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VALUE RELEVANCE OF SUSTAINABILITY REPORTING IN NIGERIAN MANUFACTURING COMPANIES

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ABSTRACT

This study examines value relevance of sustainability reporting among manufacturing firms in Nigeria. The study adopted a longitudinal research design. The sample comprised of thirty companies randomly selected from the floor of the Nigerian Stock Exchange. The study relied on secondary data retrieved from annual reports for the period 2010-2018. The hypotheses were validated using panel data regression technique. The results revealed that economic-sustainability and social sustainability reporting of quoted manufacturing companies were value relevant. This is not surprising as the annual reports were largely skewed towards financial disclosures and items having material economic relevance to a firm. For disclosures on environmental sustainability, on the overall, manufacturing companies were silent on such issues despite the attention that environmental issues are receiving globally. For disclosures on social sustainability, though some disclosures were done they do not cover important areas such as labour and management relations, labour practices and grievance mechanism, freedom of association and collective bargaining (employee engagement), and anti-corruption and public policy, the companies were silent. Based on these, the study recommends among others that companies devote more attention to sustainability reporting. In addition, the regulatory bodies such as the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) should look into making sustainability reporting a necessary requirement to be listed on the Stock Exchange.

Keywords: Value Relevance, Economic Sustainability, Social Sustainability, Environmental Sustainability.

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1. Introduction

Sustainability reporting can be seen as the response of business entities to efforts at ensuring sustainable development by being accountable to stakeholders for a broad spectrum of issues ranging from economic, social and environmental. Basically, the term is considered synonymous with the concept triple bottom line reporting, corporate responsibility reporting, integrated reporting and basically explains a framework for robust corporate reporting that addresses economic, environmental, and social impacts. Although globally no one particular definition that is generally agreed upon is assigned to sustainability reporting, Elkington (1997) explains "sustainability reporting" or "triple bottom-line reporting" is a mechanism of corporate reporting covering social, economic and environmental areas. The need for this robust reporting is necessitated by the skewed nature of traditional reporting towards financial information which may now be inadequate in the view of the social and environmental impact of the activities of corporations' which on a broader scale is now posing a threat to the goal of sustainable development. Sustainability reporting has become the alternative reporting system that addresses this challenge by getting business to be concerned not just with financial or economic performance but also with social and environmental performance.

According to Ernst and Young (2013) corporate reporting is now becoming more expanded to incorporate broader issues than merely financial in view of sustainability concerns and critical environmental threats such as climate change, pollution, human rights issues. Corporate sustainability reporting framework though voluntary has garnered much attention especially in the last ten years in developed countries. For example in Canada, approximately 83% major firms and 86% of major American companies are implementing this reporting pattern (KPMG International, 2013). However same cannot be said for most developing countries that are just barely able to disclose comprehensive corporate social responsibility information let alone developing a wider framework of sustainability reporting.

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The build-up of sustainability reporting has seen an extension to its correlation with value relevance by several scholars and hence the term value relevance of sustainability reporting which is primarily concerned with the empirical relation between sustainability reporting and stock price of a firm (Wang & Lin, 2007). Financial information has been found as not solely responsible for a firm's equity value and the movements in stock prices and hence additional information or disclosures also have implications for corporate value. Looking more towards measures of sustainability reporting, studies have shown that the market does take environmental strategy and performance into account when assessing equity investments and analysts utilize sustainability information in making buy or sell decisions and recommendations (Hassel, Nilsson, & Nyquist, 2005; Luo, Wang, Raithel, & Zheng, 2015).

Despite the vast plethora of studies on sustainability reporting, such as studies by Asaolu, Agboola, Ayoola, and Salawu (2011) which focused on the Oil and Gas sector, Oyewo and Badejo (2014) on reporting practices by banks, Nwobu (2015) using content analysis and Onyali, Okafor and Onodi (2015) using primary data, there is still a paucity of studies that utilize a disaggregated perspective of sustainability reporting into environmental, social and economic sustainability models. The existing works have mainly restricted their studies to evaluating the level of sustainability reporting, but not extending further to show value relevance of sustainability reporting.

Against this backdrop, the study addresses this gap by testing the value relevance of sustainability reporting in Nigeria. The study formulates the following hypotheses in the null form as follows:

Ho_1: Economic-sustainability reporting of quoted Nigerian manufacturing companies is not value relevant.

Ho_2: Social-sustainability reporting of quoted Nigerian manufacturing companies is not value relevant.

Ho_3: Environmental-sustainability reporting of quoted Nigerian manufacturing companies is not value relevant.

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2. Review of Related Literature

2.1 Conceptual Framework

2.1.1 Sustainability Reporting

Sustainability reporting is a catch-all phrase that describes an organization's reporting system that reflects information that covers economic, social and environmental dimensions of the organization's activity that is useful to the broad spectrum of stakeholders with affiliations with the company. It is interchangeably used with such terms as triple "bottom line reporting" and "integrated reporting". A sustainability report should reflect a balanced reportage of sustainability performance of a reporting organization reporting both the benefit and the cost of corporate activity across social, environmental and economic lines (Saji, 2014). Elkington (1997) explains "sustainability reporting" or "triple bottom-line reporting" is a mechanism of evaluating and disclosing the performance of a firm in relation to social, economic and environmental indicators. On a much broader scale, sustainability reporting covers the values and systems that an organization has in place to address the social and environmental implications of its actions and thus helping to create a better and improved social and environmental system side by side economic and financial performance.

According to Dyllick and Hockerts (2002) corporate sustainability reporting involves a company's focus on both the direct and indirect stakeholders and hence addressing core issues vital to each group in such a way that ensures that it will be well able to meet the needs of stakeholders in the future. Sustainability often regarded as the integration of three performance areas: economic, social and environmental; is viewed as a necessary practice for the survival of modern business firms (Nnamani, Onyekwelu, & Ugwu, 2017). According to Choudhuri and Chakraborty, (2009) sustainability reporting is generally described as a framework for reporting which focuses on three significant aspects being the economic, social and environmental performance of a firm, besides its financial well-being. In the views of Association of Chartered Certified Accountants (ACCA 2005), the term, sustainability reporting refers to the measurement, accounting, and also reporting of an organization's economic, environmental and social performance with the aim to improve the prospects of sustainability development (Association of Chartered Certified Accountants, ACCA 2005).

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As can be observed, a common thread running through all definitions and views is the fact that sustainability reporting is a more robust reporting framework different from the focus of the conventional reporting system and highlights corporate performance along three indicators; economic, environmental and social.

2.1.2 Value Relevance

Value relevance refers to the association between disclosed information and company value and hence if a link can be identified between information and movements in firm value or equity, then that information is value relevant. If there is no association between accounting numbers and company value, then that information cannot be termed value relevance (Barth, Beaver, & Landsman, 1998, 2001). Put succinctly, Barth, Beaver, and Landsman (2001) states that: "*Value relevance research examines the association between accounting amounts and equity market values*". According to Kothari (2001) the value-relevance stream of research is based on the premise that information if useful, investors will adjust their behavior and the market will respond through changes in stock prices. Therefore, information is considered value-relevance if stock price movements are associated with the release of the information. Beaver (2002) opines that, value relevance research examines the correlation that holds between stock price which is the endogenous variable and a selected number of exogenous variables which can be accounting or financial related information.

Nolan (2007) explains it from four perspectives: (i) The predictive view of value relevance, in this context, the focus is on the capacity of accounting information to be able to forecast future stock value and hence if the accounting information is able to achieve such, it is said to be value relevant (ii) The information view of value relevance is in relation to the degree of reactions of the stock market to disclosed information. Though this will also be much related to the level of market efficiency. (iii) Fundamental analysis view of value relevance is defined in relation to portfolio valuation using accounting information and whether such decisions can generate more than normal returns; and, (iv) The measurement view of value relevance is the capacity of financial information to provide a summary measure of equity movements.

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Kothari (2001) notes that in value relevance studies, two main methodological approaches have often been employed by researchers. The first one is the event study approach and here the focus is to identify if a corporate event such as mergers or acquisition, earnings disclosure amongst others leads to a reaction in the market that affects the movement in stock prices related largely to the event period. The other approach is the association method and this involves regression models estimation of the relationship between stock price and disclosed information.

Though the history of value relevance research has focused extensively on accounting and financial information, there is now attention to non-financial information especially with the recognition of the significant risks that companies can face resulting from social and environmental activities. There is a heightened global attention now to sustainability reporting because of the climate change, environmental pollution and the rise of socially responsible and ethical investors.

2.2 Theoretical Framework

2.2.1 Resource-Based View (RBV)

The study is anchored on the Resource-Based View (RBV) theory of a firm. The theory emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Peteraf & Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). The theory recognizes that heterogeneity of resources in a firm is a driver of competitive differences within an industry; those companies that foster resources in support of sustainability reporting are likely to gain competitive advantages and hence achieve higher share prices as most investors are becoming more environmentally conscious and tend to be more interested in firms that rate well in their sustainability performance.

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2.3 Empirical Review

Sutopo, Kot, Adiati, and Ardila (2018) looked at companies in Indonesia that have been highly rated on sustainability reporting and those that have not using the winning of the Sustainability Reporting Award (SRA) as a measure for the rating. The study used a sample consisting of 110 winners of SRA (SRA firms) and 110 companies that did not receive SRA from 2008 to 2016. The study confirmed that indeed accounting information such as earnings per share (EPS), book value per share (BVPS), and earnings per share change (EPSC) are value relevant. Comparing between SRA firms and non-SRA firms, the findings shows that value relevance is higher for SRA firms in terms of some accounting number and lower for others.

Ansari, Cajias, and Bienert (2015) examined whether informed investors, take into consideration sustainability reporting performance when investment decisions are being made. The authors find that firms' market value was found to be higher for firms with low composite sustainability scores. Ironically, the authors found that informed investors tend to ignore firm with high sustainability performance and aim at those having low sustainability performance. The study however did not explain the reason for such actions from investors. On the contrary, Ong, Tho, Goh, Thai, and Teh (2016) using Malaysian firms showed that the quality of environmental dimension disclosure correlates with stock prices. Unlike the findings of Ong, Tho, Goh, Thai, and Teh (2016), Guus (2017) investigated the relationship between the quality of sustainability reporting and firm value within the context of role of analysts using a panel data set of listed companies during the period 2012-2016. The results show that higher quality of sustainability reporting has a negative impact on firm value. A point of difference of this study is the inclusion of the moderating role of analyst coverage and the results show that a higher level of analyst coverage has a strong effect on the relationship between sustainability reporting quality and firm value.

Hassel, Nilsson & Nyquist (2005) examined relationship between market value and sustainability reporting performance and the study showed a negative relationship between sustainability performance and firm value. The authors justified this finding by arguing that investors perceive sustainable performance is a tool for corporate window dressing of financial performance. However, Montabon, Sroufe, and Narasimhan (2007), found

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completely different results investigating this relationship. Their findings suggest a significant and positive relationship between sustainability performance and firm performance.

An incremental contribution of Jacobs, Singhal, and Subramanian (2010) study is that although the market does not react significantly to environmental reporting as a whole, but reacts to certain types of such reporting.

3. Design and Methodology

The study adopted a longitudinal research design. The sample consisted of thirty manufacturing companies randomly selected because they are part of the environmentally sensitive sectors. The study employs secondary data retrieved from corporate annual reports from 2010 to 2018. Annual reports are used due to the fact that it is readily available, accessible and also it gives a greater potential for comparability of results. The study makes use of panel data regression as the technique for estimating the econometric models. Prior to the panel regression, the following diagnostics were conducted such as the normality test, multicollinearity test, serial correlation test, heteroskedasticity test and the Ramsey reset test.

3.1 Model Specification

The study adapts the model of Hassel, Nilsson, and Nyquist (2005). Hence the specification of the functional relationship is specified below:

$MV = f(SR)$ ----------(i)

Furthermore, we decompose sustainability reporting into its three key segments; Economic Sustainability Disclosures (Eco-Sus), Social Sustainability Disclosures (Soc-Sus) and Environmental Sustainability Disclosures (Env-Sus) Specifying the disaggregated functional models, we have;

$MV = f(\text{Eco-Sus, Soc-Sus, Env-Sus})$ ----------(ii)

Specifying the disaggregated functional equation (ii) in their econometric form and incorporating the control variable (Leverage) and the error term; we have

$$MV_{it} = \beta_{it} + \beta_1(\text{Eco-Sus}_{it}) + \beta_2(\text{Soc-Sus}_{it}) + \beta_3(\text{Env-Sus}_{it}) + \beta_4(\text{Lev}_{it}) + \varepsilon_{it} \quad \text{--------(iii)}$$

Where:

MV = Market value measured using share price
SR = Sustainability reporting measured using SRI index

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Eco-Sus = Economic sustainability reporting measured using SRI index
Soc-Sus = Social sustainability reporting measured using SRI index
Env-Sus = Environmental sustainability reporting measured using SRI index
Lev = Leverage measured as debt-equity ratio
ε_{it} = error term
i = firm i
t = time t

4. Data Presentation and Results

Table 1: Descriptive Statistics

	Mean	Std.dev
Market Value	13.90k	0.8937
Leverage	0.5638	0.0536
Sustainability Reporting Framework		
Disclosure for Economic Sustainability		
material aspect: Economic performance	1.000	0.00
market presence	0.958	0.201
Indirect economic impacts	0.027	0.165
Procurement Practices	0.042	0.201
Disclosure for Environmental Sustainability		
Material aspect: Energy Consumption	0.00	0.00
Environmental Review	0.00	0.00
Emissions	0.00	0.00
Disclosure for Social Sustainability		
Labour Practices and Decent Work		
Employment	0.8611	0.348
Labour/Management Relations	4.00	0.621
Training and Education of Employees	1.00	0.00
Diversity and Equal Opportunity	0.8611	0.3482
Labour Practices and Grievance Mechanisms	0.00	0.00
Non-Discrimination	0.00	0.00
Freedom of Association and Collective Bargaining (Employee Engagement)	0.00	0.00
Support for Local Communities	1.00	0.00
Anti-Corruption	0.00	0.00
Public Policy	0.00	0.00
Product Responsibility		
Product and Service Labelling	0.432	0.584
Product portolfo	0.432	0.584

Source: Authors' Computation (2019)

The table above shows the descriptive statistics for the variables. As observed, the mean for market value or share price stood at 13.90k with a standard deviation of 0.8937 and the mean leverage level is 0.5638 with standard deviation of 0.0536. The dimensions of sustainability reporting based on Sustainability Reporting Index (SRI) framework includes disclosure for

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economic sustainability which involves disclosure on three (3) items; economic performance, market presence, indirect economic impacts and procurement practices. There is also disclosure for environmental sustainability which involves disclosures on three (3) items; Material aspect: Energy consumption, environmental review and emissions. Finally, there is disclosure on social sustainability which involves disclosures on labour practices, human rights, and society and product responsibility.

For disclosures on economic sustainability, we find that in relation to disclosures on economic performance, all companies discloses as observed with mean values of 1 respectively. This is not surprising as annual reports are largely skewed towards financial disclosures and those having material economic relevance to the firm and hence we expect all companies to disclose comprehensively in this regards as part of their statutory obligations. For disclosure on market presence, a mean score of 0.90 is observed. For disclosures on indirect economic impacts, a mean score of 0.027 indicates a very low disclosure level here procurement practices, the mean score is 0.042 On the overall, for disclosures on economic sustainability, aside from core economic/financial aspects, the companies appear to be quite silent on other areas and this calls for attention.

For disclosures on environmental sustainability, we find that in relation to disclosures on energy consumption, the mean (0.0) and this implies that no discloses on energy consumption are made. For disclosures on environmental review, the men (0.00) indicates that no disclosures was made. In relation to disclosures on emissions, the mean (0.00) implies that no company discloses on emissions. On the overall, for disclosures on environmental sustainability, it's regrettable that manufacturing companies are silent on these issues despite the attention that environmental issues are receiving globally. It appears that significant progress has not been made a building a reporting framework that addresses environmental concerns.

For disclosures on social sustainability, we find that in relation to disclosures on labour practices category: employment (0.8611) and hence about 86% of the companies report on this item, labour and management relations (0.00) which suggest that none of the companies report on the issue, training and education of employees (1.00) and hence in this case all of

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the companies report on this issue, diversity and equal employment, (0.311), labour practices and grievance mechanism (0.00). In relation to disclosures on non-discrimination (0.00), which suggest that no company makes such disclosures. In relation to disclosures on freedom of association and collective bargaining (Employee Engagement) (0.00), which suggest that manufacturing companies are silent on such. In relation to disclosures on support for local communities, (1.00) which implies that all manufacturing companies disclose on the issue. On disclosure for anti-corruption and public policy, (0.0), which suggest that manufacturing companies in the sample are silent on such. On disclosure for product labelling and product portfolio (0.432) indicating that about 43.2% of the companies report in the item.

Table 2: Pearson Correlation Result

	MV	ECO-SUS	SOC-SUS	ENV-SUS	LEV
MV	1				
Eco-Sus	0.2491	1			
Soc-Sus	0.18668	0.385776	1		
Env-Sus	0.49886	-0.05756	-0.19689	1	
Lev	-0.02956	0.4252	0.0662	0.04251	1

Source: Authors' Computation (2019)

From table 2 above, the correlation coefficients of the variables are examined. The focus of our analysis here is how sustainability disclosure dimensions; Eco-Sus, Soc-Sus, Env-Sus correlate with Market Value. From the results, Eco-Sus has a positive association with MV(r=0.249), Soc-Sus has a positive association with MV (r=0.187), Env-Sus is positively correlated with MV(r=0.499); and, finally Lev is negatively correlated with MV(r=0.0296).

4.2 Test of Hypotheses

The below stated hypotheses were analysed @ 5%:

Ho_1: Economic-sustainability reporting of quoted Nigerian manufacturing companies is not value relevant.

Ho_2: Social-sustainability reporting of quoted Nigerian manufacturing companies is not value relevant.

Ho_3: Environmental-sustainability reporting of quoted Nigerian manufacturing companies is not value relevant.

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Table 3: Multiple Regression Output

Variable	Apriori Sign	Coefficient
C		1.0295 {0.1266} (0.000)
ECO-SUS	+	122.6517 {31.855} (0.000)
SOC-SUS	+	0.91019 {0.2209} (0.000)
ENV-SUS	+	0.0212 {0.0128} (0.1028)
LEV	_	0.1204 {0.0142} (0.000)
Model parameters		
R^2		0.430
ADJ R^2		0.402
F-Stat		22.5965
P(f-stat)		0.000
D.W		2.17
SEE		0.0782
Model Diagnostics		
Breusch-Godfrey (B-G)		0.125
ARCH		0.193
Jacque-Bera		0.046
Ramsey Reset		0.117

Source: Authors' Computation (2019). { } standard error ( ) p-values.

The Table above shows the regression output for the test of hypotheses. The regression is conducted using White Heteroskedasticity-Consistent Standard Errors & Covariance to control for possible heteroskedasticity in the model. The estimation shows a coefficient of determination (R^2) value of 0.430 which suggest that the model explains about 43% of the systematic variations with an adjusted value of 40.2%. The F-stat is 22.5965 (p-value = 0.00) is significant at 5% suggestive that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The D. W statistics of 2.17 indicates the absence of stochastic dependence in the model.

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Focusing on the performance of the coefficients, we observe that Eco-Sus (122.6517) is positive and statistically significant at 5% level (p=0.000) and as expected economic sustainability reporting which is largely based on financial viability and sustainability of the firm is a value relevant and thus an increase in disclosures of such pattern enhances value relevance. The result also shows that Soc-Sus is positive (0.91019) and statistically significant (p=0.00) hence increase in Soc-Sus is value enhancing and useful for equity market investors. The result shows that Env-Sus is positive (0.00212) though not statistically significant (p=0.1028); hence Env-Sus is not value relevant.

4.2.1 Robustness Check

The diagnostic test was also conducted for the model to ascertain the robustness of the results. The ARCH test for heteroskedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05, which leads us to reject the presence of heteroskedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05.The LM test did not therefore reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

4.3 Discussion of Findings

On the overall, the findings suggest that economic sustainability disclosures is most value relevant and then followed by social-sustainability disclosures going by the magnitude of the betas. Across the category of sustainability disclosures, those relating to the environment such as Energy Consumption, Environmental Review and Emissions were scarcely given any attention by companies. The findings are in tandem with Ansari, Cajias, and Bienert, (2015) which concludes that investors consider firms' sustainability scores as value relevant in making investment decision, though the study is at variance with Guus (2017) which investigates the relationship between the quality of sustainability reporting and firm value and the role of analysts in this relationship. The results show that having a higher level of sustainability reporting quality is negatively associated with firm value.

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Our findings are also in contrast with Hassel, Nilsson, and Nyquist (2005) which found a negative relationship between sustainability performance and firm value. They argue that investors observe that sustainable performance is used for window dressing of book values and financial performance, that investors perceive that sustainable responsible activities are made at the expense of increased profits, and that the market is short-term oriented. This implies that investors do not contemplate long-term sustainability information when making investment decisions (Hassel, Nilsson, & Nyquist, 2005).

5. Conclusion and Recommendations

Globally, there has been a marked increase in recent years in the amount of policy and regulation calling for sustainability reporting. This study examines the value relevance of sustainability disclosure of quoted manufacturing companies in Nigeria. The findings of the study shows that in relation to disclosures on economic performance, all companies discloses as observed with mean values of 1 respectively. This is not surprising as annual reports are largely skewed towards financial disclosures and those having material economic relevance to the firm and hence we expect all companies to disclose comprehensively in this regards as part of their statutory obligations. For disclosures on environmental sustainability, we find that in relation to disclosures on energy consumption, environmental review and disclosures on emissions, no disclosures were made by companies in this regard. For disclosures on social sustainability, though some disclosures are done but for issues such as labour and management relations, labour practices and grievance mechanism, Freedom of Association and Collective Bargaining (Employee Engagement) and Anti-corruption and Public Policy, companies are silent.

Based on the regression results, the findings suggest that economic sustainability disclosures is most value relevant and then followed by social-sustainability disclosures going by the magnitude of the betas. Environmental disclosures are not value relevant as sustainability disclosures relating to the environment such as Energy Consumption, Environmental Review and Emissions was scarcely given any attention by companies.

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Based on these, the study makes the following recommendations;

1. Companies should devote more attention to sustainability reporting. In addition, the regulatory bodies such as the Security and Exchange commission (SEC) and the Nigerian stock Exchange (NSE) should look into making sustainability reporting by companies a necessary requirement to be listed on the stock exchange. Several developed countries have adopted this approach and it has increased the number of companies providing sustainability reporting.
2. Also, investors in Nigeria should be concerned about sustainability issues for companies before making investments or buying stocks. The overwhelming focus on only financial considerations such as dividend policy, earnings per share and other accounting numbers is not healthy going forward. Investors can improve the quality of the sustainability reporting environment by gravitating towards companies that make such disclosures side by side the fundamentals.

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