Relationship Between Business Activities and Social Costs in Nigeria: The Effects on Environment

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Abstract

This paper aimed to study the linkage between business firms' actions and their resultant social costs on the environment in Nigeria. The report also attempted to provides a broad view of businesses and their resulting actions on the earth as they operate within contemporary Nigerian society. The sampling method adopted for this study was the stratified random sampling technique. The instrument used for data analysis was Chi-square (X2), adopted for hypothesis testing. A total number of 287 questionnaires were returned and considered out of the 300 questionnaires that were distributed. Data obtained was analyzed with the inferential statistical technique. Pearson Chi-square was employed to test each hypothesis at a 95 percent confidence level. Results were analyzed through Pearson Chi-square and hypotheses tested using chi-square statistics at 0.05 level of significance. SPSS version 21 was used for linear-by-linear association in hypotheses testing, assumptions establishing a linear relationship of variables were met, and error terms independence was conducted. Therefore, the study believed that if business firms are allowed to pollute the environment, the result is a rise in waste and numerous environmental consequences. Consequently, society as a whole is hurt as its overall social welfare declines. This study, therefore, recommended that the business firms should always make considerable strides in improving the performance of their products, with a strong focus on enhancing environmental efficiency with a long-term aim for zero-emission of vehicles.

Keywords: Business activity, Environment, Ethics, Nigeria, Social cost.
JEL Code: M14 & M21

Introduction

The environment of going concerns, like the habitats of animals, contributes to their development. Like the natural environments of living beings, the setting of a business can either enhance or stifle its growth and development. The nature and extent of the impact of the environment on any one company depending on the internal configuration. Researchers have categorized the territory into three components, the preparedness of any one company being referred to as the internal environment. These are the macro environment, the industry environment, and the internal environment. It has also been shown that the internal environment affects performance most, followed by the industry environment and, lastly, the macro environment (Gado, 2015).

If our behavior has had anything to do with the freak trend of the environmental problems, we must study natural events and strive to correct the continuing damage to the world at this stage. While it is impossible to stop ecological challenges completely, we do have the ability to lessen the process, allowing nature time to adjust to this man made problem. Since we know that most heat-trapping gases come from vehicles and power plants, we can curb their emissions by perfecting modern technologies and passing stronger laws regarding vehicle use and power plant management.

Typically, it is quite common to see cars and trucks in this country traveling the motorways with an unbelievable amount of exhaust fume, as if in an exhaust fume competition. Regulations need to be passed, i.e., prohibiting vehicle owners from operating such hazardous machines because apart from damaging the ozone layer, they further pose threats to other motorists. Since we are a heavily populated country with a vast number of vehicles, the Nigerian authorities should educate the nation on the ill effects of climate change on our environment and the importance of adapting to it. Government and industries should adopt initiatives to take immediate action that will lead to more efficient public transport, cleaner energy production, increasing the efficiency of buildings and agricultural practices, and better responsible industrial. (Ayodeji & Abimbola, 2008).

In a country like Nigeria, there is a requirement for far more effective waste management and disposal. Everywhere we go in this country, there are dumps of waste and pollution on driveways and roadsides that have almost become a trademark of our towns and cities (Kunda, 2014). The failure to manage this will lead to increase costs; however, in the form of factory pollutants and greater land use, which may harm the natural environment upon which we all depend. In the face of dwindling environmental conditions, the issue that has caused the most obvious concern is the total social costs involved when a business firm pollutes its environment. Of interest are trip mining, forest depletion, some nuclear waste, the effluent from factories, and the destruction of wildlife habitat to build new houses, motorways, institutions, etc. Quality of life issues such as loss of recreational areas, litter also falls within the limit, and excessive outdoor advertising (Lawal et al., 2014). Businesses affect the local environment - both social and natural. Ethical companies try to keep the impact of their operations on the ground to a minimum. Business activity impacts the natural environment: Resources such as oil, timber, and metals are used to manufacture goods. Manufacturing can have unintended spillover impacts on others in the form of pollution and noise. The land is lost to future generations when new houses or roads are built on green-field sites.

One of the central tasks of the theory of social costs and indeed the key objective of the being study is to trace the causal relationships between various productive activities and business practices on the one hand and of significant social losses and damages on the other in Nigeria. Now, an important question which this research would like to put forward to academics and business managers alike that deserve an answer is whether successful business firms always behave in a socially responsible way, that is, promotes social well-being without harming the business environment in a way. Some people may argue that businesses exist by public consent to serve the needs of society, whereas others may say the contrary. But, in either case, the truth of the matter is, business firms impose individual social costs on the society for which they do not pay. However, the company has to regulate and control them to induce or force them to serve the social interest and minimize their harm.

The concern of this study, therefore, lies with those actions of business firms that have harmful effects on others. The standard example is that of a factory the smoke from which has a detrimental impact on those occupying neighboring properties. According to Wikipedia (2015), the business analysis of such a situation has usually proceeded in terms of a divergence between the private and social product of the factory, in which economists have followed mainly the method of Pigou in the Economics of Welfare. The conclusions to which this kind of analysis seems to have led most economists is that it would be desirable to make the owner of the factory liable for the damage caused to those injured by the smoke or to place a tax on the factory owner varying with the amount of smoke produced and equivalent in money terms to the damage it would cause, or finally, to exclude the factory from residential districts and presumably from other areas in which the emission of smoke would have harmful effects on others.

I contend that the suggested courses of action are inappropriate in that they lead to issues that are not necessarily, desirable or even usually.

If there is a negative externality, then social costs will be greater than private costs. Environmental contamination is an example of a social value seldom

borne entirely by the polluter, thereby creating a negative externality. If there is a positive externality, then one will have higher social benefits than private benefits. For example, when a supplier of educational services indirectly benefits society as a whole but only receives payment for the direct benefit received by the recipient of the education: the benefit to the community of an educated populace is a positive externality. In either case, economists refer to this as a market failure because resources will be allocated inefficiently. In the case of negative externalities, private agents will engage in too much of the activity; in positive externalities, they will engage in too little. The marginal rate of transformation in production will not be equal to the marginal rate of substitution in consumption due to the effect of the externality. As a result, Pareto optimality will not occur (Wikipedia, 2015).

Institutional ecological economists in the tradition of Karl William Kapp provide a different definition of social costs, i.e., that share of the total costs of production that is not born by producers but is shifted to 3rd parties, future generations, or society at large. Kapp, hence, rejected Pigou's confusing terminology of externalities and provides several hundred pages of empirical data to support his argument that social costs are systemic, i.e., rooted in profit-maximizing behavior of businesses, and an enormous problem of modern civilization. In the real world, they are usually not or cannot be internalized and must not be considered as an accidental minor aberration from the "optimal norm" that can be fixed with ad hoc measures proposed by Pigou or Coase. Kapp suggests preventing ex-ante damages via precautionary regulations that reflect socially determined safety standards, instead of ex-post via monetary schemes like taxation or bargaining (Wikipedia, 2015).

The critical point is that even if a firm or individual avoids paying for the external costs arising from their actions, the prices to society as a whole (congestion, pollution, environmental cleanup, visual degradation, wildlife impacts, etc.) remain. Those external costs must be included in the social costs to ensure that society operates at a socially efficient output rate. Aside from the obvious environmental issues, one might ask why external prices are of interest to economists (FRBS, 2016)? A socially efficient output rate in a competitive market is reached when social costs (both private and external) are considered in production and consumption decisions (Johnson, 1990).

The existence of external costs has implications for product prices, output levels, resource usage, and competition. When high external costs are associated with a good (or service), the excellent price is too low (because external expenses are not paid). Its output level is too high, relative to the socially efficient rate of output for good. The bottom line, unless costs and prices include external costs, the market will not produce a socially efficient result (FRBS, 2016). Consider also the competitive issues: At the individual firm level and across states or nations, failure to pay for external costs would provide those firms or countries with a competitive advantage over producers who are paying the external costs associated with the production of their products. If you're interested, a visual examination of the issue follows!

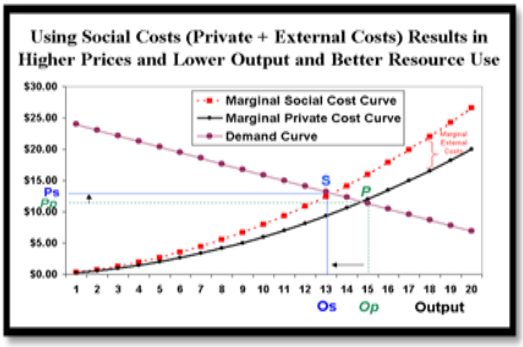
Social Costs and Its Graphic Illustration

Of great value in the theory of marginal cost is the distinction between the marginal private and social costs. The limited confidential price shows the cost associated with the firm in question. It is the marginal personal cost that is used by business decision-makers in their profit maximization goals. The marginal social cost is similar to the private price. It includes the cost of private enterprise and any other value (or offsetting benefit) to society to parties having no direct association with the purchase or sale of the product. It incorporates all negative and positive externalities of both production and consumption. Examples might include a social cost from air pollution affecting third parties or a social benefit from flu shots protecting others from infection (Wikipedia, 2016).

In the intersection of the demand curve, the graphic illustration, and the marginal cost curve represents the socially efficient output rate in a competitive market. However, when external costs exist, we need to plot two curves: The marginal private cost curve and the marginal social cost curve (which equals the marginal personal cost curve plus

the marginal surface cost curve). Comparing prices and outputs illustrates how external costs affect resource allocation. If a firm (or nation) pays only the private costs and avoids paying the external costs associated with their product, then output and prices would be determined at point P where the marginal personal cost curve (large solid black line) meets the demand curve (thin purple line). At P (thin dashed green lines), price equals Pp and output meets Op (FRBS, 2016).

Figure 1: A graphical Illustration of Social Costs



Source: FRBS (2016)

When private and outside costs are paid by the firm, the marginal social cost curve (dotted red line) adds marginal external costs to the marginal personal costs. In this case, the demand curve occurs at point S (thin blue lines) and the junction of the faulty social cost curve with price Ps and output Os. Point S denotes the culturally efficient rate of production. From a support standpoint, the critical point of this example is that including the limited surface costs of production and allotting support based on the full social cost issues in a costlier price for the good (Ps > Pp) and less output (Os < Op) than only including the private costs. More lowering work typically would also reduce the volume of pollution created by the activity. Society is greater off when production and consumption decisions are based on social costs that include external costs because external costs do matter in the real world. Policymakers are looking for ways to make firms and consumers 'internalize' or consider the external charges they create when making production and consumption decisions (FRBS, 2016).

Materials and Method

Nigeria is in the West African sub-region, lying between longitudes 2º40' and 14º41' east and latitudes 4º16' and 13º53' north. It is joined by Niger in the north, Cameroon in the east, Chad in the northeast, and Benin in the west. To the south, Nigeria is bordered by approximately 850 kilometers (528.2 miles) of the Atlantic Ocean, stretching from Badagry in the west to the Rio del Rey in the east. With a whole land area of 923,768 square kilometers (356,668.8 square miles), Nigeria is the fourteenth most extensive country in Africa (NEDS, 2011). This research administered three hundred (300) questionnaires to the relevant sample population. The questionnaire was distributed and allocated to the target population. The target population was restricted to Stakeholders with a specific educational background (i.e., at least a graduate and above) and the individuals in the neighborliness of the business firms operating within the three (3) main sectors of the market; agriculture, industrial, and transport sectors in Nigeria.

A total of 287 respondents (that makes up almost 96% of the responses) returned the questionnaire out of 300 questionnaires administered and was effectively assessed for further statistical actions and quantitatively measure the connections or else the relationship existing between the business activities and the social costs with effects on the environment in Nigeria. Layered random sampling was used to select and approach the Stakeholders associated with the business activities and who felt the social costs to extract information to evaluate the social costs arising from the business activities in Nigeria. Stratified irregular sampling is suitable for this study since the population is divided into three (3) significant strata based on sectorial type: agriculture, manufacturing, and transport service sectors. A random sample was then drawn from each of the strata, which ensure that each case of the strata in the population has an equal chance of being included in the sample.

Results and Discussion

This research study was exploratory. Since there are no previous studies about the business activities vis-à-vis the social costs with effects on the environment in Nigeria. The respondents'

perceptions of environmental challenges via business activities in Nigeria were gathered. The responses of the 287 respondents out of the 300 questionnaires administered were keyed into the system, and the Statistical Package Social Sciences (SPSS) applied to the data. Hypotheses were tested using Spearman's chi-square. Ideas were generated for logical proof of complex social phenomena. Therefore, a cross-sectional study was selected as the time horizon.

Testing of Hypothesis

The study applied Pearson chi-square analysis to the hypothesis for statistical significance to test the possible relationship between business activities and social costs resulting from actions of business firms. The research showed that the most significant determinants of the relationship existing between business activities and social values with effects on the environment are as follow:

Hypothesis: Private costs of a business firm are always less than the total social costs involved whenever it pollutes a given environmental setting.

Table 1: Chi-Square Tests for the Relationship Between Firms' Environmentally Impacting Activities And Resultant Social Costs on the Environment

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	114.684[a]	16	.000
Likelihood Ratio	109.792	16	.000
Linear-by-Linear Association	10.013	1	.002
N of Valid Cases	278		
a. 12 cells (48.0%) have an expected count of less than 5. The minimum expected count is .20.			

Source: SPSS version 21 statistics outcome

In Table 1 above, the significance value is 0.000, which is less than the chosen significance level of 5% (0.05). But the null hypothesis is rejected, and the alternative proposal is accepted. As the Pearson Chi-Square statistic, $x2 = 114.68$, and $p < 0.001$; i.e., a strong probability of the observed data under the alternative hypothesis of a positive relationship, the alternative idea is accepted, since $p<0.05$ (in fact $p<0.001$). Thus, Economists regularly distinguish between what it costs a private manufacturer to make a product and what the manufacture of that product cost society as a whole. When the transport firm burns fuel, it may generate smoke and soot that settles on surrounding neighbors, who have paid for any medical problems the smoke creates and bear the costs of cleaning up the grime. From the viewpoint of the community as a whole, for example, the costs of providing transport service include not only the internal prices for which the transport firm pays but also the medical care that the neighbors pay and the external costs of cleanup. This total of costs (the private internal costs plus the neighbors' external values) is the social costs of providing transport service: the total price society must pay to provide a transport service.

Of course, social costs and private costs do not always diverge as in this scenario; sometimes, the two coincide. If a producer pays for all the costs involved in manufacturing a product imposes no external costs, then the producer's fees and the total social values are the same. Most respondents from the research survey confirm the works and views of Nakul, et al (2006); Ayodeji & Abimbola (2008) that when a business firm pollutes its setting in any way, the firm's private costs are always smaller than the total social costs involved. Whether the impairment is localized and immediate, as in the neighborhood effects described here, or whether the pollution is global and long-range, as in the hot-house results predicted to follow from introducing too much carbon dioxide into the abuse, the atmosphere always imposes external costs-that is, the cost for which the person who gives the pollution does not have to pay.

The business activities and the attendant social costs is fundamentally a problem of this divergence between private and social prices. Why should this divergence be a problem? It is a problem because when the personal values of manufacturing a product diverge from the social costs involved in its manufacture, markets no longer price commodities accurately. Consequently, they no longer allocate resources efficiently. As a result, society's welfare declines. Taking cognizance of crucial assumption on which the conclusions of this current research do depend sensitively, then, it's clear that the experimental findings herein but confirm the views and opinions of Rudin (1960), Bookchin (1982),

Sagoff (1988), Redclift (2005), and Bookchin (2007) suggesting that the existing world must look into the cultural forms of domination that exist in the family, between generations, sexes, and ethnic groups, in all institutions of political, and social management, economic and vary significantly in the way we feel reality as a whole, nonlife forms and including nature.

Conclusion and Recommendations

To sum up all, therefore, it's noteworthy that the environmental, social costs are expressed in the deterioration or destruction of property values and the premature depletion of natural wealth. In this connection, William (2000) said that the social costs of two centuries of mostly untrammeled business enterprise are with us with a vengeance. All those living in the urban areas of Britain or Japan, North America or Northern Europe, Australia or South Africa have long known what these costs were in pollution of air, land, and water, destruction of the environment, squandering of resources, unemployment, and degradation of labor. Those who have been more recently drawn into the urban centers of Russia, India, South East Asia, South America, or Africa have now, in their turn, learned the costs of economic progress. There is no longer any escape for those who could afford to move out into the suburbs and coastal resorts. Or blue skies, lakes to fish in, beaches to swim on, woods to walk through become ever rarer. Even sailors plying small craft across the oceans find the garbage of New York City in mid-Atlantic.

Besides the above, social costs are measured as the short-run price paid for high-level productivity and the social performance of the economic system in the long run. This research paper suggested that the relevant government agencies should come up with appropriate laws that will regulate the emission of industrial toxic waste and indiscriminate use of consumer goods, i.e., polythene bags in Nigerian markets and everywhere else, bearing that no economic or financial activity can be of the same importance with the general health and wellbeing of Nigerians. The business firms should also make considerable strides in improving the performance of their products, with a strong focus on enhancing environmental efficiency with a long-term aim for zero-emission of vehicles. This research paper further suggested that the businesses should always consider the opinions and yearnings of stakeholders to make them feel confident and secure with the business firm. Without the stakeholders' credibility and trust in a business firm, the business firm will have difficulty operating and standing firmly in the markets. Investing in profitable and socially responsible companies is better than investing in business firms with high profitability but neglects the environment.

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