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SUSTAINABILITY COMMITTEE, AUDIT FIRM TYPE AND CORPORATE SUSTAINABILITY REPORTING OF NON-FINANCIAL FIRMS IN NIGERIA

Keywords: Sustainability Committee, Audit Firm Type (Big Four), Corporate Sustainability Reporting.

J E L Classification: M41, Q56.

Abstract: In spite of the detrimental consequences, such as pollution and other environmental risks arising from corporate activities, there has been a noticeable lack of transparency in disclosing social, environmental, and economic information. In light of this, the research aims to present empirical evidence regarding the impact of sustainability committees and the type of audit firm on the reporting of corporate sustainability information by companies. The study utilized an Ex-post facto research design, considering a population of one hundred and fifteen (115) listed non-financial firms. Ninety-two (92) companies were selected as the sample. Both descriptive and inferential (Panel Corrected Standard Error) estimation techniques were employed to analyze data collected from the annual reports and accounts of the sampled listed manufacturing companies over a seven-year period (2016-2022). The findings revealed that the presence of a sustainability committee and audit type significantly predict corporate sustainability reporting among listed non-financial firms at a 5% level of significance. In conclusion, the study determined that sustainability committees and audit types play a crucial and meaningful role in shaping corporate sustainability reporting practices among listed non-financial firms in Nigeria. As a result, the study recommends that listed companies should establish sustainability committees to proactively

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address sustainability issues and enhance disclosure. Additionally, non-Big Four audit firms are encouraged to enhance their services by providing their staff with up-to-date audit skills.

Introduction

The recurrent failures of companies worldwide have raised concerns about the effectiveness of corporate reporting practices. These unfortunate incidents have led to calls from various stakeholders, including the host community, government, stock market regulators, and shareholders, for greater corporate transparency and disclosure. Sustainability reporting has emerged as a crucial avenue through which organizations strive to meet the expectations of their stakeholders. Private enterprises, for instance, aim to augment transparency, strengthen brand value, reputation, and legitimacy, facilitate comparison with competitors, signal competitiveness, motivate employees, and support corporate information and control processes by revealing sustainability information (Herzig & Schaltegger, 2006).

In the contemporary landscape, the incorporation of sustainability principles into business strategies and operations is gaining prominence on the agendas of policymakers, market regulators, businesses, and investors alike. This shift is driven by the increasing concern of investors, particularly institutional investors, about the social responsibility of firms when making investment decisions (Chen, Dong & Lin, 2020). Globally, a study conducted by KPMG in 2015 indicates a growing interest in corporate transparency, especially in the realm of sustainability reporting and disclosure. Githaiga and Kosgei (2023) assert that sustainability reporting is essential for providing stakeholders with information regarding an organization's performance in tangible aspects. However, it is crucial to note that the disclosure of sustainability reports, according to the Global Reporting Initiative (GRI), must adhere to several principles outlined in the GRI-G3 Guidelines, including balance, comparability, accuracy, time sequence, compliance, and accountability.

Many organizations seem to allocate insufficient attention and consideration to communities and the environment in their financial reports. This reluctance to disclose information regarding environmental and social concerns could significantly impact their corporate image, as highlighted by Usman (2019) and Aifuwa, Usman, Subair, Philip and Hussien (2022). The repercussions of this approach are evident in the stock market, where declining stock

prices have contributed to a negative impact on their reputation. Consequently, the annual reports produced by companies are anticipated to address the information needs of all stakeholders, including the immediate environment, as emphasized by Welbeck, Owusu, Bekoe and Kusi (2017). It is reasonable to anticipate that firms equipped with sophisticated accounting systems and staffed by highly qualified professional accountants, especially those affiliated with the Big Four, would scrutinize these reports more thoroughly than smaller audit firms.

The study addresses issues surrounding sustainability reporting among listed non-financial enterprises in Nigeria. Many of these enterprises lack awareness of the benefits of sustainability reporting, hindering transparency, accountability, and stakeholder trust. The absence of standardized reporting procedures compromises the reliability and utility of sustainability reports, making it challenging for stakeholders to make informed decisions. Stakeholder expectations, including those of customers, investors, employees, and civil society organizations, are driving the demand for accountability and transparency in addressing environmental and social issues through sustainability reporting. Failure to meet these expectations may result in a loss of trust and reputational challenges. The research focuses on the 115 non-financial companies listed on the Nigerian Exchange Group as of December 2022, chosen for their perceived environmental sensitivity. The study spans the seven-year period from 2016 to 2022, addressing a timing gap in the literature. The year 2016 is significant as it saw the release of the Nigerian Financial Reporting Council's 2016 Corporate Governance Code and the launch of the Global Reporting Initiative's 101. The choice of 2022 as the endpoint corresponds to the most recent year at the time of data collection and aligns with the post-period impacted by the industrial global meltdown due to the Covid-19 Pandemic.

Literature Review And Hypotheses Development

Sustainability Committee and Corporate Sustainability Reporting

The presence of a sustainability committee within a company is a critical factor influencing corporate sustainability reporting practices. A sustainability committee, often established at the board level, is dedicated to overseeing and guiding the organization's sustainability initiatives. Its role extends

to monitoring environmental, social, and governance (ESG) performance and ensuring that the company aligns with sustainable practices. Companies with a sustainability committee are more likely to engage in comprehensive sustainability reporting, disclosing information related to environmental impact, social responsibility, and governance practices. The committee's involvement fosters a structured approach to data collection, measurement, and reporting on key sustainability metrics. For instance, studies by Yahaya, Bamigbade and Ajiboye (2022), Abdul Latif, Taufil Mohd, Kamardin and Mohd Ariff (2023), Kabara, Abdullah, Khatib, Bazhair and Al Amosh (2023), Chandula, Dissanayake and Anuradha (2023), Githaiga (2023), Coscia(2022), Abedin, Subha, Anwar, Kabir, Tahat and Hossain (2023), Alkhazalih, Shahbudin and Ghazali (2022) affirmed that board characteristics such as board independence, size, gender diversity, tenure, sustainability and managerial shareholding play pivotal roles in shaping the sustainability reporting practices of firms in developed and developing economies. This study therefore hypothesized that:

H01: The presence of sustainability committee has no significant influence on the sustainability reporting practices of listed non-financial companies in Nigeria.

Audit Firm Type and Corporate Sustainability Reporting

The type of audit firm engaged by a company plays a significant role in shaping its corporate sustainability reporting practices. The choice between a Big 4 audit firm (Ernst & Young, Deloitte, KPMG and PwC) and a Non-Big 4 audit firm influences the credibility, rigor, and depth of sustainability disclosures. Companies engaging Big 4 audit firms benefit from the perceived credibility and assurance associated with these globally recognized and well-established firms. Stakeholders often view sustainability reports audited by Big 4 firms as more reliable and trustworthy. Big 4 firms possess extensive expertise and resources in assessing complex sustainability metrics. Their global networks and specialized sustainability teams enable a thorough examination of a company's sustainability performance and reporting practices.

The influence of audit firm type on corporate sustainability reporting is complex and can depend on various factors, including the company's size, industry, and the specific expertise of the chosen audit firm. However, studies have such as Mahmood and Orazalin (2017), Ofoegbu, Odoemelam and Okafor

(2018), Usman (2019) and Yahaya, Bamigbade, and Ajiboye (2022) have shown that companies audited by Big 4 firms tend to exhibit more extensive and standardized sustainability reporting, aligning with global reporting frameworks and standards. Based on the above, the study hypothesized that:

H02: There is no significant relationship between audit firm type and sustainability reporting practices of listed non-financial companies in Nigeria.

Theoretical Framework

The theoretical review functions as a framework that enhances the comprehension of the issues explored in this research. It directs the identification and examination of pertinent theories on which the study is grounded, offering clarity to the study's perspective. The theories examined in this study encompass legitimacy theory, signaling theory, and stakeholder theory. Legitimacy theory, conceptualized by Dowling and Pfeffer in 1975, proposes that organizations align their policies with those of the broader society (Guthrie, Cuganesan & Ward, 2007). In the realm of environmental awareness, legitimacy theory underscores how a company responds to community expectations, suggesting that corporations will undertake necessary actions to uphold the perception of being a legitimate business in society (Amos, 2023). Given its perception-based nature, legitimacy theory posits that any managerial response to community expectations should be accompanied by disclosures, often manifested through environmental performance reporting in annual reports (Geerts, Dooms & Stas, 2021).

Signaling theory, introduced by Spence in 1973 to address information asymmetry in the labor market, posits that the party with more information should release it to reduce information gaps among users (Uwuigbe, Teddy, Uwuigbe, Emmanuel, Asiriuwa, Eyitomi & Taiwo, 2018). This theory contends that organizations voluntarily disclose more information when performing well, with managers signaling business success to stakeholders (Eccles, Herz, Keegan & Philips, 2001). Signaling theory also elucidates that companies with strong performance utilize financial information in annual reports to send signals to the market, often emphasizing financial details due to regulatory bodies like the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN) guiding financial disclosure. Also, Stakeholder theory, formulated by Freeman in 1984, defines stakeholders as individuals

with influence or those influenced by the organization's business activities in pursuit of its purpose. The survival and success of an organization hinge on the support and approval of its stakeholders, and organizations are accountable for creating value for all stakeholders (Talbot, Raineri & Daou, 2021). Stakeholder theory underscores that organizations meeting stakeholders' demands enhance their reputation and have a positive financial impact, while those failing to do so may face negative consequences.

Methodology

Research Design, Population and Sample Size

The study employs an ex-post facto research design to examine the impact of sustainability committees and the type of audit firm on the sustainability reporting practices of listed non-financial firms in Nigeria. This design was chosen due to the availability of relevant data in the annual reports of these firms, containing both quantitative and qualitative information for analysis. The study includes all listed non-financial firms on the Nigerian Stock Exchange (115 companies in 10 sectors), selected based on their recognized environmental sensitivity. The representative sample size is 92, determined using the Krejcie and Morgan (1970) sample size determination table to ensure representativeness and unbiasedness. The sample selection involves a stratified sampling method combined with a random sampling technique, where companies are randomly chosen from six sectors.

Table 1. Sample Size and Sampling Technique

S/N	Sector (Stratum)	Population	Krejcie and Morgan	Sample Size
1	Agriculture	5	5/115*92	4
2	Conglomerate	5	5/115*92	4
3	Construction/Real Estate	9	9/115*92	7
4	Consumer Goods	20	20/115*92	16
5	Health Care	11	11/115*92	9

Table 1. Sample...

S/N	Sector (Stratum)	Population	Krejcie and Morgan	Sample Size
6	ICT	10	10/115*92	8
7	Industrial Goods	15	15/115*92	12
8	Natural Resources	4	4/115*92	3
9	Oil and Gas	11	11/115*92	9
10	Services	25	12/115*92	20
Total		115		92

Source: researcher's computation, 2023.

Source and Methods of Data Collection

The study relied on secondary data extracted from the annual reports and accounts of the selected companies spanning the accounting years from 2016 to 2022. The sustainability disclosure quantity index for each company was computed using the formula developed by Aburaya (2012).

Where: $$\text{CED Quantity} = \sum_{i=1}^{n} \frac{\text{Quantity}_i}{\text{Max Quantity}}$$

CED Quantity=Sustainability Disclosure Quantity Index
Quantity = 1 if the item i is disclosed; 0 if the item i is not disclosed
MAX Quantity=maximum applicable disclosure quantity score
N=number of items disclosed.

Model Specification

To achieve the purpose of this study, El Ghoul, Guedhami, Wang and Kwok(2016) model was adopted and modified. This was modified because the researcher focused on the relationship between corporate governance and business characteristics (board size, board independence, CEO duality, director's sharehold-

ing, audit committee, firm age, firm growth, firm debt ratio and firm size) and sustainability reporting disclosure considering 2010-2013 annual reports of Taiwan 50 Index-listed companies which are different from this current study.

$$SusRep_{it}=\alpha_0+\beta_1 SusCom_{it}+\beta_2 AudType+\beta_3 FirmAge_{it}+\varepsilon\grave{\imath}_{it} \quad (1)$$

Where:

SusRep: Sustainability Reporting Practices
α0: intercept
SusCom: Sustainability Committee
Aud Type: Auditor Firm Type
Firm Age: Firm Age
Ɛì: random error term
The apriori signs are $\beta_1>0$, $\beta_2>0$, $\beta_3>0$, $\beta_4>0$, $\beta_5>0$

Data Analysis and Discussion of Finding

Results and Analysis

The table of descriptive statistics presents details regarding the mean, standard deviation, maximum, and minimum values for both the explanatory and explained variables. Table 2. provides a concise overview of the descriptive statistics.

Table 2. Summary Statistics

	Obs	Mean	Std.Dev.	min	max
Sd	644	.274	.137	.029	.629
Suscom	644	.065	.247	0	1
Audtype	644	.626	.484	0	1
Fage	644	44.611	19.364	5	96

Source: author's computation, 2023.

Table 2 displays the descriptive statistics for both explanatory and explained variables in this study. As an illustration, sustainability disclosure (SD) is a ratio ranging from 0 to 1, and it can also be expressed as a percentage. Examining the mean of sustainability disclosure (0.274), it indicates that, on average, sustainability disclosure is 27.4%. This suggests that the average sustainability disclosure throughout the investigation period was relatively low. Additionally, the highest average disclosure is 62.9%, while the lowest average disclosure quality is 2.9%, showcasing a broad spectrum of sustainability disclosure activities among the sampled firms. This variability may stem from the diverse nature of businesses in terms of size and levels of sustainability awareness. The standard deviation of 0.137, not significantly different from the mean, implies a moderate level of variation within the sampled companies.

Furthermore, the mean value for the existence of a sustainability committee, measured dichotomously, is 0.065. This suggests that only a small percentage of companies have established sustainability committees to assess their sustainability policies and activities. The range between the minimum and maximum values of 0 and 1 indicates that certain firms do not have sustainability committees. With a standard deviation of 0.247, there is a moderate level of variation regarding the presence of sustainability committees among the sampled firms. The table also reveals an average value of 0.26 for the size of audit firms. Throughout the research period, prominent audit firms in Nigeria, such as KPMG, PWC, Ernst & Young, and Akintola Williams Deloitte, audited eighty (62.6%) of the listed firms. In contrast, non-Big Four audit firms in Nigeria audited only twenty (37.4%) of the selected firms during the study period, as indicated by the mean value of eighty (62.6%) obtained.

The standard deviation of 0.484 indicates low disparity among the selected firms. This demonstrates that the audit market in Nigeria is dominated by the major four audit firms, with just a few non-Big Four audit firms auditing Nigerians listed non-financial firms. During the research period, the minimum and maximum audit firm sizes were zero (0) and one (1), respectively. The minimum and maximum values of audit firm size show that auditor size is determined by a dummy variable that takes the value of one if the company is audited by one of the Big Four audit firms and zero otherwise.

Table 3. Correlation Matrix of dependent and independent variables

Variables	Sd	Suscom	Audtype	Fage
Sd	1.000			
Suscom	0.174*(0.000)	1.000		
Audtype	0.767*	-0.007	1.000	
Fage	0.234*	0.309*	0.160*	1.000
	(0.000)	(0.000)	(0.001)	

***p<0.01,**p<0.05,*p<0.1

Source: author's computation, 2023.

The Pearson Correlation results presented in Table 3. outline the correlation between the explained and explanatory variables in the study. The findings indicate a positive relationship between the presence of the sustainability committee and the auditor type, signifying that these variables exhibit similar movements as sustainability disclosure. The correlation matrix table affirms the absence of potential multicollinearity among the independent variables. According to Gujarati (2004), a correlation coefficient exceeding 0.80 between two independent variables is considered excessive. In Table 3., all correlation coefficients between independent variables remain below 0.80, with the highest relationship among the independent variables approximately at 0.309. This value falls below the 0.80 threshold, indicating the absence of potential multicollinearity. The verification of this absence can be further supported by examining the variance inflation factor.

Table 4. Hausman Specification Test

Chi-square test value	61.18
P-value	0.000

Source: author's computation, 2023.

As depicted in Table 4., the research performed a Hausman specification test following the execution of fixed and random tests for the models. The Hausman specification test yielded a p-value of 0.000, indicating statistical significance. This suggests that the variation across entities is assumed to be fixed and correlated with the independent variables incorporated in the model. Consequently, the outcome of the fixed effect model was deemed appropriate for the analysis.

Test for Multicollinearity

Based on the findings presented in Table 5, it can be concluded that there is no evidence of a multicollinearity issue. This assertion is supported by the fact that all the VIF values for the variables are below 10, and the tolerance values for each variable are above 0.10, as recommended by Hair et al. (2006). The VIF test results range from a minimum of 1.124 to a maximum of 1.244, all of which are less than 10, confirming the absence of collinearity among the explanatory variables. Additionally, the mean VIF of 1.154 further reinforces the conclusion that there is no multicollinearity among the explanatory and control variables in the study.

Table 5. Variance inflation factor

	VIF	1/VIF
Audtype	1.244	.804
Fage	1.164	.859
Suscom	1.124	.89
MeanVIF	1.154	.

Source: author's computation,2023.

Normality Distribution of the Data

The normal distribution of data is a critical assumption in regression, essential for the application of parametric test analysis. This is because one of the conditions for parametric tests is that the data should exhibit normal distribu-

tion across the variables for the test results to be applicable for generalization (Park, 2008). Consequently, this study conducted a normality test on the residuals of the model using the Shapiro-Wilk test.

Table 6. Shapiro-Wilk W test for normal data

Variable	Obs	W	V	Z	Prob>z
Resid	644	0.996	1.104	0.237	0.406

S o u r c e : author's computation, 2023.

The p-value for the model, as extracted from Table 6. for the Shapiro-Wilk test, is 0.406. Given that this value exceeds 0.05, as specified in Table 6., the null hypothesis stating that the residuals are not normally distributed across the models is rejected. Consequently, this study asserts that the residuals of the model exhibit a normal distribution.

Table 7. Panel Corrected Standard Error Regression

Car	Coef.	St.Err.	t-value	p-value	Sig
Suscom	.260	.048	5.34	.000	***
Audtype	.092	.002	59.44	.000	***
Fage	.0005	.0001	3.68	.000	***
Constant	.213	.0131	16.31	.000	***
Numberofobs	460.000		Chi-square	4924.74	
Prob>chi2	0.000		R-squared	.6464	

****p<.01, ** p<.05, *p<.1*

S o u r c e : author's computation, 2023.

The association between predictors and sustainability reporting practices in listed non-financial firms was elucidated through the interpretation of coefficient values, t-values, and probability values (sig), which reveal both the direction and strength of the relationships among the variables. Additionally, the R2 was employed to assess the cumulative impact of independent variables on the

dependent variables, while the Waldchi2 and its corresponding significance values were utilized to evaluate the suitability and predictability of the independent variables in the study models. With an R2 value of 0.6464, it is indicated that the collective influence of the sustainability committee's presence, audit type, and firm age accounts for 64.6% of the variability in sustainability reporting practice.

Discussion of Findings

The overall objective of this study is to examine the impact of sustainability committee and audit firm type on sustainability reporting practices among listed non-financial firms in Nigeria.

Sustainability Committee and Sustainability Reporting Practices

The presence of a sustainability committee is found to have a statistically significant and positive impact on the sustainability reporting practices of listed non-financial firms in Nigeria. Examining the coefficient for the presence of a sustainability committee in Table 8. reveals a significant influence, supported by a coefficient of 0.260 and a p-value of 0.000, signifying significance at the 1% level. Consequently, in light of this evidence, the study rejects the null hypothesis asserting that the presence of a sustainability committee has no significant influence on the sustainability reporting practices of listed non-financial firms in Nigeria. From the finding in Table 7., the presence of a sustainability committee turned out to have a positive and significant relationship with sustainability reporting practices. This means that the presence of a sustainability committee will result in to increase in sustainability reporting practices. This is because the sustainability committee tends to focus on reviewing sustainability reporting issues, identifying risks and monitoring risk management, establishing policies and standards, and monitoring compliance with and performance against the companies' sustainability reporting policies. The results are therefore aligned with the stakeholder theory view point that includes a sustainability committee on the board serves as an efficient oversight device and a sound way of addressing the needs of larger stakeholders. This result is supported by the study's *a-prior* expectation, however, and is in tandem with the study of Danvila del Valle, Díez Esteban and López de Foronda Pérez (2019)who

found significant positive results between sustainability committee and corporate social responsibility but the researcher found no study which contradicts the findings of this result.

Audit Firm Type and Sustainability Reporting Practices

There is a significant positive effect between audit firm type and the sustainability reporting practices of listed non-financial firms in Nigeria. The results from Table 5. reveal that the audit firm type, represented by a dichotomy of one and zero, exerts a positive and statistically significant influence on the sustainability reporting practices of these firms. This is evident in the coefficient of 0.092, accompanied by a p-value of 0.000, which falls below the 5% critical level. This indicates that the position of audit firm type positively and significantly impacts sustainability reporting practices. In light of this outcome, the study rejects the null hypothesis asserting that there is no significant effect between audit firm type and the sustainability reporting practices of listed non-financial firms in Nigeria. The audit firm type, indicated by a dichotomy of 1 and 0, exhibits a positive and significant correlation with sustainability reporting practices. This implies that an increased reliance on Big Four audit firms positively impacts sustainability reporting practices. The rationale behind this is that auditing firms encourage their clients to enhance their disclosure levels, signaling to the market. This signaling mechanism remains consistent, including in the context of sustainability disclosure. Big Four firms typically prompt their clients to elevate voluntary disclosure levels to enhance visibility. Notably, this finding aligns with the anticipated outcome. The study's results are in line with those of Orazalin and Mahmood (2019), who identified a substantial influence of auditor type on the extent, nature, and quality of sustainability reporting. However, it contradicts the findings of Ofoegbu et al. (2018).

Conclusion and Recommendation

The study evaluated the impact of presence of sustainability committee and audit firm type on sustainability reporting practices among listed non-financial firms in Nigeria. Based on the findings of the study, the study concluded that the presence of a sustainability committee has a significant and positive effect

on sustainability reporting practices. Hence, the study concludes that the sustainability committee is a significant determinant of sustainability reporting practices; the audit firm type as one of the factors used in the study has a positive and significant effect on sustainability reporting practices. Thus, the study concludes that audit firm type is an important predictor of sustainability reporting practices.

Based on the findings and conclusion of this study, the following recommendations are made. In order to enhance sustainability reporting practices among listed companies, it is strongly recommended that firms establish dedicated sustainability committees. These committees should be strategically positioned within the organizational structure to proactively address sustainability issues, ensuring a comprehensive and systematic approach to sustainability disclosure. By doing so, companies can demonstrate a commitment to responsible business practices, fostering transparency and accountability in their sustainability reporting. Moreover, an increased reliance on the services of Big Four audit firms is advised as a strategic move to positively influence sustainability practices. The rationale behind this recommendation lies in the proven correlation between audit firm type and the quality of sustainability reporting. Opting for the services of larger audit firms, particularly the Big Four, can provide companies with the advantage of greater expertise and resources. These firms are well-equipped to navigate the complexities of sustainability metrics and ensure compliance with evolving disclosure regulations.

The recommendation to choose international audit firms, such as the Big Four, is underpinned by the notion that these firms have a heightened motivation to uphold their reputation. Given their extensive client base and global reach, these firms are incentivized to maintain high standards in sustainability reporting. Their global presence and reputation make them well-suited to guide companies in aligning their sustainability practices with international standards and frameworks. As part of the broader recommendation, non-Big Four audit firms are encouraged to bolster their services by investing in continuous professional development for their staff. Providing ongoing training and updating audit skills will empower non-Big Four firms to offer competitive and high-quality services in the field of sustainability reporting. This proactive approach ensures that these firms remain relevant and capable of meeting the evolving needs of companies committed to robust sustainability practices.

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