Tatari Ali Journal,
Volume 2, Issue 1, 2024. Pp. 33 – 41
ISSN - Online: 2006-6427
https://tatarialijournal.com

Received: date: 26th March, 2024
Revised: date: 15th April, 2024
Accepted: date: 30th April, 2024
Published: date: 30th May, 2024

A Review of CEO Characteristics and Environmental Disclosure of Oil and Gas industries in Nigeria

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Abstract

The study being a review of literature examines the impact of the chief executive officer (CEO) characteristics of duality, gender diversity and tenure on the ability to disclose environmental issues in Nigerian oil and gas industries. There is general believe that women on the board of director increase their power to influence decisions of the board while others are of the opinion that experience of CEO as a result of longer tenure impact positively on the decision. Duality of CEO has been viewed to exalt power on the board decision. The paper recommends that further empirical investigations are required to substantiate all the claims in the oil and gas sector in Nigeria.

1. Introduction

Environment is said to be a physical world occupied by man, or the influence of nature free of contamination by human action. The human actions of explorations of oil and gas activities by Companies have resulted to a threat and hazard to lives, which call for the companies to make disclosure of their activities with a view to alleviate the environmental problems. The emphasis placed on the disclosure of oil and gas activities is due to the adverse nature it has to the community. As a result of rapid economic development, population growth, technological advancement, many countries in the world have faced significant environmental challenges, (Hang, 2020). Activities of oil and gas sector in Nigeria have also posed these challenges the oil and gas producing zone of the countries (George & Ukpong, 2024). Bala, et al, (2023) opined that Oil and Gas activities contaminates the atmosphere through the destruction of Ozone-layer by greenhouse gases, carbon emissions, soil erosion, oil spillage, oil pipelines vandalization, oil bunkering, gas explosions among others. Bashiru, et al, (2022) observed in their studies that the oil and gas sector in Nigeria is the key and primary source of revenue, it accounts for more than 85% of the country's foreign exchanges and rated among the largest oil and gas sector in Africa. However, the activities of the sector have generated a negative impact on the indigenous people livelihood who rely on living organisms services for their survival, resulting in increased poverty and the displacement of individuals and communities, (Nuhu, 2023).

Environmental reporting is a means of promoting transparency and informing stakeholders about organizations short and long term efforts to conserve the natural environment

(Salvation, et al, 2022). The needs for a natural environment have place more concern for companies worldwide to pay greater attention to corporate environmental disclosure. Corporate environmental disclosure is generally viewed as an extension of firms' efforts to provide effective corporate governance, ensuring the sustainability of firms through sound corporate social responsibility practice that promote accountability and transparency. George & Ukpong, (2024) and Orumwense, & Osa-Izeko, (2023) observe that disclosure of environmental performance in a separate report reflects level of transparency, accountability and responsibility to investors and other stakeholders. Environmental disclosure or report is an integral part of a corporate annual report, designed to meet the needs and aspirations of the various stakeholders. The existence signifies that a feasible relationship between an organization's economic performance, the environmental and: social activities exists.

CEO is the highest-ranking executive in an organization, he/she has to make greater part of the company's biggest decisions and manage its overall resources and operations (Jamel, et al, 2022). The size of a company determines the scope of responsibility of CEO. In small companies, CEO may be involved in some lower-level decisions, in large company they focus on high-level strategies involving corporate growth while delegating the task of day-to-day business operations to other managers. In some cases, CEO is also the main mediaror between a company's operations and its board of directors. Sometimes he/she may have a position on the board or even be the chairman. CEO characteristics are the qualities that may influence his/her decision on certain policies of an organization. These characteristics trait could have a positive/negative or no effects on the decisions of organization. It is a combination of different diverse traits that could be used to motivate environmental reporting.

CEO characteristics of Duality has been seen by scholars as an officer who functioned as CEO at the same time Chairman (Putra, 2021; Usman & Yahaya, 2023) and their existence in dual responsibilities may offer them opportunities to influence key managerial and policy decision that affect the corporate wellbeing and or otherwise influence disclosure practices. But it is expected that CEO performing dual function may give flexibility as it might not need extra efforts to convince the Chairman on some key decisions. Tenure of CEO is argued that staying too long as CEO give him opportunities to familiarize himself with the companies and disclose less environmental issues and at the same time, new CEO may not have full grip of the company to disclosure information (Usman & Yahaya, 2023). CEO gender diversity CEO refers to the appointment of women as CEOs to enhance gender equality, (Yahaya & Tijjani, 2023). CEOs know that gender equality is not only the most appropriate thing to do but also demostrate the spirit of fairness. More CEOs have focused themselves to achieve gender-equality goals for the firms they lead, although, achieving gender equality may be difficult to some organizations, (Usman & Yahaya, 2023).

The demands for more corporate social responsibilities by host communities have made organizations to focus attention on environmental reporting and social activities that could cushion the effect to host communities. Even though no clear standard that make environmental reporting compulsory but rather recommended for disclosure (Utile, et al, 2017). For instance, the Regulation Enforcement Agency Act of 2007 guidelines clearly states that the provisions are not compulsory but recommended.

Companies listed on stock exchanges are mostly faced with pressure to ensure compliance with good governance and transparency by including in their reporting, the impact of their activities on the environment. Problem of low level of environmental disclosure among listed companies remains a major concern for host communities and policy makers. The traditional domains of accounting disclosures, the evolving task on contemporary disclosure creates an information asymmetry, which often leads to delayed in regulators intervention and consequently, impact negatively on the environment and also creates agitations from host communities. Where there is a very low level of environmental reporting, the low reporting level is often attributed to CEO characteristics of the company.

The poor environment caused by oil and gas activities and by extension low level of environmental disclosure evident in the annual reports of companies, (NSE 2021; Orumwense, & Osa-Izeko, 2023; Bala, et al, 2023) and with the increased in expectation by stakeholders toward the identification of approaches to address effectively environmental concerns, motivates this study. Many empirical studies on board characteristics, corporate governance, social responsibility and environmental disclosures were conducted in listed companies in some developed and developing countries like Nigeria. Some of which are inconclusive or inconsistent, (for instance, Jamel,et al, 2022, Trana, & Phama 2020, Bello & Ogungbenle 2022, Utile, et al, 2017, Alhassan & Noorhayati 2019, Salvation, et al 2022, Wisdom,et al, 2021, Ofoegbu, et al, 2018). Specifically, evidence of CEO characteristics on environmental reporting in Nigeria is a topical issue and researches in this area have not yet been able to completely exhaust the effect it has on the environment, especially oil producing zone. Therefore, this study seeks to review the impact of CEO characteristics on environmental reporting.

2. Literature Review

2.1 Concept of environmental reporting

Researchers over the years have attemted to apprehend and provide an explanation for environmental corporate reporting which seems to lie outside the main objects of the business activities. There is the need to reconfigure environmental overall performance indices to capture societal and environmental issues as part of the standard objective of doing business. Ishak (2010) as cited in Bello and Ogungbenle (2022) sees environmental reporting as environmental management strategy to communicate with stakeholders. Environmental disclosure is an indices used by firms to express to the public cost implications of their activities which have impacts on the society. Arumona, et al, (2020), pointed out that the fundamental reason of environmental disclosure is to examine and incorporate in the firm annual reports issues that bother on environmental hazard that are not taken into consideration in traditional or conventional accounting function that stakeholders can use for decision making. The disclosure of corporate environmental activities stressed the necessity for a close monitoring of natural resources and the corporation’s harmful effect on the society it operates.

Environmental effects caused by activities of firms, especially those in manufacturing and oil and gas include noise pollution, waste, hazardous emission, spillages and degradation.

Jamel, et al, (2022) posited that environmental reporting is an appropriate tool that reduces gap between shareholders and managers. Thus, environmental reporting tends to reduce information asymmetries by providing credible information to the stakeholders. Thus, communications policies related to environmental behavior can reduce these agency costs while increasing the company's value in the financial market. Alhassam & Mansor (2019), outlined two motives for improved environmental reporting and sustainability disclosure. Firstly, disclosures of environmental activities are more likely to increase economic performance. Secondly, to improve internal and external legitimate environmental laws and regulations by implementing recognized standards, such as the International Standard Organization (ISO) guidelines and Global Reporting Initiative (GRI).

Therefore, by disseminating environmental information, the company reduces the public agitation and requesting greater control of its activities. The extents of disclosures in annual reports vary between countries, depending on variances in firm policy on information disclosure. Civil society groups who are concerned with social issues may have more power and place greater concern on corporate social disclosures. In addition, managers in countries with strong concerns over social matters would be more conscious of the value of their report and stakeholder claims. The extent of environmental issues raised by the general public determines the level of environmental reporting (Le,2020, Arumona, et al, 2020). Essentially, environmental reporting extending beyond financial performance measures may be in fact, value relevant for investors as it assists in bridging the growing gap between traditional financial statement and market valuation needs.

Companies' activities are assessed and measured through an environmental performance index (EPI). It totals several indicators to give a comprehensive evaluation of environmental performance for a company's operations. In some cases it can argue that some aspects of environmental performance are not conveniently measure through this index, and that aggregate indices sometimes do not give accurate performance, (Jackson, et al, 2012).

2.2 Concept of CEO Characteristics:

Chief Executive Officer characteristics are the core features exhibited by them either through acquisition or inherent which give them power to execute their role effectively or otherwise. For the purpose of this review study, CEO Duality, CEO tenure and CEO gender are the independent variables reviewed to examine their impact on the environmental disclosure of oil and gas Companies in Nigeria.

2.3 CEO Duality and Environmental Reporting

CEO play a vital roles in environmental reporting due to his/her powers to initiate policy and using his/her discretion to influence decisions (Nurmadi, et al, 2021). The duality of the CEO is when CEO serves as the chairman of the board (Jamel, et al, 2022). Duality role of CEO can be viewed in two ways. Proponents of agency theory are of view that separation of the two roles to provide essential checks and balances over management's performance. Furthermore, when the CEO is also the chair, the board's effectiveness in performing its governing function may be compromised because the CEO will be able to control board meetings, select agenda items, as well as select board members, (Haniffa & Cooke, 2002, Jamel, et al, 2022, Mohamed & Hassan, 2022). In this way, the separation of the functions of the CEO and the chairman of the board could ensure a more objective disclosure of information, (Ienciu, 2012). Nevertheless, companies with the CEO duality offer a strong power to a person, would enable him make decisions that can maximize the shareholder's wealth (Jamel, et al, 2022,) and will contribute to improving monitoring quality and improve the quality of reporting.

Asema, & Abanyam, (2023) on their study of effect of corporate governance mechanisms on environmental disclosure of listed oil and gas firms in Nigeria found that ownership significantly relates with environmental disclosure of Oil and Gas companies in Nigeria. However, though with dissimilar variables but ownership and a dual role of CEO to some extent may exalt similar influence. Ugwoke, et al, (2013), Modum, et al, (2013), hold that CEO duality influence firm performance and disclosure. Abdulwahab,et al, (2023), Ali,, et al, (2022) result suggests a significant relationship between duality of the CEO and the level of environmental disclosure. Study conducted by George & Ukpong (2024) on the corporate governance mechanism and environmental disclosure in Nigeria and Ghana though the study did not include CEO characteristics, the results found that Ghanaian listed oil and gas companies disclose more information in their annual report compare to their Nigerian companies.

2.4 CEO Gender Diversity and Environmental Reporting

Decision to involve female as CEO or male has been a source of concern in the recent researches. Some argues that females are more concern about environment and can influence environmental reporting (Tran & Pharm, 2020, Jiang & Akbar 2018). They stated that female investment in environmental reporting does not depends on government subsidies and regulations. Female CEOs are more prone to risk-taking as compared to their male counterparts because women do not normally rush in taking decision (Usman & Yahaya, 2023, Ting, et al, 2015). Wisdom, et al, (2021) pointed out that the Unified Code of Corporate Governance (CUBG, 2006) promotes the involvement of women CEO as a boost not only to the ethics, policies, and environmental reporting but also to make it more efficient. In a related study by Fodio & Oba (2012), found that board gender mix and presence of a female director have impact on the extent of environmental disclosure. Huang (2012) report that gender affect corporate social responsibilities performance. Tijjani & Yahaya (2023) investigate Impact of CEO Female Gender Diversity and Nationality on Internal Control System Disclosure: Empirical Evidence from Nigeria, the results indicates that CEO gender diversity exerts significant influence on disclosure. Bashiru, et al, (2022) investigate Determinants of Corporate Sustainability Performance of Listed Oil and Gas Companies in Nigeria: The Role of Internal Governance Mechanisms, though, their study did not cover environmental disclosure, the research is a longitudinal study on the drivers of CSP of listed oil and gas companies in Nigeria. The study period covers five years from 2010 to 2019 and data were collected from the listed companies annual report and account. The data were analyzed using a panel regression technique. The result suggests that gender diversity has significant influence on the dependent variable of CSP. Orunwemse & Osa-Izako (2023) examines the board diversity and environmental sustainability disclosure in oil and gas companies: evidence from Nigeria, their results indicate board gender diversity showed negative relationship with environmental sustainability disclosure.

2.5 Tenure and Environmental Reporting

CEO tenure is the number of years or period spent. It is shows a specific experience as a CEO in a given firm. Tenure has link with experience, the longer CEO tenure shows the higher experience of firms' business environment and power to influence disclosure practices. CEO with longer tenure can make effective decisions (Putra, 2022). When the CEO has verse experience as a result of having long stayed on the rank with host communities and would be able to take decisions that may incorporate their needs in the environmental corporate social responsibility. Usman and Yahaya (2023), study the dynamics between a CEO and risk disclosure in Nigeria, using 112 listed firms in Nigeria over 10 years including oil and gas firm, the results shows that CEO tenure and gender diversity both are able to exalt significant effect on risk disclosure. These results may not be unconnected to the CEO having served for a long time may exhibit knowledge of the organization compare to new CEO.

3. Theoretical Framework

3.1 Behavioral Theory

Behavioral theory is said to have originated from the social field that explains individuals' behavior by analyzing the causes and consequences around them (Putra, 2022). The behavioral theory is further developed in other fields to include the accounting field. The relationship between accounting and individual behavior in respect of the environment they live by understanding, analyzing, and predicting individuals' behavior when they face accounting issues (Kutluk 2017). Factors of cognitive and affective can determine how individuals behave towards accounting (Kutluk 2017). Putra (2022) put it that in respect to CEO characteristics, cognitive factors (such as age, tenure, education level, founding-family status, and nationality) and affective factors (such as gender and founding-family status) are key to determine CEO behavior towards organizational values.

Conclusion

Environmental challenges resulting from activities of exploration and couple with global call to green environment have triggered scholars to investigate the activities of the players in the field. The essence is to find out whether the major stakeholders conduct their activities in line with the best practice in the world. This paper joins numerous researchers to review the power of CEO in influencing the disclosure of information in Oil and Gas industries in Nigeria. The paper observed that there were mixed findings in the CEO tenure, duality and gender diversity when it comes to disclosure and other related areas in oil and gas industries in Nigeria. It is therefore recommends that further empirical investigations are needed to evaluate the power of CEO in influencing environmental disclosure in oil and gas sector in Nigeria.

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