International Journal of Research
e-ISSN: 2348-6848
p-ISSN: 2348-795X
Volume 07 Issue 08
August 2020

Corporate Governance and Environmental Sustainability Reporting of Deposit Money Banks in Nigeria

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Abstract

Environmental discharge is an obligation and right because the information is used by different stakeholders to help in making decision. However, Nigeria still linger far behind on the issue of environmental sustainability and corporate governance. It is on this note that the study seeks to examine the effect of cooperate governance specific characteristics and environmental sustainability. Using the population of fourteen (14) deposits money banks, ordinary linear regression was used to analyze the data. The result the effect of corporate attributes on environmental sustainability reporting has statistical significant relationship with environmental sustainability reporting among deposit money banks in Nigeria. The study recommends that sustainability activities should be put into consideration when strategic plans of the organization are carried out.

Key words: Corporate Governance, Environmental Sustainability, Foreign Ownership, Board Diversity, Audit Committee Meetings and Board Committee

Introduction

Environmental reporting worldwide occupies a place in organizations tactics. Those organization that operate in environmentally industries like gas and oil industry, provide environmental information for improvement their image by the public and other stakeholders gain legitimacy of existence disclosing the information help companies to improve and influence society's perceptions with regard to their operations. The environmental disclosure is an obligation, a right, the information is used by different stakeholders to help in making decision. At last it lead to favourable corporate performance.

Studies has been carried out on the field of environmental sustainability because of the environmental problems associated with it with emphasis on business management (Delgado Pedauga & cordon, 2016; Cheng, Loannou & Serafeim 2014). However, developing countries like Nigeria still linger far behind on the issue of environmental sustainability and corporate governance sustainability.

The broad objective of the study is to examine the effect of corporate governance specific characteristics on environmental reporting in Nigeria.

Literature Review and Theoretical Framework

Board Diversity

The concept of diversity in the management and operational level has been widely accepted by some of the listed companies, and some even have a Board Diversity Policy. According to Rao and Tilt (2015), board diversity has been given enlightenment recently especially since the board role has become the main issue being debated. Zainal, Zulkifli and Saleh (2013) mentioned that the board would fulfill various functions such as monitoring the management and providing resources and strategic directions to the company's operation. Therefore, the board is expected to have some characteristics that are classified into few categories, such as, demographic, personality competencies, characteristics and values. (Zahra & Pearce 1989). These characteristics may enhance the ability of the board in making proper decision regarding sustainability strategy/initiatives and reporting.

Sustainability concerns with long-term planning of companies on ways to sustain in the business as well as being acceptable by the society/community. It must address simultaneously the interlinked aspects of the environment, economy and social well-being (Rao, Tilt, 2015). In order to sustain, companies need to have good sustainable strategy and decision- making. Despite being a communication tool, SR is also one of the strategies and reporting is as a result of the strategic decision- making processes (Haniffa & Cooke, 2005). Therefore, SR will reflect the board diversity impact on the sustainable decision.

Audit Committee Meeting and Foreign Ownership

Audit committee effectiveness is enhanced during meetings to reassure and improve their accuracy including its quality (Beasley, Carcello, Hermanson, & Neal 2009). This meetings is done to increase vigilance associated with financial reporting. Foreign investors may have different knowledge and value due to their market exposure or the regulatory requirements in their home country. Khan, Muttakin, and Siddiqui, (2013) argued that disclosing environmental cost and liabilities provide signal to stakeholders.

Methodology

The population of the study comprises all the deposit money banks that are quoted on the Nigeria Stock Exchange (NSE). As at January 2018, there were twenty one (21) deposit money banks listed on the Nigeria stock exchange. Sample selection will be based on a filter. The sample will consist of the fourteen (14) Nigerian banks that have up to date data. The fourteen (14) listed deposit money banks will represents the sample size for this study, for a ten (10) year period spanning from 2009-2018. The ten (10) years period is chosen in order to have a fairly, reasonably, reliable and up-to-date available financial data.

Ten years period (2010-2018) was covered. The study will provide empirical evidence that would be available in literature for the benefit of government, practitioners and other users of the information. It will equally contribute to existing body of knowledge and enhance the quality of literature in the areas of environmental sustainability reporting in Nigeria.

Table 1: measurement of variables

s/n	ESR	The study used a dichotomous procedure to note either zero or one for each item reported in the environmental information category, (Lu etal, 2015).
1	BOD	A dummy variable 1 if at least one female director is on the board and 0 otherwise.
2	ACM	A dummy variable of 1 if audit committee have met at least two times and 0 otherwise.

3	FOP	A value of 1 where the company is an affiliate of foreign based company 0 otherwise
4	BC	Take value of one where there is board committee on environmental sustainability

Researcher's computation, 2020

Model: Corporate Governance and Sustainability Reporting Model

$$ESR = \beta_0 + \beta ACMit + \beta_2\, iBOD + \beta_3 FOWN_{it} + \beta_4 BC_{it} + z_{it} + \epsilon$$

ESR = Environmental Sustainability Reporting

BOD = Board Diversity

ACM = Audit Committee Meeting

FOP = Foreign ownership Present

BC = Board Committee

β_0 = constant

β = variables that vary across companies but do not vary over time

ϵ = error terms over the cross section and time.

it = cross section of listed companies time variant

Results

Table 2: Statistics

VARIABLES	MEAN	STD DV	MAX	MIN	OBSERVATION
ESR	0.93	0.26	1	0	140
ACM	0.85	0.35	1	0	140
BC	0.87	0.32	1	0	140
BOD	0.91	0.29	1	0	140
FOP	0.35	0.30	0.98	0.01	140

Sources: E-view 9.0 Output 2020

Table above showed the mean of Environmental Sustainability Reporting (ESR) is 0.93 representing average across the Deposit money banks. It is also observed from the table the difference the mean Environmental Sustainability Reporting and standard deviation across the bank. The table also showed that the maximum and minimum of Environmental Sustainability Reporting is 1 and 0 indicating a much closed range.

The mean Audit Committee Meeting (ACM) as indicated in the above table is 0.85 meaning that the average proportion of the banks in the study with a standard deviation of 0.35 indicating a very low variability among the variable. The table also revealed minimum and maximum of 0.00 and 1 respectively.

The table also revealed that on average 87% of the sampled firms has Board Committee (BC) for environmental sustainability reporting in Nigeria. The standard deviation is 0.32. The minimum and maximum values as shown by the table were 0.1 and 0 respectively.

Also Foreign ownership Present (FOP) as indicated in the above table is 0.35% meaning that there is average proportion of foreign ownership of the banks in the study. The standard deviation of 0.30 is an indication of a very low variability among the variable in the study. The table also revealed minimum and maximum of 0.01 and 0.98 respectively.

Table 3: ***Correlation Matrix***

	ESR	*ACM*	*BC*	*BOD*	*FOP*
ESR	1.000000				
ACM	0.679366	1.000000			
BC	0.151632	0.098206	1.000000		
BOD	-0.088736	-0.130615	-0.043595	1.000000	
FOP	0.059660	-0.122010	-0.213629	0.178429	1.000000

The result on Table 3 presents the correlation matrix of the variables in the model. The matrix showed that the degree and direction of the association between each pair of variables being analyzed. A correlation coefficient with negative sign reveals that there is an opposite relationship between the two variables. The correlation result below indicates that audit committee meeting, board committee, and foreign present all positive correlated to environmental sustainability reporting while on the other board diversity is negatively correlated.

Normality Test- Data normality test was conducted to ensure that the sampled data does not contain outliers that will produce spurious regression results. The test was conducted using Shapiro-Wilk test for normal data. The full result of the test is presented as appendix and it shows that except for the interaction between audit committee financial expertise and auditor industry specialization which has z-statistics value that is significant at 1%, all the other variables were not significant. The result implies that the dataset for the study is normally distributed.

Variance Inflation Factors (VIF)

The Variance Inflation Factors (VIF) test for multicolinearity was further performed to reaffirm the assumption of the absence of multicollinearity problem owing to the low correlation value earlier reported in the correlation analysis above, all the values are close to the value of 1 and far below the bench mark of 10. This is an indication of complete absence of multicollinearity among the independent variables.

Panel Unit Root Test

The panel unit root test was carried out on Table 1 using the Levin, Lin and Chu (LLC) and the Im, Pesaran and Shin (IPS) tests, which assumes a common unit root process and an individual unit root process respectively to assess the stationary of the panel data.

The result of panel unit root test of all the variables is presented on appendix i. A test is stationary where its critical value is statistically less than the 5% level.

The result of the Levin, Lin and Chu (LLC) and the Im, Pesaran and Shin (IPS) tests indicated that the ESR, FOP, BOD, ACM and *BC* data for both tests were all stationary at levels (1(0)). These tests indicated that the panel data set for this study met the stationary condition.

Dependent Variable: ESR

Method: Least Squares
Date: 06/09/20 Time: 13:47
Sample: 1 140
Included observations: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.380303	0.083024	4.580642	0.0000
ACM	0.504486	0.045696	11.03998	0.0000
BC	0.094839	0.049430	1.918664	0.0571
BOD	-0.022100	0.055422	-0.398763	0.6907
FOP	0.151130	0.055508	2.722652	0.0073

R-squared	0.496475	Mean dependent var	0.928571
Adjusted R-squared	0.481555	S.D. dependent var	0.258464
S.E. of regression	0.186102	Akaike info criterion	-0.489981
Sum squared resid	4.675592	Schwarz criterion	-0.384922
Log likelihood	39.29866	Hannan-Quinn criter.	-0.447288
F-statistic	33.27741	Durbin-Watson stat	2.393983
Prob(F-statistic)	0.000000		

The regression line for listed money deposit banks in Nigeria(ESR=0.38+0.50ACM+0.09BC- 0.022BOD+F0.15FOP) indicates that environmental sustainability reporting will increase by 0.50, 0.09 and 0.15 respectively for every 1% increase in ACM,BC and FOP respectively and also decrease by 0.22 for 1% increase in the BOD . The significant value of the p- value of 0.0000 is less than the t-value of 0.05, null hypothesis of the study was rejected while the alternative hypothesis of the study was accepted that the effect of corporate attributes on environmental sustainability reporting has statistical significant relationship with environmental sustainability reporting among deposit money bank in Nigeria.

Table above also reveals an R^2 value of 0.50. The R^2, which represents the coefficient of multiple determination implies that 50% of the total variation in the dependent variable (environmental sustainability reporting) of deposit money bank in Nigeria is jointly explained by the explanatory variables (audit committee meeting, board committee, board diversity and foreign ownership). Though the R^2 of 0.50 may appear not too high, it does not constitute a problem to the study because the F- statistics (Prob.>F = 0.000000) indicates that the model is fit to explain the relationship expressed in the study model and further suggests that the explanatory variable are properly selected, combined and used: The remaining 50% is explained by variables not captured by this study.

Conclusion and Recommendation

Regarding Audit Committee Meeting and Environmental sustainability Reporting, the regression result revealed a positive significant effect on audit committee meeting and Environmental sustainability Reporting. Also, when variable board committee is considered, the regression result revealed a statistical significant effect on environmental sustainability reporting. Furthermore, when variable board diversity is considered, the regression outcome revealed an insignificant effect on environmental sustainability reporting in Nigeria. Finally, when variable like foreign ownership is considered, the regression result indicate a statistical significant on effect on environmental sustainability reporting in Nigeria. The result the effect of corporate attributes on environmental sustainability reporting has statistical significant relationship with environmental sustainability reporting among deposit money banks in Nigeria. The study recommends that sustainability activities should be put into consideration when strategic plans of the organization are carried out.

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