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International Conference on Accounting Studies (ICAS) 2015
17-20 August 2015, Johor Bahru, Johor, Malaysia

A theoretical framework on the relationship between political connection, board characteristics and environmental disclosure in Nigeria

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Abstract

The poor environmental performance and by extension low level of environmental disclosure evident in the annual reports of quoted Nigerian companies have aroused stakeholders concern about the condition of the environment. The main objective of this study is to x-ray the relationship between political connection, board characteristics and environmental disclosure. The quantitative approach will be adopted using data from the annual reports of the sampled companies. The theoretical framework is built on the legitimacy theory with support from the agency and managerial power theory. It is envisaged that the study will engage corporate organizations to adequately provide for environmental information in their internal policies. The study will facilitate environmental cost reporting responsiveness and disclosure to investors and environmental regulatory bodies.

Keywords: Environmental disclosure, board characteristics, corporate governance, political connection.

1. INTRODUCTION

Stakeholder concerns about the conditions of the environment have taken centre stage locally and at the global front. The occurrence of natural and man-made environmental disasters such as landslides, oil spillage, flooding and others have become a major challenge (Yusoff, Lehman, & Mohd Nassir, 2006). Over the past decade a number of accounting research have centred on social and environmental issues and generated a lot of debate (Yusoff & Lehman, 2009). Stakeholders are been seen to grant preference to firms they perceive to be good corporate citizen (Mahoney, Thorne, Cecil, & LaGore, 2013).

Considering the role of corporate governance is indeed important at this junction, against the backdrop of the pertinent governance issues erupting in the corporate world. This has led to a number of countries coming up with codes and guide of corporate governance for companies operating within their jurisdiction (Rossouw, 2005). The issue of corporate governance involves the application of mechanisms that align executive activities with the stakeholder's interest (Aguilera, Filatotchev, Gospel, & Jackson, 2008). Most of the empirical studies involving corporate governance have been examined from the point of the agency theory, and have explored links between different corporate governance attributes and the performance of firms (Aguilera et al., 2008).

Also, another consideration this study will address is the role of political connections as it has been seen to play a role in developing countries (Poon, Yap, & Lee, 2013), following the increased studies that have been done on

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political connection in recent times (Zhou, 2013). A number of practical environmental issues caused by the activities of companies have been observed to plague the Nigerian environment. They range from oil spills in the southern part to flooding and erosion in the east, to desertification and drought in the north (Ewepu & Olasupo, 2014). The onus thus lies on the board of directors to ensure that these environmental issues are addressed by management. As such, it has been noted that the effectiveness of the board in terms of its characteristics could enhance these monitoring role and ensure better environmental performance and subsequent more disclosures (M Akhtaruddin, 2010).

However, the board's effectiveness is hindered by the problem of information asymmetry (Fama & Jensen, 1983), which has been adduced to be responsible for a number of corporate collapse in Nigeria (Oteh, 2013). Furthermore, studies have also examined the role of political connections in the running of companies as such firms enjoy a number of benefits from the government for example bail outs in times of financial crisis (Faccio, 2006), controlling capital (Johnson & Mitton, 2003). Political connections have also been shown to weaken the governance structure in the organisation and affect firm performance. Therefore the main objective of this study is to x-ray the relationship between political connection, board characteristics and environmental disclosure. In addition, it will also investigate the moderating effect of CEO incentive and board gender on the relationship between board characteristics and environmental disclosure. The study is the first research to the best of the researcher's knowledge with this combination of variables.

The poor environmental performance and by extension low level of environmental disclosure evident in the annual reports of companies stated on the Nigerian Stock Exchange (NSE) against the backdrop of the increased expectation by stakeholders toward the identification of approaches to address effectively environmental concerns motivates this study. Owolabi (2009) in a study of non-financial companies found 35 percent of the sampled companies to provide some sort of disclosure. More recently, Ajibolade and Uwuigbe (2013) found the level of disclosure slightly lower at 24.29 percent. Therefore, it is envisaged that the study will engage these corporate organizations to adequately provide for environmental information in their internal policies. The study will facilitate environmental cost reporting responsiveness and disclosure to investors and environmental regulatory bodies.

Also to benefit immensely from this study, are management, government, host communities and shareholders. Management of companies interested in aligning their disclosure practices with that of global standards, government and its agencies in developing a regulatory framework for companies, host communities in resolving the crisis and agitations it currently faces, as the study will highlight current efforts made by these companies. Therefore the proposed framework for this study will ensure that the study meets the expectations of the stakeholders and meets the objective of the study.

2. LITERATURE REVIEW

2.1 Conceptual definition

Issues concerning the environment are of recent being considered by most organisations and individuals as important and warrant urgent attention (Asaolu & Osemene, 2009; Sulaiman & Mokhtar, 2012). Sulaiman and Mokhtar (2012) further stresses that efforts geared towards waste minimization and efficient use of energy can result in enormous gain for the organization. The rise in pollution level alongside the increase in environmental degradation, climate change due to the effects of global warming and ozone layer depletion have increased the consciousness of the general public on environmental matters (Jaggi & Zhao, 1996).

An attempt to conceptualise the issue of environmental disclosure have been faced with challenges. Dahlsrud (2008) reveal that most of the early definitions of CSR failed to include the environmental facet. Magness (2006) further asserts that there have been large inconsistencies between information disclosed an actual performance making the concept of environmental disclosures difficult to define. Also, various terminologies have been used in literature to refer to address environmental issues as it relates to financial reporting for example, environmental disclosure (Alarussi, Hanefah, & Selamat, 2009), environmental expenditures (Cho, Freedman, & Patten, 2012), environmental reporting (Buniamin, 2010), sustainability reporting (Herda, Taylor, & Winterbotham, 2013), environmental accounting (Donwa, 2011) and environmental management accounting (Sulaiman & Mokhtar, 2012) etc. Despite the shortcomings, various researchers have attempted to conceptualize the issue.

Sen et al. (2011) define environmental reporting as "an umbrella term that describes the various means by which companies disclose information on their environmental activities" (p.139). Wilmshurst and Frost (2000) went further by describing environmental disclosure as those disclosures that relate the physical environment to the company's activities. From a monetary perspective, environmental disclosure could be seen as a consideration of the monetary values of the impact of the environment including the consideration of outlays and revenue (Okafor, 2012). This means that a company that takes environmental accounting seriously should come up with an equitable value of its use of the environment. In Nigeria very few researchers have made efforts to define the concept. Ajibolade and Uwuigbe, (2013) define environmental accounting as an effort by firms to promote effective corporate governance, ensure sustainability through sound business practices. Donwa (2011) stressing the importance of environmental accounting asserts that it provides for proper monitoring of natural resources and the impact it has on the health, environment and well-being of those living in such areas and also how those resources can be managed to ensure sustainable development.

2.2 Determinants of Environmental Disclosure

The literature on determinants of environmental disclosure have followed a trend from research that basically examined the role of firm specific characteristics for instance (Ahmad, Hassan, & Mohammad, 2003; Buniamin, 2010; Cho et al., 2012; Freedman & Jaggi, 2005; Magness, 2006; Salama, Dixon, & Habbash, 2012; Smith, Yahya, & Amiruddin, 2007) to studies that investigated the role of a variety of corporate governance attributes (Akrout & Othman, 2013; Alarussi, Hanefah, et al., 2009; Alarussi, Selamat, & Hanefah, 2009; Choi, Lee, & Psaros, 2013; Fodio & Oba, 2012; Herda et al., 2013; Sun, Salama, Hussainey, & Habbash, 2010).

In the case of governance attributes Herda et al. (2013) found that board independence explains firm's sustainability reporting decision as well as the likelihood of issuing a higher quality sustainability report. Examining moderating relationship, Sun et al. (2010) examined the moderating effect of board size and audit committee on the relationship between earnings management and corporate environmental disclosure. It was found that audit committee diligence affected the relationship. The case in developing countries was slightly different from studies in developed countries as the results for the influence of corporate governance variables were mixed. For example Akrout and Othman (2013), investigating corporate environmental disclosure in 153 companies from the Middle Eastern and North African (MENA) region using information obtained from websites, tested business culture, family ownership, government ownership and internet penetration found family ownership to be negatively related to disclosure. Similarly, Alarussi, Selamat, et al. (2009) investigating whether internet environmental disclosure can be explained by ethnicity of the chief executive officer, level of technology, existence of dominant personality, profitability and size using data from 201 Malaysian companies found ethnicity to positively influence environmental disclosure information.

Finally, to the Nigerian environment, Fodio and Oba (2012) investigated the extent to which environmental information disclosure is predicted by the gender mix of the board. The sample comprised 16 companies for the period 2005-2007. The study made use of content analysis to develop a score for the environmental disclosure information. The study found that board gender mix and presence of a female director have impact on the extent of environmental disclosure. In addition, from the literature, the proposed study will be among the earliest to the best of the researcher's knowledge to examine the relationship between political connection and environmental disclosure, as well as the moderating effect of CEO incentives, board gender on the relationship between the board of director characteristics and environmental disclosure.

3. RESEARCH METHOD

The quantitative approach will be used in this study. The data will be obtained from the annual reports and Nigerian Stock Exchange fact book for the relevant years. The study will focus on all firms quoted on the first tier market of the exchange. This tier will be selected because companies there are assumed to be large and the biggest in terms of size, and environmental disclosures has been found to be associated with size (Galani, Gravas, & Stavropoulos, 2011; Gray, Kouhy, & Lavers, 1995). The population of the study will comprise 203 firms quoted on the stock exchange as at 2013 (NSE Fact book, 2013). The sample size will comprise 133 firms based on the generalised scientific guideline for sample size decisions (Krejcie & Morgan, 1970). The unit of analysis will be the firm. Furthermore, the data will be analysed using descriptive, correlation and multiple regressions. The estimation results would be evaluated based on individual statistical significance test (t-test) and overall statistical significance test (F-test). The goodness of fit of the model would be tested using the coefficient of determination (R-squared).

3.1 Research Framework

The need for companies to ensure optimum environmental performance and environmental disclosures has been advocated. Against this backdrop, there is the need to identify factors that influence these disclosures. This study finds the legitimacy theory, agency theory and managerial power theory as an appropriate conceptual linkage in the decision to be environmentally responsible especially in a developing country like Nigeria were the development of well-established and enforceable environmental protection policies that addresses environmental related issues seems a challenge. The legitimacy theory advocates that disclosures by companies are borne out of pressure (economic, social and political) in an attempt to establish a legitimate existence (Guthrie & Parker, 1989). As O'Dwyer (2002) asserts, companies disclose environmental and social information to sway shareholders to their favour. Politically connected firms receive undue advantage from the government (Goldman et al., 2008; Johnson & Mitton, 2003; Li et al., 2008) and might choose to hide such by disclosing positive information like environmental performance. Also, a politically connected firm might choose to disclose more information to bridge the legitimacy gap between the firm and the society as such firms might face more scrutiny and pressure by the society to legitimise their activities (Sethi, 1979). Further, a number of prior studies (Ajibolade & Uwalomwa, 2013; Akhtaruddin et al., 2009; Fama & Jensen, 1983; Jensen & Meckling, 1976) suggest that governance mechanisms such as the board of directors, are important considerations to solve the agency problem that arises as a result of the separation of ownership from control. This study suggests that the board of directors can monitor management and force better environmental performance and environmental disclosure. Lastly, the managerial power theory suggests that the CEO possess power to influence certain activities of the company like the board of directors (Buchholtz, Young, & Powell, 1998; Finkelstein, 1992). The theory suggests that the more incentives the CEO possesses, the more the influence on the board to monitor management for better environmental disclosures. The research frame work is therefore shown in Figure 1 below:

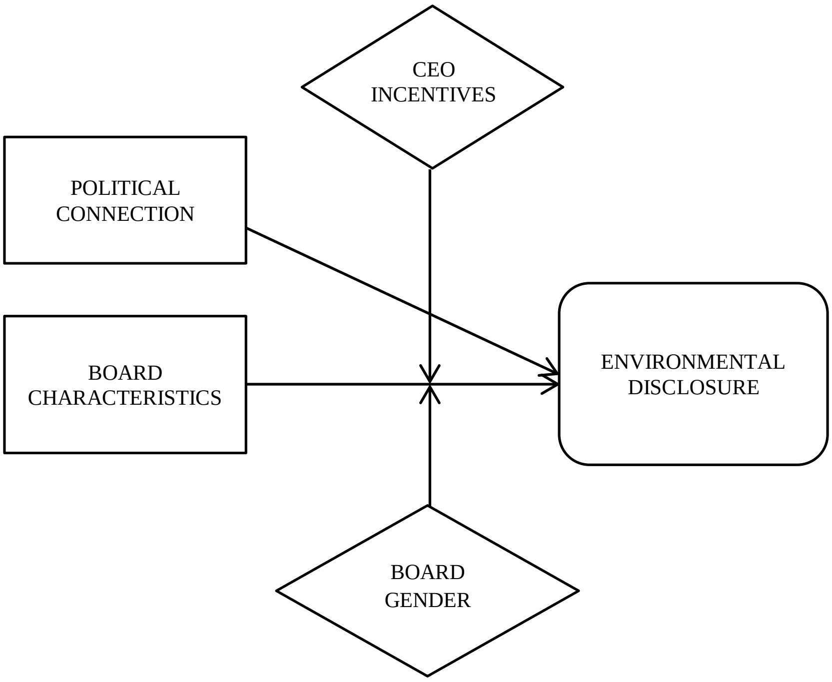

Figure 1. Research Framework

4. CONCLUSION

The overwhelming importance of the environment as against other facets of CSR actually warrants the concept to be studied separately. Justifying the focus on environment as against other components of CSR such as products, employees and society, the environment affects not just the present generation but the resources of future generations and has a global impact on all stakeholders at the same time making it extremely important to be studied exclusively. Based on the extant literature an effective board of directors and political connections of companies could lead to better environmental performance and subsequent higher disclosures, therefore the need for further research on these factors. The study will be useful to management of companies, government, shareholders, investors, and host communities. The study is an on-going PhD research.

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