Corporate Ownership and Sustainability Reporting: Environmental Agencies’ Moderating Effects

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ABSTRACT

In third world economies like Nigeria, the role of foreign ownership of businesses compared to local ownership on environmental issues has been given very little attention. Foreign investors may assist in the fight against environmental degradation. This research determines the relationship between environmental information disclosure and ownership structure in combination with environmental agencies using the latest version of GRI (G4). The study is a pioneer application of environmental agencies’ role in sustainability reporting and considers 81 companies in 6 environmentally sensitive industries of the economy. From a stratified random selected sample of 67 firms, the study tested for the relationship from 2009 to 2014. The outcome showed an inverse and significant relationship between environmental disclosure and ownership structure. This forced the recommendation that local ownership should be encouraged to grow at a faster rate so that a positive impact will be reflected on environmental information disclosure.

Keywords: Corporate Ownership Structure, Environmental Disclosure, Environmental Agencies

JEL Classifications: G31, H23, R11

1. INTRODUCTION

1.1. Background

Globalization has made the world interdependent. This interdependency have seen instant capital flow between countries which in turn has enable the manufacturing of products in many countries and sold to customers all over the world. Although globalization encompasses political, social and economic integration, economic progress could be said to be its greatest objective. Under globalization, advances in technology (internet) have generated more than the anticipated socio-cultural and economic interdependence. This has seen centralized economies become outdated and replaced by the more dynamic free market economies under which ownership and control of business organization were transferred to the private sector.

With these developments, emerging as well as developing economies started to encourage the attraction of steady flow of foreign financial resources (Al Farooque et al., 2007), by reducing the cost of capital, taxes and investors’ risks. To this extent, many economies’ investment could now be divided into “foreign” and “indigenous” investments. This could be seen as just one of the classification of ownership. Separation of ownership and control is also a common phenomenon (Ali et al., 2008). This may give rise to managerial ownership. There are also group ownership, family ownership, shareholder ownership, etc.

Corporate ownership defines the contribution of residual claims and decision control that has consequences on firms’ behavior (Delgado-Garcia et al., 2010) and demarcate the relationship between shareholders and independent management. Most importantly, it tries to show how much stock is owned by an individual investor (Jensen and Meckling, 1976). In short, it is about a shareholder’s interest in a company. Ownership structure is a very important factor in environmental information disclosure. Where ownership control is vested in local hands, environmental disclosure tend to be poor. In situation of foreign ownership especially by multinational corporations, compliance with sustainability standards is expected to be very high. This is because the level of recognition granted to environmental
disclosure by developing nations is yet to attain international standards as most environmental disclosures are voluntary. With the high priority given to environmental matters in developed economies disclosures on environmental issues are mandatory. In fact, most new investments are geared towards non-fossil investments (Beaudry, 2014).

The aim of this paper is to investigate the association between ownership structure based on foreign and indigenous ownership, and environmental disclosure by quoted firms in the Nigerian economy. Emphasis was laid on the role of environmental agencies as it affects policy implementation in relation to this relationship. For simplicity purpose, we have five sections in this paper. While the general background of corporate ownership structure (COS) as it relates to disclosure and environmental policy execution was discussed in the first section, the second section is a critical review of empirical works on this relationship. The third part showed the designed and scope of the study. Empirical results obtained from secondary sources were objectively analyzed in the fourth section. In the last section (section five), a general conclusion was drawn pointing out the basic findings and recommendations of the study.

2. REVIEW OF RELEVANT LITERATURE AND CONCEPTUAL FRAMEWORK

2.1. Introduction
In the early days ownership of businesses was a single venture dominated by sole proprietorship. As societies grew ownership changed from individual ownership to partnership. As societies became more developed and complex, business transactions advanced and became more competitive. Partnerships was seen as insufficient as it lacks the capacity to meet the need for modern corporate finance. The large investments needed for modern businesses cannot be met by a single or few individuals, thus the concept of corporate finance based on limited liability companies emerged which saw ownership moved to shareholders. With limited liability came the separation between ownership and control. Some control however, are in the hands of major shareholders. Others are left exclusively in the hands of independent Board of Directors (BOD). With the advent of globalization dominating businesses, most BOD are now controlled by foreign ownership.

2.2. The Concept of COS
Ownership structure according to Delgado-Garcia et al. (2010), is the contribution of residual claims and control that have consequences on firm behavior. In general terms ownership structure looks at the interest of shareholders in a company. This is dictated by the number of interest a Board member or shareholder has which, may determine his/her influence and control over the business. Jensen and Meckling (1976), sees ownership as the distribution of equity to determine voting rights, capital invested and investors’ identity. Different types of ownership could be identified with certain factors used as benchmark. Relational and transactional ownerships views the concept from citizenship perspective by emphasizing on domestic and foreign investment. Management, concentrated and institutional ownership are classified on managerial basis (Alves, 2012). Management ownership is based on ownership interest in the business. Concentrated ownership vested control in the hands of large shareholders, while institutional ownership depicts ownership by institutions. This type of ownership showed the degree of efficiency, effectiveness and financial manipulation by owners. It should be noted that higher level of ownership concentration suggests stronger minority power (Grenoble, 2010).

In Nigeria though different types of COS exists, it is much better to distinguish between indigenous (domestic or local) and foreign ownership structures. The government in recent times have open the economy and have tried as much as possible to attract foreign capital. In some exclusive sectors like natural gas, local investors lack the capital base to finance investment is such projects, foreign direct investment therefore offers the best option. In what is termed “dominant forms of ownership” Connelly et al. (2010), distinguish between inside ownership and outside ownership. Inside ownership is a situation in which interest holders to the business like managers and shareholders are in control of the organization. The advantage of this system is that it motivates the making of decisions that are consistent with owner’s interest. Members of inside ownership includes executives, board members, employees, block holders, agent owners and private equity holders. The other type of ownership called outside ownership deals with equity holders outside the organization. This type of ownership helps greatly in monitoring more carefully the actions of managers. In extending the “control” approach block holders, agent owners and private equity holders operate from outside. Ownership structure also have great impact on owners influence (Connelly et al., 2010). Owners outside the organization may dispose of their share if management’s decision did not favor them. In recent years the US and UK shareholders have applied sophisticated tactics than share disposal. Pressure of business restructuring, activism and buy-and-hold strategy are just some of the modern influence that owners can exert on management (Connelly et al., 2010).

2.3. Environmental Reporting and Disclosure
Rahman et al. (2010) argued that Friedman’s work in 1970 was the first to look at the association between business and society. His study have today led to the recognition of sustainability reporting as opposed to reports being restricted only to the financial performance of businesses. Sustainability reporting is aimed at forcing organizations to take responsibility for their actions. Environmental reporting concerns the presentation of financial and nonfinancial environmental information (Firoz and Ansari, 2010). In social/environmental reporting companies are expected to disclosure not only financial information but nonfinancial information regarding the effects of their operations on the immediate community as well. Looking from a broader perspective that includes both corporate social and environmental information Haider (2010), sees environmental reporting as consisting of information in relation with companies’ “operations, aspirations and public image” in its community. Though a precise definition, it fails to specify whether the information should be economic or noneconomic. Most importantly however, environmental reporting intends to communicate the socio-economic effects of organizations’ activities on society and the environment (Gray, 2001; Ismail and Ibrahim, 2009).
The aim of social disclosure is to communicate to stakeholders what is being done to the environment. This can determine a firm’s relationship with stakeholders. With the threat of investors moving from fossil to green investments, environmental reporting helps to attract foreign investments. All these have the advantage of assisting firms in defining their responsibilities to the community and assist management in doing proper environmental impact assessment. Notwithstanding, environmental reporting faces major challenges like the lack of internationally acceptable or recognized reporting standard and guidelines. This coupled with the shortage of environmental experts and professionals makes it very expensive to report on environmental issues.

2.4. Policy Administrators

Policy administrators has a major influence on environmental reporting. In Nigeria the major agencies in charge of environmental matters are the Nigerian Stock Exchange (NSE), Department of Petroleum Resources (DPR) and National Environmental Standard and Regulations Enforcement Agency (NESREA). As a member of the United Nations Sustainable Stock Exchange Initiative (UNSSSEI), the NSE through the sustainable stock exchange is well slated to perform a significant role in facilitating and promoting corporate performance on environmental issues to help meet the United Nations development goals (Sustainable Stock Exchange Report, 2014). The DPR oversees environmental safety operations of firms in the petroleum industry to ensure that firms are prevented from improper disposal of industrial wastes (Ikpe, 2011) by defining areas of effective regulatory control and monitoring (Osu, 2011). NESREA is in charge of environmental matters for the non-oil and gas sector.

2.5. Impact of Ownership on Environmental Disclosure

Concentrated ownership, institutional ownership, family ownership, etc. all have different impact on voluntary disclosure (Matoussi and Chakroun, 2008). Interest in firms may come in the form of large interest or small interest. Where large interests are controlled by very few (Matoussi and Chakroun, 2008), there is no need for conflict between management and large interest holders. Conflict in such situation is between large interest and small interest. Institutional ownership also exert influence on voluntary disclosure. Institutional investors have professional experience, influence, respect and protection to induce disclosure. The direct participation of family members in the BOD under family ownership allows for direct access to all information of assurance about their investments. This however, have a negative impact on disclosure as asking for more information is low (Matoussi and Chakroun, 2008).

2.6. COS Relationships

COS is a concept that have enjoyed wide coverage in empirical research. Alves (2012) related ownership structure with earnings management, Al Faroque (2012) did a comparison with emerging markets, and Aslan and Kumar (2012) looked at ownership structure with cost of debt, to name just few. Prado-Lorenzo et al. (2009) seem to be one of the few collections that have related ownership with capital structure. Basing his study on firms on the Portuguese economy, Alves (2012) discovered an inverse relationship between ownership structure and earning management. It has also been discovered that the concentration of power in corporations boosts a company’s image. However, if such concentration is in the hands of multinationals David et al. (2010), suggested that more concern would be given to growth. Firms’ financial performance is positively related to ownership (Fauzi and Locke, 2012), but with no effect on a company’s value even though tangible assets and investment opportunities relates positively with ownership (Fauzi and Locke, 2012). Prado-Lorenzo et al. (2009) posit that the ownership power on sustainability disclosure is limited. It is expected that firms that are foreign owned should disclose more in terms in sustainability (Monteiro and Aibar-Guzman, 2010; Freedman and Jaggi, 2005). This is so because considering the national background, environmental attitudes, standards and guidelines existing in most developed economies have influence on their foreign investment even though the opposite was the case in the study of Gray et al. (1996).

In developed economies pressure from social groups like Oxfam International, World Wildlife Fund and Global Justice Now seem to force them to disclose more. This is entrenched and boosted by the desire for close monitoring by owners to attract more investments (Andrikopoulos and Kriklni, 2013; El-Gazzar et al., 2006). Andrikopoulos and Kriklni (2013) and El-Gazzar et al. (2006) studies gives a positive relationship between ownership and environmental disclosure. The work of Li and Zhang (2010) showed a two-way result: One for the public sector and another for the private sector. For the private sector the relationship between ownership and environmental disclosure was positive, while for the private sector an inverse relationship was discovered.

2.7. Model Relationship Development

2.7.1. Ownership structure

There has been mixed results on the relationship between corporate ownership and disclosures. Inverse relationship was discovered by Al Faroque (2010) and Alves (2012). In their study of corporate ownership and firm performance, Fauzi and Locke (2012), Lappalainen and Nishanen (2009) and De Jorge and Laborda (2011) discovered a positive association between the two. It is expected that foreign owned firms should disclose more than their local counterpart (Monteiro and Aibar-Guzman, 2010).

The measurement of ownership structure differs a lot. The most popular measurements are expressed in percentage (Klein et al., 2005; Fauzi and Locke, 2012; Al-Farooque, 2010). Dummies has also been applied by Monteiro and Aibar-Guzman (2010). In our context dummies of 0 and 1 was applied. Where there is absolute control (more than 50%) the holder was scored 1 point. For non-control interest (below 50%) the score attracted 0 point. Given the fact that the research looked at ownership structure from citizenship perspective, dummy of 1 was allotted for foreign ownership and 0 for indigenous ownership (Prado-Lorenzo et al., 2009; Monteiro and Aibar-Guzman, 2010). Whichever have more than 50% interest was score 1 and below 50% received 0 score. The following model explains the relationship between COS and environmental disclosure. Thus:
The sample technique applied was the stratified random sample technique. Grouping the population into sectors and industries, selection was done pro rata based on the number of firms in a sector or an industry. Collin’s and Schultz’s sample selection technique as adopted by Nyor (2008) was applied at the marginal error rate of 5% to give us a sample size of 67. The data used was purely secondary and they were selected from firms’ annual financial and sustainability statements. This was then analyzed using Stata13 through content analysis, descriptive statistics and regression. Analysis was based on panel data evaluation as a result of 67 firms being analyze for a period of 6 years (2009-2014). Environmental reporting was measured with the latest version of GRI (G4). 33 key disclosure items of G4 were grouped into 10 based on disclosure characteristics. The ten groups include: Strategy and analysis, organizational profile, governance, economic issues, environmental issues, social issues, labour practices and decent work, human rights issues, product responsibility and ethical policies. For each of the 33 items a score of 1 mark was awarded. The average score then gives the simple average disclosure index (SADI) as applied by Ahmad et al. (2003), Sulaiman and Mokhtar (2012), and Monteiro and Aibar-Guzman (2010). The SADI was the instrument used to measure environmental disclosure. It ranges between 0 and 1 representing lowest and highest disclosure indices respectively.

The role of policy administrators was determine using MVI as applied by Hossain et al. (2006), Enahoro (2009) and Sulaiman and Mokhtar (2012). MVI is a ratio of actual agency performance to the expected performance expressed as 5 or as percentage. It measures the effectiveness and efficiency of environmental agencies in implementing environmental policies. The measurement process constituted a Likert scale questionnaire which, is expected to be completed by the agencies with regard to information on registered firms, environmental experts, environmental disclosure, standards compliance, degree of supervision, obstacles confronted, sanctions imposed, effects of policies, future prospects, etc. These were scored based on the firm’s record on these factors. The total score obtained was then related to the expected score and expressed to 5 to give the MVI. The result was then measured on a 5-point scale thus: Unacceptable (0.00), very poor (0.01-1.00), poor (1.01-2.00), fair (2.01-3.00), good (3.01-4.00), and very good (4.01-5.00).

4. DISCUSSION OF RESULTS

4.1. Introduction
This section is an analysis of results of the secondary data to see the outcome of the relationship between environmental disclosure and COS with the effects of policy administrators. The discussion was centered on the level and pattern of disclosure, the average ownership structure as affected by policy administrator, the type and degree of relationship that exists, and the significance or otherwise of the relationship.

4.2. Descriptive Statistics
There were some 67 firms observed for a 6 years period (2009-2014) which, totaled 402 observations. Results show that the level of disclosure was very high. It stood at 60.36%. For a developing
economy and with disclosure being voluntary, this result is very encouraging. The deviation for the standard disclosure is 0.2564 which, show an irrelevant variation for the mean or standard. Overall the least disclosure of environmental information was 6.06% while the highest disclosure in the distribution was 100% (Table 1). These results are encouraging giving the fact that environmental disclosure in Nigeria is voluntary and the standard guidelines used are not in effect “standard”. In Nigeria, environmental standards and guidelines governing all sectors of the economy – Environmental Guidelines and Standards for the Petroleum Industry in Nigeria and NESR, have no provisions for the disclosure of environmental information. These guidelines concentrated more on preventive measure and penalties for safety and environmental violations. As a member of the United Nations, Nigeria depends more on United Nations Environmental Program guidelines and standards like GRI for environmental disclosure.

Disclosure on corporate ownership is represented by either 0 or 1. The total firms observed was 402 firms. Of this total 162 firms (40.30%) are owned by indigenous investors while the remaining 240 firms (59.70%) are foreign owned (Table 2). This gives an ownership ratio of 2:3. That is, for every 2 locally owned firms in the environmentally sensitive economy there exists 3 foreign owned firms. This is reflected in the mean disclosure which gives 0.5970 result with an acceptable deviation from the standard of 0.4911 (Table 1). The minimum disclosure was 0 and the maximum 1, depicting indigenous and foreign owned respectively. In short, more foreign owned firms (59.70%) are found in environmentally sensitive firms in Nigeria than indigenous firms. It is therefore, not surprising that the rate of disclosure of environmental information is very high (60.36%). COS as is affected by policy implementation has an average disclosure of 5.35 with a standard deviation of 4.5391. With a minimum disclosure rate of 0 and a maximum of 11.56, the spread of the disclosure seem to fall within the range of the distribution.

4.3. Correlation Matrix
A very good relationship exists between environmental disclosure and corporate ownership-policy administration. The correlation matrix result for this relationship is –0.0913 (Table 3). Though a weak relationship, it gives an acceptable range and is free from collinearity as the figure does not exceed 80%. Moreover, the relationship is inverse. This implies that the more foreign firms there are in the sector/economy, the lesser the disclosure on environmental issues. Similarly, fewer foreign investments indicate more environmental disclosure. Of major importance is that the relationship is significant at 10% level of significance.

4.4. Regression Analysis
The regression result show a total significant level of 7.74% and an $R^2$ of 0.83% (Table 4). While the $R^2$ level could be regarded as too low, the significance is at an acceptable level of 10% level of significance. The rate of overall change however, between disclosures and ownership is very low. The coefficient of –0.0052 was recorded. This indicate that for every increase in foreign ownership, disclosure of environmental information will fall by 0.52%. This rate which is a fraction of 1% could be acceptable as the fall in disclosure rate is less than the increase in ownership rate. However, it should not be encourage to continue as this may have an adverse long-run effect.

The biggest question is that how come foreign firms which, are expected to comply fully with environmental disclosure are having negative impact on disclosure in Nigeria? This may be as a result of the voluntary nature of disclosure in the country. If it were mandatory there would have been a 100% compliance rate by these firms. In addition the high rate of local firms operation in these sectors offset the positive contribution made by foreign firms. Because no matter the degree of compliance by foreign firms if 40% of firms in the sectors (local ownership) fail to comply, then definitely the impact on disclosure will be negative. In the light of these it could be seen that though disclosure rate is high the negative impact of ownership may have a long-run effect.

5. CONCLUSION AND RECOMMENDATIONS
5.1. Summary
Ownership structure depicts the interest of shareholders in business. It is dictated by how much interest a board member have to exercise control over decision being made by management. The increased concern over global warming have pushed the environmental issues to the extent that nations are out for solutions to the problem. However, much attention is being paid to the issue in developed economies than in the third world. This paper is an attempt to relate ownership structure and policy administrators to environmental information disclose in environmentally sensitive sectors in Nigeria. With the sector dominated by foreign investments the question of whether or not these firms will have
positive impact on environmental disclosure, especially where the disclosure is voluntary; is very important.

Previous scanty literature on the subject matter showed that institutional ownership exerts influence on voluntary disclosure. However, family ownership exerts negative impact on environmental disclosure. Other researches have yield mixed result. This study however, attempts to view this relationship from environmental institutional perspective jointly with policy administrators. To achieve our aim, a look at 67 firms in the economy closely associated with environmental issues for the period 2009-2014 was done. The result was analyzed using Stata13 and Excel13.

5.2. Conclusion and Findings
The analysis were done by looking at the descriptive statistics, correlation matrix and regression. A summary of the outcome is outlined below:

a. There is high level of foreign investment in the environmentally sensitive sector in Nigeria. About 59.70% of foreign firms are listed under this sector as opposed to about 40.30% indigenous firms
b. Environmental information disclosure by environmentally sensitive firms in Nigeria stood at 60.36%
c. An inverse relationship exists between environmental disclosure and ownership structure with policy administrators in Nigeria
d. The relationship between environmental disclosure and ownership structure is significant at 10% level of significant
e. The degree of change between disclosure and foreign firms in the Nigerian economy is very low.

5.3. Recommendations
Though most of the results are favorable there is need for rectification and improvements in certain areas. For instance, even though the relationship between environmental disclosure and foreign investment is negative this does not mean foreign investment should be discouraged as it has its positive contribution to the economy. The authorities should however, encourage more of local investment at a faster rate than foreign investment. In this regard the efforts on disclosure will be positive.

Environmental disclosure should be made mandatory in Nigeria. If under the current voluntary disclosure system, disclosure was reported at over 60%, it means the result under mandatory will be higher. It is also important to note the low rate of response in the relationship. More should be done not only to increase the degree of change between disclosure on environmental issues and ownership structure, but to also establish a direct relationship between the two. Consequently, efforts should be directed at improving the level of significance as 10% level of significance from our result is to some extent unacceptable in social science research.

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