing companies.

## I. INTRODUCTION

Companies are under increased pressure from pressure groups, consumer groups and governments to give more attention to social issues and more consideration to the impact, their activities have on society. Oil Marketing Companies in Nigeria are thus faced with the challenge of performing a 'balancing act' between giving more consideration to social issues while still meeting their financial business objectives. Conventional reporting, though, a suitable mechanism for evaluating the financial and economic performance of organizations and assist companies in making decisions offer limitations as it focuses on accounting information and is designed for economic investors (Schaltegger, Bennett & Burritt, 2006). In addition, merely instituting internal social policies, strategies and procedures seem inadequate (Muttakin & Khan, 2014), to meet the expectation for corporate social responsibility, thus,

there is demand for companies to "account" for the impact of their operations on society. This paper provides an insight into the causes and variability in Sustainability Information Disclosure (SID) by OMCs' in Nigeria. The sustainability information disclosure (SID) indices that were adopted from IPIECA 2015 guidelines on voluntary disclosure, include both financial and non-financial indices. An investigation into these indices may provide a very useful index for understanding the disclosure requirement for Oil Marketing Companies in Nigeria.

### 1.1 Objective of the Paper

i. To examine the extent to which Oil Marketing Companies in Nigeria conform to the IPIECA, 2015 guidelines on Sustainability Information Disclosure.

### 1.2 Hypothesis of the Paper

i. Sustainability Information Disclosure by Oil Marketing Companies in Nigeria does not conform to IPIECA, 2015 guidelines.

## II. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

### 2.1 Literature Review

Eljayash, James, & Kong (2012), their study examined the quantity and quality of environmental disclosure in the oil companies in the Arab oil exporters. The sample of 174 annual reports of 58 national companies are surveyed for the periods 2008, 2009, and 2010. They use content analysis in order to study the environmental disclosure. The word count is used to measure the amount of environmental disclosure in the annual reports whereas environmental disclosure index is used to measure the quality of disclosure in the oil companies. The outcome indicates indicated differences in environmental disclosure between the countries of Arab Petroleum Exporting Countries, but overall, environmental disclosure in the Arab oil countries is still low compared with other oil companies in developed countries.

Dong & Burritt (2010), examine social and environmental disclosures against general and industry benchmarks for the

quantity and quality of social and environmental reporting practice. Content analysis approach is applied to disclosures of the 25 Australian oil and gas companies included in the Australian Stock Exchange 300 index in 2006. They conclude that there is a relatively poor disclosure, and the majority of environmental disclosures are declarative and positive. Oil and gas companies sampled fail to provide detailed information about, for instance, the quantification of targets and outputs, actual achievements and the level of participation by employees. In trying to be consistent with earlier researches, the companies perform relatively well in reporting human resources information.

## 2.2 The Historical Antecedents of Sustainability Reporting

Sustainability reporting is regarded as an outshoot of increasing demand from society for organizations to be accountable, transparent, inclusive and ethical (Birch, 2003). It stems from an overwhelming growth in the need for none or extra-financial reporting' over the past few decades (Herzig & Schaltegger, 2006). This demand calls for corporate information disclosure beyond the limited provision of the traditional and conventional financial reporting by organizations. In fulfilling this obligation and as a responsible corporate citizen, several tools are available to the organization. Sustainability Reporting offers a medium of communication by way of releasing information to external stakeholders (Gray, Owen & Adams 1996; Tregidga & Milne, 2006).

## 2.3 Sustainability Reporting in the Oil and Gas Industry

Alazzani & Wan-Hussin (2013), provide that the oil and gas industry has contributed a lot in the growth of economies due to importance of its products (the oil and gas resource). The industry's activities, however, have significant negative impact on the environment and society at large, and has been regarded as one of the most polluting industries (Clarkson, Yue, Gordon & Florin, 2008).

## 2.4 Sustainability Reporting and Content Analysis

Content analysis has been used extensively in SR research and in the analysis of firm's sustainability disclosures (Adams & Harte, 1998; Buhr 1998; De Villiers & Van Standen, 2006; Deegan, Rankin & Voght, 2000). It is the method that will be used in this study to analyze the social and environmental disclosures of the case companies. The method will be used to analyze both the annual report and sustainability report for the 11 year period.

## 2.5 International Petroleum Industry Environmental Conservation Association (IPIECA) Guideline

The International Petroleum Industry Environmental and Conservation Association (IPIECA) was established in 1988 by the American Petroleum Institute (API), with the main objecting of assisting oil and gas companies in developing and enhancing the quality and consistency of their sustainability reporting. It is designed for use by any oil and gas company

operating nationally, regionally or internationally. The Guidelines deliberately provides choices, not only for experienced reporters, but also to enable new reporters or smaller companies to focus on their most important issues at a level that is most appropriate to their business and stakeholders.

## 2.6 Theoretical Framework

This paper adopts institutional theory. It was described as a powerful theory for understanding SR (Amran & Haniffa, 2011). The theory attempts to explain how organizations interact with the institutions existing in their environment. The institutional theory submit that organizational actions are determined and shaped by expectations and pressures from different institutions surrounding it (Fogerty 1996).

## III. METHODOLOGY

This paper uses content analysis to provide an insight into the trend and causes of variability in sustainability information disclosure by Oil Marketing Companies operating in Nigeria. A population of eight (8) Oil marketing companies in Nigeria, were used as sample, using a census. Secondary data are used and sourced from annual reports and accounts of the eight (8) oil marketing companies in Nigeria. These oil companies are listed on the Nigerian Stock Exchange Market (NSE) as at 31<sup>st</sup> December, 2013. The paper designs a template for data collection in respect of SID index adopted from IPIECA 2015 on voluntary disclosure. (see appendix i: Population of oil marketing companies)

Secondary data is used in this paper. The secondary sources of data include the NNPC Statistical Bulletin, the Nigerian Stock Exchange (NSE) Factbook, International Petroleum Industry Environmental Conservation Association (IPIECA, 2015) guideline, annual reports and accounts of oil marketing companies, sustainability reports and the internet.

## 3.1 Model Specification

The content analysis aspect of this paper uses an unweighted approach for disclosure scoring. This approach is most appropriate when no importance is given to any specific user-groups (Cooke, 1991; Hossain, *et al.*, 1994; Akhtaruddin, , Hossain & Yao, 2009). The method of computing the disclosure score for each company can be mathematically expressed as follows:

$$ADS = \sum_{j=1}^n \frac{dj}{n} \quad \dots 1$$

Where

ADS = Aggregate Disclosures Score;

dj = 1 if the jth item is disclosed or 0 if it is not disclosed; and

n = the maximum score that a company can obtain.

Therefore, unweighted index approach for disclosure scoring is used in testing the first hypothesis of this paper.

To capture the extent of Sustainability Information Disclosures, a checklist of SID items is adopted from IPIECA 2015 guideline on sustainability disclosure. The checklist (see appendix 3) forms a relative disclosure index in order to determine whether an item of SID is reported or otherwise in the annual accounts of oil companies, using binary codes: 1(Reported) and 0 (Not reported). See for example (Wallace 1988; Cooke 1991, Wallace, Naser & Mora, 1994; Inchausti 1997, Leventis & Weetman 2004; Akhtaruddin, *et al.*, 2009; Barako, *et al.*, 2006; Ghazali & Weetman, 2006; Iskander, 2008 & Abdel-Fatah, 2008).

#### IV. DISCUSSION OF FINDINGS

##### 4.1 Introduction

This paper utilizes content analysis, in studying the entire sustainability reports of Oil Marketing Companies. A large quantity of textual data is studied thoroughly and carefully, in an attempt to fish out sustainability information disclosure variables, as well as the factors that contributed to the variability in SID across the oil companies. The IPIECA 2015 guidelines on voluntary sustainability information disclosure is used in the content analysis, where the researcher compares what is actually disclosed by an oil company, with that as per IPIECA guidelines. The essence is to determine those factors that causes variability in SID by Oil Marketing Companies operating in Nigeria, and whether these companies' disclosure practices are in line with IPIECA 2015 guidelines?

##### 4.2 Summary of Sustainability Information Disclosure Index as per IPIECA

In all, a total of Eighty-eight (88) reports are carefully studied and analyzed. The following Table presents a detailed information on indices of IPIECA 2015 guidelines on voluntary disclosure. The OMCs' were able to use only seven items from a total of thirty four disclosure indices. More so, the SID indices that were reported by the oil marketing companies ranges from social and environmental (SE) to health and safety issues (HS), as revealed in table 2(see also appendix 2)

##### 4.3 Sustainability Information Disclosure Score for Sampled Oil Marketing Companies

Table 4 shows clearly the extent to which OMCs comply with the provision of IPIECA 2015 on sustainability disclosure. It is a clear indication from table 4 that OMCs in Nigeria do not comply with the provision of IPIECA 2015 on sustainability information disclosure. The data in table 4 is also used in testing the hypothesis of this paper. (see appendix 4).

##### 4.4 Test of Hypothesis

**H<sub>01</sub>:** SID by OMCs' in Nigeria does not conform to IPIECA, 2015 guidelines.

In table 4 (see appendix 4), the content analysis of this paper shows that oil marketing companies in Nigeria do not comply with the provision of IPIECA 2015 on sustainability

information disclosure. The maximum disclosure that was made comes from Conoil, with six (6) items disclosed, representing 18% of SID index. While the minimum disclosure was made by Mobil Oil, with just two (2) SID index, representing 6% of the entire SID index as per IPIECA 2015 guideline on voluntary sustainability information disclosure. More so, most of the items of SID that were disclosed by the Oil Marketing Companies covers only social and health issues, and none of these companies made an attempt to disclose environmental issues. This also proves that the hypothesis of this paper is accepted, simply because at 18% and 6%, the disclosure of SI is insignificance.

##### 4.5 Summary of Findings from Content Analysis

The broad objective of this paper is to provide an insight into the trend and causes of variability in sustainability information disclosure of oil marketing companies in Nigeria. Content Analysis was applied and establishes the extent to which oil marketing companies in Nigeria conform to IPIECA, 2015 guidelines on sustainability disclosure. In the process of doing so, the following factors were revealed. These factors were also sourced from the content analysis that emerged from the chairman's report of various sampled oil marketing companies (2003-2013).

##### 4.5.1 Recession and Insecurity

Due to the general recession and insecurity in the Niger Delta area, most of the company vessels is laid up. Yet, they needed to be maintained and the crew on board needed to be paid. That was the reason behind the increase in the operating cost. For instance, the Conoil in 2011 recorded an increase in operating expenses as a result of the weakness of the naira as against the dollar. More naira is required to be spent to buy dollars for the importation of spare parts of the company's machine, marine vessels and other equipment, this has affected disclosure of SI seriously, which also caused variability in disclosure practices by OMCs.

##### 4.5.2 Operation Loss

The Eternal Oil, suffered a loss for the year 2008. Content analysis shows that the loss is attributed to higher operating expenses and interest charges. More so, the reduced margins on products are largely due to falls in product prices occasioned by the turmoil in global financial markets during the second half of the year. This factor alone results in the low earnings before interest and taxes (EBIT). The low profit before tax (PBT) performance against budget is as a result higher than planned financial cost. All these factors have contributed in one way or the other, for changes that occurred in SID.

##### 4.5.3 Inability to secure Short Term Financing

Another factor that causes variability in disclosure practices by Oil Marketing Companies operating in Nigeria, is the inability of the oil companies to have access to short term financings. For example, the turnover of Eternal Oil for the

year 2009, was ₦9.2 billion, a drop from ₦12 billion recorded in 2008, and this is directly attributable to the company's inability to secure short term financing from commercial banks, due to the banking reforms of the CBN.

#### 4.5.4 Non-Compliance with IPIECA, 2015 guidelines on sustainability disclosure

Oil Marketing Companies operating in Nigeria, do not comply with IPIECA, 2015 guide lines on voluntary disclosure. Out of thirty four (34) disclosure index on voluntary sustainability disclosure, the highest recorded was six (6) and the lowest was two (2) by Conoil and Mobil respectively. This factor has greater influence as far as SID is concern, and that may cause variability in disclosure practices of OMCs.

#### 4.5.5 Deregulation of the Downstream Oil Sector

The deregulation of the downstream oil sub sector, coupled with the increase in fuel pump price of pms, coupled with the shortage in fuel supply that caused a significant negative impact on SID.

In conclusion, the content analysis have shown that the aforementioned factors are the likely causes of variability in voluntary disclosure practices by Oil Marketing Companies operating in Nigeria. Findings also reveals that Oil Marketing Companies operating in Nigeria do not conform to IPIECA, 2015 guidelines on sustainability disclosure of sustainability information.

### V. RECOMMENDATIONS

Based on the findings of this paper, the following recommendations were made:

- i. It is recommended that NSE should improve its self-regulatory role by ensuring effective compliance to legislations that aims at ensuring full compliance with SID best practice by OMC's. This could be achieve by imposing penalty on OMC's that fail to comply with the regulations of NSE as far as SID is concerned. The Securities and Exchange Commission (SEC), should come up with a guidelines or benchmark for companies to complied with as far as SID is concerned.
- ii. Finally, there is the need to set up a unique regulatory section within the SEC, that will be saddled with the responsibility of collecting and collating sustainability information related data and constructing the relevant indices to facilitate SID by OMC's in Nigeria.

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## APPENDICES

### APPENDIX I: Population of Oil Marketing Companies in Nigeria.

Table 1: Quoted Oil Companies on the Nigerian Stock Exchange Market

S/No.	Quoted Oil Companies on the Nigerian Stock Exchange Market
1	Conoil
2	Japaul Oil
3	Eternal Oil
4	Mobil Oil Nigeria
5	MRS Oil
6	Total Oil
7	Oando Oil
8	Forte Oil

Source: NNPC, 2014 Annual Statistical Bulletin and NSE, 2014 Fact Book.

### APPENDIX II: Summary of Sustainability Information Disclosure Index as per IPIECA

Table 2

S/No.	INDEX	VARIABLE
1	SE 4:	Social Involvement
2	SE 15:	Workforce Diversity and Inclusion
3	SE 16:	Workforce Engagement
4	SE 17:	Workforce Training and Development
5	HS 1:	Workforce Participation
6	HS 2:	Workforce Health
7	HS 5:	Process Safety

Source: IPIECA 2015 Guideline on Voluntary Disclosure

### APPENDIX III

Table 3 Sustainability Information Disclosure index

Climate change and energy.	E1: Greenhouse gas emissions.
	E2: Energy use.
	E3: Alternative energy sources.
	E4: Flared gas.
Biodiversity and ecosystem.	E5: Biodiversity and ecosystem services.
Water.	E6: Fresh water.
Local environment impact.	E7: Discharges to water.
	E8: Other air emissions.

	E9: Spills to the environment.
	E10: Waste.
	E11: Decommissioning.
Health and Safety Issues:	Health and safety issues (Section 5).
Workforce protection.	HS1: Workforce participation.
	HS2: Workforce health.
	HS3: Occupational injury and illness incidents.
Product health, safety and environmental risks.	HS4: Product stewardship.
Process safety and asset integrity.	HS5: Process safety.
Social and Economic Issues:	
Community and society.	SE1: Local community impacts and engagement.
	SE2: Indigenous peoples.
	SE3: Involuntary resettlement.
	SE4: Social investment.
Local content.	SE5: Local content practices.
	SE6: Local hiring practices and performance.
	SE7: Local procurement and supplier development.
Human rights.	SE8: Human rights due diligence.
	SE9: Human rights and suppliers.
	SE10: Security and human rights.
Business and transparency.	SE11: Preventing corruption.
	SE12: Preventing corruption involving business partners.
	SE13: Transparency of payments to host governments.
	SE14: Public advocacy and lobbying.
Labour practices.	SE15: Workforce diversity and inclusion.
	SE16: Workforce engagement.
	SE17: Workforce training and development.
	SE18: Non-retaliation and grievance sys.

Source: IPIECA 2015.

## APPENDIX IV

**Table 4 Sustainability Information Disclosure Score for Sampled Oil Marketing Companies in Nigeria.**

Year	Conoil	Japaul	Eternal	Mobil	MRS	Total	Oando	Forte
2003	6	4	4	2	4	4	4	4
2004	6	4	4	2	4	4	4	4
2005	6	4	4	2	4	4	4	4
2006	6	4	4	2	4	4	4	4
2007	6	4	4	2	4	4	4	4
2008	6	4	4	2	4	4	4	4
2009	6	4	4	2	4	4	4	4
2010	6	4	4	2	4	4	4	4
2011	6	4	4	2	4	4	4	4
2012	6	4	4	2	4	4	4	4
2013	6	4	4	2	4	4	4	4

Source: Researcher's Computation, 2016.