CORPORATE ENVIRONMENTAL ACCOUNTING PRACTICE IN NIGERIA: 
A COMPARATIVE STUDY OF THE PERCEPTION OF PREPARES AND USERS

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Abstract
In the last decade, environmental accounting and reporting have received increasing attention from investors, regulators and other stakeholders. Some developed countries require mandatory reporting on environmental matters; but no accounting body has yet formally issued any comprehensive guidelines or standards on the issue. In this paper therefore, we have tried to define environmental accounting with its scope and also using simple percentages and chart as a means of data presentation. This paper made a comparative analysis of the perceptions of prepares and users of accounting information towards the disclosure of environmental information in annual reports of organisations in Nigeria. The paper observed that based on the 89.5% response rate 63.5% of preparers (accountants and managers) of accounting information representing a total of 165 out of the 260 questionnaires retrieved were affirmative that environmental information should be disclosed in organisation’s financial statements while 36.5% were of the opinion that the present (conventional accounting) system is sufficiently okay and therefore rejects the idea on the need for the disclosure of environmental information. The paper concludes that a positive relationship exist from the responses given by preparers and all the identified users of the accounting information.

Keywords: Stakeholders, Environmental Accounting, Nigeria, Regulators, Preparers, Environmental information,

Introduction
In the practical world of business, environmental accounting has been, until recently, a relatively minor matter of internal costs. It is related to a straightforward management accounting issue: it involves the identification and capture environmental costs, with a view to minimizing them. In the course of the last
decade, however, the theory and practice of environmental accounting has taken it well beyond the boundaries of this exercise. Environmental accounting is now seen not only as a core business issue, but as raising fundamental questions of accounting theory, and even of challenging the foundations of accounting and of the theory of business itself Kassinis and Vafeas (2006).

At a first level of analysis, it is clear that environmental impact and management is increasingly seen as relevant to all the major divisions of modern corporate practice, including marketing operations, and finance. It now figures as a major component of corporate strategy. The emphasis is moving away from the impact of environmental factors on the cost burden, to the strategic opportunities becoming available as the result of a sea-change in the marketplace (parker, 2000). This change has been led by a transformation of consumer sentiment, particularly in Europe: environmental legislation and regulation; media reporting of environmental damage; consumer concerns over environmental safety and health; consumer preferences for environmentally friendly products and services; an upsurge in community awareness and understanding of environmental issues and implications, from a wide educational base; all are well established trends, particularly in Northern Europe, but, to different degrees, in most major developed and developing markets (Gray and Bebbington, 1992).

It is a trend that is discernible even in countries that historically have largely ignored the environmental dimension of government policy, such as China: faced with catastrophic degradation of soil and water, on a vast scale, the Chinese government is beginning to incorporate environmental dimensions in major policy initiatives, including those that regulate corporate practice, in the new environment of World Trade Organization accession. Interestingly, this is a trend that is less well developed in North America and Africa where the underlying cultural belief in the intrinsic beneficence of science and technology, and of the corporations who use them, is apparently highly resistant to evidence to the contrary. Even in the US, however, the natural foods sector has been growing, admittedly on a small base, at more than 30% per year over the past decade; and American corporations are coming to terms with the fact that they cannot, with impunity, ignore consumer preferences for environmentally safe and friendly products and services (Rigby, Dan, Howlett, David and Woodhouse and Phil, 2000).

To put it bluntly, a modern company ignores the environmental dimensions of its business at its peril. Accounting theory and practice now has to reflect that new reality. Cost efficiencies are nevertheless, still central to the way in which companies think about the environment. There is nothing unreasonable in such a focus. Once systematic analysis of business operations and processes is undertaken, it generally becomes clear that environmental costs are a far greater percentage of total costs than had been realized. Typically, this underestimation is a consequence of lazy accounting practice. Overhead accounts become general dumping grounds for costs that are out of the ordinary, or difficult to classify (parker, 2000). Environmental costs are scattered across overhead accounts, and because they are not consolidated and appropriately classified, are not even identified for what they are. As a result, they cannot be effectively managed. Thus the financial returns potentially available from waste reduction, energy conservation, raw material initiatives, through identification of lower polluting materials or reprocessing, or lifecycle cost reductions are typically not captured, or captured only partially (Deegan and Craig, 1999).

In this context, the paper aims to examine literatures relating to the perceptions of key prepares and users as it relates to environmental disclosures practices worldwide. In addition, the study will basically make a comparative analysis of the perceptions of prepares and users of accounting information towards the disclosure of environmental information in annual reports of organisation in Nigeria. Finally, the paper aims to determine whether an expectation gap exist, and if it does, to use the existence of such a gap as a rationale for improvement to environmental reporting in Nigeria.

**SCOPE OF STUDY**

In the context of this study, preparers includes, accountants and managers of the oil companies located in the oil rich Niger-Delta region of Nigeria while users as have been mentioned above basically focused on environmental lobby groups (which are represented by stakeholder groups, investors, youth and community leaders, and environmental activists) located in this region. Our population samples would be the entire Niger-Delta region. However, samples for this study were drawn from Rivers State mainly because of the high level of environmental degradation in this area. In addition, the paper focused on three local government areas of Rivers State (i.e. Degema, Tai/Eleme and Bonny). In all, a total of 450 copies of
questionnaire were distributed. This amounted to a total of 150 copies of questionnaire for each of the selected local government area. That is, a total of 50 copies of questionnaire each were distributed among accountant, managers and the lobby groups in the three local government area, summing up to a total of 450 copies of questionnaire that were distributed.

RESEARCH HYPOTHESIS

**H₀**: That the perceptions of preparers and users of accounting information towards the disclosure of environmental information is negative Nigeria.

**H₁**: That the perceptions of preparers and users of accounting information towards the disclosure of environmental information is positive Nigeria.

**THEORITICAL FRAMEWORK**

Regardless, if it is legislated by law or not corporate ethical behavior is now receiving worldwide attention. For a variety of reasons, many companies around the world have implemented ethical codes of conduct. The following questions address these issues. Does having a corporate code of ethics generate glamour and sophistication? Does adopting a code of ethics ensure legal compliance, or do companies implement a code to gain legitimacy? Does a company have an ethics statement to satisfy shareholders, or does the purpose go further? We will now explore the rationale and motivation for the existence of ethics codes using the leading social theories that include stakeholder theory, legitimacy theory, and stockholder theory.

**Stockholder Theory**

An organization may adopt a code of ethics to satisfy its stockholders. Stockholder theory suggests that organizations are responsible only to shareholders, and all of the employees’ actions are directed towards maximizing shareholder wealth without breaking the law. Many organizations may be implementing codes of conduct to satisfy their shareholders. If this is the case, an organization must understand its role in the business community and recognize its limitations, because by narrowing its focus on the shareholders, it may be narrowing its possibilities in the greater society.

Under this theory, managers act as agents to the stockholders. The existence of this relationship implies that managers have a duty not to divert business resources away from the purposes expressly authorized by the stockholders, which implies that a business can have no social responsibility (Hasnas, 1998). Stockholder theory states that managers are obligated to legally follow the directions of the stockholders. In most cases, the stockholders do not give explicit directives for the purpose of maximizing the return on their investments and so it becomes the manager’s responsibility to maximize the financial returns of the stockholders.

The most famous description of the stockholder theory has been given by Milton Friedman who ironically refers to this as social responsibility. According to Friedman, (1970: 65) “There is one and only one social responsibility of business, which is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud”. It is manager’s responsibility to maximize profit by all legal and non-deceptive means.

This approach is thought to be a de-minimus approach and is argued to be unethical in its narrowed responsibilities of doing what is best for the interest of the stockholders. However, it should be pointed out that this theory is applied on the basis that managers act legally and in a manner in which the stockholders view is ethically responsible. The stockholder theory has been harshly criticized by several business ethicists. It has been described as an outdated remnant of corporate law; however it should continue to be regarded as a theory of business ethics (Hasnas 1998).

**Legitimacy Theory**

Adopting a code of ethics can legitimate corporate behavior. Legitimacy is a generalized perception that the actions of the organization are proper or appropriate within a given social system (Lehtonen, 2003). Legitimacy theory holds that companies are continually attempting to ensure that their operations fall within the norms of their societies. Adams, Burrowes, and Sparks (2001) suggest that Legitimacy is
attained through organizations convincingly showing relevant constituent groups that the processes and activities carried out by the organization are congruent with the values such groups espouse.

Deegan, Rankin, and Tobin in (2002) state that “Legitimacy theory relies upon the notion of a social contract and on the maintained assumption that managers will adopt strategies that show society that the organization is attempting to comply with society’s expectations” There are two dimensions in an organization’s efforts to gain legitimacy. The first is action; are the organization’s actions congruent with social values? The second is presentation; does the activity of the organization appear to be congruent with social values? Organizations seek to ensure that they act or appear to act within the norms of the societies in which they operate. Thus, it is possible for organizations to attempt to attain legitimacy by appearing to be doing the right things when this appearance may have little connection with a company’s actual performance (Buhr, 1998).

Since legitimacy is granted by society and its ever changing expectations, it is very possible for an organization to lose its legitimacy even if it has not changed its operations that were previously seen as legitimate. Legitimacy is granted and controlled by people outside the organization and so it is necessary for the organization to communicate its activities to the public. Since society’s expectations change so often it is important for the organization to make disclosures to show that it is also changing. The annual report is the most commonly used tool for organizations to communicate this change, and it is seen as an important document for an organization looking to shape its own “social imagery” (Deegan et al., 2002). Deegan, Rankin, and Tobin further provided evidence in their research that suggests managers disclose information to legitimize their organization’s place in society. The authors have also linked legitimizing disclosures to corporate survival. The ways in which a company chooses to gain legitimacy will differ depending on whether the organization is trying to gain, maintain, defend, repair, or extend its level of legitimacy (O’Donovan, 2002). The spectrum ranges from maintaining the status quo to going beyond the requirements of the law to taking an industry leadership role.

**Stakeholder Theory**

An organization may adopt an ethical code of conduct to satisfy the stakeholders. Stakeholder theory suggests that organizations are not only responsible to shareholders, but also that they are responsible to all individuals, group, etc. that have a stake in a particular organization (Jennings, 2003). While this viewpoint is generally more favorable than the stockholder theory, it lacks a solid framework in any schools of thought. The stakeholder theory is not well-grounded and should be regarded as an open theory. Even so, adopting a code of ethics can reaffirm an organization’s acknowledgment of the stakeholder. This acknowledgment is based on Argandoña’s concept of the common good. This concept states that:

*The theory of the common good is based on the classic concept of goo’: the company does good to many people, to some by obligation and to others by more or less involuntarily. And it must do good to certain groups by virtue of its obligation to contribute to the common good, which goes from the common good of the company itself to that of the local community, the country and all humankind, including future generations (Argandoña, 1998).*

It is apparent that the theory of common good holds a strong foundation in stakeholder theory. Through this concept we recognize stakeholders as those having some form of interest in the company or those that will be affected by the company’s actions. There are different levels of stakeholder theory, ranging from passive compliance to active involvement in society for the public good (Argandoña, 1998). The walls of the stakeholder paradigm are not impervious. This theory may never mature into a fixed theory, but it may be better off as an open theory, ever changing to meet the changing role of ethics.

Stakeholder theory is an outline commonly used for business ethics. Traditional theories state that the primary function of an organization is to maximize shareholder returns. In contrast, stakeholder theory states that the organization needs to consider the interests of any group or individual that affects or is affected by the actions of the organization.

Commentators of stakeholder theory distinguish between primary and secondary stakeholders. According to Carroll, (1991) primary stakeholders are those who have a formal, official, or contractual relationship, and all others are classified as secondary stakeholders (Chapple, Crane and Matten, 2003). Others consider stakeholder groups to be equally worthy. Therefore, if stakeholders are all equally deserving and shareholders have no primacy over local community groups, the firm’s survival is at risk (Gibson, 2000). Gibson suggests that an organization has primary duties and obligations to certain groups to which
something is owed. Additionally, stakeholder theory helps identify groups to which an organization has responsibilities (Chapple et al, 2003).

Writers have recognized that stakeholders place certain demands on an organization. The organization, in turn, must respond to these demands in order to maintain an environment in which they can operate. By strategically investing in stakeholders’ demands, organizations gain a competitive advantage by avoiding confrontation costs (Brown, Janney, Muralidhar, Paul and Ruf, 2001).

In contrast, other commentators have asserted that organizations should look after all stakeholders even though it is not profitable. This is more of a deontological approach in which organizations have a moral obligation to all of its stakeholders regardless of benefits received. This approach holds that, “You should act as you would have others do, and behave as if you could be in the shoes of the other party” (Gibson, 2000).

Dillard and Yuthas assert that in order to achieve responsible ethical behavior, an organization must use the application of stakeholder theory in conjunction with structuration theory. Structuration theory is used as a framework for exploring the forces that influence, and the changes that must precede the development and implementation of ethical decision processes (Dillard and Yuthas, 2002).

The stakeholder theory holds that management’s fundamental obligation is to ensure its survival by balancing the conflicting claims of multiple stakeholders. Management must give consideration to the interests of all stakeholders and they must manage the business to find the optimal balance among these interests when those interests are conflicting. Hasnas in (2002) states “this implies that there will be times when management is obligated to at least partially sacrifice the interests of the stockholders to those of other stakeholders. Hence, the stakeholder theory does imply that businesses have true social responsibilities”. Corporations are created by society and are therefore dependent upon society for its continuance. This creates a social contract where businesses are not only concerned about making profits, but they also have an obligation to act in a socially responsible manner. This obligation is the basis of a social contract. The idea of a social contract plays a large part in theories such as stakeholder theory, legitimacy theory, and stockholder theory. O’Donovan argues that the distinction between these theories is often blurred and a large amount of overlap appears. The main distinction between them is the viewpoint from which they are observed (O’Donovan, 2002).

However, in the context of this paper the notion or theory of legitimacy will be adopted in explaining the concept of environmental reporting. This notion states that an organisation will be unable to thrive, and indeed even survive, if its aims and methods are not in line with what that of society (Shocker & Sethi 1974). Adams et al (1998); Brown & Deegan (1998); Deegan & Gordon (1996); Lindblom (1994) and Patten (1992) are examples of environmental disclosure studies in the accounting literature that used a legitimacy framework. Lindblom (1994) describes various strategies that corporations can use for environmental reporting in an attempt to legitimize their aims and methods in the eyes of society. Companies that have the most obvious environmental impact have more reason to attempt to legitimize their environmental actions and will therefore be more inclined to use environmental disclosure.

**PRIOR RESEARCH STUDIES**

Almost the total domination of interest in environmental accounting in the late 1990s is shown very clearly in the works of Frost and Wilmshurst (1996), Deegan and Gordon (1996), Wycherley (1997), Deegan and Rankin (1999), Milne and Chan (1999), and Wilmshurst and Frost (2000).

Frost and Wilmshurst (1996) reported the results of a survey of Australian companies. They obtained a 30.4% response rate from a questionnaire sent to the Chief Financial Officers (CFOs) of companies listed on the Australian stock exchange in 1994-1995. Less than half (43%) of the respondents agreed with the statement that environmental information was useful to the users of annual reports, and only 36% agreed that accountants should contribute to environmental management within the firm. 39% supported the position that environmental issues are outside the role of accountants, and 46% opposed the mandatory disclosure of environmental information in the annual report. All together a rather dismal set of results for those favoring the extension of accounting disclosures.

Deegan and Gordon (1996) analyzed the environmental disclosure practices of Australian corporate entities in three ways. Firstly, by reviewing the annual reports of a sample of companies for the 1991 financial year, secondly, by determining the change in corporate disclosure practices for the period 1980-
1991 and thirdly, by investigating the role of environmental lobby groups. Overall, they found an increase in environmental disclosures over the period 1980-1991, but the standard of the 1991 disclosures was not necessarily very impressive, with an average of 186 words of self-laudatory material per annual report. Environmental lobby groups appeared to have an effect because there was a positive correlation between environmental sensitivity and the level of disclosure, and in some sensitive industries between environmental disclosure levels and firm size.

Wycherley (1997) interviewed 30 UK environmental managers to get their opinions about the level of assistance provided by the accountants within their organisations. Apparently the environmental managers experienced a variety of responses from their accountants, ranging from supportive provision of cost information to skepticism about the role of accounting in environmental matters and a general resistance to change. The author concluded that organisations would benefit if accountants became involved in the quantification of cost savings associated with improved environmental performance. However, environmental training would need to be provided for this to happen.

Deegan and Rankin (1999) explored the issue of a potential information supply/demand imbalance due to differing ‘perceptions’ between report users and report preparers, about the relative importance of various disclosures about environmental performance to users. The research question addressed was whether an ‘expectations gap’ existed within Australia in respect of this issue. The study surveyed the attitudes of senior executives from 462 of the largest Australian companies (the preparer group) as well as the attitudes of 474 individuals from a number of categories of report users. The authors concluded that an expectations gap existed and that in order to close the gap initiatives may have to include raising the awareness of members of professional accounting bodies, and the development of reporting standards relating to environmental and social performance.

Milne and Chan (1999) reported the results of a study of corporate social disclosures and decision-making by investors. The study attempted to determine whether narrative social disclosures in the annual report actually impact on the way investors allocate investment funds. The overall findings suggested that investors drawn from the accounting and finance professions largely ignored narrative social disclosures in making investment decisions. The authors noted that at best the decision experiment elicited a 15% switch in investment funds and called for further research to establish more clearly investor preferences.

Wilmshurst and frost (2000) reported the results of a mail survey of chief finance officers (CFOs) of selected Australian companies. The CFOs were asked to rate the perceived importance of specific factors in the decision to disclose environmental information in annual reports. Analysis of the content of annual reports and the ratings of perceived importance disclosed a number of significant co-relations, providing limited support for legitimacy theory as an explanatory link between influential factors as seen by management and actual environmental disclosures.

**RESEARCH METHODOLOGY**

The hypothesis as stated above basically intends to find out the perceptions of preparers and users of accounting information towards the disclosure of environmental information in Nigeria. In addition, the study compared the responses made by both preparers and users of financial reports.

In Nigeria, there is no onus on private companies or other kinds of businesses to prepare or publish social environmental reports; nor are the annual reports of such businesses a matter of public record. Hence, only preparers of accounting information of companies listed in the Nigerian Stock Exchange and those that are directly involved in oil exploration and processing activities were selected to represent the population of preparers. However, for the choice of preparers this study basically targeted accountants and managers (including financial directors, environmental specialists and consultants) since they are normally involved in the preparation of accounting information. On the other hand, taking cue from the work of De Villiers in (1998) users of environmental reports will focus basically on lobby groups (which are represented by stakeholder groups, investors, youth and community leaders, and environmental activists).

In other to draw conclusions from the responses of our respondents, we will make use of simple percentages and charts in analysing the results from our questionnaires.

**SAMPLE CHOICE**

To achieve the purpose of this study using the purposive sampling techniques, a total of 450 copies of questionnaires were distributed (constituting a total of 150 each to represent the accountants, managers and the lobby groups in each of the three local government areas identified).
RESEARCH FINDINGS:
From our analysis as elicited in the questionnaire, it was observed that out of the 450 copies questionnaire distributed, only 403 were retrieved, 7 were wrongly filled and 40 were not returned. This generally represents a percentage response rate of about 89.5%. Based on the 89.5% response rate, the result shows that 63.5% of preparers (accountants and managers) of accounting information representing a total of 165 out of the 260 questionnaires retrieved were affirmative that environmental information should be disclosed in organisation’s financial statements and 36.5% were of the opinion that the present (conventional accounting) system is sufficiently okay and therefore rejects the idea on the need for the disclosure of environmental information. However, on the part of the users of accounting information which the lobby groups represent, 124 respondents from a total of 143, supported the notion on the need for the disclosure of environmental information in the annual report of oil companies located in this area. On the other hand 19 respondents out of the 124 rejected the idea of environmental disclosure based on the fact that to them, the quantification of environmental impact and performance will be difficult to assess. This represented a total of 86.7% and 13.25% respectively from the user group. This result is further depicted in the diagram (1) below.

FIG.1: A DIAGRAMMATIC REPRESENTATION OF RESPONSES FROM PREPARERS AND USERS OF ACCOUNTING INFORMATION.

CONCLUSION AND RECOMMENDATIONS
From the analysis of our finding, the paper concludes that a positive relationship exist from the responses given by preparers (accountants and managers) and all the identified users of the accounting information. Also, the paper is of the opinion that an expectation gap exist between preparers and users of accounting information. Therefore, the study calls for concerted effort on the part of the accounting bodies to be more proactive in setting environmental reporting standards that will meet the needs of preparers and users of this information, and to a large extent will be in line with the suggestion of the theory of legitimacy as discussed in the literature. Finally, the paper recommends that the issue of environmental reporting should be a matter of government to determine, and as such, machinery should be put in place to come up with a framework for improved accounting disclosure guidelines/standards that will incorporate matters relating to environmental issues and impacts.

REFERENCES


