Corporate Governance in International Oil Companies: Lessons for Nigeria.

Ibekwe, Wechie
Lecturer, Department of Management,
Faculty of Management Sciences,
Rivers State University, Nkpolu-Oroworukwo,
PMB 5080, Port Harcourt,
Nigeria

Harry, Anga Jones
Doctoral Candidate, Department of Accounting,
Faculty of Management Sciences,
Rivers State University, Nkpolu-Oroworukwo,
PMB 5080, Port Harcourt,
Nigeria.

Abstract
This paper examines corporate governance practices and processes in the international oil companies by reviewing existing literature. The oil companies play a crucial role in driving the global economy. The procedures involved in producing and distributing oil and gas are very complex, capital-intensive and requires sophisticated technology. The paper further reviews corporate governance standards, governance structures put in place in international oil companies and the implementation thereof. Also reviewed, is the significance of social and environmental reports by corporations, corporate failures in international corporations, the notorious collapse of Enron in 2001, one of America's largest companies and the lessons learnt by other international oil companies as a result of the collapse. The process and implementation of corporate governance in Nigeria oil companies was also considered. The study concludes that a sound governance framework encompasses multiple areas across oil companies and several crucial segments to include in the planning to ensure that the developed governance framework is both implementable and also takes root within the organization to ensure its benefits are achieved. It was recommended that diverse model of corporate integration enhances the functionalities of the corporate entity, facilitates optimization processes, thereby contributing to long term sustainability and growth. Oil companies in Nigeria should improve on the corporate governance framework, especially the oil companies managed and controlled by government to reduce the corrupt practices in the sector.

Keywords: *Corporate Governance, Social and Environmental Reporting, Accountability, Corporate Failure.*

Introduction

The activities of various business organizations are affected by identifiable internal and external issues (Grant, 1999). The oil and gas industries in the globe plays prominent role in driving the global economy. Production and distribution of oil and gas, encompasses rigorous processes

usually very complex, capital intensive and require state-of-the-art technology. Modern organizations operate in a relatively volatile business environment, as such, predicting the future of the industry can be a rather dicey undertaking given the myriad of variables that affect the industry environment. Corporate scandals that happened in the USA and elsewhere around the globe in the 1990s and early 2000 are of high-profile that signal new thinking on the regulatory role of corporate entities in protecting the interests of shareholders. Regardless of this position, there is a common and essential element for all players in the oil and gas sector, this element refers to the establishment and implementation of corporate governance framework that can help to overcome certain obstacles and bring about many benefits in order to achieve sustainable development as one of the preconditions for the development of today's society.

According to Bhasin (2010), the growing number of scandals, and the subsequent widespread public and media outcry, a number of governance 'norms,' 'codes,' 'best practices,' and 'standards' have sprouted all over the world. Accordingly, considerable attention given to corporate governance issues in recent years suggests that stronger governance mechanisms are likely to reduce opportunistic management behavior, thereby enhancing the quality and reliability of financial reporting. International monetary fund (IMF) identifies weak corporate governance as one of the factors that influence financial crisis. Corporate governance increases investor's confidence by encouraging more accurate financial reporting and transparent accounting and disclosure practices by management. When there is reliable and transparent financial reporting practices, investors will be able to make more informed financial decisions (Machuba and Teitel, 2007).

In the light of the recent economic and financial crisis, governments across the globe are adopting measures designed to improve systems of corporate governance, especially the elements of risk management and compliance. Without proper governance, companies can face great challenges both internal and external to the organization. For example, attracting investment may be very difficult if investors are not convinced that there are adequate controls, checks and balances that a governance framework can provide in place. Additionally, the lack of governance can lead to inefficiencies, such as operational issues in the system and one must also bear in mind the various effects on sustainability, social responsibility and the society as a whole. However, with a carefully crafted and successfully implemented corporate governance framework, many of these problems can be reversed. Without proper corporate governance structure, oil and gas industries will likely face significant challenges in many areas, both external and internal to the organization. From an external point of view, sourcing, funding and attracting investment would be very difficult if those sources of funding and investment are not persuaded and sure that there are adequate controls, checks and balances that a governance framework can provide in place. Additionally, financial statements can be impaired by the lack of trust and confidence in the numbers that are being published without proper oversight. Internally, the lack of governance can lead to inefficiencies in the system in all aspects such as capital deployment, organizational performance and operational issues. However, with a carefully designed and successfully implemented corporate governance framework, all of these problems can be dealt with.

The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies like; Enron, the Houston Texas based

energy giant and WorldCom the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations. These organizations seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies from Parmalat in Italy to the multinational newspaper group Hollinger Inc., Adephia Communications Company, Global Crossing Limited and Tyco International Limited, revealed significant and deep-rooted problems in their corporate governance.

In Nigeria, the issue of corporate governance has been given the front burner status by all sectors of the economy. For instance, in December 2015, NLNG became a signatory to United Nations Global Compact (UNGC), the world's largest Voluntary Corporate Responsibility Initiative with business and non-business participants from 160 countries. The UNGC membership is a public declaration of the entity's continued commitment to incorporating environmental, social and corporate governance standards in its strategies, policies and procedures, as well as embedding a culture of integrity, all of which are underscored in the Business Principles and Code of Conduct.

Literature Review

The Concept of Corporate Governance

There are numerous definitions of corporate governance provided in relevant literature. For instance, Shleifer and Vishny (1997) define corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. On a broader perspective, corporate governance is all about running an organization in a way that guarantees that its owners or stockholders receive a fair return on their investment, while the expectations of other stakeholders are also met (Magdi & Nedareh, 2002) as cited in Duke and Kankpang (2011). Gillan and Starks (2000) defines corporate governance as the system of laws, rules, and factors that control operations at a company. One basic definition of corporate governance, which has been widely recognized, was given in a report by the committee under the chairmanship of Sir Adrian Cadbury tiled (the Cadbury Report): This definition of corporate governance has been endorsed in various other discourses on the subject, including the 1998 final report of the committee on the financial aspects of corporate governance. Thus, "Corporate governance is the system by which companies are directed and controlled".

Irrespective of which definition is used, corporate governance mechanisms are often viewed by researchers as falling into one of two categories: the internal governance and the external governance. The basics of internal governance are; the Board of Directors, who in the words of Jensen (1993) are at the apex of internal control systems, charged with advising and monitoring management and has also the responsibility to hire, fire, and compensate the senior management team. The external governance elements are shareholders and debt holders because of the firms' need to raise capital. This according to Gillan (2006) in "publicly traded firm, a separation exists between capital providers and those who manage the capital. This separation creates the demand for corporate governance structures".

Corporate governance typically addresses measures to manage and reduce financial and operational risks by building the integrity, transparency and accountability of a company's management toward different actors at varying levels within the organization. Corporate governance emphasizes issues connected with the overall direction, control and accountability of

corporations and society's conception of the scope of corporate accountability (Cornforth, 2014). In a more specific sense, the concept entails appropriate board structures, processes and values to cope with the evolving shareholder and stakeholder expectations (Garratt, 2003). Arguably, the essence of corporate governance captures how organizations ought to be managed in diverse, but specific respects taking due cognizance of the certain internal and external issues in the operating environment. It also focuses on issues of ownership and control, particularly as it affects the internal framework and operations of the enterprise. These identifiable interests have over time been noted to have varying capabilities of shaping corporate action through social legislation and amongst other established channels.

Emerging trends reveal that many countries have developed their own corporate governance codes (Nwanji and Howell, 2004). This pattern is particularly apparent in the private sector, where several companies have adapted and periodically published varying corporate governance code policies. In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the stakeholders are the board of directors, executives, and other employees. The essence of corporate governance is to ensure good business performance, accountability towards stakeholders (e.g. customers, staff, shareholders, suppliers, regulators and local communities) and risk mitigation.

Key issues Considered in Corporate Governance include:

1. Shareholders Right: Protection of owners' rights and facilitation of their participation in company meetings including voting on changes to the company's structure (articles of incorporation) and key governance decisions i.e. board membership and the remuneration of its members.

2. Stakeholders Right: Recognition of the company's impact on broader interest groups such as employees, customers and communities.

3. Financial Transparency: Disclosure of the company's financial and operating results, the remuneration policy for board members and senior executives, and all related information needed to evaluate the performance of the company and management.

4. Proper Accounting: Duty to record accurately all business transactions to avoid fictitious entries and off-the-book accounts, ensure sound internal controls (including the safe custody over assets) and employ proper accounting principles (when valuing company assets and liabilities). Often external assurances can help to certify the validity of the financial information being provided by having an independent party assess the results.

5. Information Sharing: Obligation to provide stakeholders with reliable, accurate and timely information about what the company is doing and to use these exchanges to reinforce and ensure the right types of behaviour on the part of the business.

6. Oversight: Creation of board and organizational structures (e.g. committees and chairs) that ensure persons are responsible for and evaluate different dimensions of a company's accountability and operations.

7. Review: Production of reports on the implementation of policies and systems (and any remedial actions that have been taken when necessary).

While there are various institutional arrangements that can be adopted for corporate governance, a company's board of directors is viewed as the framework's centre piece. The board takes

leadership on strategic and key operational issues and is considered as having the 'duty of care' by setting the 'tone at the top' and promoting a corporate governance framework that covers all levels of the organization and types of risks. The regulatory support that anchors this framework is drawn from mandatory corporate and business laws (e.g. legally-binding conditions), softer regulations (e.g. conditions to participate in certain spheres of the market and economy, such as listing on a national stock exchange) and voluntary measures (e.g. company-determined standards, such as employment, environment and anti-bribery codes).

Corporate Governance System in the Oil and Gas Industry

The oil and gas industry is categorized into upstream, midstream and downstream sectors. The upstream sector is characterized by exploration and production of crude oil and gas (petroleum operations). The midstream, which refers to the transportation and storage of products, and the downstream segment involving the refining and marketing of crude oil, both of which are dominated by the publicly owned companies (Standard & Poor's, 2010 in Searle,2010). Marcel and Chatham House (2013) define the following objectives for corporate governance in the emerging oil and gas industries:

- Attract the most qualified investors for the long run
- Maximize economic returns to the state through licensing
- Earn and retain public trust and manage public expectations
- Increase local content and benefits to the broader economy
- Gradually build up capacity and enable actors to perform their role
- Ensure national oil company participation in the development of the resources
- Increase accountability

A governance framework embodies various dimensions of an organization starting with defining the core purpose for the company and going down to details such as defining standards for policies and procedures. Additionally, it should also define the support mechanisms that should be arrayed around it to help in achieving proper governance and control. These include areas such as a suggested organizational structure, reporting lines and definitions of roles and responsibilities, a defined approach to risk management, and the ability to monitor and enforce compliance, etc. With respect to the oil and gas industry development in emerging countries, the number of mega-projects with enormous budgets in these markets has increased dramatically, but with them comes incredibly challenging environments, an unavoidable obstacle of frontier oil and gas exploration. Some problems those markets face refer to lacking infrastructure; transport i.e. roads, ports, rail, airports as well as utilities aren't as sophisticated as their more established counterparts. Moreover, due to these areas being relatively immature when it comes to oil and gas development, the supply chain is also rather limited and therefore the projects need to lean on the global marketplace and supply and service organizations to be able to provide resource and materials and to help develop the market maturity.

An effective governance framework should provide clear answers to the following questions:

- What is the mandate of the organization?
- What are the roles and responsibilities of entities/departments?
- What capabilities, processes and systems will be required?

- How should the risk management processes be organized?
- What information and reporting requirements support the proposed model?
- What are the appropriate mechanisms and interfaces required to support the proposed governance? (Deloitte, 2014).

International Corporate Governance Standards

The main set of standards for corporate governance agreed at international intergovernmental level is the OECD Principles of Corporate Governance. These Principles provide the principal overall framework within which international discussions on this subject take place including that of policy responses to the Enron case and other recent corporate scandals. The OECD Principles cover five basic subjects:

1. Protection of the rights of shareholders;
2. Equitable treatment of shareholders, including full disclosure of material information and the prohibition of abusive self-dealing and insider trading;
3. Recognition, and protection of the exercise, of the rights of other stakeholders (a somewhat imprecise term denoting not only those directly involved in a firm is process of wealth creation but also other parties sufficiently strongly affected by this process);
4. Timely and accurate disclosure and transparency with respect to matters material to company performance, ownership and governance, which should include an annual audit conducted by an independent auditor.
5. A framework of corporate governance ensuring strategic guidance of the company and effective monitoring of its management by the board of directors as well as the board is accountability to the company and its shareholders.

The preamble to the OECD Principles acknowledges that there is no single model of good corporate governance, and the Principles mostly avoid detailed prescriptive rules in an area, where rules unsupported by consensus likely seem intrusive. But the generality and flexibility of the Principles have the consequence that potential inconsistencies amongst them as well as other problems likely to arise in their application are glozed over. Importantly for the Enron case the Principles pay little attention to the issues of management incentives and remuneration. This matter is taken up to the extent that it is primarily under various headings covering the role of the board of directors and transparency. Under disclosure and transparency, companies are enjoined to include in the former material information on the remuneration of key executives. But nowhere do the OECD Principles address the problem of too close a link between executive remuneration and reporting of financial results, especially short-term results. The flouting of OECD Principles in the Enron case was particularly evident in the four areas of shareholders rights, disclosure and transparency, the execution of its responsibilities by the board of directors, and the prohibition of abusive self-dealing. Failures under these different headings were linked in various ways, perhaps most importantly through inadequate disclosure and transparency.

Corporate Governance Failures and the Case of Enron

The notorious collapse of Enron in 2001, one of America's largest companies, has focused international attention on company failures and the role that strong corporate governance needs to play to prevent them. The UK has responded by producing the Higgs Report (2003) and the Smith Report (2003), whereas the US produced the Sarbanes–Oxley Act (2002). Nations around the world are instigating far-reaching programmes for corporate governance reform, as

evidenced by the proliferation of corporate governance codes and policy documents, voluntary or mandatory, both at the national and international level. Enron was a Houston-based energy company founded by a brilliant entrepreneur, Kenneth Lay. The company was created in 1985 by a merger of two American gas pipeline companies. In a period of 16 years the company was transformed from a relatively small concern, involved in gas pipelines, and oil and gas exploration, to the world's largest energy trading company (The Economist, 28 November 2002). Deregulation of the energy market in the USA allowed utilities to choose their energy supplier. The 1980s saw deregulation of the market for natural gas in the USA, and deregulation of the wholesale electricity market followed in 1992 (The Economist, 26 February 1998).

In August 2001 the chief executive, Jeffrey Skilling, left the company following concerns about the company's management and about his outburst of 'asshole' at an analyst who dared ask him a tricky question (The Economist, 6 December 2001). By late autumn it became clear that Enron was suffering serious financial problems with discussion over a takeover or bankruptcy (The Economist, 1 November 2001). Toward the end of October 2001, Moody's credit rating agency cut Enron's rating to barely above that of junk bonds. In November 2001, Standard & Poor's downgraded Enron's debt to junk bond status. Unfortunately, Enron's debt contracts included clauses stipulating that the company would have to make additional payments to debt holders if the company was downgraded (The Economist, 6 December 2001). On one day alone, 30 October 2001, Enron's shares fell by 19% (The Economist, 1 November 2001). Enron's brilliance in derivatives trading fuelled its demise, as the company lost $1.2 billion in capital from a failed hedging deal with a private equity fund. The company had to sell 55 million shares. A severe lack of transparency in Enron's balance sheet meant that no one was aware of this and other off-balance-sheet liability until it was too late. Despite such serious problems, even as late as November 2001, there was a general perception that the company was too big to fail and would weather the storm (The Economist, 1 November 2001). However, by the middle of November 2001 it was clear that the company was doomed.

The Cadbury Report 1992

As a result of public concern over the way in which companies were being run and fears concerning the type of abuse of power prevalent in the Maxwell case inter alia, corporate governance became the subject for discussion among policy makers. In this sense the formation of the Cadbury Committee may be seen as reactive rather than proactive. However, it is important to remember that the Cadbury Report was compiled on the basic assumption that the existing, implicit system of corporate governance in the UK was sound and that many of the recommendations were merely making explicit a good implicit system (see Cadbury Report, 1992, p. 12, para. 1.7). The Cadbury Report and its accompanying Cadbury Code (1992) derived their names from Sir Adrian Cadbury, who chaired the committee that produced them.

The Council of the Stock Exchange and the Accountancy Profession set about establishing the Cadbury Committee, The Committee on the Financial Aspects of Corporate Governance which produced its report and accompanying Code of Best Practice at the end of 1992. The Cadbury Code was not legally binding on boards of directors. Three general areas were covered by the Cadbury Report and its accompanying Code, namely: the board of directors; auditing; and the shareholders. The Cadbury Report focused attention on the board of directors as being the most important corporate governance mechanism, requiring constant monitoring and assessment.

However, the accounting and auditing function were also shown to play an essential role in good corporate governance, emphasizing the importance of corporate transparency and communication with shareholders and other stakeholders. Lastly, Cadbury's focus on the importance of institutional investors as the largest and most influential group of shareholders has had a lasting impact. This, more than any other initiative in corporate governance reform, has led to the shift of directors' dialogue toward greater accountability and engagement with shareholders. Further, we consider that this move to greater shareholder engagement has generated the more significant metamorphosis of corporate responsibility toward a range of stakeholders, encouraging greater corporate social responsibility in general.

Social and Environmental Reports

Social and Environmental Reporting is the process of communicating social and environmental effects of organizations economic actions to particular interest groups within society and to the society at large (Dellaportas et al. 2005 p. 201). Social and environmental reports are voluntary disclosures in most countries and mandatory in few countries Deegan & Unerman, (2011). However, the Global Reporting Initiative (GRI), a form of conceptual framework for social and environmental reports produced voluntary guidelines which companies are expected to follow when reporting social and environmental information Deegan & Unerman, (2011). Social expectation of firm's performance has evolved over the last decade (Jose and Lee, 2007). Organizations now operate in a world where stakeholders are demanding for more corporate transparency and accountability Tagesson, et al. (2009). Various stakeholders have continued to put pressure on corporations to be socially and environmentally responsible, which has led to greater social and environmental disclosure by companies Tagesson, et al. (2009).

The legitimacy of a company is essential as it is a means of attaining loyalty and continues support from internal and external stakeholders Deegan & Unerman, (2011). The legitimacy theory, derived from political economy posits that corporations are bound by social contract to act in accordance with society's values and norms, guaranteeing its existence (Dellaportas et al. 2005; Deegan & Unerman, 2011; O'Donovan, 2001). A social contract is used to explain the expectation of the society on the operations of organizations and breaching the contract can hinder the existence and survival of a company in a society. Legitimacy theory is a widely used explanatory tool regarding the reasons for the production of social and environment a reports by firms.

In a study by Jupe (2005), aimed at unraveling the reasons for the disclosure in the corporate environmental reports among the UK FT 500 companies, it was revealed that companies with damaged environmental reputations and social contract produced longer social environmental reports. He adds that this was done to rebuild society trust and assure the expectations of the society and the company's operations are aligned (Jupe, 2005). A similar study by Guthrie, Cuganesan & Ward (2006) on the Australian food and beverage industry showed similar results to the research carried out by Jupe but in different market and country. They explained that high profiled companies with damaged social status produced longer and more detailed annual social and environmental reports.

Another important reason for producing social and environmental reports by companies is to redirect attention of the society from an issue of concern (Lindblom, 1994; Gray et al. 1995;

Unerman et al. 2007; Guthrie et al. 2006). Research carried by Lenis and Richardson (2013) as cited in Mohamed, Sylvain and Jacques (2014) supports this argument; they discovered that Australian tax aggressive corporations provided more social environmental reports. It was a strategy put in place to maintain the loyalty of stakeholders, reduce their attention on the negative impacts of the aggressive corporate tax and redirect focus to other social responsibilities they fulfilled (Mohamed, Sylvain & Jacques, 2014). Guthrie et al. (2006) strengthens this point with their research, they discovered that high profiled companies in the food and beverage industry in Australia tried to change the perception of the society and that of the company without changing their actual behavior. There have been numerous studies on corporate social reporting that have incorporated stakeholder theory. Islam and Deegan (2008) studied the influence stakeholder power had on disclosure decision within a Bangladesh manufacturing company. From this research, they concluded that the executives considered only the interest of the most powerful stakeholders when producing the social environmental reports. Another research by Sotorrio and Sanchez (2009) investigating if information disclosed were the same for all stakeholders discovered that highly reputable firms in Spain did disclose separate information for its global stakeholders than that of its local stakeholders. Corporate social and environmental performance has become has become an essential aspect of company's reputation, which companies are constantly striving to improve. According to Gray et al. (1991) accounting model, the reporting of social and environmental information should be responsibility driven and not driven by demand. Lending support to Gray's argument, Richardson and Welker (2001) points out that social environmental reports would be beneficial to a broader group of stakeholders than just the primary audience, therefore firms should not consider every stakeholder when producing social environmental reports.

Oil and Gas Industry in Nigeria

The Nigerian oil and gas industry has been vibrant since the discovery of crude oil in 1956 by the Shell Group. However, the sector was largely dominated by multinational corporations until the early 1990s when Nigerian companies began to make a foray into the industry. Local participation was boosted with the implementation of the Nigerian Content Directives issued by the Nigerian National Petroleum Corporation (NNPC) about a decade ago, and eventually, by the promulgation of the Nigerian Oil and Gas Industry Content Development (NOGIC) Act (The Act) in 2010. The Act seeks to promote the use of Nigerian companies/resources in the award of oil licences, contracts and projects. The industry is structured into upstream midstream and downstream sectors.

Corporate Governance Practice and Evaluation in Nigeria's Oil Companies

Nigeria as a developing country has implemented a voluntary corporate governance code rather than taking a regulatory approach by encouraging companies on how to improve their governance and information disclosure. The 2011 SEC Code stated that the "code is not intended as a rigid set of rules; it is expected to be viewed and understood as a guide to facilitate sound corporate practices and behaviour". The disclosure of corporate financial reports in Nigeria has been a statue in the Companies and Allied Matters Act, Cap. C20, Laws of the Federation of Nigeria 2004 (CAMA). Section 34 of the Sec (2011) Code highlighted that the disclosure requirements are intended to, and actually do, extend "beyond the statutory requirements in the CAMA. To evaluate the standard of corporate governance in Nigeria oil companies, we surveyed the applicable governance framework and the implementation of some indigenous companies

engaged in oil and gas activities, with specific reference to Oando Plc. Oando Plc. is dedicated to the protection and promotion of shareholders' interests. The Company has adopted a Code of Business Conduct & Ethics that defines the Company's mission within a corporate governance framework. The Code applies to all employees, managers, directors and business partners, who are trained and certified to the provisions of the Code when they initially join the Company. In 2009, the Company introduced an annual online recertification exercise for all staff and directors. The Recertification Exercise acts as an annual refresher course for all staff and directors on the Company's Code of Business Conduct & Ethics and is mandatory. Other Governance policies of Oando PLC are as follows: Anti-Corruption policy, dividend policy, gifts and benefits policy, board appointment process, insider trading policy and whistle blowing policy (Oando, 2009). Corporate governance practices in Oando Plc. are based on the principles of accountability, transparency, fairness, integrity and respect. In order to comply with the statutory requirements of CAMA and the Sec (2011) Code, the company board of directors approved a policy thrust "The Code of Business Conduct & Ethics" that guides the company on corporate governance issues that is being reviewed periodically to make it relevant. Also, due to the company's dual listing with NSE and JSE, the company has been striving to meet international best practices in corporate governance in the interest of its stakeholders, hence the recertification exercise for all staff at all levels is very important. In order to study the corporate governance practices obtainable at the Oando Plc, the Annual Report and Accounts has been examined. After examining the governance structures, processes and disclosures made by the company in its reports, what is the standard and quality achieved by the company in corporate governance?

To answer the above question, a model was developed to evaluate the standard and quality of disclosure by the company based on content analysis on three years (2010-2012) annual reports and accounts. Drawing from the CAMA and the Code, a list of corporate governance disclosure practices comprising 30 specific issues were developed and the result indicates that Oando Plc made 84 disclosures in total out of 90. As evident from the report, the company is consistent with its disclosure requirements. The oil companies in Nigeria were good corporate governance is not entrenched are basically those managed and controlled by government. For instance, the Nigeria National Petroleum Corporation (NNPC). The governance problems associated with NNPC oil sales have intensified. As detailed in a report titled "Inside NNPC Oil Sales: A Case for Reform in Nigeria (August, 2015)" the governance of NNPC's oil sales system has worsened in recent years just when Nigeria needs to maximize returns from these crucial transactions. More oil is being sold through makeshift and opaque mechanisms. A growing share of NNPC oil sales occur through transactions which deviate from the basic oil sales processes. Senior officials execute these adaptations through processes that lack oversight, transparency, or due process or consultation outside of NNPC. They include the practice of companies paying taxes and royalties with oil instead of money; the crude-oil-for-product swaps; the strategic alliance agreements (SAA) for bankrolling the Nigerian Petroleum Development Company (NPDC), NNPC's main upstream subsidiary; and oil sold to fund "alternative financing" debts between NNPC and its joint venture IOC partners. It was recommended in the report that government should develop an explicit revenue collection framework for NNPC that facilitates more predictable financing and rein in discretionary spending.

Why is Corporate Governance Critical?
Good corporate governance serves as a framework to secure investor confidence, enhance access to capital markets, promote growth and strengthen economies. By providing for clear 'rules of the game' and 'checks and balances', corporate governance systems help to lower company costs (for capital and production) and increase economic output. Such characteristics make corporate governance necessary, beneficial and useful for all sectors and types of companies whether they are multinationals, state owned enterprises, domestic firms, small businesses or family owned operations. Although corporate governance frameworks differ from country to country based on the legal, regulatory and institutional environment, they have a common aim: to define clearly the rights, responsibilities and behaviours that are required of a company's owners (the 'principals') and managers (the 'agents') for the business to operate successfully. 'Owners' include any group or individual holding an equity stake in the business, usually in the form of shares. 'Managers' comprise all persons who have been extended the right to run the business on behalf of the owners. These individuals can be company executives or members of the board of directors, who are either appointed or elected to their position. When breaches in corporate governance happen, they may be systemic, result from negligence or reflect the actions of rogue employees. When systemic failures occur as have characterized the global crisis, they are a strong signal that the balance of interests which a good corporate governance structure should ensure between owners (including stakeholders) and management (including the board of directors) is out of equilibrium.

Conclusion and Recommendations
This paper have attempted to show why corporate governance is the system of checks and balances, both internal and external to ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business operation. The oil and gas industry is extremely volatile and unpredictable. A sound governance framework encompasses multiple areas across an organization and there are several crucial segments to include in the planning to ensure that the developed governance framework is both implementable but also takes root within the organization to ensure its benefits are realized. It is not an unrealistic expectation that international oil companies will incorporate a similar approach to corporate governance in their core principles and codes of practice.

This paper recommends the adoption of transitional models of corporate governance that incorporate broader issues, cutting across legal, regulatory, social science and management perspectives. International oil companies should learn from the notorious collapse of Enron and other multinational corporations. Oil companies in Nigeria are also expected to improve on the corporate governance framework, especially the oil companies managed and controlled by government to reduce the corrupt practices in the sector.

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