Environmental, Social and Governance Disclosures and Value of Firms Listed on the Premium Board of Nigeria Exchange

[1]Oluwamayowa Olalekan Iredele* & [2]Nafeesat Ajikobi
Department of Accounting, University of Lagos, Nigeria
***Correspondance Email**: oiredele@unilag.edu.ng
DOI: https://doi.org/10.57233/gijmss.v8i2.01

Abstract

Stakeholders now expect the companies to be further helpful by presenting evident and significant information that are both monetary and non-monetary in nature. The study exertion is baseline research, intended to acquire realistic proof on the impact of Environmental, Social, and Governance (ESG) disclosures on the value of firms registered on the premium board of Nigeria. An ex-post facto research design was used to gather secondary data from the sustainability and annual reports of 8 companies over 7 years (2017–2023), yielding 56 observations. Regression model is used to analyze the hypotheses and descriptive analysis was utilized in assessing the data. The results showed negative but insignificant relationship between firm value and ESG disclosures. This result implies that ESG disclosures have not yet produced substantial advantages for investors in Nigeria. However, businesses may use sustainability reporting to improve their reputation or comply with regulations, but this hasn't yet produced the signaling effect. This outcome underscores the need for companies to enhance the quality, consistency, and materiality of their ESG reports. Although the study's conclusions might shed light on the Nigerian situation, it's possible that they won't apply directly to further countries or international markets due to the chosen research approach. The study offers a quantitative basis for ESG reporting in developing nations and emphasizes the necessity for businesses to improve the caliber and strategic coherence of ESG disclosures to possibly affect firm value down the road.

Keywords: Environmental, Social and Governance (ESG) Disclosure, Emerging Market, Sustainability Reports & Value of Firms.

1. Introduction

Recently, universal attention has moved beyond the traditional goals of maximizing shareholders' returns, and there is now a strong call for more sustainable corporate practices that consider wider societal and environmental impacts. Stakeholders increasingly anticipate that companies will be more informational by offering useful and transparent information, both monetary and non-monetary. Disclosure of the effects on the ecosystem, society, and government is part of the non-financial information. Stakeholders are starting to hold companies and firms accountable for their actions focusing on how they benefit their host and distant communities in ways other than just producing money. These principles remain recognized as the enterprise value, which include those principles that surpass the traditional investor returns to further increase to the company's social capital. Hence, the need for every company and firm to disclose the numerous actions that influence the interested party in their yearly reports.

Before now, the focus was on the competitive position and financial aspects of the annual reports that were generated using the International Financial Reporting Standard (IFRS) as the reasons that might assert a beneficial influence on an enterprise's worth. As accounting standards and disclosure obligations have increased over time, financial statements have become more extensive and intricate. Because it emphasizes past, measurable, and immediate performance over long-standing value generation, financial reporting is frequently criticized (Adebimpe et al., 2015).

A new trend in investment has emerged as a result of increased demands for stakeholder information and worries about corporate accountability (Atan, Razali, Said & Zainun, 2016). Socially responsible investing is the newest fad. The idea of socially responsible investing (SRI) pushes investors to deliberate both economic and non-economic aspects when making decisions (Umlas, 2008). Environmental problems are driving an increase in the significance of ESG (Environmental, Social, and Governance) disclosures as global conditions change (Giannopoulos, Fagernes, Elmarzouky & Hossain, 2022). In addition, there is also a shifting attitude with regard to adding CSR activities within businesses (Crifo & Forget, 2013). Primary studies show that CSR reporting represents a useful way to report non-financial information and, at the same, help firms adapt to the fast functional changes to technology (Beurden & Gossling, 2008; Williamson & Lynch-Wood, 2008).

The process of businesses and organizations disclosing details about their governance procedures, social responsibility programs, and environmental effect is known as environmental, social, and governance (ESG) disclosure. Shareholders, including clients, and staff, can evaluate how a business is handling its influence on the environment, people, and its own governance structure thanks to this information. The practice by which businesses voluntarily incorporate societal and ecological worries into their processes and business values and then report on them is known as ESG disclosure (Mohammed & Abubakar, 2014).

Even though ESG have been getting more attention, there isn't much empirical data on how ESG disclosures impact the value of companies listed on the Premium Board of the Nigeria Exchange. By assessing the connection between firm value and ESG disclosure, this study fills this knowledge gap. Specifically, the research aims to: (i) evaluate the influence of environmental disclosure on the value of firm listed on the premium board of Nigeria exchange; (ii) examine the impact of social disclosure on the value of firm listed on the premium board of Nigeria exchange; and (iii) determine the impact of governance disclosure on the value of firm listed on the premium board of Nigeria exchange. These objectives directly respond to the identified gap in the literature and highlight the need to understand the role of ESG disclosure in enhancing firm valuation in emerging markets.

This paper's remainder follows: Section 2 provides a brief overview of the literature, theoretical framework, and hypothesis development. Section 3 outlines the research methods for the study, while Section 4 presents the analysis and conclusions. The study's discussion and conclusion are presented in Section 5.

2. Literature Review

Environmental, Social and Governance (ESG) Disclosure

Environmental, Social, and Governance (ESG) disclosure is the process of systematically informing stakeholders about a company's governance procedures, social responsibility programs, and environmental impact (Okpala & Iredele, 2018). By means of ESG reporting, businesses give stakeholders, such as investors, workers, and regulators, information about how their operations impact social welfare, ecological sustainability, and corporate responsibility (Giannopoulos et al., 2022). ESG disclosures place more emphasis on long-term sustainability performance and non-financial value creation than traditional financial statements, which are largely concerned with economic outcomes (Atan et al., 2016).

Environmental disclosure pertains to the openness of a company's environmental impact and the methods used to lessen negative consequences. Information on carbon emissions, energy efficiency, waste management, water use, biodiversity preservation, and land management are usually included (Global Reporting Initiative [GRI], 2021). Enabling stakeholders to evaluate a company's dedication to resource sustainability and environmental stewardship is the goal. It has long been known from seminal works like Clarkson et al. (2008) and Deegan (2002) that thorough environmental disclosure reduces stakeholder pressure and increases legitimacy, especially in environmentally sensitive industries.

A company's social performance and stakeholder relationships are captured by social disclosure. It addresses consumer protection, human rights, community involvement, diversity and inclusion, and employee welfare. Socially conscious disclosures enhance stakeholder trust and corporate reputation by demonstrating a company's social responsibility and ethical stance, claim Norhasimah et al. (2019). Businesses can increase goodwill and draw in investors who value moral and sustainable business practices by sharing information about their social initiatives.

The presentation of data about a company's internal control systems, executive compensation, board diversity, shareholder rights, and leadership structure is known as governance disclosure. Transparency in governance promotes accountability and increases investor trust (Adebayo et al., 2022). Better decision-making, lower agency costs, and enhanced firm performance are often linked to effective governance structures (Shleifer & Vishny, 1997).

Value of Firm

According to investors, firm value is a company's total worth and is impacted by several variables, with economic performance, growing projections, market circumstances, and industry developments. Investors and analysts use this crucial measure to evaluate an enterprise's investment capability and interest. According to Daeli and Endri (2018), firm value is the present value of a series of future cash flows that the company will make.

Tobin's Q serves as a stand-in for firm value in this investigation. It represents both asset replacement value and market perception. In contrast to accounting-based metrics like Return on Equity (ROE) or Return on Assets (ROA), Tobin's Q considers investor expectations and is perceptive of non-financial aspects like ESG performance (Chung & Pruitt, 1994). Therefore, it is a more market-oriented and dynamic measure of firm valuation, which makes it suitable for evaluating the impact of ESG disclosure on the perceived value of firms in developing nations such as Nigeria. The company's value is measured in this study using the Tobin's Q ratio, a market proportion that relates the market worth of the company's shares with the book value of the firm's equity or the value of replacing the firm's resources. The calculation is as follows:

$$\text{Tobin's Q} = \frac{Market\ Value\ of\ Equity + Liabilities}{Total\ Assets}$$

Frameworks for Environmental, Social and Governance Disclosure

Some models have been developed to be used as a guideline in disclosing ESG activities. Task Force on Climate- related Financial Disclosures (TCFD) is one of the models established. It was developed so that firms can report on the economic issues face as a result of alter in climate. It was introduced to assist shareholders, underwriters, creditors, and public determine the effect of climate threat on firm value. International Sustainability Standard Board (ISSB) is another framework for ESG reporting. This was formed by the IFRS foundation in order to create a global acceptable standard for sustainability practice. The board published two standards on 26 June 2023 which are the general requirements disclosure for sustainability related financial information (IFRS S1) and Climate related disclosure (IFRS S2). The foundation's aim is to provide a group of guidelines that can be applied internationally to disclose sustainable practices.

Another framework that is very common and globally used is the Global Reporting Initiative (GRI) Standards. GRI sets out guidelines in reporting areas relating to social, governance and environmental like biodiversity, board composition, management remuneration, land management, health and safety of employees. This study is based on GRI 1 foundation 2021 as it is the framework used during the timeframe of the research. The ESG Reporting Index was constructed by assigning a score of 1 if a company disclosed a specific GRI content index item and 0 if it did not.

Environmental, Social and Governance Disclosure and Value of Firms

There is growing recognition that a company's image and total value are optimistically influenced by compelling ESG operation. Providing information about corporate governance systems, social initiatives, and environmental practices can help businesses improve their standing with stakeholders, such as shareholders and customers. Companies that have robust ESG practices could attract more financial investment and secure a competitive advantage in the market, as investors place increasing importance on ESG factors when deciding where to invest. Therefore, clear and efficient ESG disclosure can enhance a company's firm value as time passes.

Theoretical Framework

To demystify the intrinsic significance of non-monetary data, the majority of the literature currently in publication has used the Signaling theory, which was initially introduced by Michael Spence in his 1973 paper "Job Market Signaling" and revolves around the idea of incorrect data within the market players (Spence, 1978). It was claimed that by disclosing non-financial information, businesses might draw in more investors by comparing their corporate governance, social, and environmental performance to that of their rivals in the same industry (Cordazzo, 2020 and Mitchell, 2006). The information gaps that occur between participants in uncertain marketplaces can be filled by signaling theory (Spence, 1973). This hypothesis pertains to company reporting activities and information asymmetry (Yekini & Jallow, 2012). When a company has greater knowledge of its condition and value than shareholders and other participants, this is known as information asymmetry. Because businesses also function in a dynamic environment, it can be decreased by the company supplying this information on a regular basis (Janney & Folta, 2006).

According to signaling theory, businesses notify stakeholders and investors about their dedication to sustainability and ethical business practices through a variety of signals, including ESG disclosures. Firms outlined on the Board of Premium of the Nigeria Exchange can show that they are in line with environmental, social, and governance principles by disclosing data related to ESG. This will enhance their public image, entice mindful stakeholders, and potentially increase the firm's value.

The Resource-Based View (RBV) sheds light on how ESG disclosures represent underlying strategic capabilities, while signaling theory explains why companies make them. Barney (1991) asserts that firms use valuable, rare, inimitable, and non-substitutable (VRIN) resources to gain a sustained competitive advantage. These strategic resources are made up of ESG practices like innovative governance systems, stakeholder trust, and a sustainable culture. Therefore, rather than being a resource in and of itself, the disclosure of ESG performance is a manifestation of these underlying capabilities. Disclosure is a communication tool that companies with deeply ingrained ESG competencies can use to showcase their resource advantage and potential for long-term value creation (Armstrong & Shimizu, 2007; Ukpong & Abuaja, 2022).

This study incorporates both theories. RBV describes how the underlying ESG capabilities create value, while signaling theory clarifies the communicative function of ESG disclosure. Together, they offer a thorough theoretical framework for investigating the connection between firm value and ESG reporting in companies listed on the Nigerian Exchange's Premium Board.

Empirical Review

Numerous studies have assessed the connection between a firm's value and Environmental, Social, and Governance (ESG) disclosure, with differing findings. Below is a review of a few of these studies that were carried out in various countries, including Nigeria.

Aniesodo and Onuora (2024) looked on the connection between Nigerian firm value and environmental disclosures. Ex Post Facto methodology was used, and data for the research came from the Nigerian Exchange Group Factbook and reported yearly financial accounts of fifty-two companies registered under the Nigerian Exchange Group conglomerate, consumer goods, industrial goods, information communication technology, healthcare, oil and gas sector. The data covered the years 2017–2022. Using a panel regression model to test hypotheses, the study discovered that environmental disclosure significantly and favorably affects a firm's assets. This is consistent with Olagunju and Ajiboye's (2022) study, which used EPS as a stand-in and shown a favorable correlation between company environmental disclosure and market value in Nigeria. A study by Iyoha and Igbinovia (2023) supports this, finding that environmental information disclosures raise the market value of Nigerian companies. The ex post facto research strategy was exploited in the research, and a sample of twenty (20) enterprises listed in the NXG from 2014 to 2020 was obtained by conducting a census of five (5) agricultural, twelve (12) industrial products, and three (3) consumer goods firms. The estimation method of panel least squares was used. The impact of environmental accounting disclosure on the firm value of Nigerian listed industrial products businesses was investigated by Oyedokun, Egberioyinemi, and Tonademukaila (2019). This applied an ex-post facto research design, and the yearly financial reports of individual sample firms were used to collect data which also explored multiple regression in examining the relationship. Tobin's Q is used to quantify company value, whereas non-financial, financial, and performance metrics were used to measure environmental accounting disclosure. The findings clearly show that non-financial indicators significantly increase firm value, performance indicators significantly decrease firm value, and financial indicators have no distinct influence on the firm worth of Nigerian industrial goods creativities.

Owolabi, Emuebie, and Ogundeyi (2021) studied the market worth of Nigerian registered oil and gas businesses and corporate sustainability reporting. All twelve (12) registered oil and gas businesses on the NSE make up the research's population, nine (9) of these companies were chosen for the research, and information was gotten from their 2011–2020 annual reports. A link between market value and company sustainability reporting was established applying the multiple regression analysis method. The outcomes exhibited that market worth is positively and considerably influenced by social and environmental sustainability reporting.

Using 108 data, Adebayo et al. (2022) examined the connection between corporate governance parameters and the firm value of 12 Nigerian banks registered on the NGX between 2011 and 2019. Data came from the sampled study's Certified Annual Financial Statement. The practice of strong corporate governance has an effect on the firm worth of Nigerian deposit money institutions, they determined.

Most of the research on Environmental, Social, and Governance (ESG) Disclosure looked at the connection amid the phenomena and monetary performance, although some also looked at how ESGD affected corporate value. Ejoh (2020) studied how Nigerian enterprises' cash flow and profitability were affected by environmental, social, and governance accounting. Better CSR practices lead to better cash flows, as indicated by cash flows per share (FCF), and higher profitability, as indicated by Return on Assets (ROA), according to the study. Additionally, Zainon, Ismail, Nawi, Shafi, Misman, and Zakaria (2020) came to the conclusion that financial performance and social and governance disclosures have an optimistic relationship, whereas monetary performance and environmental reporting have a negative relationship. This runs counter to the finding of Lubis and Rokhim (2021), who used Indonesian companies in their study and found that the more effectively a company discloses ESG, the worse its performance it will be. Furthermore, according to Fernando, Nurcholifah, and Pulungan (2022), the ESG disclosure has little consequence on the accomplishment of the firm, particularly the market accomplishment. However, the lack of a connection between ESG reporting and company accomplishment could be attributed to both the intrinsic limitations of utilizing economic value added as a measurement tool with Malaysian and Danish companies, as well as the temporal delay in the reporting influence on firm accomplishment. (Zainun, Said, Razalia, & Atana, 2016).

ESG disclosures and corporate value have been linked by some academics. For example, Igbinovia and Agbadua (2023) studied the connection amid firm value and return on asset as a metric of firm value and Environmental, Social, and Governance (ESG) reporting in Nigerian manufacturing companies. According to their research, manufacturing companies' ESG reporting has no discernible impact on their valuation. ESG disclosure is valuable at both the individual and aggregate levels (Ukpong & Abuaja, 2022). The influence of governance, social, and environmental reporting on corporate worth is examined by Yeye and Egbunike (2023). The influence of profitability on the linking amid ESG and corporate value is examined empirically in this research. They resolved that whereas profitability has an adverse restraining outcome on Tobin's Q, ESG reporting and firm worth have a favorable association. Additionally, Okpala and Iredele (2018) considered the linking between the market worth of Nigerian registered companies and their corporate societal and environmental disclosures. Their study's findings indicate a strong inverse association between Nigerian companies' market values and their social and environmental disclosures.

Research on the ways ESG disclosure affects the market worth of Nigerian firms registered on the exchange board seems to be lacking. The association amid ESGD and the worth of companies registered on the Nigeria Board of Exchange has not been extensively studied in Nigeria. In order to demonstrate the necessity of businesses being environmentally conscious, it is necessary to look into this connection in an emerging nations like Nigeria.

Despite the growing level of attention in environmental social and governance (ESG) reporting, the extent to which these practices influence firm value remains unclear. Notwithstanding the body of research on ESG disclosure, the findings on the effect of ESG reporting on the firm worth are not consistent across research. To address the inconsistencies, the following hypotheses are postulated and tested stated in a null form:

i. The environmental disclosure does not significantly impact the value of firms listed on the Premium Board of Nigeria Exchange.
ii. The social disclosure does not significantly impact the value of firms listed on the Premium Board of Nigeria Exchange.
iii. The governance disclosure does not significantly impact the value of firms listed on the Premium Board of Nigeria Exchange.

3. Methodology

The ex-post facto research design is applied in this research because the study tries to connect this post-event intervention to a dependent measure or outcome. Because it allowed for the retrospective analysis of independent variables for potential relationships with dependent variables, this design was used. When doing a descriptive or explanatory survey, this kind of study design may be helpful. Secondary data from company financial reports and the websites of the certain companies registered on the Premium board of the Nigerian exchange served as the research's foundation. Firm registered on the Nigerian exchange's Premium board constitute the research's population. As of August 2024, the "Nigeria stock exchange group" reports that there are eight listed companies on the Nigerian exchange's premium board. The entire population served as the sample for this investigation. It was decided that a census would provide the most precise and thorough findings because the total population was small, manageable, and accessible.

The sampling method utilized in this research is a census because the sample size is equal to the total population. When the population is small and the resources needed to get data from every member are available, this method works especially well. This study's use of a census guarantees that the findings are entirely representative of the population and offers a thorough grasp of the subject under investigation. The study circumvents the possible biases and constraints linked to conventional sampling methods by conducting a census, which also offers a solid foundation for analysis and conclusion.

Table 1: Sample Firms

S/N	COMPANIES NAMES	SECTOR	LOGO
1	Access Bank PLC	Financial Services	ACCESS
2	Dangote Cement PLC	Industrial Goods	DANGCEM
3	FBN Holdings PLC	Financial Services	FBNH
4	LAFARGE Africa PLC	Industrial Goods	WAPCO
5	MTN Nigeria Communications PLC	ICT	MTNN
6	SEPLAT Energy PLC	Oil and Gas	SEPLAT
7	United Bank For Africa PLC	Financial Services	UBA
8	Zenith Bank PLC	Financial Services	ZENITH

Source: Nigeria Exchange Group Infomedia

Secondary sources of data were used to get information. Publicly available financial statements and ESG disclosure reports from companies listed on the Nigeria Exchange's Premium Board are examples of secondary data source. These reports were recovered from reliable financial databases, the Nigeria Exchange Group (NGX), and the official websites of the registered companies.

The study was conducted from 2017 to 2023, a span of seven (7) years. Since 2023 is the most recent year that the companies' financial statements were issued after they had been operating continuously over the period covered by their financial statements filed with the Nigerian Stock Exchange, the study is using that year as its end year.

A panel data regression technique was used because the dataset includes cross-sectional units (8 firms) observed over a seven-year period (2017–2023). Compared to strictly cross-sectional or time-series analyses, this method improves the efficiency of parameter estimates and successfully accounts for unobserved heterogeneity across firms (Baltagi, 2021).

Model Specification

The study's models establish the relationship involving a company's value and its ESG disclosure. The connection amid a dependent (explained) variable and multiple independent variables is expressed using a linear regressing model. The fundamental features of Ordinary Least Square, namely Basic, Linear, Unbiased, and Estimator (BLUE), are the reason for the selection of this approach.

Below is the functional specification:

TQ = f(ED, SD, GD, FS, BS)

The econometric specification is shown below:

To account for other indices that are not specified we introduced the error term. Thus:

$TQ = \beta_0 + \beta_1 ED + \beta_2 SD + \beta_3 GD + \beta_4 FS + \varepsilon$

In this case, TQ stands for Tobin's Q (Value of firms), ED for environmental disclosure, SD for social disclosure, GD for governance disclosure, FS for firm size, ε is the error term, β_0 is the intercept and the coefficient of independent variables include β_1, β_2 and β_3. Prior research in this area has guided the incorporation of control factors (Mathuva, Barako & Wachira, 2017; Barth, Cahan, Chen & Venter, 2016).

Table 2 Measurement of variables

S/N	Variables	Type of Variables	Definition	Measurement	Sources
1	Tobin's Q	Dependent Variable	Value of firms	(Market value of equity plus liabilities) divided by total assets	Annual Report
2	ED	Independent Variable	Environmental Disclosure	GRI Environmental Reporting Checklist (See appendix) where if item is disclosed (1) and (0) if otherwise	Annual Report or Sustainability Report
3	SD	Independent Variable	Social Disclosure	GRI Social Reporting Checklist (See appendix) where if item is disclosed (1) and (0) if otherwise	Annual Report or Sustainability Report
4	GD	Independent Variable	Governance Disclosure	GRI Governance Reporting Checklist (See appendix) where if item is disclosed (1) and (0) if otherwise	Annual Report or Sustainability Report
5	FS	Control Variable	Firm Size	Natural Logarithm of total asset	Annual Report

The Global Reporting Initiative (GRI) Standards (2021), which served as the relevant framework for the study, served as the basis for the content analysis method used to create the ESG Reporting Index. A binary scoring system (0/1) was used for the environmental, social, and governance (ESG) categories: If a particular GRI disclosure item was reported, a score of "1" was given; and if the item was not disclosed, a score of "0" was given.

The sum of the disclosed items in each category was used to calculate the overall disclosure score for each company each year. This approach enables consistent evaluation of disclosure quantity and depth and is consistent with earlier ESG measurement methodologies (Okpala & Iredele, 2018).

4. Results and Discussion

Descriptive Statistics

Table 3: Descriptive Analysis

Variables	TOBIN's Q	Environmental Disclosure	Social Disclosure	Governance Disclosure	Firm Size
Mean	1.2153	5.5000	10.4107	12.6786	28.8270
Median	0.9481	4.0000	10.0000	12.0000	29.0182
Maximum	2.8837	33.000	23.0000	31.0000	30.9065
Minimum	0.4499	0.0000	0.0000	0.0000	26.9322
Std. Dev.	0.6727	5.2777	5.0552	6.3162	1.1039
Skewness	1.3283	2.7327	0.4163	0.9536	-0.1373
Kurtosis	3.3105	14.2194	2.7954	3.9193	1.9732
Jarque-Bera	16.6936	363.4048	1.7150	10.4596	2.6360
Probability	0.0002	0.0000	0.4242	0.0054	0.2677
Sum	68.0558	308.0000	583.0000	710.0000	1614.3130
Sum Sq. Dev.	24.8881	1532.0000	1405.5540	2194.2140	67.0170
Observations	56	56	56	56	56

Source: author's computation, using E-view 12, 2024

The outcome in table 3 shows the mean (average) for environmental disclosure, social disclosure and governance disclosure of 5.5 out of maximum 33, 10.41 out of maximum 23.00 and 12.67 out of maximum 31 respectively which signify governance disclosure is the highest among the three ESG factors, suggesting that corporate governance reporting is a key focus for these firms. The firms have a relatively little magnitude of environmental disclosure, suggesting that environmental reporting is not yet a priority for many of these firms and firms are to greater extent probable to report on social obligation.

Also, the median of 4.0 for environmental disclosure, 10.00 for social disclosure and 12.00 for governance disclosure show that half of the firms report even lower levels of environmental disclosure, which indicates that most firms are not yet fully committed to reporting their environmental impact, most firms have similar levels of social disclosure, suggesting consistency in this area and most firms have a similar level of governance disclosure, indicating uniformity in reporting on governance issues.

The high kurtosis of 14.22 and standard deviation of 5.28 for environmental disclosure suggest a highly non-normal distribution of environmental reporting among firms and significant variability. The sample as a whole shows uneven adoption of sustainability practices, with some companies disclosing nearly no environmental information and others providing a wealth of it. A few companies report extremely high environmental disclosures in comparison to the majority with low scores, as further supported by the positive skewness of 2.73.

On the other hand, the standard deviations of social and governance disclosures are moderate 5.06 and 6.32, respectively, indicating comparatively higher consistency across firms. The Premium Board indicates that the firms are relatively large in scale, as firm size exhibits the least variability (SD = 1.10).

Inferential Statistic

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Environmental_index	-0.0062	0.0112	-0.5556	0.5809
Social index	-0.0089	0.0107	-0.8314	0.4096
Governance_index	-0.0019	0.0104	-0.1772	0.8601
Firm size	0.1636	0.0974	1.6793	0.0992
C	-3.3513	2.8487	-1.1764	0.2449
Effects Specification				
		S.D.	Rho	
Cross-section random		0.8690	0.8802	
Idiosyncratic random		0.3205	0.1198	
Weighted Statistics				
R-squared	0.0883	**Mean dependent var**	0.1678	
Adjusted R-squared	0.0168	**S.D. dependent var**	0.3150	
S.E. of regression	0.3124	**Sum squared resid**	4.9764	
F-statistic	1.2351	**Durbin-Watson stat**	0.8413	
Prob(F-statistic)	0.3077			
Unweighted Statistics				
R-squared	-0.1205	**Mean dependent var**	1.2153	
Sum squared resid	27.8874	**Durbin-Watson stat**	0.1501	

Predictor: Environmental Index, Social Index, Governance Index, Firm Size.
Dependent Variable: Tobin's Q.
Source: author's computation, using E-view 12, 2024.

The analysis in table 8 above reveals that the model has low explanatory power, explaining only 1.68% of the variation in firm value and not being statistically significant ($F = 1.2351$, $p = 0.3047$). This implies that differences in the market value of Nigerian companies on the Premium Board cannot be adequately explained by ESG disclosures as they are currently implemented. Environmental, social, and governance disclosures all have a negative but statistically insignificant relationship with firm value ($p > 0.05$).

Table 8 further shows that social disclosure also has an adverse but statistically trivial connection with firm value. The p-value of 0.4096 indicates that social disclosure is not a substantial predictor of firm value. Like the environmental index, its negative coefficient implies a possible reduction in firm value with an increase in social disclosure, but this relationship is not arithmetically substantial ($\beta = -0.008862$; $t= -0.83138$; $p > 0.05$). The high p-value and near-zero coefficient suggest that social disclosure has no meaningful influence on the value of firms registered on the Premium Board of the Nigeria Exchange. Thus, we accept the assumption that social disclosure has no significant impact on the value of firms listed on the Premium Board of Nigeria Exchange.

Table 8 displays that governance reporting does not have a significant impact on worth of firms ($\beta = -0.00185$; $t= -0.17716$; $p > 0.05$). The high p-value of 0.8601 recommends that the observed relationship is not numerically meaningful, indicating that governance disclosure does not significantly influence the value of firms registered on the Premium Board of the Nigeria Exchange. Thus, we accept the proposition that governance disclosure has no significant impact on the value of firms listed on the Premium Board of Nigeria Exchange.

Although firm size is positive, it is only marginally significant ($\beta = 0.1636$, $p = 0.0992$), indicating that larger firms might be slightly more valuable in the market. Additionally, the standard deviation of cross-sectional random effects of 0.8689 was significantly higher than that of idiosyncratic random effects (0.3205), indicating that variations in firms such as ownership structure and industry type, account for a greater portion of the variability in firm value over time than variations within firms. This suggests that annual changes in ESG disclosure have less of an impact on valuation than structural firm-level variations.

The Adjusted R-squared (0.0168) demonstrates limited explanatory power after adjusting for sample size, whereas the model's R-squared of 0.0883 suggests that ESG and size variables account for roughly 8.8% of the variation in firm value.

Overall, the model is not statistically significant, as confirmed by the F-statistic (1.2351, p = 0.3077). The VIF values (ranging from 1.37 to 1.58) show no multicollinearity issues among the explanatory variables.

The low Adjusted R-squared value of 1.68% is consistent with findings from related emerging-market studies like Lubis and Rokhim, 2021 and Fernando et al., 2022, which show that ESG disclosures frequently have little immediate impact on firm value, especially in markets where sustainability practices are not well standardized or are still developing.

5. Conclusion and Recommendations

With stakeholders pushing businesses to go beyond conventional profit-maximization goals, the global business climate has changed. Sustainable business practices that guarantee open reporting of monetary and non-monetary data, especially regarding environmental, social, and governance (ESG) considerations, are now granted additional importance. Stakeholders anticipate that businesses would act responsibly and contribute to social capital and wider societal values in addition to shareholder gain. Enhancing company value while examining the complex connection between ESG disclosures and firm value among companies registered on the Nigeria Exchange's Premium Board is the goal of this study.

Contrary to what one might anticipate from the Resource-Based View (RBV), the analysis shows that more ESG reporting is not associated with higher company worth as determined using Tobin's Q. Indeed, the outcomes show an adverse but insignificant link amid Tobin's Q and social and environmental disclosures, indicating that these elements may reduce the perceived value of the company. This implies that the Nigerian market did not reward ESG transparency with higher valuation during the reviewed period. These results are consistent with other research in emerging economies (e.g., Ahmad et al., 2021; Igbinovia & Agbadua, 2023), where a lack of stakeholder awareness and lax enforcement of sustainability reporting frameworks have prevented ESG activities from being fully priced into investment decisions. This surprising result begs significant issues about the efficacy and perception of ESG activities in Nigeria.

From a theoretical standpoint, the results suggest that Nigerian legitimacy pressures and stakeholder engagement are still weak to convert ESG initiatives into quantifiable financial results. Businesses may use sustainability reporting to improve their reputation or comply with regulations, but this hasn't yet produced the signaling effect that Signaling Theory (Spence, 1978) suggests.

Previous literature suggests that this unexpected outcome can be explained in several ways. First, businesses might be deterred from making a full commitment to sustainability initiatives by the expense of putting comprehensive ESG standards into practice. Market valuation may drop if the costs of new reporting systems and compliance procedures exceed the anticipated advantages (Akinlo & Iredele, 2014; Ahmad et al., 2021).

Additionally, investors in developing nations like Nigeria frequently prioritize short-term profits over long-term sustainability, which can make it difficult for the market to appropriately price the potential future benefits of ESG practices (Atan et al., 2016).

The caliber and reliability of ESG disclosures are additional factors to take into account. Investor’s trust in ESG data may be reduced by superficial or inconsistent reporting (KPMG, 2022). The comparatively low levels of social and environmental disclosures among Premium Board companies also point to a lack of incorporation of sustainability issues into business strategy, which could impair the signaling effect that ESG reports are meant to generate (Spence, 1978).

Greenwashing, the practice of companies highlighting positive ESG initiatives while ignoring negative effects, is another issue that may further skew market perception, particularly in industries like oil and gas that are subject to environmental scrutiny (Alagbe, 2021).

Although theoretically tenable, these interpretations were not put to the test in this quantitative study. As a result, they ought to be seen as possible mechanisms that merit more study in the future, especially using mixed-method or qualitative approaches that examine how investors in the Nigerian market interpret and react to ESG information.

The study's findings have led to the following recommendations: Adoption and implementation of the IFRS Sustainability Disclosure Standards (IFRS S1 and S2) by the regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Nigerian Exchange Group (NGX) would strengthen ESG disclosure requirements. In order to ensure that disclosures represent quantifiable long-term value drivers rather than merely symbolic compliance, companies should enhance the quality, consistency, and materiality of their ESG reports. Sustainability considerations should be incorporated into capital allocation decisions by educating analysts and investors on how to evaluate ESG data as part of firm valuation. Premium board of Nigeria exchange should do a thorough review of the governance system of the firms and educate firms and investors on the importance of governance reporting. Firms should act in the greatest concern of stakeholders and factor it in their strategies. Also, a firm can disclose proven results to get stakeholders trust and confidence. In order to pinpoint situations where ESG initiatives have greater value implications, future research may build on this work by employing dynamic panel models, examining sectoral differences, or incorporating a larger sample size.

References

Adebimpe Otu Umoren, E. J. U., & Bokime, S. G. (2015). Environmental, social and governance disclosures: A call for integrated reporting in Nigeria. *Journal of Finance and Accounting, 3*(6), 227–233. https://doi.org/10.11648/j.jfa.20150306.19

Ahmad, N., Mobarek, A., Roni, N. N., & Tan, A. W. K. (2021). Revisiting the impact of ESG on financial performance of FTSE 350 UK firms: Static and dynamic panel data analysis. *Cogent Business & Management, 8*(1), 1900500. https://doi.org/10.1080/23311975.2021.1900500

Akinlo, O. O., & Iredele, O. O. (2014). Corporate environmental disclosures and market value of quoted companies in Nigeria. *Business and Management Review, 5*(3), 171–184.

Alagbe, E. A. (2021). Environmental, social, and governance and firm performance of multinational companies in Nigeria. *FUOYE Journal of Accounting and Management, 4*(1), 218–230.

Amole, B., Kouhy, R., & Lavers, S. (2005). Sustainability reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal, 18*(2), 47–77.

Angela, T., & Sari, N. (2023). The effect of environmental, social, and governance disclosure on firm value. *E3S Web of Conferences, 426*, 01078. https://doi.org/10.1051/e3sconf/202342601078

Armstrong, C. E., & Shimizu, K. (2007). A review of approaches to empirical research on the resource-based view of the firm. *Journal of Management, 33*(6), 959–986. https://doi.org/10.1177/0149206307307645

Atan, R., Razali, F. A., Said, J., & Zainun, S. (2016). Environmental, social and governance (ESG) disclosure and its effect on firm's performance: A comparative study. *International Journal of Economics & Management, 10*(S2), 355–375.

Aydoğmuş, M., Gülay, G., & Ergun, K. (2022). Impact of ESG performance on firm value and profitability. *Borsa Istanbul Review, 22*(S1), S119–S127. https://doi.org/10.1016/j.bir.2022.11.006

Baltagi, B. H. (2021). *Econometric analysis of panel data* (6th ed.). Springer Nature. https://doi.org/10.1007/978-3-030-53953-5

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Barth, M. E., Cahan, S. F., Chen, L., & Venter, E. R. (2016). The economic consequences associated with integrated report quality: Early evidence from a mandatory setting. *The British Accounting Review, 48*(3), 265–281. https://doi.org/10.2139/ssrn.2699409

Beurden, P. V., & Gossling, T. (2008). The worth of values – A literature review on the relation between corporate social and financial performance. *Journal of Business Ethics, 82*(2), 407–424.

Chung, K. H., & Pruitt, S. W. (1994). A simple approximation of Tobin's Q. *Financial Management, 23*(3), 70–74. https://doi.org/10.2307/3665623

Cordazzo, M., Bini, L., & Marzo, G. (2020). Does the EU Directive on non-financial information influence the value relevance of ESG disclosure? *Business Strategy and the Environment, 29*(6), 2405–2418.

Crifo, P., & Forget, V. D. (2013). Think global, invest responsible: Why the private equity industry goes green. *Journal of Business Ethics, 116*(1), 21–48.

Daeli, C., & Endri. (2018). Determinants of firm value: A case study of cigarette companies listed on the Indonesia Stock Exchange. *International Journal of Managerial Studies and Research, 6*(8), 51–59.

EY. (2024, June). IFRS sustainability disclosure standards: Introduction to IFRS S1 and IFRS S2. https://www.ey.com/en_sg/ifrs-technical-resources/introduction-to-ifrs-s1-and-ifrs-s2

Fernando K., Nurcholifah S., and Pulungan A. (2022). Disclosure of Environmental, Social, and Governance on Firm Performance Pre and Post Introduction of Integrated Reporting: Evidence from ASEAN Countries. *International Journal of Energy Economics and Policy*, 2022, 12(6), 377-382.

Financial Reporting Council of Nigeria (FRCN). (2022). *Nigerian Code of Corporate Governance 2018: Sustainability reporting guidance.* Abuja, Nigeria: FRCN.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach.* Pitman.

Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L., & De Colle, S. (2010). *Stakeholder theory: The state of the art.* Cambridge University Press.

Giannopoulos, G., Fagernes, R. V. K., Elmarzouky, M., & Hossain, K. A. B. M. A. (2022). The ESG disclosure and the financial performance of Norwegian listed firms. *Journal of Risk and Financial Management, 15*(6), 237. https://doi.org/10.3390/jrfm15060237

Gujarati, D. N., & Porter, D. C. (2009). *Basic econometrics* (5th ed.). McGraw-Hill/Irwin.

Igbinovia, I. M., & Agbadua, B. O. (2023). Environmental, social and governance reporting and firm value in Nigerian manufacturing firms: The moderating role of firm advantage. *Jurnal Dinamika Akuntansi dan Bisnis, 10*(2), 149–162.

Janney, J. J., & Folta, T. B. (2006). Moderating effects of investor experience on the signaling value of private equity placements. *Journal of Business Venturing, 21*(1), 27–44. https://doi.org/10.1016/j.jbusvent.2005.02.008

Kassim, S. K., & Akintoye, R. I. (2023). Value relevance of ESG accounting disclosure: Evidence from Sub-Saharan Africa public health companies. *International Journal of Scientific and Management Research, 6*(4), 55–72.

Kenneth M Amaeshi, Bongo C Adi Chris Ogbechie and Olufemi O Amao (2016), Corporate Social Responsibility (CSR) in Nigeria: western mimicry or indigenous practices?. *International Centre for Corporate Social Responsibility,* ISSN 1479-5124 Pg 15-44

Khan, M. (2019). Corporate governance, ESG, and stock returns around the world. *Financial Analysts Journal*, 75(4), 103–123. https://doi.org/10.1080/0015198X. 2019.1654299

KPMG. (2022). The KPMG Survey of Sustainability Reporting in Nigeria. https://assets.kpmg.com/content/dam/kpmg/ng/pdf/2022-survey-of-sustainability-reporting-in-nigeria-latest.

Laplume, A. O., Sonpar, K., & Litz, R. A. (2008). Stakeholder theory: Reviewing a theory that moves us. *Journal of management*, 34(6), 1152-1189.

Li, Y., Gong, M., Zhang, X.-Y., & Koh, L. (2018). The impact of environmental, social, and governance disclosure on firm value: The role of CEO power. *The British Accounting Review, 50*(1), 60–75.

Liu, P., Zhu, B., Yang, M., & Chu, X. (2022). ESG and financial performance: A qualitative comparative analysis in China's new energy companies. *Journal of Cleaner Production*, 379, 134721. https://doi.org/10.1016/J.JCLEPRO.2022.134721

Lubis, M. F., & Rokhim, R. (2021). The effect of environmental, social, and governance (ESG) disclosure and competitive advantage on company performance. *IOP Conference Series: Earth and Environmental Science, 940*(1), 012059. https://doi.org/10.1088/1755-1315/940/1/012059

Mathuva, D. M., Barako, D. G., & Wachira, M. M. (2017). The economic consequences of ESG disclosures by firms quoted on the Nairobi Securities Exchange. *African Accounting and Finance Journal, 1*(1), 5–28.

Mitchell, J., 2006. Selective Reporting of Financial Ratios in Australian Annual Reports: Evidence from a Voluntary Reporting Environment. *Accounting Research Journal*, 19(1), Pg 5-30.

Mohammed, D.U., & Abubakar, Z.A. (2014). The nexus between corporate social responsibility and financial performance in Nigeria Research. *Journal of Finance and Accounting*, 5(10), 131–137.

Ndifon Ojong Ejoh. Impact of Environmental, Social, and Governance Accounting on Firms' Profitability and Cash Flow in Nigeria. *SSRG International Journal of Economics and Management Studies*, Volume 7 Issue 12, 152-159, December 2020 ISSN: 2393 – 9125 / http://doi.org/10.14445/23939125/IJEMS-V7I12P122

Okon, L.J., Philip, I. B., & Okpokpo, A. S., (2023), Sustainability Reporting and Financial Performance Sustainability Reporting and Financial Performance. *AKSU Journal of Administration and Corporate Governance (AKSUJACOG)* Volume 3, Number 1, April 2023

Okpala, O.P., & Iredele, O.O. (2018). Corporate Social and Environmental Disclosures and Market Value of Listed Firms in Nigeria. *Copernican Journal of Finance & Accounting*, 7(3), 9–28. http://dx.doi.org/10.12775/CJFA.2018.013

Oladipupo M., Mathias G. and Mohammed A.. Integrated reporting: another crisis of external dependence or a model for sustainable capital allocation? *European Journal of Globalization and Development Research*, 2013, Volume 8 (1), Pg 492–506.

Ong, T., & Djajadikerta, H. G. (2017). Impact of corporate governance on sustainability reporting: Empirical study in the Australian resources industry. *Paper presented at the 8th Conference on Financial Markets and Corporate Governance (FMCG).*

Osuala E. C (1993). Introduction to Research Methodology. *Onitsha, Nigeria Africana*-FEP 1993

Rohendia H., Ghozalic I. and Ratmono D (2024). Environmental, social, and governance (ESG) disclosure and firm value: the role of competitive advantage as a mediator. *Cogent Business & Management 2024*, Volume 11, Number 1, 2297446. https://doi.org/10.1080/23311975.2023.2297446

Saunah Z., Rina F. I., Sofwah M. N., Roslina M. S., Faridah N. M. and Nor B. Z. (2020). Environmental, Social And Governance Disclosures On Financial Performance Of Public Listed Companies In Malaysia. *Asia-Pacific Management Accounting Journal*, Volume 15 Issue 3, 88-107. https://ir.uitm.edu.my/id/eprint/65825/1/65825.pdf

Spence, M., 1978. Job Market Signaling. Uncertainty in Economics, Pg 281-306

Suretno F, Adrianto F. and Alfarisi M.F. (2022). Effect of Environment, Social and Governance Disclosure on Firm Value. *JBTI : Jurnal Bisnis : Teori dan Implementasi*, Volume 13, Number 2 (2022): August 2022, Pg. 121-128 DOI: https://doi.org/10.18196/jbti.v13i2.14458

Ukpong E. G. and Abuaja H. (2022), Value Relevance of Sustainability Reporting: Evidence from Listed Oil and Gas Firms in Nigeria. *AKSU Journal of Administration and Corporate Governance (AKSUJACOG),* Volume 2 Number 1, Pg. 20.

Umlas, E. (2008), "The Global Expansion of SRI: Facing Challenges, Meeting Potential", Development and Change, Volume 39, Number 6, Pg. 1019-1036.

Williamson, D., and Lynch-Wood, G. (2008), Social and environmental reporting in UK company law and the issue of legitimacy, Corporate Governance. *The International Journal of Business in Society*, Volume 8, Number 2, Pg. 128-140.

Wimmer, M. (2013), "ESG-persistence in Socially Responsible Mutual Funds". *Journal of Management and Sustainability*, Volume 3, Number 1, Pg. 9-15.

Y. Li, M. Gong, X. Y. Zhang, L. Koh, The impact of environmental, social, and governance disclosure on firm value: the role of CEO power. *The British Accounting Review*, 50, 1, Pg. 60-75 (2018)

Yekini, K., & Jallow, K. (2012). Corporate community involvement disclosures in annual report: A measure of corporate community development or a signal of CSR observance? *Sustainability Accounting, Management and Policy Journal*, 3(1), 7–32. https://doi.org/10.1108/20408021211223534

Yeye, O., & Egbunike, C. F. (2023). Environmental, Social and Governance (ESG) disclosure and firm value of manufacturing firms: The moderating role of profitability. *International Journal of Financial, Accounting, and Management*, 5(3), 311-322.

Z. F. Akbar, I. B. S. Nusa, The influence of profitability and liquidity on firm value (case study on a non-financial company indexed ESG Quality 45 IDX-Kehati on the Indonesia Stock Exchange 2017-2020). *Asian Journal of Economics*, *Business and Accounting*, 22, Pg. 132-142 (2022)

Zaki Faturahman Akbar and Inta Budi Setya Nusaa (2022), The Influence of Profitability and Liquidity on Firm Value: Case Study on a Non-financial Company Indexed ESG Quality 45 IDX-Kehati on the Indonesia Stock Exchange 2017-2020, *Asian Journal of Economics*, *Business and Accounting*, 22 Pg. 132-142.