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CONTENTS

SUSTAINABILITY REPORTING AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study examines the effect of sustainability reporting (SR) on financial-performance of listed manufacturing firms in Nigeria from 2010 to 2020. Ex-post facto research design was employed and 24 firms form 8 sectors were sampled. Data were sourced from their annual report and analysed using Panel-regression technique. The study found positive significant connection linking DP, ERSand R&D and financial performance while CRS has negative insignificant effect on financial-performance. Base on the findings, the study concluded that SR has positive influence on financial-performance of listed manufacturing firms in Nigeria. The study recommended that relevant authorities should encourage firms to report SR on real-time and make reporting compulsory and not voluntary. There should be strict enforcement on firms to increase investment in R&D as this will increase profitability and help climate change.

Keywords: community relation, research & development, dividend, employee relation and financial performance

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1. Introduction

Sustainability Reporting is the incorporation of the environmental, social and economic aspects of an organization to the reporting and communication to the interested parties (Camelia, et al, 2020). It is either voluntary or mandatory information disclosed by firms (Garg, 2015; Fodio, Abu-abdissamad, & Oba, 2013). SR Guidelines were developed by the Global Reporting Initiative (GRI) and they are reviewed as the exigency for them arise. Principles prescribed by AA1000 APS Standard (Accountability Principles Standard 2008) issued by the Accountability Institute, Business Charter for sustainable development, developed by the International Chamber of Commerce (ICC) in this area and other instructions. All these instructions and guidelines have been adopted to help business around the world and develop the reporting framework on economic, environmental and social aspects of business operations. SR gives a framework on how activities that happen in firms outside its business operations are reported to stakeholders.

The dividend policy and financial-performance was developed as a base for the decision whether or not profit made from the business transaction by firms after all expenses incurred were deducted would be distributed to the shareholders in form of dividend or plough back to the organization for reinvestment (Enekwe, Nweze & Agu 2015).

Companies are today required to raise financial reporting requirements, which is crucial to their survival, especially in a time when environmental challenges are having a severe influence on human lives, agricultural goods, and marine life (Clerverline, 2021; Asaju & Aome, 2015; Atanu & Olorundare, 2017; Bassey, 2019; Alshbili & Elamer, 2019). As a result, stakeholders are currently pressuring enterprises to start creating their sustainability report (KPMG, 2011; Emuebie, 2021; Owolabi & Okulenu, 2020). By communicating a company's commitment to all stakeholders, sustainability reporting (SR) improves the corporate image of a company's products and services and increases credibility. Some researchers suggested that SR has a beneficial impact on financial performance (Hongming, Ahmed, and Hussan, 2020); Awadzie, Soku & Botchwey, 2022) while other scholars have cont opinion about SR and financial accomplishment (Ordu & Amah, 2021; Clarissa & Rasmini, 2018; Wasara & Ganda, 2019). Consequently, SR is a report created and distributed by businesses to promote sustainable development. In order to meet the needs of the present without jeopardizing the capacity of future generations to do the same, sustainable development must be practiced (Brundtland report, 1992).

The practice of SR, sometimes known as corporate social responsibility, has not sufficiently gained popularity in developing nations, particularly Nigeria. According to earlier studies (Igbekoyi, Ogungbade & Olaleye, 2021; Owolabi & Okulenu, 2020), SR is insufficient and insignificant in Nigeria since SR variables are not incorporated into enterprises' accounting frameworks and it is more of an ethical practice than resource base. In Sri Lanka (Thayaraj & Karunarathe, 2021) and Indonesia (Clarissa & Rasmini, 2018), SR was found to be extremely low due to the absence of parliamentary legislation and the accounting body's lack of any unique economic, social, or environmental standards. Due to a lack of a suitable framework for environmental disclosure and qualified environmental auditors to conduct audits, SR in South Africa was determined to be low (Wasara & Ganda, 2019). SR is said to have made little impact in sub-Sahara Africa Kenya and Mauritius (Wachira & Bendt, 2019) because reporting SR is not mandatory. There is low performance in Bangladesh (Qamruzzaman, Jahan & Karim, 2021) because of different voluntary disclosure creates inconsistency. SR had low performance in Pakistan (Mahmood, Kouser & Masuad, 2019) also because disclosure is voluntary. The glitches in SR in developing countries speak volume, and they imply the weak implementation of SR because disclosure is not mandatory. Low investment in R&D, poor employee relations, low risk management, poor health and safety management, customer satisfaction, dividend payout, waste production, operating costs, energy waste, earnings-per-share, return-on-capital-employed, return-on-assets, labor practices, training and education, human rights, sewage treatment, and gas emission are key issues in SR which made companies dis-trust their host communities.

This study contributes to SR and financial-performance literature by adding to the empirical research body of SR in Nigeria (Uyagu, et al, 2017; Nzekwe, Okoye & Amahalu, 2021; Onoja, Okoye & Nwoye, 2021). Financial-performance measures a firms' overall financial level over a particular time duration and is used for comparism of general performance of different firms' operating in identical industry (Henri and Journeoult, 2010).

Therefore, the study ascertains the effect of SR on financial-performance of listed firms in Nigeria. To achieve this feat dividend policy, community cost, research and development, employee cost and return-on-assets are proxies used.

Dowwling and Pfeffer (1975) propounded legitimacy theory. It is an assumption that the steps taken by an entity are most appropriate within which the social culture, norms and values are aligned with (Suchman, 1995) as cited in (Bassey, Effiok & Eton 2013). Therefroe, this study is anchored on legitimacy theory because the policies of the society and that of the firms' align.

2. Review of Empirical Studies

Taib and Ameer (2012) investigated the connection linking corporate-sustainability-practices and financial-performance in the UK and US between 2005 and 2009. Annual reports recorded and multiple-regression models were used. The finding revealed negative insignificant outcome on financial accomplishment. Community, business ethics and environment indices do negative effect financial-performance of companies. This imply that innovation in computing power and language would ease the choice of reporting medium in the future and it is advisable to report community, diversity, environment, recruitment, and promotion in real-time as they occur. The aspect of reporting community relation achieve real-time as it occurs is quite missing in developing countries as they are report later. Agba, Mboto & Micheal (2013) evaluated the influence of wages and other conditions of service on employees' performance. Primary data were collected and presented in graph, pie chart and bar chart. The finding revealed significant positive influence on employee performance. Job performance are shaped by regular and good wages; followed by conducive work environment, availability of internet facilities, good library, recognition/award, regular promotion, training opportunities, access to medical care and communication flow. The study suggest that managers of formal organizations should properly remunerate workers as well as provide conducive work environment for their employees.

Singh (2014) investigated the consequences of corporate-social-responsibility information on the financial-performance of firms in the UK for 5 years (2008 to 2012). The survey data and ordinary-least-square model were used. The result showed negative non-significant connection linking good social-practices and financial accomplishment both in short-term scenario and long-term. In this study, philanthropy gesture by firms in developed countries do not increase profitability. Heggeseth and Moen (2016) sampled 247 Norwegian industrial companies between 2004 and 2009 on the consequences of intensity in R&D on financial accomplishment during financial crisis of Multiple-regression technique was used. The result showed that companies with more investment in R&D aid financial-performance during financial crisis. Also, R&D investment was more during the financial crisis than in other periods

According to the study of Abdel and Raed (2017) examined the impact of R&D cost on financial-performance of listed pharmaceutical firms in Jordan for 4 years (2006 to 2010). Secondary data and simple-linear regression technique was use to analyse the data. The finding showed significant positive connection linking R&D cost and firm accomplishment in developed countries. Also, R&D cost lead to future benefits in current and subsequent years. The study is of the opinion that more funds should be committed to investment in research and development Freihat and Kanakriyah (2017) investigated the connection linking R&D and performance of Jordanian from 2006 to 2015. The survey data and multiple-regression technique were used for analysis. The result indicated significant positive connection linking R&D and performance measured by return-on-assets, return-on-equity, and earnings-per-share. Increased funds on research and development will increase profitability.

Abose, Eze & Sowunmi (2018) investigated the outcome of human resources management on non-financial performance of banks in Nigeria. The survey data and ordinary-least square method were used. It was discovered that reward management have positive significant effect on reward and employee performance. The scholars argued that the expectations of all firms is to manage and have an open employment policy that will enhance efficiency and effectiveness of staff member. Umobong and Agburuga (2018) assessed the connection linking financial accomplishment and corporate-social-responsibility of quoted-firms in Nigeria for 16 years (2005 to 2015). Secondary data and multiple-regression model were used. The finding revealed negative significant outcome linking community relation cost and return-on-assets and return-on-capital-employed firms with better financial accomplishment make better information make higher return-on-investment. The study is of the view that poor infrastructure could be the reason for poor relationship with performance.

Ajibada, Amuda and Olurin (2019) evaluated dividend policy and financial-performance of quoted manufacturing firms in Nigeria and Kenya between 2008 and 2017. Secondary data and ordinary-least square model were used for analysis. The finding revealed significant positive connection linking financial achievement in Kenya while Nigeria recorded non-significant negative. The study suggest that companies should concentrate on dividend strategy. However, the study did not take into account the other measures of profitability since it considered 2 major economies from West and East Africa. Hashim, Ries and Huai (2019) examined the impact between corporate-social-responsibility and financial-performance in southeast African countries from 2013 to 2017. Secondary data and multiple-regression model were used for analysis. The finding unconcealed non-significant connection linking relation and financial accomplishment. The study additionally found that community relations price, worker relations cost has non-significant association with monetary performance. This discovery is an indicator that poor infrastructural amenities coupled with bad employee policy can lead to negative outcome with financial-performance. Idewere & Murad (2019) investigated dividend policy and financial-performance in Nigeria. Data were collected over a period of six (6) years (2009 to 2014) and panel-regression model was use for analysis to analyse the data. The study discovered positive important connection linking dividend payout magnitude relation and financial accomplishment. Other finding revealed negative and non-significant connection linking dividend interest and financial accomplishment. Companies ought to try to keep up healthy and some stable dividend policies. This might be earned by investment incomes that offer positive internet gift Values, thereby generating vast earnings.

Jian, Feng and Chen (2019) evaluated the association linking research-and-development, advertising and firm's financial accomplishment in South Korea from 2012 to 2016. Multiple-regression technique and secondary data were used. The finding revealed positive significant association linking financial accomplishment with large firms' while negative significant impact exists in tiny firms. Kayode, Adeyinka & Abiodun (2019) assessed the effect of employees' remunerations on productivity in Nigerian breweries plc. Primary data and pearson product correlation coefficient models were applied for analysis. The outcome revealed significant positive connection linking remuneration packages and employee's performance. Further finding revealed quick payment of remuneration has great influence on employees' productivity. The study suggested that remuneration package such as overtime, constant remuneration payment, promotes morale and increase team cohesion and that employee benefits has great influence on employee productivity. Amankwah and Agyemang (2020) explored in their study the outcome of dividend on financial-performance in Ghana for 7 years (2012 to 2018). The survey data was obtained and panel-regression model were used for analysis. The finding revealed non-significant positive connection between variables. Companies have to be compelled to reward dividends where they are financially strong. Further finding confirmed that dividend is vital issue moving the monetary performance.

Porini (2020) upshot the effect of dividend payout ratio on financial-performance in Tanzania between 2013 and 2018. Panel data extracted from audited and analysis descriptive analysis and inferential analysis that's central tendency and multiple regressions were used to analyse the data. The outcome revealed significantpositive outcome on financial accomplishment. Moreover, the management variables resembling size of asset and growth in sales and leverage have connection with financial accomplishment. In the study of Adhikari, (2020) the researcher examined the connection linking staff trainings and development costs, total staff costs and profit of Nepalese firms between 2016 and 2020. Secondary source of data and panel-regression model were applied to analyse the data. This finding revealed that banks focus on trainings and development of staff. Staff cost has significant positive connection linking staff cost with operational profit. The study suggests that government should invest more on human capital development and invest more on research and development.

Several studies have been carried out on dividend policy, community relations, employee relation and research and development with divergent views on their literature but few studies have been carried out on a combination of all the variables as one and see the effect on financial performance of manufacturing companies. The study also seeks to contribute on the effect of research and development on financial performance which has not been well explored in Nigeria. In developing countries, community cost is not reported on real-time and rarely does it influence performance as seen from the literatures reviewed.

3. Methodology and Model Specification

Ex-post facto research design was adopted for the study. The population is 64 listed firms and 24 were selected for 11 years (2010 to 2020) using stratified and random sampling method. The reason for choosing manufacturing firms over other firms listed on the Nigerian stock group is because manufacturing firms constitute the major area where the society is affected by these companies for example water pollution, air pollution and soil pollution. The reasons for conducting the study from 2010 is because the world just came out of recession during that period and IFRS (International Financial Reporting Standard) was also adopted in Nigeria in 2010. These manufacturing firms pollute the society and they are expected to bring back part of it to the environment. The study adopted the general multiple ordinary least square (MOLS) regression model base in line with the specific objective variables of the study. The regression model is as specified by Frances Galton (1974) modified by Nnamani, Onyekwelu & Ugwu (2017).

To empirically express the relationship between return on assets and sustainability accounting reports of quoted manufacturing companies in Nigeria, the base line model equation is specified as thus;

$$ROA_{it} = \beta 0 + \beta_1 DPO_{it} + \beta_2 CRC_{it} + \beta_3 ERC_{it} + \beta_4 R\&DC_{it} + e_{it}$$

Where;

i =Number of companies or cross section t=No of time periods

ROA = Return on Assets of Quoted manufacturing companies, β_0 = the constant term, DP = Dividend Policy, CRC = Community Relation Costs, ERC = Employee Relation Costs, and R&DC = Research & Development Costs, β_{1-4} = Coefficients estimated or the Coefficients of slope parameters. Et= Error term.

4. Results and discussion of findings

4.1 Descriptive Statistic Analysis

Table 1: Descriptive Statistics

	ROA	DP	CRC	ERC	R_D
Mean	0.064903	0.043952	0.014431	1.560304	0.137041
Median	0.043126	0.022769	0.001526	0.090413	0.004291
Maximum	3.237088	0.487146	1.968699	376.9860	21.80103
Minimum	-2.359907	0.000000	0.000000	0.003173	0.000000
Std. Dev.	0.303419	0.060109	0.121754	23.19431	1.357415
Skewness	2.390875	2.862122	15.76020	16.15435	15.50915
Kurtosis	63.39361	15.95867	253.3415	261.9767	247.6523
Jarque-Bera	40372.78	2199.272	700308.2	749240.5	668985.9
Probability	0.000000	0.000000	0.000000	0.000000	0.000000

Source: Researcher's Computation, 2021.

Table 1 above reports the descriptive statistic such as mean, median, standard deviation, maximum, minimum, Jarque-Bera, kurtosis and skewness. Average return on asset is 0.064 and median value of 0.043. The standard deviation of 0.303, indicates the existence of low degree of disparity among the firms ROA. It shows that their ROA is close. More so, the maximum of ROA is 3.23, while -2.359 is the minimum.

4.1.2 Panel Unit Root test result

Table 2 Panel Unit Root Test

Variable	LLC(Levin, Lin & Chu t*)		LPS(Im, Pesaran and Shin W-stat)		Order of Integration	Remarks
	Statistics	**p-value**	**Statistics**	**p-value**		
CRC	-6.12411	0.0000	-2.48152	0.0065	I(0)	Stationary at level
DP	-13.9791	0.0000	-5.98683	0.00000	I(0)	Stationary at level
ERC	-6.31463	0.0079	-2.97528	0.0015	I(0)	Stationary at level
R_D	-17.8788	0.0000	-8.93847	0.00000	I(0)	Stationary at level
ROA	-9.16390	0.0000	-4.27973	0.0000	I(0)	Stationary at level

Source: Researcher's Computation, 2021

Carrying out unit root test before estimating the model was a necessary step in order to choose the most appropriate estimating technique. Studies have shown that panel data have tendency of been mean variant and therefore, there was need to test the Stationarity condition of these variables. Also, the prevailing problem of spurious regression had necessitated the test for unit root of panel series variables. However, examining the stationary property of panel data series prior to analysis the relationship among the variables has been described as fundamental due to the challenges posed by non-stationary series in regression analysis. This is important as the proposed methodology (panel regression) for the analysis can only be used to estimate models involving variables that are integrated of order zero I(0).

Table 3. Correlation Analysis: Ordinary

Correlation Analysis: Ordinary Correlation					
Probability	**ROA**	**R_D**	**ERC**	**DP**	**CRC**
ROA	1.0000				

R_D	-0.0996	1.0000			
	0.1068	-----			
ERC	-0.0822	0.1869	1.0000		
	0.1838	0.0000	-----		
DP	0.0828	-0.0572	-0.0462	1.0000	
	0.1806	0.3532	0.4550	-----	
CRC	-0.0859	0.1764	0.1915	-0.0415	1.0000
	0.1648	0.0000	0.0000	0.5024	-----

Source: Researcher's Computation, 2021

The correlation results in Table 3 showed that RD cost of the firms do exhibit weak statistical correlation with ERC ($r=-0.1869, p<0.05$) and CRC of the firms($r=-0.1764, p<0.05$).. CRC exhibit weak correlation with other explanatory variables such as ERC($r=0.1915, p<0.05$) and RD($r=0.17644$, $p<0.05$).. It can be deduced from the correlation analysis that low level of correlation was observed among the explanatory variables. This implies the less likelihood of encountering multicollinearity problem which may understate or overstate the standard errors and thereby lead to wrong inference about the behaviour of the variable. Multicollinearity problem occurs when independent variables in a regression model are correlated. This correlation is a problem because independent variables should be independent. If the degree of correlation between variables is high enough, it can cause problems when fitting the model and interpreting the results.

Table 4: Variance Inflation Factor

	VIF	1/VIF
ERD	**2.02**	**0.495**
CRD	**3.06**	**0.326**
RD	**3.13**	**0.319**
DRD	**1.01**	**0.991**

Source: Researchers computation 2021

Multicollinearity Test

The correlation results in Table 4 report the variance Inflation Factors of the study. The centred VIF should be less than 4 in order to be free from multicollinearity. From the table all the variables report VIF less than 4. This implies that there is less likelihood of encountering multicollinearity problem which may understate or overstate the standard errors and thereby lead to wrong inference about the behaviour of the variable. Multicollinearity problem occurs when independent variables in a regression model are correlated. This correlation is a problem because explanatory variables should be independent. If the degree of correlation between variables is high enough, it can cause problems when fitting the model and interpreting the results.

Table 5 Correlated Random Effects - Hausman Test (Test cross-section random effects).

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	9.6151	4	0.0474

Source: Researcher's Computation, 2021

The section reports the influence of sustainability reporting on the financial performance of listed manufacturing firms in Nigeria. In line with the diagnostics result earlier reported in table 3 and 4, it was obvious that the assumption of homoscedasticity and no serial correlation were not violated using fixed effect model. The f-statistics statistics of the model captures the joint significance of the variables. It shows whether the variables are significantly different from zero. If the test statistics of the f-value is statistically significant, the model is established and all the variables jointly different from zero. The outcome of the f- statistics of the model (74.2600, $p<0.05$) shows that the model is statistically significant and the coefficients are different from zero. The independent variables explained about 67.4% variation in performance of the firms, however, he after adjusting for the loss in degree of freedom, the model explain about 62.22% variation in the dependent variable.

Table 6 Regression and Hausman test

Variable	Fixed Effect Model Coefficient	t-Statistic	Prob.	Random Effect Model Coefficient	t-Statistic	Prob.
R_D	0.1631	7.3384	0.0000	0.1585	7.8024	0.0000
ERC	0.0132	4.5959	0.0000	0.0129	4.3099	0.0000
DP	0.4979	1.7802	0.0763	0.3645	1.4263	0.1550
CRC	-0.9074	-2.2713	0.0240	-0.9268	-2.3419	0.0199
C	0.0561	2.6701	0.0081	0.0621	2.7082	0.0072
R-squared	0.6745			0.6273		
Adjusted R-squared	0.6222			0.5722		
F-statistic	74.2600			64.8176		
Prob(F-statistic)	0.0000			0.0000		
Hausman test	9.6151(p=0.0474)					

Source: Researcher's Computation, 2021

Fixed Effect Model.

The first hypothesis reported that DP statistical significant positive relationship with financial performance of firms with p-value less than 0.10 and coefficient of 0.4979(t=1.7802, p<0.05). This imply that rise in dividend payout of the sampled firms will aid the performance of the firms. 0.10 was taken because DP is an important variable. This result is in tandem with the studies of Ajibada, Amuda and Olurin (2019), Idewere & Murad (2019), Amankwah and Agyemang (2020), Porini (2020).

The Second hypothesis reported that community relation cost of the firm exhibited negative relationship with the financial performance of the firm. The coefficient of the variable (-0.9074) and t-value of -2.2713 shows that in average across the period and within the firm, financial performance decline when the community relation cost increases. This result is in tandem with the results of Taib and Ameer (2012), Singh (2014), Umobong and Agburuga (2018), Hashim, Ries and Huai (2019), Kayode, Adeyinka and Abiodun (2019).

The third hypothesis discussed employee relations cost with coefficient of 0.0132(t=4.5959, $p<0.05$). Thus, the coefficient of 0.0132 implied that an increase in the employee relations cost will induce the likelihood of rise in financial performance of firms. This result is in tandem with the studies of Agba, Mboto and Micheal (2013), Abose, Eze and Sowunmi (2018), Adhikari, (2020).

The 4th hypothesis reported the R&D cost had significant relationship with the firm's performance. The coefficient of 0.1631(t=7.3384, $p<0.05$) showed that research and development contributed positively to the rise in firm performance. This result is in tandem with the results of Heggeseth and Moen (2016), Abdel and Raed (2017), Jian, Feng and Chen (2019),

5. Conclusion and Recommendation

Based on the findings, the study therefore concludes that DP, R&D, ERC of listed manufacturing firms in Nigeria affect financial performance while CRS does not affect financial performance positively. Base on this conclusion, the study therefore recommends that listed manufacturing firms in Nigeria should make dividend payment timely and regular, community cost should be moderately done and reported real-time as it occur, training, health, promotion and other benefits should be done and investment in R&D should be made compulsory for listed manufacturing firms in Nigeria as this will increase performance and will help climate change.

Government and regulatory authorities such as Financial Reporting Council of Nigeria should encourage firms to report more of their sustainability performance and the report should be done on real-time basis. This is because the reporting rate on the part of manufacturing firms in Nigeria is very low as it compliance is voluntary. Therefore, to achieve maximum compliance government should make sustainability reporting compliance compulsory for companies listed in the Nigerian exchange limited.

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