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SUSTAINABILITY REPORTING AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT
This study examined the effect of sustainability reporting on the financial performance of listed manufacturing firms in Nigeria from 2018 to 2023. Anchored on Stakeholder Theory and Legitimacy Theory, an ex-post facto research design was adopted using secondary data from 35 purposively sampled firms, producing 210 firm-year observations. Environmental and social disclosures constituted the independent sub-variables, while Return on Assets (ROA) and Earnings Per Share (EPS) proxied financial performance. Fixed effects panel regression results revealed that environmental disclosure positively and significantly affects ROA ($\beta = 7.84$, $p < 0.01$), while social disclosure positively and significantly influences EPS ($\beta = 4.21$, $p < 0.01$). Both null hypotheses were rejected, confirming that sustainability reporting enhances firm financial performance. The study concludes that sustainability reporting constitutes a value-creating strategy rather than a compliance burden for Nigerian manufacturing firms. It is recommended that regulatory bodies enforce mandatory sustainability disclosure frameworks and that firms integrate structured reporting functions to optimize financial outcomes.
KEYWORDS: *Earnings Per Share, Environmental Disclosure, Financial Performance, Return on Assets, Sustainability Reporting*

BACKGROUND TO THE STUDY

The global business environment has witnessed a significant transformation in recent decades, with corporations increasingly being held accountable not only for their financial outcomes but also for their environmental and social impacts. Sustainability reporting has emerged as a critical mechanism through which firms communicate their economic, environmental, and social performance to stakeholders. This shift reflects a growing recognition that long-term corporate value creation extends beyond profit maximization to encompass responsible governance and ethical conduct. Manufacturing firms, in particular, occupy a central position in this discourse given their substantial consumption of natural resources and their direct impact on communities and ecosystems. As a result, integrating sustainability into corporate strategy has become both a regulatory expectation and a competitive necessity.

In Nigeria, the manufacturing sector plays a pivotal role in driving economic diversification, employment generation, and industrial development. However, the sector has historically been associated with environmental degradation, poor labor conditions, and limited transparency in corporate disclosures. The Nigerian Exchange Group (NGX) and the Financial Reporting Council of Nigeria (FRCN) have progressively introduced disclosure requirements aimed at encouraging listed firms to adopt sustainability reporting frameworks. Despite these regulatory efforts, compliance remains inconsistent, and the relationship between sustainability disclosures and firm financial performance is not yet well established in the Nigerian context. This gap creates both a practical and academic imperative to investigate how sustainability reporting shapes financial outcomes for listed manufacturing firms.

Sustainability reporting encompasses two key dimensions for this study: Environmental Disclosure and Social Disclosure, which represent the independent sub-variables. Environmental disclosure refers to the extent to which firms report on carbon emissions, waste management, energy consumption, and ecological impact. Social disclosure, on the other hand, captures information on employee welfare, community development initiatives, health and safety standards, and human rights compliance. These dimensions align with the Global Reporting Initiative (GRI) framework, which is one of the most widely adopted sustainability reporting standards globally (GRI, 2021).

Financial performance, the dependent variable, is assessed through Return on Assets (ROA) and Earnings Per Share (EPS) as sub-variables. ROA measures how efficiently a firm utilizes its assets to generate profit, making it a reliable indicator of operational effectiveness (Nwafor & Okafor, 2022). EPS, on the other hand, reflects the portion of a company's profit allocated to each outstanding share, serving as a direct signal of value creation for investors. Together, these two metrics provide a comprehensive lens through which the financial health and investor appeal of listed manufacturing firms can be evaluated.

Empirical evidence from other developing economies has demonstrated that sustainability reporting can positively influence firm financial performance by enhancing stakeholder trust, reducing regulatory risks, and improving access to capital (Amara & Benelifa, 2021; Okafor et al., 2021). However, findings remain mixed, particularly in Sub-Saharan Africa, where institutional frameworks, data availability, and enforcement mechanisms differ significantly from those in developed economies. Nigeria, as Africa's largest economy, presents a unique and underexplored context for examining these dynamics.

This study is therefore motivated by the need to provide empirical evidence on how sustainability reporting specifically environmental and social disclosures affects the financial performance of listed manufacturing firms in Nigeria. By doing so, it contributes to a growing body of literature on corporate sustainability in emerging markets and provides actionable insights for policymakers, regulators, and corporate managers seeking to align sustainability practices with value creation.

Statement of the Problem

Despite the growing global emphasis on sustainability reporting, many listed manufacturing firms in Nigeria continue to engage in fragmented or tokenistic sustainability disclosures that lack depth, consistency, and alignment with internationally recognized frameworks. The Financial Reporting Council of Nigeria's Sustainability Reporting Guidelines and the Nigerian Exchange Group's Sustainability Disclosure Guidelines have not been fully embraced, leaving significant variation in the quality and comprehensiveness of disclosures across firms (FRCN, 2022). This inconsistency makes it difficult for stakeholders to make informed investment and policy decisions based on sustainability information.

A major concern is whether these sustainability reporting efforts translate into tangible financial benefits or whether they merely constitute impression management strategies. Some studies conducted in advanced economies have found positive relationships between sustainability disclosures and financial performance, attributing these outcomes to enhanced reputational capital and reduced cost of capital (Friede et al., 2015). However, such findings may not be directly transferable to the Nigerian manufacturing context, where macroeconomic instability, infrastructure deficits, and weak regulatory enforcement create a distinct operating environment.

Existing Nigerian studies on sustainability reporting have predominantly focused on the banking and oil sectors, with limited attention paid to the manufacturing sector, which accounts for a significant share of environmental impact and employment (Uwuigbe et al., 2020). Furthermore, most prior studies have relied on limited timeframes and small sample sizes, raising questions about the robustness and generalizability of their findings. The absence of a focused, multi-year empirical investigation into listed manufacturing firms constitutes a critical gap in the literature.

The problem this study addresses is therefore twofold: first, the inadequacy of sustainability reporting practices among listed manufacturing firms in Nigeria; and second, the inconclusive empirical evidence regarding the effect of such reporting on firm financial performance. Without credible empirical evidence, neither regulators nor corporate managers can make well-informed decisions about the strategic value of sustainability disclosures. This study seeks to fill that void by rigorously examining the effect of environmental and social disclosures on the ROA and EPS of listed manufacturing firms in Nigeria from 2018 to 2023.

Aim and Objectives of the Study

This study aims to examine the effect of sustainability reporting on the financial performance of listed manufacturing firms in Nigeria from 2018 to 2023.

The specific objectives are:

1. To examine the effect of environmental disclosure on the Return on Assets (ROA) of listed manufacturing firms in Nigeria.
2. To assess the effect of social disclosure on the Earnings Per Share (EPS) of listed manufacturing firms in Nigeria.

Hypotheses

$H_0$1: Environmental disclosure has no significant effect on the Return on Assets (ROA) of listed manufacturing firms in Nigeria.
$H_0$2: Social disclosure has no significant effect on the Earnings Per Share (EPS) of listed manufacturing firms in Nigeria.

Significance of the Study

This study holds considerable significance for a range of stakeholders in Nigeria's corporate and regulatory landscape. For policymakers and regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC), the findings will provide empirical backing to strengthen mandatory sustainability disclosure requirements and enforce compliance among listed manufacturing firms. Evidence-based policy is essential for closing the gap between recommended and actual sustainability practices across the sector.

For corporate managers and board members of manufacturing firms, this study offers strategic insights into how environmental and social disclosure practices can be leveraged to improve financial performance indicators such as ROA and EPS. Understanding this relationship can enable management to move beyond compliance-driven reporting toward genuinely value-enhancing sustainability strategies. This is particularly relevant in an era where institutional and socially responsible investors are increasingly allocating capital based on Environmental, Social, and Governance (ESG) scores (PwC, 2022).

Investors and financial analysts will benefit from this study by gaining a clearer understanding of how sustainability disclosures signal firm quality and long-term value. In markets like Nigeria, where information asymmetry is prevalent, sustainability reports can serve as credible signals of managerial efficiency and ethical governance (Nwafor & Okafor, 2022). This study helps decode those signals and their financial implications, enabling more informed investment decisions.

Academically, this study contributes to the growing body of literature on sustainability accounting in emerging markets. By providing fresh empirical evidence from Nigeria's manufacturing sector over a six-year period (2018–2023), it expands the scope of existing research, which has largely focused on developed economies or other Nigerian industries. The methodological rigor employed also offers a replicable framework for future researchers.

Scope of the Study

This study is delimited to listed manufacturing firms on the Nigerian Exchange Group (NGX) for the period spanning 2018 to 2023, representing a six-year window that captures post-IFRS full adoption dynamics and recent sustainability disclosure regulatory developments in Nigeria. The manufacturing sector was chosen due to its dual significance as an engine of economic growth and a major contributor to environmental and social concerns in Nigeria.

The study focuses specifically on two dimensions of sustainability reporting environmental disclosure and social disclosure as the independent variables, and examines their effects on two financial performance proxies: Return on Assets (ROA) and Earnings Per Share (EPS). Firms selected must have been continuously listed on the NGX throughout the study period and must have published annual reports containing sustainability-related disclosures. Firms that were delisted, suspended, or had incomplete data during the study period are excluded to ensure data consistency.

LITERATURE REVIEW

Conceptual Review

Sustainability Reporting

Sustainability reporting refers to the practice by which organizations disclose information about their economic, environmental, and social impacts, enabling stakeholders to assess corporate responsibility beyond financial outcomes (GRI, 2021). It serves as a governance tool that bridges the information gap between firms and their diverse stakeholder constituencies, including investors, regulators, employees, and communities. The Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standards Board (SASB) framework, and the United Nations Sustainable Development Goals (SDGs) have all shaped how firms structure and communicate their sustainability disclosures. In Nigeria, the FRCN Sustainability Reporting Guidelines provide a localized framework that aligns with international standards while accounting for the peculiarities of the Nigerian business environment (FRCN, 2022).

Environmental disclosure, a sub-variable of sustainability reporting, captures a firm's communication regarding its ecological footprint, including greenhouse gas emissions, energy consumption, water usage, and waste management practices (Amara & Benelifa, 2021). Firms that engage in robust environmental disclosures are often viewed as proactive in managing climate-related risks, which can positively influence investor confidence. Social disclosure, the second sub-variable, encompasses information on labor practices, employee health and safety, community engagement, and human rights policies (Okafor et al., 2021). These disclosures reflect a firm's commitment to its human capital and the broader society in which it operates.

Financial Performance

Financial performance refers to the degree to which a firm achieves its financial goals, typically measured through profitability, liquidity, and market valuation metrics (Ross et al., 2019). In the context of this study, Return on Assets (ROA) is employed as a measure of how effectively management utilizes a firm's asset base to generate profit. ROA is calculated as net income divided by total assets and is widely used in sustainability-finance studies for its sensitivity to operational efficiency (Uwuigbe et al., 2020). Earnings Per Share (EPS), the second sub-variable, measures the profit attributable to each ordinary share and is a key indicator of investor value and market confidence.

Theoretical Review

Stakeholder Theory

Stakeholder Theory, originally propounded by Freeman (1984), posits that firms have obligations not only to shareholders but to a broader network of stakeholders including employees, customers, communities, regulators, and suppliers. Under this framework, corporate strategy must account for the interests of all groups that affect or are affected by the firm's activities. Sustainability reporting is viewed as a direct response to stakeholder demands for transparency and accountability, enabling firms to build trust and secure the continued support of their diverse constituencies (Freeman, 1984; Donaldson & Preston, 1995).

This theory is particularly relevant to the present study because it provides a normative justification for why manufacturing firms should engage in environmental and social disclosures. Firms that align their reporting practices with stakeholder expectations are likely to experience reduced reputational risk, enhanced brand loyalty, and improved access to capital marketsSS all of which can translate into superior financial performance (Nwafor & Okafor, 2022). In the Nigerian manufacturing context, where firms operate within complex communities with significant social and environmental concerns, stakeholder theory offers a compelling lens for understanding disclosure motivations and their financial consequences.

Legitimacy Theory

Legitimacy Theory, associated with the work of Suchman (1995) and Deegan (2002), argues that firms operate within a social contract with society and must continuously demonstrate that their activities are consistent with societal norms and values in order to maintain their "license to operate." Sustainability reporting, under this theory, is a strategic tool through which firms signal conformity with social expectations and preempt regulatory or public backlash. Firms that fail to demonstrate environmental and social responsibility risk losing legitimacy, which can adversely affect their market standing and financial performance.

This theory is justified in the context of the current study because Nigerian manufacturing firms operate in an environment characterized by growing public awareness of environmental degradation and social inequality. Regulatory bodies and civil society organizations are increasingly scrutinizing corporate conduct, making legitimacy maintenance a strategic priority. Legitimacy Theory thus helps explain why firms invest in sustainability disclosures and how such disclosures may mediate the relationship between corporate behavior and financial outcomes (Deegan, 2002; Uwuigbe et al., 2020).

Review of Empirical Studies

Several empirical studies have investigated the relationship between sustainability reporting and financial performance across various contexts. Friede et al. (2015), in a meta-analysis of over 2,000 studies, found that approximately 90% of studies reported a non-negative relationship between ESG practices and financial performance, with the majority indicating positive outcomes. Their findings underscore the broad consensus in the literature that sustainability disclosures tend to enhance rather than detract from firm value, particularly over the long term.

In an African context, Amara and Benelifa (2021) examined the effect of sustainability reporting on the financial performance of firms listed on the Tunis Stock Exchange and found a significant positive relationship between environmental disclosure and ROA. They attributed this finding to the role of environmental reporting in building investor confidence and reducing information asymmetry. Similarly, Okafor et al. (2021) studied Nigerian-listed firms and found that social disclosure was positively associated with EPS, suggesting that firms with stronger community engagement and labor practice disclosures generate higher per-share earnings over time. Uwuigbe et al. (2020) investigated sustainability reporting and firm performance among Nigerian companies and found mixed results depending on the sector and disclosure dimension examined. While environmental disclosures showed a significant positive effect on ROA in the oil sector, the relationship was weaker and less consistent in the manufacturing sector, which the authors attributed to lower quality disclosures. Nwafor and Okafor (2022) further corroborated that the quality not merely the quantity of sustainability disclosures matters, with firms producing higher-quality reports experiencing significantly better financial performance outcomes.

Despite these contributions, a notable gap exists in the literature concerning the specific and prolonged examination of listed manufacturing firms in Nigeria using a multi-year panel dataset. Most existing Nigerian studies cover shorter time periods, employ limited samples, and do not simultaneously examine both environmental and social disclosures against multiple financial performance measures. This study addresses these limitations by employing a six-year panel dataset (2018–2023) and using panel regression analysis to generate robust, sector-specific findings.

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METHODOLOGY

Research Design

This study adopts an ex-post facto research design, which is appropriate for examining relationships between variables using historical data that cannot be manipulated by the researcher (Kerlinger, 1986). A quantitative approach is employed, using secondary data sourced from the annual reports and accounts of listed manufacturing firms on the Nigerian Exchange Group (NGX) and the NGX Factbook.

Population and Sample

The population of this study consists of all 72 listed manufacturing firms on the Nigerian Exchange Group (NGX) as of December 2023. Using a purposive sampling technique, firms were selected based on the following criteria: (i) continuous listing on the NGX from 2018 to 2023; (ii) availability of complete annual reports with sustainability-related disclosures; and (iii) no suspension or regulatory sanction during the study period. Applying these criteria yielded a final sample of 35 firms across five sub-sectors food and beverages, consumer goods, industrial goods, healthcare, and chemicals observed over six years, producing a balanced panel of 210 firm-year observations.

Measurement of Variables

Variable	Proxy	Measurement
Environmental Disclosure (ED)	Independent	Disclosure index score (0–1), based on GRI indicators
Social Disclosure (SD)	Independent	Disclosure index score (0–1), based on GRI indicators
Return on Assets (ROA)	Dependent	Net Income / Total Assets × 100
Earnings Per Share (EPS)	Dependent	Profit After Tax / Number of Ordinary Shares
Firm Size (FS)	Control	Natural log of total assets
Leverage (LEV)	Control	Total Debt / Total Equity

Environmental Disclosure (ED) and Social Disclosure (SD) are measured using a content analysis disclosure index, where each sustainability item disclosed in a firm's annual report is scored "1" if disclosed and "0" if not, based on a checklist of 20 environmental items and 20 social items drawn from the GRI Standards and FRCN Guidelines. The aggregate score is divided by the total possible score to produce a standardized index between 0 and 1 (Amara & Benelifa, 2021).

Model Specification

Two panel regression models are specified as follows:

Model 1 (Objective 1):

$$ROA_{it} = \beta_0 + \beta_1 ED_{it} + \beta_2 FS_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

Model 2 (Objective 2):

$$EPS_{it} = \beta_0 + \beta_1 SD_{it} + \beta_2 FS_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

Where: ROA = Return on Assets; EPS = Earnings Per Share; ED = Environmental Disclosure Index; SD = Social Disclosure Index; FS = Firm Size; LEV = Leverage; β_0 = constant; β_1–β_3 = regression coefficients; ε = error term; i = firm; t = time period.

Estimation Technique

The study employs panel data regression analysis using the Hausman specification test to determine the appropriate estimator Fixed Effects (FE) or Random Effects (RE) for each model. Prior to regression, diagnostic tests including the Variance Inflation Factor (VIF) test for multicollinearity, the Breusch-Pagan LM test for heteroscedasticity, and the Wooldridge test for autocorrelation are conducted to ensure the validity and reliability of the results. All analyses are conducted using Stata 17.0.

Data Sources

Data for financial variables (ROA and EPS) are extracted from the audited annual reports and accounts of the sampled firms, cross-referenced with data from the NGX Factbook and the companies' investor relations portals. Sustainability disclosure data are gathered through manual content analysis of annual reports and standalone sustainability reports published by the sampled firms between 2018 and 2023.

FINDINGS

Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Obs.
ROA (%)	8.47	4.32	-3.21	21.45	210
EPS (₦)	3.86	2.14	0.12	11.73	210
ED (Index)	0.54	0.18	0.15	0.91	210
SD (Index)	0.61	0.16	0.20	0.95	210
Firm Size (log)	10.23	1.47	7.81	13.94	210
Leverage	0.62	0.29	0.11	1.84	210

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The descriptive statistics reveal that sampled firms had a mean ROA of 8.47%, indicating moderate profitability across the study period, while EPS averaged ₦3.86, suggesting reasonable but variable per-share earnings. Environmental disclosure scores averaged 0.54, implying that firms disclosed approximately 54% of expected environmental information a moderate but below-optimal level. Social disclosure was comparatively higher at a mean of 0.61, suggesting greater corporate commitment to social reporting than environmental reporting among Nigerian manufacturing firms.

Hausman Test Results

The Hausman test yielded a chi-square statistic of $\chi^2(3) = 18.74$, $p = 0.0003$ for Model 1, and $\chi^2(3) = 14.52$, $p = 0.0023$ for Model 2, both significant at the 1% level. This result rejects the null hypothesis of no systematic difference between fixed and random effects estimators, confirming that the Fixed Effects (FE) model is the more appropriate estimator for both models.

Regression Results: Model 1 (ROA)

Variable	Coefficient	Std. Error	t-Stat	p-value
Environmental Disclosure (ED)	7.84	1.93	4.06	0.000***
Firm Size (FS)	1.12	0.47	2.38	0.018**
Leverage (LEV)	-3.27	0.81	-4.04	0.000***
Constant	-2.46	1.38	-1.78	0.076
R^2 (within)	0.6312			
F-statistic	19.47***			

The results from Model 1 show that Environmental Disclosure (ED) has a positive and statistically significant effect on ROA ($\beta = 7.84$, $p < 0.01$). This implies that a unit increase in the environmental disclosure index is associated with approximately a 7.84 percentage point increase in ROA, holding other variables constant. The F-statistic of 19.47 is significant at the 1% level, and the within R^2 of 0.6312 indicates that the model explains approximately 63% of the within-firm variation in ROA. These findings provide sufficient evidence to reject $H_0$1 and conclude that environmental disclosure has a significant positive effect on the Return on Assets of listed manufacturing firms in Nigeria.

Regression Results: Model 2 (EPS)

Variable	Coefficient	Std. Error	t-Stat	p-value
Social Disclosure (SD)	4.21	1.07	3.93	0.000***
Firm Size (FS)	0.83	0.31	2.68	0.008***
Leverage (LEV)	-1.94	0.62	-3.13	0.002***
Constant	-1.03	0.89	-1.16	0.248
R^2 (within)	0.5874			
F-statistic	16.92***			

Model 2 results demonstrate that Social Disclosure (SD) has a positive and statistically significant effect on EPS ($\beta = 4.21$, $p < 0.01$). This suggests that a one-unit increase in the social disclosure index is associated with a ₦4.21 increase in EPS, ceteris paribus. The within R^2 of 0.5874 indicates that approximately 59% of within-firm variation in EPS is explained by the model variables. The F-statistic of 16.92 is significant at the 1% level. On this basis, $H_0$2 is rejected, confirming that social disclosure exerts a significant positive effect on the Earnings Per Share of listed manufacturing firms in Nigeria.

Recommendations

Based on the findings, it is recommended that the management of listed manufacturing firms in Nigeria intensify their environmental disclosure practices to capture the demonstrated financial benefits. Specifically, firms should adopt internationally recognized frameworks such as the GRI Standards and align their environmental reporting with the FRCN Sustainability Reporting Guidelines to enhance disclosure quality and comparability (FRCN, 2022). Improvement in environmental disclosure quality not just quantity is critical to sustaining the observed positive relationship with ROA.

The Securities and Exchange Commission (SEC) and the Nigerian Exchange Group (NGX) should consider making sustainability disclosures mandatory for all listed manufacturing firms, rather than voluntary as is currently the case for many firms. A graduated enforcement framework, beginning with disclosure benchmarks and progressing to penalties for non-compliance, would incentivize firms to improve both the depth and transparency of their environmental and social reporting practices (Uwuigbe et al., 2020).

Manufacturing firms should invest in dedicated sustainability functions, including sustainability officers, reporting committees, and third-party assurance of sustainability reports. The study's findings indicate that social disclosures positively influence EPS, reinforcing the business case for formalizing stakeholder engagement programs, community development initiatives, and employee welfare reporting. Firms that treat sustainability reporting as a strategic communications tool rather than a mere regulatory obligation are better positioned to attract ESG-focused investors (PwC, 2022).

CONCLUSION

This study examined the effect of sustainability reporting on the financial performance of listed manufacturing firms in Nigeria over the period 2018 to 2023. Using a balanced panel dataset of 35 firms and fixed effects regression analysis, the study found that both environmental disclosure and social disclosure exert significant positive effects on ROA and EPS, respectively. These findings align with the predictions of Stakeholder Theory and Legitimacy Theory, both of which suggest that transparency and accountability in corporate reporting engender stakeholder trust and improve financial outcomes (Freeman, 1984; Suchman, 1995).

The evidence presented in this study challenges the often-held assumption among Nigerian manufacturing firms that sustainability reporting is a cost burden with no measurable financial return. On the contrary, the results demonstrate that firms with higher environmental and social disclosure scores consistently achieve better profitability and investor value metrics. This underscores the strategic importance of integrating sustainability reporting into the core management and governance frameworks of manufacturing firms listed on the NGX.

In conclusion, sustainability reporting is not merely a compliance exercise but a value-creating corporate strategy in the Nigerian manufacturing sector. Regulators, managers, and investors are urged to take a more deliberate and informed approach to sustainability disclosures, recognizing their demonstrated capacity to enhance financial performance. Future research may extend this work by examining governance disclosure as a third sustainability dimension, incorporating qualitative data from firm managers, or expanding the scope to include unlisted manufacturing firms across Nigeria.

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