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Impact of Environmental Accounting Reporting Practices on Financial Performance:
Evidence From Banking Sector of Bangladesh

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ABSTRACT

The study intended to explore the effect of environmental accounting reporting (EAR) practices on the financial performance of the banking industry of Bangladesh. Panel data consisting of 25 listed banks in Dhaka Stock Exchange (DSE) over the period 2012 to 2016 has been employed in this study. An environmental accounting reporting score (EARS) index has been developed by analyzing the content of banks' annual reports. Using Pooled OLS, the analysis revealed that EAR reporting had been increased after publishing the Bangladesh bank guideline. The empirical analysis showed that a significant positive correlation between EAR and profit margin (PM). However, EAR has an insignificant relationship with ROAE (return on average equity), EPS (earnings per share), and ROAA (return on average assets). Among control variables, size, capital ratio, overhead expense, and loan ratio have a significant impact on financial performance.

KEYWORDS

Bangladesh, Banking Industry, Environment Accounting Reporting (EAR), Environmental Accounting Reporting Score (EARS) Index, Financial Performance, Panel Data, Pooled OLS

1. INTRODUCTION

Recently, global warming gets international consideration as it has been steered by rapid use of natural resources and brutal industrial competition due to globalization (see UNEPFI, 2007; Guillen, 2001). Among various factors, greenhouse gas (GHG) is the main culprit for changing the balance of the natural environment (World Bank, 2013). Although manufacturing institutions are blamed primarily for environmental change, greenhouse gas, service organizations, such as banks and other financial institutions, also contribute as they fund the major industry of any country (Hossain *et al.* 2016). So, stakeholders want to know about financial and non-financial information based on which they can take a proper investment decision. Theories suggest that profit maximization principle should

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be affected by accounting measures rather than sustainable development. But this issue is still on the debate as researchers found different results (Dobre *et al*., 2015).

Green banking, as a part of environmental accounting, ensures that banking activities do not encourage environmental pollution. Green banking activities include online banking, less paper, mobile banking, green credit cards, green mortgages, etc. Green banking promotes environmental friendly projects through lowering interest rates. In the green banking circular, Bangladesh Bank identifies Bangladesh as one of the vulnerable countries exist (Hossain *et al.,* 2016). ISO (International Organization for Standardization) has outlined ISO 14000 including a sequence of standards covering various aspects of environmental management. These standards lead to increase institutions productivity as standards provide a direction toward environmental performance (Norhasimah *et al*., 2016).

Developing country such as Bangladesh, development depends on the manufacturing and financial sectors. As Bangladesh is moving towards the middle-income country, environmental issue has become very important to consider. But, Bangladesh is far behind than other countries regarding environmental accounting reporting practices. The study is based on Bangladesh as many development events have occurred here recently. Most of the preceding studies focused on two things: disclosure nature and the association between disclosure and determinants of information reporting (Sobhani *et al*., 2009). As banks are the major financial institution engaged in financing large industry, they have a direct and indirect influence on environmental issues. Moreover, Bangladeshi banks are following the GRI (Green Reporting Initiative) framework to prepare their sustainability reports. Considering the importance of environmental disclosures, Bangladesh Bank outlined green banking policy guideline (2012), which is the only compulsory framework for disclosing environmental issues. From 2013, Bangladesh Bank itself is also publishing green banking appraisal report considering all the financial institution in the banking sector (Masud *et al.,* 2017). However, there are not enough studies on EAR practices of bank industry, and some studies are limited to green publication of banks' activities excluding few studies, which are based on GRI (Khan *et al*., 2011; Islam *et al*., 2016) and Sustainability (Sobhani *et al*., 2012).

Focusing on the importance of financial performance, this study aims to show how environmental accounting reporting practices influence financial performance. This study reveals the primary implementation of EAR practices in the banking industry of Bangladesh. Especially, it measures 18 categories, which have been selected based on the green banking guideline framework. Moreover, it also aims to show EAR practices besides the lawful provision of the banking industry in Bangladesh (Masud *et al.,* 2017). So, this study will be effective literature for assessing the environmental reporting effects on the financial performance of listed bank companies in Bangladesh. Moreover, it will also contribute to lessening the unending argument regarding the relationship between EAR practices and financial performance.

2. LITERATURE REVIEW

To the stakeholder, responsiveness towards the environment is not a new idea. Many researchers have outlined the issue of environment disclosure (Das *et al*., 2008). Only a little association has been found between the environmental performance of companies and the conversation of that performance. Publication of environmental practices is found inadequate, ambiguous and unreliable in most of the annual reports of US companies (Neu *et al*., 1998; Wiseman, 1982; Freedman & Wasley, 1990; Gamble *et al.,* 1995). Companies tend to increase information disclosure when the media focuses on the environmental problems and prospects (Neu *et al*., 1998). In addition to providing a link between stakeholder interest and environmental disclosure, it is concluded that decline in net income seeks to rise in disclosure as management tries to distract stakeholders focus from poor financial performance (Neu *et al*., 1998; Freedman & Jaggi, 1988). Stanwick revealed that higher financial performers tend to follow strong environmental commitment with environmental policy than lower financial performers

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