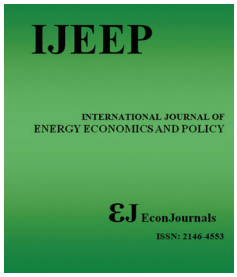

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Model on Stakeholder Risks Disclosure in Corporate Reporting for Oil and Gas Companies in the Republic of Vietnam

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ABSTRACT

The purpose of this study was to develop a draft standard model of corporate social reporting, which ensures the disclosure of risks in the activities of oil and gas companies, considering the interests of various groups of stakeholders. The current study covered a retrospective of many studies conducted by international and public organizations for the period from 2015 to 2020, which made it possible to identify issues and trends in disclosure, the relevance of the information for stakeholders, and prospects for standardizing approaches. Taking these results into account, the study developed an approach that considers the level of influence and interests of different stakeholders, based on the proven postulates that shareholders and investors have the greatest influence and interests in the company; state and local authorities have the strongest influence on the company but have low interests in its business activities; residents and society have high interests, but the least impact on the company. The finding of this study is a developed risk-oriented model for disclosing sustainable development indicators in corporate reporting of the oil and gas industry which is proposed for further adaptation and implementation at Petrolimex in Vietnam.

Keywords: Corporate Reporting, Stakeholder Interests, Risk, Oil And Gas Company, Sustainable Development
JEL Classification: M41

1. INTRODUCTION

Nowadays disclosure of information about sustainable development is one of the most relevant research topics in various fields of science. The strategies proclaimed by the world's leading holding companies demonstrate their focus on sustainable business development, a responsible attitude to social and environmental problems, while being guided by international standards and best practices. However, the current "free" practice of corporate social responsibility (CSR) disclosure, focused on various standards, approaches and methodological recommendations for its formation, leads to an increase in the reporting burden on the business associated with the costs of its preparation, often duplication of data, makes it difficult to understand and does not meet the expectations of interested users (ACCA and CDSB, 2016). In addition, this study discussed some issues associated with the use of public information that affect the reliability of the data. First of all, not all large companies provide information in the public domain. The reports presented over-emphasize plans to improve indicators rather than analyzing actual data, identifying the causes of deviations and trends in the field of sustainable development (Kazakova et al., 2020). In the absence of national standards of preparation, such reports have different levels of information content, which do not ensure comparability of data. In this regard, it is necessary to develop unified approaches at the global level that provide a comparative analysis and control of the implementation of ESG strategies on the part of society and investors, who are interested in an adequate quantitative assessment of the company's activities impact on society (Kazakova and Kogdenko, 2021).

Understanding this issue and its significance for further steps to converge international practices, the 2020 World Economic

Forum proposed a new project to develop a system of common indicators and non-financial reporting focused on assessing sustainable business value creation for all stakeholders. According to experts, the main goal of the project is to create a transparent and understandable tool both for companies that prepare reports and for investors, as well as for a new generation of consumers who form a request for increasing business transparency in terms of environmental impacts (Kommersant, 2019).

In addition, individual countries are making decisions that contribute to increasing the social responsibility of large businesses to society, for example, in 2020, the Bank of Russia approved the assignment of the rating agencies "Expert RA" and "National Rating Agency" to the ratings "Environmental, Social and Governance (ESG)" to companies, having an impact on the environment. The industry aspect is one of the key issues that determine the specifics of corporate social reporting formation.

The choice of the oil and gas industry is associated with its economy importance for both Russia and Vietnam, as well as, for ensuring national energy security. In addition, several multinational companies engage in mining and processing in both countries, which allows us to jointly use the results of this study as a practical recommendation for the implementation of a typical model for disclosing stakeholder risks in corporate social reporting.

1.1. Literature Review

Some authors have emphasized the need to introduce new approaches to corporate reporting formation, focusing on the interests of all key stakeholders, not just shareholders (Johanna et al., 2019). A study has confirmed a direct connection between all three components of ESG-strategies, which is reflected in the level of investor confidence and the investment attractiveness of the business (Freiberg et al., 2021). The relationship between corporate social responsibility and various aspects of sustainability in academic society around the world has also been discussed in the research conducted by Emilio et al., (2019).

It has indicated the need for future research direction on how to measure the effectiveness of corporate sustainability when changing the company's goals (Jody and Serafeim, 2020). Moreover, three components that should be focused on are measuring, managing and informing about the company's performance in the field of sustainable development.

A concept on how an ESG strategy can create value through five ways, such as revenue growth, cost reduction, regulatory and legal intervention, increased productivity, and optimization of investments and assets has been proposed (Witold et al., 2019). The emphasis on the value of value creation by balancing the interests of shareholders, which are short-term, and the stakeholder interests in the long term, has been shown in the study conducted by Marc and Tim (2020). Another study has indicated the use of a risk-based approach when implementing strategies in the interests of stakeholders to support sustainable investment decisions and help the company manage risks effectively, (Sheehan, 2010).

Studies have considered the format and structure of corporate social reporting, including in various countries and sectors of the economy (Prodanova et al., 2018, Kazakova and Sivkova, 2019, Kazakova et al., 2020, Kazakova and Kogdenko, 2021). An empirical study conducted by Sta and Leonardo (2018) has shown comparative results of reporting by ten developing countries in Asia. There is a link between information disclosure, social responsibility, and company value growth (Hu et al., 2018). At the same time, one study has demonstrated how social, psychological and economic benefits affect the satisfaction of stakeholders in Korea (Minseok et al., 2018).

However, these studies did not pay enough attention to the format of presenting information on stakeholders' interests. Research conducted by Sara et al. (2019) has identified the limitations of the existing practice on disclosing information about sustainability and its obvious inadequacy for making investment decisions. Thus, the standardization of corporate reporting is a demandable topic for discussion at the present.

2. METHODOLOGY

This study has been conducted by summarizing the practice of CSR disclosure of the leading oil and gas companies in terms of sector revenue, which covered 32 Russian companies and 37 companies in Vietnam. Having an overview of world corporate reporting dynamics and doing a comparative analysis of corporate social responsibility disclosure in both two countries allow us to identify the existing issues on communicating sustainability performance in this industry. Focusing on the best CSR communication from 20 Russian companies and eight Vietnamese companies, this study carried out an in-depth analysis according to the following criteria: type of reports prepared by the company; a set of standards, guidelines, or methods used to prepare reports; the quality of the data disclosed in the reports, confirmed by the presence of an independent assurance conclusion.

The main sources of data are the latest non-financial corporate reports of 20 companies, published on the website of the Russian Union of Industrialists and Entrepreneurs (RUIE, 2020); and non-financial reports in 2019 on the website of eight of the 37 largest companies in Vietnam by revenue.

The methodology is based on content analysis and observation of the best corporate reporting practices in Russia, the standard most used which is the Global Reporting Initiative (GRI) standards, and the existing issues which were supported by the global practice surveys (KPMG Survey, 2015; 2017; 2020). It is obvious that there is a need for a unified format of corporate reporting to provide comparable, relevant, and reliable information for companies in this sector. To survive in the long term, the organization needs to align corporate strategies with social and environmental outcomes (ACCA et al., 2019). To do this, the interests of key stakeholders on risks need to be included in corporate reporting since it is essential to making informed investment decisions.

Based on the analysis of the level of influence and interests of key stakeholders, this study has proposed a risk-oriented

approach to the formation of corporate reporting, which ensures the risks disclosure on the interests of significant stakeholders. To solve identified problems, a model for disclosure of the company's sustainability indicators has been developed, based on the characteristics of oil and gas companies in Russia and Vietnam, the current study has also discussed condition to the implementation of the proposed model in the preparation of corporate reporting.

3. RESULTS

3.1. The Current State of Disclosing Corporate Social Responsibility

Despite the significant impact on the environment and community, oil and gas companies for the third time in a row had a high level of CSR disclosure among other sectors of the world economy (KPMG Survey, 2015; 2017; 2020). The stake of CSR disclosure in the sector was above the average level of all industries, as shown in Figure 1.

In Russia, CSR has been disclosed in various types of non-financial corporate reports such as a sustainability report (SR), an environmental report (ER), and an integrated report (IR). However, most companies choose the sustainability report. Figure 2 shows the structure of Russian non-financial corporate reports in this sector.

The study has identified that there are 22 out of 32 Russian listed companies, which prepared six sustainability reports, eight annual reports, two environmental reports; and ten unlisted companies, including two companies whose website is not available. Vietnamese practice consists of 21 unlisted companies and 16 listed ones which published ten nonfinancial reports, including nine annual reports and one sustainability report. In addition, among nine companies whose websites are unavailable, there are five listed and four other unlisted companies.

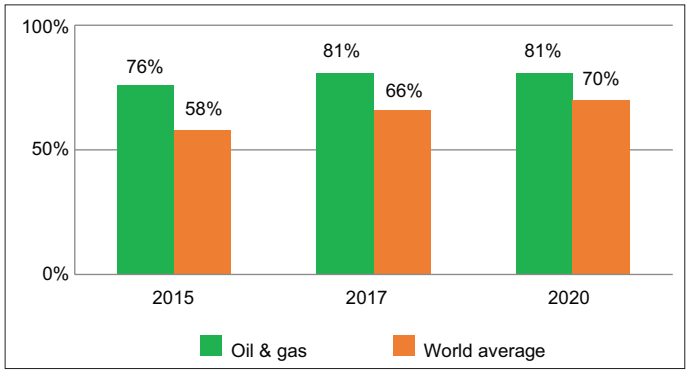
As shown in Table 1, the comparative analysis of the current CSR disclosure practice is divided into three aspects: the type of reports prepared, the standards used, and the assurance status of reported data. The sustainability report was the most common industry choice in Russia while this was the annual report in Vietnam. At the same time, only one sustainability report was published by Petrolimex which is a leading industry company in Vietnam. GRI standards dominated among other set of standards and methods used. However, almost two-thirds of Vietnamese companies did not mention the standards and methods they used to prepare their reports.

Table 1: The existing practice of CSR disclosure of oil and gas companies in Russia and Vietnam

Comparison criteria	Russia	Vietnam
Type of nonfinancial corporate reports	21 reports in total, including 14 sustainability reports, two annual reports, three environmental reports, two social reports	Eight reports in total, including seven annual reports, one sustainability report
Disclosing methods used	14 companies (70%) used GRI standards and guidelines; three companies (15%) did not mention; three other companies (15%) used other methods	Three companies used GRI standards; five others did not disclose any information on methods used
The quality of reports	Six companies had not assured their reports Four companies assured publicly Other ten companies, including: • Two companies did independent reasonable and public assurance • Other two companies did review by the external advisory committee on sustainable development • Five others had independent assurance conclusion at reasonable level • One company did have a limited independent assurance opinion.	All reports were not assured

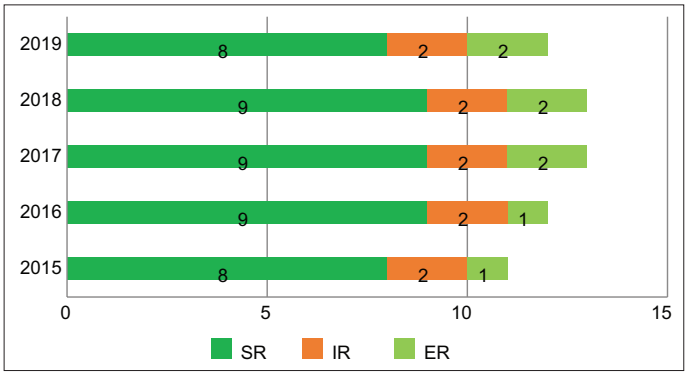
Source: created by the authors

Figure 1: Global CSR disclosure of the oil and gas sector



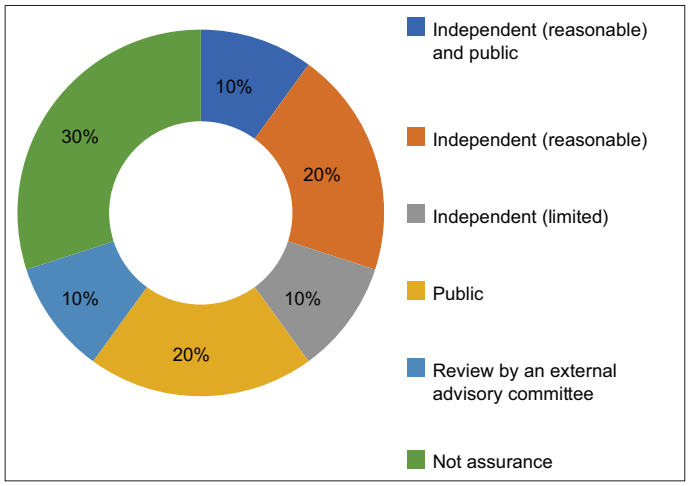
Source: (KPMG Survey 2015; 2017; 2020)

Figure 2: Corporate social responsibility disclosure of Russian oil and gas companies



Source: (RUIE, 2020)

Figure 3: Forms of corporate reporting assurance in Russian oil and gas companies



Source: created by the authors

In Vietnam, the reports published were not verified by any form at all. The same situation was observed in 30% of Russian companies, whereas 70% of the rest of the companies were assured in various forms, as shown in Figure 3.

Non-financial and financial indicators disclosed in the reports are not comparable among the sector companies, occupational injury ratios, for example. There was an imbalance between the positives and the negative impacts, which was discovered when companies have tended to be more focused on communicating their contribution rather than having to be equally detailed disclosure by both positives and negatives impacts.

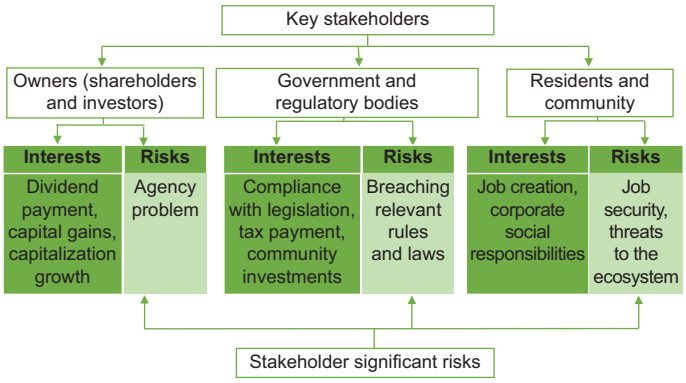
3.2. Stakeholder Risk Approach to Information Disclosure in Corporate Reporting

The concept of stakeholders was best defined by Freeman (Freeman, 1984) as "any group or individual who can affect or [be] affected by the achievement of an organization's objectives." It is important for managers to understand the stakeholders' information needs in corporate reporting and then classify them based on the characteristics of each group. This is supported by Mendelow's matrix (Mendelow, 1981) and its adaptation (Moreno-Marimbaldo and Manso-Callejo, 2020). According to this stakeholder classification, the current study determines the key stakeholders that are the company's owners, including shareholders and investors; government and regulatory bodies; and residents and communities. Thus, the theoretical contribution of this study includes risks in line with stakeholder interests on company activities that need to be clearly disclosed in corporate reporting.

Figure 4 shows the main stakeholder risks under the proposed corporate reporting model. The owners have the most power and the most interest in the company. They value information on dividend policy, return on investment and business transparency.

Government and regulatory bodies have high influence but less interest in business activities. External stakeholders such as the community and residents often show high interest, but their impact on the business is quite low. The local authority has a high interest in how much taxes the company has contributed to the budget. Sharing with them the burden of employment by creating more jobs, promoting economic development, and protecting the environment is important because of its influence. Therefore, their information needs must be regularly updated and satisfied efficiently. Interaction with residents and the community should also be given the necessary attention, as they impact the existence and development of the company on both positive and negative sides.

Figure 4: The relationship between key stakeholders and significant risks in corporate reporting



Source: created by the authors

3.3. A Proposed Model of Stakeholder Risk Disclosure in Corporate Reporting

Figure 5 presents a proposed corporate reporting model for communicating a company's sustainability performance. This model consists of six main aspects that are desirable to be seen by key stakeholders and the associated risks to their interests.

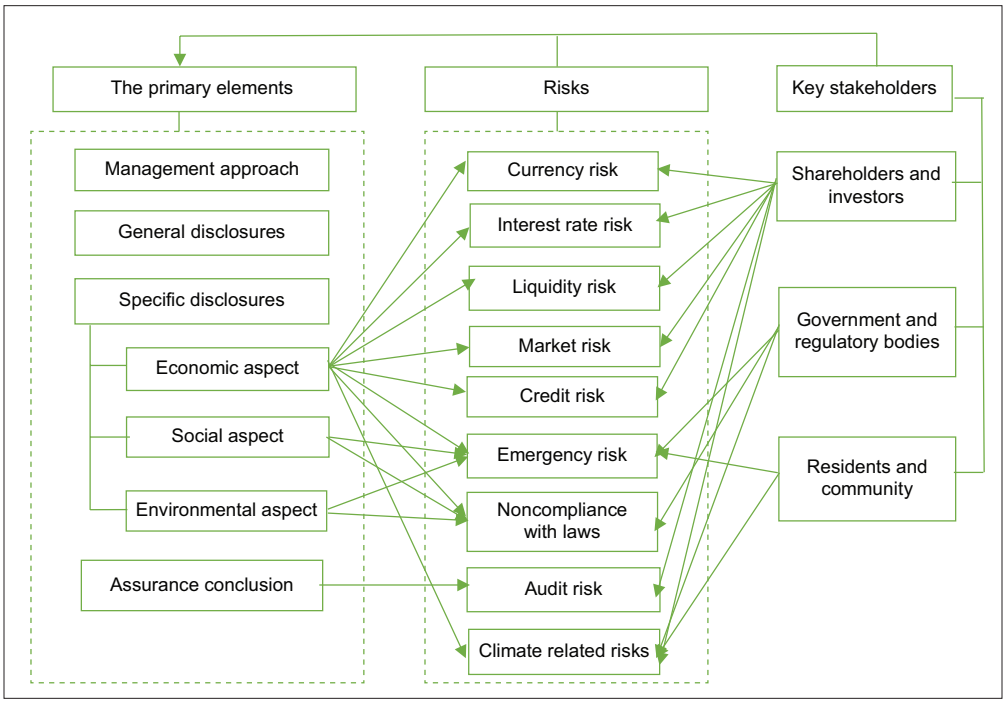
The management approach is how the company manages material topics in accordance with the main aspects outlined in the report. This often includes the strategic goal, objectives, required resources, and company policies for effective management. General disclosures cover basic company information such as company profile, approaches used to stakeholder engagement, as well as a description of the strategy, ethical principles, and corporate governance. This section also consists of key indicators about the company's activities in the field of sustainable development.

Specific disclosures comprise three blocks on the company impacts in terms of economic, social, and environmental aspects. The company performance is evaluated using financial and non-financial metrics in each subordinate material topic.

Firstly, the economic aspect contains indicators on the created and distributed economic value, the company commitment and pension plans, financial consequences caused by climate-related risks, and financial assistance from the government.

However, it is necessary to be aware of the risks that have a special impact on the shareholder wealth. They are mentioned in IFRS 7 "Financial Instruments: Disclosures," which concerns the disclosure of information about financial instruments used by

Figure 5: Typical stakeholder main risk disclosure model in corporate reporting of oil and gas companies



Source: created by the authors

the company in the reporting period. These risks can be currency risk, credit risk, interest rate risk, market risk, and liquidity risk. They are caused by economic activities due to the ownership of different types of financial assets and liabilities.

The climate-related risks can accelerate the depreciation process of the company's assets (drilling rigs, oil and gas exploration equipment), which undermines their effectiveness in generating revenue, therefore decreases shareholder's wealth. As such their impacts in financial terms need to be properly disclosed. In addition, it is necessary to provide data on the indirect economic value created through investment in infrastructure and spending on local consumption. Information about the anti-competitive behavior and anti-corruption measures is extremely important for investors and the authorities hence should be fully disclosed in the report.

Secondly, the social aspect includes several subordinate topics that are of interest to the community and authorities. According to the GRI G4 guidelines, these sub-topics are labor practices, decent work, human rights, society, and product responsibility. However, the metrics disclosed should be material to the company.

The emergency risk is the industry risk because of the complexity in nature and the dangers of exploitation and economic activities, for example, fire and explosion, oil spill, accidents due to natural catastrophes, or an ineffective internal control system. Compliance with rules and legal requirements in terms of health, safety, and environment for both employees and customers is also disclosed in this section.

Thirdly, the environmental aspect consists of the impact of the company's activities on the environment. The risks of non-compliance with laws are interesting by the government authorities, so they are expected to be appropriately presented following relevant requirements.

Finally, an independent assurance conclusion of corporate reporting which relates to audit risk and is the most concern to investors and shareholders in order to understand how well executive directors manage the company on their behalf. This is essential to support sound strategic economic decisions.

4. DISCUSSION

Vietnamese oil and gas sector is dominated by the State Oil and Gas Corporation (Petrovietnam), the Government, and the Ministry of Industry and Trade of Vietnam. It is obvious that the government authorities are the key stakeholders. Their main activities are exploitation and production, as well as retail trade and sales of petroleum products.

In Russia, this is a backbone sector of the national economy that engages the development, production, and transportation of petroleum products, as well as the development and manufacture of equipment, the sale of natural gas and liquid hydrocarbons. The sector is based on vertically integrated oil exploration and prospecting companies.

Leading Russian companies are present in different regions and countries around the world. These are multinational companies that carry out operational and production activities both in Russia and other countries, including Vietnam. Their scale of activities is larger than that in Vietnamese multinational companies, however. Although those have also operated business activities in some countries of Southeast Asia such as Singapore, Laos, Cambodia. Because of this, some indicators are significant for stakeholders in Russian practice,

but immaterial for Vietnamese stakeholders, and vice versa. In this regard, some indicators of the proposed model need to be adapted to make it more suitable for disclosure of Vietnamese companies.

5. CONCLUSIONS

In Vietnam, disclosure on corporate social responsibility was limited and incomparable, the quality of the disclosed information was not reliable enough to make informed decisions. Better business transparency and high information disclosure were observed in Russian practice.

The proposed risk-oriented approach, considering the interests of significant stakeholders, enables the company to satisfy the information needs of significant parties. Responding to the current issues regarding the low transparency of oil and gas companies in the Republic of Vietnam, the author's model should be applied with adaptation to the Vietnamese business environment to improve the existing practices and effective interaction with various stakeholders.

Thus, we can conclude that the developed model on disclosure of corporate social responsibility, including the company socio-economic and environmental impacts, helps to solve the problem of the lack of a unified corporate social reporting format for the oil and gas industry nowadays, and enhances the business transparency, as well as creates company competitive advantages in the long terms.

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