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Original Research Article

Corporate Governance, Ownership Concentration and Environmental Reporting in Nigeria

Mgbame Chijoke Oscar and Omokhuale Ofure Peace*

Department of Accounting, Faculty of Management, University of Benin, Edo State, Nigeria.

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Demonstrating good corporate governance and maintaining sound environmental performance are among the key challenges facing an organization. In an attempt to investigate the linkage between these two essential aspects, this study examines how significant corporate governance is in explaining the extent of environmental reporting. This study reviewed conceptually, the works of various authors on corporate governance and environmental reporting and performance. Giving that there are various characteristics of corporate governance namely, board independence, CEO duality, management, ownership, board size and composition, it was found that indeed corporate governance characteristics affects and influences the extent of environmental reporting. This study recommends that a detailed and well spelt environmental disclosure themes and evidence be established to provide a foundation for improving corporate social environmental disclosures. In addition, the study calls for the implementation of good corporate governance practices by introducing a sufficient level of independent directors that can ensure transparency, objectivity and also solve the agency's theory conflict and ensuring companies report more voluntary information regarding environmental performance and other aspects.

Keywords: Corporate governance, Environmental reporting, Ownership concentration, Board of directors, Corporate social responsibility, Corporate governance characteristics.

INTRODUCTION

Nigeria like many developing nations is under pressure to exploit her natural resources in order to attain a measure of economic growth and development. Studies by Aghalino (2009), reveals that the environment is put under excessive strain as Nigeria oil has been exploited for over 40 years and the cost on the environment has been enormous. In the past, corporations and individuals often ignored environmental issues, but however, times have changed as stakeholders now realize the effects of waste products and the damage it has done to the society. (Xiaping 2003).

Environmental reporting since introduced in the nineties has been an effective tool in managing the environment. Leading global companies around the world have used environmental reporting to enhance their eco-efficiency and resource productivity. Also, the increasing external pressure from many stakeholders such as financial institutions, government, socially responsible investors and community lobby groups (members of host communities) among others, are now making companies have more interest in environmental accountability issues (Banerjee 2002). Since environmental reporting is done on a voluntary basis, various literatures focus on identifying factors that influence companies to disclose environmental issues, internal and external pressures from the society, board size, composition and independence enhance the level of disclosure.

Following the scandal of high profile companies such as Enron, WorldCom and some other companies in the US, the public started to question the integrity and effectiveness of monitoring mechanism in organization, Raphaelson & Wahlen (as cited in Buniamin, Alazi, Johari and Rahman, 2011). Therefore, it was claimed that a greater emphasis should be made in internal context which include boards, particularly to increase shareholders insight and influence on corporate behavior in organizations (Kolk, 2006). In essence, they are apparently accountable for any decision (particularly the decision to be responsible and disclose environmental information) made by management to serve in the best interest of the shareholders (Bunianmin et al 2011). The proper report on environmental performance is now gaining significant interest in the business community, and as the number of

**Corresponding Author: omokhualeofure@gmail.com*

potential readers' increases, the transparency of the result should be assured and reliable with this development, it seems that environmental concern and corporate governance require consideration of the impact a corporation has on the wider community and the environment, Andrew (as cited in Bunianmin et al 2011).

The key motivation of this study is to examine whether corporate governance practices are significant in explaining the extent of environmental reporting by corporations. Fulfilling the best practice of corporate governance and voluntarily reporting on the environment are manifestations of these two distinct but interrelated spheres of performance. To the best of my knowledge, very little has been done in this area. This study attempts to identify any association between corporate governance characteristics, ownership concentration and the existence of environmental reporting, taking it from a conceptual view.

LITERATURE REVIEW

According to Dramanik, Shil & Dan (2008), corporate environmental reporting can be defined as an umbrella term which describes the various means by which firms disclose information on its environmental activities to its users. Corporate environmental reporting is the process by which a corporation communication, information regarding the range of its environmental activities to a variety of stakeholders, including employees, local communities, shareholders, customers, government and environmental groups.

The major objective of environmental reporting is to provide information to present and potential stakeholders in making rational decisions. The information should be comprehensive to those who have a reasonable understanding of business and economic activities as well as of environmental impacts caused through these activities and who are willing to study the information with reasonable diligence. Corporate environmental reporting serves many different purposes for different stakeholders, they include:

- To empower people with the information they need to hold corporation accountable and invites shareholders more fully into the process of corporate goal-setting.
- To allow companies and their stakeholders to measure firms adherence to the standard set forth in their statements of environmental principles, and their various goals and objectives.
- To permit investors to harness the power of capital markets to promote and ensure environmentally-superior business practices.
- To allow society to understand the false implications of corporate activity, thereby to design more sustainable local and global systems.
- As an internal driver of change, it helps illuminate weakness and opportunities and set new goals.

The main reason for incorporating environmental information within the annual report is to increase stakeholders' awareness of firms' activities, performance and interactions with its environment, Jones (as cited in Dramanik et al 2008).

The method of reporting among companies has grown over the years. Various means of reporting are relied upon when conveying environmental report to stakeholders, among them are magazines, newsletters, press releases and corporate booklets. Nevertheless, annual reports have been the primary means of reporting, although the 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 (Bassey, Effiok & Efio, 2013).

FACTORS INFLUENCING ENVIRONMENTAL REPORTING

Environmental reporting is usually influenced by various factors which includes awards, which are one of the global initiatives designed to promote and encourage business organizations to actively disclose and report their issues. Among them are the "ACCA Awards" in UK, the "GREEN Reporting Awards" in Japan and the "WWF Annual Environmental Awards" in South Africa. Also pressure from various groups has also influenced the development of voluntary exercises.

For instance internal pressures from employees are due to their worries on the work environment and wanting to ensure that the firm they are working for is doing the right thing environmentally. Also top management is interested in the financial benefits that environmental strategy can offer to the business. A range of external groups, including environmental organizations, government and public community are also increasing, demanding for extensive environmental reporting (Dramanik et al 2008).

Environmental reporting and disclosure around the world today are encouraged through the voluntary local and international guidelines. These guidelines design and build acceptance of a common framework for reporting of environmental information in sustaining corporate public accountability.

DISCLOSURE OF ENVIRONMENTAL REPORTING INFORMATION

The environmental accounting guidelines (2005), recommended the voluntary disclosure of environmental accounting information from the standpoint of the external functions of environmental accounting, by means of the environmental report. Corporate organizations are engaging more actively in environmental disclosure in their annual financial statements. This is peculiar with more financially successful companies, for example, American companies to disclose environmental information in annual reports.

Disclosure entails the release of a set of information relating to a company's past, current and future environment management activities, performance and financial implications. It also comprises information about the implications resulting from corporate environmental management decisions and actions. These may include issues such as expenditures or operating costs for pollution control equipment and facilities; future estimates of expenditures or operating costs for pollution control equipment and facilities.

It also includes sites restoration costs, financing for pollution control equipment or facilities, present or potential litigation, air, water or solid waste releases; description of pollution control processes or facilities; compliance status of facilities; among others. Discussions of environmental regulations and requirements; environmental or conservation policies, environmental awards or prizes; existence of environmental management or audit departments, are contained in the long list (Akhaiyea, 2012).

Soonawalla (2006) observes that the main environmental issues in financial reporting are:

- Environmental costs, whether to expense or capitalize.

- Classification of environmental costs
- Disclosure on details and / or breakdowns about environmental costs
- Treatment of environment-related financial impacts on assets
- Treatment of liabilities and contingent liabilities and how to recognize these
- Measurement of liabilities and contingent liabilities
- Environmental reserves, provisions and charges to income
- Impact of accounting rules (GAAP) on corporate behavior
- Environment information to be disclosed in greater details.

CORPORATE GOVERNANCE

Organization of Economic Development and Corporation (1999), defines corporate governance as involving "a set of relationship between a company's management, its boards, its shareholders and other stakeholders". Cadbury (2000) see "Corporate governance as being concerned with holding the balance between individual and communal goals". The Corporate governance framework helps encourage the efficient use of resources and equally requires accountability for the stewardship of these resources.

The essence of this framework is to align as nearly as possible the interest of individuals, corporation and society (Oghojafor et al, 2010). Corporate governance provides a structure through which companies objectives are set and the means by which these objectives are attained and monitoring of performances are determined. This structure specifies the distribution of rights and responsibilities among different participants in an organization such as the board, managers, shareholders and stakeholders and spell out the procedures and rules for making decisions on corporate affairs (OECD, 1999).

Corporate governance has become a global issue, leading to countries around the world amending their stock exchange listing requirements, legal system as well as developing new codes of best practices to conform to corporate governance principles (Okoi, Ochen & John 2014). There has been a considerable interest in corporate governance practices among corporations, particularly since the high profile collapse of a number of large U.S. firms like the Energy Corporations Enron of 2001 and WorldCom, Adedipe (as cited in Okoi et al 2014). This development forced national government and regional economic organization to come up with various codes and guidelines to get business to behave decently. One of such institution is the Organization for Economic Corporation and Development (OECD) which has undertaken much work on corporate governance for a number of years. The first code of good corporate governance, focused mainly on publicly quoted companies while coming to assist government in improving the legal, institutional and regulatory framework that underpins corporate governance.

Corporate governance arrangement varies from country to country, as there is no single framework that is appropriate for all countries. In the past five years, corporate governance has become one of the most debated corporate issues in Nigeria. In 2003, Security and Exchange Commission (SEC) of Nigeria set up a committee and came up with a code of best practices for public companies in Nigeria. In 2005, the institute of directors of Nigeria set up a centre of corporate governance to champion the cause of good corporate governance amongst its members. The Nigeria code of corporate governance is primarily aimed at ensuring that managers and investors of companies carryout their duties within the framework of accountability and transparency. The essence is to ensure investors protection, full disclosure of executive action and corporate activities to stakeholders, assurance of performance related executive compensation and full disclosure of executive compensation Myers (as cited in Okoi et al 2014).

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

According to Gill (2008), corporate governance traditionally specified the rule for business decision making which applies to the internal mechanism of the firm. The set of norms and law has sharpened the relation among the board of directors, shareholders and managers. Yet in the aftermath of Enron, corporate governance emphasizes issues far beyond this traditional focus to touch on corporate ethics, accountability disclosure and reporting, as companies are constantly seeking to assure investors and regulators that they are fully transparent and accountable.

Simultaneously, corporate social responsibility (CSR) movement has developed the notion of corporate governance as a vehicle for pushing management to consider broader ethical considerations. CSR has joined the political endeavors to make corporations more attuned to public, environmental and social needs by pursuing corporate governance as a framework for boards and managers to treat employees, consumers and communities similar to, if not the same as stockholders.

Marsigha & Falautano as cited in (Jamki, Safieddine & Rabbath 2008), suggest that good corporate governance and corporate social responsibility initiative are gradually advancing from a philanthropic variant of corporate capitalism to authentic strategies intended to regain the trust of clients and society at large. While corporate governance implies "being held accountable for" CSR means "taking account of" and both mechanisms are increasingly being used by firms to regulate their operation.

Aras & Crowther argue that there are three basic principles which together comprise all the CSR activity, they include: sustainability, accountability and transparency. Corporations should readily account for their environmental activities and produce relevant environmental information through transparency. CSR is a developmental process and changes as organization mature in their behavior and attitude towards both their stakeholders and their ideas concerning social responsibility.

CORPORATE GOVERNANCE AND ENVIRONMENTAL REPORTING

In Nigeria, SEC and CAC approved board of directors, shareholders and audit committee mechanisms of corporate governance. The board of directors is considered the most important governance mechanism. The board of director, traditionally are assigned with two roles: the monitoring (control role) and the advising (service role).

The monitoring function which has to do with internal and external governance mechanism which are set with the objective of monitoring management's behaviour on behalf of shareholders given the potential for conflict of interest arising with the separation of ownership and control, there are several governance mode that enhance monitoring intensity, for example, within the board of directors, we can identify the presence of independent directors and separation between the CEO and audit committee and chairman, board size, board composition and separation as an enhancement.

Several studies carried out on the effect of board size, composition and board independence on environmental reporting, a study by (Ienciu, 2012) reveals that board size and independence affect the level of environmental reporting. Regarding the correlation between the characteristics of corporate governance and the level of voluntary reporting, a series of studies has been in conduction. For example Rao et al (2012) investigated the relationship between environmental reporting in corporate attributes of Australian companies; the paper demonstrated a significant positive relationship between the extents of environmental reporting in the proportion of independent in female directors on board.

Works by Sanchez et al (2011) analyzed the disclosure practice of Spanish companies as it relates to environmental reporting, findings show that companies where the chairperson of the board is the same person as the CEO and where there is lower frequency of meeting discloses a greater amount of environmental strategic information. While study conducted by Gul & Leung (2004) on Hong Kong listed entities shows that the executive manager's dual role (executive is also the chairman of the board) is associated with less voluntary reporting.

Barako et al (2006) study analyzed the way corporate governance attributes, shareholder structure and company characteristics influence the level of voluntary reporting for Kenyan companies, the characteristics going through analysis as an independent variable include: the proportion of non-executive managers, the management system (unitary or dualist), existence of audit committee. The authors prove the presence of a positive association between the proportion of non-executive managers within the board and the number of voluntary reporting.

Studies by Ienciu (2012) found a negative correlation between the size of the board and environmental reporting; showing that large boards are not very effective and therefore such boards should have a large number of non-executive independent directors in order to ensure the objectivity and transparency of information.

Mallin et al research analyzed the disclosure of the 100 US best corporate citizen, the result suggest that monitoring mechanism of corporate governance have a positive effect on the likelihood that company's commitment to CSR and improve their performance. Buniamin et al (2011), study analyzed whether the composition and quality of board of directors influence managers to disclose more environmental information in Malaysia, the analysis revealed that only 28% of companies disclosure environmental information in annual report with 6.2% reported in separate environmental section, also the study identifies that board size and management ownership are significant in influencing the extent of environmental reporting in Malaysia.

OWNERSHIP CONCENTRATION AND ENVIRONMENTAL REPORTING

A set of possible factors that may interfere with the intensity of firm's environmental reporting has been considered, as is the case of profitability, leverage, firm size, sector, and more recently, ownership structure. Considering that ownership structure matters for a number of firm policies it is very feasible to consider that it may also influence firm's environmental reporting policy. Firm owners and managers have worried about corporate social responsibility (environmental reporting) since it started to be considered as an additional way a firm may to improve its image and reputation (Robertson, 2009). The nature of the relationship between ownership concentration and corporate governance structure has been the core issue in the corporate governance literature. It is generally accepted that ownership structure is an important component of corporate governance literature. Up till now a different aspect of ownership structure are considered, for instance being managerial or non-managerial ownership, concentration or dispersion ownership, whole or retail ownership, internal or foreign ownership, institutional or individual ownership (Gugong, Arugu & Dangago, 2014).

Ownership concentration is a form of ownership structure and it refers to the amount of stock owned by individual investors and large block shareholders (investors that hold at least 5% of equity ownership within a firm. Ownership concentration measures the existence of large shareholders in a firm (Usman & Yero 2012). In the works of Cristomo, Freire & Parente, 2012, they analyzed whether CSR (environmental reporting) influences ownership structure in Brazil, specifically, ownership concentration or the presence of a controlling block holders, the results showed a positive relationship between ownership concentration and CSR (environmental reporting), the finding signals that indeed, CSR seems to benefit ownership concentration.

Now looking at ownership structure from various perspectives, several researches have been conducted on managerial ownership and firms' performance/reporting. Managerial ownership is the ownership of shares by members of the board, some finding find a positive relationship between managerial ownership and firms' performance/reporting while others find a negative relationship. Institutional ownership which plays an important role in firm's governance can be banks, mutual funds, insurance companies, societies and religious bodies. A number of studies have sought to evaluate the link between institutional ownership and firms' performance/reporting, the result was mixed, some shows there is no relationship while some find a positive relationship (Gugong et al, 2014).

According to Obembe, Adebisi & Adesina (2011) study, foreign ownership, which is an ownership of shares by foreign investors reveals that foreign ownership has a positive effect on firm's reporting. It is seen that foreigners on the board of a company may signal compliance with the international corporate governance system. It can be seen that results related to the association between CSR (environmental reporting) and ownership structure are still initial and inconclusive.

THEORETICAL FRAMEWORK

Positive agency theory

This theory provides a framework for linking corporate governance to environmental (voluntary) disclosure. According to the agency theory a company with high agency cost will try to reduce them by increasing the extent of voluntary disclosure and employing an intensive monitoring device, like the presence of outside directors on a corporation's board Voluntary disclosure is a function of the governance structure of a firm and managers' attitudes to disclosure changes accordingly to the tradeoff of the costs and benefits involved. Because disclosure is selective, managers exercise discretion in the disclosure of information.

Previous theoretical models of voluntary disclosure predict that, in the presence of disclosure related costs, firm will disclose only when their performance level exceeds a certain threshold while below the threshold will not.

RECOMMENDATION/CONCLUSION

This study was initiated to examine whether corporate governance practices is significant in explaining the extent of environmental reporting by corporations, Also to identify any association between corporate governance characteristics, ownership concentration and the existence of environmental reporting, taking it from a conceptual view. From the review of several literatures, it can be said that corporate governance practices significantly affect the extent of environmental reporting though voluntary and corporate governance characteristics like board size, composition and independence positively influences the level of environmental disclosure and performance.

In this light, the study on the extent to which corporate governance affects corporate environmental reporting, recommends that a detailed and well spelt out environmental disclosure themes and evidence must be established to provide foundation for improving corporate social environmental disclosures among companies and for a standard setting bodies to set up guiding principles or accounting standards in order to improve the financial and non-financial environmental disclosures of listed companies. In addition, the study calls for the implementation of good corporate governance practices by introducing a sufficient level of independent directors that can ensure transparency, objectivity and also solve the agency's theory conflict and ensuring companies report more voluntary information regarding environmental performance and other aspects.

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