Determinants of Social and Environmental Reporting Practices Disclosure in Libyan Oil and Gas Industry: A Managerial Perspective

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ABSTRACT

The purpose of the study is to investigate the management behaviour in reporting CSER activities and the factors that influence their decision behaviour in the case of Libyan Oil and Gas industry. For this purpose, in-depth interviews were conducted with 9 managers working in Oil and Gas industry in Libya. The transcribed interviews were then analyzed using thematic approach. The findings revealed that the managers recognize companies’ social and environment responsibility, on a self-motivation basis as well as due to the potential negative impacts of a company’s operations on the environment and society. On the other hand, the oil and gas companies deem themselves obliged to report their CSER practices due to the increased awareness about the potential negative impacts of the oil and gas industry. Nevertheless, the disclosure of these practices is still limited due to the lack of a comprehensive framework that sets all CSER requirements for Libyan companies. It is noteworthy that this is the first study that focuses on the management behavior in reporting CSER activities in the Libyan oil and gas industry. Hence, it makes a great contribution and lays the foundation for the future studies in the CSER area.

Keywords: Social and Environmental Reporting, Managerial Perception, Developing Economies, Oil and Gas Industry

JEL Classifications: Q43, Q52, Q54, M14, L71

1. INTRODUCTION

In the past decades, corporate social and environmental reporting (CSER) has often been discussed on the basis of the need for organizations to provide information about philanthropic services to their stakeholders such as host communities (Luo et al., 2015). In prior literature CSER was considered being adopted as an ethical policy, a local obligation, managerial self-interest or due to international exposure as a result of interactions with global partners (Belal and Owen, 2007; Carroll, 1991; Frynas, 2009; O'Donovan, 2002). Gray et al. (1996), however, suggest that social and environmental activities are still in a developing stage and it is not a systematic activity.

In addition, prior literatures have attempted to summarise reasons for the variations in the level of CSER practices among business organisations. For example, Adams, Hill and Roberts (1998) found that CSER practices patterns are influenced by the industrial grouping and the hosting country concerned. Other studies (Adams et al., 1998; Gray et al., 1996) have linked a developing stage of CSER practices to the voluntarily nature in most developed and developing countries. Moreover, social and environmental issues are not yet part of a mandatory reporting process in many developed and developing countries (Gray et al., 1996; Deegan, 2002; Golob and Bartlett, 2007; Chen and Bouvain, 2009; Bouten et al., 2011). For instance, Frynas (2012) has concluded that voluntary regulation of CSER currently fails to provide even
the most basic level of transparency on oil spill performance. Therefore, there is no sufficient evidence why managers decide to disclose such activities. In addition, the limited number and scope of CSER studies conducted in emerging economies might become an obstacle to the further development of this important subject area. Therefore, more research study need to be under taken on reasons for managers to disclose CSER activities in emerging/developing economies (Ali and Frynas, 2018). Particularly, certain geographical and cultural areas are still un-investigated regarding social and environmental activities and their reporting practices. In the Arab context, for example, there are few studies available in this field, most of which have been focused on the Gulf Cooperation countries (Al-khater and Naser, 2003; Jahamani, 2003; Rettab et al., 2009), Jordan (Abu-baker and Naser, 2000; Naser and Abu-Baker, 1999), Lebanon (Jamali and Mirshak, 2007; Jamali, 2008) and Egypt (Rizk et al., 2008). Interestingly, few recent studies were conducted in the Libyan context by Bayoud and Kavanagh (2012), Bayoud et al. (2012) and Pratten and Mashat (2009). However, these studies focused on the benefits of CSER disclosure and its possible effects on firms’ performance, without emphasizing the extent of CSER disclosure among oil and gas companies in Libya in particular.

As such, the current study is one of the very early studies that investigate the managerial perceptions to report CSER activities and the factors that may influence their decision behaviour. Furthermore, its focus on the Oil and Gas industry makes it even more significant as it addresses one of the most controversial industries.

The remainder of this article is organized as follows. The next section defines CSER disclosure and reviews CSER disclosure literature on developing countries. The third section presents the methodology applied in details. The fourth section presents a summary of the analysis results of semi-structured interview. Finally, section five discusses the implications and recommendations for future research.

2. LITERATURE REVIEW

The area of CSER has emerged in prior literature as a business approach for addressing the social and environmental impact of corporate activities (Du and Vieira, 2012; Frynas, 2009; Luo et al., 2015). Gray et al. (1996: p. 3), for example, define CSER reporting as “the process of communicating the social and environmental effects of the organisations’ economic action to particular interest groups within society and to society at large”. The process of communication can be achieved in variety of ways including via the company’s annual report. As a result, CSER reporting has become an important subject for academics and professionals in recent years (e.g. Gray, 2001). Although several studies have been undertaken regarding CSER practices in developed countries such as the UK, USA and Australia (Gray, 2002; Owen, 2008; Kamal and Deegan, 2013), very little work has been done for developing countries i.e. Arabic countries (e.g. Al-Khater and Naser, 2003; Belal and Roberts, 2010; Kuasirikun, 2005; Lodhia, 2003; Uwuigbe and Olusami, 2013). O’Dwyer et al. (2005) also suggest that more research is needed within various groups of stakeholders, such as managers, regarding the future development of CSER reporting in particular contexts. Researchers have highlighted principles focused on individual and managerial discretion, with the assumption that managers are the “moral actors” (Wood, 1991: p. 398). A later study was conducted by Hermingway and Maclagan (2004) concluded that an individual manager’s personal values have a direct impact on CSER practices (and policy). A recent study by Hossain et al. (2017) examine the CSER practices in Bangladesh. They found that the Bangladesh listed companies reported reactively to meet the pressure from significant stakeholders (e.g. international buyers and government). In addition, they found that the least amount of disclosure was found in the “workplace/human rights” category. Although a philanthropic tone was found behind “community investment”, such as poverty alleviation activities, disclosure in this area is mostly motivated by proactive rationales with enlightened self-interest and image-building activities. Although the mangers in Bangladesh have positive believe on the philanthropy, however one of the finding of this study was that the least amount of disclosure was found in the “workplace/human rights”. This might refer to the lack of policy and regulation related to the CSER practices in Bangladesh as developing country.

Stakeholders draw their power from being able to control the resources required by the firm Ullmann’s (1985). The more the control over the firm’s resources is dependent on powerful stakeholders, the more expectation there will be to consider stakeholder’s demands. In other words, the corporate management strategy will be affected by the managerial self-interest (Moon, 2001; 2002). Therefore, CSER actions are perceived as an effective management strategy for dealing with organization surrounding issues. For example, the motivation of CSER engagement can be driven by creating positive corporate image to their stakeholders (Belal and Owen, 2007); as part of the corporate dialogue with key stakeholders (Gray et al., 1995). CSER practices can be an effective tool to build and/or repair firms’ reputation. For example, researchers have claimed that CSER in particular creates a reputation for the firm (e.g. Belal and Owen, 2007; Gray et al., 1996; Adams, 2002). Presuming that the firm is reliable and honest firms will be concerned about the information they transmit to external stakeholders. They use such information to build a reputation of quality, reliability and honesty through an explanation of their social and environmental responsibility attributes (McWilliams and Siegel, 2001).

CSER is about how organizations align their values and behaviour with the expectations and demands of stakeholders (Silberhorn and Warren, 2007). In the past periods, there have been significant concerns about the impact of business operations on the local community. It has been argued by Maignan and Ralston (2002) that once these social and environmental activities are applied by firms, it can help the firm to successfully address the pressure of its stakeholders. Additionally, McWilliams and Siegel (2001) outlined a supply and demand model of CSER which argues that most firms have some of the resources that can generate social and environmental activities, and that when the demand for CSER is high, firms have to increase these resources (i.e. assets and
knowledge) in order to satisfy such demand. They also argue that by satisfying the demand for CSER the company can maximize its profits.

Hence, there are researchers who view CSER as a corporate strategic engagement, boosting the reputation of its brands and goodwill which in turn leads to enhanced financial performance. For instance, CSER reporting activities can play an important organisational employment strategy, by showing employees’ needs and interests are taken into account by the company (Alniacik and Genc, 2011; Branco and Rodrigues, 2006). In addition, a firm can create competitive positions by engaging in CSER activities, such as providing fair payment for its employees as well as a safe workplace environment leading to a supply of higher quality employees (Branco and Rodrigues, 2006) as well as appeasing clients regarding care for their employees, to maintain their branding. Therefore, the current research will investigate the perceptions of managers towards the traditional power bases and organisational relationships regarding CSER reporting.

Another factor that may drive CSER is competitive advantage; many companies believe that they gain by being socially and environmentally responsible (Porter and Kramer, 2002). Furthermore, in terms of profitability, some researchers have argued that the extent of the commitment towards CSER will be reflected in better performance in terms of profitability (Dusuki and Abdullah, 2007; Porter and Kramer, 2002; Snider et al., 2003).

Moreover, CSER has been seen as a strategic response to pressure from different stakeholders (for example, communities, customers, investors, employees and their representatives, regulators and non-governmental) who are likely to consult the firm’s CSER reports. However, the interests of the different stakeholders sometimes conflict with each other and they customarily require different sets of information from social responsibility reports (Schreck, 2009; Wood and Jones, 1995).

In contrast, managers may adopt CSER practices as reactive strategies to manage and/or respond to pressure from different outside stakeholders. For example, communities, customers, investors, employees’ representatives, regulators and non-government organizations who are likely to consult the firm’s CSER reports. Other groups like the government and certain minority stakeholders have also been concerned about issues like environmental practices and support for local services (McWilliams and Siegel, 2001). Gray et al. (1996) have illustrated that businesses tend to operate in society via a social contract, which explains the relationships with their stakeholders. Moreover, Wartick and Cochran (1985) argue that business has a social contract, an implied set of rights and obligations, which are subject to change in detail regarding ongoing changes, but do not change the fundamental of the societal contract. This social contract can be informed by local and international requirements. Within this social contract Oil and Gas companies are required to respond and react to fulfill such ongoing requirements to different stakeholders. However, the interests of the different stakeholders sometimes conflict with each other and they customarily require different sets of information from social responsibility reports (Schreck, 2009; Wood and Jones, 1995). Moreover, the lack of pressure groups in developing countries may result in low levels of CSER reporting. For example, the potential demand for CSER information may emerge from the increased awareness of stakeholders such as employees, the local community and lobby groups, about the benefits of sharing information regarding CSER (Tilt, 1994).

3. METHODOLOGY

The evidence of this study was obtained via in-depth semi structured interviews with 9 managers working in Oil industry in Libya. The selected managers had a significant input into the corporate strategy and they are expected to have a future change on their organizations’ operations plan in regards to CSER practices. The targeted managers were highly trained with the ability to understand and respond to detailed questions concerning social and environmental activity. The interview technique may be highly formalized and structured, by using standardized questions for each participant, or may consist of informal and unstructured conversations (Saunders, Lewis and Thornhill, 2003). The researcher had a list of themes and questions to be covered in the semi-structured interviews, although they may vary from one interview to another giving some flexibility which gives the interviewee the chance to make their views known (Easterby-Smith et al., 2012; Saunders et al., 2003). This is more relevant to the current context as the CSER and related issues have not been investigated before and interviewees need to be given space to make their own views and perceptions clear in their minds in a natural setting (Patton, 2002).

To achieve the aims of the interview, the researcher followed several stages to analyze the data during the interview phase. First of all, the researcher took comprehensive notes during the interview sessions. This approach was preferred since many of the interviewees did not accept the tape recording. Whenever the tape recorded interviews were possible, the researcher transcribed them in full, in order to get insightful information regarding actual CSER practices. It is worth mentioning that the interview questions were designed based on thematic styles undertaken within prior literature. During this thematic analysis, the reality of CSER issues was understood in a more realistic way, based on managers’ answers. By using this approach, the researcher could obtain detailed insights regarding the determinants of CSER practices in the Libyan Oil and Gas industry.

Several frameworks have been used to discuss the responsibilities of business, amongst which is Carroll’s (1979) ‘Four-Part Model of CSER’ further refined in later publications (Carroll, 1991), as economic, legal, ethical and philanthropic responsibilities. The information disclosed by Oil and Gas companies may fall under these categories. The first category is the responsibility for profit maximization. Secondly, Jamali and Mirshak (2007) point out that the stakeholders expect businesses to fulfil their economic objectives within the legal framework. In other words, the legal aspect entails compliance with legal requirements. The third category is the need that a firm should have a strong competitive position over other firms including its CSER elements. For example, a firm can create competitive positions by providing
fair payment for its employees as well as a safe workplace environment, leading to a supply of higher quality employees and higher profitability. The fourth category of responsibility of a firm is that it should maintain high operational efficiency. Lastly it is the responsibility of a firm to provide an operational efficiency focus, for example to remain and be consistently profitable. For instance, Ullmann (1985) presents a three-dimensional model to explain the correlation among social disclosure and social and economic performance, using stakeholder theory as the basis for the framework. The first dimension of the model is stakeholder power, the second dimension is a firm’s strategic posture toward CSER, and the third dimension is the firm’s past and present financial performance. Therefore, these dimensions together contribute to stakeholders having some impact on the practice of CSER over time.

All the interviews were reviewed several times before been transcribed. Subsequently, a phenomenological approach to analyse data was adopted, which involves interpreting and reflecting on the data transcript so as to achieve a holistic understanding of the meaning of the participants’ experiences (Alexis and Vydelingum, 2007).

4. RESULTS

4.1. Proactive Involvement

This section presents the results of the analysis of the interviews. This is important to determine the extent of awareness amongst managers of the motivation(s) for disclosing social and environment information, as well as to discover which motives are most prominent. Accordingly, the following question was addressed to the research participants: What are the most important factors influencing Oil and Gas companies to disclose Social and Environmental information? It is worth mentioning here that the nature of social and environmental reporting practices is perceived by many managers in this research as an ethical value driven activity leading businesses to be adopted. Most interviewees claimed to recognize companies’ social and environment responsibility. They believed that disclosing such information relies on personal and company’s self-interest, this is particularly true due to a lack of mandatory regulation in the Libyan context. Participants indicated that it is not possible to identify one particular reason which motivates such companies to disclose social and environmental information. However, it appears that self-motivation is not necessarily associated with a business case such as maximizing the profits, but rather associated with the potential negative impact of a company’s operations on the environment and society. For example, one of the interviewees stated that:

[Negative impact]….. Oil and Gas companies have been among the leading industries not only in Libya but also in many parts around the world in supporting social and environmental activities, due to the highly visible negative impacts of their operations such as oil spills and the resulting protests local community and interested groups.

Alternatively, CSER could be a self-interested motivation leading to proactivity, but as a strategic tool to gain some economic advantage or to legitimize their existence within society. For example, one of the interviewees mentioned that:

*It is naïve to expect Oil and Gas companies in Libya to accept greater social and environmental practices without any benefits.*

This will also lead to a suggestion that such companies may have motivations beyond such moral considerations and are more business case led. This has perhaps led Oil and Gas companies to engage more actively socially and environmentally than other companies. This can be explained both from an ethical stance and/or a business case relating to brand damage, but irrespective, both are proactive.

4.2. Reactive Involvement

It is worth mentioning here that social and environmental reporting practice may be enacted because of some sort of pressure e.g. local pressure, international pressure or both. For example, Gray et al. (1996) have illustrated that businesses tend to operate in society via a social contract, which explains the relationships with their stakeholders. Moreover, Wartick and Cochran (1985) argue that business has a set of rights and obligations within the society, rights and obligations are subject to change in detail regarding ongoing changes, but do not change the fundamental of the societal contract. Within this social contract Oil and Gas companies in Libya are required to respond and react to fulfill such ongoing requirements. The findings of data showed, although the participants have recognized the social and ethical responsibilities explicitly in their reporting activities, the obligation and duty of Oil and Gas companies towards locally and internationally requirement are also clear. For example, one of the interviewees stated that:

*Representative parties of local community are more aware nowadays about the negative impact of our operation activities, so we have to disclose all our activities as we believe that our stakeholders have right to access all information.*

The diversity of foundation for social and environmental reporting practices in Libyan context could also be explained by the multinational nature of Oil and Gas companies operating in Libya. Social and environmental practices as an international requirement may come from different parties, for example, the pressure of international parties such as Oxfam, whereas such activities as a global requirement draws particular attention to maintaining good relations with the international parties. In this regard, one of the interviewees mentioned that:

*We believe there is an obligation towards international community to be accountable for…..we should be accounting to them, not just to the local community.*

This finding is in line with theoretical foundations of CSER reporting and disclosure, claiming that firms with multinational ownership concentration have a higher tendency to properly and effectively disclose various aspects of CSER (Majeed et al., 2015). Particularly, Kuada and Hinson (2012) and Hossain
et al. (2017) noted that CSER decisions of foreign-owned firms are mainly guided by legal and regulatory prescriptions. Nevertheless, these disclosure practices by foreign-owned companies are not necessarily diffused overtime to local firms due to the host market characteristics or specific subsidiary endowments (Jamali, 2010).

4.3. Active Contravention

While a number of motivations underpin actors to undertake CSER activities (e.g. proactive and reactive), many other actors may be active in a contravention approach in regards to such activities, despite the local and international requirements. From the results evidence, an important fact has emerged that the low level of CSER activities and therefore subsequent reporting in the Libyan Oil and Gas context by numbers companies shows a lack of impact by national or international requirements in promoting CSER activities, the activity relying mainly on the motivation of individual managers to respond to such requirements. All Oil and Gas companies in Libya are expected to be either ethically or legally required to disclose CSER information (Hossain et al., 2017). Regarding to the results, the compliance of Oil and Gas companies to spending the budget for the CSER activities is more to be regarded with suspicion. For example, one of the interviewees stated that:

"Activities such Health, National Young Graduates Recruiting and Training, Education, Archeological, Environment, and Sport were proposed by international Oil and Gas companies (IOCs) with a total of US$110,000,000 to be completed within four years, these activities have not yet fully completed. According to last figures many (IOCs) spent only from 10.5 percent and to 19.34 percent of their proposed budget to involve in social and environmental activities set within a four-year time period."

This lack of motivation to enable CSER activities put such companies in a position of a breach in relation to the budget requirement and would logically affect CSER reporting. In addition, it seems that active laws and regulation are needed in addition to the social contract to force those companies to react according to the ongoing CSER requirement. The findings indicated that the legal enforcement regarding reporting CSER issues is perceived as being an inadequate and therefore failed to satisfy the need of different parties. In this regard, the following typical response as provided by one of the interviewees:

"I do think that engaging in CSER will be limited due to a lack of standard legal framework… I believe companies need to move beyond basic engagement and start legalize such practices. Oil and Gas companies in Libya would pay attention to what is required by law, and some of them may not be active with activities which are not required by law such as CSER practices."

This in line with Hossain et al. (2017) argument that in the developing countries where the motives of ethical behaviour and the related NGO are actively weak, there is maximal need of the legal enforcement to practice and report CSER.

4.4. Inactive

Searching for evidence regarding social and environmental issues concerning Oil and Gas companies operating in Libya there are companies who are seen to be outside of CSER investment behaviour. According to the findings, this includes a number of Oil and Gas companies, for example HESS, and also other IOCs in Libya. This inactive engagement by some Oil and Gas companies in Libya can be explained not only by a general lack of compliance with local and international requirements, but also to the fact that such actors have no ethical motivations. On the other hand, the absence of a legal requirement for CSER disclosure in Libya might have played a major role in this situation. This might have been closely linked to the current political situation in the country which has not been stable in the latest years. In this regard, the following typical response as provided by one of the interviewees:

"Many Oil and Gas companies in Libya and other developing countries propose social and environment projects during the contract. For example, xxx and xyz companies have proposed more than four projects in the south of Libya the total of US$20,000,000. We noted little or no effort to continuing their proposal."

On the other hand, the absence of a legal requirement for CSER disclosure in Libya might have played a major role in this situation. This might have been closely linked to the current political situation in the country which has not been stable in the latest years.

"In many instances, the Oil and Gas companies are promoting social and environmental initiatives to get contracts… not all initiatives completed, this could be explained by the current lack of legal enforcement in Libya. Some Oil and Gas companies in Libya such as ABC and XYZ are not really interested and ethically motivated to engage in such activities. This lack of engagement could be explained by the local legal compliance."

This is in line with arguments of Kuada and Hinson (2012) Hossain et al. (2017) who is argued that the CSER practices by foreign owned firms are primarily driven by the legal environment not the self-ethical motivations. In fact, this finding is supporting the active contravention findings above which indicates that the CSER practices in the Oil and Gas companies in Libya are very weak both for local and foreign owned companies.

5. DISCUSSION AND CONCLUSION

The objective of the study was mainly to explore the management reporting behaviour of CSER activities and the factors that influence their decisions in the case of Libyan Oil and Gas industry. The findings revealed that the companies’ managers indeed recognize the social and environment responsibility, on a self-motivation basis as well as due to the potential negative impacts of a company’s operations on the environment and society. On the other hand, the oil and gas companies deem themselves obliged to report their CSER practices due to the increased awareness about the potential negative impacts of the oil and gas industry. Nevertheless, the disclosure of these practices is still limited due
to the lack of a comprehensive framework that sets all CSER requirements for Libyan companies.

These findings demonstrate the high level of awareness about CSER application among the oil and gas companies’ managers and its importance to the Libyan communities. Nevertheless, the findings also reveal that the absence of a comprehensive CSER legal framework will continue to be a hinderance to the proper disclosure of these practices to the community at large. Hence, the country authorities are highly required to establish and set up such framework in a gradual form, especially in light of the current political circumstances.

On the other hand, the increased awareness of the Libyan communities regarding the negative externalities of the oil and gas industry, should be a great concern to the companies active in this sector. Particularly it is a warning signal for them, signifying that their image and reputation as well as their wide interests can be negatively affected by their lack of transparency and disclosure of CSER applications.

Finally, the current study effectively provides great contributions to the CSER applications in the oil and gas industry in Libya, which is indeed an area and setting that were under-researched in the previous studies. With regards the legislation and policy, the findings of the current study revealed the significant role they play in ensuring the discharging of the social and environmental responsibility of the Oil and Gas companies in Libya through CSER. Therefore, it is very essential for the Libyan government to implement a comprehensive set of corresponding regulations. This will undoubtedly enhance the practices of the social and environmental responsibility of the Oil and Gas companies in Libya, which will subsequently contribute to the sustainability development in Libya in general.

However, while conducting the current study there were a number of limitations that should be considered for further studies. Firstly, the findings of the study particularly related to the inactive issue, need to be investigated by comparing the CSER practices between the National Libyan companies and the foreign owned companies that are expected to have more international pressure to practice CSER compared to local companies. This comparison could not be performed due to the restricted access to data. Secondly, the study relied solely on qualitative methodology in the form of in-depth interviews with a total of 9 interviewees. Though, the interviews provided rich and meaningful information, a mixed methodology approach could have reached more robust findings and conclusions. Hence, the future studies are highly recommended to use both quantitative and qualitative analyses to support the findings. Lastly, the study focused on the oil and gas industry in the Libyan context. Hence, the results cannot be generalized to other oil and gas producing countries. Thus, the future studies are recommended to cover other oil and gas producing countries, preferably with different social and cultural structure to obtain more robust and generalizable findings.

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