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Sustainability Reporting and Market Performance of Insurance Firms in Nigeria

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ABSTRACT

Purpose: This study examines the effect of sustainability reporting on the market performance of listed insurance firms in Nigeria.

Methodology/approach: The study employed an ex-post facto research methodology, using pre-existing, unaltered data from 22 listed Nigerian insurance companies, conducted from 2013 to 2023. Panel regression analysis and the FGLS regression model were used to investigate the relationship between the variables.

Findings: The study found that sustainability reporting, encompassing social, environmental, and governance disclosures, positively and significantly affects market performance. Investors and stakeholders increasingly recognize that companies committed to sustainability are better positioned for long-term success. Comprehensive sustainability reporting signals strategic future planning and consideration of environmental and social impacts, leading to greater stability and resilience. The positive effect on market performance is justified by the favorable perception it generates regarding a company's long-term viability, ethical conduct, and effective risk management.

Practical implications: Companies can use sustainability reports to communicate their long-term strategies and commitment to ESG principles, attracting a broader base of investors seeking sustainable investment opportunities. These practical implications underscore the broader strategic, financial, and operational benefits of sustainability reporting, emphasizing long-term value creation and competitive positioning.

Originality/value: This study contributes to the understanding of sustainability reporting within the Nigerian insurance sector. It provides empirical evidence on how different aspects of sustainability reporting: social, environmental, and governance affect market performance. The research fills a critical gap in the literature regarding African insurance markets, offering insights that can inform both academic discourse and practical applications and market performance.

Keywords: Sustainability Reporting; Social Disclosure; Environmental Disclosure; Governance Disclosure; Market Performance.

INTRODUCTION

The global insurance industry serves as a cornerstone of financial markets, providing risk management and protection against various uncertainties for individuals, businesses, and economies (Turuianu, 2023). As a key component of the financial services sector, the performance of insurance firms has significant implications for overall market stability and investor confidence. In a global context, the market performance of listed insurance firms has been a subject of extensive research and analysis. African insurance industry has witnessed notable growth and evolution driven by factors such as rising middle-class populations, increasing urbanization, and growing awareness of risk management and insurance products. However, the industry still faces various challenges, including low insurance penetration rates, regulatory constraints, and limited access to insurance services in rural and underserved areas.

Despite these challenges, there is growing recognition of the importance of sustainable business practices and corporate governance in driving the long-term viability and resilience of African insurance firms. Research by Farah, Elias, Aguilera, and Abi Saad (2021) emphasized the need for insurance companies in Africa to adopt sustainable business models, enhance risk management capabilities, and improve transparency and accountability through effective corporate governance mechanisms. Furthermore, studies such as those by Buallay, Fadel, Alajmi, and Saudagaran (2021) and Buallay (2020)found a positive correlation between robust sustainability reporting and improved financial performance. Firms that actively disclosed their ESG practices tended to perform better financially, demonstrating higher profitability and stronger financial metrics compared to those with less comprehensive reporting.

Sustainability reporting has emerged as a critical tool for businesses worldwide to communicate their environmental, social, and governance (ESG) performance to stakeholders, including investors, regulators, and the broader public (M. Dagunduro, Falana, Ajayi, & Boluwaji, 2024). In recent years, the insurance industry has faced increasing pressure to demonstrate its commitment to sustainability due to its significant impact on society and the environment. Nigeria, as Africa's largest economy, has seen a burgeoning interest in sustainability practices amidst growing concerns about environmental degradation, social inequality, and corporate governance issues. In this context, the insurance sector plays a vital role in providing risk mitigation and financial protection, making it imperative to assess how sustainability practices influence its market performance.

Numerous studies have investigated the relationship between sustainability reporting and firm performance across various industries and geographical regions. For instance, research by Ioannou and Serafeim (2010) found a positive association between sustainability performance and financial performance among U.S. firms. Similarly, studies by I. U. Khan, Hameed, Khan, Khan, and Khan (2021) and Hongming et al. (2020)highlighted the positive impact of sustainability reporting on the financial performance of firms in emerging markets. Also, Gunawardhane, Wijesinghe, and Kavinda (2022) investigated the impact of macroeconomic factors, regulatory changes, and industry trends on the market valuation and stock performance of insurance companies. Their findings underscored the significance of economic conditions, interest rate movements, and regulatory reforms in shaping investor perceptions and market expectations regarding insurance firms' prospects. Studies such as those by Awotomilusi, Dagunduro, Dada, and Oluwagbade (2023) and Olarewaju and Msomi (2021) have also explored factors influencing the financial performance and market dynamics of insurance companies across different regions and market environments. Awotomilusi et al. (2023) highlighted the importance of market structure, regulatory environment, and competitive dynamics in shaping the performance and profitability of insurance firms. Their research emphasized the role of market competition, technological innovation, and risk management practices in driving firm-level performance metrics such as profitability, growth, and market share. In this scenario, the insurance industry's role in offering risk management and financial security is crucial, highlighting the importance of evaluating how sustainability practices impact its market performance (Oluwagbade, Dagunduro, Awotomilusi, & Dada, 2023).

Research on sustainability reporting and market performance of listed insurance firms has been thorough on a global scale, but there is a notable gap concerning the African insurance market. Africa presents a distinct environment for insurance operations due to varied regulatory frameworks, socioeconomic hurdles, and market dynamics. Despite an increasing focus on sustainability reporting and financial performance, there is limited research dedicated to Nigeria's insurance sector. This study seeks to address these gaps by examining the extent of sustainability reporting among listed insurance firms in Nigeria and its impact on market performance metrics such as stock returns, volatility, and market value. The rationale for this research stems from the recognition that sustainability reporting can enhance corporate transparency, reputation, and long-term value creation, which are critical factors driving investor decisions in today's increasingly socially conscious market environment. The study's insights into sustainability reporting's impact on market performance are crucial for policymakers, investors, and insurance firms. They inform strategic planning, risk management, and regulatory frameworks across sectors. Policymakers can validate sustainability regulations, promoting transparency and standardization in reporting to foster a sustainable business environment and enhance market confidence. Investors can assess company performance and risk management through sustainability disclosures, making informed investment decisions. Insurance firms can better understand client risks related to climate change and regulations, enabling tailored risk mitigation strategies for more resilient portfolios.

The remainder of this paper is organized as follows: Section 2 provides a review of the relevant literature on sustainability reporting and market performance. Section 3 outlines the research methodology, including data collection, sample selection, and analytical techniques. Section 4 presents the empirical findings of the study and discussion of the results in Section. Finally, Section 5 offers concluding remarks and avenues for future research.

LITERATURE REVIEW

Sustainability Reporting

Sustainability reporting is the practice of disclosing a company's environmental, social, and governance (ESG) performance to stakeholders, including investors, employees, customers, and communities (M. Dagunduro et al., 2024). It involves the systematic measurement, monitoring, and communication of a company's economic, environmental, and social impacts, as well as its efforts to address sustainability issues and promote responsible business practices. Sustainability reporting has gained prominence as businesses recognize the importance of integrating sustainability considerations into their decision-making processes and demonstrating their commitment to corporate responsibility (Boluwaji, Igbekoyi, Dagunduro, Busayo, & Osatuyi, 2024). By voluntarily reporting on sustainability performance, companies can enhance transparency, accountability, and stakeholder trust, while also identifying opportunities for improving operational efficiency, reducing risks, and creating long-term value (Lawal, Igbekoyi, Dagunduro, & Research, 2024).

Environmental Disclosure

Environmental disclosure refers to the communication of information by organizations regarding their environmental performance, impacts, and practices to stakeholders, including investors, regulators, consumers, and the public (Kolawole, Igbekoyi, Ogungbade, Dagunduro, & Accounting, 2023). It involves the disclosure of data, policies, initiatives, and strategies related to environmental management, pollution prevention, resource conservation, and sustainable practices (Akinleye, Owoniya, & Accounting, 2024). Environmental disclosure serves multiple purposes, including enhancing transparency, accountability, and trust; enabling stakeholders to assess environmental risks and opportunities; facilitating informed decision-making; and promoting corporate responsibility and sustainability (Attah-Botchwey, Soku, & Awadzie, 2021; Attah-Botchwey, Soku, & Awadzıe, 2022). Environmental disclosure has become increasingly important due to growing awareness of environmental issues, regulatory pressures, and stakeholder demands for greater transparency and sustainability reporting(Kolawole et al., 2023). Companies that disclose environmental information demonstrate their commitment to environmental stewardship and may gain competitive advantages such as improved reputation, access to capital, and customer loyalty (Alam & Islam, 2021; Toms, 2002).

Social Disclosure

Social disclosure involves the communication of information by organizations regarding their social performance, activities, and impacts to stakeholders, including investors, employees, customers, and communities. It encompasses the disclosure of data, policies, initiatives, and practices related to social responsibility, labor practices, human rights, community engagement, diversity and inclusion, and philanthropy (ElAlfy, Palaschuk, El-Bassiouny, Wilson, & Weber, 2020; Saz-Gil, Cosenza, Zardoya-Alegría, & Gil-Lacruz, 2020). Social disclosure serves various purposes, including enhancing transparency, accountability, and stakeholder trust; enabling stakeholders to assess social risks and impacts; promoting corporate responsibility and sustainability; and fostering dialogue and engagement with diverse stakeholders (Giacomini, Zola, Paredi, & Mazzoleni, 2020). Social disclosure has gained prominence due to increasing societal expectations, regulatory requirements, and stakeholder demands for greater transparency and accountability in social performance reporting (Boluwaji et al., 2024). Companies that disclose social information demonstrate their commitment to addressing social issues and may benefit from enhanced reputation, employee morale, and customer loyalty.

Governance Disclosure

Governance disclosure refers to the disclosure of information by organizations concerning their governance structures, practices, and processes to stakeholders, including investors, regulators, shareholders, and the public (M. Dagunduro et al., 2024). It involves the communication of data, policies, procedures, and initiatives related to corporate governance, board oversight, executive compensation, risk management, and regulatory compliance (Ibrahim, Mohammed, Agbi, Kaoje, & Abdulkarim, 2021). Governance disclosure serves several purposes, including promoting transparency, accountability, and stakeholder confidence; enhancing corporate governance effectiveness and integrity; enabling stakeholders to assess governance risks and practices; and fostering trust and credibility in the organization's operations (Kaya & Akbulut, 2019). Governance disclosure has gained increased attention due to corporate scandals, regulatory reforms, and investor demands for greater transparency and accountability in governance reporting (Nzekwe, Okoye, Amahalu, & research, 2021). Companies that disclose governance information demonstrate their commitment to sound corporate governance practices and may benefit from improved investor relations, access to capital, and market reputation (Olatunde, Jagunna, Mustapha, & Review, 2021).

Market Performance

Market performance refers to the evaluation of a company's financial and operational success relative to the broader market and its competitors (ADEWARA, DAGUNDURO, FALANA, BUSAYO, & Studies, 2023; Asubiojo, Dagunduro, Falana, & Science, 2023). It involves the analysis of various metrics and indicators, such as stock prices, market share, profitability, revenue growth, and shareholder value, to assess the company's ability to generate returns and create value for investors (M. E. Dagunduro, Dada, & Asubiojo, 2023). Market performance is influenced by numerous factors, including economic conditions, industry trends, competitive dynamics, regulatory changes, technological advancements, and company-specific factors such as strategic initiatives, product innovations, and operational efficiency (Dada, Igbekoy, & Dagunduro, 2023). Market performance metrics are often used by investors, analysts, and stakeholders to evaluate the attractiveness of an investment opportunity, make investment decisions, and assess the financial health and prospects of a company (Awotomilusi et al., 2023; M. E. Dagunduro et al., 2023). Companies with strong market performance may enjoy benefits such as increased access to capital, lower cost of capital, and enhanced market reputation and competitiveness (Dada et al., 2023; Oluwagbade et al., 2023).

Sustainability Reporting and Market Performance

Sustainability reporting, the practice of disclosing environmental, social, and governance (ESG) information, has garnered significant attention due to its potential impact on market performance. Lawal et al. (2024) suggest that sustainability reporting can influence various aspects of market performance, including stock prices, investor perception, and long-term financial returns

Several studies have examined the relationship between sustainability reporting and market performance. For example, Ioannou and Serafeim (2010) found a positive association between sustainability performance and financial performance among U.S. firms. Similarly, M. Khan (2019) demonstrated that sustainability reporting positively affects the financial performance of firms in emerging markets. Moreover, sustainability reporting can influence investor decisions by providing information on non-financial risks and opportunities that may impact long-term financial performance (Ibrahim et al., 2021). Investors increasingly consider ESG factors in their investment decisions, viewing them as indicators of corporate resilience, innovation, and strategic foresight (Kaya & Akbulut, 2019). Sustainability reporting can have a significant impact on market performance by enhancing transparency, reputation, and long-term value creation. Companies that effectively communicate their sustainability efforts may enjoy competitive advantages and attract investors who prioritize responsible and sustainable investment strategies. Furthermore, studies such as those by Buallay et al. (2021) have explored the relationship between sustainability reporting and financial performance among African firms, highlighting the potential benefits of integrating environmental, social, and governance (ESG) considerations into business strategies.

Theoretical Framework

This study integrates stakeholder theory and agency theory to explore the relationship between sustainability reporting and market performance. Stakeholder theory, as articulated by Freeman (2010), posits that organizations interact with various stakeholders, including employees, customers, suppliers, communities, and investors. By actively engaging and addressing stakeholder interests through sustainability reporting, companies enhance their reputation, build trust, and strengthen relationships within their broader community (M. Dagunduro et al., 2024). This approach aligns business practices with societal values, improving competitive positioning and market performance. Agency theory, developed by (Meckling, Jensen, & Structure, 1976), focuses on the principal-agent relationship within organizations, particularly conflicts of interest between managers (agents) and shareholders (principals).

Sustainability reporting mitigates these conflicts by providing transparency and accountability, allowing shareholders to monitor managerial performance effectively (Dada et al., 2023). Companies that adopt robust sustainability reporting practices demonstrate integrity, responsible resource management, and accountability, thereby enhancing investor confidence, reducing agency costs, and attracting investment (Awotomilusi et al., 2023). Stakeholder theory and agency theory complementarily illustrate how sustainability reporting can influence market performance. By addressing stakeholder interests and mitigating agency conflicts, sustainability reporting enhances corporate reputation, investor confidence, and long-term value creation. It underscores sustainability reporting as a strategic tool for driving sustainable practices and gaining competitive advantage in the marketplace.

Empirical Review

Empirical studies have extensively examined the relationship between sustainability reporting and market performance, exploring how sustainability disclosures influence various market indicators across different geographical regions, industry sectors, and time frames. These studies typically employ diverse methodologies, such as longitudinal analyses and multivariate regression models, to assess impacts on financial metrics like earnings per share, firm value creation, and net asset per share. For instance, Lawal et al. (2024) investigated sustainability reporting's effects on value creation among Nigerian listed manufacturing firms, finding positive influences of social sustainability disclosures on earnings per share. Similarly, Akinleye et al. (2024) identified a significant positive relationship between comprehensive sustainability reporting dimensions such as governance, credibility, and environmental disclosures, and firm performance in Nigeria. Other studies, like Boluwaji et al. (2024) and M. Dagunduro et al. (2024), further explored how sustainability practices, including stakeholder inclusiveness and environmental disclosures, impact operational continuity and firm performance in specific Nigerian sectors. Additionally, studies like Turuianu (2023) have examined how transparency in sustainability reporting reduces earnings management practices, highlighting broader implications for investor perception and market valuation. These findings collectively underscore the strategic importance of sustainability reporting in enhancing corporate performance and stakeholder engagement within diverse market contexts.

The studies by Attah-Botchwey et al. (2021), Attah-Botchwey et al. (2022), Ibrahim et al. (2021), Farah et al. (2021), Buallay et al. (2021), and Buallay (2020) collectively explore the impact of sustainability reporting on financial and market performance across various regions and industries. Attah-Botchwey et al. (2022) focused on African banks, finding that reporting economic, social, and governance sustainability content positively correlates with Tobin's Q and Return on Assets (ROA), with environmental sustainability particularly affecting ROA. Saputra and Murwaningsari (2021) studied Indonesian companies, showing that economic, environmental, and social performance disclosures positively influence company performance. Ibrahim et al. (2021) examined Nigerian oil and gas firms, finding significant positive effects of environmental sustainability on ROA, while economic and social sustainability showed mixed results. Fatai Abiodun, Florence, and Helen F (2021) analyzed Nigerian deposit money banks, finding that overall sustainability and environmental disclosures may negatively impact firm value. Conversely, M. Khan (2019) observed a positive relationship between sustainability reporting and stock returns among firms on the Pakistan Stock Exchange. Nzekwe et al. (2021) found that sustainability reporting enhances investor perception and market value for Nigerian firms.

Numerous studies have investigated the relationship between sustainability reporting and financial performance across various industries and geographical regions. The empirical evidence suggests a positive association between sustainability reporting and market performance, with companies engaging in sustainability disclosure practices experiencing favorable financial outcomes, higher market valuations, and enhanced investor perception. These findings underscore the importance of sustainability reporting as a strategic tool for driving long-term value creation and competitive advantage in the marketplace. However, it is essential to recognize the heterogeneity of findings across studies and the need for further research to explore the underlying mechanisms and contextual factors shaping the relationship between sustainability reporting and market performance. Also, there is limited research dedicated to Nigeria's insurance sector. This study seeks to address these gaps by examining the extent of sustainability reporting among listed insurance firms in Nigeria. Based on the gaps identified, the alternative hypothesis stated as follows:

H_1: Sustainability reporting has a significant effect on the market performance of listed insurance firms in Nigeria.

Conceptual Framework

Figure 2.1 shows the interaction between the independent variables (Sustainability Reporting: environmental disclosure, social disclosure, and governance disclosure) and dependent variables (Market Performance).

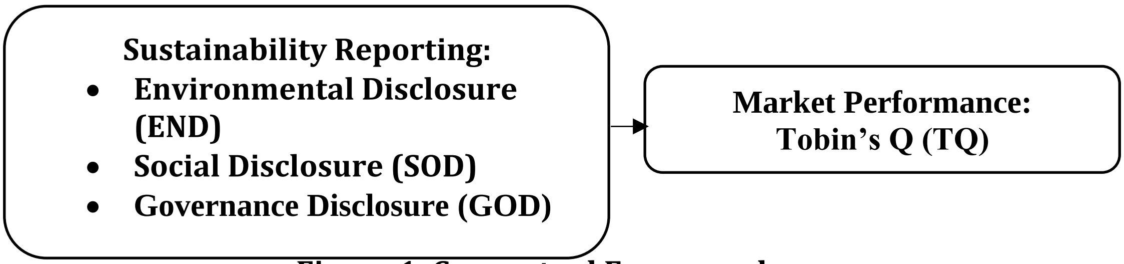

Figure 1. Conceptual Framework

METHODS

The investigation adopted an ex-post facto research methodology because it utilized pre-existing data, which was not intended for alteration. This approach is justified as it allows the researchers to analyze real-world data without the need for experimental manipulation, ensuring the authenticity and relevance of the findings. The study focused on a population of 23 listed insurance companies in Nigeria, with the sample size also being 23 firms, determined through census sampling techniques. This method was chosen to ensure that the entire population was represented, providing comprehensive insights into the sector. Conducted over 12 years, from 2013 to 2023, the study's timeframe was selected to capture the transitional phase from the Nigerian Stock Exchange (NSE) to the Nigerian Exchange Group (NGX). This period was significant for quoted companies in Nigeria as it included regulatory and operational changes impacting the financial and sustainability reporting landscape. To examine the relationship between the variables studied, employed the Feasible Generalized Least Squares (FGLS) regression model. This model was appropriate due to its ability to handle panel data, which combines cross-sectional and time-series data, providing robust and efficient estimates in the presence of heteroscedasticity and autocorrelation. By using FGLS, the study ensured that the analysis accounted for potential variations and correlations within the data, leading to more reliable and valid results.

Model Specification

This study synthesized insights from previous research (Akinleye et al., 2024; Lawal et al., 2024) to investigate the interrelationships among variables. The objective was to evaluate how the integration of sustainability reporting initiatives and market performance can mutually enhance organizational outcomes. The model was organized as follows:

$MP = f(SR)$

$MP = \beta_0 + \beta_1 END + \beta_2 SOD + \beta_3 GOD + \varepsilon it$

Where:

MP = Market Performance

SR = Sustainability Reporting

END = Environmental Disclosure

SOD = Social Disclosure

GOD = Governance Disclosure

β = Intercept

e = stochastic error term β1, β2, β3, and β4 indicate the coefficients of the unknown variables.

The *a-priori* expectation is that β1, β2, β3 > 0, which means that a positive relationship is expected between the explanatory variables and the explained variable.

Table 1: Operationalization and Measurement of Variables

Variables	Description	Measurement	Source
Tobin's Q (TQ)	Tobin's Q is a measure used to assess the relationship between a firm's market value (equity and debt) and the replacement cost of its assets.	It is calculated as the ratio of the market value of a firm to the replacement cost of its assets.	Awotomilusi et al. (2023); Oluwagbade et al. (2023)
Environmental Disclosure (END)	It comprises details pertaining to the environmental initiatives outlined in the disclosure index.	The compilation of these disclosures, as outlined in the index, encompasses various aspects such as environmental impact, material usage, energy consumption, water management, biodiversity preservation, emissions, waste disposal practices, product or service environmental footprint, and adherence to environmental laws and regulations.	Dagunduro et al. (2024)

Variables	Description	Measurement	Source
Social Disclosure (SOD)	It comprises details pertaining to the social initiatives outlined in the disclosure index.	The combination of these disclosures, as outlined in the index, includes topics such as labor practices, human rights, diversity and inclusion initiatives, employee well-being and development, community engagement efforts, employee health and safety measures, and philanthropic endeavors.	Dagunduro et al. (2024)
Governance Disclosure (GOD)	It comprises details pertaining to the governance initiatives outlined in the disclosure index.	The compilation of these disclosures, as outlined in the index, encompasses various aspects such as board composition, executive compensation policies, ethical standards, financial acumen of board members, and risk management practices.	Dagunduro et al. (2024)

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 shows the key characteristics of the data used in the panel regression study. This shows the overall quality of the data collected. Tobin's Q is used to assess the dependent variable (market performance), while END, SOD, and GOD represent the independent variables (environmental disclosure, social disclosure, and governance disclosure). Tobin's Q average value is 0.2622. This signifies that the company's assets have a lower market worth than their replacement cost on average. However, this is susceptible to a standard deviation of 0.2606. The lowest value of Tobin's Q was 0, while the greatest value was 2.29.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Deviation	Min	Max
Tobin's Q	276	0.2622	0.2606	0	2.9200
END	276	0.0307	0.0804	0	0.4615
SOD	276	0.2464	0.1690	0	0.7333
GOD	276	0.4135	0.3157	0	0.9333

Again, the mean value of END was 0.0307. This indicates that the environmental related disclosure was 3.07% on average. Although this distribution has a range of 0 to 0.4615, it is subjected a deviation of 0.0804. On the other hand, mean size of SOD was 0.2464. This implies disclosure about social activities of the insurance firms examined was about 24.64% on average. While this distribution may vary at lower standard deviation of 0.1690, it ranges from 0 to 0.7333. Also, the mean value of GOD was 0.4135. About 41.35% of items related to governance examined were disclosed in the annual report of sampled insurance firms. The variation in this distribution is however low at 0.3157 standard deviation. These could range from 0 to 0.9333.

The Panel Regression Analysis Between Sustainability Reporting and Market Performance of Listed Insurance Firms in Nigeria.

The study employed Pearson correlation analysis to investigate the linear relationship between the dependent variable and independent variables. The results showed a linear but less substantial and insignificant relationship between Tobin's Q and EOD (-0.0708, p=0.2409), SOD (-0.0873, p=0.1482), and GOD (-0.0938, p=0.1201). To ensure a well-specified model, the regression specification error test (RESET) was used to check for omitted variables. The null hypothesis, stating no omitted variables, was not rejected (chi=1.10, p=0.3480). The Harris-Tzavalis panel unit root test indicated that all variables (Tobin’s Q, END, SOD, GOD) were stationary (p=0.0000 for all). A variance inflation factor (VIF) test showed no substantial multicollinearity among independent variables (mean VIF=3.65). The Breusch-Pagan/Cook-Weisberg test demonstrated heteroskedasticity (chi=25.91, p=0.0000). The Durbin-Watson d-statistic test indicated serial correlation (statistic=0.8320). The Shapiro-Wilk W test showed non-normality of residuals (p=0.0000), but adjustments made the residuals uniformly distributed around zero, indicating no systematic bias (mean residual=2.53e-10).

Model’s Estimation, Prediction and Analysis

The study investigated the impact of sustainability reporting on market performance in listed insurance firms in Nigeria, employing pooled OLS, fixed effect, and random effect models. The F-test results (5.44, p=0.0000) favored the fixed effect model over pooled OLS, indicating it was more appropriate. The Hausman test (p=0.1487, t=5.34) suggested the random effect model was more suitable than fixed effect. Additionally, the Breusch and Pagan Lagrange Multiplier test (p=0.0000, t=86.95) indicated that the random effect model was more efficient than pooled OLS. To address heteroskedasticity and serial correlation, variance-weighted least-squares regression was utilized, enhancing statistical power. The Wald test statistic (F=9632.72, p=0.0000) confirmed that the independent variables significantly predicted the dependent variable. Regression analysis revealed specific impacts: END had a beta coefficient of -0.5387 (p=0.0000), indicating a 53.87% decrease in Tobin’s Q with a unit increase in END. SOD had a beta coefficient of 1.2608 (p=0.0000), suggesting a 126.08% increase in Tobin’s Q with a unit increase in SOD. Conversely, GOD showed a beta coefficient of -0.4486 (p=0.0000), indicating a 44.86% decrease in Tobin’s Q with a unit increase in GOD. These findings underscore the significant influence of sustainability reporting components (END, SOD, GOD) on market performance in Nigerian insurance firms, highlighting the effectiveness of panel data methods and regression techniques in analyzing such relationships.

Table 3. Regression Estimate on Effect of Sustainability Reporting on the Market Performance

Variables	Pooled OLS			Fixed Effect			Random Effect		
	Coeff	t-value	p-value	Coeff	t-value	p-value	Coeff	t-value	p-value
END	-0.1258	-0.54	0.587	-0.2071	-0.84	0.401	-0.1815	-0.77	0.440
SOD	0.0081	0.04	0.969	-0.6051	-2.40	0.017	-0.4057	-1.74	0.081
GOD	-0.0676	-0.64	0.521	0.2708	2.16	0.031	0.1658	1.43	0.152
Constant	0.2920	10.17	0.0000	0.3056	10.63	0.000	0.2992	7.54	0.000
R-squared	0.0100								
Adj R-squared	-0.0010								
F-statistic	0.91								
P-value	0.4352								
Hausman test	5.34(0.1487)								
Mean Residual	2.53e-10								
Redundant Fixed Effect Test	5.44(0.0000)								
Ramsey reset test	1.10(0.3480)								
VIF	3.65								
Breusch-Pagan/Cook-Weisberg test for heteroskedasticity	25.91(0.0000)								
Breusch-Pagan Lagrangian multiplier	86.95(0.0000)								
Durbin-Watson d-statistic test	0.8320								
Shapiro-Wilk W test for normal data	8.243(0.0000)								
Correlation Residual- NPM, GPM, ROE	-0.0000(1.0000)	0.0000(1.0000)	0.0000 (1.0000)						
Linearity- EOD, SOD, GOD	-0.0708 (0.2409)	-0.0873 (0.1482)	-0.0938 (0.1201)						
Unit root- Tobinq, EOD, SOD, GOD	0.4601(0.0000)	0.5465 (0.0000)	0.3392 (0.0000)	0.4386 (0.000)					

Table 4. Variance-weighted least-squares regression

Variables	Estimate		
	Coeff	t-value	p-value
END	-0.5387	-6.32	0.000
SOD	1.2608	60.90	0.000
GOD	-0.4486	-26.02	0.000
Constant	0.0848	11.60	0.000
Model chi2(3)	9632.72		
Probability	0.0000		
Goodness-of-fit chi2(26)	809.63		
Probability	0.0000		

Source: Author's computation (2024)

Discussion

The regression results found that social disclosure positively and significantly affects the market performance of Nigerian listed insurance companies. Disclosing information about social initiatives, such as community involvement and employee welfare, improves market performance, with this effect being statistically significant. Conversely, both environmental and governance disclosures have a significant negative effect on market performance. This suggests that investors may view the costs of environmental compliance and governance practices as outweighing their benefits or not directly enhancing financial performance. These findings are statistically robust and imply that while social disclosures are beneficial, environmental and governance disclosures may be perceived as detrimental by the market. The comprehensive practice of sustainability reporting, encompassing social, environmental, and governance disclosures, positively influences market performance despite varying impacts of individual components. This holistic commitment to sustainability is perceived favorably by the market, signaling long-term viability, ethical conduct, and effective risk management. The overall positive effect suggests that benefits associated with being viewed as sustainable and responsible outweigh potential drawbacks of specific disclosures. Investors likely consider sustainability efforts as crucial drivers of long-term growth and stability.

These findings are consistent with expectations and reject the null hypothesis, aligning with previous research by Attah-Botchwey et al. (2021), M. Khan (2019), Latifah, Rosyid, Purwanti, and Oktavendi (2019), M. Dagunduro et al. (2024), Lawal et al. (2024) and others, which similarly found significant positive impacts of sustainability reporting on firm performance (Akinleye et al., 2024; Boluwaji et al., 2024). The positive influence of social disclosure on market performance in Nigerian listed insurance companies resonates with stakeholder theory, as outlined by Freeman (2010), which underscores the benefits of engaging stakeholders through initiatives like community involvement and employee welfare. These efforts cultivate trust, enhance reputation, and strengthen community relationships, aligning with the observed market performance improvements linked to social disclosures (M. Dagunduro et al., 2024). Conversely, agency theory, proposed by Meckling et al. (1976), emphasizes transparency and accountability in mitigating conflicts between managers and shareholders. Environmental and governance disclosures, while essential for transparency, may be perceived negatively by investors if costs are seen to outweigh financial benefits, as supported by regression findings indicating adverse impacts on market performance (Awotomilusi et al., 2023; Dada et al., 2023). These findings underscore the strategic alignment of sustainability reporting with stakeholder and agency theories to optimize market performance and enhance stakeholder engagement in Nigerian listed insurance companies.

CONCLUSION

Research on sustainability reporting and market performance has been extensive globally but limited regarding the African insurance market. Africa's unique regulatory, socioeconomic, and market dynamics present distinct challenges for insurance operations. In Nigeria, specifically, there is a lack of focused research on how sustainability reporting impacts the financial performance of insurance firms. This study addresses this gap by analyzing the extent of sustainability reporting among Nigerian listed insurance companies and its influence on market performance metrics, such as stock returns, volatility, and market value. The results show that social disclosure positively and significantly affects market performance, while environmental and governance disclosures have significant negative impacts. Overall, sustainability reporting has a net positive effect on market performance. The study concludes that sustainability reporting in the Nigerian insurance sector has a mixed impact on market performance. Social disclosures enhance market performance significantly, reflecting investor appreciation for corporate social responsibility. In contrast, environmental and governance disclosures negatively affect market performance, likely due to perceived costs and complexities. Nevertheless, the overall practice of sustainability reporting positively influences market performance, suggesting that the combined efforts in sustainability are viewed favorably by the market as indicators of long-term viability and ethical management.

Based on the findings of this study, the recommendations were put forward: firstly, Nigerian insurance firms should continue to enhance their social initiatives and transparently report these activities, as they positively impact market performance. Secondly, insurance companies should reassess their environmental and governance disclosure strategies to mitigate the negative perceptions and costs associated with these disclosures. Lastly, policy makers should adopt a balanced approach to sustainability reporting, ensuring that the overall narrative is cohesive and highlights long-term benefits. This study contributes to the understanding of sustainability reporting within the Nigerian insurance sector. It provides empirical evidence on how different aspects of sustainability reporting: social, environmental, and governance affect market performance. The research fills a critical gap in the literature regarding African insurance markets, offering insights that can inform both academic discourse and practical applications in sustainability and financial performance. This study make suggestions for future studies as follows: Firstly, future research could conduct a longitudinal study to assess the long-term effects of sustainability reporting on market performance in the Nigerian insurance sector. Secondly, comparative studies involving other African countries could provide broader insights into the regional dynamics of sustainability reporting and its market implications. Thirdly, future studies can incorporate qualitative methods, such as interviews with industry stakeholders, could offer deeper insights into the motivations and challenges behind sustainability reporting practices. Lastly, further studies could explore sustainability reporting impacts in other sectors within Nigeria to understand if similar trends exist or if the effects vary significantly across different industries.

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