

AN EVALUATION OF CHANNEL-STUFFING PRACTICES IN NIGERIA: A CROSS-SECTORAL APPROACH

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Abstract

This study evaluated channel stuffing practice, an under-investigated instrument of earnings management, in Nigeria using a cross-sectoral approach, arising from scanty evidence in cognate empirical literature. Secondary data were collected from Refinitiv Eikon database for one hundred and sixty (169) listed firms in Nigeria. The data collected covered years 2012 to 2022. Census sampling method was selected as the entire listed firms in Nigeria were examined. Financial services firms and firms with no dataset were removed, resulting in eighty (80) firms across ten (10) sectors with data available for meaningful analysis. The variable of interest to this study is channel-stuffing, measured using the ratio of receivable-to-revenue. The data collected were analysed using descriptive statistics of mean, standard deviation, skewness, kurtosis and analysis of variance. Findings revealed that receivable-to-revenue ratio is significantly different amongst firms and across different sectors in Nigeria (F -statistics = 2.870, p -value < .05). Based on this evidence, the study concluded that channel-stuffing appears prevalent amongst listed firms in Nigeria and across different sectors, and this practice is significantly different amongst the sectors in Nigeria. To stem channel-stuffing practices, the study recommended that regulatory authorities should step up their oversight responsibilities by subjecting the financials of the firms across these sectors to deeper scrutiny to uncover channel stuffing and impose deterrent fines to discourage these practices.

Keywords: Channel-stuffing, Earnings management, Nigeria, Receivable-Revenue Ratio Sectoral Approach.

JEL Codes: M41, G20, G30

Introduction

The desire to achieve targeted earnings compels managers at different levels to exert pressure on accountants, auditors, and others in order to hide the true financial state of the organization. This unethical conduct termed “earning management” has caused significant harm to companies worldwide (Olabisi et al., 2022). Earnings management entails deviating from standard business practices to deceive stakeholders into believing that specific financial reporting goals have been met through regular operations. This conduct is often driven by managerial motives and can involve companies manipulating their earnings by offering more favorable sales terms than usual to increase current period sales, even if it has a negative impact on cash flow from operations. As a result, a potential sign of genuine earnings management in corporations is a reduction in cash flow

from their primary activities (Shuaibu, Garba, & Bello, 2023).

Earnings manipulation is deeply ingrained in the cultures of many companies because it enables executives to make specific accounting choices that result in consistent profit reporting. Managers are entrusted with the responsibility of upholding their fiduciary duties and delivering advantages to all stakeholders (Ishaku, Shuaibu, Muhammad, & Muktar, 2023). Consequently, the separation of ownership and control (leading to agency conflicts) in today's dynamic business world has necessitated the establishment of corporate governance systems. These systems monitor and supervise management to mitigate agency conflicts and align managerial interests with those of shareholders (Lin & Hwang, 2010; Ishaku, et al, 2023;).

Earnings management borders on fraud. Fraud involves gaining an unfair

advantage over another person and can be categorized as corruption, misappropriation of assets, or manipulation of financial statements (ACFE, 2018). Specifically, financial statement fraud is the deliberate or reckless behavior, through action or inaction, that leads to misleading financial statements to influence stock performance (ACFE, 2018). Common financial statement fraud tactics, like “side agreements” and “channel stuffing,” can result in overstated revenue or understated expenses (Arens, Randal, Mark, & Chris, 2017). As Chiu, Wang, and Vasarhelyi (2020) pointed out, side agreement fraud involves altering sales terms outside the recognized process, potentially affecting revenue recognition.

Channel stuffing, on the other hand, is a deceptive practice where a company artificially boosts sales and earnings by sending more products to retailers than they can sell to the public. The relationship between these concepts that channel stuffing is a tactic used within earnings management. Channel stuffing can be a way to manipulate reported revenues, and it’s typically a short-term strategy that can have negative long-term consequences, such as inventory problems, reduced future sales, and damaged relationships with distributors or retailers. Both earnings management and channel stuffing raise ethical concerns, as they can mislead stakeholders and lead to financial misrepresentation.

Channel stuffing can be a way to manipulate reported revenues, and it is typically a short-term strategy that can have negative long-term consequences, such as inventory problems, reduced future sales, and damaged relationships with distributors or retailers. Channel stuffing involves sending more products through the distribution channel to distributors and retailers than what end-users are expected to purchase within a reasonable timeframe (Das, Shroff, & Zhang, 2011).

Over the last two decades, many companies have been accused of practicing

“channel stuffing,” a tactic that speeds up revenue recognition and temporarily boosts their financial performance. For instance, Xerox is reported to have employed channel stuffing in the late 1990s, leading to overstated revenue and eventual restatements (FasterCapital, 2023). Similarly, in a research report by Reuters (2019), Treasury Wine Estates, an Australian winemaker was alleged to have improperly inflated its pretax profits by as much as 50% over the past two years, or by about A\$300 million (\$203 million) cumulatively through the use of Channel-stuffing, a black-box tactic used by firms where they box up more products for retailers to sell than they are able to, and accordingly boost receivables, sales and earnings. Indeed, the practice is becoming increasingly prevailing.

To achieve this, companies typically offer enticing incentives such as significant discounts, rebates, and extended payment terms to persuade distributors and retailers to buy more than they actually need. Sometimes, companies resort to discounts or special offers towards the end of a quarter to increase sales beyond normal levels. However, channel stuffing is not a sustainable solution because often, the surplus products are returned by buyers. Still, if these products are shipped and recorded as revenue at the end of a financial period, it makes that period’s financial performance appear more favorable (Sawayda, 2015). The question then is: do Nigerian firms also indulge in this practice and across different sectors to boost their financial performances? These questions compel empirical answers in the light of dearth of existing evidence.

Several existing studies (such as Shuaibu *et al.*, (2023), Ishaku, *et al.*, (2023), Olabisi, *et al.*, (2022), Agbaje & Igbekoyi, (2021) and Das, Shroff & Zhang (2011)) have been carried out. However, a preponderance of these studies focused on earnings management and some of the

variables which influence the variable. For instance, Ishaku, et al, (2023) examined the effect of corporate governance (CG) on the manipulation of earnings by non-financial companies listed on the Nigerian stock exchange. On their part, Olabisi, *et al*, (2022) evaluated how the characteristics of audit committees influence earnings management in Nigerian consumer goods companies. Agbaje and Igbekoyi, (2021) investigated the practice of smoothing earnings and its impact on shareholders' wealth in Nigerian listed manufacturing firms from 2008 to 2018. It therefore becomes compelling to submit that very few existing studies have investigated channel-stuffing as an earnings management tool and the extent to which the practices differ amongst Nigerian listed firm, thereby creating a gap in literature. It is the need to fill this gap that motivated this study and in respect of which answer is sought to the question below:

Research Objective

The primary objective of this study is to evaluate channel-stuffing as an earnings management practice in Nigeria. Specific objective is to:

- i. Examine whether receivable-to-revenue ratio is significantly different amongst firms and across different sectors in Nigeria.

Research Question

The pertinent question to which answer is sought by this study is as follows:

Is receivable-to-revenue ratio significantly different amongst firms and across different sectors in Nigeria?

Research Hypothesis

The hypothesis below is formulated and tested:

- i. **H₀**: Receivable-to-revenue ratio is not significantly different amongst firms and across different sectors in Nigeria.

Literature Review

Earnings Management

Earnings play a crucial role for organizations since they impact investor choices. Consequently, companies often engage in unhealthy financial practices that affect their financial outcomes (Alao & Olatifede, 2021; Norwani, Mohamad & Chek, 2011). According to Rahman, Muniruzzaman, and Sharif (2013), earnings management involves intentionally adjusting accounting earnings through the choice of accounting methods, which can include recognizing fictitious expenses, understating revenue, or overstating business expenses. Carikci and Sami (2019) propose that earnings management occurs when firms deviate from their normal operating activities to achieve specific earnings targets. Shehu and Garba (2014) view earnings management as a deliberate action by management to manipulate reported earnings in a particular direction, often achieved by altering the timing or structure of operations, investments, or financing, which can lead to suboptimal business consequences.

Sabrun, Darus, Yusoff, and Muhamad (2015) defined earnings management as a deliberate intervention in the external reporting process aimed at securing personal benefits. Consequently, managers may resort to income-boosting earnings management, a possibility attributed to the flexibility in accounting standards. Beyond potential rewards, this practice may also help them shield their positions from both legal scrutiny and the scrutiny of business owners, who often lack a comprehensive understanding of their company's financial status. In line with this, earnings management entails the exercise of managerial discretion in financial reporting to manipulate transactions and alter financial statements, all with the objective of deceiving specific stakeholders about the company's financial performance, as per Yao (2022).

Yao, (2022), reports underscores that firms have multiple methods for artificially boosting their profits. For instance, they can employ accounting discretion to generate income, resulting in increased discretionary accruals, a practice also referred to as accrual manipulation. This tactic involves adjusting transactions in alignment with accounting principles, standards, and regulations. These activities are typified by changes in accounting methods that don't directly impact cash flow. Examples of discretionary accruals include reversing accruals or delaying the recording of assets written off. Additionally, companies can implement tangible economic actions, like reducing discretionary expenses in areas such as research and development, advertising, and maintenance, in order to enhance their earnings, a practice known as real earnings management, as mentioned by Olagunju *et al.*, (2023).

Gunny (2009) explains that real earnings management involves managers taking actions that alter the timing or structure of an operation, investment, or financial decision with the intention of influencing the accounting numbers' outcomes. Roychowdhury (2005) defines real earnings management as a departure from standard operational practices driven by a desire to deceive certain stakeholders into thinking that specific financial reporting targets have been achieved as part of normal business operations. Additionally, Gunny (2005) regards real earnings management as actions that deviate from an otherwise optimal plan solely to manipulate earnings, thereby imposing a genuine cost on the firm. While the concept of earnings management encompasses various terms, it can refer to practices such as creative accounting, financial engineering, and accounting magic (Shuaibu, *et al.*, 2023).

Channel Stuffing

Channel stuffing is a term that signals fraudulent financial reporting,

potentially illegal. The gray area arises when buyers are willing to accept products, but excessive returns should raise concerns about breaking the law's spirit (Sawayda, 2015). Channel stuffing is a deceptive business practice where a company artificially inflates its sales or shipments to distributors or retailers near the end of a financial reporting period. The aim is to boost reported sales and present a better financial picture than reality. This can result in issues like excessive inventory, decreased future sales, and damaged relationships with partners. Detecting channel stuffing problems is challenging, suggesting it may be more widespread than believed (Das, *et al.*, 2011).

Regulatory bodies and accounting standards stress transparency in revenue recognition to prevent and uncover channel stuffing. Ethical financial reporting is crucial for a company's reputation and trustworthiness. The Financial Accounting Standards Board (FASB) asserts that revenue should only be recognized when a performance obligation is met. While some may argue that excess shipments fulfill this obligation, if the buyer didn't agree to the extra products, it's a manipulative tactic that doesn't meet the obligation (Sawayda, 2015). Even so, companies can modify channel stuffing to make it appear less manipulative and more like a legitimate transaction.

Theoretical Review

Agency theory

This study is grounded in the Agency theory, initially formulated by Jensen and Meckling in 1976. The theory underscores the importance of separating ownership from control within companies. It explains the relationships between managers, shareholders, and significant debt providers, highlighting their critical role in the firm's existence and effective performance (Nangih, Saale, & Peters, 2022). Positive accounting theory leverages the concept of agency relationships to elucidate

connections between firms and stakeholders. For instance, in the manager-shareholder relationship, shareholders are seen as principals, while managers act as agents, working to maximize wealth on behalf of shareholders. The agency relationship hypothesis is applied to address specific financial issues within corporations, particularly those related to conflicts of interest and methods to mitigate incentive challenges (Sletten, Ertimur, Sunder, & Weber, 2018; Kumari & Pattanayak, 2015).

In this scenario, where business owners and day-to-day operators are distinct, executive officers face pressure to deliver impressive results to satisfy the real owners, the shareholders, and other stakeholders (Jensen & Meckling, 1979). Agency theory is deemed relevant for mitigating conflicts that arise because absentee owners lack access to all business information when managers make decisions. This is due to their inability to assess and verify whether a manager's actions align with the firm's best interests. Xie, Davidson, and DaDalt (2003) also contend that conflicts of interest between absentee shareholders and their agents have adverse implications for users of accounting information, particularly regarding signaling effects. Therefore, the imperative of reducing conflicts of interest between owners and managers to achieve optimal outcomes should not be underestimated (Ishaku, *et al*, 2023).

Empirical Review

Ishaku, *et al*, (2023) examined the impact of Corporate Governance (CG) on the manipulation of earnings by non-financial companies listed on The Nigerian stock exchange was investigated. The study employed a retrospective research approach and utilized secondary data extracted from the financial statements and accounts of non-financial companies over an eight-year period (2013-2020). The secondary data was analyzed using the Arellano-Bover/Blundell-Bond Estimation method. The findings indicated that both board size

and the frequency of board meetings negatively influenced current discretionary accruals, with a significant effect. However, board independence did not have a significant impact on current discretionary accruals. The study's conclusion emphasized the importance of good corporate governance for enhancing shareholder wealth in listed non-financial companies in Nigeria.

Shuaibu *et al.*, (2023) examined the influence of board characteristics on earnings management in Nigerian consumer goods companies listed on the stock exchange. The study used board size, board meetings attendance, board financial expertise, and board gender diversity as indicators for board characteristics. Earnings management was quantified using the Srivastava 2019 Cohort Adjusted measure of real earnings management, with firm size, firm growth, and firm age as control variables. Secondary data from the annual reports of 16 listed consumer goods companies on the Nigerian Stock Exchange from 2011 to 2021 were collected. The study's findings, based on OLS regression and robustness tests, reveal that board size and board financial expertise have a negative and significant impact on earnings management, while board meetings attendance has a positive and significant impact. However, no significant relationship was observed between board meetings and board gender diversity and earnings management.

Olabisi, *et al*, (2022) research aimed to evaluate how the characteristics of audit committees influence earnings management in Nigerian consumer goods companies that are publicly listed. The research employed a correlational research design, using secondary data obtained from the financial statements of a selected group of 10 companies spanning from 2010 to 2019. These companies were chosen from the pool of 21 listed consumer goods firms in Nigeria as of 2019, employing a judgmental

sampling method based on data availability. The analysis involved correlation analysis, unit-root tests, and Ordinary Least Squares (Fixed effects) regression, utilizing E-Views Software version 10. The findings indicated a significant and negative association between Audit Committee Meetings, Audit Committee Size, Leverage, and earnings management (with a p-value < 0.05). However, Audit Committee Financial Expertise and Audit Committee Independence exhibited a positive but statistically insignificant relationship with earnings management (p-value > 0.05). In conclusion, the study suggested that companies with robust audit committees tend to engage in less aggressive earnings management practices.

Agbaje and Igbekoyi, (2021) research investigated the practice of smoothing earnings and its impact on shareholders' wealth in Nigerian listed manufacturing firms from 2008 to 2018. They employed an ex-post facto research design, selecting 21 out of 67 listed manufacturing firms on the Nigerian Stock Exchange. Their analysis utilized both descriptive and inferential statistics. The findings indicated a positive and significant relationship between the Asset Quality Index (AQI) and shareholders' wealth, with a coefficient of 0.857 and a p-value of 0.008 at a 5% significance level. Conversely, there was a negative effect of the Depreciation Index (DEPI) on shareholders' wealth, with a coefficient of -0.270 and a p-value of 0.015. The study's conclusion emphasized the need to address earnings management practices in the Nigerian Manufacturing industry to enhance its effectiveness and ensure proper management of earnings smoothing indexes.

In 2011, Das, Shroff, and Zhang developed a model based on firms that engaged in channel stuffing. This model predicts the likelihood of channel stuffing

across a wide range of companies. Channel stuffing involves manipulating real activities to achieve short-term revenue and earnings goals. Detecting channel stuffing is challenging, so they used a bivariate probit model to estimate its occurrence and detection probability simultaneously. Their findings revealed that smaller firms with high growth prospects, greater profit margins, and limited accrual management tend to engage in channel stuffing. However, factors like firm size, institutional ownership, having a Big-4 auditor, and stricter accounting regulations increase the chance of detection, reducing the likelihood of channel stuffing. Their analysis also showed that firms involved in channel stuffing experience declining sales, production, and profitability in the long run, indicating short-term gains with long-term consequences. They concluded that the bivariate probit model is more effective than the simple probit model and can predict firms with a high likelihood of channel stuffing and their subsequent performance reversals. This underscores the importance of considering detection probability in studies related to hard-to-detect accounting irregularities.

Research methods

This study employed *ex post facto* research design. Secondary data were collected from *Refinitiv Eikon* database for one hundred and sixty (169) listed firms in Nigeria, being the population of the study. To allow for uniformity of data in terms of reporting framework, the data collected covered years 2012 to 2022. Census sampling method was selected as the entire listed firms in Nigeria were examined. Financial services firms and firms with no dataset were removed, resulting in eighty (80) firms across ten (10) sectors with data available for meaningful analysis. The distribution of the number of firms, together with their sectors is presented in table 1:

Table 1: Sectoral distribution of sampled firms

Sectors	Number of Firms	Number of firms with usable dataset
Agriculture	5	2
Conglomerates	6	4
Construction/Real Estate	9	3
Consumer Goods	21	20
Healthcare	8	5
ICT	8	6
Industrial Goods	13	10
Natural Resources	4	4
Oil & Gas	9	8
Services	22	18
Total	105	80

(Source: NGX & Refinitiv Eikon, 2023)

The variable of interest to this study is channel-stuffing. It is measured as the ratio of receivable-to-revenue. The measures of Kuo, Yu and Chang (2022) were adapted for simplification and robustness. The data collected were analysed using descriptive statistics of mean, standard deviation, skewness, kurtosis and analysis of variance.

Results and Discussion

This section provides results of descriptive statistics on the channel-stuffing practices, the variable of interest to this study. Table 2 presents results on sectoral descriptive statistics on Receivable-Revenue Ratio in Nigeria. From the results, seven (7) sectors have higher standard deviations relative to their means. These sectors are: Agriculture, Consumer Goods, ICT, Industrial Goods, Natural Resources, Oil & Gas and Services. This implies that there is

high variability in Receivable-Revenue Ratio amongst firms in these sectors. However, three (3) sectors (Conglomerates, Construction/Real Estate and Healthcare) have lower standard deviations in relation to their averages. This implication is that variability of Receivable-Revenue Ratio in moderate amongst firms in these sectors.

Besides, the average receivable of ICT firms in Nigeria is 4.37 times that of revenue, the highest amongst all the sectors, while the receivables of Industrial Goods firms in Nigeria is .12 times that of revenue, the lowest amongst the ten (10) sampled sectors. The results also showed that two (2) sectors have their average receivables higher than their average revenues. What these results suggest is that channel-stuffing practices appeared to be more prevalent amongst firms in the ICT and Construction/Real Estate sectors.

Table 2: Sectoral Descriptive Statistics on Receivable-to-Revenue Ratio

Sector	N	Mean	Std. Deviation	Std. Error
Agriculture	24	.2604	.3659	.0747
Conglomerates	48	.5357	.4089	.0590
Construction/Real Estate	27	1.0043	.8729	.1680

Consumer Goods	226	.2638	1.3897	.0924
Healthcare	60	.3027	.1871	.0242
ICT	66	4.3693	22.8404	2.8115
Industrial Goods	111	.1206	.1536	.0146
Natural Resources	45	.3067	.9270	.1382
Oil & Gas	93	.6133	1.8760	.1945
Services	200	.4089	.4828	.0341

(Source: Researcher’s Computation, 2023)

Table 3 presents results of percentage change in Receivable-to-Revenue Ratio between years 2012 and 2022. From the table, four (4) sectors of Agriculture, Healthcare, Industrial Goods, Industrial Goods recorded decline in receivable-to-ratio between 2012 and 2022, while six (6) sectors posted growth in receivable-to-ratio between 2012 and 2022. These sectors are: Conglomerates, Construction/Real Estate, Consumer Goods,

ICT, Oil & Gas, Services. It is of note that ICT sector has the highest percentage change in the variable, while Natural Resources experienced the lowest percentage change in the variable. The deduction from these results is that, generally, there is an increasing trend in the receivable-to-revenue ratio, an indication of more indulgence in channel-stuffing practices. This position is supported by figure 1.

Table 3: Percentage change in Receivable-to-Revenue Ratio between years 2012 &2022)

Sectors	31-Dec-22	31-Dec-12
Agriculture	0.2892	0.3581
Conglomerates	0.4753	0.3778
Construction/Real Estate	0.9478	0.3268
Consumer Goods	1.0615	0.0932
Healthcare	0.1935	0.3759
ICT	30.6734	0.6750
Industrial Goods	0.0895	0.1320
Natural Resources	0.0613	0.2361
Oil & Gas	0.5544	0.1566
Services	0.3893	0.2629

(Source: Researcher’s Computation, 2023)

Figure 1 shows a chart illustrating the trend in average receivable-to-revenue ratio between years 2012 and 2022. The charts shows that the average receivable-to-revenue ratio was slightly stable between years 2012 to 2018, only to experience a

small spike in the year 2019, then decline in the year 2020, perhaps due to the Covid-19 pandemic, only for the chart to further significantly spike again between the year 2021 and 2022.

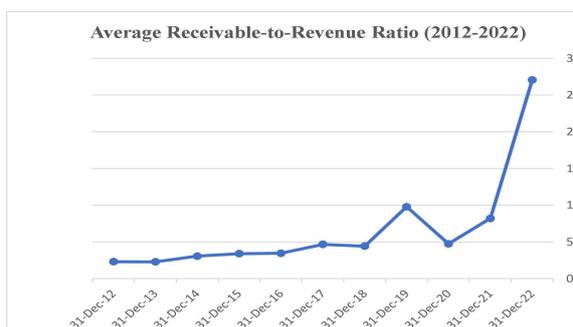


Figure 1: A chart illustrating the trend in receivable-to-revenue ratio (2012-2022)
(Source: Authors' Chart)

Test of Hypothesis:

The hypothesis below is formulated and tested:

- i. **H₀:** Receivable-to-revenue ratio is not significantly different amongst firms and across different sectors in Nigeria.

Table 4 presents result of test of hypothesis conducted using statistical device of Analysis of Variance. From the table, that part of the total variability in the ratio of receivable to revenue which can be

accounted for differences in group mean is 1009.701, while the part of the total variability in the ratio of receivable-to-revenue caused by error is 34,787.42. The *F*-statistic of 2.870 is statistically significant at 1%, 5% and 10% levels. These results suggest that the study cannot accept the null hypothesis that Receivable-to-revenue ratio is not significantly different amongst firms and across different sectors in Nigeria (*F*-statistic = 2.870, *p*-value < .01, .05 & .10).

Table 4: Result of test of hypothesis using Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1009.701	9	112.189		
Within Groups	34787.419	890	39.087	2.870***	.002
Total	35797.121	899			

(Source: Researcher's Computation, 2023)

Note: The values in the parenthesis (.) are the t-statistics and p-values underneath the respective coefficients and test statistics. The asterisks ***, ** & * denote, respectively, the statistical significance at the conventional 1%, 5% and 10% levels of significance.

Table 5 presents result of LSD Post-Hoc Multiple Comparison for each pair of sectors in relation to the variable under investigation. The table provides evidence that receivable-to-revenue ratio is statistically and significantly different between firms in ICT sector, on the one hand, and firms in other sectors, on the other hand. However, further results

revealed that receivable-to-revenue ratio is statistically and significantly not different between each pair of other sectors, excluding ICT sector. The implication of this result is that channel-stuffing practices amongst firms in the ICT sector, when compared with firms in the others sectors, are significantly different.

Table 5: LSD Post-Hoc Multiple Comparison

Sector (I)	Sector (J)	Mean Difference (I-J)	Std Error	Sig.
ICT	Agriculture	4.11**	1.4903	.006
	Conglomerates	3.83***	1.1860	.001
	Construction/Real Estate	3.37**	1.4282	.019
	Consumer Goods	4.11***	0.8747	.000
	Healthcare	4.07***	1.1152	.000
	Industrial Goods	4.25***	0.9718	.000

Natural Resources	4.06***	1.2086	.001
Oil & Gas	3.76***	1.0062	.000
Services	3.96***	0.8875	.000

(Source: Researcher's Computation, 2023)

Note: The values in the parenthesis (.) are the t-statistics and p-values underneath the respective coefficients and test statistics. The asterisks ***, ** & * denote, respectively, the statistical significance at the conventional 1%, 5% and 10% levels of significance

Discussion of Findings

From the above analyses, this study provides evidence that receivable-to-revenue ratio is significantly different amongst firms and across different sectors in Nigeria. There is further evidence that receivable-to-revenue ratio is statistically and significantly different between firms in ICT sector, on the one hand, and firms in other sectors, on the other hand. Generally, there is an increasing trend in the receivable-to-revenue ratio, an indication of more indulgence in channel-stuffing practices. These findings reinforce the results from the studies of Das, Shroff, and Zhang (2011), Ishaku, et al, (2023), Shuaibu et al., (2023), Shuaibu et al., (2023), Olabisi, et al, (2022), Agbaje and Igbekoyi, (2021). For instance, the study of Agbaje and Igbekoyi, (2021) emphasized the need to address earnings management practices in the Nigerian Manufacturing industry to enhance its effectiveness and ensure proper management of earnings smoothing indexes.

Conclusion and Recommendations

This study evaluated channel stuffing practice, a tactic of earnings management, in Nigeria using a cross-sectoral approach. Secondary data were collected from *Refinitiv Eikon* database for one hundred and sixty (169) listed firms in Nigeria. The data collected covered years 2012 to 2022. Census sampling method was selected as the entire listed firms in Nigeria were examined. Financial services firms and firms with no dataset were removed, resulting in eighty (80) firms across ten (10) sectors with data available for meaningful analysis. The variable of interest to this study is channel-stuffing, measured using

the ratio of receivable-to-revenue. The data collected were analysed using descriptive statistics of mean, standard deviation, skewness, kurtosis and analysis of variance. Findings revealed that receivable-to-revenue ratio is significantly different amongst firms and across different sectors in Nigeria. Based on this evidence, the study concluded that channel-stuffing appears prevalent amongst listed firms in Nigeria and across different sectors, and this practice is significantly different amongst the sectors in Nigeria.

Based on the findings, this study offers the following recommendations:

- i. To stem channel-stuffing practices, the regulatory authorities should step-up their oversight responsibilities by subjecting the financials of the firms across these sectors to deeper scrutiny to uncover these practices, impose heavy deterrent fines to discourage these practices.
- ii. The Financial Reporting Council, the apex regulatory body with oversight for scrutinizing and approving financial statements in Nigeria, should beam special investigative searchlight on firms in the ICT sector to unravel their sales and credit policies which appear to make their channel-stuffing practices to be at odds with firms in other sectors and taking measures to discourage this practice.
- iii. The accounting standard, practices and guidelines that inadvertently encourage this practice should be reviewed and revised.
- iv. The management and those charged with governance, especially the audit committees of the boards of these firms to be more alive to their responsibilities of ensuring their firms published financial statements devoid substantially of vestiges

of earnings management, such as channel-stuffing.

Policy Implication of findings

The result of this study showed that receivable-to-revenue ratio is significantly different amongst firms and across different sectors in Nigeria. This finding implies that channel-stuffing practice appears prevalent amongst listed firms in Nigeria and across different sectors, and this practice is significantly different amongst the sectors in Nigeria. The policy implication of this finding is that regulatory bodies (such as Financial Reporting Council of Nigeria) and other independent bodies such as external auditors are perhaps not carrying out adequate oversight functions geared at robustly and sufficiently scrutinizing and approving financial statements of listed firms in Nigeria. Another policy implications of the findings of this study is that the sales and credit policies appear to be at odds with firms in other sectors.

Contribution to knowledge

This study has extended the literature on channel stuffing and by extension, earnings management, by providing evidence that receivable-to-revenue ratio is significantly different amongst firms and across different sectors in Nigeria. The study provided further evidence that receivable-to-revenue ratio is statistically and significantly different between firms in ICT sector, on the one hand, and firms in other sectors, on the other hand and that, generally, there is an increasing trend in the receivable-to-revenue ratio, an indication of more indulgence in channel-stuffing practices.

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TAX HARMONIZATION AND BUSINESS COMPETITIVENESS IN NIGERIA

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Abstract

The need for tax harmonization stems from the existence of multiple, cumbersome, conflicting and competing tax regimes that have become a bane to business growth. The issue of multiple taxation has negatively affected many business operations resulting into business collapse, depleting capital base of listed firms, and depleting returns on investment. The study adopts a conceptual approach in analyzing the link between tax harmonization and business competitiveness in Nigeria. The study opined that the incidence of multiple taxation brings about hostile business environment for many businesses in thereby reducing their global competitiveness. The study further opined that harmonization of tax base, stimulates revenue mobilization, creation of a better business and investment climate in a country and mitigates or eliminates adverse tax competition. The study concludes that harmonization of tax promotes business competitiveness as oppose to tax competition or conflict that negatively affects business, trade and investment. In the light of the foregoing, the study suggests institutional and tax institutional reforms to harmonize and coordinate tax in order to create a conducive business environment that will stimulate business, trade and investment in Nigeria.

Keywords: *Tax harmonization, Multiplicity of tax regimes, Business competitiveness and Institutional reforms.*

Introduction

The business environment and by extension, its competitiveness is influenced by many factors, for which tax is a critical variable. Although tax policies do not represent the most important variables that influence business competitiveness, they play major impact on private investment decisions and initiative on account of their influence on the cost of capital and on the expected profitability (Ozekhome, 2022). Tax, itself, is a compulsory levy imposed or charged by tax authorities or government on business and companies profit, dividends, interest, commission, and personal income of individuals. According to Onwe (2006) a good tax system should permit efficient and non-arbitrary administration being understandable to the taxpayers as possessing the qualities of convenience, fairness, minimum distortions, simplicity and minimum cost of collection. The duplication of taxes in both state and local government level under the guise of

maximizing internally generated revenue has a negative effect on business competitiveness.

Tax harmonization is the process of fine-tuning, organizing and or synchronizing tax systems across various jurisdictions to eliminate duplicity/multiplicity, complexity and conflicting and competing tax rules or base. It is the removal of tax distortions in order to encourage business competitiveness (International Monetary Fund (IMF), 2015b). Harmonization of tax refers to an equalization of tax bases and/or tax rates across jurisdictions (states or local in this context) or regional in a bid a bid to improving the ease of doing business, and eventually promoting business. Harmonization of tax is basically predicated on the onus of allocative efficiency by harmonising tax structures and policies. The fundamental objective of tax harmonization is the attainment of tax synchrony so as to stimulate business, trade and investment

(Bénassy-Quéré, 2014; Florin, 2016; Ozekhome, 2022). The need for tax harmonization stems from the existence of multiple, cumbersome, conflicting and competing tax regimes that have become a bane to business growth. The issue of multiple taxation has negatively affected many business operations resulting into business collapse, depleting capital base of listed firms, and depleting returns on investment (Nnadiukwu, 2019).

Harmonization of tax base, for instance, can inspire and instill tax convenience, simplicity and equalization across income and profits, and enhance transparency as well as improved resource allocation. Thus, aside stimulating revenue mobilization, creation of a better business and investment climate in a country, tax harmonization can mitigate or eliminate adverse tax competition (Quak, 2018). Nevertheless, in Nigeria, the harmonization of as it were, is yet to assume a holistic course, arising from institutional and legal constraints (Ozekhome & Oaikhenan, 2019). In the absence of harmonized tax structures/rules/policies, business and trade, as well as investment has been drastically affected by conflicting, competing and duplicating/multiplicity of tax. Apart from having an unfavourable effect on business, trade and investment, it increases business transaction costs, rendering the business environment uncompetitive (Ozekhome, 2022).

The business environment in Nigeria is faced with numerous challenges ranging from high cost of operation/transaction, arising in part, from a very high and duplicative tax regime/environment, limited to low managerial skills, poor/weak infrastructure, poor access to credit and finance, weak technology, government bureaucracy, unfair competition, unfriendly business environment, arising from issues as insecurity, and unfavourable policies, and multiple taxation, amongst others (Ogbaisi & Ukwa, 2024). In Nigeria for instance, the

ease of doing business, which measures the competitiveness of the business and environment, indicating how and the extent to which government policies, regulations and institutions favour such as the rule of law or business in terms of the procedures and processes involved in setting up business in which economies are ranked on their ease of doing business, from 1–190, the Nigerian business environment has been largely unstable.

Using various indicators in the environment in terms of those that are more conducive to the starting and operation of a business, Nigeria ranked 169 out of 189 economies in the World Bank's ease of doing business report in 2015, improved its ranking to 131 out of 190 economies, with a score of 56.9 out of 100 in 2020, with a slight improvement to a rank of 129 out of 190 countries in 2023 (World Bank, 2023). Given these performances and the place of tax in this discourse analysis, particularly with respect to multiple, conflicting and distortionary effect of tax, the need for the harmonization of tax has become imperative. Harmonization of tax, in this direction seeks to converge or synchronize tax across rule and bases in order to remove conflict, multiplicity and hazardous competition, thereby improving business competitiveness in Nigeria.

While some studies (Pitigala & Hoppe, 2011; Ajayi, 2018; Ozekhome, 2022) have examined the link between tax policies and business/foreign private direct investment in Nigeria, no existing study, to the best of the author's knowledge has examined the nexus between tax harmonization and business competitiveness in Nigeria. In addition, none of these studies considered how the changing dynamics in the current times is significantly alternating business environment. The recognition of these gaps is the motivation and value-addition of the current study. Aside the introduction and being a conceptual paper, section 2 discusses the empirical issues

relating to tax harmonization. Section 3 discusses the benefits inherent in tax harmonization. Section 4 considers the prospect of tax harmonization in Nigeria. Section 5 concludes the paper with some policy recommendations.

Literature Review

Conceptual Review

This section review concepts used in the study

Tax Harmonization

Tax harmonization entails the adjusting, organization and bringing together of tax systems across jurisdictions e.g local, state and federal to eliminate issues of duplicity/multiplicity, ambiguity, and conflicts either in the tax base or rules to enhance greater efficiency and outcomes (Ozekhome, 2022). It involves the removal of distortions in the tax system that negatively affects business trade and investment, and in so doing, improving greater ease of doing business and thus, making businesses more competitive at the domestic and international level. Harmonization of tax could involve different elements such as tax rules, tax base, tax rates and administration and enforcement, practices, procedures and processes with end-product of systematically aligning tax for greater efficiency and outcomes, such as revenue generation (Mansour, & Rota-Graziosi, 2013). To this end, it could involve the determination of effective tax rates: the tax base and statutory tax rate as well as the practice of enforcement (Pirvu, 2011; Bénassy-Quéré, 2014).

The harmonization of tax could involve direct tax, which includes individual /corporate income/profit (Osterloh & Heinemann, 2013), tax, mining tax, capital gains tax or indirect tax involving trade duties harmonization, value-added tax harmonization and excise tax harmonization. Such harmonization is generally geared toward promoting business

and trade. In practice, tax harmonization is mainly implemented by countries that are an economic bloc, such as regional market, in a bid to foster greater business and trade ties among member or participant countries to that bloc or region. An example is the tax harmonization initiative by the West African Economic and Monetary Union (WAEMU) in the French-speaking West African countries, the East- African Community, and that of the European Union (EU).

Business Competitiveness

Business competitiveness refers to the ability of business to favourably compete effectively in the market, outperform its rivals, and sustain its market position over time via a competitive edge (Ozekhome & Oaikhenan, 2019). Business competitiveness, thus refers to the capacity of local businesses to compete favourable with international businesses, given the presence of some important fundamentals (Ozekhome, 2021). In general, the competitiveness and favourability of the environment to business is measured by the World Banks, Ease of Doing Business Report of 2020. The ease of doing business measures the competitiveness of the business and trade environment in terms of regulations, and processes, procedures and institutions involved. Economies are ranked on their ease of doing business from 1–190. A high ease of doing business ranking, in the form of better ease of doing business ranking, suggests less business and trade barriers and documentations as regard regulations and the reforms) implies that the environment is highly conducive to the starting and operation of a business, while a low ease of doing business implies complex processes and procedures and unfavourable policies, regulation and institutional requirement's to business operation, The rankings are based on several indicators/variables that influence business competitiveness (Ozekhome & Oaikhenan, 2019; Ozekhome, 2021).

Some of the benefits from business competitiveness include, greater market share, improved profitability, enhanced brand reputation and loyalty, and better customer satisfaction, while some of the challenges include intense/aggressive competition from rivals, rapid technological changes, changing market trends/dynamics and globalization.

Tax Harmonization and Business Competitiveness

The theoretical literature on tax harmonization is hinged on the works of Brennan and Buchanan (1980), Zodrow and Mieszkowski (1986), Edwards and Keen (1996), Osterloh and Heinemann (2013) holds that tax competition is detrimental to business, investment and trade. The proposition goes further to argue that harmonization of tax has the capacity to effectively organize, coordinate and synchronized for better outcomes as opposed to tax conflict or ambiguity or multiplicity for better outcomes (Letet, 2012; 2001; IBFD, 2013; Zodrow, 2003). Accordingly, tax harmonization promotes business, trade and investment, by minimizing tax discrepancies and conflicts, thereby promoting global competitiveness. Essentially, tax harmonization addresses harmful tax competition, minimizing risks, tax evasion as well as the erosion of national tax bases (IMF, 2015b; Diakité et al., 2017).

In the same vein, harmonization of tax encourages tax reform (Nnyanzi et al., 2016). For instance, tax rates equalization enables greater scope of institutional reforms in the tax systems. Harmonization of taxes also promote regional cooperation in business and investment. Basically, the harmonization of taxes are more explicit in their efforts to deal with the challenges of harmful tax competition, tax multiplicity and ambiguity. Tax harmonization seeks to remove unnecessary tax conflict, ambiguity and duplicity/multiplicity, and in so doing synchronizes tax for common national

objective (Nnyanzi, et al, 2016). Following this, the quality of institutions matter to tax harmonization as good institutions provides the legal backing and framework for harmonization policy and binding agreements. Notwithstanding the presumed benefits, tax harmonization, could suppress competition and engender loss of tax independence, especially where it involves member countries in a regional grouping.

2.3. Empirical Review

Banderlipe (2015) examines the prospect of coordinated taxation policy in the Association of Southeast Asian Nations (ASEAN) regime. The study revealed that coordination and harmonization of tax in the sub-region has greater business and trade prospect. International Monetary Fund (2015b) examines the impact of effective and efficient use of tax coordination and incentives for investment in Central American countries. The findings show that the existence of a positive and significant link between tax harmonization and investment. Other studies that found positive links between tax harmonization and business competitiveness/investment are Gastaldi et al (2015), Nnyanzi et al. 2016, Bossuyt (2016), Diakité et al. (2017) and Quak (2018). Hageman and Schmitt (2014), using conceptual approach based on the US finds that in the absence of indirect tax harmonization, such as in Sales and Use Tax (SUT), business, trade and investment is stifled.

In Nigeria, Azuka (2017) utilizes a conceptual and literature-based review approach to examine the nexus between tax harmonization and sustainable development in Africa, using Nigeria as a case study, as well as the potentials and paradoxes of the harmonization of tax based on the need for multiplicity of policy options when designing and implementing tax policies by governments. The study revealed that harmonization of tax is a critical variable for promoting business and competitiveness and cooperation in Africa. Clausing (2018)

finds similar evidence of a positive effect of tax harmonization on business and in the EU countries. Quak (2018) revealed that integration has facilitated the harmonization of tax. Omozuwa and Edosa (2023), using conceptual and review-based approach also concludes that tax harmonization fosters trade integration in the ECOWAS.

Gastaldi, Liberati and Sciala (2015), Gastaldi et al. (2015), Boss (2016) and Simms and Simms (2017) found negative harmful effect of tax harmonization. According to these studies, tax harmonization engenders inefficiencies, financial weakness and concentration, and corruption.

Ajayi (2018) examined the effect of multiple taxation (non-synchronized or non-harmonized tax) on businesses in Nigeria focusing on taxes and levies applicable to four key sectors of economy. The study focused on sectors such as oil and gas, manufacturing and service, telecommunications, and insurance. Using a review based approach, the study found that the different fiscal power of the different tiers of government and that constitutional position is perhaps unwittingly compromised by the taxes and levies Act which has expanded the list of taxes collected by the different levels of government which has resulted into multiple taxes and levies, and thereby affecting business. The study recommend that there is an urgent need to review the taxes and levies, and possibly harmonize them to eliminate ambiguities in order to promote business competitiveness in Nigeria.

Other studies on tax harmonization and business competitiveness in East Africa are Nnyanzi Babyenda and Bbale (2016), Bossuyt (2016), Diakité et al. (2017), Azuka (2017), Manriho and Mutava (2017), Velayos (2017), Kopits (2017), Clausing (2018). The studies all revealed positive relationship between tax harmonization and business competitiveness.

From the review of the literature, there is paucity of literature on the link between tax harmonization and business competitiveness in Nigeria as the existing literature tend to have overwhelmingly dwell on cross-country analysis, with very few or no country-specific studies like Nigeria. Given the peculiarity of a country like in Nigeria as regards high incidence of duplicity/multiplicity of taxes, conflicting and distortionary tax regimes and polices, and the objective of enhancing business competitiveness, this study become important as it represents a critical attempt to fill the gap in literature by extending the literature and discourse on the link between tax harmonization and business competitiveness nexus.

Benefits of Tax Harmonization

Harmonization framework ensures tax synchrony and organization (notably statutory tax rates), with the ability to stimulate revenue generation among different tax jurisdictions or levels/tiers of government (Quak, 2018). Through amenable institutional quality, tax harmonization has the capacity to promote the accountability of government and ensure the prevention of leakages, as well as tax evasion. Effective institutions are necessary to for effective following and monitoring (IMF, 2014). Harmonization of tax can stimulate domestic revenue base greater priority in tax harmonization frameworks. By means of broadening of the tax base, strengthening of tax administration and elimination of unnecessary, ambiguities, duplicity/multiplicity, distortion, conflicts, competition and exemptions, greater domestic revenue can be mobilized. Government and policy makers in Nigeria should not undervalue the derivable benefits of tax harmonization framework, particularly, with respect to essential institutional support and other frameworks, as well as directives and regulations to achieve greater domestic resource mobilization objectives (Ozekhome, 2022).

Tax harmonization makes the business and investment environment safe, stable and certain. Thus, promoting business competitiveness. Being less knowledgeable of a country's environment, entrepreneurs and private investors view the business decisions influenced by the business environment by others as a good signal of a favourable condition, to reduce uncertainty. Harmonization of tax leads to greater efficiency, accountability, aligning and administration of tax for effective results (Ozekhome, 2022). A reformed and harmonized tax system and structures reduces business transaction costs. The harmonization of tax may enable the simplification, standardization and of tax and best practices in line with global standards, practices process and administration, thereby promoting private business and investment. Finally, harmonization of tax, and by implication, reforms in the tax system are clear indications of improvements in the ease of doing business, and this has the effect of stimulating businesses, trade and investment (Ozekhome, 2022).

Prospect of Tax Harmonization in Nigeria

Several challenges have been highlighted as constraints to business competitiveness in Nigeria. They include: High and multiple tax regime; Inconsistent taxation policy taxation; Poor infrastructure (e.g. the epileptic power supply, bad road network, poor port facilities; Macroeconomic instability (in terms of exchange rates, inflation and interest rates, leading to high cost of business transaction/operation; Political instability and security concerns; Weak technological base and innovation; Lack of adequate take-off incentives for business start-ups and initiative, and Inadequate talent acquisition and retention/experience (Ozekhome, 2022).

A number of important prospects and policy issues are discernible from the link between tax harmonization and business

competitiveness in Nigeria. First, non-harmonized tax regime creates ambiguity, duplicity/multiplicity, conflicts and competition in tax, and deters business. Harmonization of tax will greatly improve the ease of doing business, by creating a favourable business environment in Nigeria. Tax harmonization, will greatly align tax, stimulates interactions, interface and collaborations between different tiers of government (e.g local, state and federal), and among countries for greater revenue outcome. Finally, governments and policy makers should consider greater scope of tax harmonization in Nigeria, as this will not only creates coordinate tax policies, but will enhance resource generation. Such uniformity in tax rate/rules and administration will simplify tax, make it consistent with global standards through institutional tax reforms.

Conclusion and Policy Perspective

Harmonization of tax, without doubt, will stimulate business and investment in Nigeria. In contrast to tax competition, ambiguity conflict, duplicity or multiplicity, it creates a strong framework for greater collaborations among countries (where it is done among countries) and tiers of government (e.g local, state and federal) where it is carried out in a country. Besides, harmonization of tax removes differential tax rates and structures, as well as the adoption of uniform administration. It also allows equalization of taxes, a common definition of tax bases including uniform application of agreed tax rules. To effectively make tax harmonization successful, institutions should be strengthened in Nigeria to create certainty the bedrock or framework for such synchrony of tax. The reform of the tax is also important in this regard, as both are inter-twined as efforts to harmonize tax will, in principle, entails institutional reform of the tax system.

Nigeria and other countries may benefit greatly through a reform of their tax

as well as its harmonization. The creation of a favourable business environment through better ease of doing business, will entail a robust reform of the tax system and administration, and by extension, the harmonization of tax across all the tiers of government in Nigeria (local, state, and federal). The stimulating revenue generation in Nigeria through a robust tax system can only be realized through a comprehensive reform and harmonization of tax. This paper clearly submits that harmonization of tax will greatly promote business competitiveness in Nigeria, through the creation of a favourable, safe stable and certain macroeconomic and business environment.

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ENVIRONMENTAL, SOCIAL, GOVERNANCE REPORTING AND MARKET PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

Environmental, social, governance reporting plays a pivotal role in reporting, yet it has been riddled with mixed findings, having a negative effect on the market value. In order to increase trust, there is the need of reporting the non-financials of firm. To navigate this complex issue, this study investigates the effect of environmental reporting, social reporting, and governance reporting on the market performance of listed manufacturing firms in Nigeria. Using a longitudinal research design where secondary data was collected from the annual reports of 27 listed manufacturing firms over a ten-year period (2013–2022), panel least squares was used to analyse the relationships between the variables. The results revealed a positive and statistically insignificant relationship among environmental reporting, governance reporting and the market performance however, social reporting revealed a negative and insignificant effect on the market performance of listed manufacturing companies in Nigeria. The study concludes that environmental, social, and governance reporting does not significantly affect the market performance of listed manufacturing companies in Nigeria.

Keywords: Environmental Reporting, Social Reporting, Governance Reporting, Market Performance

JEL Classification: M41, M49

Introduction

Reporting has gone past just reporting the financial concerns of an organisation to include the non-financial which is concerned about the environmental, social, and governance reporting also referred to as sustainability reporting. This type of reporting enhances transparency on the part of organizations showing to the users of the report that they are contributing to the goals of sustainable development (Umasabor & Eraghbe, 2023). When firms report on their environment, social, and governance activities, it can attract more investors, since investors are more interested in the transparency of reporting in any organization.

Thus, environmental reporting is concerned with firms reports on the ways and manner firms put efforts to reduce pollution, waste, emission, and depletion of natural resources. As a result, several countries have adopted this sustainability reporting either voluntarily or mandatorily (Ekins & Zenghelis, 2021; Wu et al., 2022) in order to be compliant with what is obtainable around the globe which is centered on sustainable development (Brundtland report, 1987). Social reporting on the other hand is associated with creating a good relationship with the community where the firm is situated by creating social amenities to such communities (Hassan & Musa, 2021).

Governance reporting has to do with having a blueprint of protecting stakeholders and clarity of the responsibilities of the board of directors, shareholders, and management in order to protect investors (Afjei, 2015; Lambe et al., 2023). With a clear picture of the governance reporting, there can be increased foreign investment, hence, report of this magnitude that entails environmental, social, and governance could be an effective transparent tool in the capital market by increasing the market performance of the firm.

Market performance measure such as Tobin's Q is the ratio of the market value of a firm and its asset replacement cost (Umasabor & Ogiedu, 2023; Zhong et al., 2022). Tobin's Q is concerned on how a firm can increase the market value of its assets which can affect the share price, which could be a determinant of the dividend to be paid out to shareholders. From the stakeholders' theory as postulated by Freeman (1984), there is need to meet the expectations of all stakeholders. By reporting environmental, economic, social, and governance activities of the firm, agency conflicts are mitigated (Hahn & Kuhnen, 2013; Jensen & Meckling, 1976). However, several empirical studies have been carried out indicating that this sort of report (environmental, social, and governance) can affect the market performance positively or negatively (Buallay,

2020; Ogunode & Adegbe, 2022; Uwuigbe et al., 2018; Yameen et al., 2019) revealed that sustainability reporting has negative or no effect on firm performance. While some other studies have revealed a mixed effect (Emeka-Nwokedi & Osisioma, 2019; Putri & Pratama, 2023; Thalia & Nuraini, 2023). There is limitation on studies of environmental, social, and governance reporting on the manufacturing companies in Nigeria. For example, several studies (Akinadewo et al., 2023; Ali et al., 2023; Aniagboso & Orjinta, 2023) have been done on single sub-sectors of the manufacturing companies. For example, Aniagboso and Orjinta (2023) dwelt on pharmaceuticals health subsector of the manufacturing firms. Ali et al. (2023) [oil and gas], Akinadewo et al. (2023) [industrial goods], which have revealed a limitation in the previous studies, hence, this study advanced knowledge by focusing on the entire sector of the manufacturing firms listed in Nigeria.

In view of the foregoing, this paper seeks to make new contributions to the extant accounting literature by investigating the effect of environmental reporting. Social reporting, governance reporting on the market performance of listed manufacturing companies in Nigeria. Specifically, this study addresses the following three research questions; What is the effect of environmental reporting on the market performance of listed manufacturing firms in Nigeria? What is the effect of social reporting on the market performance of listed manufacturing firms in Nigeria? What is the effect of corporate governance reporting on the market performance of listed manufacturing firms in Nigeria? The study formulated these null hypotheses: H₀₁: Environmental reporting has no significant effect on the market performance of listed manufacturing firms in Nigeria. H₀₂: Social reporting has no significant effect on the market performance of listed manufacturing firms in Nigeria. H₀₃: Corporate governance reporting has no significant effect on the market performance of listed manufacturing firms in Nigeria.

Literature Review

Market Performance

Market performance are indicators used by investors to assess the company's value. This market performance includes book value used to

value unquoted companies, market value used for quoted companies, net worth is usually employed for mergers and acquisition (Umasabor & Ogiedu, 2023). Market value measure such as Tobin's Q is concerned on how a firm can increase the market value of its assets. Tobin's Q ratio measure the effectiveness with which firm management is capable to use its assets to create value for the shareholders (Zhong et al., 2022). In order to examine the effect of environmental, social, governance reporting on the market performance of the firms under review, Tobin's Q is employed.

Environmental Reporting

Environmental reporting is the disclosure made by firms which reveals their environmental performance by aiding stakeholders to gain confidence in businesses since it provides possible risk assessment associated with such activities and reduce the environmental effects of these activities by considering the effect of their activities on the environment and reports the findings to a variety of stakeholders, including staff, clients, the government, regulators, the media, and shareholders, all of whom are vital to the organisations' long-term viability (Ekins & Zenghelis, 2021). As a result, the United Nations Sustainable Development Goals (UNSDGs, 2015) revealed that goals such as clean water and sanitation: G6, affordable and clean energy: G7, responsible production and consumption: G12, climate action: G13, and life below water: G14) are environmental related goals that can help to achieve sustainable development

Social Reporting

Corporate social responsibility are efforts carried out by firms to provide an enabling relationship between them and the society and being transparent about it by reporting, according to Hassan and Musa (2021) social responsibilities includes provision of health care facilities, good working environment, reasonable employees' remunerations and creating value to host communities. To support this view, the World Bank (2021) asserted that social disclosure is "a process of creating prosperous and long-lasting communities, educating individuals about the

requirements they have for their homes and workplaces, and encouraging well-being of all". Corporate social responsibilities are described as the firm's ability to perform and are determined by the interaction of three aspects: people, profit, and the environment (Lambe et al., 2023). Hence, the effect of social reporting on market performance is investigated.

Corporate Governance Reporting

The importance of corporate governance has brought transparency to capital market, whereby investors' confidence is assured. Corporate governance are mechanisms put in place to control firms. The study carried out by Griffin et al. (2014) argued that well-governed governance assist, the management in using the resources efficiently and improve performance, hence increasing the stakeholders' trust in the firm's profitability, continuity and sustainability. Governance improves a firm's reputation and builds community trust, which indeed enables firms to continue and sustain themselves (Buallay, 2020), corporate governance mechanism instills trust and integrity (Altawalbel, 2023). Hence, corporate governance is a sustainability strategy when properly harness would mitigate the stakeholders' conflict of interest and foster confidence among firms and its diverse stakeholders. However, some studies have been carried out to examine the effect of governance reporting on the performance of firms, to this end, the effect of governance reporting on market performance is investigated.

Empirical Review

In a study done by Yusra and Sulistyowati (2023) in Indonesia Stock Exchange which examined the effect of profitability, environmental disclosure, and governance on the firm value (Tobin Q) of mining companies, the result revealed that environmental disclosure had a positive and insignificant relationship with Tobin's Q. Again, Emeka-Nwokeji and Osisioma (2019) revealed that social disclosure had a negative and insignificant relation with Tobin's Q in the study carried out in Nigeria. These findings are inconsistent, it is in this light that this study is investigating the manufacturing sectors in Nigeria.

Again, Thalia and Nuraini (2023) examined the effect of sustainability (ESG) on firm value (price to book value) in Indonesia, governance disclosure was revealed to be positive and significant with price book value. Buallay (2020) examined the level of sustainability reporting and firm performance with the moderating effect of country's sustainability reporting law, the results revealed that governance disclosure had a positive and insignificant effect on Tobin's Q. In the same vein, Aliyu and Apedzan (2020), reported a positive and insignificant effect, Emeka-Nwokeji and Osisioma (2019), reported a positive and insignificant effect. While the study of Thalia and Nuraini (2023) found a positive and significant relationship between governance disclosure and financial performance (TQ). However, the study of Yusra and Sulistyowati (2023) found negative and insignificant effect on governance disclosure and financial performance (TQ). This study focuses on the manufacturing sector because of its sensitivity to environmental hazards associated with production. This has made reporting of sustainability imperative for stakeholders to have a good understanding of the activities of the firm in its operations. In order to have a robust knowledge on the effect of environmental, social, and governance reporting on market value, the study accommodates the manufacturing sectors against the backdrop of sectorial gap created in previous studies (Akinadewo et al., 2023; Ali et al., 2023; Aniagboso & Orjinta, 2023).

Methodology

The study employed a longitudinal research design to examine the effect of environmental reporting, social reporting, corporate governance reporting on the market performance of listed manufacturing firms in Nigeria. Longitudinal study allows the examination of several firms over an extended time period. The population of the study is the listed manufacturing firms (consumer goods, industrial goods, healthcare, conglomerate, agriculture, and natural resources sectors in the Nigerian Exchange Group as at December, 2022). However, only 27 firms had complete data relevant to the study. A census was employed in order to avoid the problem of micronumerosity of data, implying the use of all the companies

(27) listed as manufacturing firms on the Exchange Group during the period under review. The secondary data was gathered from corporate annual reports. variables environmental, social, and governance) data was sourced, while using the simplified version of **Global Reporting Initiative (2021)** disclosure index as checklist for disclosure components of the manufacturing companies (consumer goods, industrial goods, healthcare, and natural resources) in the Nigerian Exchange Group spanning from 2013- 2022 financial year. The choice of this data was predicated on the premise that they are valid and reliable.

Theoretical Framework

Freeman (1984) formulated the stakeholders’ theory which is premised on meeting the expectations of all a sundry. This theory redefined the firm as value creating to stakeholders and not shareholders alone. This by implication viewed the firm as a social system that cannot exist in isolation. In order to survive, firms must maintain good relationship with its stakeholders. Environmental, social, and governance reporting is viewed as an ethical conduct of the firm to its stakeholders. These stakeholders are both internal and external with various needs hence, reporting on environmental issues such as waste, emission, pollution and depletion negative and positive impact on the firm, contribution to economic development, having governance structure in place and engaging in social responsibility will

strengthen the relationship between the firm and its stakeholders this will enhance the performance of the firm (**Aniagboso & Orjinta, 2023; Lambe et al., 2023**).

Model Specification

The model comprises of environmental, social, governance reporting and market performance (Tobin’s Q) The dependent variable market performance was measured by Tobin’s Q (TQ). The independent variables are Environmental reporting (ENVR), Social reporting (SOGR), Governance reporting (GOVR). Where i is the individual firm, t is the time period (10years).

$$TQ = f(ENVR, SOGR, GOVR)$$

$$TQ_{it} = f(ENVR_{it}, SOGR_{it}, GOVR_{it})$$

$$TQ_{it} = \beta_0 + \beta_1 ENVR_{it} + \beta_2 SOGR_{it} + \beta_3 GOVR_{it} + \mu_{it}$$

Operationalisation of Variables: dependent variable, market performance (Tobin’s Q) is measured as market value of equity divided by total asset; independent variables: environmental reporting (ENVR) is measured using content analysis (refer to appendix 1) using weighted average [actual score/ expected score (8)] social reporting (SOGR) is measured using content analysis (refer to appendix 1) using weighted average [actual score/ expected score (5)] governance reporting (GOVR) is measured using Content analysis (refer to appendix 1) weighted average [actual score/ expected score (24)].

Results and Findings

Table 1: Descriptive Analysis

	TQ	ENVR	SOGR	GOVR
Mean	0.939115	1.327084	1.483289	2.844713
Median	0.929667	1.609438	1.609438	2.890372
Maximum	4.397566	2.079442	1.609438	3.091042
Minimum	-2.325509	0.000000	0.000000	2.079442
Std. Dev.	1.502295	0.711793	0.237075	0.202603
Skewness	0.197297	-0.749372	-2.552101	-1.921768
Kurtosis	2.355586	2.186286	10.95099	8.036290
Jarque-Bera	6.423460	32.71910	1004.300	451.5412
Probability	0.040287	0.000000	0.000000	0.000000
Sum	253.5609	358.3127	400.4880	768.0726
Sum Sq. Dev.	607.1033	136.2886	15.11909	11.04188
observations	270	270	270	270

Source: Researcher’s Compilation (2025)

Descriptive statistics reveals the distribution of the variables in the dataset. The result of the descriptive statistics revealed a mean value of 0.939115 for market performance (TQ). This is an indication that the market performance of the manufacturing firms among the explanatory variables under consideration is relatively high, with ranges from -2.325509 to 4.397566 minimum and maximum respectively. The standard deviation of 1.502295 measures the spread of the distribution. Environmental reporting (ENVR) revealed a mean of 1.327084, minimum of 0.0000, maximum of 2.0794

respectively, and standard deviation of 0.711793. Indicating that environmental reporting is clustered around the mean. Social reporting (SOCR) revealed a mean of 1.4832, minimum of 0.0000 maximum of 1.6094 and standard deviation of 0.2370. Indicating that social reporting is clustered around the mean. Corporate governance reporting (GOVR) revealed a mean value of 2.8447, minimum 2.0794 maximum 3.0910 and standard deviation of 0.2026. Indicating that governance reporting values were clustered around the mean.

Table 2: Correlation Analysis

	TQ	ENVR	SOCR	GOVR
TQ	1.000000	0.333673	0.217867	0.080325
ENVR	0.333673	1.000000	0.550215	0.549184
SOCR	0.217867	0.550215	1.000000	0.323839
GOVR	0.080325	0.549184	0.323839	1.000000

Source: Researcher's Compilation (2025)

Correlation analysis is a measure of the bidirectional relationship between market performance (TQ) and environmental reporting (ENVR), social reporting (SOCR), governance reporting (GOVR). All the variables indicate positive correlation. The coefficients are ENVR

(0.33), SOCR (0.21), GOVDR (0.08) with Tobin's Q and the values are below the benchmark of 0.80 which reveals the absence of the problem of highly correlated variables (multicollinearity).

Table 3: Results of the Coefficient Diagnostics of the Variables of Regression Variance Inflation Factors (VIF)

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
ENVR	0.017009	8.872206	1.976432
SOCR	0.130887	67.97968	1.687231
GOVR	0.167196	313.0461	1.574060
C	1.405753	323.6117	NA

The centered VIF of environmental reporting (ENVR) is 1.9764, social reporting (SOCR) is 1.6872, corporate governance reporting (GOVR) is 1.5740, The values of each of the variables are less than 10 which is the

benchmark for high collinearity, hence there is absence of the problem of multicollinearity in the predicting variables, indicating absence of distortion in the regression model.

Table 4: Breusch-Pagan-Godfrey Test

F-statistic	1.341659	Prob. F(7,262)	0.2308
Obs*R-squared	9.343454	Prob. Chi-Square(7)	0.2289
Scaled explained SS	6.761947	Prob. Chi-Square(7)	0.4541

The Breusch-Pagan-Godfrey test was carried out on the residuals as a precaution. The results reported probabilities beyond 0.05,

which led to the rejection of the presence of heteroscedasticity in the residuals. With a probability value of 0.2308 and an F-statistics of

1.341659 which sustained the null hypothesis of homoscedastic residuals.

Table 5: Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	4.385062	6	0.6247

Table 6: Random effect method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.238304	0.742082	-1.668689	0.0966
ENVR	0.050119	0.083985	0.596752	0.5513
SOCR	-0.233562	0.250999	-0.930528	0.3531
GOVR	0.060792	0.250848	0.242344	0.8087
TQ(-1)	0.823621	0.036237	22.72862	0.0000

Effects Specification

Period fixed (dummy variables)

R-squared	0.848231	Mean dependent var	0.919419
Adjusted R-squared	0.838912	S.D. dependent var	1.510471
S.E. of regression	0.606240	Akaike info criterion	1.896658
Sum squared resid	83.79604	Schwarz criterion	2.112279
Log likelihood	-215.4440	Hannan-Quinn criter.	1.983508
F-statistic	91.02009	Durbin-Watson stat	2.309533
Prob(F-statistic)	0.000000		

Source: Researcher's Compilation (2025)

The random effect method was best suited for the regression analysis since the Hausman test result revealed a p-value in excess of 0.05 critical level. The coefficient of multiple determination (R^2) is 0.848231, with an adjusted R^2 of 0.838912 indicating the goodness-of-fit of the model. The result indicating that about 83% of the systematic variation in market performance of listed manufacturing firms in Nigeria is accounted for by the explanatory variables of environmental reporting, social reporting, and governance reporting employed in this study. The remaining 17% left unaccounted for is captured by the stochastic variable of the model. F-statistic which measures the overall significance of the model reported that the model is jointly statistically significant when tested at 5% level of

significance with a value of 91.02009 and probability value of 0.000.

The Durbin-Watson statistics of 2.309533 indicates that the model does not suffer auto-correlation problem. Environmental reporting (ENVR) had a positive and insignificant effect on market performance as reported by the positive coefficient of 0.050119 which means that a unit increase in environmental reporting will increase the market performance (TQ) of manufacturing firms in Nigeria by about 5%. It was also found to be statistically insignificant when tested at 5% level of significance, a p-value of 0.5513 ($p > 0.05$). This finding supports the belief that reporting of environmental impacts of firm will assist in promoting firm public image which in turn attract the support of firms' stakeholders

and in turn lead to higher valuation of its shares by stakeholders.

Thus, the finding is in tandem with the argument of stakeholders' theory that firms may engage in environmental reporting in order to legitimize their activities as a way of aligning their operations to society norms and rules. The result of this finding is in tandem with those of [Amalia et al. \(2023\)](#), [Buallay \(2020\)](#), [Yusra and Sulistyowati \(2023\)](#) that reported positive and insignificant effect between environmental reporting and financial performance (TQ) and contradicts the findings of [Emeka-Nwokedi and Osisioma \(2019\)](#), [Putri and Pratama \(2023\)](#), [Thalia and Nuraini \(2023\)](#) that found positive and significant effect of environmental reporting on market performance (TQ). Social reporting (SOCR) on market performance (TQ) revealed a negative and insignificant effect on market performance of manufacturing firms in Nigeria with a coefficient of -0.233562 which means that a unit increase in social reporting will lead to almost 23.3 unit decrease in the market performance of manufacturing firms in Nigeria.

It was however not significant at 5% level of significance with a probability value of 0.3531 ($p > 0.05$). This finding contradicts the belief that reporting of corporate social responsibility activities, particularly those relating to gift and charitable disclosure will assist in promoting firm public image which in turn attract the support of firms' stakeholders and in turn lead to higher valuation of its shares by stakeholders. Thus, the finding is not in tandem with the argument of stakeholders' theory that firms corporate social responsibility endeavour as a means of gaining the legitimacy of the society in order to increase market performance. The result of this finding is in line with that of [Emeka-Nwokedi and Osisioma \(2019\)](#) that reported a negative and insignificant effect of social reporting on performance and contradicts the findings of [Buallay \(2020\)](#), [Thalia and Nuraini \(2023\)](#) that found positive and insignificant effect of corporate social responsibility reporting on TQ.

Corporate governance reporting (GOVR) reported a coefficient of 0.060792, a probability value of 0.8087 > 0.05 . Governance reporting was found to have positive and insignificant effect on the market performance (TQ) of the manufacturing firms in Nigeria. The result

indicates that a unit increase in governance reporting will lead to a 6units increase in the market performance of listed manufacturing firms in Nigeria. The findings align with the findings of [Buallay \(2020\)](#) and [Emeka-Nwokedi and Osisioma \(2019\)](#) that reported a positive but insignificant effect however, contradicts the findings of [Yusra and Sulistyowati \(2023\)](#) that reported a negative and insignificant effect on governance reporting and financial performance (TQ).

Conclusion

The study examined the effect of environmental reporting, social reporting, governance reporting on the market performance of 27 manufacturing firms in Nigeria for a period of ten years (2013-2022). The study employed panel regression analysis to analyse the dynamic interaction between the variables of the study. The effect of environmental reporting on market performance, governance reporting on market performance, established a positive and statistically insignificant effect, however, social reporting revealed a negative and insignificant effect on the market performance of listed manufacturing firms in Nigeria. Based on the findings, there was evidence that reporting environmental and governance reporting could lead to increase in the market performance but, was insignificant, as Nigeria has made move to implement the sustainability standards, this might lead to a significant effect. The study therefore, recommends that other performance measures should be employed to investigate the nexus.

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