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THE IMPACT OF ENVIRONMENTAL REPORTING ON SHARES VALUE OF LISTED INDUSTRIAL GOODS COMPANIES IN NIGERIA

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ABSTRACT

In recent years, stakeholders have consistently clamored for increased disclosure of information in the financial statements essential for economic and social decisions. This demand is based on the growing uneasiness about a firm's wealth valuation which relied partial information as a result of not valuing information on non-physical assets, as well as on other non-financial information. Hence, this study examines the impact of environmental reporting on shares value of listed industrial goods companies in Nigeria. This study adopted ex post facto research design. The population of this study consisted of 13 industrial goods companies listed on the Nigeria Exchange Group (NEG) as at 2020. In view of the nature of the model used in the study, filters were employed to arrive at an adjusted population of 11 companies in Nigeria. Data for the study was extracted from the published annual financial statements of industrial goods companies, covering a period of ten (10) years from 2011 to 2020. The shares value was measured by regressing Tobin's Q, and descriptive statistics was used. The study found statistical evidence that environmental reporting has significant and positive influence on shares value, the study concluded that voluntary environmental reporting is a viable reporting strategy for increasing the value and information content of annual reports of industrial goods companies in Nigeria. the study recommended that the Financial Reporting Council of Nigeria should make the disclosure of environmental information mandatory in the industrial goods sector because it leads to improvement in the information content of financial reports and increases the market performance of the companies.
Keywords: Environmental Reporting; Share Value; Industrial Good Company

1. Introduction

Over the past decade, corporate social disclosures performance has captured the attention of increasing number of investment professionals, policy makers, scholars, as they realize that profitability alone is not sufficient for a firm's long-term growth. Therefore, engaging in corporate

social responsibility activities and their disclosures are common in the recent business setting around the globe, corporate social reporting helps boost corporate transparency, increase accountability, strengthen risk management, promote stakeholder engagement and improve communications with stakeholders (GRI, 2011). Tuli, 2015). several studies (e,g Barnea & Rubin, 2010; Tan & Wilson, 2013; Yossi, 2018; Eka, Nurika &Ika, 2019 etc.) have investigated the causality between corporate social reporting and firm valuation with findings either inconclusive or contradictory, with some reporting positive or sometimes negative results.

Furthermore, these studies derive their conclusions from developed economies and given the differences in economic, legal, governance and reporting system between these countries, findings of these studies cannot be used for effective decision making in the context of a developing country. In Nigeria, there is scant literature on the issue of sustainability reporting and firm market performance. Studies like Olayinka and Temitope (2011); Nze, Okoh and Ojeogwu (2016); Ahmad (2017); Amaechi and Nwankwe (2017); Asoquo, Dada and Onyeogaziri (2018); Uwueigbe(2018) have also, reported inconsistencies but have omitted variables by not using the GRI disclosure index, tobins Q, as opposes to ROA or ROE as market performance variables. Hence the need for this study.

2. Literature Review

2.1 Conceptual Framework

2.1.1 Share value

A stock market is defined as the market in which equity shares of publicly-traded businesses are bought and sold, the stock market measures the aggregate value of all publicly-traded companies. Also, market performance depicts increases or decreases in aggregate stock and economic values of companies in the market. Stock Market Performance is the indicator of the stock market as a whole or of a specific stock. It gives signal to the investors about their future moves. The movement in the price of a stock and the indexes gives the idea of the near future trend of the stock, sector or the economy as a whole. As financial domain is the most important one of an economy, so the stock market performance works as an indicator of the overall health of the economy. Stock Market Indexes typically gives the overall performance of the market or of a specific sector. Indexes reflect the performance of the economy or a sector in entirety. For example, stock prices are an indicator of the performance of the stock. If the price of a particular stock is rising then it is perceived that it has certain positive news or signals. But, if it decreases then there must be some news regarding its performance, which is generating negative signals to the market. Hence, the stock price movement and index movements show the general economic trend of a country. Market value is the perception of the investor to the success of a company. It is reflected

in the share price of the company. The increase of the share price shows the trust of the investors to the company. They are willing to pay more with aiming for a higher return. The firm value is the total assets owned. It consists of the market value of share and liabilities (Damodaran, 2002). The high stock price can provide a good signal to attract investors to determine investment decisions.

2.1.2 Environmental Reporting

Environmental reporting deals with disclosure of issues bothering on impacts of processes, products and services on air, water, land, biodiversity and human health (Barnea, Heinkel & Kraus, 2013). It also, regards the impacts which are caused by the company to the creatures on earth, and the environment, including ecosystems, land, air, and water. Social and environmental responsibility can be interpreted as an approach to value creation in the long term, not just for shareholders, but for all stakeholders, based on the ability to take advantage of opportunities and manage risk (Chirieleison, 2004; Ghelli, 2013). Increased awareness of the importance of social and environmental responsibility has prompted many institutions in the field of investment to include it as one of the factors considered in making investments, or which is known as socially responsible investing (SRI). Disclosure of information about social and environmental responsibility is a process to communicate the social and environmental impact of economic activities of an organization to specific groups and to the whole society (Gray, 1987). In accordance with the theory of signal (Spence, 1973), such information is a signal to outsiders (investors), which may influence investment decisions, Implementation of social and environmental responsibility of companies can be seen as an effort to help direct the focus of management towards maximizing the long-term value of the company.

Clarkson, Li, Richardson and Vasvari (2008) posits that previous empirical studies provide mixed results on the relationship between corporate environmental performance and the level of environmental disclosures. Patten (2002) posits why inconsistent in relation between environmental performance and environmental disclosure in the existing research. Then, Al-Tuwaijri, Christensen and Hughes (2004) find significant and positive relationship between good environmental performance and extensive quantifiable environmental disclosure. Further, Freedman and Patten (2004) found in their study that companies with more extensive voluntary environmental disclosures suffered less negative market reactions compare to firms with worse pollution performance.

2.2 Empirical Review

2.2.1 Environmental reporting and shares value

Swarnapali and Le (2019) aims to discover whether corporate sustainability disclosure has a potential impact on the market value in a developing country. The independent variable SR was measured as a binary variable, which was scored "0" The results reveal a positive relationship between sustainability reporting (SR) and firm market value. This finding suggests that investors pay a premium in the capital markets for firms that perform in an environmentally responsible manner, compared to firms do not perform in a similar manner. Emeka-Nwokeji and Osisioma (2019) investigates how overall sustainability disclosures and its disaggregated dimensions of environment, social and governance affect market value of firms in Nigeria as an emerging economy using company's' specific disclosures. Tobins Q were used to proxy firm market value.. The analysis showed that overall sustainability disclosures have significant positive effects on firm value. When treated individually, environmental sustainability disclosures have a significant positive effect on market value of firm.

Caesaria and Basuki (2017) investigates the effect of Sustainability Report Disclosure to the Firm's market performance. Three material aspects disclosed in the Sustainability report such as economics (EC), environmental (EN), and social aspect (SC) are used as the independent variables. The results showed that environmental aspects have positively significant influence to the companies' market performance. Ijeoma (2015) determines the role of environmental cost accounting towards environmental sustainability in Nigeria. The source of data for this study is primary source of data collection with the aid of questionnaire. The findings of the study revealed that majority of the respondents agreed that business organizations in Nigeria have not being aware of environmental policies.

Olanyinka and Oluwamayowa (2014) carries out research on Corporate Environmental Disclosure and market value of Quoted Companies in Nigeria. The findings review that the inclusion of environmental disclosure will enhance market value. This current study focused on all dimensions of sustainability disclosure as predictors of market performance.

Makori and Jagongo (2013) investigated into whether there is any significant relationship between environmental accounting and profitability of selected firms listed in India. This study was done in India with a more advanced economic than Nigeria as such data on environment disclosure collected from there will produce result that may not be useful in taking decisions on environmental disclosure in Nigeria.

2.3 Stakeholder Theory

Stakeholder theory was derived from a combination of the sociological and organizational disciplines (Wheeler, Colbert & Freeman, 2003). Stakeholder theory asserts that companies have

a social responsibility that requires them to consider the interests of all parties affected by their actions. This confers more responsibility on the managers in terms of ensuring that no stakeholder is dissatisfied either in the short run or long run. Stakeholder theory is the doctrine that businesses should be run not for the financial benefit of their owners, but for the benefit of all stakeholders (Branco & Lucia, 2007). The traditional definition of a stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives (Fontaine, Harman & Schmid, 2006). The general idea of the stakeholder concept is a redefinition of the organization. In general, the concept is about what the organization should be and how it should be conceptualized. Popa, Blidisel and Bogdan (2009) maintains that stakeholder theory is based on the premise that the stronger the companies‟ relationships are with other interest parties, the easier it will be to meet its business objectives. Stakeholder theory contributes to the corporate sustainability concept by bringing supplementary business arguments as to why companies should work toward sustainable development.

3. Methodology

3.1 Research Design This study adopts descriptive ex-post facto research design and also align with deductive research paradigm for the purpose of addressing the problem. This technique is appropriate for this study because it is impossible to manipulate or control the independent variable.

3.2 Population, Sample and Sampling Techniques

The population of this study comprised of all the 13 Industrial Goods Companies listed on the Nigeria Exchange Group (NEG) as at 1st January, 2020. Going by records extracted from the Nigeria exchange Group website, the number of listed industrial goods companies as at 1st January, 2020 were thirteen (13). In view of the nature of the model used in the study, the following filters

were employed to arrive at an adjusted population in line with the studies of Cassey and Anderson (1999), Adelegan (2003) and Yusuf (2017). The total purported sample therefore constitutes 11 industrial goods companies which yielded 110 accounting financial year observations on the dependent variable for the period of ten years. This population and sample size are presented

3.3 population of the study

Company	Ticker	Date Listed
1.AUSTIN LAZ & COMPANY PLC	AUSTINLAZ	Invalid date

2.BERGER PAINTS PLC	BERGER	Invalid date
3.BETA GLASS PLC.	BETAGLAS	July 2nd 1986
4.BUA CEMENT PLC	BUACEMENT	January 9th 2020
5.CAP PLC	CAP	May 24th 1978
6.CUTIX PLC.	CUTIX	August 12th 1987
7.DANGOTE CEMENT PLC	DANGCEM	October 26th 2010
8.GREIF NIGERIA PLC	VANLEER	Invalid date
9'LAFARGE AFRICA PLC.	WAPCO	February 17th 1979
10.MEYER PLC.	MEYER	Invalid date
11. NOTORE CHEMICAC	NOTORE	August 2nd 2018
12. ORTLAND PAINTS & PRODUCTS NIGERIA PLC	PORTPAINT	July 9th 2009
13.PREMIER PAINTS PLC.	PREMPAINTS	March 7th 1995

Source: NEG Fact Book,

3.4 Methods of Data Collection

The study employed secondary sources for the purpose of data collection. The data was collected from the annual reports of the sampled companies for a period of ten (10) years (2011 to 2020). The firms are public limited companies listed on the Nigerian Exchange Group. By virtue of being public limited companies and as a requirement of being listed, annual financial report has to be made available to the Nigerian Exchange Group. Published financial statements of companies are preferred because they are easily, assessable and provides unbiased platform for results comparability.

3.5 Techniques of Data Analysis and Model Specification

The study employed regression as the procedure of analysis with the aid of Eview as a tool of analysis. The data for the study is panel in Nature, so as to check for the fitness of model and reliability of findings.

3.6 Model Specification and Variable Measurement To study the effect of (environmental reporting) on market performance of listed industrial goods firms in Nigeria. The study regressed Tobin's Q, in addition, the model has been used in previous studies by Swarnapali (2018), Whetman (2018), Loh, Thomas and Wang (2017) and Bartlett (2012).

3.7 Shares value (dependent variables).

Market performance was measured by Tobin's Q, which is defined as the ratio of the firm's market value to its accounting (book) value (Crisostomo, Freire & Vasconcellos, 2011). To explain the firm value for sustainability information purpose, market performance was measured using Tobin's Q. Notably, accounting, economic, and finance literature recognize that Tobin's Q is the widely used proxy for market performance (Crisóstomo, Freire & Vasconcellos, 2011; Jo &Harjoto, 2011), which is a market-based indicator. The measure of firm market performance using Tobin's Q is preferred more, since it is least affected by managerial manipulation, (Omar &Zallom, 2016).

3.8 Environmental reporting (Independent Variables)

The independent variable was measured by scoring index based on performance indicators selected from Global Reporting Initiative (2018) guidelines as applied in previous studies such as Swarnapali (2018), Whetman (2018), Loh, Thomas and Wang (2017) and Bartlett (2012). social disclosure index was calculated based on the number of indicators that were disclosed (occurrence) and the level of disclosure (quantitative and qualitative). If a company disclosed any indicator, that is the occurrence of an indicator in the company's financial statement, the researcher assigned 1 if the company failed to disclose any indicator, the researcher assigned 0. On the other hand, if the level of the indicator disclosed is quantitative the researcher assigned 3 and for a qualitative disclosure the researcher will assign 2. Social disclosure index = Total Level of Disclosure divided by Total Occurrence.

4.1 Descriptive Statistics

	TQ	ENV	FMZ	LEV
Mean	0.489703	0.239967	8.430129	0.548883
Median	0.459817	0.223450	8.515485	0.556850
Maximum	1.230000	0.624355	14.87830	0.889188
Minimum	0.013030	0.147059	2.831810	0.054824
Std. Dev.	0.281462	0.092894	2.033957	0.119671
Skewness	0.261098	2.940715	0.718047	-0.440072
Kurtosis	2.170034	11.63809	4.359963	5.217923

Jarque-Bera	4.407020	500.5360	17.92938	26.09674
Probability	0.110415	0.000000	0.000128	0.000002
Sum	53.86734	26.39634	927.3142	60.37712
Sum Sq. Dev.	8.635080	0.940598	450.9307	1.561014
Observations	110	110	110	110

Table shows the summary of data for all selected variables for the 11 quoted industrial goods companies within the time frame of 10 years. The result from table shows that the average shares value which is proxied by Tobins Q is .489703 with a standard deviation of .2815. This figure indicates an average ratio of the industrial goods companies' market value to their accounting (book) value. The values of the minimum and maximum stands at .013030 and 1.230000 respectively indicating a high level of variability in the data. This variability serves as a useful indicator for further analysis of the data.

Furthermore, environmental disclosure has a mean value of .239967 with a standard deviation of .092894 which is an indication that on average 23% of environmental disclosure items were made in the financial statements within the period of the study. Conversely, the value of the standard deviation which is 9% and far from the mean shows a high level of discrepancy in the data. This is corroborated by the value of the minimum and maximum of .147059 and .624355 respectively. This indicates a high level of variation in environmental disclosure by companies within the sampled period.

Table also shows that the logged average firm size of the sampled industrial goods companies during the period of the study is 8.430129with a standard deviation of 2.033957. This implies that the sizes of the individual industrial goods firms in Nigeria significantly differ. The standard deviation suggests that the data is not distributed around the mean. The minimum and maximum values are 14.87830 and 2.831810 respectively which is an indication of a reasonably wide dispersion.

Finally, the descriptive statistics from Table indicates that the mean of leverage is .548883 which signifies that on the average 54% of the companies' capital is debt. Meanwhile, the value of the standard deviation which is .119671 (11%) is dispersed from the mean and shows a high level of disagreement in the capital formation of the companies. The leverage shows a minimum and maximum value of 0.054824 and .889188 respectively.

5. Conclusion and Recommendations

5.1 Conclusion

It was observed that, environmental disclosure is a determinant of shares value of listed industrial goods companies in Nigeria. It means that disclosure of environmental reporting activities is a good predictor of firm market value in the financial and non-services sectors. This result supports the argument that signal effectiveness can be improved by disclosing information that is relevant and needed by the receivers, hence the receivers are able to obtain a comprehensive picture of the company and make accurate decisions including investment decisions.

5.2 Recommendation

Management of industrial goods companies in Nigeria take substantial and sufficient investment in environmental responsibility activities and also make voluntary reporting in all the aspects of environmental investments, as it is believed that these reporting and disclosure paves the way for gaining a competitive advantage and plays a major role in projecting a clean image of the firms. Also, given the importance of environmental reporting to a diversity of stakeholders, the study recommends that the Securities and Exchange Commission should make the reporting and disclosure of environmental responsibility information mandatory for all industrial goods companies in Nigeria.

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