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Environmental Financial Reporting and Corporate Performance of Listed Pharmaceutical Companies in Nigeria

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ABSTRACT: *A nation's economic growth and development depend critically on the pharmaceutical business because of its inextricable link to people's health and, by extension, their ability to put in productive hours at work. This study analyzed the effect of environmental financial reporting on the profitability of publicly listed pharmaceutical companies in Nigeria. The study relied on the ex post facto research design and made use of historical financial data on the adopted study variables. At the 0.05 threshold of significance as decision criteria, the study tested two hypotheses. The research used secondary data, and the businesses studied were a representative sample of the pharmaceutical companies listed on the Nigerian Exchange Group. Ordinary least square regression was used in conjunction with E-views version 9 to analyze the collected data. Earnings per share of listed pharmaceutical businesses in Nigeria were shown to be favorably connected with environmental financial reporting proxy by employee's welfare policy and community development cost. Management was urged to invest more in their workers' well-being to boost morale and productivity in the pharmaceutical industry.*

KEYWORDS: environmental, financial, reporting, corporate performance, pharmaceutical companies

INTRODUCTION

Since health and, by extension, worker productivity, the pharmaceutical industry is intrinsically linked to a country's economic growth and development. Ugbam and Okoro (2017) argue that a robust pharmaceutical industry not only supplies prescription medications and other medical supplies needed to keep employees healthy and productive, but also offers citizens high-quality employment opportunities, contributes significantly to GDP, and serves as a net foreign exchange gain or loss. Since the pre-independence era, when companies like Beecham, May and Baker,

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Pfizer, Glaxo and J. l. Morrison sent their own representatives to distribute their drugs, the Nigerian pharmaceutical industry has come a long way. To date, over 130 pharmaceutical companies have set up shop in the nation, with only five holding a combined 58% of the market share in drug production. Statistics show that only 25% of the domestic demand for pharmaceuticals in Nigeria can be met by domestic production, while the remaining 75% must be met by imports, primarily from Asia. This indicates that the pharmaceutical industry in Nigeria is performing poorly. An estimated $789 million would be spent on pharmaceutical imports in 2018, up from $481 million in 2013. Although the pharmaceutical industry worldwide is booming and expected to double in size to $1.3 trillion over the next few years, Nigeria is not one of the 17 growth markets that have been singled out for special attention. Although data on the pharmaceutical industry's survival rate is lacking, the manufacturing industry as a whole has a very low survival rate; as of 2016, According to a study conducted by the Manufacturers Association of Nigeria (MAN), just 10% of the country's businesses are growing while 30% have shut down.

A wide variety of internal and external stakeholders rely on financial accounts for decision making. They are useful in the development of a method for conducting a complete analysis of a company's performance. Recently, it has been apparent that one expectation of stakeholders is that environmental and social problems be included in the financial statements. Accounting disclosures have recently expanded to include environmental factors, which is a novel concept for many businesses. Information on the environment serves as a conduit for meeting stakeholder demands and a starting point for two-way communication between the company and its constituents. The importance of informing stakeholders and the general public about the environmental impact of an organization's actions is immeasurable. Many scholars have different takes on the topic of corporate social responsibility as the demand for it grows (Deegan & Ranking, 1996; Osemene, Kolawole, & Oyelakun, 2016).

Studies on the effect of environmental disclosure on stock price performance have shown mixed results, such as those by Enof and Isaivwe (2012; Ajagbe and Ismail, (2004); Dab0r (2005) and Isaivwe (2015). In addition, most research has concentrated on established economies rather than developing ones. While some businesses are eager to increase their environmental disclosure by allocating more resources to the cause, others have been resistant to the idea. This might be attributable, at least in part, to the ongoing discussion of whether or not corporations have any social obligation beyond making profits for their shareholders. The topic of what drives environmental transparency rises to the forefront. Researchers in Nigeria have recently been interested in the relatively new reporting practice of incorporating environmental disclosure initiatives into businesses' operational strategy. While there is a wealth of literature on the topic with respect to other types of manufacturing firms, there is a notable lack of research on the impact of environmental reporting on the financial performance of Nigeria's pharmaceutical companies. As a result, the purpose of this research is to determine whether or not environmental financial reporting influences the financial success of publicly traded pharmaceutical companies in Nigeria.

Employees welfare and community development are used as the dimensions of environmental financial reporting while earnings per share is the proxy for corporate performance.

LITERATURE REVIEW

Conceptual Clarification

Environmental Financial Reporting
To practice environmental accounting, the estimated social cost incurred by the firm due to environmental externalities in production, the difference between the social cost and the private cost, including the cost of any measures undertaken to close that gap, must be shown in the company's financial accounts.

According to Magara, Aming, and Momanyi (2005), envir0nmental acc0unting is the practice of "discovering, estimating, and allocating costs associated with environmental impacts and incorporating those estimates into decision making." It also includes the channels via which the information reaches the firms' constituents. According to Enahoro (2009), environmental expenses include not just those required to meet legal requirements, but also those incurred to lessen or do away with emissions of harmful chemicals.

Weng, Chen and Chen (2015) state that environmental accounting, commonly known as "green accounting," evaluates businesses based on how well they care for the natural world. Costs unique to the environment, such as those associated with liability and waste disposal, must be identified, quantified, and reported. More than only environmental cost and benefit reporting is included. Sustainability accounting measures the financial and environmental effects of any changes made to a company's product or operation. It's crucial for appreciating how the natural world affects the economy and human existence (Baba, 2012; Boyd, 1998). Any business that actively works to better the lives of its locals will likely see an uptick in profits and share value as a result of the positive publicity they receive for their efforts to embark on development projects in the community (Weng, Chen & Chen, 2015). Even in a nation as impoverished as Nigeria, unethical business methods are no longer the mainstream. Such actions simply garner unwanted publicity for the company in question, both in traditional and new forms of media (Osemene, 2012).

Business reputations, like human rights, need to be fiercely protected in today's age of instantaneous information dissemination through mobile phones, print media, broadcast media, and the internet. Diffey (2007) added that businesses that shirk their ethical obligations tend to fail in the long run, and that large corporations seem to be aware of this fact. As a result, they devise plans to expose their social obligations in the annual report. There seems to be a positive correlation between companies that prioritize ethical responsibility and the well-being of their

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employees, shareholders, and consumers. The stock market and the economy both agree that sustainable firms are the way of the future.

According to a French survey on environmental accounting conducted by Humiere and Chanveau (2000), workers are the stakeholder group towards whom corporations are most expected to demonstrate corporate social responsibility. When workers advocate for more ethical business practices, companies are more likely to implement them (Aguilera, Rupp, Williams, & Ganapathi, 2007). For example, Ramus and Steger (2000) argued that the success of environmental policy may be traced back to the support of workers on socially responsible behavior.

If workers and consumers are aware of the company's history of socially conscious efforts, environmental accounting has the potential to affect their attitudes and behaviors in ways that boost profits. Long-term environmental programs offer a more cost-effective alternative, particularly in the selection of more efficient production processes, raw materials source usage, recyclables, and diversification of cheaper energy sources. Performance and investor interest may both benefit from a company's environmental programs. Thus, the goal of environmental disclosure is to help businesses spread positive news by increasing the value of information based on management's assessment (Dillard, Jesse, Brown, & Marshall, 2005). With more information available to the public, the value of a corporation to its shareholders is projected to rise.

Corporate Performance

Financial experts use metrics like return on investment to demonstrate management's responsibility as stewards to stockholders. The most important part of this is figuring out how profitable, valuable, and growth-oriented a firm is. There are many different social performance indicators that may be compared to a company's financial success as defined by accounting information such audited financial statements from the past (reputation, disclosure of social information, environmental behavior, etc.).

One definition of financial performance is the degree to which an organization maximizes its profit or its shareholders' wealth; another definition of financial performance is the extent to which an organization meets the needs of its various stakeholders. The researchers in this study used the NPM to evaluate business success.

Earnings per Share (EPS)

EPS is the measure of corporate performance used in this study. Earnings per share as argued by Olayinka (2011), is a key indicator of a company's financial health. The earnings per share (EPS) is the proportion of a company's overall profit that is distributed to stockholders. Investors and stock market traders must be familiar with this word. Since the number of shares outstanding can fluctuate depending on whether or not new shares were declared during the period in question, it is recommended to use the weighted ratio when calculating earnings per share.

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A share is equivalent to one vote, hence the number of shares utilized should reflect the weighted average number of shares outstanding throughout the relevant time period. Profits should reflect any adjustments made to the number of outstanding shares that are not attributable to the ordinary shares' conversion potential. The weighted average, which is calculated by dividing the number of days the shares were outstanding by the total number of days in the period, takes into account the volatility of the stock price over time, can usually be calculated using a decent approximation (Stulz, 2012).

Theoretical Review

The appropriate theories that will be used to explain the linkage between environmental financial reporting and corporate performance are: stakeholder's theory and institutional theory.

Stakeholders Theory

Freeman first proposed the concept of stakeholders in 1984. According to Freeman (1984), a stakeholder group consists of everyone who has a vested interest in or is impacted by an organization's activities. His definition of stakeholders served as a foundation upon which later scholars have expanded. According to the stakeholder theory proposed by Clan (1996), an organization's success is determined by how well it serves its many constituencies. This includes both indirect and direct stakeholders. According to him, if a group or person has a lot of power, the business has to listen to them. As a result, environmental disclosure is seen as a tool for companies to employ in communicating with the people who matter to them. The stakeholders' theory suggested improvement in the degree of environmental responsiveness which requires organizations to add non-conventional stakeholders like employees' and community oppositional group into their decision-making process in order to complying to changing public pressure. Organizational environmental disclosure is a means of tactically accomplishing good connection between organization and its stakeholders (Ullmann, 1985).

Institutional Theory

In 1987, Scot created the field of institutional theory. Scott (1987) defines organizations as social compositions that have reached a high level of flexibility and also include regulates, which are predefined behavioral blueprints that are largely accepted by all members of society. They further argued that social organizations that comprise of internal settings and regulations such as institution's social strategy and management, and official social regulation such as environmental laws and rules. Thus, organizational theory proffers a conceivable shutter for examining corporate environmental reporting performance. Institutional theory involves an examination of how some the organizations' social composition that comprises of plan, guidelines, custom, and standards etc. turn out to be established standard rules for organization behavior.

Because of technical and trade interdependencies and also by socially created realities, organizational structure has a tendency to become isomorphic (Meyer & Rowan, 1977). Using

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concepts like isomorphism (Dimaggio & Powell, 1983) and structural conformity pressures (Scott, 1987), institutional theory elucidates why and how organizations make decisions like corporate environmental reporting. However, Oliver (1991) argues that this theory fails to account for the fact that some organizations may opt not to adopt such behavior and has instead ignored the role of active agency and resistance in the dynamics between organizations and their environments.

Empirical Review

Mohammed (2022) looked at the link between steel companies' disclosure of environmental information and their financial success. The Nigeria Stock Exchange was the focus of this analysis of manufacturing-related listings. Both monetary and non-monetary data related to the environment are included in the environmental information disclosure. Disclosure on Material utilized (DMT) was shown to have a negligible impact on return on assets (ROA) for Nigeria's publicly traded pharmaceutical manufacturers. It was also shown that publicly reporting environmental compliance helped the bottom lines of Nigeria's publicly traded pharmaceutical producers.

Makori and Jagongo (2013) looked at the connection between environmental accounting and business success in India. The research relied on information from the annual reports of 14 firms that were chosen at random and listed on India's Bombay Stock Exchange. The study's primary results, reached via the use of multiple regression models, indicated a negative correlation between environmental accounting and ROCE.

The recent increase in sustainability reporting by enterprises in Nigeria and Mozambique prompted analysis of how sustainability reporting affects bottom line results by Gabriel (2020). Secondary information collected via a random sampling of annual reports of corporations was analyzed using a multiple regression approach. Results show that economic and environmental reports have a favorable and considerable effect on the bottom lines of Oil and Gas businesses in Nigeria and Mozambique, but social reports have a minor negative effect. Different oil and gas companies in Nigeria and Mozambique were found to report on sustainability in very different ways. According to the study's findings, economic and environmental reporting boosted the financial performance of Oil and Gas companies in the two countries, but social reporting hurt their bottom lines. In order to facilitate meaningful comparison between reporting enterprises within the same jurisdiction and internationally, the research suggests that an international reporting standard be developed to help corporations worldwide in reporting sustainability actions.

The influence of environmental accounting on the ability of pharmaceutical businesses to maximize shareholder value was studied by Mubaraq and Kolawole (2019). Secondary information was gathered from the publicly listed Nigerian pharmaceutical companies' annual reports. A panel data regression analysis was used to achieve these ends. The research found a favorable correlation between performance indicators and environmental accounting reports such community investment and employee welfare spending. Environmental accounting was shown to

have a beneficial effect on the financial outcomes of Nigeria's pharmaceutical firms, according to the research. According to the findings, pharmaceutical businesses should invest more in their workers' well-being in order to motivate them to give their all for the company.
In 2013, Akrouth and Othman looked at what factors influence corporate environmental disclosure in developing markets in the Middle East and North Africa. Environmental disclosure was shown to be significantly inversely related to family control in this research.

Juhmani (2014) investigated the factors that shape CSR and environmental reporting in the Bahraini business sector. According to his research, 57.57 percent of the corporations in the sample's 2012 financial statement disclosed environmental data online. Companies in the hotel and restaurant industries as well as the manufacturing sector disclosed the least information on their social and environmental impacts. In 2012, Beredugo and Mefor did a study on environmental budgeting, reporting, and sustainable growth in Nigeria. Using statistical approaches like the Pearson correlation coefficient and ordinary least square, we showed that environmental reporting and accounting is crucial to achieving sustainable growth.

Osemeneet al. (2016) looked at the relationship between sustainable development and environmental accounting techniques to see how they affected the profitability of publicly traded Nigerian industrial firms. Thirty-six randomly chosen Nigerian listed firms' annual reports and accounts were analyzed. According to the study's findings, which were derived from a panel data regression analysis, a positive relationship existed not only between environmental accounting and ROE, but also between sustainable development and ROE and ROA.

METHODOLOGY

The research method used in this study was the ex post facto study design, which drew upon preexisting information from the firm's archives. Secondary data sources, collected from selected and publicly traded pharmaceutical companies' annual reports and accounts, were mined for the information used here. All 134 Nigerian pharmaceutical firms with valid registrations make up the research population. Since the Nigeria Exchange Group only contains listings for registered companies, seven pharmaceutical companies were chosen at random to serve as a sample. Companies including Union Diagnostic & Clinical Services PLC, Nigerian-German Chemicals PLC, Pharm-Deko PLC, EKOCORP PLC, Evans Pharmaceuticals PLC, PZ Cussons Nigeria PLC, and May & Baker Nigeria PLC were chosen for this study. The financial records of the pharmaceutical businesses in the sample were collected for the years 2015 through 2021, and a panel least square technique of multiple regression analysis was used to analyze the data. Due to the longitudinal nature of the data collection from seven pharmaceutical firms, panel data regression analysis was the most suited method for this investigation. The following was the study's model specification:
$EPS = f\,(EFR)$

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$EPS = f\,(EW, CD)$

Econometrically, the above model can be written as:

$$EPS = \beta_o + \beta_1 EW + \beta_2 CD + \mu \quad (1)$$

Where,
EPS = Earnings per share, proxy for corporate performance
EFR = Environmental financial reporting
EW = Employees' Welfare, a dimension of environmental financial reporting
CD = Community Development, another dimension of environmental financial reporting
EPS = Is calculated as the difference between net income -- preferred dividends, divided by the average outstanding common stock (dependent variable) is measured using its shares divided by the current market price.
$\beta_1 - \beta_2$ are the coefficients of the independent variables to be estimated.
β_o = the intercept
μ = error term.
Descriptive statistics and Ordinary Least Square (OLS) Regression was used to analyze the test the hypotheses using SPSS version 26 which amongst other things help show the pattern, distribution, deviation and nature of the data.

RESULTS AND DISCUSSION

Descriptive Statistics

Analysis of descriptive statistics is carried out in this section so as to unveil the nature of data being used for analysis.
Table 1: Descriptive Statistics of Data

	EPS	EW	CD
Mean	61.31714	0.542857	0.585714
Median	47.61000	0.600000	0.500000
Maximum	103.0400	0.700000	0.900000
Minimum	39.27000	0.200000	0.300000
Std. Dev.	25.99354	0.181265	0.219306
Skewness	0.742754	-1.054818	0.194360
Kurtosis	1.875613	2.789225	1.680963
Jarque-Bera	1.012368	1.311038	0.551531
Probability	0.602791	0.519172	0.758991
Sum	429.2200	3.800000	4.100000
Sum Sq. Dev.	4053.986	0.197143	0.288571
Observations	7	7	7

E-Views output (2023)

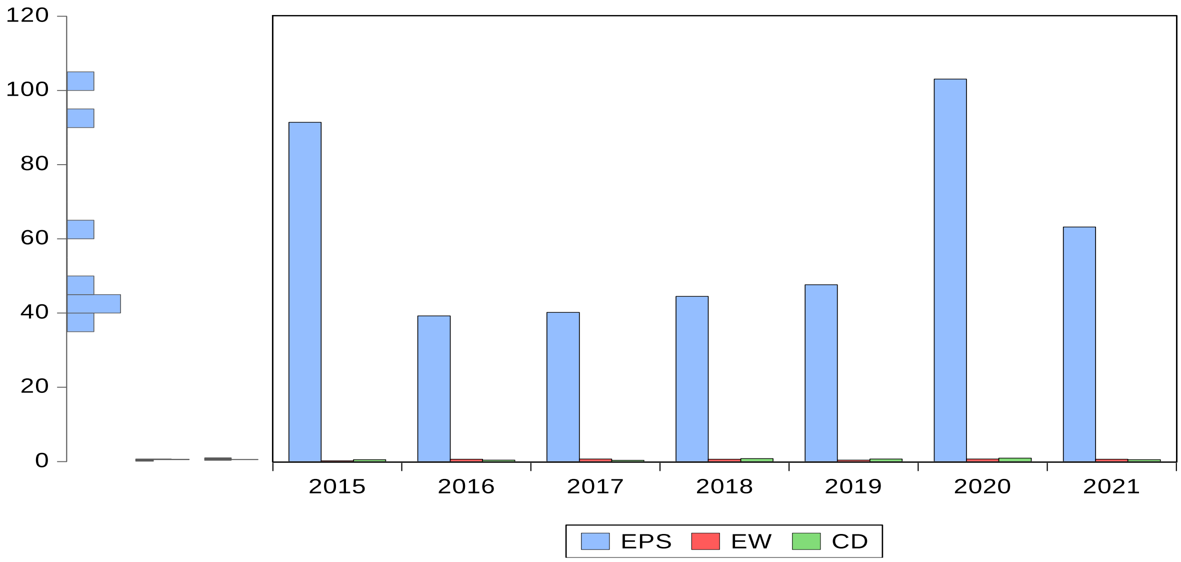

Figure 1: Histogram Showing the Variables

Table 1 present the descriptive statistics for the period 2015 to 2021. The table and graph indicated an average EPS value of 61.31714 for listed Nigerian pharmaceutical companies, with the median value sitting at 47.61. The earnings per share (EPS) distribution was positively skewed (0.74257), meaning that the degree of deviation from the mean was positive, suggesting that EPS increased steadily from 2015 to 2021. Kurtosis was calculated to be 1.8756, which is under 3. Since most of the values in this study clustered close to the median, we can infer that the degree of peaking during this time period followed a normal distribution. Normality of distributions was shown by a Jarque-Bera statistic of 1.0123.

The median EW value was 0.600000, and the mean value was 0.542, as shown in the table. The minimum value of EW was 0.200000, while the highest was 0.70000. There was a standard deviation of 0.1828978. According to the skewness, the degree of divergence from the distribution mean is negative (-1.0548) for the EW measure. The data showed that EW did not rise steadily between 2015 and 2021. Since most of the values in this study clustered close to the mean, the Kurtosis value of 2.7893 suggests that the degree of peakiness during the time frame of this study followed a normal distribution. Since the probability was 0.020534 and the Jarque-Bera statistic was 1.3111, we can conclude that the distribution followed a normal distribution.

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The median CD value was 0.50000, while the average was 0.5857, as seen in the table. CD ranges from a high of 0.90000 to a minimum of 0.30000. 0.3000 was the standard deviation. The skewness returned a positive value (0.1964793), suggesting a positive degree of dispersion around the distribution's mean. According to these findings, CD steadily rose between 2015 and 2021. The Kurtosis value of 1.68388 3 suggests that the degree of peakiness over the time frame of this investigation followed a normal distribution, with most values clustering close to the mean. The distributions were quite normal, as shown by the Jarque-Bera statistic of 0.5515.

Table 2: Correlational Matrix of the Variables

	EPS	EW	CD
EPS	1	-	
EW	-0.2563	1	
CD	0.4486	0.05989	1

Source: E-Views output (2023)

Table 2 shows the correlational matrix of the variables. The correlation matrix table shows that EPS has negative and weak correlation with EW. This means that the variables EPS and EW move in the different direction. However, a positive weak relationship is recorded between EPS and CD. This means that the variables EPS and CD move in same direction.

Hypothesis Testing

Hypothesis 1

H0$_1$: There is no statistically significant correlation between employees welfare and earnings per share of publicly traded pharmaceutical businesses.

Table 3 Regression Results

Dependent Variable: EPS
Method: Least Squares
Date: 04/14/23 Time: 23:31
Sample: 2015 2021
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	51.11258	44.13416	1.158118	0.3113
EW	-40.75549	60.87363	-0.669510	0.0198
CD	55.19582	50.31449	1.097016	0.0242

R-squared	0.281782	Mean dependent var	61.31714
Adjusted R-squared	-0.077327	S.D. dependent var	25.99354
S.E. of regression	26.97984	Akaike info criterion	9.725584
Sum squared resid	2911.647	Schwarz criterion	9.702403
Log likelihood	-31.03954	Hannan-Quinn criter.	9.439067
F-statistic	0.784669	Durbin-Watson stat	1.875398
Prob(F-statistic)	0.015837		

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As revealed from Table 3, the variable of interest environmental financial reporting on employee welfare has a negative coefficient of 40.75 which implies that every unit increase of EW will lead to a corresponding decrease of EPS by 40.75 units. Generally, the coefficient of determination as revealed by R-square (R^2) was 28.17%. This means that differences in the independent variable, environmental financial reporting on employee wellbeing, accounted for 28.17 what proportion of the total variation in the dependent variable, Earnings per Share (EPS). The F-statistic is 0.784 and Prob (F-statistic) is 0.015837. Since the Prob. (F-statistic) value is less than the 0.05, EPS variations may therefore be explained by the model, which indicates a satisfactory match. The t-statistic value of EW is -0.669510 and p-value is 0.0198. Since, the p-value is less than 0.05 (0.0198 <.05), then the null hypothesis is rejected. As a result, the profits per share of publicly traded Nigerian pharmaceutical businesses are significantly correlated with environmental financial reporting on employee wellbeing.

H02: Community development does not correlate with earnings per share for publicly listed pharmaceutical companies.

As revealed from Table 3, the variable of interest environmental financial reporting on community development has a positive coefficient of 55.19582 which implies that every unit increase of CD will lead to a corresponding change by 55.2 units. Generally, the coefficient of determination as revealed by R-square (R^2) was 28.17%. What this means is that changes in environmental financial reporting on employee wellbeing accounted for 28.17 percent of the difference in EPS that was measured. The F-statistic is 0.784 and Prob (F-statistic) is 0.015837. Since the Prob. (F-statistic) value is less than the 0.05, then the model has a good fit and can explain the EPS fluctuations. The t-statistic value of CD is 1.097016 and p-value is 0.3342. Since, the p-value is less than 0.05 (0.0242 <.05), then the null hypothesis is rejected. As a result, the profits per share of publicly traded Nigerian pharmaceutical businesses are significantly correlated with environmental financial reporting on community development.

DISCUSSION

Employee's welfare and earnings per share

The mean of the values of EPS of listed pharmaceutical firms in Nigeria was 61.31714 while the median was 47.61. Earnings per share (EPS) had a positive skewness (0.74257), meaning that the degree of divergence from the distribution mean was positive, suggesting that EPS increased steadily from 2015 to 2021. The mean value of the EW of listed pharmaceutical firms in Nigeria was 0.542 while the median was 0.600000. There was a negative skewness (-1.0548) indicating that there was no consistent increase in EW from 2015 to 2021. The result on relationship **revealed** that EPS has negative and correlation with EW. This means that the variables EPS and EW move in the different direction. The research also found that the profits per share of listed pharmaceutical businesses in Nigeria are significantly correlated with environmental financial reporting on employee wellbeing. This finding is in line with the work of Mohammed (2022), who discovered a favorable and statistically significant association between environmental information disclosure and the financial success of businesses operating in the steel industry. However, the finding does not support Gabriel (2020), Makori and Jayono (2013), Akrouth and Othman (2013) and Juhmani (2014) who found no connection between environmental accounting disclosure and the bottom lines of publicly traded companies, and who found that the correlation was weak.

Community development and earnings per share

The average value of CD measure of listed pharmaceutical firms in Nigeria was 0.5857 while the median was 0.500000. A positive skewness value (0.1964793) indicates that the distribution deviates from the mean to a greater extent than average. As a result, it seemed that CD steadily rose from 2015 to 202. The findings indicated a favorable, although small, correlation between environmental accounting's impact on worker welfare (EW) and EPS. This means that the variables EPS and CD move in same direction. The research also found that the profits per share of listed pharmaceutical businesses in Nigeria are significantly correlated with environmental financial reporting on community development. The influence of environmental accounting on the maximizing of shareholder value in Nigerian pharmaceutical enterprises was studied by Mubaraq and Kolawole (2019). found that reports of environmental accounting (which includes things like charity work and employee welfare costs) are positively correlated with performance measures. It does not back up the claims of Gabriel (2020), Makori and Jayono (2013), Akrouth and Othman (2013), or Juhmani (2014), they all pointed to a negative and insignificant link between environmental accounting disclosure and the bottom lines of publicly traded companies.

Conclusion and Recommendation

The study's results led to the conclusion that there was a favorable correlation between pharmaceutical businesses' profits per share and environmental financial reporting on community development and spending for employee welfare. The research concluded that pharmaceutical businesses should invest more on employee benefits to motivate workers to provide their best efforts, which would improve the company's success. Pharmaceutical company management, concerned with increasing profits for their investors, would be wise to increase their efforts in environmental financial reporting.

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