Chapter 26
Climate Change Accounting and Value Growth of Financial Institutions in West Africa

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ABSTRACT

The study investigated the impact of climate change accounting on the value growth of financial institutions in West Africa. The study used 10 years of annual reports of 47 financial institutions in Ghana and Nigeria. The climate change disclosure scores were determined based on the task force's recommended components on climate-related financial disclosure. A panel data regression technique was used for the analysis. The study found a positive and significant relationship between climate change accounting and the value of financial institutions in West Africa. This result implies that the firms' value would improve should they concentrate and enhance their climate change disclosure activities. The findings also revealed that the impact of climate change accounting on the value of financial institutions is positively and significantly higher in countries with stronger investor protection. These findings enable us to expand our understanding of the process of generating value for investors in financial institutions and society, generally.

INTRODUCTION

The activities of firms have considerable impacts on the environment and society; hence firms are under pressure to operate responsibly. To discharge this duty, firms have been called upon to provide information on how their activities affect the environment and society and the measures put in place to mitigate such effects. This has resulted in an upsurge in interest in environmental, social and governance (ESG) report-

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ing. ESG reporting provides information about a firm's non-financial activities such as environmental impacts and mitigation measures, climate change, carbon emission, community empowerment, employee development and governance structure. There has been a coordinated effort to promote the adoption of ESG reporting by firms, which has yielded significant results (Vitolla et al., 2019). However, climate change accounting is yet to achieve wide acceptance within the corporate reporting environment. A significant challenge to adopting climate change accounting is a lack of frameworks based on accounting principles to frame them and hence guide firms on the set of information to disclose (Gulluscio, 2020). As alluded to by Evangelinos et al. (2015), climate change reporting is mostly voluntary, with the lack of generally accepted guidelines for reporting a significant problem. The authors suggested that this led to untrustworthiness and awkwardness in climate change accounting and accountability.

The call on firms to account for their environmental and social impacts has yielded some results because firms have begun to incorporate environmental and social information in their annual reports (Abeysekera, 2013; Sief, 2014; Horvat & Korosec, 2015). Firms in developing countries have also started to account for their environmental impacts through environmental and social reporting (Thistlethwaite, 2015; De Villiers et al., 2017). However, in most developing countries, these reporting practices are voluntary yet consumes substantial amounts of a firm's resources. More surprising is that financial institutions that are not known to have any significant negative impacts on the environment and society are adopting climate change accounting (Alsaifi et al., 2020). Financial institutions can play a significant role in mitigating climate change risks, especially society's adjustment towards climate change. This is achieved through investment decisions, financing decisions, developing risk mitigation products, credit risk management policies and lending practices (Buallay, 2019). Despite banks not having any significant negative impacts on the environment and society, they adopt climate change accounting (Matuszak & Rozanska, 2017). This has triggered a debate on whether such practises are beneficial to the value maximisation of shareholders wealth.

Elsewhere, evidence shows that firms that practice climate change accounting enjoy value growth (Qiu et al., 2016; Cahan et al., 2016; Bose et al., 2017). Other studies have also portrayed climate change accounting as a challenge to companies because the practice has not only been a waste of resources; but has also failed (Marcia et al., 2015; Matuszak & Rozanska, 2017; Alsaifi et al., 2020). These conflicting findings show that the debate on the value relevance of climate change accounting is still rife. Considering this, the study investigated whether financial institutions benefit from climate change accounting. This question is crucial to the sustainability of the financial sector in West Africa because of its unique political, economic, social, cultural and legal environment. Therefore, this study investigates whether financial institutions in West Africa attain value growth through climate change accounting.

The study found a positive and significant relationship between climate change accounting and the value of financial institutions in West Africa. This result of this study implies that the financial institutions would improve their value should they concentrate and improve their climate change disclosure activities. The findings also revealed that the impact of climate change accounting on the value of financial institutions is positively and significantly higher in countries with stronger investor protection. This study contributes to the literature in many ways. First, the study shows that climate change accounting contributes to the value growth of financial institutions in West Africa. These results serve to motivate management of firms to adopt climate change accounting because it can contribute to firms' value growth. This result further broadens our understanding of why financial institutions adopt climate change accounting. Given that climate change accounting is voluntary in these countries, this study's

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