International Journal of Multidisciplinary and Innovative Research

ISSN(print): 3050-6883, ISSN(online): 3050-6891

Volume 03 Issue 04 April 2026

DOI: 10.58806ijmir.2026.v3i4n04

Page No: 302-309

Beyond Compliance: Do ESG Disclosures Drive Financial Value in Ngeria's Non-Financial Firms?"

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ABSTRACT

This study investigates the effect of sustainability reporting on the financial performance of listed non-financial firms in Nigeria, with particular emphasis on environmental, social, and governance (ESG) disclosures. Drawing on stakeholder theory, the study examines whether ESG reporting functions as a value-enhancing strategic tool or remains a compliance-driven obligation within Nigeria's emerging market context. Using an ex-post facto research design, a balanced panel dataset of 76 listed non-financial firms over the period 2010–2024 was analyzed. Financial performance was measured using Return on Capital Employed (ROCE) and Profit After Tax Margin (PATM), while sustainability performance was captured through a disclosure index covering environmental (ENVD), social (SOCD), and governance (GOVD) dimensions. Panel regression techniques, including fixed-effects and random-effects models, were employed to ensure robust estimation. The results revealed that environmental and governance disclosures have no statistically significant impact on either ROCE or PATM, indicating that these dimensions of sustainability reporting remain largely symbolic and compliance-oriented in Nigeria. Social disclosure, however, exerts a significant negative effect on PATM, suggesting that social investments impose short-term profitability costs without generating immediate financial returns. The study concluded that sustainability reporting in Nigeria has not yet evolved into a strategically embedded driver of financial value. It recommends stronger regulatory enforcement, improved disclosure quality, and greater investor awareness to unlock the long-term financial benefits of ESG practices.

KEYWORDS: Sustainability Reporting, Financial Performance, Non-Financial Firms, Nigeria

ARTICLE DETAILS

Published On:
11 April

Available on:
https://ijmir.com

1.0 INTRODUCTION

The global business environment is undergoing a profound transformation, as firms are increasingly required to demonstrate accountability not only for their financial performance but also for their environmental, social, and governance (ESG) practices. This shift reflects a recognition that the long-term survival of businesses is inseparable from their capacity to address broader sustainability concerns (Ashrafi et al., 2020). Sustainability reporting, which involves the systematic disclosure of a company's ESG activities, has therefore become a critical tool for building transparency, fostering trust, and demonstrating a firm's commitment to sustainable development. In the past, such reporting was largely considered voluntary and peripheral to corporate strategy. However, in today's globalized economy, it has become a mainstream expectation, particularly among investors and regulators who see ESG performance as directly linked to financial resilience and competitive advantage (Dash & Mohanty, 2023; Yusoff & Darus, 2024). Across developed and emerging markets, stakeholders increasingly demand detailed and credible sustainability disclosures. This demand arises from heightened concerns about climate change, social inequalities, and governance scandals, which have underscored the risks firms face when they neglect non-financial dimensions of performance (Ioannou & Serafeim, 2019). For investors, sustainability reporting serves as a risk assessment tool, providing insights into how firms manage potential environmental liabilities, labor relations, supply chain vulnerabilities, and governance structures. Regulators, meanwhile, use ESG disclosures to evaluate firms' compliance with evolving standards and policies designed to achieve sustainable economic growth. Consumers and civil society organizations also play a critical role, as they pressure firms to align their operations with socially responsible practices (Orazalin & Mahmood, 2019; Aifuwa et al., 2023).

In Nigeria, Africa's largest economy and one of its most resource-dependent nations, the relevance of sustainability reporting is particularly pronounced. Listed non-financial firms such as those in manufacturing, consumer goods, and industrial conglomerates are at the center of sustainability debates because their operations directly affect the environment and local communities. Increasingly, these firms are expected to provide comprehensive disclosures in line with both international sustainability frameworks and local guidelines issued by the Nigerian Exchange (NGX). The NGX has emphasized the importance of sustainability reporting by encouraging listed firms to adopt global standards such as the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB) frameworks (Okoye, Erin, & Ogundana, 2013; Oti et al., 2022). This regulatory push coincides with the rapid rise of ESG-focused investment, as global investors channel capital into firms that demonstrate strong sustainability credentials. Despite this momentum, the impact of sustainability reporting on firm performance in Nigeria remains contested. On one hand, proponents argue that sustainability initiatives can yield significant financial benefits by strengthening a firm's reputation, attracting socially conscious investors, and improving operational efficiency through reduced energy consumption and waste (Güngör & Dincel, 2018; Jamal et al., 2021). From this perspective, ESG practices are not merely compliance exercises but strategic investments that enhance long-term profitability. On the other hand, critics highlight the financial and administrative burdens associated with implementing and maintaining sustainability programs. For firms operating in volatile markets with limited institutional support, the costs of sustainability reporting may outweigh the benefits, at least in the short term (Birou, Fawcett, & Magnan, 2019; Kurniasari et al., 2023). This debate is especially relevant in Nigeria, where many firms must contend with infrastructural deficits, regulatory uncertainty, and economic volatility while simultaneously pursuing sustainability goals (Odoemelam & Okafor, 2022).

Moreover, existing empirical studies on the relationship between sustainability reporting and financial performance have produced mixed findings. Some evidence from developed markets suggests a positive correlation between ESG disclosure and firm profitability, while research in emerging economies reveals less consistent outcomes (Fernando & Lawrence, 2014; Maji & Adhariani, 2023). These variations underscore the importance of context-specific analyses. For Nigeria, where corporate governance mechanisms and enforcement structures are still evolving, the financial impact of sustainability disclosures may differ from global patterns. This ambiguity creates a pressing need for empirical research that focuses explicitly on Nigerian non-financial firms. This study addresses this gap by examining the effect of sustainability reporting on the financial performance of listed non-financial firms in Nigeria. Unlike many prior studies that rely on broad profitability measures, this research employs Return on Capital Employed (ROCE) and Profit After Tax Margin (PATM), a robust metric that captures both profitability and capital efficiency. Additionally, the study disaggregates sustainability reporting into its three primary dimensions; environmental, social, and governance to provide nuanced insights into how each disclosure category influences firm performance. In doing so, the study contributes to both theory and practice by clarifying whether sustainability reporting in Nigeria functions primarily as a driver of financial value or as a compliance-driven cost. The findings are expected to inform corporate managers, investors, and policymakers seeking to balance sustainability imperatives with the financial realities of firms in emerging economies.

2.0 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Environmental Disclosure (ENVD) and Financial Performance

Environmental disclosure (ENVD) reflects how firms communicate their ecological impact, covering issues such as energy efficiency, carbon emissions, water usage, and waste management. Theoretically, such practices should strengthen a firm's long-term resilience, as environmentally responsible operations often translate into reduced costs through resource conservation and improved operational efficiency (Siddik et al., 2023). Moreover, environmental disclosures can enhance corporate reputation, signaling to investors and regulators that a firm is actively managing ecological risks. Stakeholder theory provides a useful lens for understanding this relationship. According to Freeman (1984), firms must balance the interests of diverse stakeholders such as regulators, investors, employees, and communities who increasingly demand environmental responsibility. By disclosing environmental information, firms attempt to secure legitimacy and maintain trust among these groups. However, in contexts like Nigeria, where environmental regulation is unevenly enforced and institutional monitoring mechanisms are relatively weak, some firms may treat ENVD primarily as a compliance-driven exercise rather than a strategic investment. This reduces the likelihood that such disclosures translate into measurable financial benefits. In fact, managers may prioritize satisfying minimum regulatory expectations without embedding sustainability into their operations, thereby limiting its positive impact on profitability indicators such as Return on Capital Employed (ROCE) and Profit After Tax Margin (PATM). Thus, while stakeholder theory suggests that ENVD should foster legitimacy and potentially improve financial outcomes, in practice, weak institutional enforcement may result in only symbolic compliance. Consequently, its effect on firm performance is expected to be minimal.

H1: Environmental disclosure (ENVD) has no significant effect on the financial performance of listed non-financial firms in Nigeria.

2.2 Social Disclosure (SOCD) and Financial Performance

Social disclosure (SOCD) captures the extent to which firms report on their relationships with employees, communities, and society more broadly. It covers areas such as labor conditions, diversity, employee welfare, philanthropy, and community development initiatives. Firms that perform strongly in these areas often experience higher employee satisfaction, greater customer loyalty, and stronger reputational standing, all of which positively affect financial performance (Jamal et al., 2021). From a purely operational standpoint, socially responsible practices can reduce labor turnover costs, improve productivity, and minimize risks associated with community opposition. Stakeholder theory offers an explanation for why SOCD is financially beneficial. Firms do not exist in isolation but rather as part of a network of stakeholders including employees, host communities, customers, and governments whose continued support is essential for long-term survival. By engaging in meaningful social disclosures, firms signal their commitment to these groups' welfare, thereby earning a "social license to operate." In Nigeria, this aspect is particularly salient, as local communities often hold significant informal power over corporate operations, especially in industries that affect land and resources. Failure to engage with these stakeholders can lead to protests, disruptions, and reputational crises, which undermine financial performance. Conversely, active social engagement builds goodwill, attracts socially conscious investors, and translates into higher sales and operational stability. Accordingly, stakeholder theory suggests that satisfying social expectations generates long-term trust and cooperative relationships, which ultimately enhance financial performance.

H2: Social disclosure (SOCD) has no significant effect the financial performance of listed non-financial firms in Nigeria.

2.3 Governance Disclosure (GOVD) and Financial Performance

Governance disclosure (GOVD) concerns the transparency of a firm's internal structures and processes, including board composition, executive compensation, risk management, and shareholder protection mechanisms. Strong governance is generally associated with reduced agency conflicts, greater accountability, and enhanced investor confidence (Manning et al., 2018). From a theoretical perspective, firms with robust governance frameworks should be more attractive to investors and better positioned to mitigate operational risks. Through the lens of stakeholder theory, governance disclosure is a mechanism for managing the expectations of key stakeholders such as shareholders, regulators, and financial institutions. Transparent governance practices reduce information asymmetry and assure stakeholders that managerial decisions align with their interests. However, while stakeholder theory underscores the legitimacy benefits of governance disclosure, in emerging economies like Nigeria, the immediate financial implications may differ. Implementing governance reforms such as independent boards, extensive audit systems, or gender-diverse leadership can involve substantial costs. Furthermore, these practices may slow decision-making, limiting operational agility. If stakeholders, particularly investors in less developed capital markets, do not fully reward governance disclosures, firms may bear the costs without realizing immediate financial gains. Hence, while stakeholder theory predicts that governance disclosure strengthens legitimacy and stakeholder confidence, the short-term trade-off in emerging markets could be negative, as firms allocate significant resources to governance structures without corresponding returns on capital efficiency.

H3: Governance disclosure (GOVD) has no significant effect on the financial performance of listed non-financial firms in Nigeria.

3.0 METHODOLOGY

3.1 Research Design

This study employed an ex-post facto research design utilizing a longitudinal panel dataset. The choice of this design is justified as it enables the examination of causal relationships between variables using historical data without any direct manipulation of the firms under study (Kirumbi, 2018). By relying on secondary data, the design ensures objectivity and provides a robust foundation for analyzing how sustainability reporting influences financial performance over time.

3.2 Population and sample of the study

The population for this study comprises non-financial firms listed on the stock exchanges of Nigeria, as of 2025, 106 non-financial firms were listed on the Nigeria stock exchange. Using a simple filtering sampling technique, 76 non-financial firms were selected. This technique ensures that only firms with complete and consistent data for the 14-year study period (2010–2024) are included. The sample is considered adequate to provide reliable statistical power for testing the hypothesized relationships. The study relies on secondary data collected from annual financial statements, sustainability reports, and publications available on the Nigerian Exchange Group's website. These data sources provide comprehensive information on financial performance and sustainability disclosures for the selected non-financial firms. Secondary data are advantageous as they are reliable, verified, and reflect historical trends over the study period (2010–2024).

3.3 Variable measurement

In terms of variable measurement, financial performance served as the dependent variable and was captured through Return on Capital Employed (ROCE) and Profit After Tax Margin (PATM). ROCE was calculated as Earnings Before Interest and Taxes

(EBIT) divided by Capital Employed, where Capital Employed equals Total Assets minus Current Liabilities while Profit After Tax Margin (PATM) was calculated as Profit after tax divided by Revenue multiply by 100. This measure was chosen because it reflects both profitability and efficiency in the utilization of capital. The independent variables were operationalized through a sustainability disclosure index constructed on a scale of 0 to 1 for each component. Environmental disclosure (ENVD) was assessed based on the extent of reporting on emissions, waste management, energy use, and environmental policies. Social disclosure (SOCD) covered areas such as employee welfare, community engagement, and customer relations, while governance disclosure (GOVD) was measured through reporting on board structure, audit practices, and executive compensation. To improve the robustness of the model, firm-specific characteristics that could influence financial performance were incorporated as control variables. These include firm size, measured as the natural logarithm of total assets, leverage computed as the debt-to-asset ratio and Asset growth measured as current year total asset minus previous year total asset divided by previous total asset. By controlling for these variables, the study sought to isolate the net effect of sustainability reporting on ROCE and PATM. This approach ensures that the analysis captures the true impact of environmental, social, and governance disclosures on financial outcomes in Nigeria's non-financial sector.

3.4 System Econometric Model

The Econometric Model explain the relationship between sustainability reporting and financial performance. The model consists of two primary equations:

$$\mathrm{ROCE}_{it} = \beta_0 + \beta_1 \mathrm{ENVD}_{it} + \beta_2 \mathrm{SOCD}_{it} + \beta_3 \mathrm{GOVD}_{it} + \beta_4 \mathrm{DETA}_{it} + \beta_5 \mathrm{FSIZE}_{it} + \mu_{it} \ldots . (1)$$

$$\mathrm{PATM}_{it} = \beta_0 + \beta_1 \mathrm{ENVD}_{it} + \beta_2 \mathrm{SOCD}_{it} + \beta_3 \mathrm{GOVD}_{it} + \beta_4 \mathrm{DETA}_{it} + \beta_5 \mathrm{FSIZE}_{it} + \mu_{it} \ldots . (2)$$

The above model examines the relationship between sustainability reporting components and the financial performance of listed non-financial firms, with Return on Capital Employed (ROCE) and Profit After Tax Margin (PATM) serving as the dependent variable. ROCE and PATM are critical financial metric that assesses a firm's efficiency in utilizing its capital to generate.

Where:

ROCE	=	Return on Capital Employed
PATM	=	Profit After Tax Margin
ENVD	=	Environmental Sustainability Reporting
SOCD	=	Social Sustainability Reporting
GOVD	=	Governance Sustainability Reporting
FSIZE	=	Firm Size (Control Variable)
DETA	=	Leverage (Control Variable)
μ_t	=	White-noise Disturbance Error Term
t	=	Time
i	=	Companies.
$\beta_1 - 5$	=	Parameter Coefficients

3.5 Econometric Technique

The analysis employs panel data regression techniques, specifically fixed effects (FE) and random effects (RE) models, to examine the relationship between sustainability reporting and firm performance. The FE model controls for unobserved time-invariant heterogeneity by focusing on within-entity variations (Wooldridge, 2010), while the RE model assumes variability across entities is random and uncorrelated with the independent variables (Greene, 2018). To determine the most appropriate model, the Hausman test is conducted (Hausman, 1978). Descriptive statistics summarize the data, followed by correlation analysis to preliminarily assess variable relationships to ensure the validity and reliability of the results. The methodology ensures a comprehensive understanding of how sustainability reporting influences financial performance in Nigeria's non-financial Industry.

4.0 RESULTS AND DISCUSSION

4.1 Descriptive Statistics and Variable Correlation

The study begins the analysis with descriptive statistics and correlations among the study variables. Table 1 displays descriptive statistics that highlight the central tendencies and distributional characteristics of the study variables. PATM exhibits a mean of –12.11, revealing that several firms recorded net losses during certain periods. The wide range (–696.43 to 640.10) indicates the existence of extreme financial fluctuations within the sector, reflecting Nigeria's macroeconomic instability and high cost of operations. ROCE, with a mean value of 3.01 and a range of –423.70 to 193.17, further suggests inconsistent operational efficiency across firms. This aligns with previous studies showing that manufacturing firms in developing economies often struggle with high-cost structures, infrastructural deficits, and fluctuating input prices. Environmental disclosure (ENVD)

averages 0.163, while SOCD and GOVD average 0.355 and 0.395, respectively. These values underscore relatively low sustainability reporting levels, reflecting the still-evolving ESG landscape in Nigeria.

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
patm	760	-12.113	111.954	-696.430	640.100
roce	760	3.007	31.368	-423.700	193.170
envd	760	0.163	0.283	0.000	1.000
socd	760	0.355	0.210	0.000	1.000
govd	760	0.395	0.218	0.000	0.950
esg	760	0.304	0.172	0.000	0.900
fsize	760	7.186	0.951	4.620	9.590
deta	760	74.830	53.813	1.250	424.170
asgt	760	14.813	74.287	-412.090	851.990

Table 2 shows the correlation results which provide important insights into the relationships between sustainability reporting variables, firm characteristics, and financial performance. The findings indicate that environmental disclosure (ENVD) shows a weak positive association with both financial performance indicators, exhibiting a correlation of 0.135 with return on capital employed (ROCE) and 0.142 with profit after tax margin (PATM). Although positive, these relatively small coefficients suggest that environmental reporting has only a marginal relationship with firm profitability and capital efficiency within the sampled firms. Social disclosure (SOCD) demonstrates a moderate positive relationship with ROCE (0.270) and a slightly stronger association with PATM (0.175), implying that firms engaging in more social reporting may experience modest improvements in financial performance. SOCD also exhibits meaningful positive associations with ENVD (0.328) and governance disclosure (GOVD) (0.448), indicating that firms that perform well in social responsibility tend to also disclose more environmental and governance-related information, reflecting integrated sustainability practices. Governance disclosure (GOVD) itself shows weak positive associations with ROCE (0.148) and PATM (0.102), suggesting limited direct influence on performance; however, its strong associations with SOCD (0.448) and ESG (0.683) highlight its role as an important component of a firm's overall sustainability stance. Firm size (FSIZE) shows moderate positive associations with ROCE (0.328) and PATM (0.233), indicating that larger firms tend to perform better financially, possibly due to economies of scale, resource availability, and stronger stakeholder engagement. FSIZE also shows positive correlations with ENVD (0.357), SOCD (0.432), and GOVD (0.319), which suggests that larger firms are more inclined to engage in broader sustainability disclosures. Leverage (DETA) shows weak but negative correlations with both ROCE (–0.272) and PATM (–0.341), reinforcing the notion that higher debt levels may constrain profitability and operational efficiency. Moreover, DETA is negatively related to most sustainability variables including SOCD (–0.152), GOVD (–0.123), and ESG (–0.110), implying that highly leveraged firms may be less able or willing to invest in sustainability reporting. Asset growth (ASGT) exhibits weak to moderate positive correlations with ROCE (0.305), PATM (0.304), ENVD (0.227), SOCD (0.216), and ESG (0.170), suggesting that growing firms are more likely to deliver stronger financial outcomes and engage in greater sustainability reporting.

Table 2 Spearman's Rank Correlation Coefficients

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) patm	1.000								
(2) roce	0.736	1.000							
(3) envd	0.142	0.135	1.000						
(4) socd	0.175	0.270	0.328	1.000					
(5) govd	0.102	0.148	0.023	0.448	1.000				
(6) esg	0.217	0.259	0.589	0.798	0.683	1.000			
(7) fsize	0.233	0.328	0.357	0.432	0.319	0.521	1.000		
(8) deta	-0.341	-0.272	0.028	-0.152	-0.123	-0.110	0.048	1.000	
(9) asgt	0.304	0.305	0.227	0.216	-0.031	0.170	0.349	0.016	1.000

Spearman rho = 0.016

4.2 The Relationship between Sustainability Reporting and Performance

Table 3 shows the relationships between financial performance measured by profit after tax margin (PATM) and return on capital employed (ROCE) as the dependent variables and the independent variables of environmental reporting (ENVD), social reporting (SOCD), and governance reporting (GOVD), as well as to test the formulated hypotheses, the study employs a panel regression analysis. This approach is necessary as the results indicate the presence of heteroscedasticity, which can affect the reliability of

standard ordinary least squares (OLS) estimates. The Fixed and random regression results, along with the OLS pooled regression findings, are presented and discussed below.

Table 3: ESG Components and Financial Performance

Variables	PATM OLS	PATM FE	PATM RE	ROCE OLS	ROCE FE	ROCE RE
envd	19.599	46.940**	33.880	-1.945	-5.697	-4.175
	(0.228)	(0.020)	(0.053)	(0.660)	(0.283)	(0.380)
socd	-26.720	-85.558***	-53.517**	-6.788	-13.312	-10.227
	(0.252)	(0.003)	(0.032)	(0.285)	(0.075)	(0.130)
govd	17.372	-4.902	9.146	8.115	-4.434	2.631
	(0.383)	(0.855)	(0.678)	(0.135)	(0.528)	(0.662)
fsize	9.755	19.388	12.016	6.020***	4.199	6.356***
	(0.051)	(0.338)	(0.074)	(0.000)	(0.430)	(0.001)
deta	-0.515***	-0.592***	-0.540***	-0.136***	-0.244***	-0.181***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
asgt	0.154***	0.131	0.149**	0.075***	0.090***	0.080***
	(0.006)	(0.072)	(0.011)	(0.000)	(0.000)	(0.000)
Intercept	-46.570	-84.430	-50.404	-31.688***	-2.872	-27.057
	(0.168)	(0.563)	(0.280)	(0.001)	(0.940)	(0.051)
Observations	760	760	760	760	760	760
Overall R^2		0.083	0.089		0.115	0.139
Year Effects	NO	NO	NO	NO	NO	NO
Groupwise Heteroscedasticity		1.74{0.8996}			1.74{0.8996}	
Chow F-Test		2.49{0.0000}			2.74{0.0000}	
LM Test			58.87{0.0000}			51.98{0.0000}
VIF	1.32			1.32		
Hausman		9.54{0.1454}			14.21{0.0274}	

Notes: p-values are in parentheses. *** p<.01, ** p<.05

Table 3 reports the Ordinary Least Squares (OLS) regression results for the two financial performance measures; Return on Capital Employed (ROCE) and Profit After Tax Margin (PATM). For the ROCE model, the R-square of 0.115 indicates that environmental, social, and governance disclosures, together with firm size, leverage, and asset growth, explain 11.5% of the variation in ROCE, while 88.5% is driven by factors outside the model. Similarly, the PATM model records an R-square of 0.083, implying that the explanatory variables account for 8.3% of the variation in profit after tax margin. Although these values appear low, such results are common in financial performance studies, particularly in emerging markets where firm profitability is strongly affected by macroeconomic volatility and firm-specific risks. The OLS estimates therefore provide only preliminary insights and may suffer from unobserved heterogeneity and heteroscedasticity. To obtain more reliable estimates, the models were further estimated using Fixed Effects (FE) and Random Effects (RE) techniques. For ROCE, the FE model yields an R-square of 0.139, indicating improved explanatory power after controlling for firm-specific effects, while the RE model produces an R-square of 0.115. In the PATM model, both FE and RE estimations record an R-square of 0.089. Although the overall explanatory power remains modest, the FE and RE estimators provide more robust and consistent coefficients by accounting for unobserved firm-level heterogeneity and correcting limitations inherent in the OLS model.

The findings indicate that environmental disclosure (ENVD) has no statistically significant effect on either profit after tax margin (PATM) or return on capital employed (ROCE), as evidenced by the RE coefficient for PATM (33.880; p = 0.053) and the FE estimate for ROCE (–5.697; p = 0.283), suggesting that environmental reporting in Nigeria's manufacturing sector remains largely compliance-driven rather than performance-enhancing. Social disclosure (SOCD) presents a more complex pattern: while it exerts a statistically significant negative effect on PATM in the RE model (–53.517; p = 0.032), indicating that social investments impose short-term profitability costs, it remains insignificant for ROCE in the FE model (–13.312; p = 0.075), implying no meaningful effect on capital efficiency. Governance disclosure (GOVD) similarly shows no significant relationship with financial performance, as reflected in the RE coefficient for PATM (9.146; p = 0.678) and the FE estimate for ROCE (–4.434; p = 0.528), likely due to weak enforcement and symbolic compliance with governance codes. The results support the null hypotheses for environmental and governance disclosures, while social disclosure only partially rejects the null by negatively affecting profitability but not operational efficiency, highlighting that ESG reporting in Nigeria's manufacturing sector has yet to evolve into a strategically value-enhancing practice.

The findings show that environmental, social, and governance (ESG) disclosures do not significantly enhance financial performance among Nigerian manufacturing firms, largely because these practices are not yet strategically embedded in corporate operations. Environmental disclosure remains largely compliance-driven and superficial, with weak regulatory enforcement,

limited investor pressure, and poor environmental governance structures preventing it from translating into improved profitability or operational efficiency, a pattern consistent with Uwuigbe et al. (2020). Social disclosure, although important for corporate legitimacy and reputation, exerts a significant negative effect on profitability (PATM) because expenditures on employee welfare, community development, health and safety, and philanthropy impose short-term financial burdens without generating immediate economic returns, while its insignificant effect on ROCE indicates limited impact on capital productivity, as also observed by Adegbola and Omoye (2022). Similarly, governance disclosure does not significantly influence either profitability or capital efficiency, reflecting the largely symbolic nature of governance practices in Nigeria, where weak enforcement of governance codes, limited accountability, and informal management structures undermine the effectiveness of reported governance frameworks, a finding consistent with Adegbie et al. (2021). Overall, ESG disclosures in the Nigerian manufacturing sector function more as regulatory and legitimacy tools than as strategic mechanisms for enhancing firm performance.

5. CONCLUSION AND RECOMMENDATIONS

The overarching conclusion of this study is that sustainability reporting while conceptually important and increasingly emphasized in global corporate governance frameworks has not matured into a key financial performance driver among listed non-financial firms in Nigeria. The insignificant effect of environmental and governance disclosures, alongside the mixed effects of social disclosure and the composite ESG index, indicate that ESG practices in the sector are predominantly compliance-oriented and not strategically embedded in operational or financial decision-making. In other words, sustainability reporting has not yet become a tool for enhancing profitability or efficiency within the Nigerian listed non-financial firm's environment. The findings further highlight that traditional firm-level determinants, such as asset growth, size, and leverage, have more substantial explanatory power in predicting financial performance. High leverage continues to exert a detrimental effect on financial outcomes, while asset growth consistently enhances profitability and efficiency, underscoring the importance of reinvestment, capacity expansion, and operational strengthening. Ultimately, the study concludes that although sustainability reporting holds long-term potential for improving competitiveness, corporate legitimacy, and stakeholder engagement, its current implementation in Nigeria is largely symbolic and lacks the depth required to influence financial outcomes. Strengthening regulatory frameworks, improving disclosure quality, and fostering ESG awareness among investors and firms remain critical steps in unlocking the economic value of sustainability reporting in developing economies.

In light of the study's findings, it is recommended that regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN), the Securities and Exchange Commission (SEC), and NESREA strengthen enforcement mechanisms to ensure that sustainability reporting moves beyond symbolic compliance toward meaningful, quantifiable, and verifiable disclosures aligned with global frameworks such as GRI and IFRS S1/S2. Manufacturing firms should also integrate environmental, social, and governance (ESG) practices into their core strategic management processes, including supply chain operations, innovation, and stakeholder engagement, so that sustainability becomes a driver of long-term value creation rather than a regulatory burden. At the same time, capital market participants including institutional investors and financial analysts should be better educated on the long-term financial relevance of ESG information, as greater investor awareness will increase market pressure for improved sustainability performance. Given the negative impact of leverage on financial outcomes, firms are further advised to reduce overreliance on debt financing by adopting more balanced capital structures through equity financing, retained earnings, and strategic partnerships. Finally, because asset growth has been shown to enhance both profitability and operational efficiency, firms should priorities reinvestment in productive assets, technology, research and development, and capacity expansion to strengthen competitiveness and long-term financial resilience.

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