

**ENVIRONMENTAL INCIDENTS IN A DEVELOPING  
COUNTRY AND CORPORATE ENVIRONMENTAL  
DISCLOSURES: A STUDY OF A MULTINATIONAL GAS  
COMPANY**

**Dr. Muhammad Azizul Islam**

**Lecturer**

**School of Accounting, Economics and Finance  
Deakin University, Australia**

**&**

**Mr. Muhammad Aminul Islam**

**Senior Staff Correspondent,**

**Energy and Mineral Resource Beat**

**New Age Daily, Dhaka, Bangladesh**

# **ENVIRONMENTAL INCIDENTS IN A DEVELOPING COUNTRY AND CORPORATE ENVIRONMENTAL DISCLOSURES: A STUDY OF A MULTINATIONAL GAS COMPANY**

**ABSTRACT:** This paper examines the environmental disclosure initiatives of Niko Resources – a Canadian based multinational oil and gas company – following the two major environmental blowouts at a gas field in Bangladesh in 2005. As part of the examination, we particularly focus on whether Niko’s disclosure strategy was associated with public concern pertaining to the blowouts. The findings show that Niko did not provide any non-financial environmental information within its annual reports and press releases as a part of its responsibility to the local community who were affected by the blowouts, but it did produce a stand-alone report to address the issue. However, financial environmental disclosures, such as the environmental contingent liability disclosure, were adequately provided through annual reports to meet the regulatory requirements concerning environmental persecutions. The findings also suggest that Niko’s non-financial disclosure within a stand-alone report was associated with the public pressures as measured by negative media coverage towards the Niko’s blowouts. This paper concludes that Niko’s non-financial environmental disclosure, via introducing a stand-alone report, was because of the survival considerations; Niko’s reaction did not suggest any real attempt to hold broader accountability for its activities in a developing country.

**KEY WORDS:** environmental blowouts, disclosures, Bangladesh, multinational company

## 1. Introduction

A growing body of research investigates whether unexpected social and environmental incidents influence disclosure behaviour of corporations within the context of developed countries (Hogner, 1982; Patten, 1991, 1992; Deegan et al., 2000). What this research found is that the threats arising from specific major social and environmental incidents influence the disclosure practices of the particular corporation and other corporations within the same industry. While previous research found that corporations respond through environmental disclosures to major environmental incidents in a developed country, little research effort was undertaken to examine whether environmental incidents in a host community or in a developing country, caused by the operation of a multinational company, have any effects on the company's disclosure initiatives.<sup>1</sup>

This study examines whether environmental incidents in Bangladesh resulting from the operations of a Canadian-based multinational company called Niko, influence the company's own social and environmental disclosure strategy. We first explore how Niko's environmental incidents, such as blowouts in 2005 in Bangladesh, resulted in public concern (as measured by negative news media coverage) and then link the public concern to the disclosure initiatives of Niko. This paper embraces legitimacy theory and media agenda setting theory to establish a link between public concern and corporate disclosure initiatives. Niko's annual reports, press releases and a stand-alone environmental report, and media articles concerning Niko's blowout incidents in Bangladesh were documented for the analysis.

Environmental incidents such as oil spills, chemical leaks, gas explosions or blowouts often result in massive ecological and human destruction(s). Thus these incidents lead to massive public pressures in developing countries on the organisations responsible for these incidents. In such a situation, when the conflict between multinational corporations and the local community escalates, parties external to the corporations embrace the pressures and call for the concerned corporations to be accountable on the impacts of their activities in a local community (Calvano, 2008). Therefore, pressures in relation to these incidents have negative implications on the corporation(s) involved.

As profit-seeking entities, multinational corporations must first understand the causes of conflict with the local community (Calvano, 2008), and are expected to embrace particular strategies, including disclosure strategies, to reduce the negative effects that may flow from unexpected incidents like blowouts. Environmental issue in a developing country remains one of the key concerns for

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<sup>1</sup> While our study focuses on the environmental reporting initiatives of a multinational company that operates in a developed and a developing country, a growing body of studies (see Islam and Mathews, 2009; Belal, 2008; Belal and Owen, 2007; de Villiers and van Staden, 2006; Belal, 2001, 2000; Tsang, 1998; Hegde et al., 1997; Jaggi and Zhao, 1996; Teoh and Thong, 1984) focuses on companies fully operating in developing countries. Prior research in general reveals that companies operating in developing countries are disclosing social and environmental information only on a limited scale. Consistent with the findings from other developing countries, prior research that focuses on Bangladesh shows that generally Bangladeshi companies disclose a limited amount of social and environmental information (Belal, 2008, 2001 and 2000).

a multinational company (Lindgreen et al., 2008). The social and environmental incidents originating from multinational companies' operations in developing countries emerge as an area of research for better understanding of the broader responsibilities of multinational companies (Christopherson and Lillie, 2005; Mc Clintock, 1999; Barrientos, 2000; Bird and Smucker, 2007; Eweje, 2006). Particularly, public interest in environmental degradation resulting from the operations of multinational oil and gas companies has increasingly manifested in recent years in many developing countries (Eweje, 2006). However, there is a general gap in the literature that attempts to understand environmental disclosure initiatives of a multinational company as a response to the legitimacy - threatening environmental incidents originating from its operation in a developing country.

This paper is organised as follows: After this introductory section the paper provides a description of Niko's incidents in Bangladesh. A literature review of this paper is next considered, followed by the research methods employed and the findings. The final section provides concluding comments.

## **2. Background of Niko and its environmental blowouts in Bangladesh**

According to its own website, Niko Resource Ltd is an ever - expanding Canadian-based multinational oil and gas company operating in 5 different countries including Bangladesh, India, Pakistan, Thailand and Canada. On September 17, 2003, Niko finalised negotiations to acquire ChevronTexaco Bangladesh Ltd., which held a 60% interest in Block 9, a 6,880 square kilometre onshore block, which includes the capital city of Dhaka. Niko's Feni field covers 43 square kilometres and is located 6 kilometres west of the main natural gas line to Chittagong – the south-eastern part of Bangladesh. Niko's Tengratila (Chattak) gas field (north-eastern part of Bangladesh) covers a large surface area of 376 square kilometres and rights to this block were obtained in October 2003.

On January 8, 2005, tens of thousands of panic-stricken people fled their homes as a drilling-well exploded in Tengratila gas field. The raging flames were visible from 30 kilometres away at this gas field. The explosion of Niko's Tengratila gas field led to millions of cubic feet of gas burning (*International Gas Report*, 2005; Nasreen et al., 2006). A second blowout occurred on June 17, 2005, just six months after the first explosion (*Energy Compass*, 2005). The gas field burnt for a couple of months and no instant effective measures were taken by the concerned authority (Nasreen et al., 2006). Prior to the start of drilling the relief well, as many as 77 families from the gas field area had been asked to leave their homesteads for safety reasons (*The Daily Star*, 2005). Moreover, Niko marked 37 shallow tube wells in the adjacent areas and asked the villagers not to use them, as gas was coming out from the tube wells, albeit without any pressure (*The Daily Star*, June 26, 2005). Both blowouts resulted in burning a total amount of gas worth USD \$50-60 million (Nasreen et al., 2006) but government of Bangladesh claimed they led to losses of \$2.5 million (*Energy Compass*, 2005, p. 1). Niko handed over a cheque of Tk 4.2 million (approximately CAD \$75,000) to the government to compensate for the 625 families who were affected by the blowouts of the Tengratila gas field (*The*

*Daily Star*, 2006). The damage to the soil and ecology may be even far greater than financial loss (Nasreen et al., 2006). This disaster not only caused great hazards in terms of socio-economics and the environment, but also in terms of human suffering (Nasreen et al., 2006).

### **3. Literature review**

Within social and environmental accounting and accountability literature, a growing amount of research shows that legitimacy - threatening environmental incidents affect the levels of environmental disclosures (for example, Hogner, 1982; Guthrie and Parker, 1989; Patten, 1991, 1992; Walden and Schwartz, 1997; Deegan et al., 2000). A brief discussion of relevant prior research is provided next.

Patten (1991) examined whether the voluntary social disclosures included in a sample of 128 US corporations in their 1985's annual reports were related to either public pressure or firm profitability. Patten (1991) found that the social disclosures of sample US firms were related to public policy pressure as opposed to profitability. In another study, Patten (1992) examined the effect of the Exxon *Valdez* oil spill in 1989<sup>2</sup> on the annual report environmental disclosures of petroleum companies other than Exxon. A significant increase in such disclosures was found. Walden and Schwartz (1997) investigated environmental disclosure practices for selected firms in four industries, including oil and forestry products, subsequent to the 1989 Alaskan oil spill. From an industry perspective, they showed that the levels of environmental disclosures increased significantly in terms of quantity and quality from 1988 to 1989 across all four industries. Their findings on the oil industry for 1989 are consistent with Patten's study (1992).

Another relatively recent contribution from Deegan et al. (2000) examined the reaction of Australian companies, in terms of social and environmental disclosures, to five major social and environmental incidents. These incidents had significant implications for either the environment, or the safety of both employees and community members. The incidents reviewed are the Exxon *Valdez*; Bhopal disasters; the Moura Mine disaster in Queensland; an oil spill, caused by the *Iron Baron*, off the coast of Tasmania; and the *Kirki* oil spill, off the coast of Western Australia. They found that, following the incidents, sample firms operating in the affected industries provided more environmental information in their annual reports than they did prior to the incidents. The results within Deegan et al. (2000) are consistent with prior research (Patten, 1992; Walden and Schwartz, 1997).

While corporations change their disclosure strategies subsequent to unexpected social and environmental incidents, it is in fact public pressures (Walden and Schwartz, 1997) or community concerns (Deegan et al., 2002; Deegan et al., 2000) subsequent to the incidents that create the changes. Previous research showed that firms increase environmental disclosures subsequent to the

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<sup>2</sup> In 1989, Exxon Valdez accidentally discharged more than 11 million gallons of the *Valdez's* cargo into the water of Alaska's gulf coast.

legitimacy- threatening incidents because they face public pressures subsequent to these incidents. Patten (1992) argued that a threat to the legitimacy of the oil industry relates not to a specific tie to the accident, but rather to the general impact of the spill on the attitude of the public towards petroleum firms. Deegan et al. (2000) noted that corporations can face threats to their legitimacy if they fail to operate within the bounds of their social contract. They also argued that public awareness of the incident (perhaps gained through media coverage) can be swift and widespread and the incident causes effects that are not acceptable to the community (and the acceptability of particular effects will change across time as community expectations change). Media attention and public prosecution can be considered to be proxy for public pressures. While public pressures influence the disclosure behaviours of corporations, media shapes the public pressures or community concern. A great deal of research adopted media attention<sup>3</sup> as proxy for community concerns or public pressures to explain corporate social disclosure (O'Donovan, 1997; Brown and Deegan, 1998; Deegan et al., 2002; Islam and Deegan, forthcoming). Another factor often considered a public pressure, is environmental prosecutions filed against corporations by the state governments or NGOs. Previous research has examined the environmental disclosures of violating corporations. For example, Deegan and Rankin (1996) investigate the environmental reporting practices of a sample of 20 Australian companies that were subject to successful prosecution by the New South Wales and Victorian Environmental Protection Authorities, during the period 1990-1993. Their study indicates a significant increase in the reporting of favourable environmental information surrounding environmental prosecution.

A corporation may respond to the legitimacy threatening incidents by employing a range of reporting media. While accounting researchers only consider annual reports to be a medium of social and environmental disclosure (Guthrie and Parker, 1989; Patten, 1991, 1992; Walden and Schwartz, 1997; Deegan et al., 2000; Deegan et al., 2002; Islam and Deegan, 2008; Mathews and Islam, 2009; Islam and Deegan, forthcoming), some (see for example Islam and Deegan, forthcoming) speculate that companies may embrace a range of reporting media, including annual reports, stand-alone environmental reports, web-based disclosures and media-based advertisements. Other researchers (see for example Maharaj and Herremans, 2006, p.242) argue that stand-alone reports are generally considered the major form of media reporting to disclose corporate social and environmental information. What reporting media a corporation chooses may depend on the particular stakeholder groups or community it wishes to communicate the information to, or to close a legitimacy gap (Cambell et al., 2003).

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<sup>3</sup> Similarly, it is acknowledged that corporations' concerns about their reputations are often influenced by media scrutiny in relation to a particular socially responsible practice (Birch, 2008) because it influences public opinions.

As discussed previously, a growing number of studies show the influence of media (as proxy for public or community concerns) over corporate practices, including social disclosure practices. The theoretical perspectives embraced by these studies to explain associations between media attention and corporate social disclosures are the joint consideration of the legitimacy theory and media agenda setting theory. Legitimacy theory posits that an organisation's value system should be congruent with the value system of the society in which the organisation operates (Linblom, 1994). The need for congruency between organisational actions and the value system of the society is to ensure organisational survival (Dowling and Pfeffer, 1975; Neu et al., 1998). In other words, corporations must take measures to ensure that their actions are perceived by outside parties as being "legitimate" (Islam and Deegan, 2008; Cormier, Gordon and Magnan, 2004; Hooghiemstra, 2000). The concept of the social contract (see Mathews, 1995) is grounded within the legitimacy theory, which demonstrates that the motivation for managers to report social information is to comply with community expectations—a view that reflects corporate compliance with 'community license to operate' (Deegan et al., 2002). Legitimacy theory has been widely used to explain social and environmental disclosure practices of organisations within the context of developed countries. This study leads to further development of this theory by analysing environmental disclosure initiatives of a multinational company that operates in developing countries.

While legitimacy theory posits that managers react to the expectation of the community, the media agenda setting theory (popularly used in journalism and communication literature) posits that the media can influence and shape the expectation of that community. According to the media agenda setting theory, the media shapes public or community concern, as the media agenda typically precedes public concern for particular issues (McCombs and Shaw, 1972). According to Neuman (1990, p. 161), "media are conduits of information. True, they can filter, distort and amplify, and that is where the agenda-setting model offers the greatest promise". The public requires the media to let them know how significant an issue is, as individuals do not gain knowledge of this from real world cues. Prior research has already adopted the media agenda setting theory to document the influence of the media on corporate disclosure practices. This research found that the corporate social and environmental disclosure strategies of management tend to be tied to the extent of media attention devoted to social and environmental issues (see Brown and Deegan, 1998; Deegan et al., 2002; O'Donovan, 1999; Islam and Deegan, forthcoming). In this context, we document news coverage about Niko's social implications to see whether media attention is linked to Niko's disclosure strategies.

Although both positive and negative news have agenda setting effects, negative news has more agenda setting effects than positive news (Deegan, et al., 2002; Islam and Deegan, forthcoming). Prior researchers (see Deegan et al., 2002; Islam and Deegan, forthcoming) argued that positive or negative news influences public concerns but media attention of a negative nature may cause an organisation to have more motivation to provide more disclosures.

The joint consideration of legitimacy theory and media agenda setting theory suggests that while media shapes community, it also influences disclosure behaviour of a corporation (Islam and Deegan, forthcoming; Islam and Mathews, 2009; Brown and Deegan, 1998). As Brown and Deegan, (1998, p.26) argued:

[...] if there is increased community concern about environmental issues, driven by increased media attention, then the increased concern should be matched by increased disclosures (if consistent with legitimacy theory, disclosure policies are a function of community concern).

Hence, consistent with the joint consideration of the media agenda setting theory and legitimacy theory, if the media circulates news on Niko's blowout of the gas field resulting in huge ecological destruction and subsequent public prosecutions, we would expect that Niko would embrace a particular disclosure strategy to uphold a positive public perception and maintain legitimacy. Such a proposition has not previously been used to understand disclosure initiatives of a multinational company in relation to the environmental incidents caused by its operation in a developing country.

#### **4. Research method**

This study investigates the environmental disclosure initiatives of Niko utilising content and context analysis. Different researchers use different content analysis instruments to categorise annual report social and environmental disclosures (see Wiseman, 1982; Freedman and Wasley, 1990; Patten, 1992; Gray et al., 1995; Walden and Schwartz, 1997; Hackston and Milne, 1996; Islam and Deegan, 2008; Islam and Mathews, 2009); with these studies and the preliminary reviews of Niko's annual reports in mind, we utilised one of the content analysis instruments of Walden and Schwartz (1997). Within Walden and Schwartz (1997), environmental disclosures were categorised as non-financial<sup>4</sup> versus financial disclosures<sup>5</sup>. They argued that while financial environmental disclosures were affected by regulatory effects, non-financial environmental disclosures would be affected more by the change of community expectations than regulatory effects, as management has wide discretion regarding the content of these disclosures. In our study, for analysis we utilised the approach of Walden and Schwartz (1997), as their content classification appeared to be a simpler approach to understanding Niko's disclosure strategies. Furthermore, Walden and Schwartz (1997) applied their approach to understand disclosure practices of similar organisations (oil and gas companies) operating in the US.

This study examines Niko's disclosure initiatives in response to its major environmental blowouts in 2005 and sees whether their disclosure strategies were associated with the media attention and public pressures pertaining to the incidents. National and international newspaper and press articles relating to Niko were analysed to identify the relevant publications over 4 years from 2004 to 2007. Data on the news coverage by two leading national newspapers— this

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<sup>4</sup> Non-financial environmental disclosure categories include environment, human resources, product, and safety and community.

<sup>5</sup> The most common examples of financial environmental disclosures are environmental contingent liability disclosures.

being *The Daily Star* and *New Age*— came from our coding of media articles mentioning “Niko” in the online search menu of these two newspapers. For international news coverage we keyed the same word into the ‘Company Name/Subject’ of the Dow Jones Factiva search menu<sup>6</sup>. To identify appropriate media articles we first read the abstract articles that contained a general positive or negative discussion about Niko’s environmental blowouts in Bangladesh. After the identification of suitable articles, we read the whole articles to support our contextual analysis.

Media attention is measured by the number of relevant positive and negative media articles. A clear definition of positive and negative media articles is needed before making a selection of relevant articles. Hogner (1982), Brown and Deegan (1998), Deegan et al. (2002) and Islam and Deegan (forthcoming) determined that positive media articles are those articles that contain information about the activities of the organisation which indicate that their operations are helpful to society; negative media articles are those that contain information about the activities of the organisations which indicate that their operations are damaging to the society in which they operate. In this context, we considered media articles that contained positive and negative information about Niko’s activities relating to environmental blowouts in Bangladesh. The measurement of media attention is consistent with prior research ( see Brown and Deegan 1998; Deegan et al., 2002; Islam and Deegan, Forthcoming; Islam and Mathews 2009)

Media articles and Niko’s own website archives were also reviewed to identify the major prosecutions filed against Niko subsequent to the blowouts in Bangladesh. This study also did a textual analysis on a certain number of press releases, annual reports and a stand-alone social and environmental report; these came from Niko’s own website.

Whilst past research has focussed on the relationship between media attention and corporate disclosure, the focus has been on a longer period of analysis. In contrast, our study focuses on a short period of analysis as we seek to explore whether a combination of two environmental blowout incidents, caused by a multinational company in the local community in a particular year, had an impact in the subsequent years on the social and environmental disclosure initiatives of that company. In similar case studies, prior research has accepted a time lag (one year generally) between media attention and corporate disclosure as the disclosure reaction lags behind media attention (Islam and Deegan, forthcoming; Deegan et al., 2002). The concept of time lag comes from the media agenda setting hypothesis, which predicts that a matching public agenda lags behind the media coverage of an issue (McCombs and Shaw, 1994; Ader, 1995; Wanta, Golan and Lee, 2004). Because of the existence of time lag, in this paper we look at the three years following the Niko blowouts to understand whether Niko embraced disclosure initiatives in response to the media attention focussing on the blowouts. We argue that looking at the three years following the blowouts is sufficient in understanding whether or not blowouts and subsequent

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<sup>6</sup> Please see details of Factiva data base at:  
<http://factiva.com/about/index.asp?node=menuElem1098>

media pressures have an impact on Niko's social and environmental disclosure initiative.

## **5. Findings**

### ***5.1 Niko: subject to environmental prosecution***

Following Niko's blowouts in 2005, two lawsuits were filed naming Niko as the defendant. While the government of Bangladesh filed against Niko, claiming financial damages and damages caused to the local community surrounding the areas of Niko's blowouts, another lawsuit was filed in Texas, US, by a number of plaintiffs claiming to be citizens of Bangladesh. These two lawsuits are briefly outlined below:

In 2005, a group of petitioners in Bangladesh filed a writ with the Supreme Court of Bangladesh against Niko. The petitioners claimed that the company must pay compensation for the natural gas lost as a result of the uncontrolled flow problems, as well as for damage to the surrounding area. The damages sought were CAD\$17.4 million. The High Court of Bangladesh asked the Government to freeze all of Niko's Bangladesh bank accounts.

In the Texas lawsuit, the action was filed by a number of plaintiffs purporting to be citizens of Bangladesh, who claimed to have suffered damages as a result of the uncontrolled release of gas that occurred at the Chattak 2 well in Bangladesh in January and June of 2005. The amount of damages claimed in the filed pleadings was US\$250 million.<sup>7</sup>

### ***5.2 Media attention on the incidents of Niko's blowouts***

We recorded a total of 426 articles from the review of two major local English newspapers and the international news media between 2004 and 2007. The articles specifically address the issues associated with the impact of Niko's subsequent environmental blowouts between January and mid June 2005.

Following the first blowout on January 8, 2005 and the second blowout in Tengratila on June 17, news media in Bangladesh appeared to make an agenda to disqualify Niko from Bangladesh. Our review of the media articles revealed that a number of environmental activists, politicians and journalists started to urge the people of Bangladesh to come forward to launch a mass movement against Niko. They considered Niko to be an actor of 'conspiracies' against Bangladesh gas and oil resources. The nature of the media coverage in this context will be provided later.

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<sup>7</sup> In 2006 a judge in Texas dismissed the case.

We commence the discussion of the results with information about the extent of media coverage found within the period of our study. Table I provides information about the number of media articles addressing Niko. In total, there were 319 articles by two leading local newspapers (*The Daily Star and New Age*) pertaining to Niko, of which 97% of the articles represented negative news associated with Niko’s environmental crisis. A review of the Dow Jones Factiva data base – a data base containing news from all world leading newspapers – recorded 107 articles of which 96 provided negative news pertaining to Niko. As this media addressed only a single issue of Niko, this being Niko’s environmental blowouts in Bangladesh, we were not able to further classify or categorise the news into different environmental categories<sup>8</sup>.

**TABLE: I**

**Negative and positive media attention towards Niko’s environmental impact in Bangladesh**

Year	Negative articles			Positive articles		
	Local news articles		Overseas news articles (total)	Local news articles		Overseas news articles
	The Daily Star	New Age		The Daily Star	New Age	
2004	0	0	0	0	0	0
2005	137	97	89	0	0	0
2006	24	37	7	6	1	9
2007	6	7	0	0	4	2
Total	167	141	96	6	5	11

Reviewing Table I, negative news articles appeared to peak in 2005. Niko’s negative media attention ranges from accusations about the destruction of the natural resources to the adverse impact on the livelihood of the local community surrounding the gas blowout area. We reviewed two leading English newspapers from January 2005 to December 2008: *The Daily Star* and *New Age*. While *The Daily Star* published 167 negative articles, *New Age* published 141. The articles published in both of the newspapers are significantly correlated. Both newspapers published their highest number of the negative articles towards Niko in 2005 – the year Niko’s gas field was blown-out twice. We also reviewed newspaper articles within the Dow Jones Factiva data base and found 96 negative media articles. Overseas media also published their highest amount of news about Niko in 2005. All type of media reviewed, revealed that negative media attention decreased but was not eliminated by 2007.

Looking at the nature of the media coverage, the review of articles reveals that the articles frequently used legitimacy threatening news headlines (bad news) to describe the nature of the impacts from Niko’s blowouts. A sample of such legitimacy threatening headlines are:

- ‘Villagers flee fire at a gas field in Bangladesh’ (*Reuters News Agency*, January 8, 2005).

<sup>8</sup> Deegan et al. (2002) and Islam and Deegan (2008a) have utilised content analysis of Hackston and Milne (1996) to classify the media articles into different social and environmental themes.

- ‘Tengratila fire now ‘out of Niko hand’- Human chains rally demand its ouster’ (*The Daily Star*, June 29, 2005).
- ‘Niko Battles Fire, Bad Press’ (*The Daily Oil Bulletin*, August 19, 2005).
- ‘Bangladesh seeks damages from Canadian firm for blowouts’ (*Hindustan Times*, August 29, 2005).
- ‘Tengratila people yet to get blowout compensation’ (*New Age*, September 2, 2005).
- ‘Niko Resources faces U.S. \$250m law suit, Bangladesh bank accounts frozen’ (*The Canadian Press*, September 14, 2005).

Further, samples of some quotes reflecting bad news were extracted from the articles reviewed:

- ‘The court order came after the three local rights and environmental groups filed a lawsuit calling for an end to a gas exploration deal between Niko and government. The activists claim that the fires show Niko to be incapable of responsible drilling in Bangladesh’ (*Associated Press Newswires*, September 12, 2005).
- ‘The fire started by a blowout in late June, is still raging at the northeastern Tengratila gas field. The blaze forced hundreds of families to flee their homes and sparked protests demanding that the government scrap its agreement with Niko’ (*Reuters News Agency*, August 15, 2005).
- ‘Victims of the twin blowouts at Tengratila gas field in 2005 will take the streets today, as compensations for the damage to the gas structure, the property in adjoining areas and the environment remains unrealised. The demands are for payment of TK. 84 crore by Niko Resources as compensation for environmental damage, to resolve the water crisis in the area to recruit 70 percent of employees from the locality according to their qualifications, to install a 50 megawatt gas-fired power plant to establish a modern health complex and to develop environment and infrastructure’ (*New Age*, June 24, 2006).

### ***5.3 What was disclosed in Niko’s annual reports?***

While different researchers have different tools to classify annual report social and environmental disclosures, keeping the initial review of Niko’s annual reports in mind, we categorised Niko’s environmental disclosures into non-financial and financial. Reviewing Niko’s 4 year annual reports (2004-2007) we found absence of non-financial environmental disclosures. While Niko did not provide any account for any social and environmental impacts from its environmental blowouts, it provided information about the success of stopping the environmental blowouts. As Niko’s 2006 annual report mentioned:

By October 2005, the Company was successful in achieving intersection with the original blowout well and was able to pump sufficient cement into the blowout well to stop the flow of natural gas from the reservoir. Since the successful kill of the blowouts, the natural gas seeping to the surface has completely ceased and the drilling locations have been successfully restored (Annual report, 2006).

Again, while non-financial environmental disclosures remained absent in the annual reports, Niko disclosed its financial obligation to the environmental

damages both in management reports and financial statements as contingent liability<sup>9</sup>. As Niko's annual report, 2006, mentioned:

During the quarter ended December 31, 2005 Niko received a letter from the Government of Bangladesh demanding the following as compensation for the uncontrolled flow problems that occurred in the Chattak field in January and June 2005: 3 billion cubic feet of free natural gas be delivered from the Feni field as compensation for the burnt natural gas; 5.89 billion cubic feet of free natural gas be delivered from the Feni field as compensation for the sub-surface loss; Taka 845,583,973 (CAD\$14.8 million) for environmental damages,.....The Company believes that the outcome of the Government's claims and the associated cost to the Company, if any, is not determinable. As such, no amounts have been recorded in these consolidated financial statements as at March 31, 2006 (Annual report, 2006).

The above statement indicates that Niko was apparently concerned about the responsibility of the environmental blowouts in Bangladesh. While it appeared mandatory for Niko to disclose a contingent liability, their voluntary initiatives towards its responsibility to the people who were affected by the blowouts remained absent. Exclusion of the provision for social and environmental performance towards the local community and related disclosures within annual reports provides absolute minimal accountability towards the local community. In 2006 and 2007, Niko increased its level of environmental contingent liability disclosures required by the regulatory effects. The level of financial environmental disclosures supports the pressure associated with regulatory effects or environmental prosecutions filed by the third parties.

The environmental prosecutions did not influence Niko's annual report non-financial environmental disclosure practices at all, but directly influenced the financial environmental disclosures including environmental contingency disclosures (which meet regulatory requirements of Canadian and international accounting standards)<sup>10</sup>. The contingent liability disclosures by Niko for the three years subsequent to the incidents are shown in Appendix 1. Apparently while there is a positive association between the amount of contingent liability disclosure (see Appendix 1) and media attention pertaining to Niko's environmental blowouts in Bangladesh, we are unsure whether media has any role in influencing financial environmental disclosures such as environmental contingent liability disclosures. While previous research shows that media attention has an impact on annual report non-financial environmental and social disclosures, we did not find this to be the case for Niko. Despite significant amounts of media attention pertaining to Niko's blowouts in Bangladesh, there was no connection between media attention and Niko's annual report non-financial environmental disclosures.

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<sup>9</sup> While financial disclosures are typically available within the financial section of annual reports, including the management Analysis, financial statements, supplemental schedules, and footnotes (Walden and Schwartz, 1997), contingent environmental liability has become an important part disclosure issue within Niko's financial statements.

<sup>10</sup> Canada has already adopted International Accounting Standards including accounting for contingent liability.

While it was expected that Niko provide information about what exactly happened to its own risk (such as contingent liability) as well as the impacts on the local community, Niko did not provide any information about the latter within its annual reports. This is not consistent with the findings of previous accounting research (see Rankin and Deegan, 1996; Hogner, 1982; Guthrie and Parker, 1989; Patten, 1991, 1992; Walden and Schwartz, 1997; Deegan et al., 2000) that public concern influences non-financial environmental disclosures within annual reports. While Niko's non-financial environmental disclosures within annual reports remain absent, financial environmental disclosures – specifically environmental contingent liability disclosures within annual reports – appeared to be associated with public pressures, specifically regulatory pressures, being imposed upon Niko.

#### **5.4 Press releases**

Further, a contextual analysis was provided by considering Niko's press release about its blowouts. The Niko website provides a number of press releases and from these there were no notable releases on the social and environmental implications of Niko's blowouts found. On January 7, 2005, Niko provided an operational update (just after Niko's first blowout in Bangladesh) by saying that no injuries had occurred due to its uncontrolled release of dry gas. As it mentioned:

Niko Resources Ltd. advises that the Chattak-2 well currently being drilled in Bangladesh is experiencing an uncontrolled release of dry sweet gas. Niko has engaged well service and control specialists Safety Boss Inc. to bring the well back under control. The drilling site is secure and there have been no injuries related to the incident and the public currently is in no danger [*Niko Resources Ltd.: Chattak-2 Drilling Update*, January 7, 2005].

The above press release indicates that Niko provided minimal amounts of information on the implications of its environmental blowouts. It did not provide any account for environmental damages and ecological destructions caused by its blowouts. Interestingly, consistent with previous press releases, Niko provided the same information (even using the same wording) just after the second incidents in June, 2005:

Niko Resources Ltd. announces that the Chattak Relief Well currently being drilled in Bangladesh has experienced an uncontrolled release of gas. The site is secure and no injuries have occurred [*Niko Resources Ltd.: Chattak Relief Well Update*, June 24, 2005].

While annual reports provide no information about the consequences of Niko's environmental blowouts, the above press release at least provides a little information about the impacts of the incident: that 'the site is secure and no injuries have occurred'. But these public statements, as we argue, became light and reflected absolute minimal accountability towards the affected local community.

In relation to public prosecutions filed against Niko, two lawsuits for environmental damages in Bangladesh were filed by third parties in different countries. Niko came up with the following press release which directly highlights these lawsuits:

Niko advises that a lawsuit has been filed in the State of Texas naming Niko and another party as defendants. The action was filed by a number of plaintiffs purporting to be citizens of Bangladesh who claim to have suffered damages as a result of the uncontrolled release of gas that occurred at the Chattak 2 well in Bangladesh in January and June of 2005. The amount of damages claimed in the filed pleadings is US\$250 million. With regards to the release of gas in Chattak, misleading statements and quotations in articles by various individuals and publications will be dealt with on an orderly basis (*Niko Resources Ltd.: Operations Update*, September 13, 2005).

Although the above statement provided bad news for Niko and good news for the affected local community since they were expecting to receive compensation from Niko, subsequent the court judgment in favour of Niko meant that Niko did not have to pay a significant amount of financial damages (US \$ 250 million) to the local community in Bangladesh. As Niko's press release mentions:

Niko Resources Ltd. announced today the Judge presiding in the \$250,000,000 lawsuit filed against the Company in Texas, has ruled the plaintiff claims against Niko Resources Ltd. and its Bangladesh subsidiary are dismissed (*Niko Resources Ltd.: Update*, August, 25, 2006).

While Niko showed its success in winning one of the two lawsuits, it did not demonstrate its voluntary social responsibility initiatives towards the local community of the affected areas.

While Niko's demonstration of social and environmental performance is highlighted neither in annual reports nor in its press release, in the year 2006, it made stand-alone reports on its social and environmental performances in relation to the local community of the affected areas. The summary of Niko's stand-alone report is provided next.

### ***5.5 Niko's stand-alone social and environmental report***

As stated previously, Niko's disclosure initiative through a stand-alone report was also considered for the analysis. In 2006 Niko released a summary of their stand-alone social and environmental report – named 'Safety, Health, Environment and Social Program (SHESP)'. The report covers performance information on employee health and safety matters, environment and social initiatives, and forward environmental plans.

Table II shows Niko's disclosures on non-financial environmental performance. It recorded a specific number of employees who were provided health and safety at their work places. Then, it recorded lost time incidents by indicating that no fatalities occurred as a result of lost time incidents. It also recorded its

performance on the environmental issues by highlighting its key initiatives including massive tree plantations. It also recorded support of rural schools, help with village access to free medical services and help distributing fresh water as part of rehabilitation programmes for the local community of the affected area in Bangladesh. In the final part of the summary (Table II), Niko made a commitment to the continuous improvement in the environment management and reporting system in order to increase its reputation in the community in which it operates.

**TABLE II**  
**Safety, Health, Environment and Social Program (SHESP) Disclosure**  
**(Performance summary--Bangladesh, December 2006)**

Issues	Disclosures
Niko SHESP Training – 2006	<ul style="list-style-type: none"> <li>▪ Health and Safety Auditor Course – 1 employee</li> <li>▪ Level I Elementary First Aid – 30 employees</li> <li>▪ Defensive Driver Training – 22 employees</li> <li>▪ HSE Supervisor Training – 3 employees</li> </ul>
Lost Time Incidents – 2006	<ul style="list-style-type: none"> <li>▪ Total Employees – 49</li> <li>▪ Total Contractors – 73</li> <li>▪ Total Hours Worked – 194,040</li> <li>▪ Lost Time Incidents – 4</li> </ul> (No fatalities have occurred as a result of any Niko activity since its inception in 1994)
Environmental and Social Initiatives – 2006	<ul style="list-style-type: none"> <li>▪ Approximately 2800 trees as part of ongoing rehabilitation</li> <li>▪ Upgrade of two rural school computers for student use</li> <li>▪ Provision of free doctor services to local villagers (770 patient visits)</li> <li>▪ Constructed water wells and distribution system (110 families)</li> </ul>
Forward Plans – 2007	<ul style="list-style-type: none"> <li>▪ Continue improvements to the Environmental Management System and associated reporting</li> <li>▪ Maintain or improve Niko’s performance with respect to SHESP</li> <li>▪ Increase Niko’s reputation for responsible energy development</li> </ul>

[Viewed at: [http://www.nikoresources.com/PDF/Draft\\_SHESP\\_Publication\\_acc\\_revised.pdf](http://www.nikoresources.com/PDF/Draft_SHESP_Publication_acc_revised.pdf) ; last visited: June 15, 2008]

As discussed previously, the amount of media attention regarding Niko’s environmental blowouts was highest in 2005 – the year in which Niko’s gas field in Bangladesh blew out twice. Niko’s 2006 disclosure initiative appeared to be associated with the amount of media attention between 2005 and 2006. While mandatory requirements to address an organisation’s responsibility to the local community are absent, voluntary corporate initiative such stand-alone environmental reporting ( which is often driven by non-legal pressures such as media attention ) may become essential to for an organisation to survive in the

community in which it operates. The stand-alone environmental reporting appears to become a drive for survival considerations.

## **6. Conclusion**

This study identifies a link between Niko's environmental blowouts in Bangladesh and its disclosure initiatives subsequent to the incidents. We have reviewed corporate media such as annual reports, press releases and a stand-alone report of Niko's over three years subsequent to the incidents. We have also reviewed local and global news media articles for over four years (three years subsequent to the incidents) to understand whether or not Niko's disclosure initiatives were associated with the media attention pertaining to its environmental blowouts in Bangladesh. We have found that while Niko's annual reports and press releases did not provide any information about the issue of the local community who were affected by the blowouts, they utilised a stand-alone report to address the issue of local community. We have also found that Niko's annual reports and press releases adequately disclosed its environmental contingent liability as result of a desire to meet regulatory requirements concerning two major environmental prosecutions. The findings suggests that in the absence of disclosures about the environmental impact of Niko on its local community within annual reports, Niko still legitimised its offshore operations via introducing its stand-alone environmental reporting. This finding is contrary to the previous studies that have found that annual reports are an appropriate media for social and environmental disclosures of an organisation and therefore legitimise their actions.

Based on the findings of this paper, we argue, exclusion of any performance statement within annual reports indicates that the company is adopting the attitude of "looking after their own back yard" (Tilt, 2001) rather than attempting to be accountable to the local community who were ultimately affected by Niko's blowouts in Bangladesh. Niko did not provide any social disclosure before the ones in the stand alone 2006 report. Since 2006, only stand-alone reporting strategies appear to be motivated by legitimacy considerations, rather than any real attempts to hold broader accountability for Niko's activities in a developing country. This study provides an understanding about the risk of the corporate reputation triggered by media and how this risk in turn influences a multinational company to initiate a disclosure related strategy.

We acknowledge that while explaining Niko's environmental disclosure initiatives, we have only considered a small division of local and overseas news media as our basis for measuring the extent of media attention directed at Niko's blowout incidents. We also acknowledge that the news media we have considered will potentially have different political or social agendas, and therefore have varying levels of impact on the public agenda; particularly the impact of overseas media. Keeping this limitation in mind, we would like to

encourage researchers to investigate the role of the media and other stakeholder groups in creating changes in corporate social accountability and related disclosure practices within a larger sample size in the future.

**APPENDIX: 1 Financial environmental information (contingent liability) in relation to Niko’s environmental blowouts in Bangladesh in Niko’s annual reports**

Year	Niko’s disclosure of contingent liability
2004	No contingencies
2005	No contingencies
2006	<p>(a) During the year ended March 31, 2006, the Company was named as a defendant in a lawsuit that was filed in the state of Texas by a number of plaintiffs who claimed to have suffered damages as a result of the uncontrolled releases of natural gas that occurred at the Chattak-2 well in Bangladesh in January and June 2005. Total damages sought were in excess of US\$250 million. A court date was set for July 7, 2006, to hear the Company’s pleading, for the case to be dismissed due to lack of jurisdiction in the state of Texas. The Company believes that the outcome of the lawsuit and the associated cost, if any, is not determinable. As such, no amounts have been recorded in these consolidated financial statements.</p> <p>(b) During the year ended March 31, 2006, a group of petitioners in Bangladesh (the petitioners) filed a writ with the Supreme Court of Bangladesh (the Supreme Court) against various parties including Niko Resources (Bangladesh) Ltd., a subsidiary of the Company. The petitioners requested the following from the Supreme Court with respect to the Company: (i) that the Joint Venture Agreement for the Feni and Chattak be declared null and illegal; (ii) that the Government realise from the Company compensation for the natural gas lost as a result of the uncontrolled flow problems as well as for damage to the surrounding area; (iii) that Petrobangla withhold future payments to the Company relating to production from the Feni field (CAD\$17.4 million as at March 31, 2006); and (iv) that all bank accounts of the Company maintained in Bangladesh be frozen. The Company believes that the outcome of the writ with respect to the first two issues is not determinable. The Company believes that the full amount owed with respect to the Feni field will be collected from the Government. As such, a write-down to this receivable resulting from this writ of petition has not been recorded in these consolidated financial statements. The Company’s Bangladesh branch has been permitted to make payments to Bangladesh vendors. However, payments to foreign vendors from the Bangladesh branch are not permitted. The Company’s foreign vendors are being paid by Niko Resources (Bangladesh) Ltd., which is located in Barbados.</p> <p>(c) During the quarter ended December 31, 2005, Niko Resources (Bangladesh) Ltd. received a letter from the Government of Bangladesh demanding the following as compensation for the uncontrolled flow problems that occurred in the Chattak field in January and June 2005: (i) 3 bcf of free natural gas delivered from the Feni field as compensation for the burnt natural gas; (ii) 5.89 bcf of free natural gas delivered from the Feni field as compensation for the subsurface loss; (iii) Taka 845,583,973 (CAD\$13.8 million) for environmental damages, which is subject to be increased upon further assessment; (iv) unconditional acceptance that an additional quantity of approximately 45 bcf of natural gas as compensation for further subsurface loss is to be delivered free, or an equivalent monetary value is to be provided to the Government of Bangladesh. Until the actual quantity of natural gas is determined, a bank guarantee in the value of 45 bcf of natural gas shall be provided; and (v) any other claims that arise from time to time. With respect to the Government’s claims, the Company intends to propose to the Government that the compensation for the uncontrolled flow problems be resolved through international arbitration through a mutually acceptable forum. The Company believes that the outcome of the Government’s claims and the associated cost to the Company, if any, is not determinable. As such, no amounts have been recorded in these interim consolidated financial statements.</p>
2007	<p>(a) During the year ended March 31, 2006, the Company was named as a defendant in a lawsuit that was filed in Texas by a number of plaintiffs who claimed to have suffered damages as a result of the uncontrolled releases of natural gas that occurred at the Chattak-2 well in Bangladesh in January and June 2005. Total damages sought were in excess of US\$250 million. On July 7, 2006, a court hearing was held to hear the Company’s pleadings, for the lawsuit to be dismissed due to lack of jurisdiction in Texas. The court in Texas dismissed the lawsuit on August 25, 2006, and the plaintiffs are appealing the dismissal. The timing for hearing the appeal is uncertain. The Company believes that the outcome of the lawsuit and the associated cost, if any, are not determinable. As such, no amounts have been recorded in these consolidated financial statements.</p> <p>(b) During the year ended March 31, 2006, a group of petitioners in Bangladesh (the petitioners) filed a writ with the Supreme Court of Bangladesh (the Supreme Court) against various parties including Niko Resources (Bangladesh) Ltd., a subsidiary of the Company. The petitioners requested the following of the Supreme Court with respect to the Company: (i) that the Joint Venture Agreement for the Feni and Chattak fields be declared null and illegal; (ii) that the Government realise from the Company compensation for the natural gas lost as a result of the uncontrolled flow problems as well as for damage to the surrounding area; (iii) that Petrobangla withhold future payments to the Company relating to production from the Feni field (CAD\$26.2 million as at March 31, 2007); and (iv) that all bank accounts of the Company maintained in Bangladesh be frozen.</p>

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