# An Exploratory Study of the Level of Social and Environmental Disclosures by Listed Firms in Nigeria

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**Abstract:** This study examined the level of social and environmental disclosures in the annual reports of listed firms in Nigeria. It is an exploratory study utilising secondary data through the content analysis of annual reports of 84 sampled firms listed on the Nigerian Stock Exchange over a period of 2011 – 2016. Data were analysed using descriptive statistics. The study found that the level of SED in Nigeria has improved over the years with a slight improvement from previous years (n = 2056, 67.98%) even though social disclosure takes a higher proportion of such practices (n = 1668, 82.49%) compared to the level of disclosures on environmental issues (n = 388, 38.72%). The study recommends that government, regulatory agencies and financial institutions inspire responsibility on the part of firms towards environmental issues.

**Keywords:** Social; environmental; disclosure; Nigeria

**JEL Classification:** M40; Q01; Q2; Q4; Q25

## 1. Introduction

Globally, there is a growing concern for environmental responsibility among firms due to the negative impacts of firms' activities on the environment and society. Failure of corporate organisations to mitigate the negative impacts of their operations on the environment has resulted in worrisome environmental crisis around the world such as Bhopal chemical leak of 1984 and the Exxon Valdez oil spill of 1989. These events received worldwide media attention and increased concern over major issues regarding the environment (ACCA, 2015). Neglect of this role is the cause of unrest in the Niger Delta region of Nigeria (Iredele & Akinlo, 2015). The increasing spate of this crisis has therefore made it increasingly difficult for firms to ignore the problem of the environment in which they operate. Thus, it is expected that firms disclose in their annual reports of the intervention role to mitigate the negative impacts of their activities on the people and the environment. The central objective of preparing financial report is to provide information which should be comprehensible to those who have a reasonable understanding of business and

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economic activities and are willing to study the information with reasonable diligence (Alok, Nikhil & Bhagaban, 2008). However, these reports have been criticised for incompleteness because an assessment of the extent of environmental disclosures in annual reports of companies shows that this important role by firm is neglected. Gray, Kouhy & Lavers (1995) noted that the orthodox accounting paradigm is deficient because it fails to account for the full cost and impacts of business activity on a widely defined group of constituents. One of the inadequacies noted is in the area of providing copious information on the social and environmental impact of business organizations' activities and operations on society.

In response to the demand to provide greater accountability several global and national institutions like United Nation's Protocols and Agreements on Environment, Global Reporting Initiatives (GRI) and National Environmental Standards and Regulatory Enforcement Agency (Nigeria) have been created with the objectives of enunciating varying norms of interaction with environment, proposing standards for engaging stakeholders and developing frameworks for reporting on socially and environmentally impactful activities of organisations (Enahoro, 2009). As a result, within the past decade there has been a considerable increase in the number of companies that present information on their social and environmental activities.

In KPMG's international survey of Corporate Social Responsibility (CSR) reporting covering 34 countries, a notable increase was observed in the number of companies presenting CSR reports from 50% in 2005, to 80% in 2008 and 95% in 2011 (KPMG, 2011). KPMG's 2015 survey shows that countries are getting better at reporting the environmental and social trends and risks affecting their business. Emerging economies of India, Indonesia, Malaysia and South Africa have the highest Corporate Responsibility (CR) reporting rates in the world (KPMG, 2015). Unlike in 2011 survey, when only 20% of the companies included CR data in their annual report, almost 60% include CR data in annual financial reports by 2015. Thus, including CR data in annual financial report is now a firmly established global trend. It is predicted that reporting of non-financial information will soon become a required business practice and companies will need to focus on how best to integrate their financial and non-financial information

Although disclosure on social and environmental issues in annual reports seems to have increased in recent years, it appears that a wide disparity exists in the disclosure level among companies in many developing countries, including Nigeria (Uwuigbe, 2011; Iredele & Akinlo, 2015). The extent and nature of SED still varies significantly over the years, and across companies and sectors. This failure has necessitated an assessment of the current state of the level of social and environmental disclosures among listed firms in Nigeria. The objective of the study is therefore to examine the nature and patterns of social and environmental disclosures among different industry groupings of listed firms in Nigeria.

The next section of this paper provides a brief review of literature and theoretical framework. This is followed by a discussion of the research methodology and then the data analysis and results. The final section provides the discussion and conclusion of the study.

## 2. Literature Review and Theoretical Framework

### 2.1. The Concept of Social and Environmental Disclosure

Social and environmental disclosures can be is an umbrella term that describes various means by which companies disclose information on their social and environmental activities to users of financial statements (Alok, Nikhil & Bhagaban, 2008). According to Iredele and Akinlo (2015), it is the process by which a corporation communicates information regarding the range of its environmental activities to a variety of stakeholders including employees, local communities, shareholders, consumers, government and environmental groups. Disclosures entail the release of a set of information relating to a company's past, current and future activities, performance and financial implications. The disclosure also comprises information regarding the implications resulting from corporate social and environmental management decision and actions. They 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. These may also include sites restoration cost, 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 (Iredele & Akinlo, 2015).

### 2.2. Prior Empirical Studies

Studies have been conducted in the developed countries focusing on environmental disclosure. For instance, Freedman & Jaggi (1995) carried out a study in which environmental disclosure was measured against six accounting ratios to measure financial performance, the result showed that there was no long term association between pollution performance and financial performance in the pulp and paper industry. However, for very large firms with poor financial performance the pollution disclosure are more detailed. Similarly, Clarkson, Overell & Chapple (2006) investigated proactive corporate environmental policies and financial performance. Only firms with sufficient financial resources and management capabilities can pursue proactive environmental strategy. These firms will enjoy better financial performance subsequently. In 2007, Zhang & Stern concluded that financial performance has a small positive impact on current environmental performance. Financially well-performed firms tend to invest more in environmental activities.

In the developing countries, Imam (2000) conducted a study on environmental reporting in Bangladesh and reported that environmental disclosures remain at a minimal level. Other studies conducted in Bangladesh such as Shil & Igbai (2005); a study of the annual reports of 121 companies found that only 13 companies (11 percent) out of 121 disclosed the environmental related information in a qualitative way. Rahman & Muttakin (2005) also selected 196 companies in Bangladesh and gave the same result. In Finland, Niskala (1994) studied environmental accounting issues and concludes that issue relating to environmental accounting are just beginning to be evidently discussed in Finland. In Turkey, Surmen & Kaya (2003) examined environmental accounting and reporting found that like other developing countries Turkey has not seen environmental issues as a priority. In line with this, Nuhoglu (2003) also examined environmental reporting practices in Turkish companies and reported that Turkish companies' reports were lower standard and prepared under much less seriously vis-à-visa multinational companies reports. In Malaysia, Romlah et al (2002) studied the practices in Malaysian companies and showed that 74 out of 362 companies in environmentally sensitive industries provide environmental information in their annual reports. In line with this, Ahmed & Sulaiman (2004) examined the extent and type of environmental disclosures in annual reports for the year 2000 by Malaysian companies belonging to construction and industrial product industries and concluded that the extent of environmental disclosure was very low. In line with this Thompson & Zakarai (2004) concluded that environmental reporting of these companies was poor in quality and low in quantity.

In Nigeria, a large portion of the literature are based on the extent or level of environmental disclosures (Owolabi, 2008; Appah, 2011; Uwuigbe & Jimoh, 2012; Oba, Fodio & Soje, 2012; Duke & Kankpang, 2013; Iredele & Akinlo, 2015). In the study by Owolabi (2008) which involved a content analysis of 20 companies from 2002 to 2006 with a view to determining social and environmental disclosures, the findings showed that only 35% of companies sampled provided some form of social disclosure in their annual reports hence the level of disclosure in Nigeria is still very low. Appah (2011) revealed that a large proportion of firm's social and environmental disclosure is in the area of social works/community development while responsible human resources and environmental practices come second and third.

Uwuigbe & Jimoh (2012) also concluded that corporate environmental reporting practice in a developing country like Nigeria is still very ad-hoc, general, self-laudatory and voluntary in nature. Oba, Fodio & Soje (2012), examined the value relevance of environmental responsibility information disclosure in Nigeria by investigating the association between environmental responsibility information disclosure and financial performance (Return on capital employed) and they found a positive relationship between the two variables. Duke & Kankpang (2013) also examined the implications of corporate social responsibility performance of Nigerian firms using ROCE to measure performance and the result showed a positive relationship as well. Iredele & Akinlo (2015) in a study of fifty listed companies in Nigeria between 2003- 2011 revealed that the level of environmental disclosures in Nigeria is low as 74.8% of the companies do not disclose any form of environmental information while only 2.8% disclosed the monetary value of their environmental activities.

This study, being a content analysis of the annual reports and accounts of sampled firms between 2011 and 2016 is needful because previous studies in Nigeria were conducted much earlier and not many of them have examined the current level of environmental reporting activities of firms. Besides, apart from Appah (2011) in a study covering 2005 – 2007 and which combined social and environmental disclosures, many of these studies have focused more on environmental disclosures.

### 2.3. Theoretical Framework

Several theories have been used as the theoretical foundation for studies on social and environmental disclosures. For instance, legitimacy theory posits that business objectives cannot be separated from societal objectives. Therefore, firms are expected to address social and environmental concerns and also act in manners deemed appropriate by society in the pursuit of their business objective. By merging the functions of profit-seeking with accountability and social justice, firms are assured that the license to operate that society confers on them will not be withdrawn. It is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). Firms may attempt to attain legitimacy through communication or reporting. Similarly, stakeholder theory as proposed by Freeman (1984) argued that business is an integral part of a larger society comprising of different constituents or stakeholders who depend on each other and who the business depend on for the fulfilment of their respective needs. Hence, managers should give due regard to these groups by addressing their concerns. Stakeholders can be regarded as individuals or groups with a major stake in the firm and who are able to influence the firm significantly and are affected by the company's activities. They include customers and suppliers, present and prospective employees, governmental bodies and political groups, trade associations and trade unions, communities and the public at large. The need for firms to satisfy the demand of these stakeholders has therefore necessitated the relevance of the stakeholder theory as the theoretical support for this study.

## 3. Research Methods

The study adopts an exploratory approach utilizing secondary data obtained through content analysis of annual reports and accounts of sampled firms. The population for the study consist of 180 companies listed on the Nigerian Stock Exchange as at 31st December 2016. A sample of 84 companies was purposively selected based on the nature of their activities and how it impacts the environment, and after firms with incomplete data were excluded. The period covered by the study was 2011-2016. Data obtained were analysed using descriptive statistics.

### 3.1. Measurement of Social and Environmental Disclosure

Measurements of variables for the study were based on the Global Reporting Initiative (GRI) framework. Six variables, consistent with GRI framework, are identified as measures of SED. These are: (i) Environmental Protection (ii) Energy Conservation (iii) Community Development (iv) Employee Welfare (v) Product Responsibility (vi) Human Rights and Protection of Stakeholders Interest.

A kinder Lydenberg Domini (KLD) social environmental performance rating system was used to measure the SED scores (RS). A score of '1'was assigned if an operational measure is reported and '0' if it is not reported as follows;

$$RS = \sum_{I=1}^{6} r_1$$

Where:
RS = Reporting Score
$r_1 =$ A score of (1) if the item is reported and (0) if not reported.
I = 1, 2…6.
A firm could score a maximum of (6) points and a minimum of (0) under forty (40) SED parameters and checklists identified and divided into six main categories as indicated in appendix 1 (Table 1).

## 4. Data Analysis and Results

Analysis of data for this study is based on the overall level of disclosures among the sampled firms as well as the level of disclosures across industry groupings with the aim of assessing the contribution of each industry to the overall level of disclosures among the sampled industries (Table 1). Also, the nature and pattern of social and environmental disclosure in annual reports were analysed in order to determine the level of disclosure of the various SED variables (Table 2). Finally, the proportion of the disclosure on environment activities (Table 3) and social activities (Table 4) were examined.

**Level of Social and Environmental Disclosures (SED)**

The result in Table 1 shows the overall level of social and environmental disclosure among the eighty-four sampled firms. A total expected score is 3024, if all the firms were to make full disclosures of all the six SED variables for the six years under consideration. The result revealed a disclosure level (n =2056, 67.98%), and this represent above average performance of firms in social and environmental issues.

**Table 1. Social and Environmental Disclosure across Industry Groupings**

| Companies | No of Companies | Expected disclosure | Level of disclosure | Percentage of disclosure |
|---|---|---|---|---|
| Conglomerate | 6 | 216 | 157 | 72.68 |
| Financial Institution | 30 | 1080 | 688 | 63.70 |
| Construction and Building | 8 | 288 | 209 | 72.56 |
| Oil & gas | 12 | 432 | 360 | 83.33 |
| Chemical and Paint | 4 | 144 | 113 | 78.47 |
| Transport and Logistics | 3 | 108 | 64 | 59.25 |
| Food & Beverages | 7 | 252 | 195 | 77.38 |
| Breweries | 2 | 72 | 55 | 76.38 |
| Technology and Computer | 5 | 180 | 112 | 62.22 |
| Health | 4 | 144 | 73 | 50.69 |
| Media and Entertainment | 3 | 108 | 30 | 27.77 |
| Total | 84 | 3024 | 2056 | |

*Source: Annual Reports of firms*

Analysis based on industry rating showed that the oil and gas sector had the highest percentage of disclosure (83.33%). This is followed by the chemical and paint sector (78.47%), food and beverages (77.38%), breweries (76.38%) and conglomerate (72.68%), and construction and building (72.56%). The lowest level of disclosure was from the media and entertainment industry (27.77%), followed by health sector (50.60%), transport and logistics (59.25%), technology and computer (62.22%), financial institution (63.70%).

Analysis of the nature and pattern of social and environmental disclosure as captured by the six SED variables is shown in Table 2.

**Table 2. Nature and pattern of Social and Environmental Disclosure**

| SED Variables | No of Items | Percentage level of disclosure |
|---|---|---|
| Environmental Protection | 10 | 47.99 |
| Energy Conservation | 5 | 22.62 |
| Society/Community Development | 8 | 73.41 |
| Employees' Welfare | 8 | 93.06 |
| Product and Responsibility | 3 | 83.95 |
| Human Rights/Stakeholder Interest Protection | 6 | 62.90 |
| Total | 40 | |

*Source: Annual Reports of firms*

The highest form of disclosure is in the area of employees' welfare (93.06%). This pattern of disclosure is popular among the companies because the well-being of employees is paramount to the survival of firms. This is followed by product and responsibility (83.95%). Product reflects the concern of the company for generating and maintaining customer satisfaction regarding the product. Another area with significant level of disclosure is society/community development (73.41%). Firms disclose this activity in their annual reports in order to show to the users their commitment to the public. Disclosure in the area of human rights and stakeholders interest protection also showed (62.90%). The level of disclosure in environmental protection (47.99%) and energy conservation (22.62%) were not satisfactory.

Analysis in Table 3 provides further evidence on the worrisome attitude of companies in Nigeria to environmental issues. From the total expected score (1002) from environmental protection and energy conservation, the level of disclosure in this aspects is 388 representing 38.72%. The performance of all the sectors in this regard was abysmally low with the exception of leading sectors such as oil and gas (86.11%), chemical and paints (79.16%), construction and building (64.58%), food and beverages (59.52%), and breweries (54.16%) that had a high disclosure.

**Table 3. Environmental Disclosure across Industry Groupings**

| SED Variables | Environmental Protection | Energy Conservation | Expected Disclosure | Level of Disclosure | Percentage of Disclosure |
|---|---|---|---|---|---|
| Conglomerate | 22 | 8 | 72 | 30 | 17.85 |
| Financial Institution | 33 | 1 | 360 | 34 | 9.44 |
| Construction and Building | 43 | 19 | 96 | 62 | 64.58 |
| Oil & gas | 71 | 53 | 144 | 124 | 86.11 |
| Chemical and Paint | 23 | 15 | 48 | 38 | 79.16 |
| Transport and Logistics | 1 | 0 | 36 | 1 | 2.77 |
| Food & Beverages | 29 | 21 | 84 | 50 | 59.52 |
| Breweries | 12 | 1 | 24 | 13 | 54.16 |
| Technology and Computer | 12 | 4 | 60 | 16 | 26.66 |
| Health | 19 | 0 | 48 | 19 | 39.58 |
| Media and Entertainment | 1 | 0 | 36 | 1 | 2.77 |
| Total | 266 | 122 | 1002 | 388 | |

*Source: Annual Reports of firms*

The result in Table 4 shows mainly the social disclosure among the sectorial groupings. From the total expected disclosure of (2022) the Table revealed that the level of disclosure is (1668) representing 82.49%. This result indicates that the disclosure level of firms in their annual reports in the area of social activities is higher.

**Table 4. Social Disclosure across Industry Groupings**

| SED Variables | Community Development | Employee Welfare | Product Responsibility | Human Right | Level of Disclosure | % |
|---|---|---|---|---|---|---|
| Conglomerate | 28 | 36 | 35 | 28 | 127 | 6.28 |
| Financial Institution | 146 | 175 | 175 | 158 | 654 | 32.34 |
| Construction and Building | 42 | 42 | 39 | 24 | 147 | 7.27 |
| Oil & gas | 70 | 69 | 55 | 42 | 236 | 11.67 |
| Chemical and Paint | 17 | 23 | 22 | 13 | 75 | 3.70 |
| Transport and Logistics | 7 | 21 | 23 | 12 | 63 | 3.11 |
| Food & Beverages | 34 | 43 | 43 | 25 | 145 | 7.17 |
| Breweries | 12 | 12 | 11 | 7 | 42 | 2.07 |
| Technology and Computer | 22 | 28 | 25 | 21 | 96 | 4.74 |
| Health | 11 | 19 | 18 | 6 | 54 | 2.67 |
| Media and Entertainment | 8 | 8 | 10 | 3 | 29 | 1.43 |
| Total | 397 | 476 | 456 | 339 | 1668 | |

*Source: Annual Reports of firms*

Analysis based on sectorial grouping shows that the financial institution sector has the highest level of social disclosures (32.34%). This is followed by the oil and gas (11.67%).

## 5. Discussion of Findings

This study provides evidence on the level of social and environmental disclosures in Nigeria. The result showed a slight improvement in SED level among sampled listed firms (n =2056, 67.98%). It is reasonable to deduce that such progress occurs because there is greater emphasis for such disclosures by stakeholders, and failure on the part of firms is a damage to reputation. However, a higher proportion of such disclosure is in form of social activities (82.49%) of the firms, while environmental disclosure (38.72%) was minimal. This is in line with the result of previous studies such as (Mamman, 2004; Appah, 2011) which found that firms have higher tendency to reporting on their social investment activities, and there is passive reaction on the subject of environmental disclosure (Kamla, 2007; Owolabi, 2008; Uwuigbe & Jimoh, 2012, Iredele & Akinlo, 2015). This finding is a reflection of the attitudes of firms to social and environmental disclosures. It implies that firms attached importance to their social responsibilities such as employee welfare (measured through occupational health and safety, employees' training and education, management labour relations, employment security and employees' promotion, employees' benefits, employees' diversity and equal opportunity, employees' counselling, social Security scheme for employees). Another area of social responsibility which firms engage in is social/community development (measured through impact/contributions to local community, support to economically weaker sectors of the society, scholarship awards, health and hygiene, contributor to research and educational causes, anti-corruption policies and action, community awareness programme). Similarly, firms engage in social activities in the area of product responsibility (measured through safety of product of services, product research and development, customers' satisfaction and product quality) and human rights/stakeholders' protection (measured through redress of customers' complaints/grievance mechanism, ethical business practices, investor's protection, non-discrimination, freedom of association and collective bargains, employment of minorities, women and special advantaged groups).

Although the study found a low level of environmental disclosure in the area of environmental protection (measured through pollution control, waste management, compliance with environment regulation, biodiversity and conservation, use of recycled materials, environmental impact of transporting goods and materials, environmental protection awards, environment friendly initiatives, reclaiming of packaging materials) as well as energy conservation (measured through energy management policy, fuel and electricity consumption, emission and greenhouse gas/ozone depleting substances, use of alternative energy sources, promoting of energy efficient products)., this may not be unconnected with the inability of firms in Nigeria to meet up with the technology required to engage in such initiative. The level of SED practices in Nigeria is a far cry compared to the prominence that this subject has gained among corporate firms in the advanced countries. This is so because today, environmental disclosure in Nigeria is a voluntary responsibility. There is no recognised standard that mandates environmental disclosures in companies' reports. Environmental regulation also is weak as no much effort is put into the making and enforcing of environmental laws in Nigeria. The extent of disclosures found so far is because of the need for firms to strategically position themselves, improve their reputation and gain a larger market share. However, the absence of strong regulation has not encouraged a desirable level of success regarding this issue.

## 6. Conclusion

The purpose of this study is to examine the nature and patterns of social and environmental disclosures among listed firms in Nigeria. The findings therefore have implications for the government and its agencies as well as corporate institutions. If Nigeria wants to join the league of developed countries where environmental disclosure will gain prominence beyond the present status, the government must mandate social and environmental disclosure among firms. Capital market regulatory authorities such as Security and Exchange Commission, Nigerian Stock Exchange should mandate disclosure otherwise such company should not trade on the Nigerian Stock Exchange. Tax authorities should give green tax incentive for social and environmental investments. Financial institutions such as banks should make disclosure in the area of social and environmental investment by firms in the annual reports as a condition for granting loan facilities to companies. This study opens up further research on the drivers of social and environmental disclosures among firms in Nigeria.

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# Appendix 1

## Table 1. Social and Environmental Disclosure

| No | SED Variables | Operational measures |
|---|---|---|
| 1. | **ENVIRONMENTAL PROTECTION** | - Pollution Control<br>- Waste management<br>- Compliance with Environment Regulation<br>- Biodiversity and Conservation<br>- Use of recycled materials<br>- Environmental impact of transporting goods and materials<br>- Environmental Protection Awards<br>- Environment Friendly initiatives.<br>- Reclaiming of Packaging materials |
| 2. | **ENERGY CONSERVATION** | - Energy management Policy.<br>- Fuel and Electricity Consumption<br>- Emission and Greenhouse Gas/Ozone depleting substances<br>- Use of Alternative Energy Sources.<br>- Promoting of Energy Efficient Products |
| | **SOCIETY/COMMUNITY DEVELOPMENT** | - Impact/contributions to local community.<br>- Support to economically weaker sectors of the society.<br>- Scholarship awards.<br>- Health and hygiene.<br>- Contributor to Research and educational causes<br>- Anti-corruption policies and action<br>- Community6 awareness programme.<br>- Awareness programme. |
| 4. | **EMPLOYEES' WELFARE** | - Occupational health and safety.<br>- Employees' training and education.<br>- Management Labour Relations.<br>- Employment Security and Employees' Promotion.<br>- Employees' benefits.<br>- Employees' diversity and Equal Opportunity.<br>- Employees' Counselling.<br>- Social Security Scheme for Employees. |
| 5 | **PRODUCT AND RESPONSIBILITY** | - Safety of Product of Services.<br>- Product Research and Development.<br>- Customers' Satisfaction and Product Quality. |
| 6 | **HUMAN RIGHTS/STAKEHOLDER INTEREST PROTECTION** | - Redress of customers' complaints/grievance mechanism.<br>- Ethical business practices<br>- Investor's Protection.<br>- Non-discrimination.<br>- Freedom of Association and Collective Bargains.<br>- Employment of Minorities, women and special advantaged groups. |

*Source: Global Reporting Initiative (2006)*