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THE EXTENT OF COMPLIANCE WITH GRI BY NIGERIAN OIL AND GAS COMPANIES

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Abstract

Global reporting initiatives (GRI) guidelines has received wide spread acceptance across the globe in the area of sustainability reporting. Several studies conducted in developed countries proved the effectiveness of the GRI index. In order to enjoy the benefits attributable to sustainability reporting, many developing nations claim compliance with the GRI index. However, the extent of compliance with the index remain sketchy, more specifically in emerging economies like Nigeria. This research tries to address this challenge by assessing the extent of sustainability reporting among the Nigerian oil and gas companies using the GRI guidelines as benchmark. Data were collected from the annual report and account of listed oil and gas companies on Nigerian Stock Exchange (NSE). This study used un-weighted disclosure method to capture the extent of sustainability disclosure among the Nigerian firms. Based on the investigations, the results show that there is significant level of compliance with GRI guidelines by oil and gas firms in Nigeria.

Keywords: Sustainability reporting, GRI, disclosure Index.

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1. Introduction

Sustainability reporting is one of the trending issues that received the attention of professional and academic researchers, despite current methodological difficulties and information gaps, Hahn and Kühnen (2013). It is used as vehicle for meeting the information need of the divergent stakeholders through the disclosure of information that aim to increase transparency, enhance brand value, reputation and legitimacy, enable benchmarking against competitors, signal competitiveness, motivate employees, and support corporate information and control processes.

The concept sustainability is frequently used to describe corporate non-financial reporting. However, according to Mudd (2009), several analysts, claim that such reports overlook basic tenets of sustainable development. Consequently, there is a growing demand for enhanced and harmonized approaches to reporting that are universally accepted, Jose (2017). Currently, the GRI has become the most widely used standard for sustainability reporting worldwide, Marimon, Alonso-Almeida, del Rodríguez, del and Alejandro (2012). It has been developing since its creation to accommodate stakeholder and market demands and to continue building transparency and trust. However, Fortanier, Kolk, and Pinkse (2011), concluded that, in spite of the standardization efforts, significant differences remain between companies from different institutional environments with regard to the content and quality of sustainability reports.

Marimon opine that the main objective of GRI is to provide information guidelines to present a clearer vision of the human and ecological impacts of an enterprise. In addition, one of the GRI's main functions is to enable shareholders and other stakeholders to make right decisions regarding investments and other relationship with the company. Thus, the GRI is a framework from which to judge records of sustainability or integrated reporting. Additionally, the GRI framework provides the opportunity to compare information and set standard among the different organizations involved. Ioannou and Serafeim (2011) also remarked that the GRI framework increases sustainability reporting to the same rigor as financial reporting.

Daizy and Das, (2014) examine sustainability reporting disclosure as per Global Reporting Initiatives in Indian Mining sector and concluded that sustainability reporting practices as per GRI is still in nascent stage. However, Isaksson and Steimle (2009) discussed what the business contribution to sustainable development is (or should be) and proposed new criteria for assessing corporate sustainability. The authors believe that the current GRI guidelines are not sufficient to make sustainability reporting for the cement industry relevant and clear. Despite this shortcoming identified by Isaksson and Steimle, GRI remain the most acceptable index in sustainability reporting across the globe, Marimon et al and KPMG.

Studies conducted by Isa (2014) and Folashade, Akinwumi, Dorcas and Uwalomwa (2016) revealed that Nigerian firms exhibit some level of sustainability reporting, however, the extent of reporting is still below average. Although, the general sustainability disclosure is low, the least was recorded for human rights disclosures follows by environmental disclosures.

2. Problem Statement

There has been much concern on the rise of GRI-based sustainability reporting with respect to its limitations and potential negative consequences. Some claim that the introduction of non-integrated sustainability reporting frameworks, such as GRI's, was important inasmuch as it helped organizations to

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broaden integrated reporting. This is more specifically the transparency and accountability social and environmental issues.

Nevertheless, the literature is still limited in quantity and no major reviews of the latest developments have been presented so far. Few studies investigate ways to bring about this change while the aspect of compliance more especially in developing countries was almost neglected.

3. Research Questions

In view of the above problem statement, the following question were framed:

What is the extent of compliance with GRI guidelines by Nigerian oil and gas companies?

4. Purpose of the Study

This research attempts to address this challenge by assessing the extent of sustainability reporting among the Nigerian oil and gas firms using the GRI as benchmark. Hence, the purpose of the study is to examine the extent of compliance with GRI guidelines by Nigerian oil and gas companies.

5. Research Methods

The study used secondary data collected from the annual reports and accounts of 8 sampled Oil and Gas companies for the period of 5 years (2012-2016). The choice of the sector was based on the important role that the sector perform in the development of Nigerian economy. Second, the 2012 to 2016 are the period in which financial reporting environment has witnessed important an important regulatory changes. These changes range from the mandatory compliance with code of corporate governance in 2011 coupled with mandatory adoption of international financial reporting standard in 2012.

Like many other disclosure study, the study used content analyses to capture the level of disclosure of Nigerian listed oil and gas firms. This study used the un-weighted disclosure method to capture the extent of sustainability disclosure among the Nigerian firms (Tsalavoutas, Evans, & Smith, 2010; Yeoh, 2005). Under the proposed approach, 0, 1, and 2 points will be given to poor, fair and good compliance companies respectively. Poor compliance companies are those that fail to comply with the requirement of the GRI while those with partial compliance to be called fair compliance companies. Those that meet the requirement of GRI will be regarded as good compliance companies. Specifically, a minimum of zero and maximum of two points will be assigned to each of the requirement of the GRI framework. Companies with the full level of compliance can score the two points multiply by the number of items in the GRI framework while firms with total non-compliance can score zero points. Hence, the disclosure score for each firm is the ratio of the points scored by a firm to the total points required to meet the mandatory disclosure requirement as expressed in the following formula:

$$CS_J = \frac{T\sum_{i=1}^{m} di}{M = \sum_{i=1}^{n} di}$$

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Where:

CS_J = total compliance score for each company.

T = Total number of points scored.

J = Firm under consideration.

M = Total points required to meet the mandatory disclosure requirement.

6. Findings

This section presents the data analyses and discussions based on the objective of the study. The data, which cover strategy and analysis based and organizational based disclosure, were collected from the annual report and accounts of 8 listed oil and gas companies. The companies selected were those listed on the main board throughout the period of the study (2012 -2016) as shown in the table 01 below:

Table 01. Oil and Gas Sector of the Nigeria Stock Exchange (NSE)

ID	Firms	Year of Incorporation	Date of Listing	Listing Type
1	Total Nigeria Plc	1956	1979	Premium Board
2	Mobil Oil Nigeria	1951	1991	Premium Board
3	Forte Oil Plc	1964	1978	Premium Board
4	Conoil Plc	1927	1989	Premium Board
5	Oando Plc	1956	1992	Premium Board
6	MRS Oil Plc	1969	1978	Premium Board
7	Eterna Plc	1989	1998	Premium Board
8	Capital Oil Plc	1985	1990	Premium Board
9	Seplat Petroleum Plc	2009	2014	Premium Board
10	Rak Unity Petroleum	1982	1989	Main Board
11	Japoul	1994	2005	Main Board
12	Anino International	1981	1990	Main Board

Source: NSE 2018

6.1. Descriptive Statistics

The objectives of this study is to examine the level of compliance with the GRI guidelines by oil and gas listed firms in Nigeria. Table 2 presents the yearly and overall assessment of the level of compliance with the GRI Guidelines by the oil and gas firms listed on the NSE. The descriptive statistics of the level of compliance for the period of the study reveals that the mean, minimum and maximum level of compliance were 0.996, 0.500 and 1.417 respectively. This implies that the average level of compliance was 99.6%.

Table 02. Descriptive Statistics of the GRI compliance

GRI	2012	2013	2014	2015	2016	All
Mean	0.948	1.000	1.000	1.000	1.031	0.996
Std. Dev.	0.302	0.321	0.299	0.295	0.305	0.290
Min	0.500	0.500	0.500	0.583	0.583	0.500
Max	1.250	1.250	1.250	1.417	1.417	1.417
Observations	**8**	**8**	**8**	**8**	**8**	**40**

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The year-by-year analyses also reveal the steady level of compliance across the study period. The mean of the level of GRI compliance was 0.948, 1.000, 1.000, 1.000, and 1.031 for 2012, 2013, 2014, 2015 and 2016 years respectively.

Further analyses on the level of compliance with GRI as presented in table 3 reveal that the level of compliance was high Strategy and Analysis (Profile A) based disclosure requirement compared to Organizational Profile based disclosure requirement when the total profile compliance was partitioned into Strategy and Analyses based disclosure requirements and Organizational Profile based disclosure requirement. The mean compliance of Strategy and Analyses based disclosure 1.188 which is much higher than 0.958 for Organizational Profile based disclosure. This indicates that firms disclose more information on Strategy and Analyses.

Table 03. GRI compliance on disclosure type

Disclosure Type	N	Mean	Std. Dev.	Min	Max	t-stat	P-value
ProfileA	40	1.188	0.563	0.000	1.500	3.7578	0.0006
ProfileB	40	0.958	0.250	0.600	1.400		

ProfileA refers to the Strategy and Analysis based disclosure requirement

ProfileA refers to the Organizational Profile based disclosure requirement

The study further tested the effect the firm characteristics (Size, Profitability and Audit quality on the firms' compliance behaviour. For the firm size, the sampled firms are partitioned into big and small firms based on the median value of the total asset. Big firms are firms with the total assets above the median value of the total assets while small firms are those with the total asset below the median value of the total asset. Similarly, the median value of ROA was used to categorize the sample of the study into highly profitable and low profitable firms. High profitable firms are those firms with the ROA above the median value while low profitable firms are those firms with the ROA below the median value of the ROA. On the audit quality, firms that are been audited by Big-4 auditing firms are regarded as firms with the high audit quality while those that are been audited by non-Big-4 auditing firms are regarded as firms with the low audit quality.

Table 04. Compliance with the GRI Guidelines based on firm characteristics

Firm Characteristics	N=40	Mean	t-stat	P-value
Size:				
Big	20	0.846	-3.793**	0.0005
Small	20	1.146		
Profitability:				
Higher	20	1.025	0.631	0.532
Lower	20	0.967		
Auditor Type:				
Big 4	29	0.902	1.278*	0.209
Non-Big 4	11	1.032		

Table 4 presents the results of the GRI compliance based on the firm characteristics. The results show a significant difference in the means of the compliance based on the firm size. The result of the t-test comparison of the mean of the two groups was significant at 1%. This indicates that the mean compliance of the big firms is higher and statistically different from the mean compliance of the small firms. This result gives an insight that firm size plays significant contribution in explaining the level of compliance with the GRI. Similarly, the result shows that the mean of the level of compliance of the highly profitable firms is slightly greater than that of the low profitable firms. However, the result of the t-test comparison of the mean of the two groups is insignificant. This can be seen to indicate that both high and low profitable firms exhibit almost the same level of compliance with GRI. Hence, high profitability does not necessarily lead to high compliance with the GRI requirements.

Also, the test of the mean difference of the sampled firms based on the high and low audit quality shows that there is a significant difference in the mean of the two groups. This indicates that the mean compliance of the firms been audited by Big-4 auditing firms is higher However, the result of the t-test comparison of the mean of the two groups is insignificant.

7. Conclusion

This study focuses on the extent of compliance with GRI guidelines by listed firms in Nigeria from 2012 to 2016. The findings are from the sampled companies listed on the oil and gas sector of Nigerian stock exchange. Therefore, results can be generalized to other listed companies in Nigeria and other emerging countries with the similar characteristics.

Based on the investigations, the results show that there is significant level of compliance with GRI guidelines by oil and gas firms in Nigeria. This contradict the findings of Isa (2014) Folashade, Akinwumi, Dorcas, & Uwalomwa (2016) which concluded there was low level of compliance. Detail results show there was more compliance with strategy and analyses based requirement than other indicators during the study period. This implies that the body responsible for the development and enforcement of Nigerian sustainability reporting has achieved their goal in improving the accounting quality.

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