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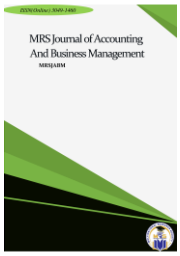

Governance Sustainability Disclosure and Market Value of Listed Oil and Gas Firms in Nigeria

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Abstract: *This study examines the relationship between governance sustainability disclosure and the market value of listed oil and gas firms in Nigeria. Utilizing an ex post facto research design, secondary data from the financial reports of eleven oil and gas firms listed on the Nigerian Stock Exchange (NSE) between 2019 and 2023 were analyzed. The study employs the Ordinary Least Squares (OLS) regression method to determine the effect of governance sustainability disclosure on market value. Findings indicate that board remuneration and board size exhibit a positive but insignificant relationship with market value, suggesting that governance disclosures in these areas do not strongly influence firm valuation. Conversely, the audit committee demonstrates a significant negative effect on market value, implying that stringent governance oversight may be perceived as a response to governance inefficiencies, potentially eroding investor confidence. The study concludes that governance sustainability disclosures alone may not be a primary determinant of market value in the capital-intensive oil and gas sector. It recommends that firms enhance governance strategies beyond compliance to foster investor confidence and long-term financial performance.*

Keywords: *Governance Sustainability Disclosure, Market Value, Board Remuneration, Audit Committee, Oil and Gas Firms.*

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1. Introduction

The integration of sustainability governance in corporate strategies has gained significant traction in recent years, particularly in industries with high environmental and social impact, such as the oil and gas sector. Governance sustainability expenditure, which encompasses investments in environmental, social, and governance (ESG) initiatives, is increasingly recognized as a critical factor influencing corporate financial performance and market valuation. In Nigeria, where the oil and gas industry remains a dominant contributor to the economy, concerns regarding environmental degradation, corporate transparency, and regulatory compliance have heightened the need for firms to incorporate sustainability practices into their governance structures (Egbunike & Okoro, 2020). Despite regulatory advancements, including the Nigerian Extractive Industries Transparency Initiative (NEITI) and the Financial Reporting Council's sustainability disclosure guidelines, there is limited empirical evidence on the extent to which governance sustainability expenditure affects the market value of listed oil and gas firms in Nigeria.

The core issue driving this study is the persistent paradox in corporate governance and sustainability investment decisions among Nigerian oil and gas firms (Edeh & Iwedi, 2024). While stakeholders, including investors, regulatory bodies, and host communities, demand greater corporate responsibility, firms face challenges in balancing sustainability expenditure with financial performance imperatives. Several studies (e.g., Clarkson et al., 2019; Odo & Eze, 2021) suggest that sustainability investments enhance corporate reputation and long-term profitability, yet others argue that excessive sustainability costs may erode short-term financial returns, particularly in emerging markets where investor sentiment remains highly sensitive to financial performance metrics. This contradiction raises concerns about the optimal level of governance sustainability expenditure required to drive market value enhancement in Nigeria's oil and gas sector.

Moreover, Nigeria’s oil and gas sector has been plagued by governance inefficiencies, ranging from regulatory non-compliance to weak corporate social responsibility (CSR) frameworks (Ameh & Obodo, 2022). These governance lapses have led to reputational risks, environmental litigations, and declining investor confidence, affecting the market valuation of listed firms. In response, some firms have adopted sustainability strategies, including investments in renewable energy, environmental impact mitigation, and social development programs, to align with global ESG trends. However, the extent to which these sustainability expenditures translate into tangible market value improvements remains an open question.

This study departs from previous research by explicitly examining the relationship between governance sustainability expenditure and market value within the unique context of Nigeria's oil and gas sector. While prior studies have explored sustainability investments broadly, there is a paucity of empirical investigations linking governance sustainability expenditure to market valuation metrics such as Tobin's Q, price-to-earnings ratio, and stock market capitalization. By focusing on listed oil and gas firms in Nigeria, this study seeks to bridge this knowledge gap and provide empirical evidence on the financial implications of governance sustainability spending. The findings will offer valuable insights for corporate managers, investors, and policymakers seeking to optimize sustainability investments for enhanced market value and long-term corporate sustainability.

2. Literature Review

2.1 Theoretical Framework

A robust baseline theory for this study is the Stakeholder Theory, supplemented by the Legitimacy Theory and the Resource-Based View (RBV) Theory to provide a comprehensive foundation for understanding the relationship between governance sustainability expenditure and market value in the Nigerian oil and gas sector.

2.1.1 Stakeholder Theory

The Stakeholder Theory, developed by Freeman (1984), posits that firms are accountable not only to shareholders but also to a broader group of stakeholders, including employees, customers, regulators, investors, and host communities. In the context of Nigeria's oil and gas sector, sustainability expenditure is critical for addressing the concerns of these stakeholders, particularly in areas such as environmental protection, corporate social responsibility (CSR), and regulatory compliance. When firms allocate resources to governance sustainability initiatives, they enhance their corporate reputation, reduce regulatory risks, and strengthen stakeholder trust, all of which contribute to improved market valuation (Donaldson & Preston, 1995; Freeman et al., 2020).

Empirical studies have shown that firms with strong ESG commitments tend to experience lower capital costs and higher investor confidence, leading to positive stock market performance (Eccles et al., 2014; Khan, Serafeim, & Yoon, 2016). In the Nigerian oil and gas sector, where environmental and social concerns are prevalent, governance sustainability expenditure serves as a strategic tool for managing stakeholder expectations and ensuring long-term financial stability.

2.1.2 Legitimacy Theory

The Legitimacy Theory, as proposed by Suchman (1995), argues that organizations must align their activities with societal expectations to maintain legitimacy. Firms that fail to meet sustainability and governance expectations face reputational risks, legal penalties, and potential investor divestment. In Nigeria, oil and gas companies operate in an environment of heightened public scrutiny due to issues such as environmental degradation, gas flaring, and community unrest. Sustainability expenditure through investments in environmental conservation, social development, and governance frameworks helps firms establish legitimacy and secure their social license to operate (Deegan, 2002; Cho & Patten, 2007).

Studies have shown that firms engaging in sustainability-driven governance practices are better positioned to attract long-term investments and mitigate the risks associated with regulatory changes (Ioannou & Serafeim, 2017). By integrating sustainability into governance structures, Nigerian oil and gas firms can enhance market value by reducing litigation costs, regulatory fines, and public opposition.

2.1.3 Resource-Based View (RBV) Theory

The Resource-Based View (RBV) Theory, developed by Barney (1991), emphasizes that firms achieve competitive advantage by leveraging unique internal resources and capabilities. Governance sustainability expenditure can be viewed as an intangible strategic resource that differentiates firms in the market. Firms investing in ESG practices develop long-term assets, such as brand reputation, operational efficiency, and investor confidence, which ultimately translate into enhanced market valuation (Hart, 1995; Barney et al., 2001). In the Nigerian oil and gas industry, where competition is fierce and regulatory compliance is stringent, governance sustainability initiatives provide firms with a strategic advantage. Firms that allocate resources to environmental risk management, ethical governance practices, and community engagement programs build sustainable competitive positions, attracting both domestic and foreign investors (Branco & Rodrigues, 2006).

By integrating Stakeholder Theory, Legitimacy Theory, and the RBV Theory, this study establishes a strong theoretical foundation for analyzing the impact of governance sustainability expenditure on market value. Stakeholder Theory explains the necessity of sustainability investment in addressing key stakeholder concerns, Legitimacy Theory justifies it as a strategy for maintaining corporate legitimacy, and RBV Theory underscores its role in building a sustainable competitive advantage. Together, these theories provide a robust framework for understanding how governance sustainability expenditure influences financial outcomes in Nigeria's oil and gas sector.

2.2 Conceptual Review

2.2.1 Governance Sustainability Expenditure

Governance Sustainability Expenditure refers to the allocation of financial resources by an organization towards initiatives that enhance its governance structures, ensuring alignment with environmental, social, and governance (ESG) criteria. This encompasses investments in areas such as ethical leadership, transparent decision-making processes, compliance mechanisms, and stakeholder engagement strategies. Such expenditures aim to strengthen the organization's governance framework, promoting accountability, integrity, and long-term sustainability. By investing in robust governance practices, companies can better manage risks, meet regulatory requirements, and build trust with stakeholders, ultimately contributing to improved financial performance and market valuation.

2.2.2 Market Value

Market value refers to the current worth of a company or asset in the financial markets, shaped by investors' perceptions and market dynamics. It indicates how much investors are willing to pay based on their evaluation of a firm's performance, growth potential, and associated risks. According to Emeka-Nwokeji (2019), investors' perceptions of management's capacity to adjust to shifts in the economy have an impact on a company's market value. Tobin's Q, a well-known forward-looking indicator that contrasts a company's market value with its book value, is used in this study to evaluate market value. According to Albuquerque et al. (2013), Tobin's Q is the ratio of the firm's total assets to the market value of equity, which is calculated as the share price multiplied by the number of outstanding shares, and the book value of debt, which is calculated as total assets less book equity. While a ratio below one may indicate undervaluation, a greater than one Tobin's Q indicates that the firm's market value exceeds its book value, showing strong investor confidence.

2.3 Empirical Review

Amadi (2025) looked into the connection between the market value of Nigerian listed oil and gas firms and their Corporate Social Responsibility (CSR) sustainability spending. The study examined secondary data from the published financial statements of eleven oil and gas companies listed on the Nigerian Stock Exchange between 2019 and 2023 using an ex post facto research design. To guarantee thorough coverage, the census method was chosen. Ordinary Least Squares (OLS) regression analysis was used to analyze the relationship between market value and CSR disclosure expenditures, which were divided into three categories: Corporate Welfare Costs (CWC), Donations and Charitable Costs (DCC), and Scholarships and Training Costs (STC). The results revealed a negative and statistically insignificant relationship between STC and DCC and market value, while CWC demonstrated a positive and significant effect. However, the overall model displayed weak explanatory power ($R^2 = 0.1723$) and a non-significant F-statistic ($p = 0.192$), suggesting that CSR disclosures, in general, do not significantly explain variations in firm market value. These findings align with studies in emerging markets showing negligible CSR effects on firm performance but contrast with research highlighting positive CSR impacts in more mature markets

Singh et al. (2024) studied the effect of ESG disclosure on firm value in the Indian manufacturing sector using a sample of 150 manufacturing firms listed on the Bombay Stock Exchange, selected through systematic random sampling. Using ordinary least squares (OLS) regression, the study found that governance disclosures had the most substantial positive impact on firm value, followed by environmental and then social disclosures. Similarly, Ofori and Mensah (2024) explored the influence of ESG disclosures on African banks. Analyzing data from 120 African banks using multivariate regression, the study found that environmental, social, and governance disclosures significantly and positively impacted firm value. Kim et al. (2023) examined the effect of ESG practices on firm performance in the European Union using a longitudinal research design. The study explored the impact of ESG practices on 300 large European firms over 12 years, employing purposive sampling. Structural equation modeling (SEM) was utilized to capture direct and indirect effects on firm performance, with data drawn from Thomson Reuters and company annual reports. The findings indicate a positive relationship between ESG disclosures and firm value, with governance having the most significant effect. Environmental disclosures positively impacted firm value over time, particularly among high-pollution firms, while social factors had a moderate effect. Liu and Zhao (2023) conducted a panel study on the role of ESG in firm valuation, focusing on firms from the U.S. technology sector. The study analyzed ESG impacts on 200 NASDAQ-listed technology firms between 2018 and 2023, employing the generalized method of moments (GMM) to address endogeneity concerns. The findings revealed that governance and environmental disclosures significantly increased firm value, while social disclosures had a positive but non-significant impact.

Onoh, Biradawa, & Ndubuisi, (2023) provided empirical evidence on the relationship between sustainability reporting and firm value, particularly within the Nigerian oil and gas sector. By employing secondary data from published annual reports, the research utilized descriptive statistics, correlation matrix analysis, and multiple regression techniques to test its hypotheses. The findings indicate that environmental sustainability reporting has a positive and significant effect on firm value, suggesting that companies with robust environmental disclosures tend to enhance their market valuation. Conversely, economic sustainability reporting exerts a negative significant effect, implying that short-term financial constraints associated with sustainability investments may deter investors in the immediate term. Additionally, firm-specific characteristics influence the relationship between sustainability reporting and firm value. Sales growth and leverage negatively impact firm value, potentially due to increased financial burdens or misalignment with investor expectations. On the other hand, firm size has a positive effect, indicating that larger firms benefit from enhanced sustainability practices, likely due to better resources and compliance capacity.

A study by Emovon and Izedonmi (2023) looked at the connection between the market value of Nigerian oil and gas businesses that are quoted and sustainability disclosure procedures. The study aimed to determine how firm valuation is impacted by financial and sustainability reporting openness, given the crucial role that Nigeria's oil and gas sector plays in promoting economic growth and development. Eight (8) publicly traded oil and gas businesses on the Nigerian Exchange Group (NEG) as of December 31, 2022, were the subject of the study, which used an ex-post facto research design. Based on the availability of data, seven (7) companies were chosen using a purposive sampling technique. The study covered a ten-year period from 2012 to 2021, with data extracted from the annual reports and financial statements of the sampled firms. A combination of descriptive and inferential statistical techniques was employed for data analysis, with panel data regression analysis applied using robust cluster standard errors to ensure statistical reliability. The empirical results showed that market value was negatively and significantly impacted by environmental cost disclosure, suggesting that excessive environmental-related spending may raise questions among investors about financial sustainability and profitability. Additionally, there was a negative but statistically negligible impact of community development cost disclosure on market value, indicating that although CSR programs are important, they might not necessarily result in instant increases in market value.

Ameh & Obodo, (2022) study examines the effect of corporate governance and sustainability expenditure on the financial performance of listed oil and gas firms in Nigeria. Using panel data analysis from 2010 to 2020, the study found that governance-related sustainability expenditures, particularly environmental and social investments, significantly impact firm profitability and market valuation. It highlights the critical role of sustainability governance frameworks in enhancing investor confidence and corporate reputation. Chen et al. (2022) conducted a quantitative study on the impact of ESG disclosure on firm value, using evidence from Asian emerging markets. Examining 250 listed firms through stratified random sampling based on market capitalization, the study applied fixed-effects panel regression with data from annual reports and Bloomberg's ESG database. The results showed that environmental, governance, and social disclosures had a significant and positive effect on firm value. The study concluded that governance transparency is particularly valued by investors in emerging markets, where institutional reliability may be lower.

With an emphasis on environmental, social, and corporate governance (ESG) disclosures, Abuaja and Ukpong (2022) investigate the value and significance of sustainability reporting among Nigerian listed oil and gas companies. To direct the analysis, the study developed four distinct goals, research questions, and null hypotheses. Twelve corporations were chosen using a purposive sampling technique from a total of fourteen listed oil firms as of December 31, 2020, using an ex-post facto research design. Secondary data from Nigerian Stock Exchange (NSE) publications, fact books, and the annual reports of the selected companies—which included their detailed income statements, financial positions, and pertinent comments to the accounts—were used in the study. A standardized questionnaire was also used to evaluate ESG activities. Descriptive statistics were used to analyze the data and summarize the research variables' mean, median, standard deviation, skewness, kurtosis, and range. The hypotheses were tested using Ordinary Least Squares (OLS) regression analysis and Pearson Product Moment Correlation. The results showed that the market valuation of oil and gas companies is greatly impacted by ESG disclosures, both individually and collectively, and that they are value relevant. The study suggests that oil and gas corporations boost their spending in corporate social responsibility (CSR) and environmental pollution control (EPC) programs in light of these findings. These expenditures provide significant long-term advantages, such as increased market value and investor trust, even though they may result in short-term increases in operating costs.

3. Methodology

This study employed an ex post facto research design, appropriate for analyzing data that already exists in financial reports. The choice of this design is justified by the fact that the data related to governance sustainability disclosure expenditure and market value are historical and reported in the financial statements of the listed oil and gas companies in Nigeria. Over a five-year period from 2019 to 2023, the study examined the impact of governance sustainability disclosure expenditures on the market value of oil and gas businesses listed on the Nigerian Stock Exchange (NSE). Eleven oil and gas businesses that are registered on the Nigerian Stock Exchange as of 2024 make up the study's population. All eleven businesses were included in the sample since the census approach was chosen due to the tiny population. The whole spectrum of CSR disclosure practices and market value changes in the Nigerian oil and gas industry during the study period are guaranteed to be captured in the data analysis thanks to this thorough inclusion.

Secondary sources, particularly the publicly available financial accounts of the listed oil and gas corporations, provided the study's data. The market value of the companies from 2019 to 2023 was included in these financial reports, which were acquired from the Nigerian Stock Exchange and included quantitative information on social, environmental, and governance sustainability disclosures. The Ordinary Least Squares (OLS) regression technique was used in the study to examine the data and assess how governance sustainability disclosure affected the companies' market value. Multiple regression analysis was conducted to establish the relationship between the independent variable (governance sustainability disclosure) and the dependent variable (market value of the companies). The regression model specification included market value as the dependent variable and governance disclosure as the independent variable.

Several statistical tests were applied to validate the model and the findings. The R-squared (R^2) statistic was used to assess the explanatory power of the independent variables in explaining variations in market value. The t-test was used to determine the statistical significance of the coefficients of the independent variables, while the F-ratio was employed to evaluate the overall significance of the regression model. All analyses were carried out using STATA12 software, which facilitated efficient estimation and interpretation of the regression results, ensuring that the study's conclusions were robust and reliable. The regression model is specified as follows:

$$\mathrm{MKV} = f(\mathrm{BDR}, \mathrm{BDS}, \mathrm{ADT})$$

$$\mathrm{MKV}_{it} = \beta_0 + \beta_1 \mathrm{BDR}_{it} + \beta_2 \mathrm{BDS}_{it} + \beta_3 \mathrm{ADT}_{it} + \epsilon_{it}$$

This can be written in Ordinary Least Square (OLS) form as:

$$\beta_1 > 0;\ \beta_2 > 0;\ \beta_3 > 0$$

Where

MKV = Market value, a proxy for companies' performance

BDR = Board remuneration, a proxy for governance sustainability disclosure

BDS= Board size, a proxy for governance sustainability disclosure

ADT = Audit committee, a proxy for governance sustainability disclosure

t = time period under study

β_0 = Intercept,

β_1-β_3 = Coefficient measuring the impact of CSR disclosures,

ϵ_{it} = Error term.

4. Results and Discussion

Table 1: Regression on the relationship between Governance Sustainability Disclosure and Market Value

	Coef.	Std. Err	t	P>|t|	95% Conf. Interval	
BDR	10.84628	8.30933	2.12	0.098	-19.93532	20.84774
BDS	13.89247	13.01659	1.07	0.292	-12.34074	40.12568
ADT	-36.78397	17.82484	-2.06	0.045	-72.70758	-.8603593
CONS	214.094	102.4979	2.09	0.043	7.522972	420.665

Source: Output from STATA version 12

The regression results examine the relationship between governance sustainability disclosure and market value (MKV) of listed firms, with board remuneration (BDR), board size (BDS), and audit committee (ADT) serving as proxies for governance sustainability disclosure. The findings are interpreted as follows:

With a coefficient of Board Remuneration (BDR) of 10.84628, board remuneration and market value are positively correlated. This implies that a rise in board compensation is linked to a rise in the market value of the company. The link is not statistically significant at the 5% level, but it is marginally significant at the 10% level, according to the p-value (0.098), which is higher than the traditional significance standards (0.05 or 0.01). The fact that zero is included in the 95% CI (-19.93532 to 20.84774) further indicates that the effect is not highly significant. The Board Size (BDS) coefficient is 13.89247, indicating a small yet positive correlation between market value and board size. A larger board size tends to be associated with higher market value, though the p-value (0.292) indicates that this relationship is not statistically significant. The wide confidence interval (-12.34074 to 40.12568) suggests considerable variability in the effect, meaning board size does not have a consistent or strong impact on market value.

The coefficient for Audit Committee (ADT) is -36.78397, indicating a significant negative relationship between the audit committee and market value. The p-value (0.045) is below 0.05, suggesting that the relationship is statistically significant at the 5% level. The negative coefficient implies that as the audit committee's influence increases, the firm's market value tends to decline. The confidence interval (-72.70758 to -0.8603593) does not include zero, reinforcing the significance of this negative relationship. This could suggest that stringent audit oversight might be perceived by investors as a reaction to governance inefficiencies or financial mismanagement, thereby lowering market value. The constant term (214.094) is significant at the 5% level (p = 0.043), suggesting that when all governance variables (BDR, BDS, and ADT) are held at zero, the expected market value remains substantial. This implies that other factors beyond governance sustainability disclosures influence market value.

Board remuneration has a positive but statistically weak effect on market value, suggesting that higher executive compensation may be associated with better firm performance but lacks strong empirical support. Board size is positively but insignificantly related to market value, implying that merely increasing the number of board members does not necessarily enhance firm value. The audit committee has a significant negative effect on market value, implying that stricter governance scrutiny, possibly due to financial or operational concerns, might reduce investor confidence or increase compliance costs, thereby lowering market value. Overall, governance sustainability disclosures have mixed effects on market value, with audit committees playing a critical but negative role. Firms should balance governance oversight with policies that enhance investor confidence to avoid adverse impacts on market value.

4.1 Discussion of Findings

The findings of this study indicate that governance sustainability disclosure has a positive but statistically insignificant relationship with the market value of listed oil and gas firms in Nigeria. Specifically, board remuneration (BDR) and board size (BDS) exhibit positive coefficients, suggesting that higher remuneration and a larger board size may be associated with increased firm market value. However, the lack of statistical significance implies that these governance factors do not have a decisive impact on firm valuation in the oil and gas sector. In contrast, the audit committee (ADT) demonstrates a significant negative effect on market value, suggesting that increased audit oversight might be perceived as a reaction to governance challenges, thereby lowering investor confidence. The findings support the idea that compensation plans may not always result in increased business value. They are consistent with a study by Ruparelia and Njuguna (2016) that found no significant correlation between board compensation and financial success. The results of this study, which show that board-related governance metrics have positive but weak associations with market value, are in line with Aggarwal's (2013) claim that corporate governance practices have a favorable but not substantial impact on corporate profitability.

The results, however, are at odds with those of Sila et al. (2016), who found a negative correlation between equity risk and boardroom gender diversity. This suggests that the composition of governance may have an impact on risk exposure that is not represented in the setting of this study. Furthermore, using structural equation modeling (SEM), Haryono and Paminto (2015) discovered a strong and positive correlation between corporate governance and financial performance. This contrasts with the findings of this study, which showed that market value was only marginally impacted by governance sustainability disclosure.

5. Conclusion

The findings suggest that governance sustainability disclosure, particularly board remuneration and board size, does not significantly influence market value in the oil and gas sector. This could indicate that investors in this sector prioritize other financial and operational metrics over governance disclosures when assessing firm value. Alternatively, it may reflect that governance practices in these firms are not robust enough to drive investor confidence or financial performance. The significant negative effect of audit committees on market value suggests that heightened governance oversight may be perceived as a response to financial irregularities or inefficiencies, leading to negative investor sentiment. This may imply that firms with stricter audit mechanisms experience governance challenges that erode market confidence rather than enhance it. The oil and gas industry operates in a highly capital-intensive and regulatory-driven environment, where governance mechanisms may not be as influential on market valuation compared to macroeconomic factors, commodity prices, and operational efficiency. The insignificant relationship between governance sustainability disclosures and market value may suggest that governance structures alone are insufficient to drive firm valuation in this sector. Overall, while governance sustainability disclosure plays a role in firm valuation, its effect on market value in the oil and gas sector is weak. The study highlights the need for firms to go beyond mere governance disclosures and focus on operational and financial strategies that directly influence investor confidence and firm valuation. Future research should explore the interaction between governance mechanisms and other financial performance indicators, as well as industry-specific governance challenges that may mediate the relationship between sustainability disclosure and firm value. Based on the findings the study recommends as follows:

i. Firms should re-evaluate the effectiveness of governance sustainability disclosures, ensuring that they are value-driven rather than compliance-driven to attract investor confidence.
ii. Audit committees should focus on value-enhancing governance rather than reactive oversight, which could be interpreted negatively by the market.
iii. Board size and remuneration policies should be optimized, ensuring that governance structures are aligned with long-term performance rather than short-term compliance objectives.

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