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Business Case for Integrated Reporting in the Nigerian Oil and Gas Sector

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Abstract

The oil and gas sector is the mainstay of the Nigerian economy, accounting for over 95% of its revenue. The study therefore examines the business case for the adoption of Integrated Reporting in the sector. Secondary data were sourced from the annual reports and stand-alone sustainability reports of the six multinational companies operating in the Nigerian oil and gas sector. The results found that efforts to address environmental, social and governance reporting (ESG) were adhoc, short term and unrelated to the core activities of the corporations and as such were not integrated into their business strategies and model. Information on ESG was also duplicated over many medium in a haphazard and distorted form. The study therefore concluded that the introduction of integrated reporting will streamline performance reporting that is in line with international best practice in the sector.

Keywords: *business case, environmental, governance reporting, integrated reporting, multinationals, social reporting*

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Introduction

Traditionally, company reporting primarily consists of financial information. The balance sheet, profit and loss account and the accompanying directors' report together outline the company's performance (KPMG, 2010). The current financial reporting model was developed in the 1930's for an industrial world. It provides a backward-looking review of performance, does not focus on critical 21st century issues, and lacks an orientation towards the future (Krzus, 2011; PwC, 2010).

The traditional financial reporting system is premised on the notion that the purpose of the firm is exclusively to promote the interest of shareholders (Massie, 2010). A wider community of stakeholders like, environmentalists, non-governmental organizations (NGOs), immediate communities, etc, has been no consideration in the system of reporting. The corporate reporting was mainly about the financial performance of companies and provided investors with insight into the historic performance on key financial indicators which served as an indication of future performance to support investment decisions (Ligteringen & Arbex, 2010).

In more recent years, financial information has been criticised of its insufficiency for informed assessments on how a company positively and negatively impacts on a community in terms of economi, social and environmental aspects. It does not also demonstrate as to how the company will enhance positive impact and eradicate or ameliorate the negative aspects (SAICA, 2010; Massie, 2010). In the past decades, a shift has occurred in how companies report on the impact they have on their stakeholders and by the end of last century, trend-setting companies started to explain their impact on the environment and wider society in corporate social responsibility (CSR) reports and a growing number of companies followed suit (KPMG, 2010). At present, many companies publish separate financial and CSR or Sustainability reports (SAICA, 2010). Stand-alone sustainability reports suffer their own weaknesses in the sense that they fail to connect environmental, social, and governance issues to business strategy and financial performance (Krzus, 2011), therefore, there is a need a new system of reporting that will integrate environmental, social and governance (ESG) and financial reporting into one report. This is essential to provide relevant information on companies enabling more holistic assessment of their performance for all stakeholders (Ligteringen & Arbex, 2010).

Additionally, the loss of shareholders' value due to corporate scandals, sub-prime lending crisis and environmental disasters have raised fundamental questions about the functioning of the capital markets and the extent to which existing corporate reporting disclosures highlight systemic risks and the true cost of doing business in today's world. It is becoming increasingly recognised that a company's overall governance and performance in the context of macro-economic factors such as climate change, depletion of the world's finite natural resources, working conditions and human rights are of strategic importance to companies' long-term success, as well as to society as a whole (Druckman & Fries, 2010).

Integrated reporting has been proposed as the report that will bring together data that are relevant to the performance and impact of a company in a way that will create a more profound and comprehensive picture of the risks and opportunities a company faces, specifically in the context of the drive towards a more sustainable global economy. The idea behind Integrated Reporting is to merge economic and financial data with relevant information about the company in relation to environment, social responsibility and corporate governance, in such a way that the aspects of both reporting would validate one another and thus have usefulness for all stakeholders. Businesses are beginning to recognise that integrated reporting, which incorporates sustainability with strategic, operational and financial reporting, provide the most comprehensive information about their total performance (ICAA, 2011).

Nigeria should not be an exception in the introduction of integrated reporting with particular reference to the oil and gas sector in view of its critical role in the economic development of the nation. The oil and gas sector is the backbone and mainstay of Nigeria's economy, accounting for over 95% of her foreign exchange earnings, 40% of her GDP and 85% of the Federal Government's collectible revenue (Uwakonye, Osho & Anucha, 2006). The major oil producing companies are Shell Petroleum Development Company of Nigeria Limited, Mobil Producing Nigeria Unlimited, Chevron Nig. Ltd; Nigerian Agip Oil Company Ltd, Elf Petroleum Nigeria Limited, and Texaco Overseas Petroleum Company of Nigeria Unlimited. These multinationals participate in the petroleum industry in joint ventures and/or service contract with Nigeria National Petroleum Corporation (NNPC) as operators/contractors in the Nigerian deep water under production sharing contracts (PSC). The multinationals, however, have had to contend with a number of issues including lack of transparency, environmental degradation, insensitivity to stakeholders' concern and have continually been targets of community unrest and public criticisms. Consequently, the objective of this paper is to assess the business case for the adoption of integrated reporting in the Nigerian oil and gas sector.

Review of Literature

The Nigerian Oil and Gas Sector

The Nigeria economy is dependent on its oil sector which supplies 95 percent of its foreign exchange earnings. The upstream oil industry is the single most important sector in Nigeria's economy (Ayoola, 2011). Until 1960, government participation in the oil industry was limited to the regulation and administration of fiscal policies. In 1971, Nigeria joined the Organisation of Petroleum Exporting Countries (OPEC) and in line with resolutions, the Nigeria National Petroleum Cooperation (NNPC) was established. This parastatal, with all its subsidiary companies, controls and dominates all sectors of the oil industry, both upstream and downstream. Oil was first discovered in Oloibiri in the Niger Delta region by Shell in 1958 and since then, between 9 and 13 million barrels of oil has been spilled into the region thereby making it one of the most polluted places on earth (Pringle, 2011).

The Niger Delta region comprising nine states, which make up the south-south geopolitical zone, presently produces more than 80 percent of Nigerian crude oil (Kingston, 2011). The region extends over an area of about 70,000 square kilometres, which amounts to about 7.5 percent of Nigeria's total landmass and the coastline extends for 560km, roughly two-thirds of the entire coastline of Nigeria (NDDC, 2004).The region is made up of marshland, creeks, tributaries and lagoons which drain into the Atlantic, it contains the world's largest mangrove forest, as well as diverse plant and animal species (Pringle, 2010). While it is undeniable that the revenue accruing from crude oil and gas exploitation is huge, the problem is that it does not translate to positive change within the Niger Delta communities where the oil production activities are being conducted. The huge revenues are neither adequate nor transparently accounted for by the oil multinationals and the federal government. The main issue in contention in the Niger Delta is massive exploitation of oil and gas by multinational oil companies in connivance with the Nigerian state with little or no regard for the development of the people and the environment of the Niger Delta (Asaolu, Agboola, Ayoola, & Salawu, 2011; Enemaku, 2006).

The communities where oil is produced are characterised by squalor, neglect, abject poverty and absence of basic amenities. The international community with particular emphasis on United States of America (USA) and Britain, have been accused as part of the problem of the oil sector in Nigeria because they are believed to be the principal beneficiaries of the massive oil exploitation in the Niger Delta, yet they have failed to ensure social justice, equity, fairness and development for the communities from whose land oil is exploited (Obi, 2006). One of the key challenges that these multinationals working in various communities in Nigeria's oil belt contend with on a daily basis has to do with finding the right development and relationship management frameworks that will facilitate a conducive business environment and induce a collaborative disposition by stakeholders in general and host communities in particular.

Corporate reporting: then, now and the future

Corporate reporting has undergone substantial changes over the last hundred years and is currently being challenged on whether it provides an accurate portrait of the present and future performance of firms (Massie, 2010). According to Knight (2010), effective corporate reporting is about presenting a clear strategy and set of objectives for the company that is based on a sound understanding of the market context and drivers, including environmental, social and governance trends and issues, the full range of material risks and opportunities the company needs to understand and respond to, the key stakeholders it needs to engage with and relationships it need to sustain, how its business model and the elements of its value chain reflect all of this, and how it is helping to create environmental and social values. Ideally, reporting should be aimed at informing interested stakeholders about performance achieved against targets, vision and strategy adopted to serve the stakeholders' interests, and other factors that can influence business performance in the future (KMPG, 2010; PwC, 2010b).

Despite this expanded requirement and context, financial reports did not address the information needs of all stakeholders (Ligteringen & Arbex, 2010) as there was little substantive disclosure about strategy, innovation, people, customer loyalty, immediate community and the business risks related to climate change, water scarcity, and evolving public policy and regulatory issues (Krzus, 2011). At the heart of corporate reporting lies two fundamental requirements namely: transparency and accountability. The notion of transparency sets the stage for a company holding itself more accountable (Eccles & Krzus, 2010). Transparency has been seen as a fundamental part of business strategy (FEE, 2011) and is playing an increased role relative to corporate reporting because the nature of instability in markets today has created a demand for transparency, as companies expand their reports from a strictly financial perspective to one that reflects a sustainable strategy. Transparency is seen as providing more clarity, about how and why decisions are made rather than seeing it as giving away the company's secrets (Eccles & Krzus, 2010). The need for accountability on the other hand, requires a company to express the impact it has on all stakeholders. This wider accountability implies that companies have to fulfil the information needs of those who provide them with other economic resources such as labour, space, air or natural resources and those who enter into transactions with the organization such as customers (KPMG, 2010).

In the context described above, the environmental and social aspects of business conduct will influence the business future (including the value of the company) as will the financial performance. Therefore, elements such as environmental impact, labour rights, health and carbon emissions logically deserve a space in reporting on total business performance. This is the moment integrated reporting comes into play (KPMG, 2010). In 2010, the Prince's Accounting for sustainability project and the Global Reporting Initiatives (GRI) announced the formation of the Institute of Integrated Reporting Council (IIRC) whose mission is 'to create a globally accepted integrated reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format' in order to help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing (Busco, Frigo, Quattrone, & Riccaboni, 2013). Integrated reporting is an evolution of corporate reporting which is a necessity because of the recent global financial crisis, climate change, and ecological overshoot. It builds on the practice of financial reporting, environmental, social, and governance (ESG) and equips companies to strategically manage their operations, brand and reputation to shareholders and be better prepared to manage any risk that may compromise the long-term sustainability of the business (Abeysekera, 2013). The development of integrated reporting is being driven by the failures of the current financial and sustainability reporting frameworks to accurately reflect an organisation's full sphere of risks, impacts and opportunities (Ranganathan, 2013; Eccles & Krzus, 2010; Jeyaretnam & Niblock-Siddle, 2010). Integrated reporting represents the latest development in a long line of reporting initiatives by businesses including the traditional 'annual reports', and the more recent 'sustainable development' and 'corporate responsibility' reports (Stubbs & Higgins, 2012). It is on record that South Africa was the first country to require integrated reporting of all listed companies in the Johannesburg Stock Exchange for fiscal years starting on or after March 1, 2010.

Though, integrated reporting is sometimes called "one report" (Eccles 2010), many companies and organisations have misunderstood it to mean the combination of financial and sustainability reports in one unified paper document, with sufficient cross reference to environmental, social and governance indicators without providing insight into strategy, risks and opportunities required. However, this is drastically underestimating the potential power and benefit of what integrated reporting has to offer (Deloitte, 2011; Armbrester, 2010; KMPG, 2010). It enables businesses to present environmental, social or ethical information in a way that is explicitly related to the financial, strategic, and governance information within an annual report (Busco, Frigo, Quattrone, & Riccaboni, 2013). It brings together the material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social, and environmental context within which it operates; combines the most material elements of information currently reported in separate reporting strands—financial, management commentary, governance and remuneration, and sustainability—in a coherent whole, and importantly shows the connectivity between them. It equally explains how they affect the ability of an organisation to create and sustain value in the short, medium and long term (Deloitte, 2012). It is not simply an amalgamation of the financial statements and a sustainability report but incorporates in clear language, material information from these and other sources to enable shareholders to evaluate the organisation's performance and to make an informed assessment about its ability to create and sustain value (Solomon & Maroun, 2012). Integrated reporting is a holistic approach that enables investors and other stakeholders to understand how an organisation is really performing. It addresses the longer-term consequences of decisions and actions and makes clear the link between social, economic, and environmental values. It shows the relationship between an organization's strategy, governance and business model.

It also gives an analysis of the impacts and interconnections of material financial and non-financial opportunities, risks and performance across the value chain (Tonello, 2011; Druckman & Fries, 2010). The relationship between an organization's strategy, governance and business model is made transparent while the analysis of the impacts and interconnections of material opportunities, risks and performance across the value chain is given (FEE, 2011). It addresses the company's performance for a comprehensive set of factors such as economic, social, environmental, governance and other relevant "business-impacting" factors which are done on the basis of a well-developed business strategy that takes all aforementioned elements into account (KMPG, 2010). It demonstrates the linkages between an organization's strategy, governance, and financial performance, social, environmental and economic context within which it operates. It tells the overall story of an organisation in a manner that allows all stakeholders to assess the ability of the organisation to create and sustain value over the short, medium and long term without unduly compromising short term profitability (Deloitte, 2011).

Transparency is at the heart of the concept (Carte, 2011). It is not an afterthought but a result of the business strategy that includes sustainability as a core element which implies that the economic value of a sustainable strategy needs to be shown by the report (KPMG, 2010). It can be taken as a stand-alone document which should provide sufficient financial and sustainability information to enable an informed opinion to be made, and forward-looking information dealing with the organization's performance objectives (Deloitte, 2011). The primary benefit of integrated reporting is a more holistic view of information relevant to the company and its value proposition and strategy (Eccles & Krzus, 2010).

The IIRC (2011) sets out a number of guiding principles that should underpin integrated reporting and these are: strategic focus, connectivity of information, future orientation, responsiveness and stakeholders inclusiveness, conciseness, reliability and materiality. Integrated Reporting is based around some fundamental concepts: the first one is an extended concept of 'capital' which recognises the broader suite of dependencies that the business has in delivering goods or services (Bhattacharyya, 2013; Sinclair, 2013). These capitals include financial, manufactured, intellectual, human, social and relationship, and natural capital. They represent stores of value that can be built up, transformed or run down over time in the production of goods and services (Adams, 2013; Ernst & Young, 2013). Although companies depend on the six capitals to different extents, collectively the capitals' availability, quality and affordability can affect the long term viability of an organisation's business model and therefore its ability to create value over time (Alembakis, 2013; ACCA USA, 2013). However, within the categorisation of the different types of capital, there are obvious overlaps and the exact nature of their interaction is a function of organisational focus and beliefs. While most organisations will rely on all the capitals to an extent, some dependencies will be relatively minor or so indirect that they are immaterial for reporting purposes (ACCA/NBA, 2013). By way of definition, financial capital are the pool of funds that is available to the organisation for use in the production of goods or the provision of services, and obtained through financing, such as debt, equity or grants, or generated through operations or investments. Manufactured capital are human-created, production-oriented equipment and tools, and manufactured physical objects (as distinct from natural physical objects) that are available to the organisation for use in the production of goods or the provision of services, including buildings, equipment, and infrastructure (such as road network, ports, bridges and waste and water treatment plants) but do not become embodied in its output. Intellectual capital are the intangibles that provide competitive advantage, including intellectual property, such as patents, copyrights, software and organisational systems, procedures and protocols, and the intangibles that are associated with the brand and reputation that an organisation has developed.

Human capital are the people's skills and experience, and their motivations to innovate, including their alignment with and support of the organisation's governance framework and ethical values such as its recognition of human rights, ability to understand and implement an organisation's strategies, and loyalties and motivations for improving processes, goods and services, including their ability to lead and to collaborate. Natural capital has been defined as any stock of natural resources or environmental assets (such as soil, water, atmosphere, ecosystems, land, minerals and forests, biodiversity, etc) which provide a flow of useful goods or services, now and in the future. An organisation's activities may impact positively or negatively on natural capital. Social and relationship capital are the institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. It includes common values and behaviours; key relationships; trust and loyalty that an organisation has developed and strives to build and protect with customers, suppliers and business partners; and an organisation's social license to operate (ACCA/NBA, 2013; Mertins, Kohl, & Orth, 2012).

Another concept is the 'business model' which has been considered as the very heart of integrated reporting. While there is no widely accepted definition of what business model really means (Casadesus-Masanell & Ricart, 2007), it has been described as an organisation chosen system of inputs, business activities, outputs and outcomes which aim to create value over the short, medium and long term (Teece, 2010). Inputs for a business model are to be understood in terms of the capitals on which the organisation depends or that provides a source of differentiation. Business activities include the core activities, that is, the planning, design, manufacture of products or deployment of specialised skill and the activities that contribute to the long term success of the business such as innovation, employee training and relationship management. Outputs include not only the key products and services, but also by-products and waste (including emission) which are material to the organisation. Outcomes are defined as the internal and external consequences for the capitals as a result of the company's business activities. Positive outcomes include efficient infrastructure, productive and skilled employees, while negative outcomes may include out-of-date infrastructure, dissatisfied consumers and sub-optimal or reduced performance due to lack of training (Deloitte, 2013).

The essence of a business model is that it defines the manner by which the business enterprise creates, capture, and delivers economic, social and other forms of value to the customers, entice these customers to pay for value, and convert those payments to profit (Macroeconomic subgroup, 2011). It drives a company's core business activities and relate it to its strategy, governance, performance and prospects (Al-Fattah, 2013; IIED, 2009; Richardson, 2008). The business model concept has evolved to incorporate value creation, capturing and appropriation (Makinen & Seppanen, 2007). In the context of integrated reporting, defining the business model means considering all the relevant capitals on which performance depends, and explaining their role in how the company seeks to create and sustain value (PwC, 2012). Thus, a description of the business model requires specific disclosure of the key inputs and the material capital or resources on which the organisation depends (Deloitte, 2013).

Another concept is value creation. Value for shareholders is created, changed or destroyed by an organisation over the short, medium and long term depending on the interaction between the business model, the capitals and a range of internal and external factors (Sinclair, 2013; IIRC, 2011). Another concept is integrated thinking. Integrated report requires integrated thinking, which has been described as the application of the collective mind of those charged with governance and the ability of the management to monitor, manage and communicate the full complexity of the value creation process, and how this contributes to success over time (Deloitte, 2012). It is the active consideration of the relationships between the various operating and functional units and the capitals that the organisation uses and affects, that is, it requires in-depth understanding of how environment, strategy and internal processes fit together. It should be contrasted with traditional 'silo thinking' in that it takes into account the connectivity and interdependencies between the range of factors that have a material effect on an organisation' ability to create value over time (Chandrasekera, 2013).

Another concept is materiality and for the purpose of integrated reporting, a matter is considered material if it is of such relevance and importance that it could substantially influence the assessment of providers of financial capital with regard to the organisation's ability to create value over the short, medium and long term. In determining whether or not a matter is material, senior management and those charged with governance should consider whether the material substantially affects, or has the potential to substantially affect, the organisation's strategy, its business model, or one or more of the capitals it uses or affects (AICPA, 2013).

The Business Case for Integrated Reporting

The term 'Business case for sustainability' (sustainability being a component of integrated reporting) derives among other issues from the limitation of the traditional financial reporting system which favours the shareholders at the detriment of other stakeholders. It covers the broad area of questions dealing with the relevance of voluntary social and environmental activities to the business effects and business success of a company (Blacksun, 2012; Schaltegger & Wagner, 2006). The business case or 'enlightened self-interest' is not a generic argument that corporate sustainability strategies are the right choice for all companies in all situations, but rather something that must be carefully honed to the specific circumstances of individual companies operating in unique positions within distinct industries (Reed 2001 as quoted in Salzman, Ionescu-Somers & Steger, 2005).

The essence of a business case is to showcase how voluntary social and environmental management contribute to the competitiveness and economic success of any company (Unerman & O'Dwyer, 2007; Schaltegger & Wagner, 2006), and requires strategic objectives and a business model to be oriented towards a triple bottom line. According to Schaltegger, Lundeke-Freund & Hansen (2011), a business case for sustainability is characterised by three requirements which have to be met and these are: firstly, the company has to realise a voluntary activity with the intention to contribute to the solution of societal or environmental problems; secondly, the activity must create a positive business effect or a positive economic contribution to corporate success which can be measured or argued for in a convincing way. Such effects can be cost savings, increase of sales or competitiveness, improved profitability, reputation, etc. Thirdly, a clear and convincing argumentation must exist that a certain management activity has led or will lead to both the intended social, environmental, and economic effect (Ioannis & Serafeim, 2011).

The drivers of a business case are variables which directly influence economic sustainability as well as social and environmental sustainability. Among the core drivers for integrated reporting (which is an integration of sustainability and financial reporting) in the Nigerian oil and gas sector are as follows:

i. Stakeholders' engagement/inclusiveness: Having a structured and integrated approach to shareholders made possible by integrated reporting help companies to gain a comprehensive understanding and extensive engagement programs with the shareholders and supports superior shareholder wealth creation by enabling companies to develop intangible assets in the form of strong long-term relationships that become a source of competitive advantage. This systematic and principled engagement with shareholders is key for securing the local license to operate on the basis of which a company can improve the conditions under which it operates. License to operate refers to the level of acceptance of the company by its shareholders and means that a company has earned the goodwill of the communities that surround or are affected by a project's operations which has the capacity to translate into benefits to the company's bottom line through improved sales and profitability (Bertoneche & Lugt, 2013; Eccles, Ioannou, & Serafeim, 2011).

ii. Eco-efficiency: Eco-efficiency involves producing the same level of output with fewer resources, emissions and less waste. It can be achieved, among other things, by using more efficient technologies, effective recycling and waste reduction along the value chain and/or in the product life cycle, through the above, companies will not only reduce their impacts on the environment but also realise cost savings (Al-Fattah, 2013).

iii. Operational efficiency: In the context of the oil and gas sector, efficiency can be defined as producing crude oil and products at the lowest possible cost (including labour and materials) relative to the accessability of the resource within safe and environmentally sound guidelines. The business case surrounding increasing operational efficiency can be used in two ways: (a) the cost savings from increased efficiency can be used to offset the cost of the voluntary program, or (b) the existence of a supporting voluntary program may justify a profitability project that fails to meet normal hurdle rates (Blanch, 2004).

iv. Risk management and reporting: In an increasingly complex world of environmental change, success will depend on how well a company can analyse all risks, identify effective ways to address them, and implement appropriate action. Therefore, the effective management of sustainability risks and opportunities require their integration into strategic planning which will position them to secure a better risk profile and open the way for obtaining capital at lower cost. Research has shown that firms that lower their systemic risk profile through improved environmental risk management experience less volatility in performance and are rewarded by lower cost of capital equity. In economic terms, the driver for improved risk management is to reduce exposure to future liabilities due to environmental performance or due to the cost of implementation of new environmental regulation (Al-Fattah, 2013; Bertoneche & Lugt, 2013; Kiore, 2012; Sharfman & Fernando, 2008).

v. Human capital and productivity: More business case evidence is also emerging that the use of recognised environmental and other standards with quality human resources adequately educated, trained, and appropriately motivated to become more innovative and productive is crucial to the companies' bottom line as productivity is a driver of increased revenue as well as reduced costs (WBCSD, 2011).

vi. Brand value and reputation: Building brand identity and the trust associated with environmental, social, and governance reporting can improve sales and performance. An enhanced corporate reputation due to sustainability reporting improves the prospect for the company to be more effective in the way it manages communication and marketing in an effort to attract new customers and increase market share.

vii. Governance and management: governance and management is about setting in place systems and processes that will make a company more accountable to stakeholders. It covers the inclusion of sustainability concerns in mission statements, business principles, values and ethics, codes of conduct and position the company to add value which will impact positively on its bottom line.

Research Methodology

The primary purpose of the study is to carry out an assessment of the business case for integrated reporting in the Nigerian oil and gas sector. The study focused on the six major oil multinationals operating in the petroleum sector of the industry. Data were sourced through content analysis of annual reports, stand-alone sustainability reports and other triple-line reporting publications.

The GRI and the oil and gas industry guidance on voluntary sustainability report (IPIECA, 2005) served as the bases for the development of the evaluation criteria. The study will only use limited criteria deemed relevant within the oil and gas sector. The description of the evaluation and ratings are as shown in Table 1.

The following scale ratings were applied in assessing the degree of reporting in the sampled companies.

Table 1. Scale Ratings

		Rating/Score
1.	Issue not reported at all	0
2.	Issue reported locally but in general terms	1
3.	Issue reported locally and in specific terms	2
4.	Issue reported globally with no specific mention of Nigeria	3
5.	Issue reported globally and with specific mention of Nigeria	4
6.	Issue reported generally in both global and local reports	5

Results and Discussion

Table 2. Results of Assessment/Ratings of the six multinationals operating in the Sector

S/ No	Code	Indicators	Multinational Oil/Gas Companies Assessment/ Ratings					
Criterion 1: Organizational Profile, Strategy, Model & Governance								
		Organizational Profile	A	B	C	D	E	F
1.	OR1	Name of organization, primary brand, product and /or service	5	5	5	5	5	5
2.	OR2	Countries in which the organization's operations are located and its headquarters	5	5	5	5	5	5
3.	OR3	Market served (including geographic breakdown, sector served and types of customers).	5	5	5	5	5	5
4.	OR4	Significant changes during the reporting period regarding size, structure and ownership.	5	5	5	5	5	5
		Organizational Strategy & Model						
5.	OR5	Statement from CEO about relevance of sustainability to organization and its strategy.	3	3	3	3	3	3
6.	OR6	Description of key impacts, risks and opportunities.	3	5	3	5	3	5
		Report Parameters						
7.	OR7	Reporting period (e.g. calendar year) and cycle.	5	5	5	5	5	5
8.	OR8	Contact person(s) for the report including e-mail and web addresses.	3	3	3	3	3	3
9.	OR9	Boundaries of the report (countries/ divisions/ leased facilities /joint venture) and specific limitation on boundary of reports	3	5	5	5	3	3
10.	OR10	Policy and current practices with regard to seeking external assurance for the report.	3	3	3	3	3	3
		Governance						
11.	OR11	Governance structure of the organization, including major committees under the board of directors that are responsible for setting strategy or organizational oversight.	5	5	5	5	5	5
12.	OR12	Mechanism for shareholders and employees to provide recommendations or direction to the highest governance body.	5	5	5	5	5	5
13.	OR 13	Internally developed statements of mission or value, code of conducts and principles relevant to economic, environmental, and social performance and the status of their implementation.	5	5	5	5	5	5

14.	OR14	Procedure of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles.	3	3	3	3	3	3
15.	OR15	Process for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.	3	3	3	3	3	3
16.	OR16	Externally developed economics, environmental, and social charters, or other initiatives to which the organization subscribes or endorses.	3	3	3	3	3	3
17.	OR17	List of stakeholder groups engaged by the organizations.	3	0	3	3	0	3
18.	OR18	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	3	3	0	0	3	3
19.	OR19	Key topics and concerns that have been raised through stakeholder engagement and how the organization has responded to those key topics and concerns, including through its reporting.	0	0	3	3	0	3
20.	OR20	Basis for identification and selection of stakeholders with whom to engage.	0	0	0	3	0	0

Criterion 2: Financial Capital Indicators

		Shareholders	A	B	C	D	E	F
21.	EC1	Dividend paid plus share repurchases (if applicable)	5	5	5	5	5	5
		Government						
22.	EC2	Globally aggregated annual amount of income tax expenses.	5	5	5	5	5	5
23.	EC3	Polices or advocacy programmes for the promotion of transparency of payments to host governments.	3	3	3	3	3	3
		Employees						
24.	EC4	Total employees payroll and benefits for the current reporting period.	5	5	5	5	5	5
25.	EC 5	Organization's defined benefit plan obligations for employees procedure for local hiring and proportion of senior management hired from the local community at locations of significant operation.	5	5	5	5	5	5

		Supplier and Contractors						
26.	EC 6	Total capital expenditures.	5	5	5	5	5	5
		Lenders and Holders of Debt Securities						
27.	EC7	Interest paid to lenders and holders of the company's debt securities in the reporting period.	5	5	5	5	5	5
		Criterion 3: Natural Capital Indicators						
		Spills and Discharges	A	B	C	D	E	F
28.	EN 1	Number and volume of hydrocarbon liquid spills greater than 1 barrel that reach the environment.	3	3	3	3	3	3
29.	EN 2	Quantities of hydrocarbons present in controlled or regulated discharges to a water environment (both inland waterways or to the sea).	3	3	3	3	3	3
30.	EN 3	Quantities of permitted or controlled discharges of chemicals or materials other than hydrocarbons.	3	3	3	3	3	3
31.	EN 4	Significant non-hydrocarbon spills and accidental releases from operational upsets.	3	3	3	3	3	3
		Wastes and Residual Materials						
32.	EN 5	Quantity of regulated hazardous wastes disposed.	3	3	3	3	3	3
33.	EN 6	Quantity of non-hazardous waste disposed.	3	3	3	3	3	3
34.	EN 7	Total quantity of materials recycled, reused or reclaimed that would otherwise have been considered hazardous or non-hazardous wastes.	3	3	3	3	3	3
35.	EN 8	Toxic Releases	0	0	0	0	0	3
		Emissions						
36.	EN 8	Annual emissions of greenhouse gases reported as total CO_2 equivalent and as individual species, from facilities managed and /or owned by the company.	3	3	3	3	3	3
37.	EN 9	Total mass or volume of hydrocarbon gas both vented and flared to the atmosphere from operations and reported separately.	3	3	3	3	3	3
38.	EN10	Individual quantities of emissions by type released to the atmosphere from oil and natural gas operations during routine and non-routine processing.	3	3	3	3	3	3

		Supplier and Contractors						
26.	EC 6	Total capital expenditures.	5	5	5	5	5	5
		Lenders and Holders of Debt Securities						
27.	EC7	Interest paid to lenders and holders of the company's debt securities in the reporting period.	5	5	5	5	5	5
		Criterion 3: Natural Capital Indicators						
		Spills and Discharges	A	B	C	D	E	F
28.	EN 1	Number and volume of hydrocarbon liquid spills greater than 1 barrel that reach the environment.	3	3	3	3	3	3
29.	EN 2	Quantities of hydrocarbons present in controlled or regulated discharges to a water environment (both inland waterways or to the sea).	3	3	3	3	3	3
30.	EN 3	Quantities of permitted or controlled discharges of chemicals or materials other than hydrocarbons.	3	3	3	3	3	3
31.	EN 4	Significant non-hydrocarbon spills and accidental releases from operational upsets.	3	3	3	3	3	3
		Wastes and Residual Materials						
32.	EN 5	Quantity of regulated hazardous wastes disposed.	3	3	3	3	3	3
33.	EN 6	Quantity of non-hazardous waste disposed.	3	3	3	3	3	3
34.	EN 7	Total quantity of materials recycled, reused or reclaimed that would otherwise have been considered hazardous or non-hazardous wastes.	3	3	3	3	3	3
35.	EN 8	Toxic Releases	0	0	0	0	0	3
		Emissions						
36.	EN 8	Annual emissions of greenhouse gases reported as total CO_2 equivalent and as individual species, from facilities managed and / or owned by the company.	3	3	3	3	3	3
37.	EN 9	Total mass or volume of hydrocarbon gas both vented and flared to the atmosphere from operations and reported separately.	3	3	3	3	3	3
38.	EN10	Individual quantities of emissions by type released to the atmosphere from oil and natural gas operations during routine and non-routine processing.	3	3	3	3	3	3

		Resource Use	A	B	C	D	E	F
39.	EN11	Quantity of primary energy consumed in oil and natural gas operations including the primary energy that is generated on site or imported.	3	3	3	3	3	3
40.	EN12	Fresh water consumed in oil and gas operations where availability is a significant issue.	3	3	3	3	3	3
41.	EN13	Initiatives to develop produce or use alternative or renewable energy sources.	5	5	5	5	5	5
42.	EN14	Implementation and coverage of an Environmental management system.	5	5	5	5	5	5
		Biodiversity	A	B	C	D	E	F
43.	EN15	Location and size of land owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	3	3	3	3	3	3
44.	EN16	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	3	3	3	3	3	0
45.	EN17	Habitats protected or restored.	3	3	3	3	3	3
46.	EN18	Strategies, current actions, and future plans for managing impacts on biodiversity associated with activities in terrestrial, fresh water and marine environments.	3	0	0	3	3	0
47.	EN19	National conservation list species with habitats in areas affected by operations by level of extinction risk.	3	3	0	3	3	0
		Criterion 4: Human Capital Indicators						
48.	HE 1	Implementation and coverage of an occupational health and safety management system.	5	5	5	5	5	5
49.	HE 2	Participation of employees in safety and health dialogues.	3	3	3	3	3	3
50.	HE 3	Existence of programmes and practices to understand the general health risks and experiences affecting the local workforce.	0	0	0	0	0	0
51.	HE 4	Description of a system for recording occupational injuries and illness and reporting them as total injury rate, total illness rates, lost time injury rate and fatality rates.	3	3	3	3	3	3
		Criterion 5: Social & Relationship Capital Indicators						
		Human Rights	A	B	C	D	E	F
52.	SR 1	Policies/Procedures to address human rights broadly, as relevant to operations including implementation progress.	0	0	0	0	0	0

53.	SR 2	Total hours of employees training on issues of human rights relevant to operations.	0	0	0	0	0	0
54.	SR 3	Total number of incidents of discrimination and actions taken.	0	0	0	0	0	0
55.	SR 4	Total number of incidents of violations involving rights of indigenous people and actions taken.	0	0	0	0	0	0
		Business Ethics	A	B	C	D	E	F
56.	SR 5	Policies and/or procedures for addressing bribery and corruption.	0	0	0	0	0	0
57.	SR 6	Policies and/or procedures for managing political contributions, political lobbying and advocacy.	3	3	3	3	3	3
		Employment Practice						
58.	SR 7	Policy and/or procedure preventing discrimination among employees in operations, including a description of equal opportunity practices.	5	5	5	5	5	5
59.	SR 8.	Description of programmes to gauge employee satisfaction.	0	0	0	0	0	0
60.	SR 9.	Total workforce by employment type, contract and region.	5	5	5	5	5	5
61.	SR 10	Average hours of training per year per employee category.	5	5	3	3	5	5
62.	SR 11	Policies and/or procedures for hiring and training local employees within a country/ region, including at senior levels.	5	5	5	5	5	5
		Community and Society						
63.	SR 12	Processes for assessing and managing positive and negative impacts on communities in areas affected by core business activities.	3	3	3	3	3	3
64.	SR 13	Amount of social investment including policies and procedures for making the social investment.	5	5	5	5	5	5
65.	SR 14	Description of processes to engage with and address the needs of indigenous communities.	0	0	0	0	0	0
66.	SR 15	Policies and/or procedures to address resettlement and land rights of impacted communities.	0	0	0	0	0	0
67.	SR 16	Percentage and total number of business units analysed for risks related to corruption.	3	0	0	3	3	0
68.	SR 17	Action taken in response to incidents of corruption.	0	0	0	3	0	3
69.	SR 18	Public policy positions and participation in public policy development and lobbying.	3	3	3	3	3	3

70.	SR 19	Total value of financial and in-kind contributions to political parties, politicians and related institutions.	5	5	5	5	5	5
71.	SR 20	Total number of legal actions for anti-competitive behaviour, antitrust and monopoly practices and their outcomes.	3	3	3	3	3	3
72.	SR 21	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	5	5	5	5	5	5

Source: GRI, 2006; API/IPIECA, 2005

Criterion 1: Organizational Profile, Strategy, Model and Governance

In terms of profile, all the surveyed companies reported extensively on their primary brand, countries in which their operations were located and their headquarters, market served and significant changes during the reporting period regarding size, structure and ownership. On issue relating strategy, all surveyed companies did not establish a relationship between companies' strategies and sustainability in their local reports (whether in annual report or stand-alone sustainability report). 50% of the sampled companies described key impacts risks and opportunities at both local and global levels, the other 50% only reported same issues only on the global scene without both groups aligning their reports with their strategies. The strategic objectives of the corporations were not linked to every aspect of their value creation activities and no explanation on the various strategies that will ensure delivery on the objectives. On the issue of the reporting parameters, multinationals only described their reporting cycle both locally and globally but failed to mention the contact person at the local level and their policies with regards to seeking external assurance for the report.

On the issue of governance, the disclosure of their corporate governance practices did not reflect what those charged with governance have actually done in adding value to their companies. There was no report linking board appointment, including the strength and benefits that individual board members bring to their roles, with an explanation of the overall positioning of the board. The reports were not built around their business models, the context in which they operate and strategies to address the opportunities and challenges they face. On stakeholder engagement, all companies reported globally but their Nigerian affiliates did not report on key issues like list of stakeholders group, approaches and frequency of engagement; basis for identification and selection of stakeholders with whom to engage as well as key topics and concerns raised and how the organization responded to them. This is in line with past research (e.g. Enemaku, 2006), where it was posited that multinationals failed to take cognisance of the internal dynamics of the community. Stakeholders' relations plans and programs are yet to fully adapt to changing values in African culture and the Niger Delta society. While in the past traditional rulers were held in high esteem because of the community perceptions as representatives of the ancestors but they have lost their influence because of the questionable personal integrity, the influence of modern religions and education, hence, weaving stakeholders' relations strategies around such traditional rulers could be counter-productive. The alternative is to adopt a grassroots-focussed democratic participants' approach to stakeholders' engagement. This is the essence of integrated reporting as it motivates companies to state the mechanism for the identification of relevant stakeholders and whether their views were considered in the formulation of strategies.

Criterion 2: Financial Capital Indicators

All surveyed companies reported extensively on their economic performance indicators in both local and global reports but failed on their responsibilities to mention in their local reports policies and / or advocacy programmes for the promotion of transparency of payments to host government. Over the years, the multinationals have been accused by other stakeholders of a lack of transparency in their dealings with the Nigerian government. These criticisms, inter alia, culminated in the introduction of Nigeria Extractive Industries Transparency Initiatives (NEITI) which was meant to promote transparency in the activities of the multinationals in their dealing with the Federal Government. As at the time of carrying out this research, the said initiatives remained non-operative. Transparency is at the heart of integrated reporting as it is seen as providing more clarity about how and why decisions are made rather than seeing it as giving away the companies' secrets. It explains to shareholders how a company is creating value for shareholders and society, short and long term challenges and the trade-offs between financial and non-financial issues. This notion of transparency sets the stage for a company holding itself more accountable.

Criterion 3 : Natural Capital Indicators

All surveyed companies reported environmental performance Indicators in general terms in their global reports but their local affiliates did not make any report on their environmental performance. On spills and discharges, multinationals in their local reports failed to mention the number and volume of hydrocarbon spilled and present in regulated discharges to a water environment.

On the issue of wastes and residual materials, there was no report on the quantity of hazardous and non-hazardous wastes disposed toxic releases and the total quantity of materials recycled, re-used or reclaimed that would otherwise have been considered as wastes.

On emissions issues, international best practices require that individual quantities of emissions by type, total volume of hydrocarbon gas both vented and flared to the atmosphere and annual emissions of greenhouse gases reported as total CO_2 equivalent be appropriately accounted for. This requirement was not adhered to by multinationals in their local reports.

On resource usage, the multinationals only reported the implementation and coverage of an Environmental management system in both local and global reports while the quantity of primary energy and fresh water consumed in their operations were only reported globally.

On biodiversity, companies failed to report locally their operations in area of high biodiversity, the impact of their operations on biodiversity and their strategies for managing the impact on biodiversity associate with their activities despite reporting same in their global reports.

Criterion 4: Human Capital Indicators

While multinationals operations in Nigeria stated the existence and implementation of an occupational health and safety management system, they failed to describe in specific terms the participation of employees in health dialogues, the existence of programmes to understand the general health risks affecting the local force and a description of a system for reporting occupational injuries unto total injury rate, total illness rate, lost time injury rate and fatality rate.

Criterion 5: Social and Relationship Capital Indicators

Multinationals in their local reports failed on their Social Responsibility performance Indicators. In respect of Hunan Rights, there were neither policies and / or procedure for addressing human rights nor employees training on the issue of human right. There was no report on the number of incidents of discrimination and violation involving rights indigenous people and action taken (if any).

In terms of employment practices, while multinationals reported on the availability of a policy for preventing discrimination among employees, there was no programme to gauge employees' satisfaction. On the issue of the community, there were no description of processes engaged to address the needs of indigenous communities, resettlement and land rights of impacted communities, management of the positive and negative impacts on communities in areas affected by core business activities, the total number of legal actions against the companies were not reported although the companies made provision for contingent liabilities (for issues like fines, non compliance with laws and court cases) in their local reports. According to Ruggie (2010), an analysis of the project operated by oil multinationals indicates that non-technical risks accounted for nearly half of all risk factors faced by these companies, with stakeholder -related risks constituting the largest single category. He further stated that community opposition to oil industry projects may have cost multinationals up to $6.5 billion over a two-year period. There was no indication if stakeholders' costs were ever measured. Nessing (2010) posited that today's loss of faith and trust in companies is rooted in a lack of stakeholders' engagement and transparency. Stakeholders' engagement is all about relationships with employees, customers, regulators, environmentalists, investors and others. Companies that do not listen to their stakeholders risk losing reputation and public trust.

Conclusion

This study has demonstrated the business case for integrated reporting in the Nigerian oil and gas sector. The study found that multinationals differed in their mode of reporting which resulted in a lack of comparison from one company to another; they reported extensively in line with global best practices in global reports but differed substantially in local reports using varying medium of communication including stand-alone sustainability reports, companies' websites, etc. There was no linkage between their strategies and sustainability; and an absence of connection between business strategy, processes and performance. There was no proper identification of relevant stakeholders for engagement in the communities where their operations were domiciled and efforts to address environmental, social and governance issues were short term and adhoc and remain unrelated to the core activities of the corporations because long term sustainability were not embedded as core functions of the businesses. There were documented cases of huge flaring and monumental environmental degradation caused by the operations of these multinationals but these were not quantitatively and monetarily accounted for. There were no specific strategies in containing these menaces and the mentioning of same in their sustainability reports. There was no description of the business model, the context in which the multinationals operate and strategies to address the opportunities and challenges they face.

Consequent on the above submission, the study recommends integrated reporting framework for operations in the oil and gas sector of the Nigerian economy as it is done in South Africa in view of its criticality to the economic well-being of the Nigerian state. It is believed that integrated reporting will help companies in the Nigerian oil and gas sector to redefine and refocus their strategy by ensuring that sustainability be incorporated therein and also create opportunity to improve interactions with internal and external stakeholders. It will improve stakeholders' understanding of the link between sustainability and business strategy. It will also provide the much needed transparency that the multinationals have been criticised of and restore public trust that has been missing since the inception of exploration of oil in the Niger Delta region of Nigeria.

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