

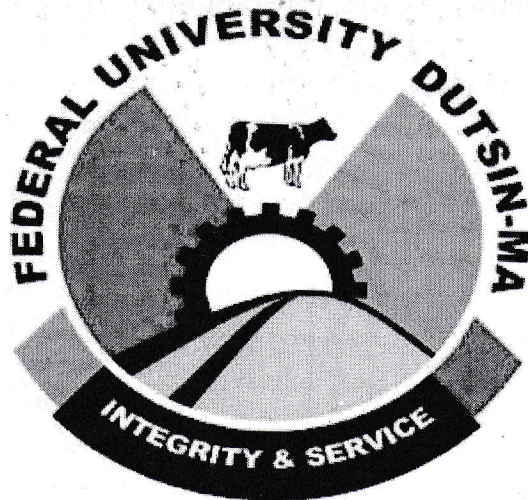
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Corporate Sustainability Disclosure and Shareholders' Wealth of Selected Listed Companies in Nigeria

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Abstract

The continued agitation over social costs and benefits by stakeholders necessitated the need for sustainability accounting disclosure globally. Corporate scandals and the effects of firms' activities on the environment, people, and the economy are capable of impacting upon the firms, particularly shareholders' value. This has raised fundamental question on the extent to which existing corporate disclosures reveals systemic risks and true cost of doing business in today's world, especially in Nigeria. This study examined the impact of corporate sustainability disclosure on shareholders' wealth focusing on the quoted companies in Nigeria. Secondary data was obtained from the annual reports of the thirty Seven (37) selected listed Nigerian companies and they were analyzed using panel least square (random effect) estimator. Findings revealed economic disclosure and environmental disclosure had a negative significant impact while social disclosure had a positive significant impact on shareholders' wealth. The study concluded that sustainability disclosure influenced shareholders' wealth of selected listed companies in Nigeria. This study recommended that listed sampled companies should increase disclosure on the effects of firms' activities on all sustainability disclosure dimensions.

Keywords: *Economic, Environment, Social, Sustainability, Shareholders' wealth*

Introduction

The quest for corporate survival and increased wealth creation has become a subject of discussion among the stakeholders of corporate bodies and the academia in the recent times; especially in this period of global competition and economic downturn. Globalization has increased considerations for social costs and its attendant benefits from various stakeholders such as investors, employees, policy makers, market regulators, green consumers, media, host communities and the general public. Invariably, the agitation led to sustainability accounting disclosure (Ishmail & Sira, 2012). No business can succeed in isolation without considering the various interests that makes up the environment. Hence, Wang, Qiu and Kong (2011) noted that firms' business success and responsibility towards the society, environment, its investors and employees cannot be over-emphasized.

Objectives of the study
This study sets a
and shareholders
were to:

- i. The effect
- ii. The effect
- iii. The effect

Druckman and Fries (2010) observed that the loss in shareholders' value occasioned by corporate and financial scandals and even environmental disasters arising from the multinational companies' (MNCs) activities have raised fundamental questions about the extent to which existing corporate disclosures highlight systemic risks and true cost of doing business in today's world. This question is more germane in a developing country such as Nigeria where poverty is below the acceptable line in any decent society. According to Kazeem (2018), the United Nations' Sustainable Development Goal (SDG) to eradicate extreme poverty by 2030 looks gloomy; which in large part is traceable to Nigeria. 86.9million Nigerians are believed to be living in extreme poverty at the rate of less than \$1 a day.

Stakeholders generally are concerned with organisational performance. Burritt and Schaltegger (2010) opined that sustainability accounting development can be viewed from the stakeholder perspective; that the society comprises diverse stakeholder groups with different powers to influence the organisation's activities, with concerns bothering on the environmental performance of the company. The returns on investment are highly valuable and important to investors. A well performing business most often bring high and long term returns to investors (Valentin, 2012).

Despite the increase in the existing literature on sustainability reporting and accounting, most empirical studies have focused on the developed countries and have been undertaken with respect to corporate sustainability reporting and disclosures on financial performance (Dilling, 2010; Bennett, Sola and Roux 2011; Farneti and Rammal, 2013; Gherardi, Guthrie and Farneti, 2014; Peters and Romi, 2015). Similarly, Sobhani, Zainuddin and Amran, (2011) observed that corporate sustainability disclosure is lagging in developing countries. Furthermore, Klynveld (2015) opined that South African companies are leading in the practice of sustainability reporting in the African continent.

In Nigeria there are studies on sustainability reporting, which convey information on sustainability performance such as Nwobu (2015), Johnson-Rokosu and Olanrewaju (2016) and Nnamani *et al.* (2017) to mention but few. Most of the environmental accounting research in Nigeria largely focused on the oil and gas industry (Tochukwu, 2018; Nwaiwu, & Oluka, 2018). Few studies were done on listed manufacturing companies and small and medium scale industries (Agbiogwu, Ihendinihu & Okafor, (2016); Osemene, Gbadeyan & Oyelakun, 2016; Osemene, Kasum & Yahaya, 2012). The manufacturing sector is an important sector of the Nigerian economy as it employs a large number of the Nigerian populace and contributes immensely to the gross domestic product of Nigeria. More so, the environmental degradation caused by manufacturing firms is much relative to firms in other sectors excluding oil and gas sector; hence, the need to carry out this study within this sector. However, there appears to be limited studies on influence of sustainability disclosure on shareholders' value in Nigeria. To this end, this study addresses the gap in literature by ascertaining the impact of corporate sustainability disclosure on shareholders' wealth focusing on the selected industries in Nigeria.

Objectives of the Study

This study sets a broad objective of evaluating the effect of corporate sustainability disclosure and shareholders' wealth of selected listed Companies in Nigeria while the specific objectives were to:

- i. The effect of economic sustainability disclosure on shareholders' fund.
- ii. The effect of environmental sustainability disclosure on shareholders' fund; and
- iii. The effect of social sustainability disclosure on shareholders' fund.

Hypotheses of the Study

As guide to the study, it is hypothesized that:

- Ho₁: Economic sustainability disclosures of selected listed companies in Nigeria have no substantial effect on shareholders' wealth.
 Ho₂: Environmental sustainability disclosures of selected listed companies in Nigeria have no major effect on shareholders' wealth.
 Ho₃: Social sustainability disclosures of selected listed companies in Nigeria have no substantial effect on shareholders' wealth.

2.0 LITERATURE REVIEW

Various theories have been used in prior studies such as Uwuigbe and Jimoh, (2012); Johnson-Rokosu and Olanrewaju (2016); Osemene *et al.* (2016) on corporate sustainability reporting (CSR) practices. The theories include: legitimacy theory, stakeholder theory, agency theory and resource dependence theory. Among these theories, legitimacy theory is most suitable for this study; hence this study is hinged on it.

Legitimacy theory

Legitimacy theory has been used to connect firm value with corporate social responsibility reporting based on the perception of the society about the firm as being responsible (Campbell, Craven & Shrives, 2003). Gray, Kouhy and Lavers (1995) opined that legitimacy theory has an advantage over other theories in that it discloses strategies that organizations may adopt to legitimize their existence that may be empirically tested. For these reasons, this paper adopts legitimacy theory as the theoretical perspective that explains the relationship between corporate sustainability and shareholders' fund.

Legitimacy theory, derived from the concept of organizational legitimacy, is defined by Dowling and Pfeffer (1975) as a situation in which an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy. The theory posits that organizations continually seek to operate within the tenets of their respective societies. A company voluntarily reports on activities its management perceived as expected by the communities in which it operates under the legitimacy theory perspective. The theory relies on the notion that there is a 'social contract' between a company and the society in which it operates. Its survival may be threatened if society perceives a breach in the social contract (Deegan, 2000; 2002; Deegan, Rankin & Voght 2000; Cormier & Gordon 2001; Patten 1991; 1992). The organization's 'contract' to continue operations may be revoked by the society in a situation where the organization has seized to operate in a legitimate manner (Deegan & Rankin, 1997). This may be achieved by consumers reduction in the demand for the organization's products; factory suppliers may eliminate the supply of labour and financial capital to the business; or constituents may lobby government for increased taxes, fines or laws to prohibit those actions which do not conform with the expectations of the community, destruction of company's properties, kidnapping of key staff in the organisation, restlessness of youths in the host communities (Deegan, 2002; Osemene, Kasum & Yahaya, 2012).

The social contract is fundamental for an organization's long term survival and existence in the society. This cannot come from profit making or mere observance of legal requirements, but the continuing mandate of society at large (Wang *et al.*, 2013). However, it is almost impossible to maximize firm value and financial performance if a firm is not socially responsible and shares with the public their corporate sustainable performance information

(Pava & Krausz, 1995). Therefore, legitimacy theory as related to social disclosure implies that the reason why companies disclose their environmental activities is because without the society and friendly environment, businesses cannot create wealth, let alone distribute profits/returns to their shareholders and this could have adverse implications for the companies (Van der Laan Smith *et al.*, 2005). Based on this theory, the study hypothesizes that corporate sustainability disclosure has significant impact on shareholders' wealth.

Empirical literature reveals that studies have been carried out previously on this field. Daniel and Ambrose (2013) established whether there is any significant relationship between environmental accounting and profitability of selected firms listed in India. The data for the study were collected from annual reports and accounts of 14 randomly selected quoted companies in Bombay Stock Exchange in India. The data were analyzed using multiple regression models. The key findings of the study showed that there is significant negative relationship between environmental accounting and return on capital employed and earnings per share and a significant positive relationship between environmental accounting and net profit margin and dividend per share.

In a related study by Okoye and Ezejiofor (2013) on appraisal of sustainability environmental accounting in enhancing corporate productivity and economic performance, the study assessed the appraisal of sustainability environmental accounting in enhancing corporate performance and economic growth. The study discovered that sustainable environmental accounting has significant impact on corporate productivity in order to enhance corporate growth.

Prityanka (2013) examined impact of sustainability rating of company on its financial performance in an Indian context using secondary data. The study analyzed impact of four key components of sustainability (i.e. Community, Employees, Environment and Governance) on financial performance. The study finds no significant association between overall sustainability rating and financial performance. However, further analysis reveals that four components of sustainability have significant but varying impact on financial performance.

Gomez-Bezares, Przychodzen and Przychodzen (2016) examined the impact of corporate sustainability (CS) on stock market returns for FTSE 350 companies over the period 2006–2012. Content analysis of voluntary corporate social and environmental was used. The findings indicated that firms with CS enhance their long-term efficiency, which ultimately results in an overall increase in shareholder wealth. The results also show a higher resistance to stock market crash among companies meeting the criteria of corporate sustainability.

Aghiogwu *et al.* (2016) examined the impact of environmental and social costs on performance of Nigerian manufacturing companies. Secondary data was sourced from ten (10) randomly selected firms' annual report and financial summary 2014. Finding from the analysis showed that the sampled companies' environmental and social cost significantly affect net profit margin, earnings per share and return on capital employed of the manufacturing companies.

Tochukwu (2018) examined the effect of environmental costs on firm performance. The study made use of financial reports of Oil and Gas Companies quoted on the Nigerian Stock Exchange Market from years 2006–2015. Regression analysis was employed and the results of the statistical analysis indicate that better environmental performance positively impact business value of an organization.

Omoike, Uwalomwa, Olubukola, Ilogho and Ajetunmobi (2018) investigated corporate social environmental reporting and its association with stock prices (using market price per share as at the financial year end) among listed firms in Nigeria. Findings from the study revealed that the association between corporate social and environmental expenditure and the market price of the firm (when considered in aggregate) is not significant. The result from the Analysis of Variance (ANOVA) showed that the market price per share is significantly different across the industries.

Emeka-Nwokeji and Osisima (2018) investigated how overall sustainability disclosures and it's disaggregate dimensions of environment, social and governance affect market value of firms in Nigeria as an emerging economy using company's specific disclosures. Tobins Q was used to proxy firm market value. The analysis showed that overall sustainability disclosures have significant positive effects on firm value.

Asogwa, Ugwu, Okereke, Samuel, Igbinedion, Azuagu and Abolarinwa (2020) explored whether an intensification of corporate social responsibility activities add value to firms in Nigeria by using fixed effect regression analytic tool and sampling 56 listed firms between 2009 and 2018. The study found that firms that engage in intensive environmental and economic reporting yielded an added market value.

Syder, Ogbonna and Akani (2020) examined the effect of sustainability accounting reporting shareholder value of listed oil and gas companies in Nigeria from 2009 to 2018. The multiple regression analysis revealed positive and significant relation between social dimension of sustainability reporting and shareholders value. However, environmental dimension had no effect on shareholders' value.

Despite the increase in the existing literature on sustainability, most empirical studies focused on the developed countries and were undertaken with respect to corporate sustainability reporting and disclosures on financial performance (Dilling, 2010; Bennett, Sola and Roux 2011; Farneti and Rammal, 2013; Gherardi, Guthrie and Farneti, 2014; Peters and Romi, 2015). There appears to be limited research on the influence of increased sustainability disclosure on shareholder value in Nigeria. To this end therefore, this study addresses this gap in literature by ascertaining the impact of corporate sustainability disclosure on shareholders' wealth focusing on the listed selected companies in Nigeria and specifically examined separately the impact of economic, environmental and social sustainability disclosure on shareholders' wealth.

3.0 METHODOLOGY

Research Design

Ex-post facto research design is adopted in this study due to the fact that it is undertaken after the events have taken place and the data are already in existence. Annual reports of firms serve as the secondary source of data in this study which covers a period of five (6) years from 2014-2019. The year 2014 is selected as the base year because it is the same year that selected companies started the disclosure of sustainability activities in its companies' annual report and accounts.

Population and Sample Size

The population of this study comprises all companies listed on the Nigerian Stock Exchange (NSE). The sample size was determined purposively thus, thirty seven (37) Nigeria listed companies were used in the study.

Model specification

Following the previous study in the field of shareholders' wealth and sustainability reporting, the model of this study is specified as:

$$SHF_{it} = \beta_0 + \beta_1 ECN_{it} + \beta_2 ENV_{it} + \beta_3 SOC_{it} + \beta_4 SIZE_{it} + \mu_{it} \dots (iv)$$

Where:

SHF = Shareholders' fund; ECN= Economic Disclosure Index

ENV= Environmental Disclosure Index; SOC= Social Disclosure Index; SIZE = logarithm of total assets; β_0 = Coefficient of sustainability reporting; μ = Stochastic or Error term. The subscript t = time dimension of the variables while subscript i = cross sectional units. β_{1-4} = Coefficients to be estimated. The expected signs of the coefficients (*a priori* expectations) are such that $\beta_1 - \beta_4 > 0$

Estimation Technique

In this study, panel data was used which comprised of data observed over time and across many firms and as such there is the tendency of individual differences. Therefore, in order to account for the individual differences, the ordinary least square method becomes inappropriate. However, due to the different cross sectional unit used in this study, variance is unlikely to be constant; hence, the panel least square (random effect) estimator was used after conducting Hausman test.

Measurement of Variables

Explanatory Variables- Sustainability Reporting

Global Reporting Initiative (GRI) coined out by Musikanski (2012) was adopted for the study.

Table 4.1 Global Reporting Index

ENVIRONMENTAL	SOCIAL	ECONOMIC
Energy	Community involvement	Economic Performance
Water	Anti-corruption Behavior	Market presence
Carbon emissions	Human rights	Indirect Economic impact
Waste management	Employees Health & Safety	Value & supply chain
Compliance	Labor and industrial relation	Risk management
Product & service	Training and education	
stewardship	Philanthropy	
Biodiversity	Diversity & equal opportunity	
Transportation		

Source: Musikanski, 2012

Content analysis was employed to ascertain the level of disclosure by the listed companies. The economic, environmental and social disclosure index was calculated based on the number of indicators that were disclosed (occurrence) and the level of disclosure (quantitative and qualitative).

In line with a study by Najul (2018), if a company disclosed any indicator, that is the occurrence of an indicator in the company's financial statement, 1 was assigned but if the company failed to disclose (occurrence) any indicator, 0 was assigned. On the other hand, if the level of the indicator disclosed is quantitative then 3 are assigned and for a qualitative disclosure, 2 are assigned.

Economic, environmental or social index = Total Level of Disclosure divided by Total Occurrence.

Explained Variable- Shareholders Wealth

This study measured shareholders' wealth using shareholders' fund as previously used by Nwobu (2015).

Control Variable

After a careful review of extant literature, firm size, measured by logarithm of total assets, was used as a control variable in the regression equations to ensure better certainty of the correlation existing between shareholders' wealth and sustainability disclosure.

4.0 RESULTS

4.1 Model Estimation

Breusch-Pagan Lagrange (BP LM) was used to test for the presence of individual heterogeneity in order to decide the appropriate model between pooled model and random effect model. Since the null hypothesis is consistent with the assumption of the pooled model, the result of BP LM indicates that we should reject the pooled model in favour of the random/ fixed effect model. More so, in order to choose between the fixed and random effect estimator, the Hausman test was carried out and the result of the test indicate that panel least square (cross-sectional random effect) is an appropriate estimator with a $\text{prob} > \chi^2 = 1.0000$ which is greater than 0.05. Thus, the cross-sectional random effect regression was employed. Overall, Table 4.1 reports the random effect result obtained by testing the association between independent, control variables (ECN, EVN, SOC, AGE and FSIZE) and dependent variables (shareholder's fund). The adjusted R^2 for model is 0.998195 and the $\text{Prob} > \chi^2$ is significant at 0.0000 which is higher than critical F-value of 1% and 5% significance level, which suggest that this is a good predictive model of shareholders fund behavior for the sampled companies in Nigeria. The study R^2 is also very high with a value of 0.997659 which implies that explanatory variables were able to explain 99.77% of total variation in shareholders fund. The remaining represent other explanatory variables (stochastic/unobserved) that could predict the dependent variable. Hence, there is a strong linear relationship between the independent variables and shareholder's fund.

Table 4.1 Shareholder's Fund

Variables	Coefficient	Std. Error	Sig.(p-value)
ECN	-335572.2	57766.79	0.0000*
EVN	-209374.9	79916.88	0.0127**
SOC	932848.2	200088.8	0.0000*
AGE	36814.19	8311.068	0.0001*
LFSIZE	3974943.	791698.8	0.0000*
C	-25655698	5317629.	0.0000
R-squared	0.998195		
Adjusted R-squared	0.997659		
Prob. (F-statistic)	0.0000*		

Notes: *, **, and *** denote statistically significant at 1%, 5%, and 10% significant level respectively.

Source: Author's computation (2021)

Furthermore, based on the individual statistical significance, Table 4.1 disclose the influence of explanatory variables (ECN) on the dependent variable shareholder's fund by suggesting a negative relationship between ECN and shareholder's fund with -335572.2 as coefficient and p-value of 0.0000. It is significant at 1%, 5% and 10% significance level. This indicates that the shareholders' fund is partially determined by reporting economic dimension activities. This result is similar to the relationship between shareholder's fund and explanatory variable (EVN) with -209374.9 as coefficient and 0.0127 as p-value. It is significant at 5% and 10%. This is indicating an increase in environmental sustainability dimension disclosure results in increase in shareholders fund.

More so, Table 4.1 shows that social dimension of sustainability reporting with coefficient 952848.2 and p-value 0.0000 is positively significant related to shareholder's funds, indicating that social sustainability disclosure does influence fluctuation of shareholder's funds. Moving to the control variable firm age and firm size, their relationship is positive and significant with 36814.19, 3974943 as coefficient and p-value of 0.0001, 0.0000 respectively. This indicates that shareholder's funds tend to increase as the firm age and total assets of the sampled companies increases.

4.2 Discussion of Findings

This study examines the effect of sustainability disclosure dimensions (ECN, EVN and SOC) on shareholder's funds of selected quoted firms in Nigeria over the period 2014-2020. The empirical results show that economic dimension of sustainability disclosure has a significant and positive effect on the shareholder's funds of the selected listed firms. This finding is in conformity with the *a priori* expectation and in consonance with the study of Asogwa *et al.* (2020); Syder *et al.* (2020); Nwobu (2015) but contrary to the findings of Nazim (2015); Tochukwu (2018). The finding led to the rejection of the null (H_0) hypothesis that economic dimension of sustainability disclosure has no significant effect on shareholder's funds of selected quoted firms in Nigeria.

Moreover, environmental dimension of sustainability disclosure has no significant but positive effect on shareholder's funds of selected quoted firms in Nigeria. This study provides evidence that shareholder's funds are likely to improve when firms increase their environmental sustainability disclosure. This positive but insignificant effect indicates that the finding partially conforms to the *a priori* expectation. However, the null (H_0) hypothesis that environmental dimension of sustainability disclosure has no significant impact on shareholder's funds of selected quoted firms in Nigeria is rejected. This is in line with the study of Asogwa *et al.* (2020); Nazim (2015); Nwobu (2015) that suggested better environmental performance positively impact business value but not in tandem with the findings of Syder *et al.* (2020) that suggested environmental dimension had no effect on shareholders' value. This could be traced to the fact that environmental performance disclosures are not mandatory in Nigeria.

In support of the *a priori* expectation, social dimension of sustainability disclosure has a positive significant effect on shareholder's funds of selected quoted firms. This also led to the rejection of null (H_0) hypothesis that social sustainability disclosure has no significant effect on shareholder's funds of selected quoted firms in Nigeria. This result conform with the study of Syder *et al.* (2020); Yil *et al.* (2020); Nazim (2015) but Asogwa *et al.* (2020) findings contradict the outcome of this study. Surprisingly, both firm age and firm size has a positive and significant impact on shareholder's funds of the selected quoted firms. These findings

corroborate the theoretical predictions and previous empirical evidence that large corporations have additional incentives to disclose quality sustainability activities.

In line with the theory that underpinned the study (*legitimacy theory*), business or corporate organization's survival will be threatened or will not be accepted in a society if the society perceives that the organization has breached the social contract. Social contract can be breached through recycled materials, fuel/electricity consumption, electricity sold, energy conservation, water, greenhouse gas emissions, organic pollutants, waste, spills, anti-social practices (employees welfare and supply chain). This study proved the existence of a social relationship between the society and quoted Nigeria companies by disclosing sustainability activities.

5.0 CONCLUSION AND RECOMMENDATION

This study has empirically provided evidence on the impact of sustainability disclosure on shareholders' wealth of thirty seven (37) selected listed companies in Nigeria over a period of six (6) years. Based on this evidence, the study concluded that economic and social sustainability disclosure had positive and significant impact on shareholders' wealth while environmental disclosure had a positive but insignificant impact on shareholders' wealth of selected listed companies in Nigeria. Based on the conclusion reached, the study recommended that selected listed companies in Nigeria should give special consideration to improving their disclosures on environmental performance as a good business strategy that will support the company's long-term sustainability goal. This will undoubtedly lead to increase of shareholders' wealth. Also, economic and social performance disclosures should be improved. As a result, it will continue to significantly improve their shareholders value.

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