Moderating Effect of Audit Quality on the Relationship between Corporate Board Characteristics and Corporate Environmental Information Disclosure in Nigeria: A Theoretical Framework Proposal

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Abstract

The main objective of this study is to proposed a theoretical framework to examine the moderating effect of audit quality on the relationship between corporate board characteristics and corporate environmental information disclosure. The component of board characteristics considered is board size, board independence, board tenure, board gender composition and foreign directors. In addition, the moderating role of audit quality on the relationship between corporate board characteristics and corporate environmental disclosure was considered. The methodology adopted in this study was content review of related literatures. The study revealed that there is a positive correlation between corporate board characteristics and corporate environmental disclosure.

Keywords: Board Characteristics, Environmental Information Disclosure, Audit Quality.

Introduction

A conscientious business conduct has turned into everyone's business involving not only the owners of the firms, but also their host operating environments. It is therefore a key priority on global economic agenda on which proper emphasis shall be laid for meeting not only the expectations of owners, but also the needs of all pertinent stakeholders and the suitability of the local operating environment for firms to thrive and prosper.

Thus, the increased responsiveness of environmental concern is now a challenge facing the corporate firms. Uwuigbe, Egbide and Ayokunle (2011) confirm that, corporate environmental disclosure as a concept has received considerable attention among corporate firms, policy makers and researchers around the globe. Therefore, firms around the world are engaged in efforts to describe and integrate environmental reporting into various aspects of their businesses.

Accounting and reporting on environment assists in accurate assessment of the effort of environmental preservation measures of firms. This led KPMG and UNEP

(2006) and Schaltegger and Burritt (2000) to assert that, environmental accounting and reporting provides a general structure for firms to identify and account for past, present and future environmental information to enhance managerial decision-making and control, and enhance other stakeholders decision making. Also Ashafoke and Ilaboya (2017) argued that; the natural environment has become an important means for companies to gain competitive advantage owing to the increasing degree of ecological problems. The degree of negative effects caused by firm's activities as environmental hazard to the ecosystem had made environmental problems a current issue across the globe. Consequently, the need to be environmentally accountable poses a major challenge to modern corporate organisations, and therefore, firms are required to disclose information regarding their impact on the environment in which they operate. However, based on the empirical review, there are limited studies on the assessment of the level of corporate environmental information disclosure especially in developing countries, hence the motivation for the present study.

Association of Chartered Certified Accountants (ACCA) (2004) observed that, environmental information disclosure is a subject of increasing importance and companies in developed countries have been providing information regarding the environmental impact. Also, Nik and Maliah (2002); Perry and Teng, (1999) confirmed that environmental information disclosure have attend considerable level in the international community, and several research studies have been conducted in the area in developed countries, but only few have been conducted in emerging nations. Delmas and Toffel (2008), Kassinis and Vafeas (2006), Buysee and Verbeke (2003) in Ashafoke and Ilaboya (2017) also confirmed that, environmental information disclosure of firms in Nigeria is very insignificant despite the current day society and various stakeholders demand, and expecting environmental accountability on the part of the firms. Failure to disclose sufficient information, including environmental information, by corporate firms to various stakeholders; despite the requirements of the law and need of the stakeholders leads to the problem of information asymmetry. Corporate environmental disclosure presents a valuable avenue for firms to maintain acceptable relationships with various stakeholders who may affect or be affected by the firm's environmental information disclosure practices and way firms respond to these.

In view of the pressing need of corporate environmental information disclosure, Rouf (2011) is of a contrary opinion, asserting that such reporting does not provide for the need of the primary users due to the fact that managers often times, think of the personal goal in the process of carrying out administrative activities which might create a difference between actual and expected disclosure. It is against this thinking that agency theory was developed providing the possibility of information asymmetry. The trust of this theory is that the firm consists of different stakeholders who may not necessarily be the owners of the business, but may affect or be affected by the activities of the business. Therefore, there is a need to establish a control mechanism that can checkmate this tendency. In order to reduce the tendency of information asymmetry, the law made it mandatory for all corporate organisations to have board of directors. The main idea of the board is to provide entrepreneurial, strategic and ethical leadership to firms, ensure that management is acting in the best interest of owners and other stakeholders through the board's advisory and monitoring functions, and in the process enhance and sustain the success of the firm over time. Therefore, Sheila, Rashid, Mohammad, and Meera (2012) in Ashafoke and Ilaboya (2017) argued that the choice to disclose or not to disclose relevant information is subject to component such as composition of the board of directors of a firm as well as other corporate characteristics.

Corporate board is saddle with the responsibility of achieving and defending the interest of the stakeholders. It is also the duty of the board to set standards of operations, procedures, policies and successful administration conveyance to the organisation in its ability in achieving the interest of the shareholders (Ali & Attan, 2013). It is based on this role that board characteristics determine the success of the board on matters such as environmental disclosure. Delmas and Toffel (2003), Kassinis and Vafeas (2006), Buysee and Verbeke (2003) in different studies agreed that the relationship between corporate board characteristics and corporate environmental disclosure has well been established in developed countries but only few studies were conducted in developing nations. Also it is a well-established fact that, the study in developed countries may not be applicable to developing nations due to many factors such as, the differences in technological development, environmental difference, economic difference, political difference and cultural difference. This justifies the need for this study.

Also, another control mechanism required by law is the appointment of external auditor who is to examine the financial affairs of the business and report on the true and fair view of the financial statement prepared by the management to the shareholders. External audit is primarily aim at ensuring that the financial statement prepared by board of directors to shareholders is reliable (Mautz and Sharaf, 1961). It is the effort of an external audit to minimize information asymmetry between management and shareholders (Fama, 1980). External audit assists in reducing the ownership gap and the control over the firm (Fama and Jensen, 1983). The function of auditor is a controlling factor employed by the firm to address agency problems and any manipulation or changes in the accounting information (Watts and Zimmerman, 1983). Under the agency theory, the relationship between managers and shareholders is such a conflictive relation. Therefore, as governance mechanisms, the study expect that, the quality of audit may moderate the relationship between corporate board characteristics and environmental information disclosure since the fundamental role of audit as well as ownership structure is to reduce asymmetry information between managers and stakeholders. Consequently, the study expects that an effective control exercise by this governance mechanism may moderate and enhance ethical and legal behaviour of corporate organisations, given the degree of the impact of firms in the Niger Delta, and the desertification in the Northern parts of the country. Therefore, there is a need to confirm this empirically which is first in its kind.

Given the above scenario, the main objective of this study is to examine the relationship between corporate board characteristics and corporate environmental disclosure of firms in Nigeria. It will also determine the moderating effect of audit quality on the relationship between corporate board characteristics and corporate environmental disclosure. The study is the first known research to the researcher's knowledge with the same combination of variables.

The scarcity of research on environmental disclosure in accounting motivates the study. Few studies, such as Ashafoke and Ilaboya (2017); Ajibola and Uwuigbe (2013); and Sanda, Mikailu and Garba (2005) on the effect of corporate board characteristics on environmental disclosure in developing countries and lack of research on the moderating role of audit quality on the relationship between dependent and independent variables are part of the motivation. The understanding and knowledge of the role of corporate board in environmental disclosure are useful to the regulatory bodies, academics, practitioners, board of directors, external auditors and stakeholders which can assist them in policy formulation, implementation and evaluation. The research will add to the existing literature on environmental reporting by developing a model that could improve the disclosure of environmental information by firms. Therefore, the proposed theoretical framework for this study may be useful tool for academics to understand the role of corporate board, and audit quality in environmental information disclosure in the future and improve on them.

Conceptual Clarification

Environment Disclosure

There are various definitions of environmental disclosure, but the most widely accepted definition is the one by the Chartered Institute of Management Accountants (CIMA). CIMA (2012) defined environmental disclosure as the public disclosure of information regarding an organisations environmental performance. It entails issues such as recognition, measurement, allocation, and incorporation of environmental cost into the business as well as the method of disclosing such information to stakeholders. Over the past decades, firms in developed countries have recognized the needs of environmental reporting. As a result, there was dramatic increase in the number of companies reporting in numerous ways. Corporate environmental disclosure is a form of internal monitoring, management and external communication, which permit organisations of all sizes to meet the growing information needs of both internal and external stockholders. The information provided by environmental disclosure is important for probity and accountability and non-disclosure may have an adverse impact on the economic decisions of the users (Ashafoke and Ilaboya, 2017). The main objective of environmental reporting is to make the society know the extent of firms contribution to maintaining environment in which they operates and to attract more local and foreign direct investment.

However, the level of environmental information disclosure differs among countries, business enterprises; especially between developed and developing countries. It depends on the culture, political, social and economic factors of the countries (Ali and Attan, 2013). Several studies have been conducted on environmental disclosure and board characteristics in developed countries (Kruger, 2010, Bernadi and Threadgill, 2010, Hannifa and Coke, 2002, Mullen, 2011; Said, Zainuddin and Haron, 2009, etc.). Most of the studies were conducted in the developed countries such as USA, UK, and emerging countries like China. Some of the variables used include board independent, board size, and board gender composition, presence of foreign directors on board, board tenure, CEO duality, and environmental disclosure as dummy variable. However, the characteristics of these variables depend on the peculiarity of each country and their context. Most of the results revealed that, there were positive and significant relationship between most of the variables identified and enhancing business performance, competitive advantage and reduced business risk. A study conducted by Paydarmansh, Salehi, Moradi and Khorrami (2014) in Iran revealed that the current level of environmental disclosure by firms in most developing countries is underdeveloped and still relatively immature. In developing countries such as Nigeria, there is still lack of research on corporate environmental disclosure while its adoption by firms is still at rudimentary stage (Palmer, 2008; Al-Shaer, Salama and Toms, 2011; Dabor and Benjamine, 2017).

The application of agency theory on the role of corporate board characteristics in corporate environmental disclosure has not been extensively examined outside developed countries. Therefore, there is a need to study the agency theory in the context of developing countries such as Nigeria. The study is to know how the identified variables solve the agency problem of conflict of interest and information asymmetry created between the principal (shareholders) and the agent (corporate management).

Corporate Governance

Organisation of Economic Development and Corporation (1999), defined corporate governance as relating to a set of relationship between a corporate management, corporate boards, shareholders and other stakeholders. Cadbury (2000) sees corporate governance as being related with holding the balance between individual and communal goals. The corporate governance framework enhances the efficient use of resources and equally requires accountability for the stewardship of these resources. In order to reduce information asymmetry, the corporate organisations are required to establish a mechanism known as corporate board to checkmate this problem. Studies have shown that corporate board characteristics can be seen in board size, outside directors, board tenure, board gender composition, and board independence (Vo and Phan, 2013; Akpan and Amran, 2014; Ashafoke and Ilaboya, 2017). Bernadi and Threadgill, (2010), Fondas (2000), Brennan and McCafterty (1997), and Ashafoke and Ilaboya (2017) in different studies used gender composition as one of the board characteristics. Haniffa and Cooke (2002); Said, Zainuddin and Harron (2009), Ashafoke and Ilaboya (2017) state that the board of an organisation consist of dependent and independent members. Board size was considered as one of the characteristics of corporate board by Hermalin and Weisbach (2003); Dalto and Dalton (2005); Halme and Huse (1997); Uwalomwa, Egbide and Ayokunle (2011), and John and Senbet (1997). Rutherford and Buchholtz (2007), Kruger (2010), Berberich and Niu (2011), and Lilik and Suboroto (2014) used corporate board tenure as one of the features of corporate board. The existence of foreign directors on board was used by Haniffa and Cooke (2002), Ashafoke and Ilaboya (2017), Che-Ahmad (2001), and Uwaigbe, Egbide, and Ayokunle (2012) as the characteristics of corporate board. From the studies reviewed, none of the study used all the five variables to measure corporate board characteristics. Therefore, this study attempt to use all the five variables to measure corporate board characteristics and relates them to corporate environmental disclosure.

Corporate board gender mix

Bernadi and Threadgil (2010) and Ashafoke and Ilaboya (2017) were of the view that, the level of corporate board gender mix can determine the level of firm information disclosure. Companies that have at least three females on board put more attention to social relation than companies with no female board member (Mullen, 2011). The Nigerian Code of Corporate Governance (2016) provides that the board shall be composed in such a way as to ensure best practices and diversity of gender without compromising competence, independence, integrity and availability of members to attend and participate effectively at meetings. Jain and Jamali (2016) postulate that female directors are more concern about ethical behaviour and their presence may encourage corporate environmental information disclosure. There is a positive relationship between corporate board gender mix and the level of corporate environmental information disclosure.

Corporate board independent

A study conducted by Haniffa and Cooke (2002) and Said, Zainuddin and Harron (2009) revealed that independent directors has a significant relationship with corporate information disclosure. Similarly, a survey conducted by Uwalomwa, Egbide and Ayakunle (2011) shows that the existence of independent directors encourages firms to disclose more information. Beasely, Clune and Hermanson (2005) hypothesize that independent directors are more effective monitors because of reputation concerns and their aspiration to obtain additional tenure ship. There is a positive relationship between board independent and the level of corporate environmental information disclosure.

Corporate board size

According to Hermalin and Weisbach (2003) and Dalton and Dalton (2005), board size is the number of the members who work on corporate board. The Nigeria Corporate Governance Code (2016) provides that the board shall be of a sufficient size relative to the scale and complexity of the company's operations and be composed in such a way as to ensure best practices and diversity of experience without compromising competence, independence, integrity and availability of members to attend and participate effectively at meetings. And it further states that membership of the board shall not be less than eight (8). Recent literature indicates that board size may play a significant role in the directors' ability to monitor and control the actions of managers (Daud, Haron & Ibrahim, 2011). Also, Rao, Tilt and Lester (2012) assert that board size is crucial for the effective management decision and information disclosure. There is a positive relationship between board size and the level of corporate environmental information disclosure.

Corporate board Tenure

The importance of board tenure has been supported by these scholars (Vafeas, 2003; Rutherford and Buchholtz, 2007; Berberich and Niu, 2011; Lilik and Subroto, 2014). The Nigerian Code of Corporate Governance (2016) provides that the board shall be composed in such a way as to ensure best practices and diversity of experience without compromising competence, independence, integrity and availability of members to attend and participate effectively at meetings. This implies that, a board shall include experienced members who will provide and display the knowledge and skills accumulated for the success of a business. Kruger (2010) observed that, companies with a significant higher board tenure indicates higher information disclosure, because the board is more concerned with corporate long term success and tends to create good relationship with environment. The longer board tenure may offer better experience and understanding to corporate firm's environment, so as to lead to better long-term strategy and policy for corporate sustainability. There is a positive relationship between board tenure and the level of corporate environmental information disclosure.

Foreign Directors

Several studies have examined foreign directors as a variable in different context. The existence of foreign directors on a corporate board may affect corporate disclosure. Ashafoke and Ilaboya (2017) state that; the issue of environment is more rooted in the developed countries than emerging nations. Therefore, the higher the shares held by foreign investors in a business, the more scope of environmental disclosure. The studies such as Haniffa and Cooke (2002) were of the view that, foreign directors play an important role in formulating and overseeing the corporate policy on disclosure. Che-Ahmad (2001) states that, foreign directors purchase shares in a subsidiary of multinational businesses having their controlling entity in developed countries where the practice of disclosure is more developed. Therefore, there is a tendency that, such firms are likely to apply similar reporting practice as their parent counterparts. Uwaigbe, Egbide, and Ayokunle, (2012) assert that increasing the proportion of foreign directors in a corporate board will lead to better environmental disclosure. There is a positive relationship between foreign directors and the level of corporate environmental disclosure.

External Audit Quality

Several studies have examined audit quality as a variable in different context. Janne (2017), and Paape and Spekle (2011) advocate that; quality audit firms are more likely to encourage their clients to improve the level of information disclosure that may include environmental information. The statement implies that those firms that appoint high quality auditors are more committed to ethical standards and there by improve good governance. Al-Ajmi (2009) argue that the engagement of the big 4 auditors has a significant influence on firms' ethical behaviour and the level of information disclosure and are more likely to be committed to environmental information disclosure. However, this is the first known study to the researcher that introduces audit quality as a moderating variable on the relationship between corporate board characteristics and corporate environmental disclosure.

Materials and Methods

The study proposed longitudinal research design for the combined effect of time and number of firms and content analysis in capturing the extent of environmental information disclosure. The information was sourced through content analysis of the literature related to the topic under the study. The identified variables of the study are environmental disclosure as dependent variable, corporate board characteristics as independent variable and audit size (audit quality) as moderating variable. The variables and their respective measurement are presented in table 1 below:

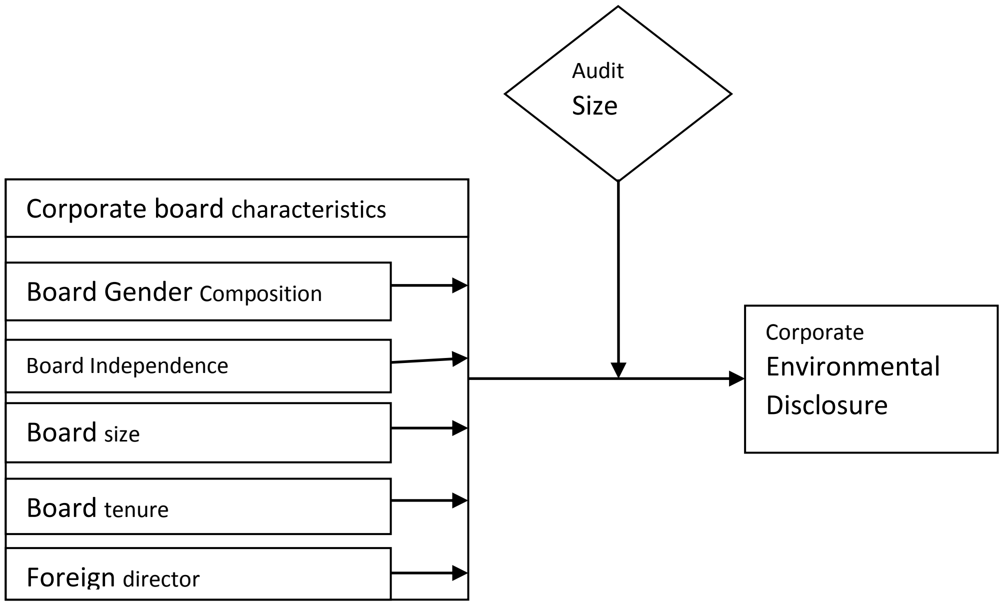
Table 1: Variables identification and measurements

Variables	Code	Measurement	Sources
Independent Variables			
Board independence	BOID	It is to be measured as the ratio of percentage of independent directors to total directors	Said et al. (2009), Hanifa, (2002)
Board size	BOSZ	It is a total number of board members	Dalton et al. (2005), Li et al. (2006)
Board gender	BODG	It is to be measured as the ratio of percentage of female directors to total directors	Kruger (2010), Ashafoke et al. (2017)
Foreign directors	FDBO	The presence of foreign member on the board is measured as 1 and 0 if otherwise	Uwaigbe et al. (2011), Che-Ahmad (2001)
Board tenure	BODT	It is to be measured as the average number of years the firm's director have served on the board	Vafeas (2003), Lilik et al. (2014)
Dependent Variable			
Environmental disclosure	CEDS	Dummy variable having value 1 if the organization disclose environmental information, otherwise 0	Ashafoke et al. (2017), Vo et al. (2013)
Moderator			
Audit size (Audit quality)	BIGF	Dummy variable having value 1 if the auditor belongs to the Big4, and 0 otherwise	Ali et al (2004), Gupta et al. (2007)

Source: Compiled from literature, 2018

Current literature suggests various factors influencing corporate environmental information disclosure. Corporate board defines stakeholders control mechanisms on management to reduce the tendency of agency problem of conflict of interest and information asymmetry. Framework explain important stakeholders control mechanism, corporate board of directors philosophies and concepts, and proposes a common environmental disclosure and provides clear action and direction for environmental disclosure. For the study of the moderating effect of audit quality on the relationship between board characteristics and corporate environmental disclosure, the research developed the following framework that is expected to explain the relationship between the variables.

With the literature being reviewed, a conceptual framework for this study is developed by presenting the relationship between the dependent variable, environmental disclosure and explanatory variables (Board gender composition, board size, board independent, board tenure, foreign directors with moderating variable, audit size). The concept is operationalised and demonstrated in figure 1 below using the six independent variables. Figure 1: Framework of the moderating effect of audit quality on the relationship between board characteristics and corporate environmental disclosure.



Source: Developed by the researcher (2019)

Conclusion and Recommendations

Environmental information disclosure is an important means of corporate communication to various stakeholders. The disclosure of the organisational efforts towards mitigating their impact on the operating environment can create a good relationship between the business enterprise and the host community. It provides a general structure for firms to identify and account for past, present and future environmental information to enhance managerial decision-making and control, and enhance other stakeholders decision-making. Based on the extant literature reviewed, the act of corporate environmental disclosure will improve stakeholder's confidence on the activities of the firms and consequently improve firm performance. Therefore, the need for further research on the level of environmental information disclosure by firms in Nigeria become imperative in view of the scarcity of research on environmental disclosure and the fact that environmental accounting is still at its rudimentary stage in Nigeria. The corporate directors and regulatory authorities' knowledge of the importance of corporate environmental information disclosure will go a long way to improve the adoption of environmental information disclosure.

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