



The Effect of Sustainability Accounting Report on Shareholder Value of Quoted Oil and Gas Companies In Nigeria

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Abstract: *The current global concern for sustainability performance and the resultant increased demand for sustainability accounting information to evaluate corporate performance, had propelled the researcher to examine the effect of sustainability accounting report on shareholder value of quoted oil and gas companies in Nigeria. Cross-sectional and ex-post facto research designs were employed for the study. The population of the study was nine quoted companies on 2016/2017 fact book of the Nigerian Stock Exchange (NSE). The study sample was purposively selected to include only those companies that operated both on upstream and downstream sectors of the industry. Secondary data were obtained from the annual corporate reports of the concerned companies and Nigerian Stock Exchange from 2009 to 2018 by content analysis. Data analysis was with aid of E-view software version 7. It involved Autoregressive Distributed Lag (ARDL) bound test, descriptive statistic, model estimations and diagnostic analysis that adopted Augmented Dicky-Fuller Unit root test, error correction model and co-integration as well as multiple regressions. The findings of the study are: that employee training and community development expenditures had positive and significant effect on shareholder value added of the companies. However, the environmental compliance cost has no effect on shareholder value added. Predicated on these findings, it was concluded that sustainability accounting report has significant effect on shareholder value of quoted oil and gas in Nigeria, although the extent depend on the actual practice of the entity. It was recommended that the management of the oil and gas companies in Nigeria should pay adequate attention to the practice of sustainability accounting reporting because it is obvious that investments in sustainability performance which are communicated in sustainability accounting information report do not only increase expenditures but results in shareholder value creation.*

Keywords: *Deposit Sustainability, Accounting, Environmental compliance, Shareholder value added.*

INTRODUCTION

Over the years, experts of financial management had often adjudged that the cardinal objective of corporate financial management was maximizing shareholders wealth. This notion would have been replaced with the current managerial philosophy of stakeholders' expectation and interest. Perhaps, the current managerial philosophy explained why most quoted oil and gas companies in Nigeria are keen at financial value creation pursuit in spite of the dynamic business environment and peculiar risks that characterizes its business operations. Marvin, Natarajin and Robert (2017) affirmed that value is created for customer when satisfaction is derived from quality product or service; value is created for employee when employment

welfare and remuneration are motivating but financial value is created for shareholder by the increase in shareholders wealth represented by a rise in corporate profit or stock price. In contemporary business activities, value is seen as basically being generated from intangible drivers, such as innovation, ideas, people, computer software et cetera. However, the shareholder aspect of value creation gives an insight into financial value creation which is the focus of this study. Largania, Kavianib and Abdollahpour (2012) recognized that financial value creation is virtually guaranteed when a company's return on capital employed exceeds its cost of capital. Conversely, when return on capital employed falls short of the cost of capital, financial value is destroyed. Financial value creation has occupied a pivotal spot on the global business interest, industry competitive position and firm performance scorecard as well as investment decision making basis.

In the light of these, most management team of the oil and gas companies adopt strategic alternatives and harness all corporate resources to achieve commendable financial value for stakeholders' interest. Although in pursuance of the predetermined business objectives, negative externalities are left on the environment and society. Such negative externalities include: environmental issues as degradation and pollution, social matters as hazardous exposures and life threatening risks, human right and employees welfare concerns as well as other related challenges. United Nations Children's Fund (2015) pointed that the environmental impact of oil and gas activity ranges from climate change to macro level oil spills to smaller-scale impacts associated with operation-level pollution and waste. In same manner, Ugochukwu and Ertel (2008) specifically disclosed that oil prospecting and exploration impact negatively on biodiversity and it affect even flora and fauna. Federal Environmental Protection Agency (2003) added that petroleum activities are the major sources of environmental hazardous pollutants in Nigeria. Incidentally, the hazardous phenomenon to the environment and society is not limited oil and gas sector; it flows from other sectors, such as mining, extractive, agricultural, manufacturing, chemical and pharmaceutical, et cetera.

The magnitude of the pollution is also not limited to Nigeria but global in nature. The gravity of the global environmental issues had compelled need for international conferences, National forums and industrial commitments. Such as United Nations General Assembly Commission on Environment and Development that instituted the Brundtland report which produced the guidelines on sustainable development and sustainability; Organization for Economic Co-operation and Development (OECD) which issued a guideline for Multinational Enterprises on environment, European Union in partnership with United Nation had a convention on climate change and global warming, et cetera. These were accompanied by regulatory framework to control the trend of environmental depletion and it associated effects. Some enactments and regulatory guidelines were instituted to mitigate the excesses of the participating companies in oil and gas industry and enforce best practices among international standards to sustain natural existence in the face of corporate industrial activities. Neatly juxtaposed with the regulatory and institutional framework were intensified sensitization for environmental remediation, protection and conservation through responsible behaviour and sustainable performance to

the corporate environment. The oil and gas companies are to justify their legitimate profile through sustainability performance to the polluted environment and communication through sustainability accounting information to stakeholders. In this era of information driven economies, Asuquo, Dada and Onyeogaziru (2018) affirmed that the increased yearnings of investors and other stakeholders for sustainability accounting information disclosure requirements are more voluntary than mandatory and lacks globally accepted standards for reporting. These setbacks negatively influence the comparability quality in accounting information and allowed more gap in information asymmetry by the behavior of creative accounting reports in full disclosure, partial disclosure and failure to disclose (Monoz, Zhao & Yang, 2017). Hence, the need for the study.

Aim, Objectives and Hypotheses of the study

The study examined the effect of sustainability accounting information on the financial value creation of quoted oil and gas companies in Nigeria. Specifically, the following objectives guided the study. It was to:

1. identify the effect of Environmental Compliance Cost on Shareholder Value Added,
2. examine the effect of Community Development Cost on Shareholder Value Added and
3. assess the impact of Employee Training Cost on Shareholder Value Added.

The following hypotheses were tested:

- H0₁. Environmental Compliance Cost has no significant effect on Shareholder Value Added.
- H0₂. Community Development Cost has no significant effect on Shareholder Value Added.
- H0₃. Employee Training Cost has no significant effect on Shareholder Value Added.

LITERATURE REVIEW

STAKEHOLDER THEORY: Stakeholders were portrayed as those groups without whose support the organization would cease to exist. Fontaine, Haarman and Schmid (2006) posit that stakeholder theory suggests that the purpose of a business is to create as much value as possible for stakeholders. In order to succeed and be sustainable overtime, business executives must keep the interest of customers, suppliers, employees, communities and shareholders aligned to go in the same direction. Harrison, Freeman and Sa de Abreu (2015) explained that the theory is practical because it spurs all firms to manage stakeholders. It is efficient because stakeholders that are treated well tend to reciprocate with positive attitudes and behaviors towards the organization, such as sharing valuable information, buying more products or services, providing tax breaks or other incentives , providing better financial terms , buying more stock , or working hard and remaining loyal to the organization, even during difficult times. Similarly, Ackermann and Eden (2010) aptly put that the stakeholder theory refutes the

concept of stockholder by recognizing the vast group of interest in the company and requiring the business executives to manage these interests, relationships and trade-offs in aligned direction to create as much value as possible for stakeholders and manage the distribution of the value.

LEGITIMACY THEORY: Legitimacy theory is derived from the concept of organizational legitimacy which has been defined by Dowling and Pfeffer(1975) as a quality of congruence between an organization's action and social values. Tang (2017) observes that legitimacy theory is not only from organizational legitimacy but an idea institutional theory and social contract. Burlea and Popa (2013) identified legitimacy theory as a mechanism that supports organization in developing and implementing voluntary social and environmental disclosures in order to fulfill their social contract that enables the recognition of their objectives and survival in turbulent environment. The critical point which this theory portrays is that several organizations continually seek to ensure that they operate within the bounds and norms of their respective society for possible survival. The Portrayed legitimacy entails the congruency which an organization seeks to establish between social values that associate with their business operation and the norms or acceptable behavioural practices in the larger social system of their location. Bhattacharyya and Agbola (2018) summarily put that corporate legitimacy therefore, focuses on ensuring that the roles of firms are appropriate and meet the needs of society. Given the growing calls from investors and policy makers for voluntary social and environmental disclosures of firm activities to improve confidence in the operation of their businesses, a suitable justification of legitimacy underlie business sustainability performance communicated to stakeholders through accounting information. Although, it was argued by Behram (2015) that corporations often perform what they regard as necessary in order to maintain their image in legitimate business because of social and political pressures. Therefore, these theories was selected to anchor the study because the quoted oil and gas companies whose operation leave behind externalities of diverse environmental and social concerns are guided by regulatory framework and aimed to meet stakeholders' expectations.

Conceptual and empirical reviews

SUSTAINABILITY ACCOUNTING: Sustainability Accounting Standard Board (2013) defined sustainability accounting as consists in defining metrics or indicators both qualitative and quantitative that express a fair representation or "account for" company performance on material sustainability topics, and ensure that reasonable investors have access to the "total mix" of information in their decision making process. A cursory look at the Board's definition of sustainability accounting would identify basic items as indicators of both qualitative and quantitative, fair presentation of material sustainability information to investors for decision making. Sustainability accounting information consists in the financial facts and figures from the financial statements of corporate report. Over the years, the trend of sustainability performance has evolved through reporting structure in various alternative frameworks, overtime as: **Corporate Annual Report, Corporate Social responsibility, Triple Bottom Line**

Reporting, Global Reporting Initiative, International Integrated Reporting Framework, Sustainability Accounting Standards Board which all focused at Economic, Environmental, Social, Governance etc.

Financial Value Creation: The financial value creation constitutes the primary point of interest in the study. This direction of thinking is predicated on the concept that value creation is the increase in shareholders wealth represented by a rise in corporate profit or stock price (Wiley, 2017). Financial value created is suitably assessed through certain conventional metrics, such include: the economic value added (EVA), market value added (MVA), Cash Value Added (CVA), Shareholder Value Added(SVA) total shareholders return (TSR), cash-flow return on investment (CFROI), return on capital employed (ROCE) etc. In practice, companies choose the indicators that show the most interest for the company's needs. However, in this study, the shareholder value added was employed.

SHAREHOLDER VALUE ADDED

Shareholder value added is a notable metric in the field of value based performance management, value based incentive compensation and accounting for value. It is concerned with the measurement or evaluation of the actual worth of stock or portfolio of stocks. According to Largania, Kaviani and Abdollahpour (2012), shareholder value added as a value based performance metric was first published by Alfred Rappaport. In their view, the shareholder value added measures the actual value of investment in stock compared to other investments of same level of risks. The return or value should be higher when compared. Shotter, Dennis, Brummer and Boshoff (1998) clearly differentiated market value from shareholder value. In their views, it important to note that among the corporate financial management objectives is to maximize shareholder value but that is not maximizing the corporate total market value, therefore total market value can increase by raising more capital or debt or ploughing back a high proportion of retain earning. But shareholder value entails the difference in net earnings after tax and cost of capital. According to Laura (2007), the formulae of shareholder value added is expressed as:

$SVA = NOPAT - \text{capital charge}$. Where: SVA = Shareholder value added, NOPAT = Net operating profit after tax plus interest charge or finance cost, Capital charge = weighted average cost of capital (WACC) multiplied by capital employed.

$WACC = \{Equity/(Equity+Debt)*Equity\ cost\} + \{Debt/(Debt + Equity)*Debt\ cost(1-Tax\ Rate)\}$. In this study capital employed was represented in its form as net assets.

Empirical reviews were summarized as shown below.

Authors	Objectives	Methodology	Findings
Koaje, Abubakar, Ibrahim & Adeiza (2019)	Assessed sustainability reporting in relation to financial performance of oil marketing firms in Nigeria(2003-2013).	Longitudinal study design was employed.	total assets as well as total turnover have positive and significant relationship with sustainability information disclosure
Wasara & Ganda (2019)	Evaluated the relationship between corporate sustainability disclosures and financial performance of listed mining companies in Johannesburg	content analysis approach	positive relationship between social disclosures and return on investment of the companies.
Chairina & Hardi (2019)	Effect of sustainability reporting disclosures on companies' financial performance in Indonesia.	Multiple Linear Regression.	environmental and social dimensions had no effect on financial performance.
Jalila & Komathy (2019)	The relationship between sustainability reporting and firm financial performance in Malaysia.	Content analysis approach.	sustainability reporting has positive relationship with financial performance.
De Silva (2019)	Sustainability reporting and its impact on financial performance of Sri Lankan financial sector.	Employed content analysis.	sustainability disclosures have no effect on the financial performance
Yossi (2018)	effect of sustainability disclosures on financial performance and firm value in Indonesia(2013-2015).	Path analysis was employed.	higher sustainability disclosure increase firm value significantly.
Asuquo, Dada & Onyeogaziri (2018)	effect of Sustainability Reporting on Corporate Performance of selected quoted brewery firms in Nigeria(2012-2016)	Analyzed with regression model	environmental performance disclosure and social performance disclosure have no significant effect on return on asset
Whetman(2018)	impact of sustainability reporting on firms' profitability in some sectors of United States of America.	Analysis with a regression model	Sustainability reporting for these firms would be quite beneficial in realizing increases in profitability.
Nnamani, Onyekwelu, & Ugwu (2017)	sustainability accounting and reporting on financial performance of firms in Nigerian Breweries industry.	Analyzed using the ordinary linear regression.	sustainability accounting has positive and significant effect on financial performance.
Loh, Thomas & Wang (2017),	sustainability reporting and firm value of listed companies in Singapore.	Content Analysis	sustainability reporting is positively related to firms' market value

METHODOLOGY

The study employed ex post facto design for a population of Nine(9) listed oil and gas companies on Nigerian Stock Exchange as at 2016/2017 records of the Fact book. Some quoted oil and gas companies were purposively selected to include only those operating on both upstream and downstream sector for a period of ten years resulted in forty (40) study observations. The data for the study were entirely secondary in nature because its design suggested content analysis on historical economic events and business transactions which were reported as sustainability accounting information to justify compliance with sustainability performance. Such were obtained from the annual corporate reports of the listed oil and gas companies in Nigeria for 2009 – 2018. Complementary data were capture from the periodic reports of the Nigerian Stock Exchange on the concerned corporate entities.

Model Specification

The models on the variables are expressed as followed: For Shareholder Value Added(SVA), the functional equation is specified below: $SVA = f(ECC, CDC, ETC).....$ (equ.1)

Where: SVA = Shareholder Value Added, ECC = Environmental Compliance Cost CDC = Community Development Cost, ETC = Employee Training Cost.

For equ.1 is restated in econometric equation as followed:

$$SVA_{it} = \beta_0 + \beta_1 ECC_{it} + \beta_2 CDC_{it} + \beta_3 ETC_{it} + e_t...(\text{equ.2})$$

Where: SVA_{it} = Shareholder Value Added, B_0 = constant, B_{1-3} = coefficient of the independent variables, e_t = Error term

RESULTS AND DISCUSSION

Presentation of Results

The data analysis processes commenced with descriptive statistics as to indicate the structure of the data by its Jacque-Bera probability value and explain the need for unit root test. As a decision rule: The Jacque-Bera probability value which is higher than 0.05 shows that the variable is normally distributed (ie.ETC, ECC and CDC), otherwise it is not normally distributed (ie.SVA.)

Table 1: Shareholder value added (SVA), ETC, ECC and CDC.

	SVA	ETC	ECC	CDC
Mean	-11335978	39563982	21185026	1.49E+08
Median	-2583849.	40994272	17540165	1.33E+08
Maximum	12290553	88364663	47572520	3.74E+08
Minimum	-77443250	6028466.	1621020.	20592125
Std. Dev.	26095650	28189496	13864735	1.24E+08
Skewness	-1.778948	0.211005	0.669787	0.464088
Kurtosis	5.240319	1.988450	2.517617	1.932965
Jarque-Bera	7.365689	0.500552	0.844647	0.833364
Probability	0.025151	0.778586	0.655522	0.659230
Sum	-1.13E+08	3.96E+08	2.12E+08	1.49E+09
Sum Sq. Dev.	6.13E+15	7.15E+15	1.73E+15	1.38E+17
Observations	10	10	10	10

From table 1, the Shareholder value added (SVA) is not normally distributed because the Jarque Bera Probability (0.025) is less than 0.05 while the other variables; ETC, ECC and CDC are normally distributed, since their individual Jarque-Bera probability statistics (0.7785, 0.6555 and 0.6592) are higher than 0.05. This necessitate the unit root test as diagnostic test.

The Unit Root Test: To ascertain the condition of the variables, data are tested for stationarity.

Table 2: Unit Root test of SVA and ETC, ECC, CDC.

Coefficient	Comments
CDC_t : prob=0.6703	I(1)
CDC_{t-1} : prob= 0.0082	1(0)
ECC_t : prob= 0.8980	I(1)
ECC_{t-1} : prob = 0.0173	1(0)
ETC_t : prob= 0.3061	I(1)
ETC_{t-2} : prob= 0.0072	1(0)
SVA_t : prob= 0.1236	I(1)
SVA_{t-1} : prob= 0.0371	1(0)

Tables 2 showed that all variables, except ETC, are stationary at first difference while ETC is stationary at second difference. This necessitated the conduct of bounds tests for co-

integration (Autoregressive Distributed Lag) in order to determine if there is a long term relationship among the variables used in the models.

Table 3: Co-integration test for SVA and ETC,ECC, CDC.

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
		Asymptotic: n=1000		
F-statistic	13.95144	10%	2.72	3.77
K	3	5%	3.23	4.35
		2.5%	3.69	4.89
		1%	4.29	5.61

Source: Eviews

The co-integration analysis above on Tables 3 showed that there are long term relationships in the model. Using the F-statistics, it is clear that the F-statistics value of 13.95144 is greater than the 5% I(0) and I(1) values. The evidences from the above table indicate that there are long term relationships in the model. This necessitated the conduct of Error Correction test of the co-integration tests.

The Error Correction Mechanism

Table 4: Error Correction test for SVA and ETC, ECC, CDC

ARDL Error Correction Regression
 Dependent Variable: D(SVA)
 Selected Model: ARDL(1, 1, 1, 1)
 Case 3: Unrestricted Constant and No Trend
 Date: 12/17/19 Time: 15:59
 Sample: 2009 2018
 Included observations: 9

ECM Regression Case 3: Unrestricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-19338296	1687966.	0.000000	0.0000
D(CDC)	0.162977	0.005943	27.42223	0.0232
D(ECC)	0.778599	0.064569	-12.05849	0.0527
D(ETC)	-0.764566	0.039825	-19.19812	0.0331
CointEq(-1)*	-1.191280	0.079734	-14.94065	0.0425
R-squared	0.997287	Mean dependent var		-1867524.

The error correction model on table 4; showed that the long-term relationships of the variables were adjusted in the short run. The speed of adjustment {CointEq(-1)} is 119%. The multiple coefficient of determination is 99%. The f-stat shows that overall, the model is statistically significant.

HYPOTHETICAL TEST

Table 5: Hypotheses test for H₀₁, H₀₂ and H₀₃

ARDL Error Correction Regression
 Dependent Variable: D(SVA)
 Selected Model: ARDL(1, 1, 1, 1)
 Case 3: Unrestricted Constant and No Trend
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ECM Regression				
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CointEq(-1)*	-1.191280	0.079734	-14.94065	0.0425
R-squared	0.997287	Mean dependent var		-1867524.
Adjusted R-squared	0.994573	S.D. dependent var		36866518
S.E. of regression	2715870.	Akaike info criterion		32.76730
Sum squared resid	2.95E+13	Schwarz criterion		32.87687
Log likelihood	-142.4529	Hannan-Quinn criter.		32.53085
F-statistic	367.5329	Durbin-Watson stat		3.093964
Prob(F-statistic)	0.000022			

* p-value distribution.

Source: Eviews

Decision Rule for null hypotheses test: Reject hypothesis if P-value is less 5%.

H₀₁: Environmental Compliance Cost has no significant effect on Shareholder Value Added of quoted oil and gas companies in Nigeria.

From Table 5, the result indicated a statistical evidence not to reject null hypothesis and sustain that Environmental Compliance Cost has no significant effect on Shareholder value added of quoted oil and gas companies in Nigeria. This is because p-value (0.0527) is higher than 5%.

H₀₂: Employee Training Cost has no significant effect on Shareholder Value Added of quoted oil and gas companies in Nigeria.

The second hypothesis indicated p-value (0.033) as less than conventional level 0.05 which is significant statistics evidence to reject the null hypothesis and retain the alternate hypothesis that Employee Training Cost has significant effect on Shareholder Value Added of quoted oil and gas companies of Nigeria. The result also showed that ETC has a positive and significant relationship with SVA. As ETC increases by a unit, SVA increases by 0.7units and vice versa

H₀₃: Community Development Cost has no significant effect on Shareholder Valued Added of quoted oil and gas companies in Nigeria.

The third hypothesis indicated statistical evidence that p-value (0.0232) is less than conventional level 5%. This implied that we reject the null hypothesis and retain the alternate hypothesis that Community Development Cost has significant effect on Shareholder Value Added of quoted oil and gas companies in Nigeria. It also revealed that there is a positive relationship between CDC and SVA. As CDC increases by a unit, SVA increases by 0.16units and vice versa.

Discussion of findings

The findings of the first hypothesis demonstrated that Environmental compliance cost has no significant effect on the shareholder value added of quoted oil and gas companies in Nigeria. This result justified the findings of Chairina and Hardi (2019) that examined effect of sustainability reporting on financial performance in Indonesia. Similarly, it agreed with the finding of De Silva (2019) concluded that environmental dimension disclosure has no effect on financial performance among firms in Sri Lankan. The second hypothesis revealed that employee training cost has significant effect on shareholder value added of quoted oil and gas companies in Nigeria. The viewpoint lent credence to the finding of Koaje, Abubakar, Ibrahim & Adeiza (2019) who justified with empirical evidence that it has positive and significant effect on financial performance which was measured with Return on Assets and Return on Equity. Also, the last hypothesis held that community development cost has significant effect on the shareholder value added of quoted oil and gas companies in Nigeria. The finding is in consonance with the findings of Nnamani, Onyekunlu and Ugwu (2017) that advanced empirical evidence to demonstrate that it has significant effect on financial performance. The finding also supported the empirical position of Wasara & Ganda (2019) that justified positive relationship between social disclosures and return on investment. These empirical findings are consistent with the direction of our predetermined a priori expectation, except the result on first hypothesis that proved differently. This deviation from a priori expectation stimulated the attribution to the ideas that underlie the legitimacy theory which point at companies operating with the ethical standards and regulatory framework of the society. A deviation from it could influence their reaction and the performance of business. The directions of these findings demonstrated why the multiple coefficient of determination showed that 99% variation in the

shareholder value added is explained by the aggregate change in environmental compliance, employee training and community development in sustainability accounting information; while only 1% of the changes in the criterion variable are explained by other factors among the stochastic errors term. Relevant facts could be extracted from the roles and expectation between management and investors who perceived the challenges of information asymmetry in the stewardship roles of managers. This was juxtaposed with the expectation of stakeholders as was spelt in stakeholder theory who spread their interest around the business.

Conclusion and Recommendation

From the foregoing, the researchers concluded that sustainability accounting report has significant effect on shareholder value of quoted oil and gas in Nigeria. Although, the extent may vary among reporting entities due to certain factors, such as: proliferated applicable disclosure guidelines, disclosure guidelines recommended, actual sustainability practice and regulatory standard for sustainability accounting information which influenced the behaviour of the reporting entities towards reporting inconsistently; by communicating sustainability performance with either full disclosure, partial disclosure or none. The scenario gave impetus to more subjective than objective sustainability accounting information to users' who investment decisions depend on it. Therefore, it is recommended that the management of the oil and gas companies in Nigeria should pay adequate attention at the practice of sustainability accounting reporting because it creates shareholder value. Also, the reporting entities should not limit sustainability accounting information by any circumstances of reporting framework because it is an emerged shareholder value driver.

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