

CORPORATE GOVERNANCE DISCLOSURE AND STOCK PRICE AMONG LISTED CONSUMER GOODS FIRMS IN NIGERIA

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ABSTRACT

This research investigated the impact of corporate governance disclosure on stock price reaction of consumer goods firms listed on the Nigeria Stock Exchange (NSE). The study involved 16 consumer goods firms listed on the NSE. Secondary data for the study was collected from the annual reports of the sample companies, for the period 2014 to 2022. The panel data regression analysis, particularly the feasible generalized least square regression (FGLS) method was used because it has an inbuilt mechanism to control for the existence of heteroskedasticity and accommodate non-normally distribution, which was discovered in the data. Data analysis revealed that the rate of corporate governance disclosure influences the stock prices of firms, even though profitability, leverage, firm size, and industry did not have any moderating effect on this relationship. These findings show that corporate governance disclosure is a very relevant factor in the decision making of investors in consumer goods firms, which makes it essential for these firms to build trust and display transparency by always disclosing their corporate governance practices in their annual reports, their websites, and other channels.

Keywords: Governance disclosure; profitability; stock price reaction; Consumer Goods

1. Study Background

Corporate governance refers to a set of rules, regulations and mechanisms put in place by a company to provide monitoring and oversight functions on management (Sawicki, 2009). It has been defined by the OECD to be "...the procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making." (James, 2023, p. 1). The role of a good corporate governance system is to provide strategic direction of a firm, ensure overall compliance with corporate regulations, and protect stakeholders' interest. The board of directors define the firm's strategy towards corporate social responsibility, tax, wages, and corruption, among other things.

Clark et al. (2014) notes that "good corporate governance strategies can lead to more transparency which ultimately results in lowering the cost of equity, risk, and information asymmetries". Due to its perceived impact on shareholders' wealth, the market reacts to firms' corporate governance mechanisms. Empirical evidence suggests that companies with poor corporate governance structures experience poor operational performance and lower valuation (Clark et al., 2014; Dewi & Handayani, 2017). Three factors are commonly used to measure governance disclosure. These factors include corporate strategy, management, and shareholders. These factors generally deal with issues relating to company's commitments towards adopting global best practices, equality in dealing with shareholders, and employing anti-takeover devices respectively (Pulino et al., 2022).

Conflicting findings are prevalent in the empirical evidence concerning the connection between governance disclosure and stock price reaction. For example, while the results of some studies (like Li et al., 2017; Aboud & Diab, 2018; Rossi & Harjoto, 2020; Xu et al., 2020; Arif et al., 2022; Widiatmoko et al., 2020) indicate a positive correlation between the extent of ESG disclosure and firm value, others like Fatemi et al. (2017) and Cordazzo et al. (2020). For example, Fatemi

et al.'s (2017) investigation of 403 companies listed in the United States between 2006 and 2011 demonstrated that even though ESG strengths had a positive impact on the value of firms and their weaknesses were associated with a negative effect, the act of disclosing ESG information itself resulted in a decrease in firm valuation. Yoon, Lee and Byun (2018) however added a caveat to these findings. In their study of the relationship between ESG performance and firm value using data from companies listed on the Korean Stock Exchange, they found that the effect of CSR practices on the share prices of firms depended on firm characteristics and environmental sensitivity. This is reinforced by Miralles-Quiros et al.'s (2018), whose study of 51 commercial banks from 20 stock exchanges, showed that the significance of ESG performance in relation to value was notably higher for banks situated in countries with a legal system based on common law, particularly in the aftermath of the global financial crisis.

Various studies have also considered the moderating role of other variables like organisational performance, firm size, leverage, etc. One such study in this regard is that by Shakil (2020), which explored the moderating role of firm size in the relationship between ESG disclosure and organisational performance. The results indicated that ESG performance unfavorably affected stock volatility, with firm size playing a significant role in moderating this association. Similarly, Pulino et al. (2022) looked into how organisational performance moderates the relationship between ESG practices and firm price, and found that there was a positive effect of disclosing information related to ESG on financial performance.

Overall, the literature reveals mixed findings on the relationship between governance disclosure and stock price reaction, among other corporate outcomes, underscoring the importance of context, disclosure types, and firm characteristics. Further research is needed to clarify these complex interactions and provide a more comprehensive understanding of the role of governance disclosure in corporate performance.

2. Theoretical Framework

To help us understand how corporate governance impacts on stock price reaction, this study relies on the stewardship theory, the agency theory and the efficient market hypothesis. The stewardship theory is built on the assumptions concerning human nature; as in, whether or not humans can be trusted to act responsibly, be honest and have integrity. According to the stewardship theory, the fiduciary relationship desired by the shareholders implies that this is the case (Chrisman, 2019; Cater et al., 2019; Till & Yount, 2019; Pacheco, 2019). In essence, the stewardship theory holds the view that shareholders believe that the management is trustworthy enough to act in their best interest (Juanamasta et al., 2019).

Interestingly though, Jensen and Meckling (1976) agency theory holds a different view, that the firm's management, which is supposed to act as an agent for shareholders, rather acted in his own interests and not the interest of the shareholders as assumed by the stewardship theory. According to the agency theory, the management cannot be trusted to act in the public, or shareholders', best interest. And this essentially means that the management cannot be trusted to maximize shareholder value, which is the job they have been tasked to do (Gazali et al., 2020; Rusdiyanto & Narsa, 2019).

A third theory for this study is the efficient market hypothesis (EMH). As Aktan et al. (2018) have pointed out, investors are always on the lookout for ways to increase their gains, and for this reason have one common issue with regard to stock markets, which is the degree of efficiency of these markets. A stock market's informational efficiency is a reflection of the extent to which its financial assets prices adapt to incoming information. The more informationally efficient a market is, the more quickly it reflects incoming information (Lim & Brooks, 2009). The EMH is the theory behind information efficiency. One of its presuppositions is that stock prices adjust to their fair market value in reaction to new information by either increasing or decreasing, thereby making stock price movements random, in what has been referred to as the "Random Walk Hypothesis" (RWH) (Bodie et al., 2003; Aktan et al., 2018). The EMH and the RWH are closely related as both promote the idea that prices immediately capture new information (Malkiel, 2003), as in react to new information. What this therefore loosely implies is that it will not be beneficial for the investor to analyse a company's financial information, or study past stock prices.

3. Research method

The study adopted a longitudinal research design to establish the impact of corporate governance disclosure on the stock prices of listed consumer goods firms in the Nigeria Stock Exchange (NSE) for the period 2014-2021. All the 28 consumer goods firms listed on the NSE in December 2021 make up the population of the study, but only 16 of these firms whose reports show corporate governance disclosures during the period of study have been taken as sample for the study (see appendix 1). These 16 firms have produced a combined 144 firm-year observations.

The study used secondary data. While the data on corporate governance disclosure was collected from the Bloomberg database, the annual and financial reports of the firms provided the data for all other variables of the study, except the stock prices of firms that were collected from the NSE website.

The major independent variable of the study is corporate governance disclosure (CGD), while the dependent variable is the stock price reaction (SPR), and firm size (FS) measured by total assets of the firm (Rita et al., 2013), leverage (L) measured by dividing the total firm assets by the total debt (Ambarwati & Dawa, 2022), and profitability (ROA) measured by dividing the net profit with the total assets, are the control variables. Dividend policy (DP) is a dummy variable, which equals to 1 if the firm gives dividend to its shareholders, and 0 if the firm does not.

The study developed two regression equations to test the impact of corporate governance disclosure on stock price reaction. In the first equation, the dependent variable is the corporate governance disclosure score, with the main explanatory variable being profitability (ROA). Other variables like the firm size, leverage, dividend policy, industry and year dummies have been controlled for.

$$\text{Corporate governance score}_{it} = \beta_0 + \beta_1 \text{Profitability}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{Leverage}_{it} + \beta_4 \text{Dividend policy}_{it} + \sum_{j=1}^{j=10} \beta_5 \text{IND}_{jit} + \sum_{j=2014}^{j=2022} \beta_6 \text{year}_{jit} + \varepsilon_{it} \quad (1)$$

To test for the impact of corporate governance disclosure on stock price reaction, the model presented in equation (2) is adapted as has been implemented in the work of Barth et al. (1998). The specific form of the model is as follows:

$$\text{SP}_{it} = \beta_0 + \beta_1 \text{Corporate Governance disclosure}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{Size}_{it} + \beta_4 \text{Leverage}_{it} + \beta_5 \text{Dividend policy}_{it} + \sum_{j=1}^{j=10} \beta_6 \text{IND}_{jit} + \varepsilon_{it} \quad (2)$$

The Pearson correlation and the multiple linear regression analyses was used. All statistical analyses were carried out using the STATA 14.2 analysis software.

4. Results and Discussion

a. Descriptive Statistics

Table 1 presents the descriptive statistics for the major variables. The table shows that the mean value of the corporate governance disclosure score is 61.757, while ROA averages approximately 4.792. For the control variables, the mean of firm size is 17.840 with an SD of 1.985, while leverage is 57.826% with an SD of 16.318. The dependent variable, stock price, has a mean value of ₦98.986 and a standard deviation of 311.356.

Table 1: Descriptive Statistics

Variable	Obs	Minimum	Maximum	Mean	Std. Deviation
Cgd	144	13	100	61.757	19.757
Fsize	144	14	25	17.840	1.895
Roa	144	-16	31	4.792	7.331
Dp	144	0	1	0.479	0.501
Levr	144	19	98	57.826	16.318
Sp	144	0	1557	98.986	311.356

Table 2 presents the results of the pairwise correlation of the variables. The table has also shown an insignificant association between CGD score and stock prices (coefficient = 0.1308), and there is insignificant relationship with the return on assets (coefficient = -0.0018). Overall, the table has shown that the problem of multicollinearity between the variables does not exist given that the correlation coefficients between the predictor variables have not exceeded 80%.

Table 2: Pairwise correlation matrix

	cgd	Fsize	roa	Sp	levr
Cgd	1.000				
Fsize	-0.1018	1.000			
Roa	0.0018	0.0842	1.000		
Sp	0.1308	0.2100	0.4796	1.000	
Levr	0.1349	0.1952	0.0535	0.3267	1.000

b. Diagnostic tests

The study has undertaken various diagnostic tests to ensure the validity of the study outcomes. Among these are the Shapiro-Wilk test, the test for heteroskedasticity using the Bruesch-Pagan test, and the test serial correlation using the Wooldridge test. The results of these tests are presented on Table 3 to 5.

The Shapiro-Wilk test for normality is presented on Table 3. From the results of the test, it is clear that, except leverage, every other is not normally distributed since they all have significant p-values (Prob>z). As such, we reject the null hypothesis of normal distribution.

Table 3: Shapiro-Wilk Test for Normality

Variable	Obs	W	V	Z	Prob>z
Cgd	144	0.96204	4.265	3.281	0.00052
Roa	144	0.95646	4.892	3.592	0.00016
Fsize	144	0.96152	4.323	3.312	0.00046
Levr	144	0.98924	1.209	0.429	0.33387
Sp	144	0.32113	76.278	9.805	0.00000

Table 4 presents the results of the test for multicollinearity using the Variation Inflation Factor (VIF) test. It is seen in the table that stock price has the highest VIF of 1.54, while firm size has the lowest VIF of 1.14. The mean VIF value is 1.29. Since all of the expository variables did not possess a VIF value close to the threshold of 10, it is concluded that these

variables do not have any concern of multicollinearity, meaning that we have not put in too many variables that measure corporate governance disclosure.

Table 4: Variance Inflation Factor

	VIF	1/VIF
sp	1.54	0.651399
roa	1.37	0.729654
dp	1.22	0.819834
levr	1.17	0.855883
Fsize	1.14	0.874023
Mean VIF	1.29	

Table 5 shows the results of the test for autocorrelation and heteroskedasticity. Using the Wooldridge test, the table shows that with an F value of 33.34 and a p-value of 0.0000, the null hypothesis of no autocorrelation is accepted. Also, the Breusch-Pagan/Cook-Weisberg test shows that with a p-value of 0.0475, we reject the null hypothesis that there is constant variance among the residuals and conclude heteroscedasticity is present in the data.

Table 5: Model regression diagnostic tests

Test	Test type	F value	p-value	Conclusion
Autocorrelation	Wooldridge test	33.34	0.0000	No serial correlation
Heteroskedasticity	Breusch-Pagan/ Cook-Weisberg	3.93	0.0475	Presence of heteroscedasticity

c.

d. Panel Regression

Since the diagnostic tests carried out on the data showed that there is the presence of heteroscedasticity and non-normality of variables, the feasible generalized least square regression (FGLS) method of analysis is preferred for analyzing the data. This is because the FGLS method possesses in-built mechanisms for accommodating non-normality and controlling for the existence of heteroskedasticity (Baltagi, 2010). Table 6 presents the results of the FGLS test for the first model of the study, which seeks to ascertain how profitability impacts on corporate governance disclosure scores.

Table 6: Estimated Panel Feasible Generalised Least Square (FGLS) Regression
(Dependent = ROA)

ROA	Coef.	Std. Err.	z	P> z	[95% conf. interval]	
cgd	-0.0104218	0.0254383	-0.41	0.682	-0.06028	0.0394363
fsize	-0.0134608	0.2875598	-0.05	0.963	-0.5770677	0.5501461

sp	0.0114561	0.0019624	5.84	0.000	0.0076099	0.0153024
levr	-0.0550302	0.0324918	-1.69	0.090	-0.1187131	0.0086526
dp	1.862105	1.106644	1.68	0.092	-0.3068778	4.031087
Ind	-0.0296881	0.3305592	-0.09	0.928	-0.6775723	0.6181961
Constant	6.921864	5.549011	1.25	0.212	-3.953998	17.79773
mean dep var	4.791667	SD dep. Var		7.331201		
Num. of obs	143	Chi-square		54.27		
Prob> chi ²	0.0000	Akaike Crit (AIC)				

With a p-value of 0.682 which is non-significant at all conventional levels, Table 6 shows that the profitability of the firm has no significant impact on its corporate governance disclosure score. In fact, the profitability of the firm only impacts on the stock price of the firm. This gives a clear indication consumer goods firms listed in the NSE with higher profitability did not necessarily have higher corporate governance disclosures during the period that this study covered, even though it did impact on their stock prices.

With regard to the control variables in the equation, the results presented on Table 6 show that the result of non-significance of the impact of profitability on corporate governance disclosure was true for all firms regardless of their industry (coef. = -0.0296881; p-value = 0.928), the size of the firm (coeff. = -0.0134608; p-value = 0.963), whether or not they had a dividend policy (coeff. = 1.862105; p-value = 0.092), or leverage (coeff. = -0.0550302; p-value = 0.090).

Table 7 presents the results for testing of the second equation to assess the impact of corporate governance disclosure on stock prices of consumer goods firms on the NSE.

Table 7: Estimated Panel Feasible Generalised Least Square (FGLS) Regression

(Dependent = CGD)

CGD	Coef.	Std. Err.	z	P> z	[95% conf. interval]	
sp	0.0138319	0.0062745	2.20	0.027	0.0015342	0.0261297
roa	-0.0182466	0.2467888	-0.07	0.941	-0.5019439	0.4654506
fsize	-1.263167	0.9984437	-1.27	0.206	-3.220081	0.6937462
levr	0.1348616	0.1053703	1.28	0.201	-0.0716603	0.3413835
dp	-10.17871	3.466938	-2.94	0.003	-16.97378	-3.383636
ind	-0.8151205	1.119885	-0.73	0.467	-3.010054	1.379813
Constant	83.33616	18.63184	4.47	0.000	46.81842	119.8539

mean dep var	61.75694	SD dep. var	19.89316
Num. of obs	143	Chi-square	18.52
Prob> chi ²	0.0051	Akaike Crit. (AIC)	

Table 7 shows the results for the impact of corporate governance disclosure on stock prices among other control variables. The table shows that corporate governance disclosure impacts on the stock prices of consumer goods firms listed on the NSE at the 0.05 level of significance (coeff. = 0.0138319; p-value = 0.027). This means that the hypothesis that firms with more positive corporate governance reports will have their stock prices impacted positively is accepted.

Of the control variables, only dividend policy (coeff. = -10.17871; p-value = 0.003) is significantly impacted by the corporate governance disclosure score. All other variables, including the profitability (ROA) (coeff. = -0.0182466; p-value = 0.941), firm size (coeff. = -1.263167; p-value = 0.206), leverage (coeff. = 0.1348616; p-value = 0.201), and industry (coeff. = -0.8151205; p-value = 0.467) do not have any significant influence on the relationship between corporate governance disclosure and stock prices of consumer goods firms listed on the NSE.

5. Summary and Conclusion

This study investigated the influence of profitability on the corporate governance disclosure of consumer goods firms listed in the Nigeria Stock Exchange, and also how the stock prices of these firms reacted to their corporate governance disclosure, using data collected from 2014 to 2021. The scores for corporate governance disclosure were collected from the Bloomberg database. Because of the presence of heteroskedasticity in the data, the feasible generalized least square (FGLS) regression method with a heteroskedastic but uncorrelated, and an independent form of autocorrelation was used to analyse the data. As Baltagi (2010) had explained, this method is very useful because it possesses the mechanism to accommodate non-normality and control for heteroskedasticity.

Following the regression analysis, it was discovered that the profitability of the firm has no significant impact on its corporate governance disclosure, but only impacts on the stock price of the firm, regardless of firm industry, size, leverage, or dividend policy. However, the study found that there was a significant and mildly positive impact of corporate governance disclosure on the stock prices of consumer goods firms in the NSE. Of the control variables, only the dividend policy of the firm significantly influenced this relationship. Looking at this finding from the perspective of the agency theory, it indicates that shareholders react positively to the practice of reporting their governance practices by the management. This is because, as it is the presupposition of the theory, firm management cannot be trusted to act in the interest of the shareholders. Therefore, such governance disclosures and reports are necessary as one of the tools for monitoring the 'self-serving agents'. Other tools as highlighted by James (2023) include the implementation of effective corporate governance and control structures. Another way of explaining this finding is through the efficient market hypothesis. Because investors are always looking out for how to increase their gains, an efficient market, which implies that information is efficiently flowing into the market especially through disclosures and reports, will make the stock prices of firms adjust to their fair market value in reaction to new information (Aktan et al., 2018; Bodie et al., 2003).

Beyond satisfying the assumptions of the theories of this study, the findings agree with those of previous other findings, like Li et al. (2017), Aboud and Diab (2018), Rossi and Harjoto (2020), Xu et al. (2020), Arif et al. (2022), and Widiatmoko et al., (2020), all of whom found similar results of a correlation between ESG disclosure and stock prices of firms across various industries, while disagreeing with studies that did not find any positive correlation between corporate governance disclosure and stock price reaction, like Fatemi et al. (2017), and Cordazzo et al. (2020). Also, unlike in Yoon et al.'s (2018), Miralles-Quiros et al.'s (2018), Shakil's (2020) and Pulino et al.'s (2022) studies, the present study did not find any influence of firm characteristics on the relationship between corporate governance disclosure and stock price reaction.

This work contributed to the growing literature on the impact of corporate governance disclosure on stock price reaction by filling the gap that is created by the non-existence of studies with the characteristics of the present study, like using

consumer goods firms listed in the NSE for the period of 2014-2021, and adopting the FGLS method of analysis. It is however suggested that future studies investigate a similar topic but with a larger sample size, and across countries to determine whether the findings can be similar in different countries, which will indicate if truly the industry has had a significant impact in the present study.

The results from the study further expands the current understanding on the issue of corporate governance disclosure and stock prices in Nigeria as an emerging market, thereby providing a different perspective to the debate and contributing to the literature. Besides its theoretical significance, the study has practical implications for managers. One key implication is that managements of consumer goods firms in Nigeria are beginning to be more aware of how important it is to disclose their activities considering the need for transparency and building trust with shareholders, and that shareholders value such disclosures which is why the stock prices react either positively or negatively to such reports or disclosures. This calls for the provision of a legal backing to the corporate governance disclosure of firms in order to build investors' and other stakeholders' confidence in these activities.

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APPENDIX

Table 1: Sampled Firms and their Industries

Industry	Firms
Alcoholic beverage	International Breweries Plc.
	Guinness Nig. Plc.
	Champion Breweries
	Nigerian Breweries
Conglomerate	Dangote
	Honeywell
Food and agro-allied	Nascon Allied Int. Plc.
	McNichols Consolidated
	Nestle Nig. Plc.
	N N Flour Mills. Plc
	Flour mills
Confectionary	Multi-Trex Integrated
	Cadbury
Consumer goods	Vitafoam
	PZ
	Nigerian Enamelware Plc.3