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Effect of Sustainability Reporting on Firm's Performance: A Review of Literature

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Abstract:
This paper reviews related literature on the effect of sustainability reporting on firm's performance. The researcher used information gathered from journals, books and internet materials. Findings based on the review revealed that researchers have not reached a consensus on whether firms can maximize performance if they implement sustainability reporting.

Keywords: *Corporate performance, sustainability reporting and sustainable development*

1. Introduction

1.1. Background to the Study

The desire of economies all over the world to be industrialized in other to reduce the rate of unemployment and better the economic situation of countries all over the world has informed the establishment of companies worldwide. Also the interest of developing nations to become capitalist in nature and provide job opportunities for the growing population has introduced increasing industrialization in the global economy. The advent of these industries are associated with economic, social and environmental hazards ranging from environmental degradation, air and water pollution which has dramatically increased deforestation and loss of habitats for aquatic and terrestrial animals in Nigeria. These unfortunate situations hideous as it may be inevitable because the use of natural resources is unavoidable in economic development (Beredugo & Mefor2012) and not devoid of environmental consequences as traceable to the environmental degradation and atmospheric pollution experienced in Nigeria.

Sustainability accounting was originated about thirty years ago (Ali 2013) and is considered a subcategory of financial accounting that focus on the disclosure of non-financial information about a firm's performance to external and internal users of an organization′s financial information. Collins(2009) opined that sustainable development is a plan concerning social, economic and environment factors that meets the desires of the current without compromising the capability of future generations to meet their own needs. He further stressed that Consumers and investors are indicating amplified interest in supporting responsible business practices and are requesting more information as to how companies deal with risks and opportunities involving environmental issues. In the years go by however; it was a concern that traditional financial reporting does not sufficiently provide reports on the numerous dimensions of corporate value (Adekanmi 2015). This pressure has additionally been aggravated by the current global financial predicament with its philosophical consequences on accounting and auditing. It was argued that the traditional financial statements have failed to give a comprehensive way of ascertaining the performance of an organization and consequently as a measure of shareholder's wealth. According to Mitchell, Agle & Wood (1997) the idea of sustainability accounting has come into sight because of the new developments in accounting that have introduced the need for non-financial reporting; although the disclosure of social and environmental information is not compulsory but it is important since it has been regarded as best practice however, by implication any divergence from what is termed as best practice is seen as a bad signal to the community and the market because it would show that the organization is not performing to expectation. Thus firms that want to showcase what they are made up of do endeavor to embrace best practices.

In Nigeria, the implementation and recognition of sustainability reporting or corporate social and environmental reporting is comparatively new but has become prominent in some accounting reports today (Akinlo & Iredele 2014). The concept is given attention now due to the increasing hazards occasioned by the various companies in the country for example; the issue of oil spillage in the Niger Delta Area and the spread of cement waste products around the Yandev Area in Benue State, Nigeria amongst others. These situations have awakened Nigerians from their sleep to look into the gap in their environmental laws. In 1998, the Military Government enacted a Decree number 42 hence; the decree made it a criminal offence for any person to carry or dump any harmful waste within the entire land mass and waters of the Federal Republic of Nigeria (Reiner 2008). Also, the introduction of agencies such as the Federal Environmental Protection Agency (FEPA) in 1988 and the National Environmental Standards and Regulation Enforcement Agency (NESREA) in 2007 to strengthen environmental regulations in Nigerian. (Collins 2009).

1.2. Statement of the Problem

Sustainability reporting is very vital in the measurement of firm's performance nevertheless, to meet the goal of sustainability accounting and reporting there has to be a proper measurement and record of environmental and social costs and a comprehensive way of disclosing the costs and benefits associated with sustainability issues to the stakeholders of the organization (Asaolu 2011). The implication is that those vested with the functions of management must demonstrate some level of competence in corporate governance to ensure reliability and accountability in the system.

The frivolous behaviour of some firms to neglect sustainability accounting is one of the reasons for poor performance (Oyewo 2014). There is no doubt that sustainability accounting aids in the recording of all environmental and social expenses to help the business improve on its profit. According to Gray, Dey, Owen, Evans & Zadek (1997) issues concerning sustainability reporting and performance include the absence of specific standards for treatment of specific problems in sustainability reporting. It has been observed that a number of organizations have issued guidelines but they are not compulsory rather they are voluntary implying that organizations are not under obligation to report on their sustainability issues. As a result, the researcher′s concern is therefore to review the works of other researchers to ascertain if corporate organizations in Nigeria Practice sustainability reporting and if they do, how does it affect the profitability of their firms.

1.3. Objectives of the Study

The primary objective of this study is to review the related literature on the effect of sustainability reporting on firm′s performance, the specific objectives are:

i. To review the theoretical issues on the effect of sustainability reporting on firm′s performance.
ii. To review the conceptual issues on the effect of sustainability reporting on firm′s performance.
iii. To review the empirical issues on the effect of sustainability reporting on firm′s performance.

1.4. Methodology

The study used information generated from literature reviewed by different researchers relating to the topic. This method was applied by collecting information from journals and online sources relating to the issue under consideration.

2. Review of Related Literature

2.1. Introduction

This study is a review of literature on the effect of sustainability reporting on firm's performance. The success of any business depends principally on the fiscal performance of the organization, the manner in which businesses interact with their local community and handle environmental issues also affect the performance of the firm (Norhasimah, Norhabibi, Nor, Sheh, Qamarul & Inaliah 2015). The effect of sustainability report on the performance of firms in Nigeria has generated a heated debate among researchers to this end some firms tend to voluntarily include their non-financial activities in their annual reports to further intimate their stakeholders on their activities and performance.

To add to the researches already conducted by different scholars in this field, this study addresses the concepts of sustainability reporting, the supporting theories and the review of empirical studies relevant to the work.

2.2. Conceptual Clarification

This section clarifies the major terms and concepts used in this research work. It provides a detailed understanding of the concepts used in this research.

The importance attached to sustainability reporting cannot be overemphasized. Sequel to this, (Toukabri & Jemaa 2012) remarked that one of the main factors that could affect the performance of the firm is sustainability development to this end the conceptual framework of sustainability accounting includes sustainability reporting, sustainability development and corporate performance

2.2.1. Definitions of Sustainability Reporting

Sustainability reporting has been defined by many authors and scholars. However, these definitions are explicit and have the same meaning.

According to Dagiliene (2014) Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders about organizational performance towards the goal of sustainable development.

To Robert, Ioannis, & George, (2015) sustainability reporting commonly referred to as corporate social responsibility reporting is the process of communicating the social and environmental effects of the organization′s economic, social and environmental actions to particular interest groups within the society.

This study adopts the definition of (Akinlo 2014) who defined sustainability reporting as a way of passing information to the direct and indirect stakeholders, about the financial and non-financial performance of the organization.

2.2.2. Sustainability Development

Sustainability development is tools used by organizations to enable the organizations maintain a stable position (Ilideo 2012). The most acknowledged generally used measurements are the Corporate Sustainability Reporting and the triple bottom line accounting

In the past, reporting on social and environmental issues was not common in the corporate financial reports. The presentation of financial information by management only included financial accounting aspect of the entity. According to Reiner (2008), the traditional approaches to accounting by business organizations only focused on their economic operations, with their main activities affecting the economy through operations in the market. However, the concepts of social and environmental developments were added by the corporate entities to their public reports from the mid-1980s (Campbell 2009). He further stated that this was the period when the concept of social and environmental accounting began and civil societies vehemently argued that there was a moral case for organizations to report and account for the impact of their activities on social and natural environments. This was as a result of the quest for sustainability which is aimed at social legitimacy, attraction of investment funds as well as meeting community expectations.
According to Dagiliene (2014) an organization that provides the basic needs of the society economically, environmentally and socially is expected to be continuously relevant and consequently sustainable. An organization that uses the total quality management approach will be focusing on improving quality. A learning organization also adapts itself to changes in the environment; changes in terms of the type of goods and services it offers to the customers. Sustainability is not simply a matter of minimizing environmental damage, it consists of three interlocking goals: environmental, economic, and social. Sustainability is aimed at raising the standard of living of people while reducing the negative environmental consequences of economic activity (Correa & Moneva 2011). Economic sustainability ensures that resources are used in the best possible ways. If resources are economically, effectively and efficiently utilized by organizations, they are likely to provide long-term benefits. To create sustainability, learning is critical, because being innovative requires knowledge which is to be learnt in order to continuously improve. A learning organization will produce economic goods and services in an innovative way without compromising quality. An organization that wants to create economic sustainability will be particular about quality and continuous improvement on qualities. The more qualitative a product or service is, the more economically sustainable the product will be (Jaroslava (2014).
The existence of disagreements portends that a problem exists requiring lasting solution(s). Providing sustainable solution to societal problem is a major way of managing crisis in the society. Consider for example crisis that were created by environmental pollution by the defunct Benue Cement Company now Dangote Cement in Yandev community, this crisis could be addressed through environmental sustainability by repairing the damage/pollution created in the environment.

2.2.3. Corporate Performance

Corporate performance is a measure of how an organization is able to satisfy the owners typically by way of profit maximization or shareholders wealth; it could also be seen as a measure of both financial and non-financial performance by way of satisfying all the stakeholders of the firm (Jaroslava 2014). One fundamental issue that is left undecided is whether the firms with high sustainability qualities perform better than those in the low sustainability group. It has been argued that firms that have implemented sustainability accounting may underperform because they are liable to high expenses as a result of high labour cost. They also forgo many business opportunities that would have provided quality cash flows because these businesses do not fit properly with the norms of the society of localization (e.g. engaging in businesses with adverse environmental consequences) in other words high sustainability organizations face tighter constraints on how they can carry out their businesses because sustainability accounting introduces more constraints which may consequently result to low productivity by the organization.
On the contrary, it has been observed that firms in the high sustainability group are capable of better performance because they acquire quality labour, establish a good supply chain and most importantly they maintain a good relationship with the society where the organization is domicile, this reduces conflict between the organization and the society and call for a peaceful work environment (Mitchell 1997). It is also believed that because of the constraints faced by these organizations, they engage into diversified business opportunities to enable them compete favorably with their counterparts.

2.3. Theoretical Framework

The following theories are used to support sustainability or corporate social reporting of the firm.

2.3.1. The Stake Holder's Theory

The stakeholder theory which is a derivative of the political economic theory is a theory that is widely used in sustainability accounting today. The argument advocated by the stakeholder's theory is that all stakeholders have the right to be treated reasonably by the organization. Freeman (1984) defined a stakeholder as 'any group or individual who can affect or is affected by the achievement of the organization's objectives'. These groups or individuals may include employees, customers, suppliers, competitors, banks, investors, governments, non-governmental organizations (NGOs), and may also include the society as a whole. The concern of the stakeholder's theory is to ascertain which stakeholders are more relevant to the organization, this is very vital to the management of the organization because it is believed that the success of the organization in terms of performance is dependent on the support of the stakeholders (Belinda 2015)
The stakeholder's theory is divided into the ethical and managerial aspects; the latter is concerned with identifying the most important amongst the stakeholders to satisfy their desires (Adekanmi 2015). To this aspect of stakeholder′s theory, not all stakeholders in their nature can affect the productivity or performance of an organization. This implies that more attention needs to be given to the more influential stakeholders such that the influence of the stakeholders is ranked in such a way that more efforts are made to keep a strong relationship with powerful stakeholders. On the contrary the ethical aspect of the stakeholder's theory opine that all stakeholders have the right to obtain adequate and equal treatment by the organization and that the issue of higher influence of some stakeholders on the organization is irrelevant; it has been argued that the impact of the organization on a stakeholder is what should be paramount in this

circumstance rather that the economic importance of a stakeholder to the organization. Within the ethical right aspect of the theory, all stakeholders have the right to certain benefits like employment and other social benefits. They also deserve the right to be provided with information on the performance of the organization and its impact on their society which calls for sustainability reporting.
According to Gray (1997), organizations are very silent on how they monitor and respond to the needsof stakeholders. He opined that companies are interested and respond to the needs of the stakeholders only when they have beneficial interests in the issues raised by the stakeholders. The choice of what information companies would disclose in the financial reports is normally based on the wishes of the most important stakeholders and these stakeholders are the ones whose needs must be met first by the organizations.
Beautiful as the stakeholder's theory may sound it is pertinent to know that the stakeholders themselves have varying interests which differ from that of the organization; therefore, harmonizing these interests is not very easy. Also considering the option of influential or more powerful stakeholders is not being objective because every problem is important to the bearer.

2.3.2. The Legitimacy Theory

Organizations exist within a society; such organizations are morally bounded by the culture of such societies, but legitimacy means conforming to the law or rule of the land (Ayong 2001). The assertion behind the legitimacy theory is that, companies are engaged in a social contract agreement between them and the society within which they are situated. It is therefore expected that organizations will operate according to the norms of such societies. These norms are not fixed they change with time thus it is expected that the organization should respect the ethics and moral of the society. It is believed that by this contract, the society has the right to revoke the contract of the organization if the organization operates contrary to the ethics of the society. It is also believed that the organization owe the society explanations in cases where they seem to deviate from normal to abnormal. Whenever an organization cannot give explanation for its operations, then in a sense the community may retract its contract from continuing its operations with the organization. It is therefore, imperative that companies adapt to changes in the society as the community′s expectations also change over time (Mansell 2013).

2.3.3. The Agency Theory

It is believed in theory that shareholders are the only owners of the firm, and the task of its directors is merely to ensure that shareholder′s interests are protected and maximized. More specifically, the duty of the directors is to run the company in a way that would maximizes the long run returns to its owners and thus maximize the company′s profit and cash flows (Shoaib 2011).
The agency theory provides an explanation of the agency relationship between the managers of the firm and its stakeholders especially with regards to the provision of financial and non-financial information (Reiner, 2008). It has been argued that managers tend to provide information to the owners of the firm in a way that would favour their aspirations even though the maximization of shareholder′s wealth and company profit are the key objectives of finance and are supposed to be keen to managers. Miles (2012) observed that managers do not always run the firms they work for to maximize shareholder's wealth, they seem not to align their interests with those of their principals, for this reason the development of the agency theory took into account the principal-agency relationship as a key in determining firm's performance (Belkaoui & Karpik 1990). Also, managers may like to report their information in such a way that would differentiate them from the poorly managed corporations the information provided by the managers is used by all stakeholders of the business including the society this calls for a comprehensive corporate social reporting by the management. Another problem that is associated with the agency theory is that it is concerned mainly with the financial stakeholders (shareholders and creditors) and disregard the need of other parties such as employees and the general public who are also interested in the performance of the firm but have no formal contractual relationship with the firm though their actions may affect the firm indirectly.
It is pertinent to conclude this theoretical review that the acceptance or otherwise of these theories has remained a puzzle and a controversial issue among sustainability accounting researchers and the society but it is important to know that all the theories are vital since most of them are intertwined. The researcher wishes to state here that, the stakeholder theory, the legitimacy theory and the agency theory are important in the implementation of sustainability accounting because the stakeholders play an essential role of providing funds by way of share capital; the agents manage the firm in conformity with the norms and ethics of the society (legitimacy). It is expected that a hybrid of these theories would give a better result in the achievement of sustainability accounting.

2.4. Empirical Reviews

A number of studies have investigated related topics to the effect of sustainability reporting and firm′s performance and have come up with varying results. Some of these studies conducted from different parts of the world, including Nigeria are reviewed below.
Akinlo & Iredele (2014) examined the impact of environmental information disclosures on Market Value of fifty quoted companies in Nigeria for the period 2003-2011. Data was obtained from financial reports of banks in Nigeria. The collective and individual impacts of corporate environmental disclosure were regressed on market value (Tobins Q). Results from major findings revealed that Corporate Environmental Disclosure has a significant positive impact on Market Value when considered cumulatively.
Akinlo &Iredele used regression analysis to arrive at her findings however, regression does not provide information on the cause of the relationship but only tells us the association between the variables so why the positive relationship exists is still unknown.
Adekanmi (2015) examined the level of environmental accounting practice of listed firms in Nigeria using a population of 75 manufacturing firms. A sample of 50 companies were purposively selected for consideration for a period of 8 years from 2005-2012. To evaluate the level of environmental practices in the manufacturing firms, content analysis was used and the result was scrutinized

using descriptive vis-à-vis ratio percentage, findings of the research showed that the value of disclosure of non-financial statements is on the average.

The sampling technique used here is the purposive sampling which is a subjective way of sampling where bias is unavoidable. The major limitation of this design is that personal judgment may be allowed to affect the authenticity of the result.

Asaolu (2011) examined sustainability reporting in the Nigerian Oil and Gas sector using six major Oil and Gas multinational companies operating in Nigeria. The study adopted Content analysis method of analyzing data that was gotten from annual reports of selected oil and Gas companies to ascertain the degree to which their report conforms to best practices. Findings showed that sustainability performance indicators were not found in any of the organizations sampled.

Asaolu used content analyses to analyze his data however, content analyses are descriptive in nature. It describes what is there but may not reveal the fundamental reason for the observed pattern. It tells us what happened but not why it happened also, observed trend may not be a correct measure of reality.

Oyewo (2014) researched on sustainable development reporting practices by Nigerian Banks using publicly quoted commercial banks in Nigeria as his population. He sampled the banks based on the existence of a standalone report on sustainability reporting in the year 2012 annual report. Twelve (12) banks were selected for content analysis; correlation analysis was used to examine the relationship between variables. ANOVA was used to test for mean difference. Findings of the study revealed that sustainable development reporting is not dependent on size or on the extent to which organizations make profit. In addition, it was observed that despite the large sizes of banks their sustainability development is not appreciable.

The limitation of this research design is in the use of correlation analyses as correlation only tells us of the relationship without informing us on what caused the relationship.

Beredugo (2012) evaluated the relationship between environmental accounting and reporting and sustainable development in Nigeria. The researcher used the survey research design. Data was collected from a sample of 400 respondents out of a population of three million (3000,000) people. Pearson's correlation coefficient, student t-test and the ordinary least square methods were used for the analysis of data.

Findings revealed that environmental accounting and reporting is positively related to sustainable development and that they are consequences to noncompliance. He also discovered that stakeholders increasingly require companies to manufacture goods efficiently and at competitive prices without harming the environment.

This work however, failed to inform us where in Nigeria this population of three million was obtained and the census date that was used to arrive at the said population. Also the researcher opines that, information on sustainability reports gotten from respondents cannot be reliable as findings are only based on the perception of the respondents against financial statements that should report on the performance or otherwise of the firm.

Norhasimah (2015) investigated the effect of environmental disclosure on financial performance in Malaysia using the Malaysian public limited companies. Non probabilistic sampling (purposive sampling) was used to arrive at a sample of 100 companies of market capitalization for the year 2011. Norhasimah selected these companies because they were relatively large and believed to have more activities that impacted on the society as reflected in their financial statements. Data was collected from financial reports of these companies for the year 2011. An environmental index was developed, 10% of the total sample was selected to conduct a pilot test of ten (10) companies. ROA, EPS and ROE were used to measure performance. To test the hypotheses, spearman's correlation and multiple regressions were used. Findings revealed that there is a significant relationship between total environmental disclosure and profit margin.

Norhasimah used purposive sampling method to arrive at a sample of 100 companies but purposive sampling is a judgmental form of sampling which is associated with a form of bias selection which does not give other companies that may have altered the result equal chances of being selected.

To conclude this empirical review, it is worthy of note that most of the studies conducted have used the banking sector, others used the Oil and Gas companies. The researcher also observed that, only a few (mostly the Oil and Gas and the Banking sectors) out of many sectors in Nigeria are used by researchers so far. On this note the researcher′s view is that the inadequacies of the use of other sectors to research on the effect of sustainability reporting and firm's performance may inhibit any strong generalisation as to whether sustainability reporting impact positively or negatively on firm's performance.

3. Conclusion and Recommendation

3.1. Conclusion

This paper is a review of related literature on sustainability reporting and firm′s performance in Nigeria. Based on the reviewed literature it has been concluded that researchers have not yet reached a consensus on whether firms can maximize performance if they implement sustainability accounting.

3.2. Recommendation

Studies carried out on sustainability and firm performance in Nigeria are meagre. Notable among them are (Collins 2009, Beredugo 2014, Asaolu 2011 & Oyewo 2014). These studies have concentrated on the oil and Gas sector in the Niger Delta area and on other sectors such as banking and in most cases aggregate sectors of the economy and their results are also open to doubt. This calls for further empirical studies to be conducted in another sector (manufacturing sector) to see if this will produce a more convincing result.

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