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EFFECT OF ENVIRONMENTAL ACCOUNTING ON THE PROFITABILITY OF CORPORATE ORGANIZATIONS IN SOUTH EAST NIGERIA

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We reiterate our recommendation—based on the findings—that the economy should be sustained only by taking environmental accounting into account.

Keywords
Accounting, Corporate, Environmental, Organizations, Profitability

Abstract: *This study examined the Effect of Environmental Accounting on the Profitability of Corporate Organizations in South East Nigeria. the specific objectives are; to examine the effect of environmental financial accounting on the profit of corporate organizations and to evaluate the effect of environmental management accounting on the profit of corporate organizations in southeast Nigeria. An ex-post facto research design was used in this study because the study adopted secondary data. The data was obtained from the yearly reports and accounts of the quoted companies on the Nigeria Stock Exchange and the Central Bank of Nigeria. The data were analyzed using SPSS Version 21's Linear Regression Analysis. The study revealed that environmental financial accounting has a significant positive on the profit at 0.05, the level of significance is (0.001 < 0.05). While Environmental management accounting has a significant positive on the profit at a 0.05 level of significance (0.001 < 0.05). Environmental Accounting has a significant positive effect on the Profitability of Corporate Organizations in South East Nigeria.*

1.1 Introduction

Environmental accounting is a more general phrase that refers to the dissemination of information about environmental performance to stakeholders inside and outside of a firm. These guidelines define environmental accounting as pursuing effective and efficient environmental conservation activities while aiming to achieve sustainable development and a positive relationship with the community. These accounting practices enable a corporation to calculate the cost of environmental protection in the regular course of operations and to calculate the benefits of such actions (Nandini, Sudharani, and Suresh 2020). Clarifying the environmental effects brought on by the purchase and processing of materials, manufacture, sales, distribution, usage, maintenance, and disposal can help environmental accounting more precisely determine genuine costs. It can assist businesses and organizations in creating cutting-edge solutions to modify resource use, get rid of

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resource limits, satisfy legal needs, and avert ecological problems. Additionally, it can give customers the additional knowledge they need to make wiser purchasing decisions. Environmental accounting has a number of benefits for company, not least of which is the ability to quantify and address the full costs, including environmental repair and long-term environmental effects and externalities (Nandini, Sudharani, and Suresh 2020).

Due to the global economic, social, and political discussion around the availability of natural resources and environmental damage, accounting for the environment has become more and more important to businesses. At both the national and international levels, actions are being taken to safeguard the environment to lessen, prevent, and mitigate the effects of pollution. As a result, it's becoming more common for businesses to share extensive information with the public about their environmental policies, environmental management systems, and how their environmental performance affects their financial performance. A business or other entity can precisely identify and assess investments and expenditures associated with environmental conservation efforts and can prepare and analyze this data while carrying out environmental conservation actions. The company can increase the efficiency of its operations by having a better understanding of the prospective benefits and costs of these expenditures. Environmental accounting also plays a critical role in assisting with logical decision-making. When using environmental resources, or "public goods," for business purposes, companies and other organizations are obligated to be accountable to stakeholders, such as customers, business partners, investors, and employees. The method of executing accountability involves disclosing environmental accounting data. Environmental accounting hence promotes public trust and confidence in businesses and other organizations and is linked to receiving a fair assessment (Nandini, Sudharani, and Suresh 2020).

1.2 Statement of the Problem

The identification, assessment, and allocation of environmental expenses as well as their integration into corporate operations and means of informing stakeholders about these costs are all covered by environment accounting. This makes it a thorough strategy for ensuring excellent corporate governance, which also incorporates transparency in its societal actions. Performance falls short of expectations due to numerous forms of environmental accounting having unserious attitudes and not accounting for the environment. This is so that the company can accurately document all environmental costs associated with its operations and, ultimately, find a means to lower those costs (environmental expenses) in order to boost profits.

1.3 Objective of the study

The main objective of the study is to examine the Effect of Environmental Accounting on the Profitability of Corporate Organizations in South East Nigeria. the specific objectives are;

i. To examine the effect of environmental financial accounting on the Return on assets of corporate organizations in southeast Nigeria
ii. To evaluate the effect of environmental management accounting on the Return on Equity of corporate organizations in southeast Nigeria.

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1.4 Hypothesis of the study

i. Environmental financial accounting has no significant positive effect on the Return on assets of corporate organizations in southeast Nigeria.
ii. Environmental management accounting has no significant positive effect on the Return on Equity of corporate organizations in southeast Nigeria.

Review of related Literature

2.1 Conceptual Review

Environmental Accounting

The phrase "environmental accounting" has several different connotations. Environmental accounting is frequently used to refer to the identification and reporting of costs that are specifically related to the environment, such as liability costs or waste disposal costs. Environmental accounting is a procedure by which businesses reveal data about their environmental performance as proof that they are responsible for their actions (Uwuigbe, 2011). When a company modifies its goods or processes and those changes have an influence on the environment, environmental accounting considers all associated costs and benefits (James, 1998). Instead, any data with a financial component—whether explicit or implicit—is employed as a decision-making input by a corporation. Environmental accounting data can be used by facility managers, product designers, and financial analysts alike. According to Seetharaman et al. (2007), environmental accounting is used to evaluate all environmental costs related to products and/or activities. They also emphasized the use of environmental accounting to track an organization's environmental performance in a more quantifiable way. Aggregate air emissions, water effluent discharge, soil contamination, and boundary noise level are the main issues that need to be watched.

Environmental Financial Accounting

Following the UN Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting's Financial and Accounting Report on Environmental Liabilities and Costs, environmental financial accounting was initially hypothesized as a new profession in 1998. (Borges & Bergamini, 2001). Although EFA is becoming more popular in the commercial sector, its conception and use in the public sector are still in their infancy. EFA is a general term that refers to the procedures involved in including both financial and non-financial environmental information in financial statements. EFA is described as the "external reporting of environmental and financial advantages in (sometimes validated) business environmental reports or published annual reports" by Moisescu and Anghel (2006). Additionally, they point out that as there are no special accounting rules for EFA, it is reported in accordance with the necessary accounting standards established by various professional accounting groups. EFA is based on an entity's activities.

Environmental management accounting

Environmental Management Accounting may identify and assign environmental expenditures using the aforementioned accounting methodologies. Alternative methods of estimating environmental costs exist as well, such as the previously mentioned "environmental cost decision tree" (Rinner 2001). Policymakers are concerned about how a company's environmental performance affects

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its financial prospects and how the strictness of the environmental regulatory framework can limit a company's financial chances. Jolley, Ytterhus, Darnall (2006) When implementing required pollution control technologies, requesting environmental licenses, and tracking and reporting their environmental impacts, organizations collectively spend millions of dollars every year (Portney and Robert 2000). Companies are encouraged by these expenses to lower their environmental impacts below mandatory reporting criteria.

It is frequently believed that policymakers and successful business performance go hand in hand (Darnall, Jolley, and Ytterhus, 2006). A novel field of study called environmental management accounting gives an intriguing perspective on ecological sustainability. It widens the doorway for the corporate integration of ongoing external influences (Bennett and James 1998) Although there are some noteworthy examples of businesses employing cutting-edge EMA models, the primary motivation for EMA development has not yet come from the business community. This indicates that there is still room for additional government initiatives to encourage the use of EMA software. But it is crucial to actively include the business community in the development of such criteria (Martin, Jan Jaap, and Teun 2006).

Profitability

The basic aim of all commercial endeavors is profitability. The long-term viability of the company depends on profitability. Therefore, estimating future profitability and analyzing present and previous profitability is crucial. Income and expenses are used to determine profitability. Income is money that the firm makes through its operations. For instance, money is made when livestock and crops are raised and sold. On the other hand, money that enters the company through actions like borrowing money does not generate profits. This is only a monetary transaction between the company and the lender to raise money for the company's operations or the purchase of assets (Fabian et al 2022). The following is a discussion of the profitability metrics utilized in this study:

Return on Assets

Return on assets is a measurement based on accounting that assesses the business's operational and financial performance (Klapper & Love, 2002). Return on assets, a metric for profitability, is used here. Although it may be skewed as a result of off-balance-sheet transactions, ROA represents management's capacity to earn profits from the bank's assets. The return on asset (ROA), which can be calculated by dividing net profit by total assets, measures how effectively an economic unit uses its assets to generate profit, particularly in the manufacturing sector. The higher this ratio, the better their economic unity of them. It indicates the management's efficiency in using its assets to generate profit. According to Micah, Ofurum, and Ihendinihu (2012), return on asset (ROA) is calculated as profit before tax divided by the average value of all assets. ROA is a metric of profitability that takes into account the resources required to generate revenue. The measurement is made in a way that the more effectively assets are used to benefit shareholders, the higher the Return on Assets. A higher return on assets also illustrates how well the business uses its resources to advance the financial objectives of its shareholders.

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Return on Equity

One of the all-time favorites and possibly the most popular overall indicator of company financial performance is the return on equity (Firer, Ross, Westerfield & Jordan, 2004). This was corroborated by Monteiro (2006), who claimed that return on equity was possibly the most crucial statistic to take into account for investors. Its popularity among analysts, financial managers, and shareholders alike stem from the fact that ROE is the outcome of a systematic financial ratio study (Correia, Flynn, Uliana & Wormald, 2003). The return on equity ratio (ROE) is regarded as a crucial indicator of a company's profitability. The ratio of return on equity (ROE), which measures the profitability of the investment made by owners of the company's own capital or shareholders, demonstrates how well businesses manage their own money (net worth). According to Ang (2001), a higher Return on Equity (ROE) ratio will boost profit growth. Return on Equity (ROE), often known as company profitability, measures the profitability of one's own capital (Sawir,2005).

2.2 Theoretical Framework

Participant Theory of Stakeholder

The Participant Theory of the Stakeholder theory was first put forth by Freeman (1983), who defined a stakeholder as any group or individual who has the power to influence or be influenced. It is one of several theories that make an effort to justify or explain the organizational strategy. The stakeholders of a company are its main focus and have a significant role in this. understanding the responsibility and accountability that come with the dynamic and complicated relationships that exist between businesses and their stakeholders (Gray, 1999). Through stakeholder analysis, it is possible to identify social interest groups for which the firm may be held accountable and, as a result, for whom a proper accounting of its operations is viewed as necessary. Many people believe that the company's stakeholders' interests are essential to its long-term success. The idea is described as a way of thinking about the organization by Freedman and Miles (2006). In order for the organization to prosper, there should be an emphasis on managing stakeholders' interests, needs, and viewpoints. If managers want the company to succeed, they must protect the interests of stakeholders.

The long-term success of the company hinges on this, according to research that follows Freedman and Miles' results from 2006. It is a term used to describe how an organization makes decisions that are not just motivated by the need to increase profits for its shareholders but also by the need to uphold a brand and values that are representative of the particular relationships that have grown between the business and its various stakeholders (Freedman & Miles, 2006). This strategy places a strong emphasis on forging shared interests and managing the environment, relationships, and corporate strategies actively. This idea holds that managers should set up a structure to address the worries of stakeholders affected by unprecedented levels of environmental challenges and change.

2.3 Empirical Review

Uniamikogbo and Ifeanyichukwu (2021) investigated the relationship between environmental accounting disclosure and the financial performance of manufacturing firms in Nigeria. The study specifically looked at how environmental accounting disclosures affected the share price, return on assets, and return on equity of particular Nigerian manufacturing

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companies. This study employed the ex-post-facto research design with a sample of 40 manufacturing companies. The convenience sampling methodology was used to acquire data from a secondary source. Data were gathered from the corporate annual reports and the content analysis disclosure index of the sampled manufacturing companies listed on the Nigerian Stock Exchange for the 2010–2019 fiscal years. The study's statistical methods included regression analysis, correlation matrices, and descriptive statistics. With the help of the panel data regression technique, data were evaluated. According to the research, Nigerian manufacturing businesses' share prices, returns on assets, and returns on equity were significantly impacted by environmental accounting disclosures.

Nwambeke, Udama, and Oko (2019) investigated the impact of environmental accounting disclosure on financial performance in cement companies in Nigeria from 2006 to 2017. The study specifically aimed to determine how the costs associated with employee safety, charitable giving, and community development affected the financial performance of cement companies in Nigeria. Data from individual annual reports of cement companies were evaluated using a panel data regression model in the study, which used an Ex-Post Facto research approach. The results of the study showed that costs associated with employee safety have a negative and significant effect on the financial performance of cement companies in Nigeria, while costs associated with charitable contributions have a positive and significant effect and costs associated with community development have a positive and significant impact.

Jalaludin D., Sulaiman M., and Ahmad Nazil, 2010) carried out a study on Environmental Management Accounting (EMA), an empirical investigation of manufacturing companies in Malaysia. In this study, a survey report was presented after a review of the literature on the adoption of EMA. The relationship between EMA, environmental performance, and economic performance is also explored in the study. A survey was given to Malaysian manufacturing company accountants and environmental managers to test the proposed links. The conclusions of correlation analysis lend credibility to the proposed connections. The study's findings indicated that EMA adoption is not at an encouraging level.

Okegbe and Ofurum (2019). Environmental management accounting in Nigerian consumer goods enterprises. The goal of the study was to determine how much environmental protection, pollution prevention, and rehabilitation affect Nigerian retail companies that are publicly traded in terms of their profitability as well as how much environmental protection affects consumer goods companies that are publicly traded in Nigeria in terms of their returns on assets. In this study, time-series data and ex post facto research techniques were employed. To test the presumptions, regression analysis in SPSS Version 20 was performed. The study found a relationship between environmental restoration, pollution control, and environmental protection costs and returns on assets for listed Nigerian consumer products companies.

3. Methodology

An ex-post facto research design is used in this study. Ex-post facto refers to something that has already happened; therefore, the data are already available and the events under examination have

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already happened. Purely quantitative research was used for this study. The goal of the study was to determine how environmental accounting affected corporate organizations' profitability in South East Nigeria. Profitability was the dependent variable, and environmental accounting was subdivided into two independent variables, namely environmental finance accounting and environmental management accounting. The information was taken from the yearly reports and accounts of the quoted companies on the Nigeria Stock Exchange and the Central Bank of Nigeria. A test-retest technique was used to guarantee the study equipment's reliability. The Nigeria Stock Exchange's quoted companies' economic objectives were utilized to evaluate their success. The firm's turnover, including its return on assets and return on equity, was used to measure its growth. The study employed secondary data from the chosen quoted firms. The data were analyzed using SPSS Version 21's Linear Regression Analysis.

Model Specification

Environmental financial accounting and environmental management accounting were used as the independent variables while profitability is the dependent variable for the study.

Y and X were used as an expression for the variables.

$Y = f(X)$

Y= Dependent Variable

X= Independent Variable

Where

Y = Profitability.

X = Environmental financial accounting and environmental management accounting

Y = (y1)

X = (x1, x2)

Y=f (X)

y= f (x1) .... Equation 1

y= f (x2) .... Equation 2

$Y = a0 + \beta_1 1x1 + \beta_2 1x2 + e$.....................................Equation 3

Therefore;

$P = \beta_0 + (\beta_1 EFA + \beta_2 EMA) + \varepsilon$

Where:

P= Profitability.

EFA= Environmental Financial Accounting

EMA= Environmental Management Accounting

4. Data Presentation and Analysis

Data Presentation

The study was conducted to examine the Effect of Environmental Accounting on the Profitability of Corporate Organizations in South East Nigeria. The Experience from South Eastern Nigeria. Secondary data was used and it was obtained from the selected quoted firms in Nigeria Stock Exchange.

Table 4.1 present the data.

YEAR	Profitability	environmental financial accounting	Environmental management Accounting
	(KOBO)	**NGN (000)**	**NGN (000)**
2018	61.50	266	**131**
2017	44.50	244	121
2016	10.00	181	72
2015	29.00	151	50
2014	27.50	143	45
2013	25.50	133	43
2012	20.00	116	36
2011	12.55	97	32
2010	12.55	80	25
2009	12.55	65	23

Source: Central Bank of Nigeria

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4.2 Data Analysis

The secondary data collected for the study were analyzed using descriptive statistics, linear regression, and correlation analysis, and the results were presented.

Table 4.2.1

Descriptive Statistics

	Mean	Std. Deviation	N
Profitability	25.5650	16.48843	10
Enviro fin accounting	147.6000	66.35293	10
Enviro mgt accounting	57.8000	38.62296	10

Table 4.2.1 presents the descriptive statistics describing the characteristics of the variables used in the study. The descriptive statistics include measures of central tendency, which are the mean and median, and measures of dispersions which include standard deviation. The results show the mean of the variables are: P= 25.5850, EFA= 147.6000 and EMA= 57.8000, and standard deviation, P= 16.48843, EFA= 66.3529,3 and EMA= 38.62296, etc.

Table 4.2.2

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	EFA EMA	.	Enter

a. Dependent Variable: Profitability
b. All requested variables entered.

Table 4.2.3

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.856[a]	.733	.656	9.66652	.733	9.593	2	7	.010

a. Predictors: (Constant), Environment financial accounting and Environmental management accounting
b. Dependent Variable: Profitability

Table 4.2.4

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1792.724	2	896.362	9.593	.010[b]
	Residual	654.091	7	93.442		
	Total	2446.815	9			

a. Dependent Variable: Profitability

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b. Predictors: (Constant), Environmental financial accounting and Environmental management accounting

Table 4.2.5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	.645	13.170		.049	.962
1	Environ fin accounting	.076	.235	.308	.325	.755
	Environ mgt accounting	.236	.404	.552	.583	.578

a. Dependent Variable: Profitability

Table 4.2.6

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	11.0402	51.8844	25.5650	14.11352	10
Residual	-21.46848	9.61562	.00000	8.52507	10
Std. Predicted Value	-1.029	1.865	.000	1.000	10
Std. Residual	-2.221	.995	.000	.882	10

a. Dependent Variable: Profitability

Table 4.2.7

Correlations

		Gross domestic product	Environ cost account	Natural resource acct
Pearson Correlation	Profitability	1.000	.848	.854
	Environ fin accounting	.848	1.000	.978
	Environ mgt accounting	.854	.978	1.000
Sig. (1-tailed)	Profitability	.	.001	.001
	Environ fin accounting	.001	.	.000
	Environ mgt accounting	.001	.000	.
N	Profitability	10	10	10
	Environ fin accounting	10	10	10
	Environ mgt accounting	10	10	10

** Correlation is significant at the 0.01 level (1-tailed).

Source: SPSS vision 21

Test of Hypotheses

The test of the hypothesis Presented in table 4.2.7 is the correlation analysis of the variables. The correlation results were used to test the two null hypotheses formulated for the study. In arriving at a decision for the hypotheses, the following steps were taken:

i. The hypotheses were restated in null and alternate forms
ii. The decision criterion or criteria were stated
iii. The presentation of the correlation result
iv. The null hypothesis is rejected or accepted based on the decision criterion or criteria.

Test of Hypothesis One

Step One: Restatement of hypothesis in a null and alternate form

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H_0: Environmental financial accounting has no significant and positive effect on profitability.
H_1: Environmental financial accounting has a significant and positive effect on profitability.
Step Two: Decision Rule/Criteria*:* Reject H_0 if Sig-Value is less than 0.05, otherwise accept H_0.

Table 4.2.7 presents the result of the correlation analysis used to test the hypothesis formulated for the study. From the table, the correlation coefficient of environmental financial accounting (EFA) is positive 0.848 while the sig-value is 0.001. Therefore, environmental financial accounting is significant at 0.05, level of significance is (0.001 < 0.05). Based on this result, we reject the null hypothesis and accept the alternative that state environmental financial accounting has a significantly positive effect on profitability in southeast Nigeria.

Test of Hypothesis Two

Step One: Restatement of hypothesis in a null and alternate form

H_0: Environmental management accounting has no significant positive effect on the profitability of corporate organizations in southeast Nigeria.
H_1: Environmental management accounting has a significant positive effect on the profitability of corporate organizations in southeast Nigeria.
Step Two: Decision Rule/Criteria*:* Reject H_0 if Sig-Value is less than 0.05, otherwise accept H_0.

Table 4.2.7 presents the result of the correlation analysis used to test the hypothesis formulated for the study.

From the table, the correlation coefficient of environmental management accounting (EMA) is positive 0.854 while the sig-value is 0.001. Therefore, Environmental management accounting is significant at a 0.05 level of significance (0.001 < 0.05). Based on this, we reject the null hypothesis that Environmental management accounting does not have a significantly positive impact on the profitability in Nigeria. Therefore, we accept Environmental management accounting has a significantly positive effect on the profitability in Nigeria.

Discussion of Results

Hypothesis One

The test of hypothesis one reveals that the null hypothesis was rejected. The result, thus, shows that environmental financial accounting is significantly positive on profitability and it has a strong significantly positive impact on profitability, it implies that if the organization embarks on environmental financial accounting, it will be sustainable in the economy and it will bolster the profitability. The result was corroborated by the result of the R^2 (0.733) and the Adject R^2 (0.656) that measure the goodness of the model fitness in table 4.2.3. From the regression result in the table, the regression coefficient of environmental financial accounting is 0.076 while the significant value is 0.755. Thus, in both the correlation and regression results, environmental financial accounting is positive and significantly related to profitability in Nigeria.

Hypothesis Two

The test of hypothesis two indicates that null hypothesis was rejected. The result shows that environmental management accounting is significantly positive on the profitability and it has strong significantly positive on the economy. This implies that if the nations embark on environmental management accounting, the profitability will improve and it will bolster the economy. The result was corroborated by the result of the R^2 (0.733) and the Adject R^2 (0.656)

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that measure the goodness of the model fitness in table 4.2.3. From the regression result in the table, the regression coefficient of profitability is positive at 0.236 while the significant value is 0.578.

5. Conclusion

We draw the conclusion that environmental financial accounting and environmental management accounting have a substantial impact on corporate profitability based on the study's findings. Nations and ethical corporate entities now worry and concentrate on the necessity for environmental accounting. It rose to the top of the list of global economic concerns for both developed and developing nations. Environmental accounting is a comprehensive aspect of accounting that produces vital reports for both internal and external uses, giving managers access to environmental data to aid in controlling overhead. It has acted as a global benchmark for the growth of sustainable economies. The study concludes that Environmental Accounting has a significant positive effect on the Profitability of Corporate Organizations in South East Nigeria.

Recommendation

We reiterate our recommendation—based on the findings—that the economy should be sustained only by taking environmental accounting into account.

i. Environmental financial accounting needs to be taken into consideration in our particular organization in order to permit the control of overhead costs and minimize certain environmental losses.
ii. Environmental management accounting needs to be taken into consideration in our particular organization in order to limit overhead costs for natural resources.

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