



IMPACT OF PROFITABILITY AND LEVERAGE ON SUSTAINABILITY REPORTING OF CONSUMER GOODS FIRMS IN NIGERIA

By

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Abstract

This study examined the impact of profitability and leverage on sustainability reporting of consumer goods firms in Nigeria. The study was conducted covering the period of five (5) years covering from 2018 to 2022 over the population of twenty-six (26) out of which reports and accounts of seventeen (17) sample size of consumable goods firms were used. The extracted data of the study were analyzed using descriptive statistics, correlation analysis and multiple regression analysis. It was found that leverage has positive and significant impact on sustainability reporting of consumer goods firms in Nigeria. This implied that companies of higher leverage tend to rely more on debt, therefore, necessitating an increase in environmental actions and the presentation of additional environmental information in order to meet creditors' expectations on environmental issues. However, the profitability has an insignificant impact on sustainability reporting of consumer goods firms in Nigeria. Therefore, it is recommended that Nigerian Exchange Commission (SEC) Nigeria should make sustainability reporting mandatory for all listed consumer goods firms.

Keywords: profitability, leverage, sustainability reporting, consumer goods firms

1. Introduction

It may be convenient to gauge a business's health status and success using only one metric, and there is a chance for this approach to may or may not capture the true state of the business' operations or its capacity to maintain profitability in a constantly revolving market. Indeed, change is an evitable issue in our modern economy because of the technology and expectations. Shareholders have expectation in the business that they have injected their wealth into, likewise in today's world there are several sets of people/groups that are having interest or expectation in the well-being of the business. These expectations brought the issue of divergence from meeting one set of expectation to broader set or more sets of expectations.

Indeed, turning away from shareholder value and toward stakeholder value is in trending (Cantero, 2020). Stakeholder is a several sets of beneficiaries or users of an organization which includes shareholders, investors, managers, employees, government and the community where the business operation is carried out. And, these sets have expectations to meet up. Expectation of each of the above set has its own peculiarity, and it also required explanation on how they were achieved. Explanation of the achievement should be done in form of report, a report other than financial report since the information is in cooperate non-financial in nature. Financial report portrays the related financial being of the business, so also, the non-financial report is said to display a non-financial information of the business, and this report is known as sustainability report.

Certainly, intangible value such as social responsibility engagements are historically been missing in the book's values of the business or simply absent in the financial reports of the business. Besides, they are the expectations of some stakeholders and truly it is what is trending and captured in the sustainability reports of business so as to attract investors and also to enable the corporations to compete in the modern market. According to Tavani (2015), the majority of multinational corporations



and international organizations accept the principles of social responsibility and sustainability.

Even though there is still a rising interest in the integration of sustainability values and principles in the modern days of reporting. And, indeed many companies in developed economy are now increasingly issuing such information in their reports known as sustainability report (Simnett, 2012; Mock et al., 2013) but coming to emerging economy, companies are far lacking behind in providing such information in their report or making it available. These are not the only related problems rather there are many alike, companies not complying with the regulatory bodies, not measuring their commitment using required index, so also not explaining the engagement through the right channel.

There are indications that numerous industries, particularly in Nigeria, have not yet acknowledged their sustainability problems. Even with the advent of SASB, requiring companies to report their sustainability commitment. Considering the role of companies in the society, which has to do with processing of raw material into a required need/product by using human, machines etc. for instance the manufacturing industry. Manufacturing industry is among the extractive industries, that uses nature for their satisfaction.

Trending issues of sustaining a business has to do with winning the heart of stakeholders. Businesses that wish to report on sustainability must gather information on previously unmeasured processes and impacts. Businesses may use this new information to arm themselves with the knowledge they need to save natural resources, increase productivity, and operate more effectively. Additionally, it can encourage openness regarding how well businesses are doing.

The main aim of the study is to examine the impact of profitability on the sustainability reporting of consumer goods firms in Nigeria. Alongside, the specific objective of impact of profitability and leverage on sustainability reporting of consumer goods firms in Nigeria. The rest of the study is broken into the foregoing introduction, problem statement, review of the literature, theoretical framework, methodology, results and discussion, and lastly conclusion and recommendation.

2. Literature Review

Conceptual Review

Concept of Sustainability

Sustainable development has started existing around late 1980s and early 1990s up to date. According to WCED (1987), sustainable development is a kind of development that meets the needs of the present without compromising the ability of future generations to meet their own needs. That is why business ideologies increasingly shift to emphasize the need to expand without harming the chances of future generations (Brundtland Commission's Report). Therefore, a tactics was developed to promote longevity, transparency, and appropriate personnel growth inside business organizations (Purkayastha & Debapratim, 2019).

Moreover, Arnold (2017) claims that the basic goal of sustainable development is to create a flexible system that enables the preservation and renewal of the Earth's environmental, social, and economic resources. A flexible system of this kind should be able to withstand and respond favourably to various changing situations and contribute to the ongoing performance of environmental, social, and economic tasks.

Furthermore, Corporate Sustainability Standards (CSS), which are typically policies and initiatives aiming to achieve or surpass minimal regulatory standards, are frequently used by businesses to demonstrate their commitment to corporate sustainability (Grimm, 2016). Ashrafin, et al. (2019) define corporate sustainability as a strategy that focuses on the ethical, social, environmental, and economic aspects of conducting business in order to provide long-term stakeholder value.

In addition to wider social and environmental reporting, the growing concern about climate change has made carbon reporting more popular. One example is the Carbon Disclosure Project, which has encouraged companies and cities around the world to measure and disclose their greenhouse gas



emissions, climate change risks, and water strategies. According to Fortes (2002), the transformation of responsible natural resource management into a major socio-political issue paved the way for the development of sustainability reporting as an important business decision-making factor that requires environmental costs to be included in accounting data. As a result, corporate sustainability reporting entails a commitment to environmental concerns (Fortes, 2002).

Moreover, corporate sustainability reporting is an inclusive process that requires integral evaluation and adoption of goals for improving an organization and making the world a better place. In practice, sustainability reporting encompasses all aspects of accounting that are influenced by a company's reaction to sustainability development. Sustainability reporting developments have taken different forms, one of them being triple bottom line (TBL) reporting, where the three dimensions are social, economic, and environmental, or people, planet, and profit (Elkington, 1997), which implies that it targets the needs of present corporate stakeholders without compromising their future or other needs. The triple Ps are attributed to each of the three drivers of sustainability, that is, people for social, profit for economic, and the last p, planet, for environment. It has three components: social, environmental, and economic sustainability. Any industry or sector to which they belong must incorporate these three characteristics into its sustainability initiatives (Gopalakrishnan et al., 2012).

The concept of the triple bottom line was to integrate the reporting of economic, environmental, and social impacts to recognize wider stakeholder interests. The TBL economic dimension is comprised of four goals: achieving competitive advantage, producing profits, and maintaining the overall economic value of the company. Climate change, global warming, pollution, and ozone layer depletion are examples of environmental sustainability factors related to environmental quality. The social dimension covers matters pertaining to societal advancement such as health and safety, neighbourhood harmony, employment opportunities, charitable giving, and organizational behaviour (Aras et al., 2018). The business should focus on initiatives that not only enhance economic, environmental, and social performance but also have a positive impact on the firm's long-term competitive advantage and sustainable growth (Carter & Rogers, 2008).

The TBL was a concept created in the 1990s that called for the annual report to include information on the company's financial, social, and environmental performance. Economic performance measures, such as return on investment, gearing, and liquidity ratios, were already well defined. Companies are encouraged to create and set up performance indicators since they must disclose their social and environmental implications. Environmental effects were noted with regard to trash, emissions, and energy, among other things. Among other factors, social effects on employment and human rights issues were noted. The TBL agenda, as most people currently perceive it, is only the beginning, the author of TBL says.

Sustainability reporting is, however, evolving. It will be necessary to take a far more all-encompassing approach that coordinates across many different government policy areas, such as tax policy, technology policy, economic development policy, labour policy, security policy, company reporting policy, and so forth. The formulation of this all-encompassing strategy for sustainable growth and environmental protection will be a key governance task in the 21st century as well as, more importantly, a market challenge.

Concept of Corporate Profitability

Corporate profitability, simply mean the ability of the organization to use its resources in a way that allows it to produce more revenue than it requires spend on expenses. It measures efficiency and also considers the success or failure of the organization. Profitability is determined by using different profitability ratios; gross margin ration which compares the gross margin of a business to the net sales; profit margin ratio, this measures the amount of net income earned with each value of sales generated by comparing the net income and net sales of the organization; return on assets ratio, measures the net income produced by total assets during a period by comparing net income to the average total assets; return on capital employed ratio, measures how effectively a company can generate profits from its



capital employed by comparing the net operating profit to capital employed, return on equity ratio, measures the ability of the firm to generate profits from its shareholders' investments in the company.

Studies often assumes profitability (measured using return on assets or return on equity) to increase the firm's capability and flexibility to bearing sustainability reporting costs and to cope with the end result of disclosing possibly harmful information (Kent & Monem, 2008). Financial profitability and a company's sustainability are strongly correlated. Waddock and Graves (1997) that posits that better financial performance might lead to better corporate sustainability performance. Moreover, investors must be able to recognize the financial effects of sustainability-related factors so they can fully evaluate the investment's risk-to-return ratio (Silvola & Landau, 2021). Therefore, among factors that influences sustainability reporting is the firm's performance; profitable businesses are more likely to make their sustainability data public in order to defend their business practices (Legendre & Coderre, 2013).

Campbell and Mínguez-Vera (2008) suggested that businesses with strong financial performance are more expected to contribute in social, environmental, and corporate governance activities. Nevertheless, given the recent emphasis on and increase in the number of investors interested in sustainability investing, firm specific characteristics like leverage, size, financial performance, liquidity, and other resources and assets can affect whether a firm adopts sustainability reporting as part of its stewardship strategy and even its competitive strategy (Rumelt, 1984; Wernerfelt, 1984; Barney, 1986).

Concept of Leverage

Leverage refers to the use debt or borrowed capital to increase the potential return o investment, asset or returns of a firm (Brealey et., 2017). Financial leverage is a use of debt to finance business operations or investments (Damodaran, 2016). Moreover, operating leverage is the use of fixed assets and cost to increase productivity and efficiency (Higgins, 2018).

Empirical Review

Under this sub-section, previous studies that are relevant to the studies were empirically reviewed.

Alotaibi (2019), examines the determinants of environmental sustainability disclosure of Saudi listed companies. Two main dimensions of the factors influencing sustainability disclosure were investigated: company characteristics (size, age, profitability, type of industry, and leverage) and board of directors' characteristics (size, independence, and annual number of meetings). This research study utilized the content analysis approach in order to collect data from annual reports of non-financial companies listed in the Saudi stock market between 2015 and 2017. The findings revealed that the company's profits among others is an important determinant when it comes to the disclosure of environmental sustainability.

In addition, Karaman et al. (2018) investigate empirically what affects Global Reporting Initiative (GRI)-based sustainability reporting and its relationship with firm performance in the aviation industry between 2006 and 2015. The study derived data from the GRI Sustainability Disclosure Database and Thomson Reuters EIKON; from the former, they downloaded GRI-based reports, and from the latter, they obtained financial data. The study shows that firm profitability among others does not have significant effects on sustainability reporting, in contrast to expectations.

The impact of board features on the sustainability reporting of listed companies in Malaysia is examined by Ghuslan and Saleh (2017). Through the use of a systematic random sampling technique, a sample size of 70 companies was determined. The study's data came from accounts and annual reports for the years 2012 and 2013. With the use of multiple regression analysis, the study's findings revealed firm profitability affects the degree of sustainability reporting. Furthermore, Arthur (2016) examines the determinants of the level of sustainability report of mining companies in Ghana in the absence of regulatory and statutory requirements. Fifty sustainability reports of 10 large scale mining companies in Ghana were used from the period of 2008 to 2012. With the use of content analysis, the study finds



that there are significant effects of profitability (positive), among others on the level of Sustainability Report.

More so, Vural-Yavas (2016) examined profitability as determinants of the capital structure of the firms that provide high-quality corporate sustainability reporting. First, all the non-financial companies quoted in Borsa Istanbul (BIST) were studied and all the firms that are included in the computation of the BIST Sustainability Index (XUSRD) were also analyzed as the firms that provide high-quality corporate sustainability reporting. However, Tong (2017) investigated the effects of company-specific variables on the amount of corporate social responsibility (CSR) information disclosed in publicly traded companies in the United Kingdom (UK) and Malaysia. Content analysis was applied to sampled reports from the FTSE 100 Index and FTSE Bursa KLCI against inferred meanings from the Global Reporting Initiative (GRI)-derived coding base to identify similarities and/or differences in CSR disclosure practices. Among others firm profitability was negatively associated with CSR disclosure.

Ganewatta and Priyadarshanie (2016) sought to analyze the potential effect firm characteristics has on the level of corporate social disclosures in annual reports of listed banking companies in Colombo Stock Exchange. Data was gathered for four years from 2011 to 2014 covering 11 commercial banks. The study shows the profitability as an insignificant factor for determining the level of social disclosures.

Theoretical Review

Following are the relevant theory that explain and underpinned this study is legitimacy theory. Transparency about a company's sustainability implications is critical for both continual improvement and stakeholder engagement. Without transparency, there is no trust, and without trust, doing business becomes extremely difficult, markets become inefficient, and institutions lose their legitimacy. Legitimacy, according to Bhattacharyya (2016), is concerned with the alignment of organizational and society values. It encapsulated the notion that an organization's actions are desirable, proper, or appropriate in light of societal norms, values, behavior, and practices. According to this view, sustainability disclosure and litigation-induced social pressure are matched (Huang, et al. 2014).

Furthermore, legitimacy could be viewed as goodwill that allows members to endure outputs that are potentially harmful to their interests (Gibson, et al. 2005). This effectively forces businesses to follow all legal guidelines governing their operations. Respecting and following all rules and regulations offers organizations more legitimacy and is more likely to develop friendships (Gibson et al., 2005). As a result, the more legitimate a corporation acts, the more the community accepts them.

3. Methodology

This study adopts an ex-post facto research design. The population of the study covers all the twenty-six (26) consumable goods firms listed on the Nigerian Exchange Group (NGX), formerly known as Nigerian Stock Exchange (NSE) as at December 31st, 2022. The study also covers the period of five (5) years (2018 – 2022). The study uses secondary data that were extracted from published annual reports and accounts of seventeen (17) sampled consumer goods firms which was arrived after applying criteria sampling techniques. Additionally, sustainability reports were used to get the information about the sustainability engagement by firms and financial reports was also used to generate information about the financial performance of the firm. Moreover, companies' websites will also be utilized to supplement the data.

To effectively capture the dynamics of sustainability reporting quality and its association with corporate attributes, the study adopts a panel data approach. This approach allows for a comprehensive analysis of trends and variations in sustainability reporting practices over time and across different companies.



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Table 1

Variables Definition and Measurement

Variables	Operational Definition	Measurement	Sources
Dependent			
Sustainability Reporting (SR)	Economic, Environmental Social indices	GRI Standards (Indices)	Permatasari et al. (2020); Romero et al. (2019)
Independent			
Profitability	This is the annual profit yield from the company's business operations.	The measurement is return on assets (net income divided by total assets).	Nguyen (2020); Diouf and Boiral (2017).
Leverage	The financial leverage ratio is an indicator of how much debt a company is using to finance its assets.	Ratio of total debt to total equity.	Bhatia and Tuli (2017)
Control Variable			
Firm Size (FSize)		Natural Log of Total Assets	

Source: Compiled by the Researcher, 2024

Model Specification

The following is the model specification of the study: $SR_{it} = \beta_0 + \beta_1 Profitability_{it} + \beta_2 Leverage_{it} + \beta_3 FSize_{it} + e_{it}$. The control variable was introduced into the model to avoid misspecification. The study data was analyzed using descriptive statistics, correlation statistics and multiple regression analysis.

4. Result and Discussion

Table 2

Descriptive statistics

Variables	Obs.	Mean	Median	St. Deviation	Minimum	Maximum
SR	85	0.15		0.07	-0.15	0.45
Profitability	85	3.47	2.89	8.25	-118.4	45.32
Leverage	85	0.82	0.50	0.89	0	7.07
FSize	85	1.0531	1.45	13.79	17.08	15.13

Source: STATA output, 2024

Table 2 presents descriptive statistics of the variables. The lowest, maximum, mean as a measure of central tendency, and finally the standard deviation as a measure of dispersion. The table reveals that SR has a mean of 0.15, standard deviation of 0.07, minimum of -0.15 and maximum of 0.45. Profitability measured by return on assets shows an average of mean of 3.47, median of 2.89. standard deviation of 8.25 a minimum of -118.4 and a maximum of 45.32. Firm size has an average of 15.13, standard deviation of 1.05, a minimum of 13.79 and a maximum of 17.08.



Table 3
Correlation Analysis

Variables	SR	Profitability	Leverage	FSize
SR	1			
Profitability	0.43	1		
Leverage	-0.23	0.58	1	
FSize	0.17	-0.23	0.19	1

Source: STATA output, 2024

Table 3, it shows the correlation results among the variables. The result shows that profitability has a positive and significant impact on sustainability reporting as reveal by the coefficient of 0.43 which is significant at the 5% significance level. leverage is negatively but significantly associated with sustainability reporting with the coefficients of -0.23. Firm size has positive but insignificant effect on sustainability reporting as reveal by the coefficients of 0.17.

The correlation coefficients on the main diagonal are 1 because each variable has a perfect positive linear relationship with itself. The correlation among the independent variables shows that profitability is positively and significantly correlated with leverage with the coefficient of 0.58, while the profitability is negatively but significantly correlated with firm size with the coefficient of -0.23. Lastly, firm size has a positive but insignificant with leverage with the coefficient of 0.019.

Table 4
Regression Result

Variables	Observation	Constant	Profitability	Leverage	FSize	R ²
SR	85	0.185 (1.3131)	0.0254 (0.3401)	0.4122 (0.0031)	0.0063 0.2311	0.2543

Source: STATA output, 2024

The above table 4 depicts the regression results of the coefficient and its p-value in parenthesis. The results in Table 4 shows that leverage has a significant positive impact on the sustainability reporting of consumer goods firms in Nigeria as indicated by the coefficient of 0.4122 which is significant at 1% level of significance (from the P-value of 0.0031). Based on this, the study rejects the null hypothesis which states that, leverage has no significant impact on sustainability reporting of consumer goods firms in Nigeria. Therefore, the study infers that consumer goods firms that have leverage are likely to report their sustainability development. And it in line with says that companies with a higher leverage ratio disclose more detailed information (Naser et al., 2006).

On the other hand, the findings of the study reveal that profitability has no significant impact on the sustainability reporting of the industries based on coefficients of (0.0254 with the p-values of 0.3401). Therefore, the study infers that the most of the consumer goods firms that are profitable prefer expansion than engaging into sustainability development not even to disclosed. And it against the said that companies with strong financial performance are more likely to participate in social, environmental, and corporate governance activities (Campbell & Mínguez-Vera, 2008).

Firm size which is the control variable for the study, shows an insignificant impact on sustainability reporting of consumer goods firms based on coefficient of 0.0063 and p-value of 0.2311. The implication of this finding is that size of the firms has no significant impact on the sustainability reporting of manufacturing industries. Moreover, the results from table 4 indicates that the independent variables of the study (profitability, leverage and the control variable of firm size) explained 25.43% of the variations in the sustainability reporting of consumer goods firms based on the coefficient of determinations (R² value of 0.2543).



Conclusion and Recommendation

This study examined the impact of profitability and leverage on sustainability reporting of consumer goods firms in Nigeria. The study concludes that there is a relationship between the profitability, leverage and sustainability reporting of consumer goods firms in Nigeria. The study shows that the leverage has a positive and significant impact on the sustainability reporting of consumer goods firms in Nigeria. Moreover, companies of higher leverage tend to rely more on debt, therefore, necessitating an increase in environmental actions and the presentation of additional environmental information in order to meet creditors' expectations on environmental issues. While, there is an insignificant impact of profitability on the sustainability reporting of consumer goods firms in Nigeria which implied that management these industries in Nigeria engaged their firms into sustainability development to attract recognition. Therefore, it is recommended that the Nigerian Exchange Commission (SEC) Nigeria should make sustainability reporting mandatory for all listed consumer goods firms.

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