

The Signaling Power of ESG Accounting in Sub-Sahara Africa: A Dynamic Model Approach

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Abstract : Environmental, social and governance (ESG) reporting is gaining considerable attention despite being voluntary. Meanwhile, it consumes resources to provide ESG reporting, raising a question of its value relevance. The study examined the impact of ESG reporting on the market value of listed firms in SSA. The annual and integrated reports of 276 listed sub-Sahara Africa (SSA) firms. The integrated reporting scores of the firm were analysed using a content analysis method. A multiple regression estimation technique using a GMM approach was employed for the analysis. The results revealed that ESG has a positive relationship with firms' market value, suggesting that investors are interested in the ESG information disclosure of firms in SSA. This suggests that extensive ESG disclosures are attempts by firms to obtain the approval of powerful social, political and environmental stakeholders, especially institutional investors. Furthermore, the market value analysis evidence is consistent with signalling theory, which postulates that firms provide integrated reports as a signal to influence the behaviour of stakeholders. This finding reflects the value placed on investors' social, environmental and governance disclosures, which affirms the views that conventional investors would care about the social, environmental and governance issues of their potential or existing investee firms. Overall, the evidence is consistent with the prediction of signalling theory. In the context of this theory, integrated reporting is seen as part of firms' overall competitive strategy to influence investors' behaviour. The findings of this study make unique contributions to knowledge and practice in corporate reporting.

Keywords : environmental accounting, ESG accounting, signalling theory, sustainability reporting, sub-saharan Africa

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