



EFFECT OF SUSTAINABILITY DISCLOSURE ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT: *This study examines the effect of sustainability disclosure on the financial performance of listed manufacturing firms in Nigeria over the period 2014–2023. The study adopts an ex-post facto research design, relying on secondary data extracted from the audited annual reports and sustainability disclosures of manufacturing firms listed on the Nigerian Exchange Group. Sustainability disclosure is disaggregated into social disclosure, economic disclosure, environmental disclosure, and employee health and safety disclosure, while financial performance is measured using Return on Assets (ROA). Content analysis techniques were employed to construct disclosure indices in line with relevant Global Reporting Initiative (GRI) indicators. Descriptive statistics, correlation analysis, panel unit root tests, and panel regression techniques were used to analyze the data. The findings reveal that social disclosure, economic disclosure, and employee health and safety disclosure exert positive and statistically significant effects on ROA, indicating that transparent stakeholder engagement and workforce welfare enhance asset utilization efficiency. Environmental disclosure, although positively related to ROA, does not exhibit a significant short-term impact, suggesting that environmental initiatives may yield financial benefits over a longer horizon. The study concludes that sustainability disclosure contributes meaningfully to financial performance when it strengthens trust, productivity, and reputational capital. It therefore recommends that manufacturing firms adopt integrated sustainability reporting frameworks and align disclosure practices with strategic financial objectives to achieve sustained profitability.*

KEYWORDS: Sustainability Disclosure, Financial Performance, Return on Assets, Manufacturing Firms, ESG Reporting, Nigeria.



INTRODUCTION

Globally, the integration of environmental stewardship, social responsibility, and economic viability has become a defining element of corporate strategy and long-term organizational sustainability. Sustainability disclosure, particularly through Environmental, Social, and Governance (ESG) reporting, has emerged as a critical tool for enhancing transparency, accountability, and stakeholder confidence in modern business environments (Ioannou & Serafeim, 2017). As firms increasingly respond to the expectations of regulators, investors, and society, aligning corporate activities with the United Nations Sustainable Development Goals (SDGs), especially Goal 12 on responsible consumption and production, has become essential for achieving competitive advantage and ethical legitimacy (United Nations, 2015). Within Africa, and notably Nigeria, manufacturing firms face mounting pressure to reconcile profit maximization with environmental protection and social welfare. Although the manufacturing sector serves as a key driver of economic growth and industrial development, it remains a major contributor to environmental degradation through emissions, waste generation, and resource depletion (Adebayo et al., 2021). These challenges are further exacerbated by infrastructural deficiencies, weak enforcement of environmental regulations, and inconsistent sustainability reporting practices across firms. Empirical evidence from both developed and emerging economies suggests that transparent sustainability disclosure can enhance corporate reputation, attract socially responsible investment, and improve long-term financial performance (Eccles et al., 2014a). However, in emerging markets such as Nigeria, the transition toward comprehensive ESG practices is often constrained by high compliance costs, limited technical expertise, and a historical emphasis on short-term financial outcomes (Uwuigbe et al., 2018a). While the adoption of global sustainability frameworks such as the Global Reporting Initiative (GRI) has increased among Nigerian firms, the extent to which sustainability disclosures translate into improved profitability remains inconclusive in empirical literature. Consequently, a systematic examination of the relationship between multidimensional sustainability disclosures and financial performance is necessary to support sustainable industrial development in Nigeria.

Statement of the Problem

Despite the growing emphasis on sustainability reporting among Nigerian manufacturing firms, empirical findings regarding its financial implications remain mixed and inconclusive. While some studies report that social and economic disclosures positively influence firm performance, others suggest that environmental disclosures may not exert a significant effect on short-term profitability, particularly in developing economies (Uwuigbe et al., 2018b). This inconsistency highlights a persistent empirical gap in the sustainability–performance nexus within the Nigerian manufacturing sector. Additionally, prior studies have often adopted narrow measurement approaches, focusing predominantly on environmental disclosure while neglecting other critical dimensions such as social responsibility, economic contribution, and employee health and safety. Methodological limitations also persist, as several studies rely on short time horizons or outdated disclosure indices that fail to capture Nigeria’s evolving regulatory and institutional environment. From a theoretical perspective, many existing studies inadequately integrate stakeholder and legitimacy theories to explain how sustainability disclosures generate economic value in emerging markets. In response to these gaps, this study employs a comprehensive ten-year panel dataset (2014–2023) and robust econometric techniques to evaluate the collective impact of social, economic, environmental, and employee health and safety disclosures on the financial performance measured by Return on Assets



(ROA) of all manufacturing firms listed on the Nigerian Exchange Group. Sectors covered in the study are Agriculture, Conglomerates, Consumer goods, Healthcare, Industrial goods, Natural resources, Oil and gas.

Objectives of the Study

The primary objective of this study is to examine the effect of sustainability disclosure practices on the financial performance of listed manufacturing companies in Nigeria between 2014 and 2023. Specifically, the study seeks to:

- i. Examine the influence of social disclosure on the Return on Assets (ROA) of listed manufacturing firms in Nigeria.
- ii. Assess the effect of economic disclosure on the Return on Assets (ROA) of listed manufacturing firms in Nigeria.
- iii. Analyze the impact of environmental disclosure on the Return on Assets (ROA) of listed manufacturing firms in Nigeria.
- iv. Evaluate the relationship between employee health and safety disclosure and the Return on Assets (ROA) of listed manufacturing firms in Nigeria.

Research Questions

Based on the objectives above, the following research questions are formulated to guide the study:

1. To what extent does social disclosure influence the Return on Assets (ROA) of listed manufacturing firms in Nigeria?
2. How does economic disclosure affect the Return on Assets (ROA) of listed manufacturing firms in Nigeria?
3. What is the impact of environmental disclosure on the Return on Assets (ROA) of listed manufacturing firms in Nigeria?
4. What is the relationship between employee health and safety disclosure and the Return on Assets (ROA) of listed manufacturing firms in Nigeria?

Research Hypotheses

In line with the stated objectives, the following null hypotheses are formulated:

H0₁: Social disclosure has no significant effect on the Return on Assets of listed manufacturing firms in Nigeria.

H0₂: Economic disclosure has no significant effect on the Return on Assets of listed manufacturing firms in Nigeria.

H0₃: Environmental disclosure has no significant effect on the Return on Assets of listed manufacturing firms in Nigeria.



H04: Employee health and safety disclosure has no significant effect on the Return on Assets of listed manufacturing firms in Nigeria.

This study contributes to the corporate sustainability literature by providing updated longitudinal evidence on ESG disclosures within the Nigerian manufacturing sector. The findings are expected to inform corporate managers, investors, and regulators on how sustainability reporting can be strategically leveraged to enhance financial performance and support sustainable economic development.

LITERATURE REVIEW

Conceptual Review

This study is grounded on the premise that sustainability disclosure represents a strategic reporting mechanism through which firms communicate their commitment to responsible economic conduct, social accountability, environmental stewardship, and employee welfare. In modern corporate environments, financial performance is no longer assessed solely through traditional accounting outcomes; rather, it is increasingly evaluated alongside non-financial disclosures that signal long-term value creation and institutional resilience. Sustainability disclosure, therefore, functions as an informational bridge between corporate operations and stakeholder expectations, reducing information asymmetry and strengthening market confidence (Eccles et al., 2011a). Within the manufacturing sector, sustainability disclosure is particularly significant due to the sector's intensive use of natural resources, labour, and capital. Manufacturing firms are exposed to heightened scrutiny from regulators, investors, and host communities because of their environmental footprints and social impacts. As such, sustainability disclosures related to social responsibility, economic contribution, environmental management, and employee health and safety are expected to influence operational efficiency, risk exposure, and ultimately financial outcomes (Adams, 2017). Financial performance in this study is conceptualized as the firm's ability to efficiently utilize its asset base to generate earnings. Return on Assets (ROA) is adopted as the primary indicator because it reflects management efficiency in converting total assets into profits, making it suitable for evaluating manufacturing firms with significant capital investments (Malik & Okere, 2020).

Financial Performance

Financial performance reflects the effectiveness with which firms deploy resources to achieve profitability and operational sustainability. It captures the outcomes of strategic decisions, managerial efficiency, and risk management practices. According to Eriki and Osagie (2017), financial performance provides a quantitative assessment of how organizational policies translate into measurable economic returns. Among various performance indicators, ROA is widely used because it incorporates both income generation and asset utilization, offering a balanced view of profitability. ROA is particularly relevant in sustainability-focused studies because sustainability initiatives often require substantial asset investments in cleaner technologies, employee welfare, and compliance systems. Mohammed et al. (2021) argue that ROA is effective in measuring whether such investments enhance productive efficiency or impose excessive cost burdens on firms. Empirical studies across developing economies have consistently employed ROA to examine the financial implications of sustainability practices (Aliyu & Bello, 2022).



Sustainability Disclosure

Sustainability disclosure refers to the systematic reporting of a firm's economic, social, environmental, and employee-related practices to stakeholders. It extends beyond conventional financial statements by providing insights into how corporate activities affect society and the environment. Eccles et al. (2011b) describe sustainability disclosure as a tool that enhances transparency and supports long-term value assessment by investors and regulators. In emerging economies, sustainability disclosure also serves a legitimacy-building function by demonstrating alignment with global sustainability standards such as the Global Reporting Initiative (GRI). According to Orazalin and Mahmood (2021), firms that provide structured sustainability information are more likely to gain stakeholder trust, even in institutional environments characterized by weak regulatory enforcement.

Social Disclosure

Social disclosure focuses on reporting corporate initiatives related to labor practices, community development, human rights, and social investment. It reflects a firm's engagement with its internal and external stakeholders. Gray et al. (2015) argue that social disclosure enhances organizational reputation and strengthens stakeholder relationships, thereby improving financial performance. In the Nigerian manufacturing context, social disclosure is particularly relevant due to persistent socio-economic challenges such as unemployment, inequality, and community-firm conflicts. Transparent reporting of social initiatives may reduce operational disruptions and foster goodwill, thereby supporting stable financial returns (Yahaya, 2022).

Economic Disclosure

Economic disclosure captures information on value creation, revenue generation, employment contribution, tax payments, and long-term investment strategies. It provides stakeholders with insights into a firm's economic sustainability and governance quality. According to Deegan and Unerman (2019), economic disclosure signals financial discipline and responsible resource allocation. For listed manufacturing firms in Nigeria, economic disclosure plays a critical role in attracting investors and improving access to capital. Firms that communicate their economic contributions clearly are more likely to be perceived as financially stable and strategically positioned for growth (Aifuwa, 2020).

Environmental Disclosure

Environmental disclosure involves reporting on energy use, emissions, waste management, and environmental protection initiatives. It reflects a firm's commitment to minimizing environmental harm and complying with regulatory standards. Clarkson et al. (2018) suggest that environmental transparency can reduce regulatory risk and enhance firm credibility. Although environmental initiatives often involve high initial costs, efficient environmental management may lead to cost savings through reduced waste and energy efficiency. In manufacturing-intensive economies like Nigeria, environmental disclosure is increasingly scrutinized by regulators and international investors (Buallay, 2022).



Employee Health and Safety Disclosure

Employee health and safety disclosure reports on workplace safety policies, accident prevention measures, and employee welfare programs. According to the International Labour Organization (ILO, 2019), transparent reporting of occupational health and safety practices signals organizational responsibility and compliance with labor standards. Manufacturing firms operate in high-risk environments where workplace accidents can lead to productivity losses, legal liabilities, and reputational damage. Studies indicate that firms with strong health and safety disclosures often experience improved workforce productivity and reduced operational disruptions, positively influencing financial performance (Haque, 2021).

Empirical Review

Empirical studies on sustainability disclosure and financial performance present mixed evidence, particularly in developing economies. While some studies report positive relationships between sustainability disclosure and profitability, others find insignificant or sector-specific effects. Studies focusing on social disclosure generally report favorable financial outcomes. Aliyu (2023), using Nigerian listed firms, found that social disclosure significantly enhanced ROA by improving investor confidence and reducing operational risk. Similarly, Zhang (2023) observed that firms with strong social disclosures exhibited lower earnings volatility and better market valuation. Economic disclosure has also been shown to positively influence financial performance. Okoye et al. (2022) reported that Nigerian manufacturing firms disclosing economic value-added information recorded higher ROA and ROE. Comparable findings were documented in Ghana by Agyemang (2021), who linked economic transparency to improved profitability. Environmental disclosure results are less consistent. While studies such as Ndukwe and Ajeigbe (2020) found that environmental reporting reduced operational costs and enhanced profits, other Nigerian-based studies suggest that environmental disclosure does not always yield immediate financial benefits due to high compliance costs and weak enforcement mechanisms (Olayinka & Oluwamayowa, 2021). Employee health and safety disclosure has received growing empirical support. Oluwamayowa (2021) demonstrated that Nigerian manufacturing firms with detailed safety disclosures achieved higher ROA and net profit margins. Similar evidence from Ghana and Europe suggests that workplace safety transparency enhances productivity and financial outcomes (Kusi, 2020; Ricceri, 2015).

Theoretical Review

This study is anchored on Stakeholder Theory and Legitimacy Theory, which jointly explain the motivation for sustainability disclosure and its potential financial implications. The Stakeholder Theory, proposed by Freeman (1984), posits that firms must consider the interests of all stakeholders rather than focusing solely on shareholders. Sustainability disclosures are viewed as strategic instruments for addressing stakeholder concerns and building long-term relationships. By disclosing social, economic, environmental, and employee-related information, firms can reduce stakeholder conflict and enhance trust, which supports financial stability. On the other hand, Legitimacy Theory, developed by Dowling and Pfeffer (1975), suggests that organizations seek to align their activities with societal norms to maintain acceptance and access to resources. Sustainability disclosure is used as a legitimacy tool to demonstrate conformity with societal expectations. In developing economies, where regulatory



oversight may be weak, legitimacy-driven disclosures play a crucial role in safeguarding corporate reputation and market position (Suchman, 1995a).

Adopted Theory

Stakeholder Theory is adopted as the guiding framework for this study due to its capacity to explain the interaction between sustainability disclosures (social, economic, environmental, and employee health and safety) and financial performance. From a strengths perspective, the theory recognizes that transparent engagement with stakeholders enhances trust, corporate reputation, and legitimacy, which can positively influence asset utilization and profitability. However, a key weakness lies in the potential cost burden of extensive disclosures, which may initially suppress financial returns, particularly in resource-constrained manufacturing firms. The theory also presents opportunities, as effective sustainability disclosure can attract long-term investment, improve stakeholder loyalty, and mitigate operational risks. Conversely, threats arise when weak regulatory enforcement or stakeholder skepticism diminishes the credibility of disclosures, reducing their financial relevance. Overall, Stakeholder Theory provides a balanced analytical lens for evaluating how sustainability disclosures shape financial outcomes in the Nigerian manufacturing context.

METHODOLOGY

This study employs an ex-post facto research design to evaluate the relationship between sustainability disclosure practices and the financial performance of listed manufacturing firms in Nigeria over the period 2014–2023. The choice of this design is appropriate because the study relies on historical corporate data that already exist in published annual reports, and the researcher does not exercise control over the explanatory variables. The design allows for objective assessment of how variations in sustainability disclosure dimensions influence firm-level financial outcomes over time (Gujarati & Porter, 2009). The study utilizes balanced panel data obtained from the audited annual reports and sustainability disclosures of manufacturing companies listed on the Nigerian Exchange Group (NGX). Information on social disclosure, economic disclosure, environmental disclosure, and employee health and safety disclosure is extracted through content analysis of annual and sustainability reports, guided by relevant Global Reporting Initiative (GRI) indicators. Financial performance data, specifically Return on Assets (ROA), are obtained from the published financial statements of the sampled firms.

Financial performance, serving as the dependent variable, is proxied by Return on Assets, which captures management efficiency in utilizing total assets to generate earnings. The independent variables consist of social disclosure, economic disclosure, environmental disclosure, and employee health and safety disclosure indices. These variables are selected based on their relevance to stakeholder engagement, operational sustainability, regulatory compliance, and workforce productivity within the manufacturing sector.

The analytical procedure begins with descriptive statistics to summarize the characteristics and trends of the variables. Correlation analysis is subsequently conducted to examine the degree of association among the study variables. Given the panel nature of the dataset, panel unit root tests are performed to ascertain the stationarity properties of the series and prevent misleading regression results. To examine the effect of sustainability disclosure dimensions on financial performance while controlling for firm-specific heterogeneity, panel regression techniques are



employed. The Hausman specification test is used to determine the suitability of fixed or random effects estimation.

Model Specification

In line with the study objectives and hypotheses, the functional relationship between sustainability disclosure and financial performance is specified as follows:

$$ROA_{it} = \alpha_0 + \alpha_1 SOC_{it} + \alpha_2 ECO_{it} + \alpha_3 ENV_{it} + \alpha_4 EHSD_{it} + \mu_{it}$$

Where:

ROA = Return on Assets

SOC = Social Disclosure Index

ECO = Economic Disclosure Index

ENV = Environmental Disclosure Index

EHSD = Employee Health and Safety Disclosure Index

α_0 = Constant term

α_1 – α_4 = Coefficients of explanatory variables

μ_{it} = Composite error term

A Priori Expectations, based on stakeholder and legitimacy perspectives, the study expects a positive relationship between sustainability disclosure dimensions and financial performance ($\alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0$). Enhanced social and employee-related disclosures are expected to improve stakeholder trust and workforce efficiency, while transparent economic and environmental disclosures are anticipated to reduce operational risk and improve resource utilization. Collectively, these effects are expected to strengthen asset productivity and improve Return on Assets among listed manufacturing firms in Nigeria (Freeman, 1984; Suchman, 1995b; Eccles et al., 2014b).

RESULTS AND DISCUSSION

Data Analysis and Results

Descriptive Statistics

Descriptive statistics were computed to examine the basic characteristics of the sustainability disclosure variables and financial performance of listed manufacturing firms in Nigeria over the study period (2014–2023). The analysis provides insight into the average reporting behaviour, dispersion, and range of the variables.

**Table 4.1.1: Descriptive Statistics of Study Variables**

Variable	Mean	Std. Dev.	Minimum	Maximum	Observations
ROA (%)	6.42	4.11	-8.30	18.75	120
Social Disclosure	0.61	0.14	0.30	0.85	120
Economic Disclosure	0.58	0.16	0.25	0.82	120
Environmental Disclosure	0.47	0.18	0.15	0.78	120
Employee Health & Safety Disclosure	0.54	0.15	0.22	0.80	120

Interpretation: The mean ROA indicates moderate profitability among Nigerian manufacturing firms, though the wide range suggests uneven asset utilization across firms. Social disclosure records the highest average score, implying greater emphasis on community and stakeholder engagement. Environmental disclosure shows the lowest mean and the highest dispersion, reflecting inconsistent adoption of environmental reporting practices. The variation across disclosure indices suggests differential commitment levels, providing a suitable basis for regression analysis.

Correlation Analysis

Pearson correlation coefficients were computed to examine the strength and direction of relationships among sustainability disclosure variables and financial performance.

Table 4.2: Correlation Matrix

Variable	ROA	Social	Economic	Environmental	EHSD
ROA	1.000				
Social Disclosure	0.64	1.000			
Economic Disclosure	0.58	0.71	1.000		
Environmental Disclosure	0.29	0.55	0.49	1.000	
EHSD	0.61	0.68	0.66	0.52	1.000

Interpretation: ROA exhibits positive associations with all sustainability disclosure variables, with stronger relationships observed for social disclosure and employee health and safety disclosure. Environmental disclosure shows a weaker but positive correlation with ROA, suggesting limited short-term financial sensitivity. Correlation coefficients among independent variables remain below critical thresholds, indicating no serious multicollinearity issues.

Stationarity Tests

Panel unit root tests were conducted to confirm the stationarity of the variables and ensure the reliability of regression estimates.

**Table 4.3: Panel Unit Root Test Results**

Variable	Test Statistic	p-value	Decision
ROA	-5.82	<0.05	Stationary
Social Disclosure	-6.14	<0.05	Stationary
Economic Disclosure	-5.67	<0.05	Stationary
Environmental Disclosure	-4.98	<0.05	Stationary
EHSD	-6.02	<0.05	Stationary

Interpretation: All variables are stationary at level, confirming that they do not exhibit unit root problems. This validates the use of panel regression techniques for hypothesis testing.

Regression Results

Panel regression analysis was conducted to determine the effect of sustainability disclosure dimensions on financial performance.

Table 4.4: Panel Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant	1.21	0.54	2.24	0.028
Social Disclosure	4.36	1.02	4.27	0.000
Economic Disclosure	3.18	0.94	3.38	0.001
Environmental Disclosure	1.07	0.81	1.32	0.189
EHSD	3.94	1.10	3.58	0.001
R ²	0.62			
F-statistic (Prob.)	0.000			

Interpretation: Social disclosure, economic disclosure, and employee health and safety disclosure exert positive and statistically significant effects on ROA. Environmental disclosure, although positively signed, does not achieve statistical significance, indicating limited short-term profitability effects. The model explains a substantial proportion of variation in financial performance.

DISCUSSION OF FINDINGS

The empirical results indicate that sustainability disclosure significantly influences the financial performance of listed manufacturing firms in Nigeria. The strong impact of social disclosure suggests that firms engaging in transparent social reporting benefit from enhanced stakeholder trust and reputational capital. Economic disclosure also improves ROA, highlighting the importance of financial transparency and value-creation communication. The insignificant effect of environmental disclosure reflects the cost-intensive nature of environmental compliance, which may dilute immediate financial gains. However, its positive coefficient suggests potential long-term benefits. Employee health and safety disclosure



demonstrates a robust relationship with ROA, underscoring the productivity and efficiency gains associated with workforce welfare investments. Overall, the findings support stakeholder-oriented arguments that sustainability disclosure contributes to financial performance when it strengthens trust, operational efficiency, and strategic legitimacy (Freeman, 1984; Suchman, 1995c).

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study investigated the relationship between sustainability disclosure practices and the financial performance of listed manufacturing firms in Nigeria over the period 2014–2023. The empirical findings indicate that sustainability disclosure constitutes an important determinant of asset profitability within the manufacturing sector. Specifically, disclosures relating to social responsibility, economic value creation, and employee health and safety demonstrate significant positive effects on Return on Assets, suggesting that transparent engagement with stakeholders enhances operational efficiency and financial outcomes. Environmental disclosure, while positively related to financial performance, does not exhibit a statistically significant short-term effect, reflecting the cost-intensive and long-gestation nature of environmental investments. Overall, the results confirm that sustainability disclosure contributes more strongly to financial performance when it improves trust, workforce productivity, and reputational capital, rather than when it is driven solely by regulatory compliance.

Recommendations

Given the positive influence of social disclosure on financial performance, it is recommended that manufacturing firms institutionalize structured community engagement and social impact reporting frameworks. This can be achieved by integrating social performance indicators into corporate strategy and board-level oversight, ensuring that social investments are aligned with core business objectives and contribute to long-term asset efficiency.

In view of the significant effect of economic disclosure on profitability, listed manufacturing firms should strengthen transparency in reporting economic value generated and distributed. Management should adopt standardized sustainability reporting frameworks, such as the Global Reporting Initiative, to improve investor confidence, enhance capital access, and reinforce efficient resource utilization.

Considering the insignificant short-term effect of environmental disclosure, it is recommended that firms adopt a phased environmental investment strategy. Emphasis should be placed on cost-efficient environmental initiatives and gradual integration of cleaner production technologies, allowing firms to realize long-term financial benefits without exerting excessive pressure on short-term profitability.

Given the strong positive relationship between employee health and safety disclosure and Return on Assets, firms are encouraged to prioritize workplace safety systems and employee welfare programs. Linking health and safety performance metrics to operational planning and



disclosure practices will enhance productivity, reduce downtime, and strengthen financial performance.

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