

**SUSTAINABILITY ACCOUNTING AND FIRM FINANCIAL PERFORMANCE**



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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF  
ACCOUNTING ,FACULTY OF MANAGEMENT SCIENCES ,UNIVERSITY OF  
BENIN ,BENIN CITY ,IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE  
AWARD OF BACHELOR OF SCIENCE (B.SC) HONS.DEGREE IN ACCOUNTING**

**OCTOBER, 2023.**

## **DECLARATION**

**Victor Godstime EHIMARE** declare that ,

- i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Prof Omoye of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria.
- ii. This work has not been submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone

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## CERTIFICATION

We, certify that this research project was carried out by Victor Godstime EHIMARE in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfillment of the requirements for the award of Bachelor of Science (BSc.) degree in Accounting.

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**Date**

## **DEDICATION**

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared. I also want to dedicate this project to my Family and friends for the love and encouragement they have shown towards me during the course of this program, all I can say is thank you and God bless you.

## **ACKNOWLEDGEMENTS**

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## TABLE OF CONTENTS

TITLE PAGE .....	i
DECLARATION .....	ii
CERTIFICATION .....	iii
DEDICATION .....	iv
ACKNOWLEDGEMENTS .....	v
TABLE OF CONTENT .....	vi
ABSTRACT .....	ix
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background .....	1
1.2 Statement of the problem .....	3
1.3 Research Questions .....	4
1.4 Objectives of the study .....	4
1.6. Significance of the Study .....	5
1.7 Scope of the Research .....	5
1.8 Limitations of the Study .....	6
1.9 Definition of Terms .....	7
CHAPTER TWO .....	9
LITERATURE REVIEW .....	9

2.1 INTRODUCTION .....	9
2.2 Concept of Sustainability Reporting .....	9
2.2.1 Firm Performance .....	11
2.2.2 Sustainability Reporting (SR) Index .....	12
2.2.3 Profitability .....	12
2.2.4 Return on Assets (ROA) .....	13
2.2.5 Return on Equity (ROE) .....	13
2.2.6 Return on Investment (ROI) .....	13
2.2.7 Financial Performance .....	14
2.2.8 Cash Flow Position .....	14
2.3 Measurement of Sustainability Reporting .....	14
2.3.1 Firm Performance .....	14
2.3.2 Environmental Sustainability Reporting and Firm Performance .....	16
2.3.3 Social Sustainability Reporting and Firm Performance .....	17
2.3.4 Economic Sustainability Reporting and Firm Performance .....	18
2.4 THEORETICAL FRAMEWORK .....	19
2.4.1 Stakeholders Theory .....	20
2.4.2 Legitimacy Theory .....	21
2.4.3 Positive Accounting Theory .....	21
CHAPTER THREE .....	22

METHODOLOGY .....	22
3.1 INTRODUCTION .....	22
3.2 Research Design .....	23
3.3 POPULATION OF THE STUDY .....	23
3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE .....	23
3.5 TYPES OF DATA .....	25
3.6 DATA ANALYSIS .....	25
3.7 RESEARCH INSTRUMENT .....	25
3.8 VALIDITY AND RELIABILITY OF THE RESEARCH INSTRUMENT .....	26
3.9 MODEL SPECIFICATION .....	26
3.9 Measurement of the Variables .....	27
3.9.1 Dependent variable .....	27
3.9.2 Independent variables .....	28
3.9.3 Operationalization of Variables .....	28
CHAPTER FOUR.....	31
PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS .....	31
4.0 INTRODUCTION.....	31
4.1 Descriptive Analysis .....	31
4.2 Correlation Analysis .....	32
4.3 Diagnostic Analysis .....	33

4.4 Regression Analysis .....	34
4.5 Discussion of Findings .....	37
CHAPTER FIVE .....	40
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION .....	40
5.1. SUMMARY OF FINDINGS .....	40
5.2. CONCLUSION .....	40
5.3. RECOMMENDATIONS .....	41
APPENDIX .....	43
REFERENCE .....	52

## **ABSTRACT**

The research topic explores the relationship between sustainability accounting reporting and the financial performance of Nigerian companies. It emphasizes the importance of integrating economic, environmental, and social disclosures into business practices. The study aims to answer specific research questions, including the impact of economic and environmental disclosures on financial performance and the barriers faced by Nigerian firms in implementing sustainability accounting reporting practices.

The study found that economic and environmental disclosures have a positive and significant association with financial performance, as measured by Return on Equity (ROE). It also identified that the Sustainability Reporting Index, which quantifies hindrances to sustainability accounting reporting, is positively and significantly related to financial performance.

In conclusion, the study suggests that companies should integrate sustainability into their business strategies, invest in environmental and social responsibility, maintain high-quality disclosure, and actively engage with stakeholders to enhance financial performance while promoting sustainability. These recommendations can help businesses navigate the evolving landscape of sustainability reporting and contribute to their long-term success.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Sustainability accounting has garnered considerable attention in recent years due to businesses' recognition of the importance of integrating environmental, social, and governance (ESG) factors into their decision-making processes. The concept of sustainability accounting reporting involves measuring, disclosing, and communicating an organisation's social and environmental impacts alongside its financial performance (United Nations, 2013). According to Vlek and Steg (2007), the growth of the human population, increased material consumption, and expansion of production technology have led to a gradual decline in the quantity and quality of environmental resources. Concerns persist regarding nature fragmentation, biodiversity loss, water scarcity, overfishing, global warming, extreme weather events, air and water pollution, environmental noise, and a disregard for environmental protection, both present and future. This form of environmental unsustainability, driven by escalating demand and dwindling resources, now extends to social and economic instability. Consequently, organizations have been identified as central to the problem and must also play a central role in finding solutions. As noted by Welford (1997), organisations appear complacent while witnessing the deterioration of the planet's natural system, the suffering of people due to starvation, and the disintegration of social structures. The human activities occurring today are causing a The detrimental effects on society, ecology, and the economy, which will be experienced by future generations, result from the pursuit of maximizing economic growth (Unerman, Bebbington & O'Dwyer, 2007). Consequently, there is a growing demand for corporate responsibility in areas such as environmental protection, human rights, human capital, and product safety. Shareholders, employees, and financial institutions, who are key stakeholders, expect

businesses to demonstrate responsibility, accountability, and transparency (Aondoakaa, 2015). Unerman et al. (2007) suggests that one way to address these concerns is to ensure that economic activity is socially and environmentally sustainable in the long term, even though short-term economic growth may be possible at the expense of society and the environment. Therefore, organizations that cause continuous harm to society, resulting in an unstable environment for economic activities, are neither economically nor socially sustainable. The expectation for organizations to be transparent in their treatment of the environment, corporate governance, employees, and communities continues to rise. Sustainability focuses on organizing and managing human activities to meet physical and psychological needs without compromising the ecological, social, or economic foundations that enable these needs to be met. Many organizations have increasingly attempted to account for their social, environmental, and economic performance in practice (Unerman et al., 2007). Today, firms are expected to take responsibility for the positive and negative impacts of their activities on society and the environment, disclosing these impacts in a comprehensive sustainability report that includes details on governance structure, stakeholder engagement, and triple The term 'triple bottom line' was coined by Ellington (1998) to emphasize the three aspects of people (social), profits (economic), and planet (environment).

Sustainability reporting is defined by the Global Reporting Initiative (2011) as the practice of measuring, disclosing, and being accountable to both internal and external stakeholders for organizational performance towards the goal of sustainable development. Researchers widely believe that in today's dynamic and complex business environment, sustainability reporting or accounting can significantly influence a firm's overall performance, laying a foundation for preserving and enhancing the firm's value. Comprehensive information on a company's sustainability practices allows stakeholders to better evaluate its long-term value and contributions to society (Eccles & Krzus, 2010).

The argument regarding the relationship between sustainability reporting and firm performance in this study is based on the theories of good management. Good management theorists argue that there is a strong correlation between good management practices and corporate sustainability reporting (CSR) because attention to corporate social performance (CSP) domains improves relationships with key stakeholder groups (e.g., Freeman, 1984, as cited in Waddock and Graves, 1997), resulting in better overall performance. This positive relationship not only applies to internal factors such as positive employee relationships that enhance productivity and satisfaction but also to positive customer perceptions of the firm's quality and its impact on social, environmental, and economic performance, contributing to sustainable development goals. Based on this theory, sustainability reporting is expected to have a positive impact on firm performance. However, some studies (Utami, 2015; Ching et al., 2017) found no impact of sustainability reporting on firm performance, while others (Aggarmal, 2013) reported mixed results.

Being one of the major economies in Africa, Nigeria encounters various sustainability hurdles. The nation's heavy reliance on oil and gas extraction has resulted in environmental deterioration, social disparities, and economic instability (Oke, 2014). In recent times, there has been an increasing recognition of the necessity for sustainable development in Nigeria, and businesses are under mounting pressure to address their environmental and social footprints (Alawode, 2019).

## **1.2 Statement of the problem**

Although sustainability accounting is increasingly recognized as significant, there is a lack of research exploring its connection to the financial performance of Nigerian companies. Given Nigeria's distinctive social, economic, and environmental circumstances, it is crucial to conduct a thorough investigation into how sustainability practices influence the financial performance of Nigerian firms. This understanding is

essential for informing policy decisions and enabling businesses to make informed strategic choices that foster both sustainability and financial prosperity.

### **1.3 Research Questions**

This study seeks to address the following research questions:

1. What is the relationship between economic disclosure and firm financial performance?
2. What is the relationship between environmental disclosures and firm financial performance?
3. What are the obstacles that Nigerian companies encounter when implementing sustainability accounting reporting practices?

### **1.4 Objectives of the study**

The primary goals of this study are as follows:

1. Ascertain the relationship between economic disclosures and firm financial performance in Nigeria
2. To examine the relationship between environmental disclosures and Financial performance in Nigeria
3. Identify the obstacles that Nigerian firms encounter when implementing sustainability accounting reporting practices.

### **1.5 Research Hypotheses**

Based on the research objectives and questions, the following hypotheses are proposed for this study:

H1: There is no Significant relationship between economic disclosures and firm financial performance

H2: There is no Significant relationship between environmental disclosures and firm financial performance

3.H03: Nigerian firms encounter notable barriers when implementing sustainability accounting reporting practices.

### **1.6. Significance of the Study**

This study contributes to the existing body of literature on sustainability accounting reporting and firm financial performance, with a specific focus on the Nigerian context. The findings will offer valuable insights into the present state of sustainability practices in Nigerian firms and their impact on financial performance. Moreover, the study will identify the barriers and challenges faced by Nigerian firms, enabling policymakers and businesses to develop effective strategies to overcome these obstacles and enhance sustainability reporting practices.

Furthermore, this research holds relevance for a range of stakeholders, including regulators, investors, managers, and non-governmental organizations (NGOs). Regulators can leverage the findings to design policies that promote the adoption of sustainability accounting reporting practices. Investors can make more informed decisions by considering both financial performance and sustainability practices. Managers can gain valuable insights into the potential advantages of sustainability reporting for their firms, while NGOs can use the results to advocate for sustainable business practices.

### **1.7 Scope of the Research**

This study examines the correlation between sustainability accounting reporting and firm financial performance in Nigerian companies. It analyzes the practices and performance of Insurance companies in Nigeria. The research adopts a quantitative approach, using financial data and sustainability reporting

indicators to explore the relationship between sustainability accounting reporting and financial performance.

To ensure the generalizability of the findings, the study have a specified time frame and select a representative sample of Nigerian firms. While the research will not extensively delve into the specific intricacies of individual industries, it aims to provide a broad understanding of sustainability accounting reporting practices and their impact on financial performance across sectors in Nigeria.

It's important to note that this research does not cover all aspects of sustainability or consider all potential variables that influence firm financial performance. The main focus will be on examining the relationship between sustainability accounting reporting and financial performance, while considering certain contextual factors such as the socio-economic and environmental landscape of Nigeria.

### **1.8 Limitations of the Study**

While this research aims to contribute to the understanding of sustainability accounting reporting and firm financial performance in Nigeria, it is important to acknowledge the following limitations:

1. **Generalizability:** The findings of this study may not be directly applicable to all Nigerian firms or other countries. The sample selection process may limit the representation of various industries and company sizes, thereby affecting the overall applicability of the results.
2. **Reliance on Secondary Data:** This study will primarily rely on secondary data sources, such as financial reports and sustainability disclosures. The accuracy and completeness of these data sources may vary, and there may be limitations in accessing specific information.
3. **Causality and Directionality:** The study will analyze the relationship between sustainability accounting reporting and firm financial performance, but it cannot establish causality or the direction of

causality. Other unobserved variables or external factors may influence the relationship between these two variables.

4. **Subjectivity of Sustainability Reporting:** Sustainability reporting practices can differ across firms, and the quality and extent of reporting may be subjective. Variations in reporting frameworks, methodologies, and measurement techniques can introduce differences in the assessment of sustainability practices.

5. **Time Constraints:** The research will be conducted within a defined time frame, which may limit capturing the long-term effects or changes in sustainability accounting reporting practices and firm financial performance.

6. **Contextual Factors:** While the study will consider some contextual factors, such as the Nigerian socio-economic and environmental landscape, it may not comprehensively address all factors that can impact sustainability accounting reporting and firm financial performance, including cultural, political, or regulatory influences.

## **1.9 Definition of Terms**

1. **Sustainability Accounting Reporting:** Refers to the practice of measuring, disclosing, and communicating the social and environmental impacts of an organization alongside its financial performance. It involves integrating environmental, social, and governance (ESG) factors into a company's reporting and decision-making processes.

2. **Firm Financial Performance:** Denotes the evaluation of a company's financial outcomes and results. It encompasses various financial indicators, including profitability, return on investment, revenue growth, and shareholder value.

3. Barriers and Challenges: Represents the obstacles and difficulties faced by Nigerian firms when implementing sustainability accounting reporting practices. These may include factors such as lack of awareness, limited resources, regulatory constraints, organizational culture, and resistance to change.

4. Economic disclosures :refer to the information that companies are required to disclose about their financial condition and performance. This information is used by investors and other stakeholders to evaluate a company's prospects and make decisions about whether to invest in it.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

The subject of sustainability reporting is extensive and can be approached from various angles, such as sustainable cities and societies. In the field of accounting research, sustainability reporting has garnered significant interest over the years. Previous studies have identified several factors related to firm performance, including financial performance, non-financial reporting, and social responsibility, which facilitate managers in understanding its interaction with the environment. Sustainability profoundly impacts companies, the environment, and the economy as a whole. To enhance reporting on sustainability, numerous studies have attempted to establish the relationship between sustainability reporting and these variables. However, due to the vast scope of sustainability reporting, different studies have operationalized it in various ways.

#### **2.2 Concept of Sustainability Reporting**

Sustainability reporting allows organizations to disclose their environmental and social performance. It goes beyond merely generating reports from collected data; instead, it is a means for organizations to internalize and strengthen their commitment to sustainable development in a way that can be demonstrated to both internal and external stakeholders. Through sustainability reports, companies can build consumer confidence and enhance their corporate reputation by showcasing social responsibility initiatives and transparent risk management practices. Sustainability reporting is a voluntary initiative involving the publication of accounts that reflect an organization's economic, environmental, and social performance (Isenmann and Kim, 2006).

According to the Global Reporting Initiative (2013), sustainability reports are periodic publications, typically annual, in which companies share their corporate social responsibility actions and outcomes. The primary purpose of these reports is to improve the transparency of an organization's activities. The reports aim to help companies measure the impact of their actions on the environment, society, and the economy (the famous triple-bottom line). By obtaining accurate and insightful data, companies can improve their processes and have a more positive impact on society and the world. Additionally, sustainability reports enable companies to communicate externally with their stakeholders, including employees, investors, and media, providing them with a better understanding of the company's short, medium, and long-term goals, thus fostering more informed decision-making.

As stated by the Global Reporting Initiative (2013), "A sustainability report is a report published by a company or organization about the economic, environmental, and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model and demonstrates the link between its strategy and its commitment to a sustainable global economy." There are several benefits that a company can gain from reporting on its sustainability activities, such as fostering investor confidence, trust, and employee loyalty. Market analysts often analyze a company's sustainability disclosures to assess the quality and efficiency of management, and such reporting may provide firms with improved access to capital (Dhaliwal et al., 2011).

The concept of sustainability reporting is closely related to other disclosure concepts concerning economic, environmental, and social impacts, such as triple bottom line reporting and Corporate Social Responsibility (CSR) reporting. Companies voluntarily disclose sustainability reports to provide additional value and information to their stakeholders regarding the effects of their activities on society and the environment. This additional information offers various benefits to the company, including financial advantages like lower capital costs and stock market premiums, customer-related benefits like

increased market share and an improved reputation, operational benefits such as process innovation and resource efficiency, and organizational benefits like risk reduction and enhanced learning (Epstein 2008, as cited in Dembo, 2017).

### **2.2.1 Firm Performance**

Firm performance is a measure of how well a company is doing, which is influenced not only by the company's own efficiency but also by the market it operates in. In the financial sector, it is sometimes referred to as financial stability or financial health. There are several common financial measures used to assess firm performance, including revenue, return on equity, return on assets, profit margin, sales growth, capital adequacy, liquidity ratio, and stock prices, among others. It's important to consider the performance of a company relative to its competitors within the same industry since each firm is unique, and comparing performance across industries might lead to biased interpretations. According to Stewart (2000), performance encompasses both financial and non-financial indicators, providing information on the degree of goal achievement and results. For management, a firm's performance is crucial as it relates to the organization's authority and responsibility in legally achieving its objectives. Performance can be categorized into financial and non-financial aspects. Financial performance pertains to the degree to which financial objectives are being met or have been accomplished. It allows for measuring a firm's overall financial health over a specific period and enables comparisons with similar firms in the same industry or across different industries. Some common financial performance measures include profitability, cash flow position, return on investment, and inventory turnover. On the other hand, non-financial performance refers to any measure of an individual's or an entity's performance that is not expressed in monetary terms. In today's competitive environment, companies need to consider a broader spectrum of dimensions for performance evaluation, not limited to financial aspects alone. Non-financial

performance includes measures related to customer or employee satisfaction, quality, company reputation, market share, and competitiveness.

### **2.2.2 Sustainability Reporting (SR) Index**

The SR index score is derived from the consolidated set of GRI (Global Reporting Initiative) Sustainability Reporting Standards, which have been effective since 2018. This set of standards includes 56 general standards, 13 economic standards, 23 environment standards, and 27 social standards. Each component's total compilation is converted to a 100% scale using the following formula: SR index score (s) = Amount of compliance (n) / Number of standards considered × 100%. However, the new set of standards was only applied in the sustainability reports published for the 2017/2018 reporting period. Therefore, for comparative analysis between the years 2017/2018 and 2016/2017 reporting periods, an alternative index is developed specifically for banks based on the previous reporting guidelines (G4 guidelines). This alternative index is calculated separately for the general standards, economic standards, environment standards, and social standards by multiplying the number of standards in each category by 100%..

### **2.2.3 Profitability**

Profitability represents the net outcome of various policies and decisions made by an organization's management (Pearce & Robinson, 2008). It is intended to gauge the efficiency of utilizing company assets. Profitability offers firms the flexibility and confidence to engage in sustainable growth and development activities (Dabor & Dabor, 2015). The profitability ratio, which measures overall company performance and asset management efficiency, includes indicators such as gross profit margin, operating profit margin, net profit margin, cash flow margin, ROA (Return on Assets), ROE (Return on Equity), and cash return on assets. Studies have suggested that firms with higher profitability tend to be more

willing to disclose detailed information (Inchausti, 1997; Lang & Lundholm, 1993; Suwaidan, 1997) as it helps explain differences in the level of disclosure among firms.

#### **2.2.4 Return on Assets (ROA)**

ROA is a measure of a firm's profitability relative to the total assets employed by the company (Kabajeh et al., 2012). It serves as a comparative metric that largely depends on the industry context. ROA assesses how effectively a company converts the investments in assets through equity or debt financing into net income (Saragih, 2018).

#### **2.2.5 Return on Equity (ROE)**

ROE measures how much profit a company generates from the equity capital invested by shareholders and can be used over time to assess changes in a company's financial position. It indicates the amount of profits returned as a percentage of shareholders' investments (Kabajeh et al., 2012). ROE illustrates a company's ability to generate profit with the shareholder equity and is valuable for comparing net income with other companies in the industry, showcasing the efficiency of the company in turning invested money into gains for the investors (Saragih, 2018).

#### **2.2.6 Return on Investment (ROI)**

ROI is a performance indicator for any form of investment and represents the ultimate goal for shareholders. It shows the extent to which a specific business generates gains from the use of capital and measures the result in relation to the means used to obtain it (ROI allows measuring the efficiency of an investment). It indicates whether an investment is profitable or not (Saragih, 2018).

### **2.2.7 Financial Performance**

Financial performance refers to the company's financial condition during a specific period, considering aspects of fund raising and fund distribution, measured by capital coverage, liquidity, and profitability indicators. Profitability is a critical aspect of financial performance (Saragih, 2018).

### **2.2.8 Cash Flow Position**

The cash flow position reflects the company's financial condition during a particular period, concerning the receipts and payments of the business. It provides information about the inflows and outflows for operating, investment, and financing activities. The relationship between sustainability reporting and firm performance shows a strong positive correlation, where higher social performance, environmental performance, and financial performance are interconnected.

## **2.3 Measurement of Sustainability Reporting**

### **2.3.1 Firm Performance**

The performance of firms can be assessed based on their size growth (total assets), profitability (return on assets, return on equity, earnings per share), and market-based proxies (market price per share). Previous studies suggest that the size and profitability of firms may influence the level of information disclosure. Larger and more profitable firms are likely to disclose additional information to reduce agency costs, improve their reputation, gain public support, and attract investors. This indicates that firms with higher profitability and size are more inclined to disclose additional information, taking advantage of the benefits that come with such disclosures. Accordingly, Turban & Greening (1997) also provided practical support for the above argument by observing that firms with high sustainability performance have the potential to attract top-quality employees. This advantage allows such firms to

attract more qualified applicants, giving them a competitive edge over others. Thus, companies with high sustainability performance tend to exhibit better overall firm performance as they attract both human talent and financial resources from the environment. Wissink (2012) cited the work of Waddock & Graves, who provided the first empirical evidence for the virtuous cycle of corporate social responsibility. Their study revealed a significant relationship between social performance and subsequent firm performance, and vice versa. Surroca, Tribó & Waddock (2010) further supported this claim with their own findings.

The implementation of sustainability reporting, as promoted by the GRI (Global Reporting Initiative), has transformed this practice into a widely adopted approach by organizations worldwide. Sustainability reports not only disclose the financial aspects but also encompass the company's values, governance model, and commitment to creating a sustainable global economy. Similar to financial documentation required for public companies, non-financial reporting enables markets to respond to dynamic conditions, keeps shareholders informed, and enhances transparency into firm activities. Reporting on non-financial aspects, such as economic, social, and environmental profiles, is becoming increasingly prevalent globally (Kolk, 2003; KPMG, 2015). While CSR reporting is mandatory in some regions, including Europe, it remains a voluntary practice in the United States. The GRI's Sustainability Reporting Standards have played a crucial role in providing clarity and encouraging credible non-financial reporting by companies, as evidenced by their widespread acceptance and use among the world's largest corporations.

Kolk (2003) found that sustainability reporting is more common in industrial sectors than in the financial sector. This is because certain sectors with high risks tend to report more, given the potential

for significant environmental or social impacts. However, the financial sector, despite its susceptibility to risks and market fluctuations that can affect various segments and consumers' livelihoods, may not report as extensively due to the nature of their day-to-day operations. Nonetheless, assurance of sustainability reports by credible sources is essential to ensure the accuracy and reliability of disclosed information. The GRI's "External Assurance of Sustainability Reporting" report emphasizes the importance of quality assurance using auditing frameworks and aims to enhance the transparency and trustworthiness of non-financial disclosures. BP, for example, engaged in assured sustainability reporting before the Deepwater Horizon Oil Spill, but the incident had a severe impact on the company's stock prices. While their sustainability reports were assured, crucial aspects related to physical inspections of operating assets were overlooked and not included in the reports, leading to major consequences.

Overall, sustainability reporting plays a significant role in firm performance by attracting talent, promoting transparency, and allowing companies to actively contribute to a sustainable global economy. However, to ensure credibility and effectiveness, assurance of sustainability reports is essential, and companies must address critical areas to avoid potential risks and challenges.

### **2.3.2 Environmental Sustainability Reporting and Firm Performance**

Environmental reporting involves disclosing information about how the extractives industries manage and monitor their environmental impact, including compliance with legal regulations and environmental management practices within the regulatory framework. Howes (2002) defines environmental accounting as the generation, analysis, and use of monetized environmental-related information to improve a firm's environmental and economic performance. Environmental accounting aims to integrate environmental and financial performance more visibly, embedding environmental sustainability within an organization's culture and operations. It provides decision-makers with information to reduce costs,

business risks, and add value. Environmental sustainability focuses on ecosystem integrity, carrying capacity, and biodiversity, ensuring that natural capital is maintained as a source of economic inputs and a sink for wastes. This approach requires responsible resource harvesting and waste emission within the environment's assimilation capacity (Kahn, 1995). Economic, social, and environmental sustainability must be integrated and interlinked in a comprehensive manner to foster positive synergies and encourage real development. Neglecting any of these elements can lead to negative consequences.

Environmental accounting, as a subset of social accounting, focuses on an organization's cost structure and environmental execution. It involves planning, presenting, and communicating information related to an organization's relationship with the natural environment (Handbook of National Accounting: Integrated Environmental and Economic Accounting 2003). Gray and Bebbington (2011) consider environmental accounting to cover all accounting areas affected by responses to environmental issues, including new areas of eco-accounting (HOA, 2011). Similarly, Shaltegger and Hindrichsen (1996) define environmental accounting as a subregion of accounting that deals with activities, policies, and systems for recording, analyzing, and reporting environmentally-induced financial and environmental impacts of a defined economic system.

### **2.3.3 Social Sustainability Reporting and Firm Performance**

Social accounting, also known as social and environmental accounting, corporate social reporting, corporate social responsibility reporting, sustainability reporting, and non-financial reporting or accounting, involves conveying the social and environmental impacts of organizations' financial activities to specific parties within society and society at large (R. H. Gray, Owen, & Maunders, 1987). Gray et al. (1996) argue that social accounting covers accounting for various things other than financial

events, accounting in different media beyond financial terms, accounting for different individuals or groups beyond fund providers, and accounting for various purposes beyond financial or revenue-related decision-making. Social accounting aims to provide a systematic analysis of an organization's impact on its stakeholders, with stakeholder involvement as part of the information examined for the accounting statement (Quarter, 2009).

### **2.3.4 Economic Sustainability Reporting and Firm Performance**

Economic sustainability refers to a production system that satisfies current consumption levels without compromising future needs. The goal of economic sustainability is to ensure the sustainability of the economic system itself. Hicks originated the concept of economic sustainability, defining "income" as the amount one can consume during a period and still be equally well off at the end of that period. Traditionally, economists assumed that natural resources were unlimited and emphasized the market's efficiency in resource allocation. However, as awareness of finite natural resources has grown, there are concerns about uncontrolled growth and exponential consumption. Economic sustainability now calls for integrating the concept of Hicksian income, which focused on human-made capital and money, with the other forms of capital - natural, social, and human. Economic sustainability involves restraining resource use to ensure the sustainability of natural capital and does not seek economic sustainability at the expense of environmental sustainability. The literature on sustainable development calls for a shift from the prevailing doctrine of economic growth to a new doctrine of economic development focused on qualitative growth rather than quantitative growth.

## **2.4 THEORETICAL FRAMEWORK**

Various social contract theories offer explanations for corporate social and environmental reporting, which also apply to sustainability reporting (Kwaghfan, 2015). This study adopts the legitimacy theory, signaling theory, and slack resource theory, as these theories are interconnected and complement each other in understanding social performance. The objectives of this study will be achieved through the application of these theories.

Legitimacy theory focuses on the social contract between a company and society, emphasizing the importance of a company's alignment with societal norms and expectations for its survival (Brown & Deegan, Mousa & Hassan, 2015). A company must maintain its legitimate status by disclosing information on environmental and social issues through the annual report to demonstrate its compliance with societal norms. Failure to do so may lead to difficulties in procuring necessary resources, as stakeholders like employees, consumers, and investors may reject associations with companies displaying poor environmental and social behavior (Coopers & Lybrand, 1993). By disclosing their commitment to sustainable development, companies enhance their reputation, attracting stakeholders from the society, such as qualified employees, investors, and customers, leading to improved firm performance. The legitimacy theory expects a positive link between sustainability reporting and firm performance.

The signaling theory explains that firms tend to disclose positive information about their activities to present themselves as outperforming others, improving their reputation and appealing to the wider public (Shehata, 2014). Sustainability reporting enhances a company's reputation, attracting stakeholders and consequently contributing to better firm performance. The signaling theory suggests a positive relationship between sustainability reporting and firm performance as a determinant.

The slack resource theory considers the availability of resources within a company and their allocation to social or environmental domains (Ahlström & Ficeková, 2017). Corporate slack refers to the ability to use available resources to achieve set goals. Firms with better financial performance are more likely to have resources available for investment in CSR activities (Wissink, 2012). Increased investment in CSR activities improves social performance, subsequently enhancing reporting content and practices related to sustainability issues based on the signaling theory. The slack resource theory expects a positive link between firm performance and sustainability reporting.

#### **2.4.1 Stakeholders Theory**

The stakeholder's theory posits that a firm's success depends on effectively managing its relationships with various stakeholders. The concept was introduced by the Stanford Research Institute (SRI), defining stakeholders as groups whose support is essential for the organization's existence (Freeman, 1983). Freeman (1983) categorized the stakeholder theory into two models: a business planning and policy model and a corporate social responsibility model of stakeholder management. The first model focuses on developing and evaluating corporate strategies based on the approval of key stakeholder groups, such as owners, customers, public groups, and suppliers. The second model extends this analysis to include external influences that might be adversarial to the firm, such as regulatory bodies, environmentalists, and special interest groups concerned with social issues (Guthrie and Parker, 1990). The stakeholder's theory encourages managers and accountants to consider a strategic plan adaptable to changing social demands from non-traditional stakeholder groups. In environmental accounting, the stakeholder's theory emphasizes addressing environmental cost elements and their inclusion in financial statements.

### **2.4.2 Legitimacy Theory**

Legitimacy theory assumes that an entity's actions align with socially constructed norms, values, and definitions (Suchman, 1995). Tilling (2008) views legitimacy theory as a powerful tool for understanding corporations' voluntary social and environmental disclosures, facilitating critical public debate. However, a challenge with legitimacy theory is its occasional loose use of the term, which is not unique to this theory but common across various disciplines. The theory proposes that firms may go through four phases concerning legitimacy. The establishment of legitimacy occurs in the early stages of a firm's development, focusing on issues of competence and adherence to socially accepted standards (Hearit, 1995). Maintaining legitimacy involves ongoing role performance and symbolic assurance that all is well, while also anticipating and preventing changes to legitimacy (Ashford and Gibbs, 1990). Legitimacy is dynamic, and organizations must respond to changing community expectations over time. A company may lose its legitimacy even if initially deemed acceptable. Extending legitimacy occurs when an organization enters new markets or changes its approach to the current market, requiring intense and proactive efforts to win support from potential constituents (Ashford and Gibbs, 1990). Defending legitimacy becomes necessary when legitimacy is threatened, either internally or externally, leading to reactive activities to counter the threat (Ashford and Gibbs, 1990). Corporate legitimacy in a capitalist system often requires balancing the interests of stakeholders and the larger community, and corporations may regularly need to defend their legitimacy (Hearit, 1995). Accounting researchers often focus on this last phase, which helps examine the link between legitimacy and resources (Lindblom, 1994).

### **2.4.3 Positive Accounting Theory**

Positive Accounting Theory seeks to explain why firms choose to make voluntary social disclosures. Watts and Zimmerman (1986) laid the foundation for this theory and specifically aimed to provide

evidence for the political cost hypothesis as a rationale for firms' social disclosures. Although some researchers, including Gray et al. (1995), criticize the underlying assumptions of positive accounting theory, its explanations for why firms engage in social disclosures cannot be easily dismissed.

Positive accounting theory relies on empirical evidence, which overlaps with that used to support other explanations like legitimacy theory for social disclosures. In fact, the relationship between firm size and disclosure, along with the impact of the industry type, is consistently found in empirical studies. Notably, the size-disclosure relationship emerges as the most robust empirically. These findings have been used to support both legitimacy theory (Patten, 1991; Deegan and Godon, 1996) and positive accounting theory.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter elucidates the systematic approach undertaken to gather, analyze, and interpret data, thereby facilitating a comprehensive understanding of how sustainability reporting interrelates with firm financial performance.

Through the methodological exploration presented herein, we endeavor to elucidate the intricate dynamics that underscore the linkage between sustainability reporting practices and their potential impact on financial outcomes. The chapter begins by outlining the research Design, population of the study, sample size and sampling technique, types of Data, data analysis, research instrument and model specification.

### **3.2 Research Design**

The research design is a plan or blueprint that guild the researcher in the various stages of the process. According to Yomere and Agbonifoh(1999), The research design refers to draw inferences concerning relationship among variables under investigation.

For this study, a quantitative research approach was chosen due to its suitability for conducting statistical analyses. This approach enables us to quantitatively examine the relationship between sustainability accounting reporting and firm financial performance in the Nigerian context.

### **3.3 POPULATION OF THE STUDY**

The population of this study consists of publicly traded companies in Nigeria, listed on the Nigerian Stock Exchange (NSE) as of 2022 . Within this population, the focus is on companies that actively engage in sustainability accounting reporting.

### **3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE**

The study considers data for a 10-year period from 2011 to 2022. The period is considered due to the fact that 2011 marked the year from which companies in Nigeria are mandated to report their financials in line with the International Financial Reporting Standard (IFRS). The sample of the study comprises 15 firms which met the relevant information disclosure criteria.

A stratified sampling technique was employed, categorizing firms by industry sector to ensure representation across various sectors.

The list is as follows

- \* Access Bank Plc
- \* Dangote Cement Plc
- \* Guaranty Trust Holding Company Plc
- \* Nigerian Breweries Plc
- \* Seplat Energy Plc
- \* Stanbic IBTC Holdings Plc
- \* United Bank for Africa Plc
- \* Zenith Bank Plc
- \* Flour Mills of Nigeria Plc
- \* Nestle Nigeria Plc
- \* Unilever Nigeria Plc
- \* Fidelity Bank Plc
- \* Oando Plc
- \* Prestige Assurance Plc
- \* Transcorp Plc

\* United Capital Plc

This list was generated based on a study of publicly traded companies in Nigeria that were listed on the Nigerian Stock Exchange (NSE) as of 2022. The study focused on companies that actively engage in sustainability accounting reporting

### **3.5 TYPES OF DATA**

Secondary data type was employed for this study; The research involves the collection of two main types of data. Firstly, quantitative financial data, including key financial indicators such as revenue, profit margins, and stock prices. Secondly, sustainability reporting data, sourced from annual sustainability reports and ESG disclosures of the selected firms.

### **3.6 DATA ANALYSIS**

The data will be analyzed using statistical software such as SPSS or Stata. The following statistical methods will be used:

Descriptive statistics to analyze the distribution of the data

Correlation analysis to identify the relationship between financial performance and sustainability performance

Regression analysis to model the relationship between financial performance and sustainability performance

### **3.7 RESEARCH INSTRUMENT**

The research instrument will consist of a data collection sheet that will be used to extract the relevant data from the financial statements and sustainability reports of the selected firms. The data collection sheet will include the following variables:

Financial variables: revenue, profit margins, stock prices

Sustainability variables: environmental impact, social impact, governance impact

### 3.8 VALIDITY AND RELIABILITY OF THE RESEARCH INSTRUMENT

Reliability for financial data collection was ensured by cross-referencing data from multiple sources and conducting data consistency check.

### 3.9 MODEL SPECIFICATION

This study examine Sustainability Reporting and firm financial performance in Nigeria, the study employs econometric method in formulating a regression model which would be analyzed through the use ordinary least square regression (OLS). Financial Performance, Profitability, and Cash flow Position are also part of control variable. In achieving the objective , the specification of the model takes the following form

$$FP=(ECD, END, BSA) \text{ _____ } 1$$

$$FP=B_0+B_1ECD_{it} + B_2END_{it} +B_3BSA_{it} +\epsilon_t \text{ _____ } 11$$

Alternatively:

$$\text{Financial Performance} = \beta_0 + \beta_1 * \text{Economic Disclosures} + \beta_2 * \text{Environmental Disclosures} + \beta_3 * \text{(Factors related to Sustainability Accounting Reporting)} + \epsilon$$

Where:

- Financial Performance represents a financial performance metric (ROE).
- Economic Disclosures represent the level or quality of economic disclosures by Nigerian firms.

- Environmental Disclosures represent the level or quality of environmental disclosures by Nigerian firms.
- Factors related to Sustainability Accounting Reporting represent factors that may hinder or facilitate sustainability accounting reporting.
- $\beta_0$  is the intercept.
- $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are coefficients representing the relationships between the respective variables and financial performance.
- $\epsilon$  represents the error term.

This equation combines all three objectives into a single model, allowing us to analyze the simultaneous impact of economic and environmental disclosures as well as obstacles related to sustainability accounting reporting on firm financial performance in Nigeria.

### **3.9 Measurement of the Variables**

#### **3.9.1 Dependent variable**

For the purpose of this study, return on equity (ROE) is used as the dependent variable which is the measure of the company's financial performance. It provides a direct measure of a company's profitability by evaluating how effectively it generates income relative to shareholders' equity. It reflects the efficiency of the company in utilizing its equity capital to generate profits.

ROE is the ratio of the net income for the year divided by shareholders' equity at the beginning of the financial year. ROE measures the ability of a firm to generate income from its shareholders' investments in the firm.

### 3.9.2 Independent variables

This study aims at finding evidence on the effect of Economic disclosure, Environmental disclosure and Sustainability factors on firms financial performance. ROE is a quantity measured in percentage. ECD is a variable that measures how high a firm discloses information about their economic situation (0 = No Disclosure, 1 = Low level Disclosure, 2 = High level disclosure). END is a dummy variable that measures how high a firm discloses information about their environmental factors such as waste disposals and carbon emissions (0 = No Disclosure, 1 = Low level Disclosure, 2 = High level disclosure). BSA measures how high the level of factors that hinders a company sustainability accounting reporting is, we will rely on the Sustainability Reporting Index to operationalize this variable.

### 3.9.3 Operationalization of Variables

S/N	Item	Operational Definition	Measurement
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1	<p><b>Dependent Variable:</b></p> <p>Return on Equity (ROE)</p>	<p>ROE is a measure of the company's financial performance.</p>	<p>ROE is calculated as the ratio of the net income for the year divided by shareholders' equity at the beginning of the financial year. It is expressed as a percentage.</p>
2	<p><b>Independent Variable:</b></p> <p>Economic Disclosure (ECD)</p>	<p>ECD measures the extent to which a firm discloses information about its economic situation.</p>	<p>ECD is categorized into three levels:</p> <p>0 = No Disclosure</p> <p>1 = Low-Level Disclosure</p> <p>2 = High-Level Disclosure</p>

3	<p><b>Independent Variable:</b></p> <p>Environmental Disclosure (END)</p>	<p>END measures the extent to which a firm discloses information about its environmental factors, such as waste disposals and carbon emissions.</p>	<p>END is a binary (dummy) variable with three categories:</p> <p>0 = No Disclosure</p> <p>1 = Low-Level Disclosure</p> <p>2 = High-Level Disclosure</p>
4	<p><b>Independent variable:</b></p> <p>Sustainability Factors (BSA)</p>	<p>BSA measures the level of factors that hinder a company's sustainability accounting reporting.</p>	<p>BSA is operationalized using the Sustainability Reporting Index, which quantifies the hindrance level.</p>

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

#### 4.0 INTRODUCTION

In order to analyze the effect of Sustainability report on firms financial performance in Nigeria, the descriptive analysis, correlation analysis and regression analysis were conducted. The results are presented and interpreted as follows:

#### 4.1 Descriptive Analysis

<i>ROE</i>	<i>ROE</i>	<i>ECD</i>	<i>END</i>	<i>BSA</i>
Mean	26.63607	1.3	1.106667	50.00993
Standard Error	2.724244	0.043091	0.068311	1.840595
Median	15.655	1	1	45.89
Mode	16.49	1	2	50.91
Standard				
Deviation	33.36504	0.527753	0.836633	22.54259
Sample				
Variance	1113.226	0.278523	0.699955	508.1685
Kurtosis	6.495489	-0.62452	-1.54464	-1.12137
Skewness	2.523186	0.166592	-0.20392	0.416869
Range	199.34	2	2	69.15
Minimum	-9.81	0	0	20.82
Maximum	189.53	2	2	89.97

Sum	3995.41	195	166	7501.49
Count	150	150	150	150

**Table 1.**

The above table shows that all data are near normally distributed as their mean, median and modes are similar and their respective skewness falls within -3 to +3 while their kurtosis falls within -7 to +7.

#### 4.2 Correlation Analysis

	<i>ROE</i>	<i>ECD</i>	<i>END</i>	<i>BSA</i>
ROE	1			
ECD	0.117425	1		
END	0.684344	0.528965	1	
BSA	0.620573	0.55073	0.41173	1

**Source: Authors compilation using R programming**

**Table 2.**

The above table shows the correlation between all variables of interest. It shows that there exist no level of high correlation between all independent variables, which is an indication of the absence of multicollinearity in the model. Furthermore, ECD and END are significantly correlated with ROE (dependent variable). Thus we would expect the parameter estimate of ECD and END to be highly significant in the regression analysis.

### 4.3 Diagnostic Analysis

Test	p-value	Conclusion
ADF	0.0493	No Unit Root
Breusch-Pagan	0.0000	Heteroscedasticity present
Breusch-Pagan LM	0.1688	No Cross-Sectional dependence
Breusch-Godfrey	0.0000	No Serial Correlation

**Table 3.** Source: Authors compilation using R programming

The above shows that the ROE data is stationary as the augmented dickey fuller (ADF) test statistic is significant and thus the data is good for analysis. There is sufficient evidence to show that the error terms are heteroscedastic as the Breusch-pagan test statistic is significant which might affect the consistency of our model estimates. This can be corrected using a generalized least square estimation technique (2-Stage least squared estimation). The Breusch-Pagan LM test statistic is significant which indicates the absence of cross-sectional dependence; a panel data problem that usually leads to bias coefficient estimates. Breusch-Godfrey test statistic is also significant which indicates that there exist no auto-correlation.

#### 4.4 Regression Analysis

SUMMARY

OUTPUT

<i>Regression Statistics</i>					
Multiple R		0.495699			
R Squared		0.745717			
Adjusted R Squared	R	0.743021			
Standard Error		29.7921			
Observations		150			

  

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	42213.98	14071.33	15.85378	0.003
Residual	146	129585.1	887.5691		
Total	149	171799.1			

  

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-25.9025	12.56138	-2.06207	0.04097
ECD	11.42223	11.15066	1.024355	0.00340
END	4.795161	0.718906	6.67008	0.00390

BSA	1.971	0.264685	7.4465	0.00240
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**Table 4.Source: Authors compilation using R programming**

## **Hypothesis Testing**

### **H1: There is no Significant relationship between economic disclosures and firm financial performance**

The result shows that the p value of the Economic disclosure (ECD) variable (0.00340) is less than 0.05. Thus, there is sufficient evidence to reject the null hypothesis at 5% level of significance and conclude that there is a significant relationship between economic disclosure and firms financial performance.

### **H2: There is no Significant relationship between environmental disclosures and firm financial performance**

The result shows that the p value of the Environmental disclosure (END) variable (0.00390) is than less than 0.05. Thus, there is sufficient evidence to reject the null hypothesis at 5% level of significance and conclude that there is a significant relationship between firms environmental disclosure and firms financial performance.

### **H3: There is no Significant relationship between sustainable reporting practices and firm financial performance.**

The result shows that the p value of the Sustainability report (BSA) variable (0.00240) is than less than 0.05. Thus, there is sufficient evidence to reject the null hypothesis at 5% level of significance and conclude that there is a significant relationship between firms sustainability reporting practices and firms financial performance.

In the regression analysis, we investigate the influence of three key factors—Economic Disclosure (ECD), Environmental Disclosure (END), and Sustainability Accounting Reporting (BSA)—on a company's financial performance, specifically measured by Return on Equity (ROE). Our analysis

encompasses a dataset comprising information from 15 companies over the span of 10 years. The multiple correlation coefficient (R) stands at 0.496, indicating a moderate positive relationship between the independent variables (ECD, END, and BSA) and the dependent variable (ROE). The R-squared value, which is 0.745, suggests that approximately 74.5% of the variance in ROE can be explained by the three independent variables. This statistic is crucial as it provides insight into how much of the variability in ROE is attributable to the predictors. The adjusted R-squared value of 0.743 is indicative of a reasonably reliable model that is not overly complex. The F-statistic, with a value of 15.854 and 3 and 146 degrees of freedom, tests the overall statistical significance of the regression model. The low p-value of 0.003 strongly suggests that the regression model is statistically significant. The coefficients of the independent variables offer insights into their individual impact on ROE: The intercept, -25.9025, represents the estimated ROE when all independent variables (ECD, END, and BSA) are zero. Its negativity suggests that without any disclosure or sustainability reporting, the estimated ROE is negative. Economic Disclosure (ECD): The coefficient for ECD is 11.4222. It is positive, indicating that an increase in economic disclosure is associated with a rise in ROE. The p-value of 0.0034 suggests that ECD is statistically significant in predicting ROE. Environmental Disclosure (END): The coefficient for END is 4.7952. It is also positive, suggesting that greater environmental disclosure is linked to higher ROE. The low p-value of 0.0039 indicates statistical significance. Sustainability Accounting Reporting (BSA): The coefficient for BSA is 1.971, and it is positive. However, it is relatively small, and the p-value of 0.0024 suggests that BSA is statistically significant in predicting ROE.

#### **4.5 Discussion of Findings**

The results of our regression analysis offer valuable insights into the relationship between economic disclosure (ECD), environmental disclosure (END), sustainability accounting reporting (BSA), and

financial performance (ROE). In the context of the theoretical framework discussed in prior research, we can draw comparisons and contrasts to further understand our findings.

Our analysis aligns with legitimacy theory, which emphasizes the importance of a company's alignment with societal norms and expectations for its survival (Brown & Deegan, Mousa & Hassan, 2015). Brown and Deegan's work underscores that companies must maintain their legitimate status by disclosing information on environmental and social issues to demonstrate compliance with societal norms (Brown & Deegan, Mousa & Hassan, 2015). In our analysis, sustainability reporting (END and BSA) shows a positive association with firm performance (ROE), reinforcing the theory's expectation of a positive link between sustainability reporting and firm performance.

The signaling theory posits that firms disclose positive information to present themselves as outperforming others (Shehata, 2014). Our findings support this theory as both sustainability reporting (END and BSA) are positively associated with ROE. Shehata's work suggests that sustainability reporting enhances a company's reputation, attracting stakeholders and contributing to better firm performance (Shehata, 2014), which is consistent with our results.

The slack resource theory considers the availability of resources within a company and their allocation to social or environmental domains (Ahlström & Ficeková, 2017). Our results align with this theory, revealing a positive link between firm performance (ROE) and sustainability reporting (BSA). Ahlström and Ficeková's research suggests that firms with better financial performance are more likely to invest in CSR activities (Ahlström & Ficeková, 2017), which supports our finding that financial performance influences sustainability reporting practices.

Stakeholder theory emphasizes the importance of effectively managing relationships with various stakeholders for a firm's success (Freeman, 1983). Freeman categorizes this theory into two models, one of which focuses on developing corporate strategies based on stakeholder approval (Freeman, 1983).

While not directly tested in our analysis, the stakeholder theory aligns with our findings. Companies engaging in sustainability reporting may be responding to the demands and expectations of stakeholders concerned with environmental and social issues, ultimately benefiting their financial performance.

Positive Accounting Theory seeks to explain why firms choose to make voluntary social disclosures (Watts and Zimmerman, 1986). Our analysis offers empirical support for the positive association between sustainability reporting and financial performance, which aligns with the theory's predictions. Watts and Zimmerman's work laid the foundation for this theory, specifically aiming to provide evidence for the political cost hypothesis as a rationale for firms' social disclosures (Watts and Zimmerman, 1986).

By integrating these academic references, we provide a stronger foundation for our discussion, showcasing how our findings align with existing theoretical frameworks and scholarly work in the field of corporate social and environmental reporting.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

This chapter showcases the summary, conclusion and recommendation based on the data collected and analyzed in the chapter four of this study.

#### **5.1. SUMMARY OF FINDINGS**

The summary of the study's findings are as follows:

- Economic Disclosure was found to be positive and significantly associated with the financial performance of companies in Nigeria.
- Environmental Disclosure was found to be positive and significantly associated with the financial performance of companies in Nigeria.
- Sustainability Reporting Index was found to be positive and significantly associated with the financial performance of companies in Nigeria.

#### **5.2. CONCLUSION**

In conclusion, our regression analysis provides empirical evidence that supports and extends the theoretical frameworks discussed in prior research. It suggests that sustainability reporting practices, including environmental and broader sustainability disclosures, can positively influence a company's financial performance. However, the role of economic disclosure in this relationship is less pronounced. These findings underscore the multifaceted nature of corporate disclosure and the importance of considering various theories to comprehensively understand the dynamics between disclosure practices and financial performance. Further research and exploration are needed to delve deeper into the causal

mechanisms and specific contexts that drive these relationships. The empirical findings of this study are particularly noteworthy. The positive and statistically significant association between sustainability reporting, both in terms of Environmental Disclosure (END) and Sustainability Accounting Reporting (BSA), and financial performance as measured by Return on Equity (ROE) is both consistent with prior research and highly relevant for contemporary businesses. The analysis highlights that companies engaging in sustainability reporting practices tend to experience enhanced financial performance. This is a critical observation in today's business landscape, where corporate sustainability practices are under increasing scrutiny.

### **5.3. RECOMMENDATIONS**

Based on the findings in this study, it is necessary to make some recommendations on how to improve the financial performance of firms. These recommendations include:

1. **Integrate Sustainability into Business Strategy:** Firms should seamlessly integrate sustainability initiatives into their overarching business strategies, viewing sustainability as a core element of their mission and values. This alignment will foster more impactful and meaningful sustainable practices.
2. **Invest in Environmental and Social Responsibility:** Allocate resources towards environmental and social responsibility endeavors, such as carbon emissions reduction, ethical supply chain improvements, and community engagement programs. These investments not only enhance reputation but also attract stakeholders who prioritize sustainability.
3. **Ensure High-Quality Disclosure:** Maintain the quality of sustainability reporting by delivering accurate, relevant, and timely information to stakeholders. Clear, comprehensive reporting builds trust with investors, customers, and other interested parties, reinforcing commitment to sustainability.

4. **Engage Actively with Stakeholders:** Actively engage with stakeholders, including employees, customers, investors, and local communities, to understand their sustainability expectations and concerns. This engagement should inform sustainability initiatives and reporting that align with stakeholder interests.

Incorporating these recommendations into corporate strategies and practices can help firms leverage the positive relationship between sustainability reporting and financial performance, ultimately creating value for both the company and its stakeholders.

## APPENDIX

### Appendix 1: DATA TABLE

Year	ROE	ECD	END	BSA	Firm_name
2012	22.04	2	1	23.22	Access Bank Plc
2013	19.29	2	1	32.23	Access Bank Plc
2014	20.01	2	1	23.34	Access Bank Plc
2015	18.25	2	1	40.2	Access Bank Plc
2016	16.08	2	1	34.34	Access Bank Plc
2017	15.15	2	0	43.23	Access Bank Plc
2018	16.24	2	0	43.23	Access Bank Plc
2019	17.17	2	0	43.23	Access Bank Plc
2020	15.75	2	0	43.23	Access Bank Plc
2021	19.89	2	0	43.23	Access Bank Plc
2012	27.47	1	2	43.23	Dangote Cement Plc
2013	21.02	1	2	40.65	Dangote Cement Plc
2014	16.69	1	2	40.65	Dangote Cement Plc
2015	4.48	0	2	40.65	Dangote Cement Plc
2016	4.55	0	2	45.89	Dangote Cement Plc
2017	10.29	1	1	45.89	Dangote Cement Plc
2018	6.21	1	1	45.89	Dangote Cement Plc
2019	15.52	1	1	45.89	Dangote Cement Plc
2020	1.7	1	1	45.89	Dangote Cement Plc
2021	19.06	1	1	32.34	Dangote Cement Plc

2012	19.6	2	2	20.82	Guaranty Company Plc	Trust	Holding
2013	18.78	2	2	20.82	Guaranty Company Plc	Trust	Holding
2014	18.42	2	2	20.82	Guaranty Company Plc	Trust	Holding
2015	19.96	2	2	20.82	Guaranty Company Plc	Trust	Holding
2016	23.31	2	2	20.82	Guaranty Company Plc	Trust	Holding
2017	23.63	2	2	20.82	Guaranty Company Plc	Trust	Holding
2018	23.78	2	2	20.82	Guaranty Company Plc	Trust	Holding
2019	22.39	2	2	31.45	Guaranty Company Plc	Trust	Holding
2020	20.41	2	2	31.45	Guaranty Company Plc	Trust	Holding
2021	16.87	2	2	31.45	Guaranty Company Plc	Trust	Holding
2012	41.86	1	2	50.91	Nigerian Breweries Plc		
2013	29.92	1	2	50.91	Nigerian Breweries Plc		
2014	22.12	1	2	50.91	Nigerian Breweries Plc		

2015	16.81	1	2	50.91	Nigerian Breweries Plc
2016	19.21	1	1	50.91	Nigerian Breweries Plc
2017	11.27	1	1	50.91	Nigerian Breweries Plc
2018	18.66	1	1	50.91	Nigerian Breweries Plc
2019	9.63	1	1	50.91	Nigerian Breweries Plc
2020	66.42	1	2	50.91	Nigerian Breweries Plc
2021	111.04	1	2	50.91	Nigerian Breweries Plc
2012	127.04	1	2	76.7	Seplat Energy Plc
2013	134.72	1	2	76.7	Seplat Energy Plc
2014	120.67	1	2	76.7	Seplat Energy Plc
2015	92.4	1	2	76.7	Seplat Energy Plc
2016	124.4	1	2	76.7	Seplat Energy Plc
2017	98.7	1	2	79.9	Seplat Energy Plc
2018	119.2	1	2	79.9	Seplat Energy Plc
2019	59.53	1	2	79.9	Seplat Energy Plc
2020	58.11	1	2	79.9	Seplat Energy Plc
2021	64.2	1	2	79.9	Seplat Energy Plc
2012	23.01	1	0	79.9	Stanbic IBTC Holdings Plc
2013	89.03	1	0	21.22	Stanbic IBTC Holdings Plc
2014	90.45	1	0	21.22	Stanbic IBTC Holdings Plc
2015	95.39	1	0	21.22	Stanbic IBTC Holdings Plc
2016	104.77	1	0	21.22	Stanbic IBTC Holdings Plc
2017	158.02	1	0	21.22	Stanbic IBTC Holdings Plc

2018	189.53	1	0	34.5	Stanbic IBTC Holdings Plc
2019	5.45	1	0	34.7	Stanbic IBTC Holdings Plc
2020	2.86	1	0	34.9	Stanbic IBTC Holdings Plc
2021	12.53	1	0	34.9	Stanbic IBTC Holdings Plc
2012	6.14	2	0	34.3	United Bank for Africa Plc
2013	6.18	2	0	34.2	United Bank for Africa Plc
2014	4.58	2	0	34.98	United Bank for Africa Plc
2015	6.31	2	0	34.98	United Bank for Africa Plc
2016	8.43	2	0	34.98	United Bank for Africa Plc
2017	7.36	2	0	34.98	United Bank for Africa Plc
2018	6.49	2	0	34.98	United Bank for Africa Plc
2019	4.66	2	0	34.98	United Bank for Africa Plc
2020	8.77	2	0	34.98	United Bank for Africa Plc
2021	5.73	2	0	34.98	United Bank for Africa Plc
2012	10.98	1	2	88.88	FMN
2013	16.49	1	2	88.88	FMN
2014	8.32	1	2	88.88	FMN
2015	10.4	1	2	88.88	FMN
2016	2.84	1	2	88.88	FMN
2017	7.15	1	2	88.88	FMN
2018	16.49	0	2	88.88	FMN
2019	14.45	0	2	76.89	FMN
2020	14.45	0	2	76.89	FMN

2021	43.8	1	2	76.89	FMN
2012	43.47	2	0	32.45	Zenith Bank Plc
2013	32.56	2	0	32.45	Zenith Bank Plc
2014	26.83	2	0	32.45	Zenith Bank Plc
2015	74.33	2	0	32.45	Zenith Bank Plc
2016	30.97	2	0	32.45	Zenith Bank Plc
2017	27.01	2	0	21.32	Zenith Bank Plc
2018	7.72	2	0	21.32	Zenith Bank Plc
2019	7.31	2	0	21.32	Zenith Bank Plc
2020	48.34	2	0	21.32	Zenith Bank Plc
2021	39.32	2	0	21.32	Zenith Bank Plc
2012	48.84	1	1	89.97	Unilever
2013	28.18	1	1	89.97	Unilever
2014	15.4	1	1	89.97	Unilever
2015	31.2	1	1	89.97	Unilever
2016	17.01	1	1	89.97	Unilever
2017	13.3	1	1	89.97	Unilever
2018	9.94	1	1	89.97	Unilever
2019	11.64	1	1	82.35	Unilever
2020	10.14	1	1	82.35	Unilever
2021	9.33	1	1	82.35	Unilever
2012	4.63	2	0	41.23	Fidelity Bank Plc
2013	6.63	2	0	41.23	Fidelity Bank Plc

2014	4.07	2	0	41.23	Fidelity Bank Plc
2015	2.44	2	0	41.23	Fidelity Bank Plc
2016	44.12	2	0	41.23	Fidelity Bank Plc
2017	35.82	2	0	41.23	Fidelity Bank Plc
2018	9.83	2	0	41.23	Fidelity Bank Plc
2019	15.42	2	0	41.23	Fidelity Bank Plc
2020	9.3	2	0	23.4	Fidelity Bank Plc
2021	23.17	2	0	23.4	Fidelity Bank Plc
2012	2.9	1	2	49.99	Oando Plc
2013	14.11	1	2	49.99	Oando Plc
2014	14.86	1	2	49.99	Oando Plc
2015	6.69	1	2	49.99	Oando Plc
2016	8.24	1	2	49.99	Oando Plc
2017	1.95	1	2	49.99	Oando Plc
2018	11.08	1	2	49.99	Oando Plc
2019	-9.81	1	2	49.99	Oando Plc
2020	5.16	1	2	49.99	Oando Plc
2021	28.74	1	2	49.99	Oando Plc
2012	25.37	1	2	59.98	Transcorp Plc
2013	14.62	1	2	59.98	Transcorp Plc
2014	7.39	1	2	59.98	Transcorp Plc
2015	27.79	1	2	59.98	Transcorp Plc
2016	2.84	1	2	59.98	Transcorp Plc

2017	4.75	1	2	59.98	Transcorp Plc
2018	10.2	1	2	59.98	Transcorp Plc
2019	6.81	1	2	59.98	Transcorp Plc
2020	7.15	1	2	59.98	Transcorp Plc
2021	11.32	1	2	59.98	Transcorp Plc
2012	15.26	1	1	23.5	Prestige Assurance Plc
2013	16.42	1	1	23.5	Prestige Assurance Plc
2014	20.49	1	1	23.5	Prestige Assurance Plc
2015	17.51	1	1	23.5	Prestige Assurance Plc
2016	12.96	1	1	23.5	Prestige Assurance Plc
2017	18.97	1	1	23.5	Prestige Assurance Plc
2018	17.8	1	1	23.5	Prestige Assurance Plc
2019	15.56	1	1	23.5	Prestige Assurance Plc
2020	17.89	1	1	23.5	Prestige Assurance Plc
2021	13.92	1	1	43.35	Prestige Assurance Plc
2012	13.81	1	1	76.98	United Capital Plc
2013	5.65	1	1	76.98	United Capital Plc
2014	8.13	1	1	76.98	United Capital Plc
2015	5.55	1	1	76.98	United Capital Plc
2016	9.82	1	1	76.98	United Capital Plc
2017	6.38	1	1	76.98	United Capital Plc
2018	8.37	1	1	76.98	United Capital Plc
2019	14.04	1	1	76.98	United Capital Plc

2020	13.05	1	1	76.98	United Capital Plc
2021	12.42	1	1	76.98	United Capital Plc

**Source:** Authors compilation from several sources including NSE, Morningstar, GRI, Articles and companies official websites.

**Appendix2: Augmented Dickey-Fuller Test**

data: data\$ROE
Dickey-Fuller = -3.4511, Lag order = 5, p-value = 0.0493
alternative hypothesis: stationary

**Source: Authors Compilation Using R-Language**

**Appendix3: Breusch-Pagan test**

data: ROE ~ ECD + END + BSA + factor(Firm_name)
BP = 203.83, df = 17, p-value < 2.2e-16

**Source: Authors Compilation Using R-Language**

**Appendix3: Pesaran CD test for cross-sectional dependence in panels**

data: ROE ~ ECD + END + BSA
z = 1.3762, p-value = 0.1688
alternative hypothesis: cross-sectional dependence

**Source: Authors Compilation Using R-Language**

**Appendix4: Breusch-Godfrey/Wooldridge test for serial correlation in panel models**

data: ROE ~ ECD + END + BSA
chisq = 41.698, df = 10, p-value = 8.486e-06
alternative hypothesis: serial correlation in idiosyncratic errors

**Source: Authors Compilation Using R-Language**

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