ENVIRONMENTAL ACCOUNTING DISCLOSURE AND FIRMS PROFITABILITY IN NIGERIA

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ABSTRACT

Environmental accounting, as describedin these regards, aims at achieving sustainable development, disclosing and maintaining a favourable relationship with the community, and in pursuance of economy effect and effective environmental conservation. The objective of this study is to establish whether there is any significant relationship between environmental accounting disclosure and profitability of selected firms quoted on the Nigerian Stock Exchange (NSE). The data for the study were collected from annual reports and accounts of eighteen (18) randomly selected quoted companies in Nigerian Stock Exchange. The data were analyzed using multiple regression models. The key finding of the study shows that there is significant negative relationship between Environmental Accounting Disclosure and Return on Capital employed (ROCE), Earnings per Share (EPS) and a significant positive relationship and Net Profit Margin (NPM) and Dividend per Share (DPS). Based on this it was recommended that government should enforce compliance of environmental accounting disclosure in the company's annual reports and accounts. In addition, government should give tax credit to companies that have been complying with its environmental laws and that environmental disclosure should be made compulsory in Nigeria so as to improve the performance of companies and create sustainable environment for conducive living.

Keywords: *Environment, Sustainability, Accounting, Return on Capital Employed, Earnings per Share (EPS) Dividend per Share (DPS), Net Profit Margin and Firm profitability.*

INTRODUCTION

Accounting for environment helps in accurate assessment of costs and benefits of environmental preservation measures of companies (Schaltegger, 2000). It provides a common framework for organizations to identify and account for past, present and future environmental costs to support managerial decision-making, control and public disclosure (KPMG & UNEP, 2006). The severity of environmental problems as a global phenomenon has its adverse impact on the quality of our life.

Measures are being taken both at the national and international level to reduce, prevent and mitigate its impact on social, economic and political spheres (GRI, 2002; GR1, 2006). The emergence of corporate environmental reporting (CER) in India has been an important development, both for better environmental management and overall corporate governance (Banerjee, 2002). Global awareness of stakeholders on corporate environmental performance has already made traditional reporting redundant. Corporate houses run into the risk of loss of faith of their stakeholders, if in future, environmental performance information is not included in their main stream reporting (Swift, 2001). Simple adherence to mandatory environmental reporting is insufficient to meet the environmental disclosure expectation of stakeholders. Mandatory reporting is nothing but a minimum prescribed reporting requirement. Companies around the world aspire consciously for improved transparency in disclosure as their core competence (Williams, 2000). Environmental disclosure through internet would be the future of scientific reporting. A number of recent national and international surveys have identified increase in growth of companies reporting on internet (Isenmann, 2004).

Today world has been changed, companies are concerned with the protection ofenvironmental pollution, now companies are positively providing environmental performanceas well as environmental costs reports in annual reports and these reports are providedby the oil and gas sectors, which are major sectors to affect the environment (Anifowose,Lawler, Van Der Horst, & Chapman, 2016). Moreover, today we are more concerned with environmental protection, so in various countries; it is compulsory topublish environmental performance reports. While, in developed countries; companies arepublishing their environmental performance information voluntarily without any restriction(Bhattarai, 2014).

The basis of environmental policy in Nigeria is contained in the 1999 constitution of the Federal Republic of Nigeria. The Federal government of Nigeria has promulgated various Laws and Regulations to safeguard the Nigerian environment. These include Nigerian's Environmental Protection Agency Act of 1988 (NEPAAct), which explained about responsibilities of peoples as well as companies regarding environmental protection. Unfortunately, in Nigerian companies, there is no trend of disclosing environmental performance information. There is no specific law in Nigeria for companies to disclose environmental accounting statistics. However; similar research was conducted in Pakistan shows there are few companies in Pakistan, which voluntarily disclose their information in annual reports or online (Hassan & Batool, 2016). Hence, it is extreme need to examine relationship between environmental accounting and firm profitability, which pay for environment protection in Nigeria.

The significance of this research article is that, this study is conducted particularly in Nigeria context, which analyzed relationship between environmental accounting andfirm's profitability. Nigeria is considered as among the developing nations; therefore, not all of the companies follow regularly environmental policies, while few companies are working according to the demand of healthy environment. Thus, it is interesting to examine relationship between projected variables in Nigeria context. The main objective of this study is to establish whether there is any significant relationship between environmental accounting and firm's profitability in Nigeria.

The rest of the paper is organized as follows; it presents a review of the related literature and followed by a discussion of the data and methodology used in the study. Subsequently, it discusses the results, and finally, offers the conclusion with recommendations.

LITERATURE REVIEW

Concept of Environmental Accounting

Environmental accounting is a term with a variety of meanings. In many contexts, environmental accounting is taken to mean the identification and reporting of environmental specific costs, such as liability costs or waste disposal costs. Environmental accounting is defined as a process through which companies disclose information relating environmental performance for evidence that these are accountable for their activities (Uwuigbe, 2011). Environmental accounting involves any costs and benefits that arise from changes to a firm's products or processes, where the change also involves a change in environmental impacts (James, 1998). Instead, it is any information with either explicit or implicit financial content that is used as an input to a firm's decision – making. Product designers, financial analysts, and facility managers are equally to be the users of environmental accounting data. Seetharaman, et al; (2007) opined that environmental accounting is used to assess full environmental costs associated with activities and / or products. They also emphasized that environmental accounting can be used to track environmental performance of organization in more measurable manner. The key areas for monitoring are aggregated emission to air, water effluent discharge, soil contamination and boundary noise level.

Environmental Activities and Nigerian Experience

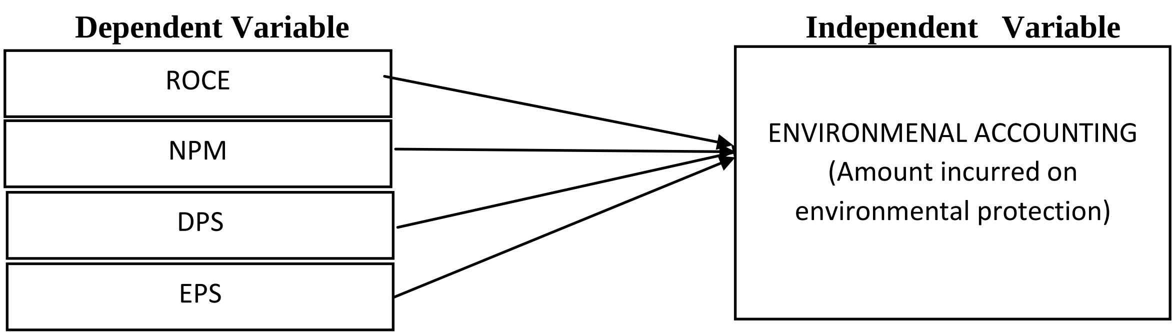
Nigeria as a developing nation with her abundant natural resources (Oil and Gas products) is facing difficult challenges in the control of environmental degradation. Oil exploration and government activities may have reduced the quality and usefulness of life through gas flaring, industrial pollution, oil spillage, deforestation, irregularity in the distribution of oil proceeds, and other related issues. Although, the country derives huge amount of money daily from the sale of crude oil and its by-products, one would generally assume that this money if properly managed should have significant impact on the development of oil and non-oil producing areas of the country. The researchers observe that most of the oil producing communities continues to dwell in abject poverty, despite the fact that the huge amount of the nation's resources is obtained from there.

In line with the stakeholder theory, one would ask if the multi-national companies are doing their best to ensure enhancement of quality of life of the host communities. These entails providing the communities with good drinking water, construction of good roads, health care Centre's, schools, electricity employment opportunities especially for junior cadres, and finally ensure adequate environmental control measures in line with international regulatory laws. However, for non-oil producing Nigerian states, the emergency of corrupt practices in the economic management of oil proceeds by government officials of questionable integrity has made life unenjoyably for them.

Firms Profitability

Profitability as well as corporate financial performance was used by a number of researchers as an explanatory variable for differences in disclosure level. Profitability means the ability of an investment to give back money as return. The word profitability is the combination of two world first one is the profit and the second the ability, in simple it is the ability of any organization to earn that maybe any form (Nimalathasan, 2009). However, the relationship between corporate financial performance and corporate social and environmental disclosure is arguably one of the most controversial issues yet to be solved (Choi, 1998). The proponents argue that there are additional costs associated with the social and environmental disclosure and, the profitability of the reporting company is depressed. There are those researchers who used log of profits and among these researchers, Roberts (1992) has found a positive relationship between profitability level of a company and corporate social and environmental disclosure. However, Patten (1992) fails to find any significant positive relationship between profitability and corporate social and environmental disclosure. Sarumpaet (2006) measured firms' performance in India through return on assets, return on equity, return on capital employed, net profit margin, dividend per share and earning per share. Return on Capital Employed (ROCE) calculates income from operating activities by using shareholder's wealth, moreover, incomes and expenses from financing activities exclude (Speckbacher, Bischof, & Pfeiffer 2003). In addition, earning per share also is a performance index, through stakeholders can compare performance of different organizations, for good decision-making. Earnings per share is obtained by; dividing total earnings, after interest, tax, and preferred dividend by total numbers of ordinary shares outstanding. Awan and Shahzad Bukhari (2011) opined in Nigeria that environmental cost significantly affects firm's profitability. Several studies had been done on environmental/social accounting and disclosure in the financial statements. Profit is the main purpose of business.

Figure 1: Conceptual Framework



Reasons for measuring, evaluating and disclosure of environmental performance in firms' financial statements

Ali (2002) identified the main reasons of accounting interest in the environment as follows:

- Many environmental costs can be significantly reduced or eliminated as a result of business decisions, ranging from operational and housekeeping changes to investment in cleaner production, to redesign of processes.
- Environmental cost (and, thus, potential cost savings) may be obscured in overhead accounts or otherwise overlooked.
- Many organizations have discovered that environmental costs can be offset by generating revenues though sales of waste by-products, for examples.
- Accounting for environmental cost and performance can support an organization's development and operation in an overall Environmental Management System (EMS).
- Environmental expenditures whether capital or operating costs increase dramatically day after day.
- Management needs financial data about these expenditures.

Theoretical Framework

Several theories have been put forward as to why a company may decides to act responsibly. These theories are viewed by many environmental accounting researchers as the appropriate theories to understand social and environmental accounting and reporting practices. Based on a review of the literature pertaining to different theories on social and environmental accounting, it is understood that legitimacy theory, stakeholder theory, institutional theory and other relevant related social and environmental theories, are the most appropriate theories to develop a theoretical framework for this research.

Legitimacy Theory

Legitimacy theory provides a view that the interrelationship between an organization and the related social expectations is simply a fact of social life. According to this theory, the survival of an organization is established both by market forces and community expectations, and hence an understanding of the broader concerns of society expressed in community expectations becomes a necessary precondition for an organization's survival. The theory focuses on the assumption that an organization must retain its social role by responding to society's needs and giving the society what it wants (Shocker and Sethi, 1974; Suchman,1995; and Deegan, 2002).

Institutional Theory

According to institutional theory, organizational behavior is conditioned by the expectations stemming from the institutional environment. Institutional theory is concerned with examining and explaining how institutionalized norms and pressures affect social change among organizations. This theory is slowly but steadily emerging as a useful theoretical framework in relation to the environmental implications of an organization's operations and behavior. The institutional framework emphasizes the importance of regulatory, normative and cognitive factors that affect firms' decisions to adopt a specific organizational practice.

Stakeholder Theory

Freeman and Reed (1983) identify stakeholders as "those groups who have an interest in the actions of the corporation." In a follow-up study, Freeman (1984) revisited stakeholder theory and redefined stakeholders as any individual or group who has an interest in the firm because he (or she) can affect or is affected by the firm's activities. Carroll (1991) defines a stakeholder as 'any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization.

Theory of sustainable Development

This is one the socio-environmental theories that is focusing on the relationship between present and future development, the major goal of the concept is economy advancement and maintaining stable environment. In 1987, the Bruntland Commission published its report, *Our Common Future*, in an effort to link the issues of economic development and environmental stability. The sustainability of environment is now a problem due to the advancement in technology, economy and population increase which poses to environment. The major factors like social, economic and environment needs to be integratedto form policy for sustainable development.

Environmental Accounting and Firms Profitability (Empirical Review)

Author	Objective	Methodology	Result and Conclusion
Ahmad, Waseer, Hussain & Ammara (2018)	The study investigate relationship between environmental accounting and non-financial firm's performance listed in Pakistan Stock Exchange Pakistan.	Regression analysis technique (REM).	The empirical analysis showed a significant positive relationship between environmental accounting and firm's size. Based on the results, it is suggested that government must give some tax relief, to those firms, which work for the environmental protection and reporting should be compulsory in Pakistan to have a clean homeland.
Nwaiwu & Oluka (2018)	The study empirically examines the effect of environmental cost disclosure and financial performance of quoted oil and gas companies in Nigeria.	Pearson product moment coefficient of correlation and Multiple linear regression analysis.	The econometric results review adequate disclosure on environmental cost compliance to corporate environmental regulations have positive significant effect on financial performance measures.

Charles, John – Akamechi & Umeuduagu (2017)	The study investigates the relationship of environmental financial performance of food and beverages companies in Nigeria.	Secondary sources, Pearson's correlation statistical technique and Multiple regression.	The study revealed that there is a significant relationship between environmental accounting disclosures and return on equity of selected companies. It also revealed a negative relationship between environmental accounting disclosure and return on capital employed and net profit margin of selected companies.
Nnamani, John Nnaemaka, Onyekwelu, Uche Lucy & Ugwu (2017)	Evaluates the effect of sustainability accounting on the financial performance of listed manufacturing firms in Nigeria.	Regression analysis.	The study reveals that sustainability reporting has positive and significance effect on financial performance on firms studied.
Eze, et al., (2016)	The study examined environmental accounting issues and the effects of these environmental factors on the life of Nigerians.	Primary data, secondary data and Survey research design.	It was discovered that environmentally friendly organizations' who voluntary disclose their environmental activities enjoy high level of competiveness.
Omnamasivaya & Prasad (2016)	The study examined the factors determining the environmental disclosure information by taking a sample of NIFTY 50 companies from National Stock Exchange (NSE).	Descriptive Statistics and T-Test.	The results show that there is a positive relationship between Environmental Accounting Disclosure Index (EADI) and profitability, financial leverages, industry type and legal ownership and negative relationship between EADI and corporate size, age and foreign operations.
Neetu Prakash (2016)	The study indicated that the association of annual reports of eighty-five (85) Indian companies.	Descriptive Statistics.	The study shows that Indian companies environmental accounting on a voluntary basis with in a positive manner. The study also highlights some suggestions for the encouragement of environmental accounting in India.
Magara, Aming'a & Momanyi (2015)	Focused on the impact of environmental accounting on financial performance of corporate organizations in Kisi country.	Questionnaire, Secondary data and Descriptive Statistic.	Findings revealed that perceived financial performance of the corporate organizations in general was in good status as perceived by the employees and it shows that revenue generation has been improving, cash flows are seen to be in a good state and profitability has been on the increase.

Bassey, Sunday & Okon (2013)	The study examined the impact of environmental accounting an organizational performance with reference to oil and gas companies operating in Niger Delta Region of Nigeria.	Primary and Secondary data, Pearson's product.	It was found from the study that environmental cost satisfied relationship with firm's profitability and concluded that environmentally friendly firms will significantly disclose environmental related information in financial statements and reports.

METHODOLOGY

The study aims at establishing whether there is any significant relationship between environmental accounting disclosure and profitability of selected firms quoted on the Nigerian Stock Exchange (NSE). The research design used for this study is Ex-post factor research design. Ex-post factor deals with the determination, evaluation and explanation of past events essentially for the purpose of gaining a better and more reliable prediction of the future (Amahalu, Obi, Abiahu & Okosuogwe, 2015).The research methods involved an initial scrutiny of the companies' annual reports to observe the incidence of environmental practices. Each company's annual report was being carefully examined to achieve the set objective of the study.The data set consist of panel dataset from 2012 to 2017 for eighteen randomly selected quoted companies in Nigeria Stock Exchange in which three each is selected from different sectors in the manufacturing and servicing sector.

Table 1: List of Selected Listed / Quoted Companies

Name of Company	Sectors
Capital Oil	Oil & Gas Sector
Forte Oil	
Conoil	
Access Bank Nigeria Plc.	Banking Sector
Fidelity Bank Nigeria Plc.	
GTBank Nigeria Plc.	
Flourmills of Nigeria Plc.	Consumer Goods Sector
Cadbury Nigeria	
Honeywell Nigeria Plc.	
Julius Berger Nigeria	Industrial Sector
Lafarge Africa	
Dangote Cement	
Aiico Insurance	Insurance
Linkage Assurance	
Wapic Insurance	
May & Baker	Healthcare Sector
Fidson Healthcare	
Evans Medical	

Source: Author's Computation

In order to find the relationship between the different variables, the data were then analyze using multiple regression analysis through the use of econometric model. The model is specified below;

EAD = *f* (EPS, NPM, ROCE, DPS)

$$EAD = \beta_0 + \beta_1 EPS_1 + \beta_2 NPM_2 + \beta_3 ROCE_3 + \beta_4 DPS_4 + \mu$$

Where;

EAD	=	Environmental Accounting Disclosure
EPS	=	Earnings per Share
NPM	=	Net Profit Margin
DPS	=	Dividend per Share
μ	=	Stochastic error term
β_0,	=	Constant
$\beta_1 - \beta_4$	=	Coefficient of independent variables

DATA ANALYSIS AND INTERPRETATION

Table 1: Pooled Regression

Dependent Variable: EAD
Method: Panel Least Squares
Date: 22/04/19 Time: 22:27
Sample: 2012 2017
Periods included: 6
Cross-sections included: 18
Total panel (balanced) observations: 108

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.128784	0.041257	3.121502	0.0031
ROCE	-0.175033	0.223027	-0.784808	0.0366
EPS	0.404973	0.226715	1.786267	0.0006
NPM	0.171761	0.264934	0.648317	0.0203
DPS	0.176817	0.304236	0.581184	0.0042

R-squared	0.085877	Mean dependent var	0.177800
Adjusted R-squared	0.026260	S.D. dependent var	0.056795
S.E. of regression	0.056044	Akaike info criterion	-2.848729
Sum squared resid	0.144484	Schwarz criterion	-2.695768
Log likelihood	75.21824	Hannan-Quinn criter.	-2.790481
F-statistic	1.440487	Durbin-Watson stat	2.582647
Prob(F-statistic)	0.224226		

Source: E-view, 2019

This model pooled all the 108 observations together neglecting the cross section and series nature of the data, the major problem with this model is that it does not allow heterogeneity or individuality of the sectors considered in the models. The result shows that Return on capital employed hasnegative relationship with environmental accounting disclosure while earnings per share, net profit margin and dividend per share have positive relationship with environmental accounting disclosure. Also, the result reveals that all the variables, that is return on capital employed, earnings per share, net profit margin and dividend per share all have significant impact on environmental accounting disclosure.

Table 2: Fixed Effect

Dependent Variable: EAD
Method: Panel Least Squares
Date: 22/04/19 Time: 22:27
Sample: 2012 2017
Periods included: 6
Cross-sections included: 18
Total panel (balanced) observations: 108

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.150465	0.044308	3.395868	0.0015
ROCE	-43.58210	252.3980	0.965072	0.0050
EPS	431.6494	69.38876	6.220740	0.0000
NPM	1293.364	1000.331	-1.292936	0.0094
DPS	0.000352	0.000785	0.449178	0.0084

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.877453	Mean dependent var	0.177800
Adjusted R-squared	0.840362	S.D. dependent var	0.056795
S.E. of regression	0.055637	Akaike info criterion	2.794289
Sum squared resid	0.130010	Schwarz criterion	2.488366
Log likelihood	77.85723	Hannan-Quinn criter.	2.677792
F-statistic	1.294420	Durbin-Watson stat	2.104758
Prob(F-statistic)	0.000093		

Source: E-view 2019

In this model, all the variables are statistically significant at 5% level of significant, that is return on capital employed, earnings per share, net profit margin and dividend per share are statistically significant which denote that they all have significant impact on environmental accounting disclosure.

Table 3: Random Effect

Dependent Variable: EAD
Method: Panel EGLS (Cross-section random effects)
Date: 22/04/19 Time: 22:31
Sample: 2012 2017
Periods included: 6
Cross-sections included: 18
Total panel (balanced) observations: 108
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.133590	0.042024	3.178856	0.0026
ROCE	-0.182949	0.231577	-0.790012	0.0336
EPS	0.358332	0.241959	1.480962	0.0054
NPM	0.636479	0.290777	2.188887	0.0378
DPS	24034458	3246905.	7.402267	0.0000

Effects Specification

	S.D.	Rho
Cross-section random	0.011920	0.0439
Idiosyncratic random	0.055637	0.9561

Weighted Statistics

R-squared	0.065251	Mean dependent var	0.147197
Adjusted R-squared	0.004289	S.D. dependent var	0.055360
S.E. of regression	0.055241	Sum squared resid	0.140372
F-statistic	1.070358	Durbin-Watson stat	2.646450
Prob(F-statistic)	0.370951		

Unweighted Statistics

R-squared	0.085027	Mean dependent var	0.177800
Sum squared resid	0.144619	Durbin-Watson stat	2.568743

Source: E-view 2019

The result shows that all the variables are statistically significant at 5% level of significance, this reveals that all the variables have significant impact on environmental accounting disclosure. However, return on capital employed has a negative relationship while earnings per share, net profit margin and dividend per share has a positive relationship with environmental accounting disclosure. After the entire estimation, the researchers decide the best model to accept between fixed effect model and random effect model using Hausman Test. The following hypothesis was formulated for decision making. The rule states that if the p value is less than 5%, we shall reject null hypothesis, otherwise accept alternative hypothesis whereby null hypothesis means that Random Effect model is appropriate while Alternative hypothesis means that Fixed Effect model is appropriate.

Table 4: Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.347580	4	0.0179

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var (Diff.)	Prob.
ROCE	243.5821	-0.182949	0.016562	0.0307
EPS	431.6494	0.358332	0.034016	0.0250
NPM	-1293.364	0.636479	0.021412	0.0032
DPS	0.000352	24034458	0.032981	0.0120

Source: E-view 2019

The results of Hausman test are; chi^2 (2) = 1.34 and Prob > chi^2 is 0.0179. This implies that we reject Random Effect and conclude that Fixed Effect (FE) is more efficient than Random Effect (RE). In this case, Hausman test reveals that fixed effect is appropriate. Hence, we adopt the result from the fixed effect model as basis to interpret the relationship between the dependent variable and independent variables in our model.

Interpretation of the Fixed Effect (FE) Regression

The result of the FE shows that there is negative relationship between environmental accounting disclosure and return on capital employed, this means that a unit increase in return of capital employed will lead to 43.58210 reductions in environmental accounting disclosure. There is positive relationship between earnings per share and environmental accounting disclosure, this shows that a unit increase in earnings per share will lead to 431.6494 increase in environmental accounting disclosure. Also, net profit margin has a positive relationship with environmental accounting disclosure which means that a unit increase in net profit margin will lead to 1293.364 increase in environmental accounting disclosure. Lastly, dividend per share has positive relationship with environmental accounting disclosure which indicate that a unit increase in dividend per share will leads to 0.000352 increase in environmental accounting disclosure. The result also shows that return on capital employed, earnings per share, net profit margin and dividend per share are statistically significant which indicates that they have significant impact on environmental accounting disclosure. The R^2 with 0.8774 shows that about 88% of the variation in the dependent variable are explained by the explanatory variables in the model. The Durbin-Watson statistics shows the absence of serial autocorrelation. Also, F-statistic reveals that the explanatory variables are jointly significant.

SUMMARY AND CONCLUSION

The study examines the effect of environmental accounting disclosure on the profitability of selected firms quoted on the Nigerian Stock Exchange (NSE) from 2012 to 2017. Profitability was proxied with return on capital employed, earnings per share, net profit margin and dividend per share. Pooled regression, fixed and random effect regression were all carried out in the analysis. Hausman test revealed that Fixed Effect regression is the most appropriate for the study. The result reveals that return on capital employed has a negative relationship but a significant impact on environmental accounting disclosure while earnings per share, net profit margin and dividend per share have a positive relationship and a significant effect on the environmental accounting disclosure.

RECOMMENDATIONS

Based on the findings made in the course of this study, the following recommendations are provided:

i. Government should enforce compliance of environmental accounting disclosure in the company's annual reports and accounts.
ii. Government should give tax credit to companies that have been complying with its environmental laws and that environmental disclosure should be made compulsory in Nigeria so as to improve the performance of companies and the country as a whole.
iii. Environmental friendliness, firms' competitiveness and firms' corporate performance/profitability are found to be positively related. This in effect meant that, when firms are environmentally friendly, they enjoy competitive advantage which subsequently results in high corporate performance/profitability.
iv. Environmental accounting standards should be published locally and internationallyand reviewed continually to ensure dynamism compliance.
v. Accountants should be trained on environmental accounting and reporting. Likewise, the environmentalists should be conversant and comply with the relevant environmental laws and regulations of the nation.

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