

Ogunleye, Oyewunmi & Joseph: *an assessment of the influence of ESG performance on financial performance and market value: evidence from the Nigerian consumer goods sector*

An Assessment of the Influence of ESG Performance on Financial Performance and Market Value: Evidence from the Nigerian Consumer Goods Sector

Dr. Omowunmi Jumoke Ogunleye
Department of Accounting,
Faculty of Management Sciences,
University of Lagos
oogunleye@unilag.edu.ng

Dr. Obafemi Rufus Oyewunmi
Department of Accounting,
Faculty of Management Sciences,
University of Lagos

Joseph Tobi
Department of Accounting,
Faculty of Management Sciences,
University of Lagos

Abstract

This study examines how ESG performance scores affect the firm performance and market value of consumer goods companies listed on the Nigerian Exchange Group, focusing on both individual pillars and overall ESG scores in the short term. This study employs panel regression analysis using data from 21 consumer goods firms listed on the Nigerian Exchange Group (NGX) between 2018 and 2023. Descriptive statistics and correlation analysis were also applied to examine the relationship between ESG performance scores, firm performance (ROA), and market value. ESG dimensions affect financial outcomes differently. Diversity initiatives reduced ROA, while community engagement and social performance lowered market value. Governance had a positive but insignificant effect, and the overall ESG score showed no significant short-term impact. The study focuses on Nigerian consumer goods firms over six years. Future research could examine other industries and longer periods to capture the long-term effects of ESG integration. Firms should manage environmental and social initiatives strategically to align with investor expectations, while prioritizing governance improvements, which the market views more favorably and which enhance efficiency and transparency. The study emphasizes the need for greater awareness of the long-term societal benefits of ESG practices to bridge the gap between perceived costs and sustainable value creation in emerging economies. This study adds to limited ESG research in emerging markets, particularly Nigeria, by analyzing individual ESG pillars rather than aggregate scores and providing sector-specific insights for managers and investors.

Keywords: ESG performance, Firm performance, Market value, Consumer goods, Nigeria, Sustainability reporting.

1. Introduction

The global corporate landscape is experiencing a paradigm shift where non-financial factors, especially performance on Environmental, Social, and Governance (ESG) performance condemned are increasingly being recognized as determinants of long-term sustainability and value creation. Organizations are also under increasing pressure from regulators, investors and society to make their strategic decisions in line with the interests of a wide range of stakeholders (International Finance Corporation, 2004-2008). This transition has led to a redefinition of business success, from pure financial returns to encompassing social and environmental accountability.

Despite the proliferation of ESG research, empirical evidence about the financial benefits of ESG adoption is uncertain. This is especially the case in emerging markets where the integration of ESG is relatively new. For example, although some studies across South Africa have shown how particular pillars such as social and governance practices can benefit firm performance (Masongwenia and Simo-Kengne, 2024), by contrast, some studies conducted across Asian markets have found that the magnitude of the impact of ESG ratings varies considerably depending on institutional and regulatory contexts (Martynova and Lukina, 2023).

The application of ESG is still immature in Nigeria. A 2022 survey showed that 55 percent of companies in Nigeria are integrated when it comes to eco-social responsibility, which points to the possibility of a differences in awareness or perceived value (McCalla-Leacy, 2022). The majority of current studies in the area concentrate on the long-term effects including brand recognition and the reduction of risks and do not mention immediate and quantifiable financial effects. Moreover, most of the research works employ aggregate ESG scores, which tends to blur the individual impacts of the different aspects of environment, social, or governance.

This paper fills these gaps by giving answers to the question of how the personal and aggregate ESG performance scores affect short-term firm performance and market value of firms in the Nigerian consumer goods market. This sector is of special interest because it has the highest consumer visibility and complicated supply chains which give a distinct platform of observing effects of ESG. The research hypothesis will be to answer the following: (1) How the performance and market value of individual ESG pillars respond to the scores? 2 How have combined ESG scores impacted the following metrics, and 3 How do these relationships work in the Nigerian new market?

2. Literature Review and Theoretical Framework

The existing past research on ESG-performance relationship also gives inconclusive evidence on the correlation between the two. Indicatively, Aboud and Diab (2018) discovered that disclosures in ESG have a positive impact on the value of firms in emerging economies. In the same manner, the authors of the study by Atan et al. (2018) stated that some ESG aspects have a significant impact on the performance of Malaysian listed firms. Other works including Sadiq et al. (2020) apply emphasis to the fact that ESG indices have the power to alter market valuation basing on the quality of disclosure and the institutional environment.

2.1 Theoretical Framework

This study is anchored in three primary theories: signaling theory, agency theory, and stakeholder theory.

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- Signaling Theory: Formulated by Michael Spence, this theory describes that companies resort to ESG disclosure in order to minimize information asymmetry (asymmetry). Reporting of ESG metrics is a signal to stakeholders of a company of ethical behavior and quality aspects that are invisible, which may lead to increased investor trust and share price growth (Fatemi et al., 2018).
- Agency Theory: The framework presented by Fama and Jensen deals with the issues of conflicts between owners and managers. With transparency, appropriate managerial actions and shareholder interests, effective ESG reporting may also lead to reduced agency costs. Well-developed systems of governance are especially important in enhancing monitoring systems and minimizing the opportunism of managers (Velte, 2019).
- Stakeholder Theory: This theory, further developed by R. Edward Freeman, assumes that the firms have to be responsible to a broad variety of stakeholders other than shareholders. The ESG practices reflect how the firm is committed to these groups, which may turn into a better reputation, trust, and financial results in the long term (Eccles et al., 2018).

2.2 ESG in the Nigerian Context

Various frameworks have been developed by the Nigerian government and regulators in order to enhance sustainability. These are the Sustainable Banking Principles published in 2012 by Central Bank of Nigeria and Sustainability Disclosure Guidelines published in 2018 by Nigerian Exchange Group (NGX). Such legislative acts like CAMA 2020, SEC Corporate Governance Guidelines (2020) and so on are quite strict, requiring companies to respond to environmental and social concerns. Regardless of all these attempts, ESG implementation is still not equalized in various sectors (Ofoegbu et al., 2018; KPMG, 2022).

2.3 ESG Impact on Firm Value and Performance

Two landmark meta-analyses reviews that provided a rigorous quantitative evidence that ESG and CSR activities are not just ethical but also financially beneficial are from Friede, Busch and Bassen (2015) and Orlitzky, Schmidt and Rynes (2003). Friede, Busch and Bassen (2015) reviewed over 2,000 empirical studies and the majority of studies found a positive link between ESG and financial performance, while Orlitzky, Schmidt and Rynes (2003) research synthesized 52 studies with a combined sample size of 33,878 observations that demonstrated a robust, statistically significant correlation between corporate social performance (CSP) and corporate financial performance (CFP). Although these studies provide a strong argument for the impact of ESG performance on firms, there are also conflicting empirical evidence on the effect of ESG. According to some studies conducted in Nigeria, ESG reporting is only useful in the case of a good financial performance (Igbinovia and Agbadua, 2023). Some have reported beneficial roles of certain dimensions such as social disclosure whereas the other disclosures such as environmental and governance had no noticeable impact (Bala and Ibrahim, 2022). On the other hand, others found that social sustainability had a detrimental effect on the value of firms in the emerging markets (Emeka-Nwokeji and Osisioma, 2019). These contradictions indicate the importance of sector-specific research that is based on context-specific research.

3. Methodology

3.1 Research Design and Sample

The research design was ex-post facto research design that was based on positivism. The sample included all 21 consumer goods companies that were listed on the NGX as of July 2024. The census method was employed to enhance a broad coverage and avoid sampling bias and maximize the validity of the results in the sector.

3.2 Data Collection

Audited annual reports and sustainability disclosures in the period of 2018-2023 were accessed as sources of secondary data. Nigerian Exchange Group provided market price information. This multi-source approach provided reliability, accuracy, and consistency of the dataset.

3.3 Variables and Analysis

Independent Variables:

Individual Environmental, Social, and Governance (ESG) pillars, such as Energy and Recycling, Labor Practices, Diversity and Equal Opportunity, Training and Community Engagement, Board Diversity, Stakeholder Engagement, and Risk Management are the independent variables. Also, aggregated ESG measures were added and they included Total Environmental Score (TES), Total Social Score (TSS), and Total Governance Score (TGS).

Dependent Variables:

Return on Assets (ROA) was used as a measure of firm performance, which is defined as net income/total assets. The market value was determined with respect to the change in market price of the shares of a firm as a percentage change during the period of study.

Analytical Methods:

The research was carried out using descriptive statistics and correlation analysis in order to summarize and analyze the relationship among the variables. The analysis was later done by the panel regression to determine how the ESG performance impacts the firm performance and market value.

The empirical models are specified as follows:

Model 1 (Firm Performance):

$$ROA_{it} = \beta_0 + \beta_1 ERS_{it} + \beta_2 LPS_{it} + \beta_3 DES_{it} + \beta_4 TCS_{it} + \beta_5 BDS_{it} + \beta_6 SES_{it} + \beta_7 RMS_{it} + \varepsilon_{it}$$

Model 2 (Market Value):

$$MV_{it} = \beta_0 + \beta_1 TES_{it} + \beta_2 TSS_{it} + \beta_3 TGS_{it} + \varepsilon_{it}$$

Where:

ROA_{it} represents return on assets of firm *i* at time *t*,

MV_{it} represents the market value change of firm *i* at time *t*,

β_0 is the intercept,

β_1 – β_7 represent the coefficients of the ESG variables, and ε_{it} is the error term.

4. Results and Discussion

4.1 Descriptive Statistics

Table 1 summarizes the descriptive statistics for the ESG disclosure variables and firm revenue.

Table 1: Descriptive Statistics of ESG Disclosure Metrics and Revenue

Variable	Mean	Std. Dev.	Min	Max	Skewness
Energy and Recycling Score (ERS)	0.78	2.27	0.00	8.00	2.79
Labor Practices Score (LPS)	6.08	2.07	5.00	10.00	1.40
Diversity & Equal Opportunity (DES)	5.12	0.77	5.00	10.00	6.32
Training & Community Engagement (TCS)	6.88	2.17	5.00	10.00	0.52
Board Diversity Score (BDS)	6.71	2.45	2.00	10.00	0.56
Stakeholder Engagement Score (SES)	9.58	1.40	5.00	10.00	-3.05
Risk Management Score (RMS)	6.69	2.38	5.00	10.00	0.70
Total Environmental Score (TES)	1.45	4.24	0.00	15.00	2.84
Total Social Score (TSS)	25.00	4.35	20.00	35.00	0.23
Total Governance Score (TGS)	22.98	3.30	15.00	45.00	-1.14
Total ESG Score (TS)	56.96	9.87	45.00	85.00	0.52
Revenue (NGN Billions)	90.10	121.00	0.00	729.00	2.57
<i>Source: Author's Computation (2024)</i>					

The results show that the environmental disclosure levels are rather low (TES mean = 1.45), whereas the stakeholder engagement and governance are rather high. The fluctuation in revenue is an indicator of the varying size of the firms in the industry.

4.2 Regression Analysis: Individual ESG Pillars

The impact of individual ESG pillars on market value and firm performance was assessed using panel regression analysis.

Table 2: Regression Results for Individual ESG Pillars and Market Value

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	10.1237	9.076	1.115	0.269
Energy & Recycling	1.4376	1.697	0.847	0.400
Labor Practices	-1.0138	1.095	-0.926	0.358
Training and Community Engagement (TCS)	0.0938	2.101	0.045	0.965
Diversity & Equal Opportunity	0.4171	1.981	0.211	0.834
Community Engagement	-2.1537	0.789	-2.729	0.008**
Board Diversity	1.6107	1.328	1.213	0.230
Stakeholder Engagement	-0.2739	3.203	-0.086	0.932
Risk Management	0.1084	0.748	0.145	0.885
<i>Observations: 126</i> <i>R-squared: 0.161</i> <i>Adjusted R-squared: 0.053</i> <i>Prob(F-statistic): 0.179</i> <i>Note: * p < 0.05, ** p < 0.01</i> <i>Source: Author's Computation (2024)</i>				

Community Engagement has a strong negative significance on market value as indicated in Table 2 ($p < 0.01$). This implies that investors can view a large-scale participation of the community as a waste of resources and not an addition of value in the short-run.

Table 3: Regression Results for Individual ESG Pillars and Return on Assets (ROA)

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	0.0302	0.076	0.396	0.693
Energy & Recycling	-0.0132	0.014	-0.926	0.358
Labor Practices	-0.0026	0.009	-0.283	0.778
Training and Community Engagement (TCS)	-0.0038	0.018	-0.216	0.830
Diversity & Equal Opportunity	-0.0514	0.017	-3.086	0.003**
Community Engagement	0.0087	0.007	1.307	0.196
Board Diversity	0.0009	0.011	0.083	0.934
Stakeholder Engagement	0.0098	0.027	0.363	0.718
Risk Management	-0.0015	0.006	-0.243	0.809
<i>R-squared: 0.329; Adj. R-squared: 0.243; Prob (F-statistic): 0.001</i>				

Table 3 shows that Diversity and Equal Opportunity initiatives have a high negative correlation with ROA ($p < 0.01$). This implies that the short-term expenses that will be incurred in the execution of these initiatives will tend to reduce profitability in the short run.

4.3 Regression Analysis: Aggregated ESG Scores

The study further analyzed the impact of aggregated environmental, social, and governance scores.

Table 4: Regression Results for Aggregated ESG Scores and Market Value

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	0.8208	4.850	0.169	0.866
Total Environmental Score	0.2629	0.421	0.625	0.534
Total Social Score	-1.0344	0.396	-2.614	0.011*
Total Governance Score	1.0699	0.512	2.08	0.041
<i>R-squared: 0.094; Adj. R-squared: 0.054; Prob (F-statistic): 0.0825</i>				

Observations: 126

R-squared: 0.094

Adjusted R-squared: 0.054

Prob (F-statistic): 0.0825

Note: * $p < 0.05$, ** $p < 0.01$

Source: Author’s Computation (2024)

The market value was negatively affected significantly by the aggregate Social Score ($p = 0.011$). Conversely, the short-term impact of the Environmental and Governance scores on the market valuation or ROA were not statistically significant.

4.4 Discussion of Findings

The findings show that certain ESG dimensions have an unpredictable sensitive nature on the market of Nigerian consumer goods firms and financial performance. The adverse effect of the social and diversity programs implies that the ESG-related programs can be viewed as the compliance costs instead of strategic investments in the Nigerian environment. This observation is consistent with Emeka-Nwokeji and Osisioma (2019), who note that social sustainability disclosures can have the initial effect of decreasing the value of the firm in emerging markets because of the close financial cost of execution.

The lack of significance of the governance scores in determining the ROA and market value, although the market value is positively correlated with the strong governance scores, indicate that the market appreciates good governance, but it might not be the main cause of short-term changes in prices and profitability in this industry. The smallest statistical effect was on environmental activities, which may be due to the low rate of disclosure of the environment among companies, as well as to the low timing of financial payback of environmental investment.

5. Conclusion and Recommendations

5.1 Conclusion

This paper examined the short-term implications of ESG performance on a firm performance and market value of firms within the consumer goods industry in Nigeria. The findings reveal a

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multidimensional and a complex relationship. Although certain social and diversity programs are associated with a huge negative effect on short-term financial outcomes, governance practices exhibit an immature positive correlation with market value. These results imply that the Nigerian market is now more focused on the cost of implementation than the long-term value that may be generated by social activities.

5.2 Recommendations

Based on the findings, the study recommends:

1. Strategic ESG Management: Corporate managers must make sure that both environmental and social initiatives are well planned and in line with the expectation of their investors to reduce perceived short-term costs.
2. Focus on Governance: Enhancing the governance structures should be the priority of the firms, since it is the one that is positively perceived by the market and also increases transparency in the operations.
3. Enhanced Disclosure Quality: The regulatory authorities must promote better quality disclosure especially in the environmental pillar in order to enable investors to more accurately evaluate the long-term worth of the sustainability practices.
4. Stakeholder Education: The gap between the perceived costs and sustainable value needs to be bridged by creating more awareness of investors about the long-term benefits of social and environmental responsibility.

5.3 Research Gaps

Although the topic of Environmental, Social, and Governance (ESG) practices has been increasingly discussed in the emerging markets, no solid empirical data on the financial impact of it is available in Nigeria, and it is mainly inconclusive. The long-term financial impacts of ESG adoption have not been investigated and most of the available research concentrates on aggregate ESG ratings or short term performance. Subsequent studies should thus utilize longitudinal data in order to evaluate whether ESG initiatives produce sustainable financial returns in the long run. Furthermore, the comparative analysis of various industries of the Nigerian economy would help to better understand the role of industry peculiarities on the correlation between ESG performance and firm value.

Declarations

Conflict of Interest

The authors report that they do not have any conflicts of interest or personal relationships that might have affected the nature of the work reported in this paper.

Data Availability

The findings of the given study are backed by the aforementioned data that the corresponding author can provide under reasonable conditions. The information was obtained based on publicly available audited annual report of the listed companies.

Ethics Statement

No ethical approval was necessary in this study since it utilized only publicly available secondary data; the audited corporate reports.

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