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The attributes of stakeholders regarding accounting for oil and gas upstream activities in Libya

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Abstract

The stakeholders of the financial statements information of oil and gas operating companies in Libya are different from developed countries such as the UK and the US. For instance, investors in developed market economies are one of the significant stakeholders of the financial statements information which help them in deciding how to invest their money (Wright and Gallun, 2005). However, in Libya international oil and gas companies (IOCs) and national oil and gas companies (NOCs) do not have investors, because they are not listed in the Libyan Stock Market (LSM) (which was established in 2006). This is because NOCs are owned by the government and IOCs do not have shares in the LSE. Therefore, the difference in stakeholders due to the deference in their attributes (power, legitimacy and urgency). The research has sought to find out attributes of Libyan stakeholders regarding accounting for oil and gas upstream activities in Libya. The attributes include: the power of stakeholders to influence the accounting for oil and gas upstream activities in Libya, the legitimacy of stakeholders' relationship with the accounting for oil and gas upstream activities in Libya and the urgency of stakeholders' claim on the accounting for oil and gas upstream activities in Libya. The results show that definitive and demanding stakeholders are existing in Libya.

Keywords: Libya, Accounting for oil and gas upstream activities, Attributes of stakeholders

1. Introduction

Oil and gas accounting practice in Libya is identified by the Libyan Petroleum Law (LPL). The majority of oil and gas upstream industry are operated by IOCs who drafted the Libyan petroleum law and regulations (LPL) in the way of their interests, LPL permits oil and gas companies in Libya to capitalise or expense several types of costs, whereas these costs are specified to be capitalised or expensed under global standards. IOCs do not act in the interest of Libyan government under the permission of capitalisation and expensing (Eldanfour and McChlery, 2012). This is because the stakeholders of IOCs in Libya differ from the stakeholder of IOCs in their holding companies countries, therefore the financial reports of oil and gas upstream activities will differ in regard to stakeholders' requirements. The stakeholder can be defined as any group or individual who can affect or is affected by the achievement of the objective organisation (Freeman, 1984). Applying this concept in the current research, the stakeholders of financial statements information for oil and gas companies in Libya include those who can effect or are affected by accounting practice of oil and gas upstream activities. Therefore, the research aimed to define the Libyan stakeholders and their attributes regarding accounting for oil and gas upstream activities.

2. The theoretical framework of the research

The research adopts stakeholder theory as a theoretical framework. Stakeholder theory provides a good way of thinking about strategic management and how an organisation can and should set and implement its direction, putting the organisation on the way to success (Freeman, 1984). For more than two decades academic interest in a stakeholder theory has grown and broadened, the approach attempts to answer a fundamental question in a systematic way: which groups of the organisation are stakeholders deserving or requiring management attention, and which are not? (Mitchell et al, 1997; Freeman, 2004).

Freeman (1984) defines the stakeholder as any group or individual who can affect or is affected by the achievement of the objective organisation. The group or individual have, or claim, rights, ownership, or interests in the organisation and its activities in the present, past, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the organisation, and might be legal or moral, individual or collective. Stakeholders with similar claims, interest, or rights can be classified as belonging to the same group: customers, shareholders, employees, etc. (Clarkson, 1995).

2.1 Attributes of stakeholders

Mitchell et al (1997) introduce three attributes of stakeholders, these attributes include: the power of stakeholders to influence the corporation, the legitimacy of stakeholders' relationship with the corporation, and the urgency of stakeholders' claim on the corporation.

Power is used in the corporation to impact decisions concerning the allocation of resources which are critical to a subunit (Mitchell et al, 1997). Furthermore, subunits obtain power in the corporation to the extent they contribute critical resources, other participants in the corporation respond to the demands of the subunit as a function of its power (Salancik and Pfeffer, 1974). Mitchell et al (1997) also argue that a party to a relationship has power, to the extent it has or can gain access to coercive, utilitarian, or normative means, to force its will in the relationship. The access to means is a variable, not a steady state, which is one reason why power is transitory, because it can be acquired as well as lost.

Suchman (1995, p 574) defines legitimacy as '' a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions''. Neville and Menguc (2006) state that corporation performance is affected by stakeholders' legitimate interest in its activities and outputs. Whereas, power focuses on the relationship between the stakeholder and the corporation, legitimacy focuses upon the relational effects of the environment upon the corporation. Legitimacy is a variable rather than stable, it might be absent or present. If it is present, it is based upon a generalised virtue that is noticed or attributed to the stakeholder, at one or more social levels of analysis. Claimants might or might not correctly notice the legitimacy of their claims; similarly managers might have perceptions of stakeholder legitimacy that are at variance with the stakeholder's own perception (Mitchell et al. 1997).

Urgency is defined as ''the degree to which stakeholder claims call for immediate attention'' (Mitchell et al. 1997, p 867). Urgency is based on time sensitivity (the degree to which management delay in attending to the claim or relationship is unacceptable to the stakeholder) and criticality (the importance of the claim or the relationship to the stakeholder) (Friedman & Miles, 2006). Urgency is not a steady attribute; however it can vary across stakeholder-manager relationships or within a single relationship across time. As is true of power and legitimacy, urgency is a socially constructed perceptual phenomenon and might be perceived correctly or wrongly by the stakeholder, the managers, or others in the corporation's environment (Mitchell et al, 1997).

Friedman & Miles (2006) state that power alone is insufficient for classifying a stakeholder as high priority. Legitimacy is required to provide authority. Urgency is necessary for implementation; therefore the stakeholder must be aware of its power and be willing to exercise it. Mitchell et al. (1997) assert that stakeholder theory must account for power and urgency as well as legitimacy. Managers must know about entities in their environments that hold power and have the intent to force their will upon the organisation. Power and urgency must be attended to if managers are to serve the legal and moral interests of legitimate stakeholders.

Mitchell et al. (1997) classify stakeholders into seven categories depending on salience; latent stakeholders (Dormant, discretionary, and demanding stakeholders), expectant stakeholder (dominant, dependent, and dangerous), and definitive stakeholders. In addition to this group there are entities who are non-stakeholders. Paloviita et al. (2010) classify stakeholders into seven categories, but based on whether one, two , or three attributes are present in the relationship between the corporation and stakeholders, they argue that the more attributes there are present in the stakeholder relationship, the more important the stakeholder. The most important is definitive stakeholders because they have all the attributes (power, legitimacy, or urgency), whereas those who have no attributes are categorised as non-stakeholders. Those who have only one attribute are less important than who have two attributes. Table 1 summarises these two classifications.

Table 1: Models of Stakeholders

Behavioural patterns of stakeholders	**Salience of stakeholder: Mitchell et al, 1997**	**Attributes of stakeholder: Paloviita et al., 2010**
Dormant	Latent	Power
Discretionary	Latent	Legitimacy
Demanding	Latent	Urgency
Dominant	Expectant	Power/ Legitimacy
Dangerous	Expectant	Power/ Urgency
Dependent	Expectant	Legitimacy/ Urgency
Definitive	Definitive	Power/ Legitimacy/ Urgency
Non-stakeholder	Non-typology	Non-attributes

The latent stakeholders are those who only have one of three of the attributes (power, legitimacy or urgency) and include dormant, discretionary and demanding. Dormant stakeholders possess power to impose their will on a corporation, but having neither legitimacy nor urgency.

Discretionary stakeholders possess legitimacy, but they have no power to impact the corporation and no urgent claims. Demanding stakeholders are those with urgent claims but having neither power nor legitimacy.

The expectant stakeholders have two of the three attributes and include dominant, dependent and dangerous. Dominant stakeholders are both powerful and legitimate; their effect in the corporation is assured since they have power with legitimacy. Dependent stakeholders are those who lack power but have urgent and legitimate claims. They depend upon others (other stakeholder or the corporation's managers) for the power necessary to carry out their will. Dangerous stakeholders are those who lack legitimacy but have power and urgency.

The definitive stakeholders are those who have all of the three attributes (power, legitimacy and urgency). Any latent or expectant stakeholders can become a definitive stakeholder by acquiring the missing attribute. However, any one of latent, expectant or definitive stakeholders can become non-stakeholders by not having any attribute of stakeholders.

2.2 Stakeholder theory from Libyan perspective

The stakeholders of the financial statements information of oil and gas operating companies in Libya (both NOCs and IOCs) are different from developed countries such as the UK and the US. For example, investors in developed market economies are one of the significant stakeholders of the financial statements information which help them in deciding how to invest their money (Wright and Gallun, 2005). However, in Libya IOCs and NOCs do not have investors, because they are not listed in the LSE (which was established in 2006). This is because NOCs are owned by the government and IOCs do not have shares in the LSE. Therefore the needs of stakeholders of the financial statements in oil and gas companies in Libya are different from developed countries. The stakeholders of financial statements information for oil and gas companies in Libya include those who can effect (academic staff, Libyan Petroleum Institute (LPI), Libyan Accountants and Auditors Association (LAAA)) or are affected (Nation Oil Corporation (NOCorp), General People's Committee for Inspection and Control (GPCIC), General People's Committee for Planning and Finance (GPCPF), auditing companies) by accounting practice of oil and gas upstream activities.

LPI formerly known as the Petroleum Research Centre, it was established in 1977 as the technical arm of the NOCorp. LPL consists of over forty laboratories specializing in different branches of the petroleum industry (upstream and downstream activities). It provides studies in fields of exploration, reservoir exploration, oil and gas processing and a wide range of services in environmental monitoring (Oil and Gas Directory in Libya, 2011).

NOCorp runs the Libyan oil and gas industry. NOCorp was established in November 1970 under the law No. 24/1970 to be responsible for the petroleum sector operations. In 1979 the government reorganized the NOCorp under decision No. 10/1979 for two reasons; firstly, to support the national economy by developing and exploiting the oil reserves, investing in those reserves to obtain optimum returns, and secondly, to achieve the goals of the country's development plan in the field of petroleum (NOCorp, 2009).

The GPCIC is responsible for following the duties: inspection and audit of the final accounts of the state bodies and institutions and public companies, following up the tasks of management control and monitoring the implementation of legislation and public projects, investigation of all crimes and administrative and financial irregularities, and follow-up projects and review of contracts entered into by public entities in the State (GPCIC, 2010).

The GPCPF is responsible for the following duties: supervision of revenues and expenses of the State, supervising the management of government accounts and monitoring the financial affairs of the State, taking all measures to collect the money owed to the government and to recover what has been spent or been disposed of without justification or in violation of the laws and regulations, and study the draft general budget of the State (GPCPF, 2010).

3. Methodology

The main objective of the research is to define the stakeholders' perception regarding accounting for oil and gas upstream activities in Libya. In order to achieve this objective, the researchers employ semi-structured interviews as a method to collect data. The stakeholders interviewed include those who can effect (academic staff, LPI, LAAA) or are affected (NOCorp Exploration Department, NOCorp Financial Analysis Department, GPCIC, GPCPF, local and multinational auditing companies) by accounting for oil and gas upstream activities in Libya. The majority of the questions in the interviews were around the role of stakeholders regarding oil and gas upstream activities, accounting practice of oil and gas upstream activities, adopting global standards and the ability of stakeholders to affect accounting practice. However, there are some questions which were added to some stakeholders such as accounting education and information needs; this is because of the nature of their roles regarding accounting for oil and gas upstream activities. For example, academic staff are involved in accounting education, but they are not involved in the information needs section. On the other hand, NOCorp Financial Analysis Department use information of oil and gas upstream activities, but they are not involved in accounting education.

4. Results

The results show that two out of nine of stakeholders have power and urgency, seven out of nine have neither power nor legitimacy to affect the developing of accounting for oil and gas upstream activities. The most common views among the stakeholders who have neither power nor legitimacy were about the limitation of their roles regarding oil and gas upstream activities. For example:

- The academic staff's roles relate merely to teaching (interview academic staff).
- LPI does not have any course about accounting for oil and gas upstream activities (interview LPI).
- LAAA is a means of communication between accountants in branches of LAAA and Secretariat for Trade unions in the General People's Congress (interview LAAA).
- GPCIC is an auditing authority (interview GPCIC), GPCPF is an executive authority (interview GPCPF).
- Local auditing company and multinational auditing company prepare and audit financial statements (interview local and multinational auditing companies).

In addition, the results show that all of stakeholders sense urgency in the need to develop accounting for oil and gas upstream activities. The most common views among the stakeholders included two themes: development of accounting practice and development of Libyan accountants.

- Development of accounting practice

Some of stakeholders made comments about the development of oil and gas accounting practice in Libya as follows:

"We need to develop oil and gas accounting in Libya to reach the global developments in accounting" (NOCorp Financial Analysis Department).
"Libya governments needs to issue accounting standards and gives LAAA a power to issue these standards and also gives LAAA a power to require all companies in Libya to use these standards" (multinational auditing company).

"NOCorp should take advice from auditing companies regarding oil and gas accounting issues" (Local auditing company).
"To improve the quality of oil and gas accounting profession" (GPCIC).

- Development of Libyan accountants

Other stakeholders made comments about the development of Libyan accountants as follows:

"University students should be qualified to work for IOCs, thus we need to develop oil and gas accounting in our university to achieve this goal" (academic staff).

"It is a very urgent need for Libya, because about 80% of Libyan accountants do not have awareness of oil and gas accounting" (LAAA).

"To improve the level of Libyan accountants" (LPI).

As mentioned earlier, the three attributes of stakeholders (power, urgency and legitimacy) can produce different types of stakeholders depending on how many attributes they possess one, two, three or none of them. These types of stakeholders include dormant, discretionary, demanding, dominant, dangerous, dependent, definitive and non-stakeholders. In this study these types of stakeholders are discussed regarding the development of accounting for oil and gas upstream activities.

By applying these types of stakeholders on the Libyan stakeholders, the stakeholders who exist in Libya are definitive[(1)] and demanding[(2)] stakeholders. Definitive stakeholders include NOCorp Financial Analysis Department and NOCorp Exploration Department. Demanding stakeholders include academic staff, LPI, LAAA, GPCIC, GPCPF, local auditing company and multinational auditing company. Additionally, none of the Libyan stakeholders are dormant, dangerous, dominant, dependent, or discretionary stakeholders. In addition, none of the stakeholders are non-stakeholders.

As mentioned earlier (see table 1), the stakeholder who has any one of the three attributes (power, urgency or legitimacy) is called latent stakeholder, the stakeholder who has any two of the three attributes is called expectant stakeholder, and the stakeholder who has all the attributes is called definitive stakeholders. Thus, academic staff, LPI, GPCIC, GPCPF, local auditing company and multinational auditing company are latent stakeholders, because they have only the urgency attribute. NOCorp Financial Analysis Department and NOCorp Exploration Department are definitive stakeholder, because they have three attributes of power, urgency and legitimacy attributes. However, they do not give any attention to the development of oil and gas accounting in Libya.

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(1) Definitive stakeholders: They have power, legitimacy and urgency to affect the developing of accounting for oil and gas upstream activities.

(2) Demanding stakeholders: They only have urgency to affect the developing of accounting for oil and gas upstream activities.

5. Conclusion

There are two types of stakeholders existing in Libya: definitive and demanding stakeholders. Definitive stakeholders include NOCorp which has power, legitimacy and urgency to affect the developing of accounting for oil and gas upstream activities. Demanding stakeholders include academic staff, LPI, LAAA, GPCIC, GPCPF, local auditing company and multinational auditing company who have only urgency to affect the developing of accounting for oil and gas upstream activities. It should be noted that NOCorp feels that oil and gas accounting in Libya need to be developed but in reality they do not give any attention to this issue. The researchers believe that NOCorp should give attention to such issue as NOCorp running the oil and gas sector on behalf of the government. The three attributes of stakeholders (power, legitimacy and urgency) should be distributed appropriately on stakeholders (Mitchell et al, 1997). This could be achieved by the normative aspect of stakeholder theory which prescribes how stakeholders should be treated (Jawahar &Mclaughlin, 2001).

In respect to the attribute of Libyan stakeholders (power, legitimacy and urgency), the researchers believe that the attributes should be distributed appropriately to stakeholders. This is in line with the normative aspect of stakeholder theory which values each stakeholder worth (Donaldson & Preston, 1995). There are two stakeholders (LAAA and academic staff) who should be given more attention by the Libyan government. The government should give LAAA power and legitimacy to take action by meeting Libyan authorities who are involved in accounting to develop accounting in general and oil and gas accounting in particular. The action should also be taken with the involvement of academic staff.

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