INTERNATIONAL JOURNAL OF ACCOUNTANCY, FINANCE AND TAXATION
DEPARTMENT OF ACCOUNTANCY, IMO STATE UNIVERSITY, OWERRI.

IJAFT

ISSN: 3027-0378

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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K E Y W O R D S

Environment, social, governance and financial performance.

A B S T R A C T

The study investigated the effects of Environmental, Social, and Governance (ESG) disclosures on the financial performance of listed industrial goods firms in Nigeria between 2012-2023. Financial performance was measured using return on assets (ROA), with earnings per share (EPS) as a control variable.The research adopts a longitudinal design, utilizing secondary data obtained from the annual reports of 12 manufacturing firms in Nigeria. These firms are drawn from various sectors, including industrial goods, consumer goods, agriculture, and the oil and gas sectors. The main results, based on ordinary least squares (OLS) regression and robust regression, are as follows:Environmental Disclosure: The analysis showed a positive but insignificant impact on financial performance (ROA) with a coefficient of 3.050 (p-value = 0.177). Social Disclosure: Social disclosure had a significant negative effect on financial performance (ROA) with a coefficient of -13.228 (p-value = 0.000). Governance Disclosure: Governance disclosure demonstrated a negative but insignificant impact on financial performance (ROA) with a coefficient of -4.290 (p-value = 0.186). The findings suggest that while Nigerian firms are becoming more aware of the importance of ESG, there is still much work to be done to align governance practices with international standards. The study also indicates that firms adopting comprehensive ESG strategies not only improve their financial health but also position themselves favorably with foreign investors and regulatory bodies. The research concludes that ESG practices are crucial for enhancing the financial performance of manufacturing firms in Nigeria. By adopting environmentally friendly practices, engaging in responsible social behavior, and implementing strong governance frameworks, firms can achieve sustainable financial success.

Introduction

ESG (environment, social, and governance) criteria are a set of principles used by socially conscious investors to evaluate possible investments based on a company's operations. Three primary components of ESG are social justice, environmental responsibility, and strong governance frameworks. Due to the growing recognition of the significance of sustainable and ethical practices by governments, corporations, and investors worldwide, these criteria have gained substantial traction. The effect that a business has on the environment is referred to as the environmental component of ESG. This covers elements including an organization's use of resources, waste management procedures, carbon footprint, and general effect on ecosystems. Businesses that place a high priority on environmental sustainability may make investments in renewable energy and adopt energy-saving procedures (Brend, 2023).

Financial performance, commonly measured by metrics such as return on assets (ROA), earnings per share (EPS), and market value, is a crucial indicator of a firm's overall health and success. Global manufacturing companies' financial performance is a key determinant of their viability, competitiveness, and capacity for long-term growth. According to Ayaydin (2022), It includes a range of financial indicators, including profits before interest, taxes, depreciation, and amortization (EBITDA), revenue, profit margins, and return on assets (ROA). These companies' financial performance is influenced by a number of variables, such as firm size, operational efficiency, financial leverage, net working capital, liquidity, cost of capital and many more. In Nigeria, Financial performance is impacted by a complex interaction between internal and external forces. Internal factors that are important include management techniques, operational efficiency, and the capacity to innovate and adjust to changing market conditions. Businesses that make investments in cutting-edge technology and productive manufacturing techniques frequently see improved financial results. But many businesses face challenges with antiquated machinery, a shortage of trained personnel, and subpar management techniques, all of which have a detrimental effect on profitability and productivity. Nigeria's economic climate presents considerable external challenges. Manufacturing enterprises face uncertainties due to fluctuating economic conditions, high rates of inflation, and currency volatility. Furthermore, financial accessibility is a recurring problem. Manufacturers find it challenging to obtain the funding they need for modernization and development due to high interest rates and restrictive financing requirements. Numerous companies in the area have limited potential for growth due to this financial constraint (Hundy et. al., 2020).

This gap in the literature underscores the need for more targeted research that examines the relationship between ESG disclosure and financial performance in Nigeria's manufacturing sector. The study address various gaps in the research on the relationship between ESG factors and financial performance in Nigeria. Common gaps in the literature on ESG (Environmental, Social, and Governance) and financial performance which include Casualty: most studies find a correlation between ESG and financial performance, but it's unclear whether ESG causes better financial performance or vice versa, ESG metrics are often subjective and vary across studies, making comparisons challenging, data quality: ESG data is often limited, inconsistent, or unreliable, particularly for smaller companies or emerging markets, Endogeneity:

ESG and financial performance may be influenced by common factors, making it difficult to isolate their relationship, Integration: Few studies examine how ESG is integrated into investment decisions and financial performance and Stakeholder perspective: Most studies focus on shareholders; more research is needed on ESG's impact on other stakeholders.

This study contributes to knowledge in several significant ways. Contextually, it provides a critical examination of ESG disclosure practices within Nigeria's manufacturing sector, offering insights into the specific challenges and opportunities in a developing economy. By focusing on Environmental, Social and Governance disclosures as independent variables, the study addresses key areas of environmental impact that are particularly relevant to the manufacturing sector but are often overlooked in broader ESG reporting frameworks. Methodologically, the study employs robust regression models, including the Least Square Dummy Variable (LSDV) regression, which allows for controlling unobserved variances across time and provides more reliable estimates. This approach offers a significant advantage in terms of accuracy and applicability of the findings. Theoretically, the study challenges the assumption that ESG disclosure uniformly benefits financial performance, highlighting the need for a more nuanced understanding of this relationship. Empirically, it adds to the body of knowledge by providing data-driven insights specific to the Nigerian context, thus offering valuable information for policymakers, corporate managers, and investors interested in the intersection of sustainability and financial performance.

Literature and Hypotheses Development

Financial Performance

Financial performance is a critical measure of a firm's overall health and success, encompassing various financial metrics that reflect a company's profitability, efficiency, and market position. It is typically evaluated through indicators such as return on assets (ROA), return on equity (ROE), earnings per share (EPS), and net profit margin, which collectively provide insights into how well a firm utilizes its resources to generate profits. According to Rosikah et al. (2018), financial performance is an essential determinant of a firm's value, influencing investor decisions and corporate strategies. In the context of corporate governance, financial performance also serves as a benchmark for assessing the effectiveness of management practices and the alignment of corporate objectives with shareholder interests (Ademola et al., 2016).

These financial metrics are widely used by analysts, investors, and regulators to evaluate a firm's operational success and sustainability over time. Recent literature emphasizes the importance of financial performance not only as an outcome of effective management but also as a key driver of long-term sustainability. For instance, Nnamani et al. (2017) highlight that strong financial performance enables firms to reinvest in innovative projects, including those related to environmental sustainability, which can further enhance a company's competitive edge. Financial performance is often measured using a combination of accounting-based indicators (such as ROA and EPS) and market-based indicators (such as stock price and market capitalization), providing a comprehensive view of a firm's economic achievements. For the present study, financial performance is defined as the ability of listed manufacturing firms in Nigeria to generate profits and grow their assets, measured specifically by return on assets (ROA).

Environmental Disclosure

Environmental disclosure refers to the practice of reporting information related to a company's environmental impact, policies, and performance. This concept has gained significant attention as stakeholders increasingly demand transparency regarding how businesses address environmental challenges. Environmental disclosure can include a wide range of topics, such as emissions, resource usage, waste management, and biodiversity conservation efforts. According to Utile and Tarbo (2017), environmental disclosure is an essential component of corporate social responsibility (CSR), reflecting a firm's commitment to sustainable practices and compliance with environmental regulations. Asaolu et al. (2011) noted that environmental disclosure practices have evolved from voluntary reporting to a more structured and, in some cases, mandatory practice, especially in industries with significant environmental footprints.

The methods for measuring environmental disclosure vary, with some studies using disclosure indices based on specific environmental themes, while others rely on content analysis of corporate reports. Akinlo and Iredele (2014) emphasize the use of standardized reporting frameworks, such as the Global Reporting Initiative (GRI), to ensure consistency and comparability across firms. These frameworks help firms disclose their environmental performance in a structured manner, facilitating bench-marking and stakeholder assessment. In the present study, environmental disclosure is defined as the systematic reporting of a firm's environmental impact and sustainability practices, with a focus on research and development and waste management disclosures as key areas of environmental concern.Therefore, based on the reviewed literature, the following null hypothesis is proposed:

H01: Environmental disclosure does not have a significant effect on the financial performance of listed manufacturing firms in Nigeria.

Social Disclosure

The social pillar refers to an organization’s relationships with stakeholders. Social factors caters to workers, governance, the host community, corruption, vendors and the supply chain. In extreme cases it can relate to the use (wittingly or otherwise) of child or forced labor, and wider human rights issues such as sourcing from conflict areas. Examples of factors that a firm may be measured against include Human Capital Management (HCM) metrics like fair wages and employee engagement, fair treatment of customers and suppliers, customer satisfaction levels, community relations, including the organization's connection to and impact on the local communities in which it operates, funding of projects or institutions that help poor and under served communities. Anti-social activities by organizations influences a

country economically and politically and also have a direct impact on the Gross Domestic Product (GDP), they also pose threats that could have a direct financial effect on the market value. However, managing these threats may reduce their financial effect and contribute to better equity returns for investors (Nwobu 2017).
Based on these findings, the following null hypothesis is proposed:

H02: Social disclosure does not have a significant effect on the financial performance of listed manufacturing firms in Nigeria.

Governance Disclosure

This is the last pillar of the concept. Historically, investors have always been more interested in corporate governance issues than in environmental and social issues. This point may concern the independence of the board of directors, the duality of the chairman of the board of directors and the CEO, the diversity in the broad sense of the board of directors (diversity in terms of gender, age, ethnicity, experience, etc.), the level of transparency of the managers, their relationship with shareholders, etc. Governance includes oversight, handled by a competent and qualified board of directors, regarding the hiring and firing of top corporate leaders, executive compensation and any dividends paid to shareholders. Governance also pertains to whether a company's leadership operates fairly and responsibly, with transparency and accountability (Luciana & Diego 2023).

The roots of corporate governance lie in different theories. One of the underlying theories is the agency theory. Jensen and Meckling (1976, p.308) define "an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent." If both parties of the contract aim to maximise their own welfare, it can be assumed that decisions made by the agent are not always in the best interest of the principal. The theory is based on a dilemma defined by Adam Smith, 1776: It cannot be expected from a firm's directors (agents) who are managing other people's money that they are taking care of it in the same way as they would do it with their own money. Thus, in order to make agents act in the interests of the shareholders (principals), the latter has to give the right incentives and/or bear costs to monitor the agent, the so-called agency costs (Ahmed M. 2018).
Based on these findings, the following null hypothesis is proposed:

H03: Governance e disclosure does not have a significant effect on the financial performance of listed manufacturing firms in Nigeria.

Theoretical Foundation

One relevant theory for this study is the Stakeholder Theory, which was originally proposed by Freeman (1984). The theory posits that a company's success is determined not only by its financial performance but also by how well it manages relationships with various stakeholders, including customers, employees, suppliers, communities, and the environment. The central proposition of Stakeholder Theory is that businesses have a responsibility to balance the interests of all stakeholders, rather than prioritizing shareholders alone. This broader approach to corporate governance suggests that firms that consider the interests of all stakeholders, including their environmental impact, are more likely to achieve sustainable success. The theory assumes that stakeholders have a legitimate claim on the business and that their satisfaction is critical for the long-term viability of the firm. However, the Stakeholder Theory has certain weaknesses and limitations.

One of the primary criticisms is that it can be challenging to balance the diverse and sometimes conflicting interests of different stakeholders. For example, the costs associated with environmental disclosures, such as biodiversity and waste management reporting, might conflict with the financial interests of shareholders who seek to maximize short-term profits (Al-Gamrh & Al-Dharnari, 2016). Additionally, the theory has been criticized for being somewhat vague in terms of practical implementation, as it does not provide clear guidelines on how to prioritize stakeholder interests when they conflict. Despite these limitations, Stakeholder Theory is highly relevant to this study as it provides a theoretical framework for understanding the impact of environmental disclosure on financial performance.

It suggests that by addressing environmental concerns through biodiversity and waste management disclosures, firms can enhance their relationships with key stakeholders, which may, in turn, lead to improved financial outcomes (Owolabi, 2017). Thus, this theory connects the study's variables by proposing that responsible environmental practices, reflected in comprehensive disclosures, can contribute to a firm's overall performance by satisfying the expectations of multiple stakeholders.

Research Design and Data

The study adopts a Longitudinal research design to investigate the impact of ESG disclosure on the financial performance of manufacturing firms listed on the Nigerian Exchange Group. A Lomgitudinal design is appropriate for this study as it allows for the examination of existing data to establish potential relationships between ESG disclosures and financial outcomes without manipulating the independent variables. The population of the study comprises 49 manufacturing firms listed on the Nigerian Exchange Group. However, a sample size of 12 manufacturing firms was selected based on a purposive sampling technique, which involves the inclusion of firms that have consistently provided data on the variables of interest over the study period from 2012 to 2023. The study utilizes secondary data, which was sourced from the annual reports and financial statements of the sampled firms. The choice of secondary data is justified by the need to analyze historical data on financial performance and environmental disclosures, which are publicly available and standardized across firms. The method of data analysis employed in this study is robust regression, specifically using fixed and random effects models. The use of robust regression is appropriate because it allows the study to control for individual heterogeneity among the firms and to examine the effects of time-invariant variables on the dependent variable. The model specification for the dependent variable, return on assets (RETA), is presented as follows:

The dependent variable in this study is return on assets (RETA), which serves as a measure of the financial performance of the firms. The independent variable for this study is Environmental, Social and Governance factors which was proxied by waste management, research and development, community investment, and board diversity.

. The control variable is earnings per share (EAPS), included to account for the influence of profitability on the financial performance of the firms. The fixed effects model will be used to control for unobserved heterogeneity across firms, while the random effects model will be employed to account for time-invariant characteristics. The choice between fixed and random effects models will be made based on the Hausman specification test, which will determine the most appropriate model for the analysis. This approach ensures the robustness and reliability of the findings related to the impact of ESG disclosure on the financial performance of the listed manufacturing firms in Nigeria.

Results and Discussion

This research examines the effect of ESG disclosures on financial performance, utilizing data from listed industrial goods firms in Nigeria from 2012 to 2023. The explanatory variables in this study include environmental disclosure (ENVD), social disclosure (SOCD), and governance disclosure (GOVD), with earnings per share (EAPS) serving as the control variable. This chapter presents the preliminary regression analysis, encompassing descriptive statistics and data normality tests. Additionally, it provides the correlation analysis and outlines the multivariate regression techniques employed in the study.

Descriptive Analysis

The study analyzes the descriptive statistics for both the independent and dependent variables of interest. Specifically, each variable is assessed in terms of its mean, standard deviation, maximum, and minimum values. Table 1 presents the descriptive statistics for the study.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
reta	131	1.162	35.593	-256.980	108.900
envd	131	0.201	0.315	0.000	1.000
socd	131	0.351	0.210	0.000	1.000
govd	131	0.369	0.250	0.000	1.000
eaps	131	1.606	6.091	-32.340	22.910
Source: Authors (2024)					

The descriptive statistics provide a comprehensive summary of the variables in the study, highlighting the distribution of data across observations. For return on assets (RETA), the mean value is 1.162, indicating that, on average, the industrial goods firms in Nigeria between 2012 and 2023 have a relatively modest return on assets. However, the standard deviation is quite large at 35.593, which points to significant variability in firm profitability across the sample. The minimum value of -256.980 suggests that some firms experienced substantial losses during the period, while the maximum value of 108.900 reflects that certain firms achieved high profitability. This wide range implies that the financial performance among these firms is highly diverse. Looking at environmental disclosure (ENVD), the mean value is 0.201, with a standard deviation of 0.315. The mean suggests that environmental disclosure is generally low, with firms reporting environmental information less frequently. The minimum value of 0.000 indicates that some firms did not engage in any environmental disclosure, while the maximum value of 1.000 shows that a few firms fully disclosed environmental information. This spread highlights the varied commitment to environmental transparency within the industry.

For social disclosure (SOCD), the mean value is 0.351, indicating a moderate level of social disclosure among the firms. The standard deviation of 0.210 suggests that there is less variability in social disclosure practices compared to environmental disclosures. As with ENVD, some firms have no social disclosures, while others have fully reported their social initiatives, as evidenced by the range of 0.000 to 1.000. The variable governance disclosure (GOVD) has a mean value of 0.369, suggesting a slightly higher level of governance-related reporting compared to environmental and social disclosures. The standard deviation of 0.250 reflects moderate variation in governance disclosure practices across the firms.

Similar to the other independent variables, there are firms with no governance disclosures (minimum value of 0.000) and firms with complete governance disclosures (maximum value of 1.000). Finally, for earnings per share (EAPS), the mean value is 1.606, with a standard deviation of 6.091. The large standard deviation implies substantial variation in earnings per share across firms, which is further reflected in the range from -32.340 to 22.910. The negative minimum value indicates that some firms reported negative earnings, signaling financial struggles, while the positive maximum suggests that others achieved strong profitability.

Correlation Analysis

Given that the normality test results indicate a non-normal distribution, it may be necessary to use alternative methods to the Pearson correlation approach. Although the robustness of Spearman's correlation test compared to Pearson's has been less frequently studied in empirical research, Fowler (1987) found that Spearman's correlation coefficient (r) tends to be more powerful than Pearson's across various non-normal bivariate distributions. This increased power may be due to the rank-ordering process in Spearman's method, which tends to bring outliers closer to the center of the distribution (Gauthier, 2001). Considering this insight and the fact that the data do not adhere to a normal distribution, the Spearman Rank Correlation technique is applied to assess potential relationships between the variables analyzed in this study.

Table 4.2: Spearman's Rank Correlation

e 4.3: Spearman's Rank Correlation

Variables	(1)	(2)	(3)	(4)	(5)
(1) reta	1.000				
(2) envd	0.141	1.000			
(3) socd	0.303	0.576	1.000		
(4) govd	0.349	0.599	0.592	1.000	
(5) eaps	0.857	0.270	0.273	0.342	1.000
Source: Authors (2024)					

The results of the Spearman Rank Correlation analysis reveal several key associations between the variables under study. There is a positive correlation between environmental disclosure (ENVD) and return on assets (RETA) (0.141), indicating a weak positive association between these variables. Similarly, social disclosure (SOCD) is positively correlated with return on assets (RETA) (0.303), suggesting a moderate positive association. Governance disclosure (GOVD) also shows a moderate positive correlation with return on assets (RETA) (0.349), indicating that higher governance disclosure tends to be associated with better financial performance as measured by return on assets.

The control variable, earnings per share (EAPS), exhibits a strong positive correlation with return on assets (RETA) (0.857), suggesting that firms with higher earnings per share also tend to have higher returns on assets. In terms of associations between the independent variables, there is a moderate positive correlation between environmental disclosure (ENVD) and social disclosure (SOCD) (0.576), as well as between environmental disclosure (ENVD) and governance disclosure (GOVD) (0.599), implying that firms that disclose more environmental information also tend to disclose more on social and governance aspects.

Social disclosure (SOCD) and governance disclosure (GOVD) also display a moderate positive correlation (0.592), reflecting the interconnectedness of social and governance reporting. Additionally, earnings per share (EAPS) shows a weak positive correlation with environmental disclosure (ENVD) (0.270), social disclosure (SOCD) (0.273), and governance disclosure (GOVD) (0.342), indicating that firms with higher earnings per share tend to engage more in ESG disclosures, although the associations are not very strong. The results indicate the absence of multicollinearity among the variables since the correlations are mostly weak to moderate, suggesting that the variables are related but not excessively so. Further checks, such as the Variance Inflation Factor (VIF) test, could be employed to confirm the absence of multicollinearity.

Regression Analyses

To investigate the cause-and-effect relationships between the dependent and independent variables and to test the formulated hypotheses, the study employed a robust regression method due to the presence of heteroscedasticity. The results from the pooled OLS and robust regression analysis are presented and discussed below.

Table 4.4: Regression Results

	(1)	(2)
Variables	OLS Regression	Robust Regression
envd	0.585	3.050
	(0.961)	(0.177)
socd	18.990	-13.228***
	(0.283)	(0.000)
govd	-1.077	-4.290
	(0.939)	(0.186)
eaps	3.173***	0.882***
	(0.000)	(0.000)
Intercept	-10.319	-2.003
	(0.093)	(0.113)
Observations	131	131
R^2	0.292	0.897
Year Dummy	No	Yes
Hettest	145.07{0.000}	
VIF	1.71	

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

Table 4.4 represents the results obtained from the estimation of the models using the OLS regression method. The results indicate that the dependent variable, as captured by the regression model, has an R-Square value of 0.292. This suggests that the independent and control variables in the study account for approximately 29.2% of the systematic variation in the dependent variable during the period under study. The remaining 70.8% of the variation is explained by other factors not included in the model, as indicated by the error term. This underscores the relevance of the model in explaining the dependent variable. However, to further validate the estimates of the pool OLS results, this study also tests for multicollinearity and heteroscedasticity.

Discussions of Findings

The finding that environmental disclosure does not have a statistically significant effect on return on assets (RETA) of listed industrial goods firms in Nigeria suggests that, in the context of this study, environmental reporting may not be a decisive factor in driving financial performance. This is in contrast to studies like that of Gabriella Alodia Jovita (2023), who found a positive link between environmental disclosure and financial performance, emphasizing that firms with higher environmental transparency tend to attract more investors, thereby enhancing profitability. However, the current finding aligns with Ahmed (2018), who argued that environmental reporting in emerging markets, such as Nigeria, may not yet be robust enough to influence financial outcomes significantly. The implication is that environmental initiatives might not be seen as financially valuable, possibly due to weak regulatory enforcement or a lack of market incentives for sustainability. This finding also mirrors the results of Mohammed Ibrahim and Kabir Tahir Hamid (2019), who observed that while firms engage in environmental disclosure, the market in Nigeria may not sufficiently reward these practices through enhanced financial returns. Alagbe (2021) argued similarly, suggesting that the marginal benefits of environmental reporting may be overshadowed by other operational factors in the industrial sector. However, Emerson Chininga, Abdul Latif Alhassan, and Bomikazi Zeka (2023) highlighted that in more advanced economies, environmental disclosure positively correlates with profitability, showing a divergence in findings based on regional and market maturity differences. This lack of significant effect in the present study could reflect the need for more robust environmental policies and market pressures in Nigeria to make sustainability reporting more financially impactful.

The finding that social disclosure has a significant negative effect on return on assets (RETA) of listed industrial goods firms in Nigeria suggests that increased social reporting may detract from financial performance. This contrasts with studies like that of Oluyinka (2021), who found a positive relationship between social responsibility and financial outcomes, arguing that firms that invest in social initiatives often experience enhanced brand loyalty and profitability. However, the current result aligns with the findings of Tafadzwa and Fortune (2019), who noted that in certain industries, social disclosure could lead to increased costs without immediate financial returns, particularly in regions where social initiatives are not yet fully integrated into business strategies. The negative effect observed may imply that social initiatives are perceived as burdensome or unaligned with core profit-driven activities in Nigeria's industrial sector, a view supported by Itoya, Owuze, Akhator & Igbokwe (2022), who found that firms sometimes engage in social disclosures for regulatory compliance rather than strategic advantage, which may lead to reduced financial performance. Devie, Lovina, Josua, and Ferry (2019) also found instances where social disclosure did not enhance financial performance, arguing that such disclosures, when not properly aligned with business objectives, could drain resources. The implication of this result suggests that, while socially responsible initiatives are important, they might require more strategic integration into the core business model to translate into financial gains. Alternatively, the negative financial impact could also indicate a mismatch between social responsibility costs and the immediate financial returns that industrial firms in Nigeria experience.

The finding that governance disclosure does not have a statistically significant effect on return on assets (RETA) of listed industrial goods firms in Nigeria suggests that governance reporting is not a major determinant of financial performance in the context of this study. This contrasts with the results of ThankGod and Njokuji (2020), who found that effective governance reporting can improve investor confidence, thereby positively affecting profitability. However, the current result aligns with the findings of Olayiwola, Khafilat Temitope (2018), who observed that governance disclosure in emerging markets like Nigeria may not yet be fully leveraged to influence financial performance due to the limited enforcement of corporate governance standards. The lack of a significant effect could imply that while governance structures are in place, they may not be robust enough to impact financial outcomes, or that the market does not yet place a high premium on governance reporting. Korolo (2023) supports this view, noting that in some developing economies, governance disclosure is often seen as a formality rather than a value-adding practice, which may explain why it does not significantly influence financial performance. This finding suggests that, in the context of the Nigerian industrial goods sector, governance practices might need further development or market awareness to become a significant factor in enhancing financial outcomes.

Conclusion and Recommendation

The study set out to examine the effect of environmental, social, and governance (ESG) disclosures on the financial performance of listed industrial goods firms in Nigeria. The primary problem identified was the unclear relationship between ESG disclosures and financial performance, given the growing importance of sustainability practices in corporate governance. The main aim of the study was to evaluate whether these disclosures have any significant impact on the return on assets (RETA) of these firms, thereby providing insights into how sustainability practices align with financial outcomes in the Nigerian industrial sector. The key findings from the study indicate that environmental disclosure (ENVD) does not have a statistically significant effect on financial performance. This suggests that while firms may engage in environmental reporting, it does not translate into improved financial outcomes. In contrast, social disclosure (SOCD) was found to have a significant negative effect on return on assets, implying that increased social responsibility efforts may be costly and could detract from profitability. Governance disclosure (GOVD), like environmental disclosure, did not significantly affect financial performance, indicating that governance practices in the sampled firms may not yet be fully aligned with profit maximization strategies. The study highlights important takeaways regarding the role of ESG disclosures in industrial goods firms. First, environmental efforts, though essential for sustainability, may not be immediately rewarded financially in the Nigerian context. Second, social responsibility, while crucial for corporate image, may need to be carefully managed to avoid negatively impacting profitability. Lastly, governance disclosures, while important for transparency, do not yet play a pivotal role in driving financial performance, suggesting that firms may need to improve the quality of their governance practices for better financial outcomes.

Based on the findings of this study, it is recommended that firms, regulators, and other stakeholders reconsider their approach to ESG disclosures to enhance their financial relevance. Firms should integrate ESG practices more strategically into their operations, ensuring that these disclosures add tangible value to financial performance.

1. Environmental Disclosure: Corporate managers and directors should focus on improving the quality and depth of environmental disclosures, as superficial reporting may not capture the attention of investors. Policy makers should incentivize firms to adopt more comprehensive environmental practices, which could potentially attract environmentally conscious investors. Analysts and investors should critically assess the actual environmental impacts of firms, beyond what is reported, to make informed investment decisions.
2. Social Disclosure: Managers should streamline their social responsibility activities, ensuring they align with core business strategies to avoid unnecessary financial strain. Policy makers may consider creating frameworks that encourage social initiatives without imposing heavy costs on firms. Investors and analysts should be cautious in evaluating the financial implications of a firm's social activities, particularly in industries where such activities may not yield immediate financial returns.
3. Governance Disclosure: Corporate governance practices should be enhanced by incorporating best practices that align governance with improved financial performance. Regulators should enforce stronger corporate governance standards to ensure firms not only comply but also benefit from improved financial oversight. Investors should pay close attention to the governance structures of firms, as improved governance could lead to long-term financial stability.

This study contributes to the existing literature on ESG disclosures by focusing on the industrial goods sector in Nigeria, an under-researched area in the sustainability domain. The context of Nigeria adds value to the understanding of how firms in emerging economies approach ESG practices and their impact on financial performance. Methodologically, the study enhances the empirical analysis by employing both ordinary least squares (OLS) and robust regression techniques to account for data irregularities, providing more reliable results. Theoretically, this study adds to the discourse on stakeholder and legitimacy theory by examining how the demands for greater corporate responsibility affect financial outcomes. Empirically, it offers new insights into the specific relationship between environmental, social, and governance disclosures and financial performance in Nigeria's industrial sector.

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