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# EXECUTIVE AND NON-EXECUTIVE DIRECTORS ROLE ON ENVIRONMENTAL DISCLOSURE AMONG LISTED FIRMS IN NIGERIA

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***Abstract:*** *The study established that annual reports of environmentally sensitive listed companies in Nigeria provide information on environmental issues which is very important to relevant stakeholders and other users of accounting information. Thus, the main goal of this research is to empirically examine the role of executive and non-executive directors as part of board characteristics on the disclosures of environmental issues of environmentally sensitive listed companies in Nigeria. The data used for the study is derived from annual reports of 37 environmentally sensitive listed companies during 2014. A content examination of the environmental disclosure of the sampled companies was carried out using Global Reporting Initiative checklist for the environmental disclosure. The study employed ordinary least square regression to test the established hypothesis of the study. The finding of the study shows that non-executive directors on board have a significant positive effect on environmental disclosure while executive directors are found to have insignificant impact on environmental disclosure among environmentally sensitive listed companies in Nigeria.*

***Keywords:*** *Executive Directors, Non-executive Directors, Environmental Disclosures, Environmentally Sensitive Companies*

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## Introduction

Environmental issues are the major factors in Africa in general and Nigeria as a country in particular where the challenge is not only limited to financial disclosure but environmental disclosure. The environmental problems may arise from many perspectives among which could be degradation of soil, pollution of air, water pollution and deforestation. This is in addition to desertification and crude oil spillage among others (Central Intelligence Agency, United Nation, United State of American Government, 2012). This could contribute negatively to the environment as reported by Central Intelligence Agency, United Nation, United State of

American Government (2012) which in turn could lead to climate change (Fielding & Hornsey, 2016). The environmental damages is mostly attributed to the daily activities of the firms operations in Nigeria whereby, in the process the firms caused oil spillage and flaring of natural gas, the release of chemical substances in the air, water and land (Central Intelligence Agency et al., 2012). Additionally, the activities of the firms may perhaps cause a lot of harms to the immediate environment where the firms operate (Qiu, Shaukat, & Tharyan, 2016). Among the damages that could be caused is global warming as a result of climate change and environmental pollution. Nigeria is seen as the second major contributing country globally to flaring of gas that is emission of carbon from those oil firms that operate in the Niger Delta region (Hassan & Kouhy, 2013).

Notwithstanding its environmental pollution could be attributed to all companies however, environmentally sensitive industries contribute to the environmental pollution more significant than other firms that are environmentally friendly (Aziz, Manab, & Othman, 2016). Many researchers believe that carbon and wastages are major contributors of Nigerian environmental problems among which the troubling aspect is the bases of environmental degradation in Nigeria mostly generated from environmentally sensitive industries (Eweje, 2006; Jike, 2004).

According to Vanmarrewijk and Werre (2003), the reporting of environmental activities of firms could reduce the communications gap between the firms and its stakeholders. This is seen in many firms financial disclosure where they disclosed environmental issues to overcome the complications and concerns of the society. Many companies established a social agreement between the organisations and the stakeholders regarding their environmental activities hence making environmental disclosure almost a corporate order.

Executive directors and non-executive directors that are a part of board characteristics is considered as an important mechanism to uphold the environmental disclosure of public companies. This is because they play a vital role on disclosure of both financial and non-financial matters (Cormier, Ledoux, Magnan, & Aerts, 2010; Khan, Muttakin, & Siddiqui, 2013; Michelon & Parbonetti, 2012). Nevertheless, numerous research were conducted in the area of environmental disclosure and board characteristics but limited studies were found regarding the executive and non-executive directors (Haniffa & Cooke, 2002). A lot of researchers were on the view that internal factors of corporate governance such as executive and non-executive directors on board could enhance the transparency and credibility of the disclosure of annual report rendered by companies (Cormier et al., 2010; Gul & Leung, 2004).

Adeyemi and Owolabi (2008) added that environmental disclosure is seen as the most important component of accounting, finance and even management accomplishments in the advanced countries. However, there is less attention in other countries among which Africa is considered the least where Nigeria is not in isolation (see Eweje, 2007; Adewuyi & Olowookere, 2010; Amaeshi & Amao, 2009; Amaeshi, Adi, Ogbechie, & Amao, 2006a, 2006b; Idemudia, 2010; Renouard & Lado, 2012). Even in the Africa, some studies only pay attention to South Africa (see for example Bernardi & Stark, 2018), therefore this triggered the need for additional research in the area of environmental disclosure among Nigerian firms that may possibly change Nigerian companies to be more sensitive and concern about environmental disclosure matters.

For the reason mentioned above, the main objective of this paper is to examine whether executive directors and non-executive directors could increase the environmental disclosure among environmentally sensitive industries in Nigeria. Other sections of this paper are literature review and hypotheses development, the methodology adopted, the result of the study and finally the conclusion of the research.

## Literature Review and Hypotheses Development

Those studies conducted in this area could be said to be precious literature lack theory as backing in ascertaining the relationship between the executive and non-executive directors with environmental disclosure. This is because different researchers have varied backgrounds and therefore are said to be hit by various ethics and believed (Jiang, Habib, & Hu, 2011; Orlitzky, Siegel, & Waldman, 2011).

Based on stakeholder theory, the environmental reporting permits corporations to intermingle with its stakeholders about the extent of their environmental accomplishments which include products and services to be rendered. To this end, environmental disclosure could be considered a part of resolutions of disputes between companies and its immediate concerned stakeholders (Gray, Kouhy, & Lavers, 1995).

Environmental disclosure is a method employed by corporation to achieve the environmental demands of various stakeholders. For this purpose, Gray et al., (1995) considered environmental disclosure as a means of resolving conflicts between the firms and its immediate stakeholders who are concerned about environmental activities of the organisation.

### *Composition of Board*

The board composition in terms of directors served on the board that are composed of executive and non-executive directors play a vital role on environmental disclosure practices of any organisations (Haniffa & Cooke, 2005; Kassinis & Vafeas, 2002). In addition to this role, they act directly for the associated of companies and the environmental awareness of companies (DeVilliers, Naiker & Staden, 2011). Since it is the board of directors that controls the facts disclosed in annual reports of firms, then it could be said that disclosure of environmental information is a function of board members which consist both executive and non-executive directors (Haniffa & Cooke, 2005). As a result, executive and non-executive directors are predicted to influence the environmental disclosure in the annual report of public companies.

### *Executive directors*

Executive directors play an important role in disclosure of information as they are responsible to protect of the integrity of companies. The more the firm make goodwill the better the profit of the firms thus, the more the share of the dividend for the owners of the firm (Ben-Amar & Zeghal, 2011). The executive directors is also an important aspect of board where is included in internal factors of corporate governance mechanism (Malak, 2014). Since they are concerned for the integrity of the firm, therefore it is expected that the higher number executive members on board, the extra efforts will be taken by highly experienced directors to increase the disclosure of additional information (Leblanc, 2007). Consequently, this could have more possibility of impact on the management opportunism by modifying interests of both stakeholders and environmental concerned (Sun, Salama, Hussainey, & Habbash, 2010). This is said to be in consistent with stakeholder theory. Nevertheless, it is still claimed that the greater the executive members on board the more the rise in the variety of the structure of the board in terms of their experience and qualification. A larger executive on board improves a company's capability to comprehend and address the variety of numerous stakeholder's concerned since they are responsible to protect the firms legitimacy in addition to their own personal interest (Gisbert & Navallas, 2013; Welford, 2007). Higher number of executive directors could promotes the accountability and transparency where it will lead to an increase on disclosure including environmental information (Akhtaruddin & Haron, 2010; Gul & Leung, 2004; Haniffa & Cooke, 2005). Furthermore, it permits a well stabilised system and develops a better decision while controlling conflicts among the firm's immediate stakeholders (Abidin, Kamal, & Jusoff, 2000; Akhtaruddin, Hossain, Hossain, & Yao, 2009; Donnelly & Mulcahy, 2008; Ho & Williams, 2003).

Despite so many studies on executive directors on board and disclosure in general and environmental in particular, empirical proof on the relationship between executive members on board and environmental disclosure is quite limited. Indication suffice that the existence of a positive relationship between board members and corporate environmental disclosure is documented by Cormier et al. (2010).

Considering the stakeholder theory, the larger the executive members on board, the more likely effective on decision making hence, the more the information-processing capabilities (Ho & Williams, 2003) and in turn it will increase the environmental disclosure. Thus, the following hypothesis is proposed:

***H1*** *There is a positive relationship between number of executive directors on board and environmental disclosure.*

***Non-executive directors***

The number of non-executive directors on the company's board is seen as an important aspect in promoting the voluntary disclosure of the firms' activities (Ho & Shun Wong, 2001) including environmental information (Haniffa & Cooke, 2005). The non-executive directors more often concentrate and focus more on environmental responsibility issues (Webb, 2004). For the fact that they are considered more for tackling the stakeholders concerned hence, non-executive directors ordinarily are perceived as a mechanism for monitoring, controlling and managing conflicts by many scholars (Higgs, 2003; Zattoni & Cuomo, 2010). This may perhaps fetch almost extra facts on disclosure about financial, non-financial and environmental information. Hill and Jones (1992) discovered that the further the rise of non-executive directors the healthier the board usefulness in watching managerial judgements and as a result the growths of voluntary disclosures which take into account the environmental issues. Additionally, there may possibly be supplementary neutrality by the non-executive directors and could reflect diverse stakeholders while building their deliberation along with the commendations in their final report for considerations (Gao & Kling, 2012). Contrary to the believe for abundance research on environmental disclosure on the other hand, empirical research on the association between number of non-executive directors on board and environmental disclosure is inadequate (Arena, Bozzolan, & Michelon, 2014; Haniffa & Cooke, 2005; Liao & Lu, 2009; Brammer & Pavelin, 2008). Thus, the following hypothesis is proposed:

***H2****: There is a positive relationship between the number of non-executive directors on board and environmental disclosure.*

### *Firm Size*

Firm size is considered very important factor that could influence disclosure be it voluntary or involuntary as the case of environmental disclosure (Abeysekera, 2010; Cheng, Courtney & Courtenay, 2006; Huang & Kung, 2010; Lim, Matolcsy, & Chow, 2007). The size of the firm is one of the features of company that is seen as the image of a company thus, it could result to an increase on disclosure (Arcay & Vazquez, 2005). As earlier stated, the disclosure could be financial or non-financial, intellectual or social disclosure and environmental disclosure among others. Since many studies postulate a positive relationship between firm size and disclosure such as Eng and Mak (2003), Haniffa and Cooke (2002), Huang and Kung (2010) therefore, this study postulate a positive relationship between board size and environmental disclosure.

***H3****: There is a positive relationship between firm size and environmental disclosure*

### *Profitability*

Profitability is very vital to an industry since it is an element of decision making which could lead to improvement in terms of performance of firm (Brammer & Pavelin, 2008). Even though a lot of studies are conducted on profitability in advanced countries (see Brammer & Pavelin, 2008; Cheng, Courtenay, & Krishnamurti, 2006) yet, there are limited studies on profitability and disclosure, especially on environmental disclosure in Africa (Barako, Hancock & Izan et al., 2006a). Therefore, there is need for more studies on profitability and ED in Nigeria. After review of some literature which include Brammer and Pavelin (2008), Cormier, Ledoux and Magnan (2011), Liao, Luo and Tang (2015) and Barako, Hancock and Izan (2006b) therefore, this study propose a positive relationship between profitability and environmental disclosure.

***H4****: There is a positive relationship between profitability and environmental disclosure*

## Methodology

This study is conducted to examine the relationship between board composition as executive and non-executive directors and environmental disclosure of listed environmentally sensitive industries in Nigeria for the period of 2014. The study uses secondary data from annual report. The data is extracted from the annual reports of the 37 highly environmentally polluted companies in Nigeria.

A technique of analysis called multiple regressions on the cross sectional data is utilised. This is due to the suitable of this method for this study since the issue of linearity is fulfilled. Base on the model, this study comprises the dependent variable, the explanatory variables and the control variables. Thus, the dependent variable in this study is environmental disclosure which is measured using checklist derived from Global Reporting Initiative (GRI) supported by Cormier, Magnan and Velthoven (2005). Table 1 shows the environmental disclosure checklist from GRI (2011).

**Table 1: Environmental Disclosure Checklist from GRI**

| | |
|---|---|
| | **Materials** |
| **EN1** | Materialsused by weight or volume |
| **EN2** | Percentage of materials used that are recycled input materials. |
| | **Energy** |
| **EN3** | Direct energy consumption by primary energy source. |
| **EN4** | Indirect energy consumption by primary source. |
| **EN5** | Energy saved due to conservation and efficiency improvements. |
| **EN6** | Initiatives to providee energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. |
| **EN7** | Initiatives to reduce indirect energy consumption and reductions achieved. |
| | **Water** |
| **EN8** | Total water withdrawal by source. |
| **EN9** | Water sources significantly affectted by withdrawal of water. |
| **EN10** | Percentage and total volume of water recycled and reused. |
| | **Biodiversity** |
| **EN11** | Location and size ofland owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. |
| **EN12** | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. |
| **EN13** | Habitats protected orrestored. |
| **EN14** | Strategies,current actions, and future plans for managing impacts on biodiversity. |
| **EN15** | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. |
| | **Emissions, Effluents and Waste** |
| **EN16** | Total direct and indirect greenhouse gas emissions by weight. |
| **EN17** | Other relevant indirect greenhouse gas emissions by weight. |
| **EN18** | Initiatives to reduce greenhouse gas emissions and reductions achieved. |
| **EN19** | Emissions of ozone-depleting substances by weight. |
| **EN20** | NO, SO, and other significant air emissions by type and weight. |
| **EN21** | Total water discharge by quality and destination. |
| **EN22** | Total weight of waste by type and disposal method. |
| **EN23** | Total number and volume of significant spills. |
| **EN24** | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. |
| **EN25** | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization discharges of water. |
| | **Products and Services** |
| **EN26** | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. |
| **EN27** | Percentage of products sold and their packaging materials that are reclaimed by category. |
| | **Compliance** |
| **EN28** | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations. |
| | **Transport** |
| **EN29** | Significant environmental impacts of transporting products and other goods and materials used for the organization operations, and transporting members of the workforce. |
| | **Overall** |
| **EN30** | Total environmental protection expenditures and investments by type. |

The score is applied as 1 if the items are disclosed and 0 otherwise. The total scores derived from each reporting of the company is now considered the measurement of the environmental disclosure (ED). The scoring system allows for data to a figure and this is to overcome the weakness of the content analysis as word counts (Eng & Mak, 2003).

The explanatory variables for this study is composed of executive directors (EXCDIR), defined and measured as total number of executive members on board and non-executive directors (NEXCDIR) which is measured as total number of non-executive members on board. The control variable are the size of company (SIZE) and profitability (PROFIT). Size of company is measured as total asset of the firm and profitability is measured as profit after tax. Based on these variables, the empirical results are thus based on the following regression model;

$ED_i = \beta_0 + \beta_1 EXCDITR_i + \beta_2 NEXCDITR_i + \beta_3 SIZE + \beta_4 PROFIT + E_i$

Where;

ED = Environmental disclosure score
EXCDITR = Number of executive directors
NEXCDIR = Number of non-executive directors
SIZE = Size of the firm
PROFIT = Profitability

## Results and Discussion

The result of descriptive statistic from Table 2 shows that the mean of the ED is 9.2 which indicate approximately the environmental issues disclosed in environmentally sensitive industries for the year 2014 in Nigeria is 9.2 while the minimum item disclosed in the same year is 6 and the maximum is 11.

While in the case of the explanatory variable, the minimum number of executive on board is 1 while the maximum number of executives is 11 and the mean of executive director is 3, therefore on average the industries have three executive members. It is almost the same with the non-executive directors on board as it has a minimum of 2 members and maximum of 12 members on board. The average members the industries have in 2014 with regard to non-executive directors is 6 members. Firm size has a minimum value of 0.64 million Naira with maximum value of approximately 15,181 million Naira while profitability has a minimum loss of 184 million Naira since is negative and a maximum value of 3470 million Naira.

**Table 2: Descriptive Statistics of Dependent and Independent Variables**

| | Minimum | Maximum | Mean |
|---|---|---|---|
| ED | 6 | 11 | 9.1621 |
| EXCDIR | 1 | 11 | 3.1351 |
| NEXCDIR | 2 | 12 | 5.9729 |
| SIZE | 0.64 | 15,181 | 10.2 |
| PROFIT | -184 | 3,470 | -18.08 |

In the case of ED as seen in Table 3 below, all executive and non-executive directors have positive correlation. The correlation between the executive and non-executive is weak, thus it proves to be collinearity free. This is also confirmed considering the Variance Inflation Factor (VIF) result, which provides evidence of absence of collinearity. This is because the highest VIF value is 1.38 among the variables. Since the highest VIF is less than 5 therefore, the explanatory variables are said to be collinearity free thus, this study assume no multicollinearity on the independent variables (Gujarati, 2004).

**Table 3: Correlation Matrix and VIF of the Variables**

| | ED | EXCDIR | NEXCDIR | SIZE | PROFIT |
|---|---|---|---|---|---|
| ED | 1.0000 | | | | |
| EXCDIR | 0.0974 | 1.0000 | | | |
| NEXCDIR | 0.4283 | 0.0000 | 1.0000 | | |
| SIZE | 0.1030 | -0.0376 | -0.0729 | 1.0000 | |
| PROFIT | -0.0536 | 0.4390 | 0.0363 | -0.3020 | 1.0000 |

| Variable | VIF | 1/VIF |
|---|---|---|
| EXCDIR | 1.25 | 0.7973 |
| NEXCDIR | 1.01 | 0.9943 |
| SIZE | 1.12 | 0.8940 |
| PROFIT | 1.38 | 0.7254 |

Meanwhile, OLS regression estimate is presented in Table 4 for the establishment of the relationship between the dependent and each of the independent variables. The regression results in Table 4 shows the parameters of the model, their significances values, the collective significances, the R-square of the model, the Durbin Watson and F-Statistics of the model. From the result thus, the model of the study is:

$$ED = 5.44 + 0.345\,EXCDITR + 0.897\,NEXCDITR + 5.921\,SIZE - 4.551\,PROFIT$$

The model depicts the constant ($\beta_0$) value of 5.4. This means that in the absence of both executive and non-executive directors the value of the environmental disclosure is 5.4. In related development, executive directors on board have positive relationship with environmental disclosure. However, the relationship is not significant at all level of significances. Even though, increase in executive directors on board is seen to increase environmental disclosure by the value of 0.345 as seen in the parameter of the model $\beta_1$ therefore, this study cannot conclude that the relationship. Therefore, the hypothesis developed earlier that the more the executive directors on board, the more environmental disclosure cannot be supported.

From the model, non-executive directors has positive relationship with environmental disclosure and is statistically significant. This is seen from the parameter $\beta_2$ with the value of 0.897. This indicates that an increase in non-executive directors on board by one company will improve environmental disclosure by the value of 0.897 with the econometric assumption of other thing remain constant. The findings is in line with Gao and Kling (2012), Akhtaruddin and Haron (2010), Gul and Leung (2004) and Haniffa and Cooke (2005). Hence, the hypothesis that proposed the more the non-executive directors on board, the more the environmental disclosure is supported.

From the OLS estimation, the R-squared of the environmental disclosure model is 21.9% where is indicates that jointly executive directors, non-executive directors on board, size and profitability accounted for 21.9% changes in environmental disclosure variables thereby the remaining percentage unaccounted for by the model. The model is said to be moderate since the value of R-square is greater than 10%.

Even though executive directors is not significant in explaining the dependent variable, this findings is important as the probabilities of F-statistics of the study 0.09 demonstrates a joint significance. Which means that executive directors and non-executive directors on board are jointly significant in explain changes in environmental disclosure. The Durbin Watson value of the model depicts that the model is auto and serial correlation free thus meeting the assumption of OLS. This is because the Durbin-Watson value is 2.23 which fall between 1 and 3 using rule of thumb (Gujarati, 2004).

**Table 4: Regression Results**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 5.444028 | 1.488661 | 3.656997 | 0.0009 |
| EXCDIR | 0.344702 | 0.421145 | 0.818487 | 0.4193 |
| NEXCDIR | 0.897223 | 0.324513 | 2.764832 | 0.0095*** |
| SIZE | 5.92E-10 | 9.01E-10 | 0.657449 | 0.5157 |
| PROFIT | -4.55E-12 | 8.47E-12 | -0.537055 | 0.5951 |
| R-squared | 0.219351 | Prob(F-statistic) | | 0.094735 |
| Adjusted R-squared | 0.118622 | S.D. dependent var | | 1.444200 |
| F-statistic | 2.177640 | Durbin-Watson stat | | 2.235550 |

*** Significant at 1% level. ** Significant at 5% level. * Significant at 10% level.

## Conclusion

The study established a relationship between executive directors and non-executive directors on board and environmental disclosure while controlling for size and profitability as expected base on the evidence from listed environmentally sensitive industries in Nigerian in 2014. The study proves that non-executive directors on board impacted positively on environmental disclosure while executive directors on board shows no influence on environmental disclosure. However, both executive directors and non-executive directors on board improve corporate environmental disclosure in Nigeria judging by the probability of F-Statistics. This is supported by stakeholder's theory which pre-empt the more executive directors and non-executive directors on board the better the disclosure in general. This means that more stockholders satisfaction on the operation of the firms are as a responsive to more environmental information disclosure. This could be seen as the explanatory variables, executive directors and non-executive directors on board are collectively explain the changes in environmental disclosure for environmentally sensitive companies listed in Nigeria. While non-executive directors on board is individually significant, executive directors on board is not significant on the relationships with environmental disclosure.

Therefore, this study concludes that non-executive directors on boards among Nigerian environmentally sensitive industries improve environmental disclosure significantly. The results of this study provide significant input to Nigerian companies to have more non-executive directors on the board as the non-executive directors could play their monitoring roles in promoting more environmental disclosure to satisfy the interest of various company stakeholders in order to sustain the business of companies in future (Huang & Kung, 2010).

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