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Economic, environmental, and social performance indicators of sustainability reporting: Evidence from the Russian oil and gas industry

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ABSTRACT

This study aims to explore the extent and nature of sustainability reporting practices of the largest public oil and gas companies in Russia. It further investigates the impacts of possible underlying factors on the quality of sustainability information in the given emerging economy. This study uses data on sustainability performance manually collected from sustainability reports and annual reports and financial data extracted from audited financial statements available on company websites. The results reveal that standalone sustainability reporting, firm age, and auditor type are the main factors in the dissemination of sustainability information in the Russian context. The findings suggest that companies with a share of foreign ownership disclose more transparent sustainability information than companies owned only by local investors. Additionally, companies that prepare sustainability reports only in Russian provide more valuable sustainability information than companies that publish reports in both English and Russian. The findings of the study are useful for regulators, policymakers, global investors, and managers in promoting the high application standards of the Global Reporting Initiative framework, formulating corporate disclosure policies for listed companies, and developing sustainability practices in the context of emerging markets.

1. Introduction

Modern business organizations face increased pressure from diverse stakeholders to meet the needs and expectations of society and to justify their operations and generate profits (De Villiers et al., 2014). Because of the nature of their products, oil and gas companies face more critical scrutiny from diverse stakeholders regarding various aspects of their economic, environmental and social performance (Laplume et al., 2008). In this regard, sustainability reporting (SR) is seen as an important channel for those organizations to meet the needs and expectations of all stakeholders. By disclosing diversified and detailed sustainability information, companies can improve their transparency, enhance their corporate reputation, improve their legitimacy and brand value, reduce information asymmetry, motivate managers and employees, and improve their corporate image in general (Kiliç et al., 2015; Herzig and Schaltegger, 2006). Moreover, SR, including economic, environmental, and social performance indicators, is an important factor substantially contributing to sustainable corporate development (Lozano and Huisingh, 2011). Therefore, it is not surprising that assessment of SR is increasingly drawing more attention among policymakers, practitioners, and academics.

Although there is an extensive body of literature exploring the nature and extent of SR practices in developed countries, empirical studies examining the underlying factors that influence the quality of sustainability information in emerging markets, especially in the oil and gas industries, are quite limited (Kuzey and Uyar, 2017; Chen et al., 2015). As stated by Mahmood and Orazalin (2017), there is a great deal of information asymmetry in emerging markets, and business organizations remain unaware of the importance of voluntary disclosures, including sustainability information, for stakeholders. There are few studies examining SR practices in Russia that provide no empirical evidence on the relationship between SR and its determinants based on the Global Reporting Initiative (GRI) framework. Prior studies suggest that SR practices in Russia receive less attention in the academic literature than practices in other emerging markets (Marshall and Shulsky, 2018; Fifka and Pobizhan, 2014). Therefore, considering the dearth of knowledge on SR in transitional economies, the present study explores the extent and nature of the SR practices of the largest public oil and gas companies in Russia and the influence of possible underlying factors on the quality of sustainability information.

The present study aims to contribute to the existing literature by offering new insights regarding the extent and nature of SR practices

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using the latest versions of the GRI framework – the GRI3 and GRI4. Among the various frameworks and guidelines, the GRI reporting framework has become the widely accepted global standard for SR practices due to its comprehensiveness, visibility, and prestige among stakeholders (Kuzey and Uyar, 2017; Sartori et al., 2017). Unlike other sustainability frameworks, the GRI guidelines are designed to provide comprehensive and detailed information on economic, environmental, and social performance indicators to assess the sustainability performance of business organizations in general (Fonseca et al., 2014). Therefore, the present study attempts to provide recent evidence regarding the effect of underlying factors on SR practices in the context of Russia using the GRI guidelines to incorporate integrated dimensions of SR. Relying on agency, legitimacy, and signalling theories, the study also examines the impacts of a wide range of determinants of SR, including the use of standalone reporting, reporting language, leverage, profitability, financial capacity, firm size, firm age, and auditor type on individual dimensions of sustainability, which include economic, environmental, and social performance indicators in addition to the overall quality of the sustainability disclosures of the largest oil and gas companies operating in Russia.

The paper is organized as follows. Section 2 gives a brief description of the research context, i.e., the importance of SR in the oil and gas industries. Section 3 explains the theoretical framework of the study, reviews the relevant literature, and develops the hypotheses. Section 4 describes the data and empirical methods. Section 5 then presents and discusses the empirical findings, and the final section concludes the paper.

2. Research context: the Russian oil and gas industry and the urgency of GRI-based SR

Russia is considered one of the important emerging markets in the world and a leading economy in the Commonwealth of Independent States (CIS). In this regard, the oil and natural gas industry has been contributing significantly to the development of the Russian economy for decades. Listed among the top ten countries in the world by size of oil reserves, Russia has substantially increased the number of pipelines for exporting its energy resources over the past two decades (Vatansever, 2017). According to the latest estimates, the oil and gas sector has accounted for approximately 20% of Russia's GDP and represents nearly 30% of the country's consolidated budget revenue and over 50% of the total export revenue (Simola and Solanko, 2017). The largest Russian companies operating in the oil and natural gas industry represent more than 50% of the Russian stock market index. The industry is dominated by eleven vertically integrated companies, and their share accounts for nearly 90% of the oil production in the market (Simola and Solanko, 2017). The largest oil company is state-owned Rosneft, whose production has grown significantly in recent years through the acquisition of other companies in the industry. Although foreign ownership is present in the Russian oil and gas industry, the majority of companies are owned by the state and by local investors. However, the industry has faced economic challenges and political crises over the past few years. In 2014, the Russian economy plunged into recession due to the crisis in Ukraine, Western sanctions against Russia, and the recent decline in oil prices (Tuzova and Qayum, 2016). Over the past few years, Russia's oil and gas production has grown at an average annual rate of 1%. Taking into account the leading role of the oil and gas sector in the Russian economy and its distinct features, the sustainability development of the industry is expected to become one of the pillars of environmental development, social well-being, and economic growth of the country.

Although growing social inequality and environmental awareness raise the public's expectations regarding the oil and gas industry's economic, environmental, and social contributions, the industry is still blamed for not contributing sufficiently to the development of society in the case of the oil-rich countries of the former USSR (Kalyuzhnova and Nygaard, 2008). Since Russia is a transitional economy with an economic inheritance from the Soviet Union, corporate social responsibility (CSR) expectations are relatively low, and business entities operate within a highly regulated environment. The state of CSR, including SR practices, in Russia lies at a transitional stage, just as the country itself (Fifka and Pobizhan, 2014). In other words, the requirements for social, environmental, and economic activities are not well grounded. Corporate disclosures of social and environmental practices are mostly voluntary in nature in Russia. Therefore, in the context of the sometimes antagonistic relationships in the Russian oil and gas sector, this study examines sustainability performance using the globally recognized GRI guidelines, i.e., their contribution to environmental, social, and economic development. Fig. 1 shows the number of officially registered companies from former USSR countries that report sustainability disclosures in accordance with the GRI guidelines. A total of 144 Russian companies disclose their sustainability reports in accordance with the GRI3 and GRI4 standards, which indicates higher application levels of the GRI-based SR practices in the Russian market relative to other economies in the CIS region (i.e., former USSR countries). However, organizations in transition economies are recommended to change their management practices, including accounting, governance and reporting practices with changes in the economic, social and legal requirements, in addition to changes in policy regimes (Hartwell, 2017; Kafouros and Aliyev, 2016; McCarthy and Puffer, 2003). Earlier studies reveal such changes in management practices, CG mechanisms, and reporting practices in relation to various phases of transitions and policy regimes (Branco et al., 2014; Kalyuzhnova and Nygaard, 2008). Therefore, SR practices in Russia are also expected to change over time, and the adoption of the latest version of the GRI framework could improve different aspects of SR practices, as is evident in other economies (Chen et al., 2015; Kuzey and Uyar, 2017). Based on this assumption, using the globally recognized GRI guidelines, this study examines sustainability performance in environmental, social, and economic aspects of the largest oil and gas companies in Russia.

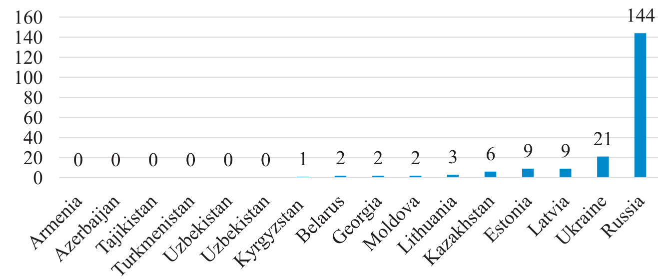

Fig. 1. The number of officially registered companies from former USSR countries that issue sustainability reports based on the GRI framework.
GRI Database available at http://database.globalreporting.org/search/.

3. Literature review and hypothesis development

Taking into account the high information asymmetry problems in emerging markets, the present study establishes a theoretical framework, including the use of agency theory, signalling theory, and legitimacy theory, relevant to SR practices in emerging markets such as Russia. The agency theory posits that companies should disclose more information voluntarily to decrease agency costs between agents and principals (Jensen and Meckling, 1976). As noted by Grossman (1981), companies should improve their reporting practices and voluntarily disclose all hidden information and knowledge to alleviate information asymmetry issues, including adverse selection and moral hazard. Signalling theory is based on the notion that companies publish a significant amount of voluntary disclosures to indicate their superior