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IMPACT OF ENVIRONMENTAL ACCOUNTING DISCLOSURE PRACTICES ON FINANCIAL REPORTING AND PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NIGERIA

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Abstract

In recent years, the adverse environmental effects on economic development have been a matter of great concern all over the world. This study investigates the extent of environmental disclosure by selected commercial banks in Nigeria. This study examines the association between company specific attributes and environmental disclosure of the sample companies. Content analysis approach using both weighted disclosure index and un-weighted disclosure index was used in analyzing the annual reports in order to measure the volume of environmental information disclosure. The study reveals that on an average sample companies disclosed 21.43% of the expected information in their annual reports and environmental disclosure volume and total asset of the companies are significantly correlated. The study opined that commercial banks in Nigeria are disclosing very inadequate environmental information

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in their annual reports. Consequently, the study concludes that lack of environmental reporting and disclosure standards significantly affects the reporting and disclosure uniformity of environmental related information in financial statements, annual reports and accounts of commercial banks in Nigeria. Based on these findings, the study among others recommends that environmental accounting standards should be published locally and internationally and reviewed continually to ensure dynamism compliance and meets environmental situational needs.

Keywords: Environment disclosure, Annual report, Financial reporting, Banks

Introduction

Earth environment is a rich heritage handed over to us by previous generations. The present civilization has involved us in varied activities. Many of these activities generated waste with potential constituents. The ultimate disposal of the waste lead to environmental pollution in many parts of the world, and of which the magnitude of pollution of the environment has already reached an alarming level (Pramanil & Shiland Das, 2007). During the fifties and sixties of the 19th century people all over the world become more concerned about the quality of their environment. Well known environmental tragedies, like the cause of mercury poisoning in mania mate in Japan, severe smoke pollution episode in London and massive oil spill caused by terry canyon accident reinforced in people's mind the sense that the quality of air, water and a wide range of natural resources was being seriously degraded. The awareness of the environment and man's ability to cause damage started from the fifties of the 19th century. This concern had been repeatedly expressed in a series of international summits and consensus right from the sixties. The starting point that composed an organized meeting proves a large scale celebrated public action of the club of Rome entitled "Limit to Growth that initiated a worldwide debate of economic growth at the expense of natural environment (Shiland, 2005).

Two international conferences were held between 1968 and 1972 to assess the problems of the global environment and more importantly, to suggest corrective actions to address these menace. The aim of the conference was to create a basis for comprehensive consideration with the United Nation of the problem of human environment and to focus the attention of the governments and public opinion in various countries on the importance of the problem (Touche. 1996).

In recent years, the adverse environmental effect of economic development

has become a matter of great public concern all over the world. Gradually environment is becoming a much more urgent economic, social and political problem. Accountants, as the basic custodian and light bearer of economic development can no longer shut their eyes to the effect of environmental issues on business management, accounting, and audit and disclosure system.

Protection of environment and the potential involvement of accountant is becoming a common subject of discussion among accountants all over the world. Now-a-days, accountants are expected to take a proactive role in the environmental protection process with the advent of trade liberalization, removal of trade barriers makes it logical that the costs of environmental degradation due to industrial activities should be internalized in corporate account to the extent possible. Hence, environmental accounting and reporting is therefore of paramount importance in today's global world.

Environmental accounting involves the identification, measurement and allocation of environmental costs, and the integration of these costs into business and encompasses the way of communicating such information to companies' stakeholders. In this sense, it is a comprehensive approach to ensure good corporate governance that includes transparency in its societal activities. The unserious attitude of several firms not taking environmental accounting into consideration makes performance below expectation. This is because environmental accounting helps the firm to record all environmental costs incurred by the business firms thereby finding a way of reducing the cost (environmental expenses) so that the business can increase profit.. According to Pramanik, Shil and Das (2007), some of the specific issues (problems) regarding the environmental accounting and reporting include: Identification of environmental cost and expenses, Capitalization of cost, Identification of environmental liabilities and measurement of liabilities. At present, no accounting standard has been issued for accounting treatment of these specific problems. As regard environmental reporting, different organizations have also issued guidelines. But these guidelines are only advisory in nature and not mandatory.

Consequently, this paper examines environmental accounting disclosure practices on financial reporting and performance of selected commercial banks in Nigeria. The following research question will be addressed:

- (a) Does environmental disclosure affect the profitability of commercial banks in Nigeria?
- (b) Do commercial banks listed in the Nigerian stock exchange have disclosure requirements as regards environmental accounting practices?
- (c) What is the impact of environmental disclosure practices on financial reporting of Nigerian commercial bank?

Conceptual Framework

Accounting Interest in the Environment

Substantial effort and resources have been deployed to ensure that our natural environment is not treated as a free good (Tapang, Bassey & Bessong, 2012). Accounting has an instrumental role in disclosing environmental for different entities whether industrial, commercial service and at all levels whether micro or macro. These new goals are of great importance as they enable many users to take different development decisions that are economically and environmentally sound (Bala and Yusuf, 2003).

Ali (2002) identifies the main reasons for accounting interest in the environment as follows:

- (i) Many environmental costs can be significantly reduced/eliminated as a result of business decisions, ranging from operational and housekeeping changes to investment in cleaner production, to redesign of processes/products.
- (ii) Environmental cost (and, thus potential cost savings) may be obscured in overhead accounts or otherwise overlooked.
- (iii) Many organizations have discovered that environmental costs can be offset of generating revenues through sales of waste by products for example;
- (iv) Management needs financial data about these expenditures.
- (v) For strategic cost leadership (Driving Cost).
- (vi) There is need to prioritize these expenditures.
- (vii) There are increasing needs from different stakeholders (government, investors, lenders, banks, and non-governmental organizations) to have financial data on the environmental performance of different organization.
- (viii) There is a general trend to evaluate the organizations performance according to social and environmental effectiveness and not only on its economic effectiveness.
- (xv) Current practices demonstrate that, no track for environmental costs was available as it was charged randomly. Therefore, there is a need for proper charging and allocation. Distinguishing between environmental costs and other costs will lead to a proper cost allocation of these costs and thus, precise pricing that helps to develop sustainability indicators.

From the above reasons, it is believed that accounting should be responsible for measuring, evaluating and disclosure of environmental performance in financial statements or in its attachments. Therefore, there is no doubt that

measuring environmental performance depends on accounting systems and accounting data, such as pollution ratios.

Determinant of Environmental Reporting

The environmental reporting or sometimes known as "green reporting" is one of the voluntary social reporting included in the financial statements. At the beginning, the issue of social and environmental reporting is somewhat neglected (Hamid, 2002). The nature of accountant's focus is dominated by traditional economic thinking, which tends not to take account of social and environmental impacts (Pasker, 1996). In fact, the concern goes more towards cash flows, prices, profits and various ecological issues such as quality of air usage and the pollution of rivers. Junaina and Ahmad (2008) identified the main determinants of environmental reporting to include:

Company Size

A study by Trotman and Bradley (1981) has found a positive association between size and voluntary social responsibility disclosures. There are numerous explanations for such association. Firth (1979) suggests that firms, which are more visible in the "public eyes", are likely to voluntarily disclose information to enhance their corporate reputation. Watts and Zimmerman (1986) opine that larger firms would have higher political costs because the firms are more politically visible and may attract more resentment due to their perceived market power. Leftwich, Watts and Zimmerman (1981) maintain that firm size is a comprehensive variable, which can proxy a number of corporate attributes, such as competitive advantage, information, production costs and political costs.

Financial Leverage

Jensen and Meckling (1976) and Myers (1977) have used agency theory to assert that political transfers of wealth, from bondholders to shareholders can take place in highly leveraged firms. Agency theory predicts that restrictive covenant may be written into debt contracts to protect firm's economic interests. Management may also voluntarily disclose information in financial report for monitoring purposes. Thus, agency theory predicts that level of voluntary disclosure increases as the leverage of firm grows.

Leftwich (1981) suggest that the proportion of outside capital tends to be higher for larger firms as the potential benefits of voluntary disclosure increase with shareholder debt holder-manager conflicts. Moreover, companies with high leverage may disclose more information to satisfy the needs of long-term creditors (Malone, fires and Jones, 1993) and to remove suspicious of debt holders regarding wealth transfer (Myers, 1979).

Profitability

There are two different conceptions regarding profitability and the tendency to disclose voluntary information. First, more profitable firms are more likely to disclose more while less profitable firms tend to be more secretive. Profitable firms may be more inclined to disclose more information in order to screen themselves from less profitable firms (Akerlof, 1970). A well run company has incentives to distinguish themselves from less profitable company in order to raise capital on the best available terms, one way to do this is through disclosure. Inchausti (1997) also argues that managers of very profitable companies would use external information in order to obtain personal advantages such as continuance of their positions and compensation arrangement.

However, Lang and Lundhlom (1993) suggests that there is a certain ambiguity in theoretical and empirical studies regarding the sign of profitability in relation to disclosure and therefore the relationship between disclosure and profitability is non-monotonic. This is because less profitable firms may disclose more information to explain the reasons for the negative performance and reassure the market about future growth. Companies also disclose bad news at an early opportunity in order to mitigate the risk of legal liability, severe devaluation of share capital and loss reputation (Skinner, 1994).

Theoretical framework

This study examined the theoretical background of environment accounting based on the social theories of accounting. The social theories of environmental accounting discussed in this study include, stakeholder, legitimacy and positive accounting theories. This approach is extended to stakeholder's theory by explaining information disclosure as an obligation and the right of the stakeholders. Stakeholders are groups, which are influenced by the corporate activities or which can affect the corporation. The organization's survival in the long run requires stakeholder's support and approval. The more powerful the stakeholders are, the more the organization must adapt to their interests and demands.

According to the legitimacy theory, organization seeks to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger system of which their activities are part.

Stakeholders Theory

The basic proposition of the stakeholders theory is that the firm's success is dependent upon the successful management of all the relationships that a firm has with its stakeholders a term originally introduced by Stanford research institute

(SRI) to refer to those groups without whose support the organization would cease to exist (Freeman 1983). In developing the stakeholder theory, Freeman (1983) incorporates the stakeholder's concept into two categories, namely; a business planning and policy model and a corporate social responsibility model of stakeholder management.

In the first model, the stakeholder analysis focus on developing and evaluating the approval of corporate strategies decisions by groups whose support is required for the firm's continued existence. The stakeholder identified in this model includes the owners, customers, public groups and suppliers. These groups possibly have conflicting behavior and are considered a constant on the strategy developed by management to best match their firm's resources with the environment (Deegan and Gordon, 1966).

In the second model, the corporate planning and analysis extends to include external influences which may be adversarial to the firm. These adversarial groups may include the regulatory environmentalist and/or special interest groups concerned with social issues (Guthrie and parker, 1990). The second model enable managers and accountants to consider a strategic plan that is adaptable to change in the social demands of nontraditional stakeholders groups. The stakeholder's theory proposed an increased level of environmental awareness which creates the need for companies to extend their corporate planning to include the nontraditional stakeholders like the regulatory adversarial groups in order to adapt to changing social demands (Trotman, 1999). The main concern of the stakeholder's theory in environmental accounting is to address the environment cost elements and valuation and its inclusion in the financial statements.

Legitimacy Theory

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values and definitions (Suchman, 1995). According to Tilling (2008), legitimacy theory offers a powerful mechanism for understanding voluntary social and environmental disclosure made by corporations, and that this understanding would provide a vehicle for engaging in critical public debate. The problem for legitimacy theory in contributing to the understanding of accounting disclosures specifically and as a theory in general is that the term has an occasion been fairly loosely. This is not a problem of the theory itself, and the observation could be equally applied to a range of theories in a range of disciplines.

Legitimacy theory suggests that a firm may be in one of four phases with regard to its legitimacy. Establishing legitimacy which represents the early stages of a firm's development and tends to revolve around issues of competence.

particularly financial, but the organization must be aware of socially constructed standards of quality and desirability as well as perform in accordance with accepted standards of professionalism (Hearit, 1995).

Maintaining legitimacy is the phase that most firms would generally expect to be operating in, where their activities include: ongoing role performance and symbolic assurance, that all is well, and attempts to anticipate and prevent or forest all potential changes to legitimacy (Ashford and Gibbs, 1990)). However, the maintenance of legitimacy is not as easy as it may at first appear. Legitimacy is a dynamic construct community expectations are not considered static, but rather, change across time thereby requiring organizations to be responsive to the environment in which they operate. An organization could accept this view; lose its legitimacy even if it deemed acceptable (legitimate) (Deegan, 2002).

Extending legitimacy is point where an organization enters new markets or changes the way it relates to its current market. This can give rise to a need to extend legitimacy which is apt to be intense and proactive as management attempts to win the confidence and support of wary potential constituents (Ashford and Gibbs, 1990).

Empirical Framework

There were enormous researches on environmental accounting but there were no studies on environmental disclosure before the 1970s. The first environmental accounts were introduced by Norway in the 1970s and were slowly adopted by other countries (Shil & Iqbal, 2005). In the following years, many countries like UK, USA, Canada, Japan etc. actively conducted researches on environmental accounting information and have taken different crucial steps in environmental protection (Zhang, 2009). Firms' environmental performances in four industries from 1970 to 1975 were investigated by Shane and Spicer (1983). They found that comparatively larger companies significantly increased to disclose environmental information. Over the period of 1982 to 1991, the environmental information disclosures in the annual reports of Canadian public companies operating in the mineral extraction, forestry, oil and gas, and chemical industries were analyzed by Neu, Warsame and Pedwell (1998). They focused their analyses on the following: the influence of external pressure concerning environmental disclosures in annual reports; the characteristics of environmental disclosure vis-a-vis other 'social' disclosure; and the association between environmental disclosure and actual performance.

In the early 1990's, World Bank conducted a review of Environmental Accounting (EA), providing a compendium of which countries had complied with EA, the method that had been used to construct EA, and the extent of coverage (Peskin

and Lutz ,1990). Moneva and Liena (2000) opines that the environmental reporting practices in the annual reports published by companies is sensitive for the environment in Spain, and determine the evolution of these practices during the period 1992-1994. Moneva and Liena (2000), on the basis of stakeholder theory, also found out that the environmental reporting of these sample companies has a fundamentally narrative character, although there have been an increase in both quantitative and financial reporting, as well as in the number of companies that are reporting.

The environmental disclosure made by 51 United States manufacturing firms for 1992 and 1993 were focused by Hughes (2001). They used content analysis to analyze the annual reports and found that disclosure performance differs between firms which they rated as good, mixed or poor. The American Financial and Accounting Standards Board (2001) reported that companies can improve their business reporting by voluntarily disclosing more available proper information in which the investment community and shareholders have a keen interest. They stated that these matters include identifying factors important to the financial success of the company, delineating management's plans and strategies for managing those factors in the past and future, and specifying measurements used by management to assess its effectiveness in executing those plans and strategies for corporate governance and corporate social responsibility (CSR). While Dye (2001) cited in Zhang (2009) argued that the theory of voluntary disclosure is a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information that is favorable to the entity, and will not disclose information unfavorable to the entity. Shil & Iqbal (2005) stated that EA has been used increasingly day by day in the developed and developing countries and now-a-days, a good number of companies are putting their concern regarding EA and they are disclosing different environmental information in their annual reports.

Research Methodology

This section discusses the research methodology of the study. This section describes sample selection procedures, selection of period, sources of data, calculation of environmental reporting index and technique used for content analysis.

Population size and Sample selection

There are 21 commercial banks in Nigeria as listed by the Central bank of Nigeria as at January, 2014. In line with Krejcie and Morgan (1970) 19 out of the 21 banks were selected as sample size. The study was conducted in 2014. Therefore, annual reports from the year 2010 to 2014 were used to conduct the content

analysis. The banking sector was used as banks were becoming more aware of environmental accounting and social corporate responsibility within that period.

Data Sources

The present study was conducted on the basis of secondary data. The secondary data were collected from annual reports of the selected sample banks online via their websites. Secondary data was used because the research work was done purely on a content analysis.

Content Analysis

A manual content analysis approach was followed in analyzing the annual reports to measure the volume of environmental information disclosure. A data set classified into three classes was developed through literature review. They include; environmental audit, environmental financial, and environmental policy. Environmental Audit looks at how each of the Nigerian banks chooses to monitor their activities concerning their environment. Environmental Financial is the term used to determine how Nigerian commercial banks account for their expenditure concerning the environment in their annual reports and finally, environmental policy is concerned with how Nigerian banks develop and and adhere to policies that make them environmentally conscious and friendly in their activities.

Calculation of Reporting Index

In order to determine the disclosure of environmental issues of banks using their annual reports, both weighted disclosure index and un-weighted disclosure index was used. Researchers such as Wallace, (1994), Cook, (1991 and 1992), Karim, (1995), Hossain ,(1994), Ahmed and Nicholls (1994), Hossain, (2000 and 2001), and Ullah (2013) adopted a dichotomous procedure in which an item scores '1', if disclosed and '0' if not disclosed. Past experience shows that the use of weighted and un-weighted scores for the items disclosed in the corporate annual reports and calculation can make little or no difference to the findings (Coomba and Tayib, 1998). Therefore, the un-weighted disclosure method was used to measure the total disclosure (TD) score of selected banks in Nigeria as follows:

$$\sum_{i=1}^n di$$

Where,

d = 1 if item is disclosed

0 = if the item is not disclosed

n = number of items

However, the main theme of the un-weighted disclosure index is that all items of the disclosed information in the index are considered equally crucial to the average users.

Table 1: Disclosure pattern on environmental issues in each sample banks.

S/N	BANKS	ENVIRONMENTAL FINANCIAL	ENVIRON- MENTAL AUDIT	ENVIRON- MENTAL POLICY
1	Access	0	0	0
2	First	1	1	1
3	Guaranty Trust	1	1	1
4	Zenith	1	1	1
5	Diamond	1	1	1
6	Eco	0	0	0
7	Sterling	1	0	0
8	FCMB	1	1	1
9	Fidelity	1	0	0
10	Keystone	0	0	0
11	Citi bank	1	0	1
12	Enterprise	1	1	1
13	Heritage	1	0	0
14	Stanbic	1	1	0
15	UBA	1	0	0
16	WEMA	1	0	0
17	Unity	0	0	0
18	Union	0	1	1
19	Main street	0	1	1

Source: Field Survey, 2014

Model Development and Hypotheses

In order to assess the disclosure volume of environmental information and the firm's size, the following Ordinary Least Square (OLS) regression model is to be fitted to the data according to Ullah, Yakub and Hossain (2013).

$UD_{li} = \beta_0 + \beta_1 \text{Log_TA} + \beta_2 \text{Log_GR} + \beta_3 \text{NOP} + \beta_4 \text{NOE} + \beta_5 \text{EPS} + e_i$ Where,
UD_{li} = total disclosure

β_0 = the intercept, e_i = the error term

TA= Total assets

NOP= Number of projects

NOE= Number of Employees

EPS= Earnings per share.

H2: The voluntary disclosure of environmental information in the annual report of banks is not positively related to firm's size.

Size:

Several studies have shown that there is a significant relationship between firm size and the extent of voluntary disclosure. Ullah (2013), Hossain, (2010); Silva and Christensen, (2004); Spiegel and Yamori (2004); Ismail, (2002) found a positive relationship between size and the level of information disclosed, while McNally (1982) concluded that size is a dominant corporate characteristic in establishing the leaders in voluntary disclosure practice. In testing the hypothesis stated above, the following measures were taken as the measure of size of the firms. They are, total assets (TA), gross revenue (GR), number of projects (NOP) and number of employees (NOE). The hypothesis was tested at 5% level of significance and it showed that voluntary disclosure of environmental information is positively related to the firm's size.

H1: There is no significant association between profitability of Nigerian commercial banks and the volume of environmental disclosure

EPS (Earnings per share)

Earlier studies such as Singhvi and Desai, (1971). Wallace, (1987), Raffournier, (1995); Wallace and Naser, (1995), Hossain, (1998) identified that profitability is capable of influencing the level of corporate information disclosure. The hypothesis stated above was also tested at 5% level of significance and it showed that there is a significant association between profitability of banks and the volume of environmental disclosure.

Data Analysis

Table 1 Shows that sampled banks did not disclose environmental information in a specific part but different banks disclosed in different parts of their annual reports and also a particular sample disclosed environmental information in different locations in the annual reports. From table 1, it is observed that maximum of 8(25%) sample companies disclosed environmental information in corporate governance and only minimum 2(4%) sample companies disclosed in their income statement.

Table. 2: location of environmental disclosure of the annual reports

Location in annual report	Total	% of the total items of information
Chairman's Statement	6	18%
Managing Director's statement	7	21%
Board of Directors' statement	6	18%
Balance Sheet	5	14%
Income Statement	2	4%
Corporate Governance Report	8	25%

Source: Field Survey, 2014.

Multivariate Analysis

An Ordinary Least Square (OLS) regression model was fitted for the environmental disclosure score as dependent variable and firm's size as independent, and the results are presented in table 2. The multiple regression models are significant at 5% level. The coefficient of determination (R square) indicates that only 27.50% of the variation in the dependent variable is explained by variations in the independent variables. The coefficient representing log of asset is statistically significant at 1% level, while the coefficients for log of GR, number of projects, number of employees, and profitability are not statistically significant. As environmental disclosure is voluntary, disclosure for the listed commercial banks in Nigeria and volume of this disclosure depends on the discretion of the management, therefore, variation in environmental disclosure is poorly explained by the independent variables and there is a poor correlation between environmental disclosure and firm's size. This led to the rejection of null hypothesis.

As the value of Durbin-Watson test is near about 2, therefore, there is no auto-correlation in the regression model.

Table. 3: Model summary of the study

Model	R	R. Square	Std. Error of the Estimate	Change Statistics			
				R Square Change	F Change		
1	0.475	0.275	5.82513	0.275	1.397		

Source: Authors' Computation 2014

Correlation Analysis

Pearson product moment correlation coefficients (r) were computed to justify the correlation between the dependent and independent variables. The table. 3 below shows a correlation matrix of all values of r for the independent variable along with the dependent variable. It is found that significant co linearity among some variables such as, between total disclosure and asset is 0.426, between gross revenue and asset is 0.643, between asset and NOE is 0.708, between asset and NOP is 0.686, between NOE and NOP is 0.818. Therefore, the level of environmental disclosure is only associated with the volume of assets or the firm's size of the sample commercial banks in Nigeria and other independent variables cannot affect the level of environmental information disclosure in annual reports of the commercial banks in Nigeria. The table also showed that there is a significant association between the profitability of banks and the volume of environmental disclosure.

Table. 3: Showing association between environmental disclosure and company attributes

Correlations Matrix

	Total Disclosure	Log TA	Log GR	NOP	NOE	EPS
Total disc	1.000					
Log TA	.426*	1.000				
Log GR	.188	.643**	1.000			
NOP	.299	.686**	.412*	1.000	1.000	
NOE	.306	.708**	.440*	.818**	1.000	
EPS	-.300	-.305	-.069	-.032	-.094	1.000

*, **, is significant at the 0.05 level and 0.01 level respectively

Source: Authors' Computation 2014

Conclusion and Recommendations

The study examines the environmental disclosure practices in Nigeria and found that some banks are disclosing more information regarding environmental issues but some banks are not disclosing any or disclosing very negligible information regarding environmental aspects. The analysis of the association between volume of environmental disclosure and firm's size reveals that only assets of the companies influencing the volume of environmental disclosure.

Arising from the above findings, this study recommends as follows:

- i) Accountants should be trained on environmental accounting and reporting.
- ii) Environmental accounting standards should be published locally and internationally and reviewed continually to ensure dynamism compliance and meets environmental situational needs.
- iii) Firms should formulate and implement environmental friendly policies to enhance their competitiveness.
- iv) Firms should adopt uniform reporting and disclosure of environmental issues for the purpose of control and measurements of performance.
- v) Finally, it was recommended that reporting environmental related matters should not be left to banks and large oil companies only as even small enterprises should be encouraged to report and disclose environmental impact/related activities in their annual reports and accounts.

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