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EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DISCLOSURES ON MARKET VALUE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

Aderemi Olalere Adebayo[1] Julius Ariyo Akinloye[2] Jimoh Ibrahim[3]
[1&2]*Department of Accounting, Osun State University, Okuku Campus*
[3]*Department of Accounting, Oduduwa University, Ipetumodu, Osun State*

***All correspondence to**:* jimohibrahim889@gmail.com

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ABSTRACT

The study investigated how environmental, social, and governance (ESG) disclosures affect the market value of consumer goods companies in Nigeria. The variables of ESG disclosures were regressed on the market value (tobins'q). Purposive sampling technique was used to select 13 consumer goods companies out of the study's population of 21 companies. Secondary data was extracted from selected 13 annual reports of quoted consumer goods companies from 2013 to 2022. The study applied descriptive statistics and panel data estimation regression. The findings showed that governance disclosure had a favorable and substantial impact on the market value (Tobin's Q) of listed consumer goods companies, while environmental and social disclosure had an inverse but substantial effect on market value. Hence, the study concluded that ESG substantially influences the market value of listed consumer products businesses in Nigeria. According to the study, companies should include ESG disclosure in their annual reports because it has a long-term impact on market value and should integrate it into their long-term strategic objectives for sustainable growth.

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Key words: *Consumer Goods Companies, Environmental, Social, and Governance, Market value, Tobins'Q,*

1. INTRODUCTION

In recent times, investors have been attaching increasing importance to environmental, social, and governance (ESG) aspects (Bhattacharya & Sharma, 2019). Investors today aren't just chasing quick wins; many now focus on whether a business can stick around for the long haul and how its actions ripple through nature and our local communities. ESG has become a crucial criterion for assessing investment prospects. A company's performance in areas such as CEO compensation, board governance, diversity and inclusion, human rights, and carbon emissions is referred to as an ESG factor (Calero López et al., 2020). These disclosures can substantially impact the market value, operations, and reputation of a corporation, leading to

its increased inclusion in investment decision-making processes (Tsang et al., 2020). In the past year, research has shown that organizations excelling in ESG performance tend to outperform their peers. This suggests that prioritizing ESG issues may lead to higher returns (Atif et al., 2022). However, there is still much to learn about how ESG affects financial markets, including the usefulness of ESG ratings and the impact of various ESG disclosures on market value. It seems that extra research is needed—if you will—to help investors grasp just how essential ESG disclosures are in shaping their investment strategies. Even as interest in ESG disclosures and their effect on market value grows, experts still don't agree on just how significant that impact really is. Previous studies have produced inconsistent findings, with some identifying a strong connection between ESG disclosure and financial performance, while others have found the opposite. Additionally, most of the existing research has focused on large-cap businesses in developed markets, leaving a gap in our understanding of how ESG disclosure affects emerging or developing markets. To address this gap, this study aims to examine the connection between market value and ESG variables across a broader spectrum of businesses, including those in emerging and developing markets.

Conflicting findings have been reported regarding the connection between ESG variables and stock prices across different markets and industries. The usefulness of ESG ratings is also under question, as different rating agencies may employ varying weightings and procedures for different ESG disclosures (Maji et al., 2022). This diversity in rating techniques and weightings presents a challenge for investors in comparing businesses and making informed investment decisions (Khalid et al., 2021; Cagli et al., 2020). Furthermore, more research is needed to understand which specific ESG disclosures have the most substantial impact on market value. There is currently a lack of empirical evidence in this field, particularly in developing nations like Nigeria where ESG regulation is still nonexistent (Khan, 2022). Studies have shown that ESG-based reporting can help companies increase profits and cut costs (Mohammed and Wasiuzzaman, 2021; Lindgreen et al., 2009). Despite the lack of legal requirement for Nigerian corporations to implement ESG practices, the growing body of research suggests that investors are increasingly concerned with ESG disclosure and that businesses excelling in this area may be better positioned to create long-term value for their stakeholders. To enhance investors' understanding of how ESG disclosure impacts market value and how to seamlessly integrate these disclosures into investment strategies, further research is required

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1.1 Objectives

To achieve the above, the study's objectives were to:

1. assess the link between environmental disclosure and market value,
2. evaluate the effectiveness of governance ratings in predicting market value, and
3. identify the specific social disclosures that have the most substantial impact on market value among listed consumer goods companies in Nigeria.

1.2 Research Questions

Thus, we have raised the following fundamental questions:

a. What is the link between environmental disclosure and market value?
b. To what extent does the effectiveness of governance ratings influence market value?
c. What specific social disclosures have the most substantial impact on market value?

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Environmental, Social, and Governance (ESG)

Back in 2006, the United Nations approved its Principles for Responsible Investment (UN PRI)—a decision some say unexpectedly sowed the early seeds of ESG. Generally speaking, when the UN PRI nudged institutional investors to fold in ESG factors into their decision-making process, the ESG idea gradually caught on and earned a notable spot in investment discussions (Alagbe 2021).To put it another way, ESG is a metric that evaluates companies' sustainable management practices and can be used to gauge socially responsible investment choices. ESG focuses on economic value resulting from variations in the environment, society, and governance, and is comparable to social responsibility (Amole et al., 2005). Integrated reporting frameworks paired with sustainability-based reporting often work to expand what companies share—mixing in nonfinancial details alongside standard monetary figures—which in many cases hints at a broader view than simply chasing a profit (Igbinovia & Agbadua 2023).

Different ESG disclosures have varying associations with market value based on sector, location, and organization size. Several studies have consistently linked specific ESG disclosures to financial performance. For instance, research highlights the importance of environmental disclosures such as energy efficiency and carbon emissions for investment success (Shaikh, 2022). Companies that perform well environmentally tend to have higher stock prices and lower risk premiums compared to those that perform poorly environmentally

(Dreyer et al., 2023). An MSCI analysis showed that companies with strong carbon management strategies had reduced volatility and higher returns on equity (Teti et al., 2022). Social disclosures, such as employment practices and community involvement, also impact investment performance. Good labour policies tend to outperform competitors in terms of returns on equity, while community bonds that aren't properly cared for usually underachieve. (Winegarden, 2019). Additionally, a Harvard Business School study found that firms with high employee satisfaction levels generally had lower risk premiums and better stock values (Crifo et al., 2015).

Investors recognize the importance of governance disclosures, such as CEO salary and board composition (Mulchandani et al., 2022). Strong governance is linked to increased profitability and lower capital expenses, according to research by Arabesque Asset Management (Feng et al., 2022). An MSCI analysis also found that companies with strong board independence typically had lower volatility and higher returns on equity (La Torre et al., 2020). The research suggests that governance, social, and environmental issues all influence stock prices. Industries, regions, and the size of a company can all shift which disclosures really count – in many cases, investors tend to look at a mix of ESG factors when they make their investment decisions The study on the impact of ESG considerations on stock prices and investment performance took into account the following elements: 1. Environmental disclosure: This can impact a company's environmental footprint and may include information about waste management, energy and water usage, carbon emissions, and other sustainability initiatives. 2. Social variables: These may impact a company's reputation and social impact and include labor standards, consumer privacy, community involvement, and employee diversity. 3. Corporate governance policies: These can be influenced by various issues such as shareholder rights, executive compensation, and board diversity.

2.1.2 The Growing Importance of ESG

Adopting and implementing ESG principles within an organization requires an understanding of the significance of ESG. ESG is important for a variety of reasons, as outlined by Udoma and Osagie (2023), ESG practices help lower risks by tackling enviromental, social, and governance issues—factors that end up affecting daily operations, cash flow, and a company's rep.. This includes labor rights violations, climate change impacts, corruption risks, diversity practices, and regulatory compliance. Effectively managing these risks increases resilience and sustainability (Udoma & Osagie, 2023). Investors increasingly consider ESG practices during due diligence. Companies prioritizing ESG attract diverse investment, reflecting

growing concern about sustainability. Meeting stakeholder expectations: Implementing ESG principles shows commitment to meeting diverse stakeholder expectations. Integrating ESG guidelines into operations mitigates legal risks and ensures compliance with regulatory obligations. Recognizing operational environmental risks reduces carbon footprint and promotes sustainability. Prioritizing ESG principles builds credibility and trust, enhancing market reputation. Emphasizing employee welfare through ESG principles aids talent retention and attraction.

2.2. Theoretical Framework

This write up is anchored on signaling theory because it explained how ESG information sharing affects corporate value. Often, managers might be better off sharing extra details, as this step usually helps smooth over the typical gap in understanding between company insiders and investors, fostering confidence in the financial system (Hossain & Hammami, 2009). Increased ESG disclosure makes investors feel more secure, contributing to an efficient market (Ross, 1977). Signaling theory aims to resolve information asymmetry (Spence, 1973), and businesses use ESG disclosure to convey a stronger financial and non-financial position compared to competitors (Campbell, 2001).

2.3 Empirical Review

Deepak and Yash (2019) examined the link between a company's financial performance and its (ESG) components using a sample of 400 US stock market companies. The regression analysis yielded mixed results, showing a favourable link between ESG and EPS, while revealing a weak inverse association between company value and ESG and ROA

Albitar et al. (2020) conducted a study comparing research on company performance before and after integrated reporting to assess the impact of ESG disclosure. Using two-stage least squares regression with data from Capital IQ and Bloomberg, they found that the ESG score had a favorable and substantial impact on firm performance among the sampled firms both before and after 2013. Alsayegh et al. (2020) looked into how disclosing ESG details might tie into how companies perform economically, environmentally, and socially—drawing on a sample of firms of 1,244 Asian companies from 2005 to 2017. The empirical analysis, employing various tests such as FEM, REM, and pooled OLS, revealed favourable and substantial association s between the economic, environmental, and social dimensions of sustainability and the firm's ESG component.

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Qureshi et al. (2020) examined the impact of business development (BD) on price appraisal and ESG disclosure across 812 companies spread throughout Europe. Using Ohlson's price model with the market value of the company as the dependent variable, multiple linear regression analysis was conducted on secondary data. Generally speaking, the research hints at a positive link between European companies' stock prices and their ESG disclosures.
Mohammed and Wasiuzzaman (2021) investigated the moderating effects of company advantage along with the impact of companies' (ESG) disclosures on firm performance. The sample included 661 firms listed on the Bursa Malaysia between 2012 and 2017. The regression analysis, after adjusting for firm effects, demonstrated a substantial enhancement in firm performance due to ESG disclosure.

Alagbe's (2021) examined the influence of governance, social issues, and environmental factors on the performance of eighteen (18) foreign businesses in Nigeria. By employing a multiple regression model, the analysis scrutinized data from the annual audited financial reports spanning 2000–2020. The convincing results demonstrated that social and economic transparency had a favourable and significant impact on financial performance, however environmental disclosure had a negative and non substantial effect. Essentially, the study states with confidence that there is a statistically substantial connection between ESG elements and the success of foreign firms in Nigeria..

Chen and Xie (2022) looked into how investors with an ESG bent might nudge the tie between Tobin's Q and what companies share about their ESG practices. They dug through annual reports from 2000 to 2020 and, in most cases, found that firms sporting a higher Tobin's Q tended to reveal more about their ESG efforts—even if the relationship wasn’t always crystal clear. . Meanwhile, Abdi et al. (2022) focused on the airline sector, using 38 ESG companies in their sample to assess the impact of ESG on company value and Tobin's Q. Their findings revealed a favourable influence of the environmental and social aspects of ESG on Tobin's Q Yeye and Egbunike (2023) studied the impact of (ESG) disclosure on firm value in 12 industrial goods firms listed between 2014 and 2020, finding a favourable influence. They also explored the moderating effect of profitability on the connection between ESG and firm value. This contributes to the ESG literature by extending previous findings methodologically Kulal et al. (2023) studied the connection between ESG variables and investment performance. Their findings indicate that companies excelling in environmental sustainability tend to have higher stock prices and better financial returns. Investors who want to mix ESG

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elements into how they decide might well find that this report comes loaded with plenty of useful insights...

Ubandawaki (2024) looked on the connection between listed manufacturing companies in Nigeria's ESG reporting and company performance. Using generalised least square regression analysis, it was discovered that while social and environmental disclosures had an inverse impact on TQ, governance disclosure has a favourable impact. The research suggests emphasising the value of ESG reporting to stakeholders, particularly investors, and incorporating ESG into legal obligations.

3. MATERIALS AND METHOD

This investigation leaned on an ex post facto design—that is, it simply examined events after they had unfolded rather than setting conditions in advance. Twenty-one consumer products companies (the ones listed on the NGX) made up the study's population. Thirteen listed firms were chosen as the sample size using the purposeful sampling approach. Data on variables were gathered from the audited annual financial reports and accounts of selected firms from 2013-2022. The inferential statistics were used including static panel regression technique under which the three alternative panel regression methods namely; pooled Ordinary Least Square (POLS), fixed effect panel regression and random effect panel regression for data analysis. The baseline technique among the three would be arrived at following the outcomes of Hausman specification test. Relevant diagnostic tests were conducted such as variance inflation factors, heteroskcedasticity using Breusch-Pagan test and test for serial correlation using Wooldridge test for serial connection panel data.

The ESG measured by Reporting index checklist which consists of three themes and twenty sub-themes or items. The framework consists of three themes (ESG disclosure) and 20 A dichotomous scoring system was used for those items. The item scores are in accordance with the dichotomous method. "1" if it is reported and "0" if it is not, which is what Yeye and Egbunike (2023) support. To work out raw reporting scores using the ESG disclosure framework, one usually relies on this formula:

$EDI = \sum_{i=1}^{7} d1/_{d}$ ……Eqn 1.

$SDI = \sum_{i=1}^{8} d1/_{d}$ ……Eqn 2.

$GDI = \sum_{i=1}^{3} d1/_{d}$ ……Eqn 3.

Where:

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EDI is environmental disclosure index

DI is social disclosure index

GDI is corporate governance disclosure index

d = 1 if item 'di' is reported or 0 if item 'di' is not reported

d = maximum number of items for each (i.e. 8,7 and 3)

Table 1. ESG Index Checklist

Theme and sub-items	Governance	Environmental	Social
1	Code of corporate governance	Energy	Equal opportunity and diversity
2	Governance procedures	Water	Industrial relations and labor
3	Anti-corruption and code of Ethics	Waste management	Safety and health at work
4		Carbon emissions	Education and training
5		Biodiversity	Human rights
6		Compliance	Participation of the community
7		Product and service stewardship	Product accountability
8			Charity

Source: *Authors compilation,2024*

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3.2 Measurement of Variables

Table 2: Summary of Variables

Variables	Type of Variable	Variable Labels	Measurement	Expected Sign
Market Value – (Tobin's Q)	Dependent	TQ	market value of equity + book value of debt / Total assets	
Social disclosure	Independent	SDI	Measured as number of items of corporate Social disclose divided by total disclosure. It is proxy Social Reporting Index (SDI).	±
Environment Disclosure	Independent	EDI	Measured as number of items of Corporate Environmental disclose divided by total disclosure. It is proxy by Corporate Environment Disclosure Index(EDI).	±
Governance Disclosure Index	Independent	GDI	Measured as number of items of Corporate Governance disclose divided by total disclosure. It is proxy by Corporate Governance Disclosure Index (GDI).	±

Source: *Authors compilation,2024*

We looked into how ESG factors might affect Nigeria's consumer goods firms' market value, so we ended up using a model reworked from Yeye and Egbunike's (2023) research as specified in functional and stochastic forms.

$= TQf(ED, SD, GD)$ ……Eqn 4.

$TQ_{it} = \delta_0 + \delta_1 ED_{it} + \delta_2 SD_{it} + \delta_3 GD_{it} + \boldsymbol{\varepsilon}_{it}$……Eqn 5.

Where:

TQ= Tobin's q

ED = environmental disclosure

SD = social disclosure

GD= governance disclosure

δ_0 = Constant parameter

$\delta_1 - \delta_5$, = Coefficient of parameter for Model

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ε_{it}= Error terms

Note the subscription index "it"

i = company.

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

Table 3 Descriptive Analysis

	TQ	ED	SD	GD
Mean	1.708	0.550	0.130	0.369
Median	1.075	0.570	0.000	0.000
Max.	11.299	1.000	0.750	1.000
Mini/	0.498	0.000	0.000	0.000
Std. Dev.	1.626	0.457	0.234	0.444
Skewness	3.099	-0.214	1.776	0.576
Kurtosis	14.929	1.218	4.795	1.512
Jarque-Bera	978.920	18.197	85.776	19.193
Prob.	0.000	0.000	0.000	0.000
Obs.	130	130	130	130

Source: Authors Computation, 2024

The average Tobin Q for the sampled listed businesses in Nigeria is 1.708 with a standard deviation of 1.626, indicating minimal fluctuation. The mean social disclosure value is 0.130, reflecting that businesses disclosed a mere 13% of their social responsibilities. Additionally, the average environmental disclosure (ED) value is 0.550, implying that companies disclosed nearly 55% of ED, with little fluctuation indicated by the standard deviation of 0.457.

The sampled listed firms in Nigeria had an average governance disclosure (GD) of 0.369, indicating fair disclosure of 37%. The corresponding standard deviation of 0.444 also suggested minimal difference in the GD of the sampled listed companies. Additionally, none of the variables' Jarque-Bera probabilities are greater than 0.05 SL, leading to rejection of the null hypothesis.

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Table 4: Correlation Matrix with VIF

	TQ	ED	SD	GD	VIF
TQ	1.000				-
ED	-0.233	1.000			1.032
SD	-0.228	0.091	1.000		1.096
GD	0.013	-0.121	0.269	1.000	1.104

Source: Author's Computation, 2024.

The correlation results in Table 4 revealed a weak and inverse association between social responsibility disclosure and Tobin's Q (coefficient: -0.228), as well as environmental disclosure (ED) and Tobin's Q (coefficient: -0.233). Conversely, governance disclosure (GD) exhibited a favourable association with Tobin's Q (coefficient: 0.134). The correlation coefficient of the other regressors is less than 0.5, indicating weak links and no multicollinearity issues. The study tapped into the variance inflation factor (VIF) to check for multicollinearity, and, generally speaking, no single predictor variable climbed past the usual cutoff of 10—as you can see in Table 4.

Table 5: Hausman Test

Equation: Untitled

Test cross -section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	1.744699	3	0.6270

Source: Authors Computation, 2024

Table 5 showed the P-value of the Hausman Test of (0.6270) which implies that Random Effect is most preferred.

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Table 6: Regression Results

Dependent Variable: TQ

Method: Panel EGLS (Cross-section Random Effects)

Variable	Coef.	Std. E	t-Stat.	Prob.	aster
C	2.248	0.258	8.708	0.000	**
ED	-0.736	0.309	-2.378	0.019	**
SD	-1.543	0.623	-2.478	0.015	**
GD	0.277	0.130	2.132	0.031	**
R-squared	0.399				
F-statistic	4.645				
Prob(F-statistic)	0.004				**
Diagnostics Tests					
Heteros Test	2.162				
Prob. Value	0.095				
Serial Corr. LM Test	37.315				
Prob. Value	0.000				
Wald Test:	13.934				
Prob. Value	0.003				

Source: Authors Computation, 2024

The null hypothesis is rejected as indicated by the F-statistic of 4.645 ($p < .05$), suggesting that all regression coefficients are not zero. This demonstrates that the model effectively fits the data and explains the variation in Tobin's Q. Table 6 concludes that the explanatory factors account for 39% of the total variation of TQ, with the remaining 61% attributed to the random error term. Additionally, the Wald Tests x^2 showed a p-value <0.05, signifying that the explanatory variables are influential factors in determining the market value of the listed Nigerian consumer goods companies. As a precaution, heteroskedasticity was applied to the residuals. The findings indicated that there was no heteroskedasticity in the residuals, with probability better than 0.05. The Serial correlation LM test for higher-order effects pretty much threw out the idea that the residuals show zero autocorrelation—revealing that hidden dependence patterns were indeed at play. The p-v <0.05 was the reason for this. Consequently, serial correlation issues are present in the model. According to Table 6 ($t=-2.378$, $p < 0.05$), environmental disclosure had an inverse but substantial impact on market value, indicating

that companies prioritizing environmental concerns tend to have higher market values. This aligns with the recognition and documentation of environmental accounting by numerous organizations, enabling firms to operate effectively while addressing their environmental responsibilities.

Furthermore, social responsibility showed a substantial and an inverse impact on the TQ ($t= -2.478$, $p<0.05$). This suggests that a certain percentage increase in social responsibility greatly raises the value of particular Nigerian enterprises. It was also found that the market value was favourably and substantially impacted by governance disclosure ($t=2.132$, $p<0.05$). This suggests that the market value of corporations was greatly influenced by the disclosure of corporate governance. The findings imply that a rise in governance disclosure will likewise result in a rise in profits.

4.1 Discussion of Findings

The results indicate that market value was substantially and an inversely impacted by environmental disclosure. This suggests that companies that prioritize environmental care typically have higher market values. This is plausible as environmental accounting has been recognized and documented by numerous organizations, enabling firms to operate efficiently while addressing their environmental responsibilities. An inverse coefficient in the table further suggests that there is a greater cost associated with environmental disclosure than operational benefits. The descriptive result shows an average of 50% for environmental disclosure, which may be attributed to these firms' moderate environmental disclosure. Generally, these cues hint at a solid bond between how Nigerian companies share environmental detials and the market value they command.

The findings align with Alsayegh et al. (2020) and Ubandawaki (2024), who found a favourable association between firm value and ESG, and detrimental impact of environmental disclosures on TQ, respectively. Abdi et al. (2022) also noted a favourable impact of environmental and social aspects of ESG on Tobin's Q. Okoye and Ndum (2020) highlighted the major impact of environmental sustainability reporting on listed manufacturing companies in Nigeria's Economic Value Added. Additionally, Alhassan et al. (2021) found a substantial impact of environmental disclosure on earnings per share, while Alagbe (2021) noted that, environmental disclosure seems to have only an almost trivial negative impact on financial performance.

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Additionally, social responsibility has a substantial and an inverse impact on TQ, indicating that an increase in social responsibility can greatly raise the value of specific Nigerian enterprises. However, good social disclosure is expected to increase returns and enhance the company's reputation as a socially conscious enterprise. A stronger organizational effort to increase business value leads to an increase in corporate social responsibility. The results of Ubandawaki (2024), who demonstrated that social disclosures had detrimental effects on TQ, align with these findings. According to Alagbe (2021), social disclosure substantialy and favourablely affected financial performance.

Abdi et al. (2022) found that Tobin's Q was favourablely impacted by ESG's environmental and social aspects. Additionally, corporate governance disclosure had a substantial and favourable effect on market value. This suggests that increased governance disclosure leads to higher profits. Respecting stakeholders and providing relevant information can help businesses effectively manage crucial links, essential for the organization's success.

Generally speaking, when companies lay out their internal rules openly, it tends to level out the information gaps among stakeholders—and often, it draws in a few new participants, facilitating smooth business operations. This aligns with Ubandawaki's (2024) findings that TQ improved with governance disclosures. Additionally, Chen and Xie (2022) confirmed a robust association between ESG disclosure and Tobin's Q, while Alareeni and Hamdan (2020) uncovered a substantial favourable link between ROA and corporate governance disclosure.

CONCLUSION AND RECOMMENDATIONS

Generally speaking, our research sheds a fresh perspective on how a firm's ESG efforts mix with its overall performance; it even hints that when companies are upfront about their governance details, market value tends to get a welcome boost.. The research concluded that ESG substantially influences the market value of listed consumer products businesses in Nigeria.

Based on these findings, it was recommended that:

1. To achieve sustainable growth, companies should integrate ESG disclosure into their long-term strategic efforts and annual reports.
2. Analysts and investors must also consider indicators that encompass social and environmental issues before making investment decisions. This is evidenced by the collapse of several major firms following widely reported ESG reporting breaches.

3. Companies engaging in ESG disclosures and practices may be incentivized by regulators, aligning with signaling theory to mitigate environmental risks.

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