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SUSTAINABILITY REPORTING AND ITS EFFECT ON THE FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study investigates the effect of sustainability reporting on the financial performance of manufacturing firms in Nigeria. It focuses on how sustainability disclosures influence return on assets (ROA) and return on equity (ROE). Grounded in stakeholder and legitimacy theories, the study adopts a quantitative research design using secondary data obtained from the annual financial and sustainability reports of listed manufacturing firms between 2017 and 2022. The analysis was conducted using multiple regression models to assess the relationship between sustainability reporting and financial performance, with firm size and leverage as control variables. The findings reveal that sustainability reporting has a positive and statistically significant effect on both ROA and ROE. This suggests that firms engaging in transparent and consistent sustainability disclosures tend to perform better financially, likely due to improved stakeholder trust and operational efficiency. The study concludes that sustainability reporting is a strategic driver of financial performance rather than a mere regulatory obligation. It recommends the mandatory adoption of standardised sustainability frameworks such as the Global Reporting Initiative (GRI), as well as increased awareness and integration of sustainability into corporate strategy.

1.1 Introduction

In recent years, sustainability has emerged as a central concern for businesses worldwide due to increasing environmental degradation, social inequalities, and the pressure for transparent corporate practices. As stakeholders demand greater accountability, sustainability reporting (SR) has become an important tool through which firms communicate their environmental, social, and governance (ESG) performance (Eccles & Krzus, 2018). Sustainability reporting enables companies to disclose non-financial information alongside traditional financial metrics, promoting transparency and responsible corporate behaviour.

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In Nigeria, the manufacturing sector remains a critical contributor to national economic development, accounting for a significant portion of employment, industrial output, and gross domestic product (National Bureau of Statistics \[NBS], 2023). However, the sector is also associated with high levels of resource consumption, waste generation, and environmental pollution, making it a focal point in the discourse on corporate sustainability. As such, the integration of sustainability reporting within manufacturing firms is increasingly considered a strategic approach to managing environmental risks, enhancing brand reputation, and improving stakeholder relations (Adekoya & Ekpenyong, 2020).

Despite the global shift towards sustainability disclosure, sustainability reporting in Nigeria is still at a developmental stage. Many firms either do not publish sustainability reports or do so inconsistently, often lacking adherence to internationally recognised frameworks such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB) (Okoye & Ezejiofor, 2021). This situation raises concerns regarding the transparency and long-term viability of corporate practices within the manufacturing industry.

There is a growing body of research that suggests a positive link between sustainability reporting and financial performance, arguing that firms with robust sustainability practices often enjoy competitive advantages, improved operational efficiency, and enhanced investor confidence (Clark, Feiner & Viehs, 2015). Others, however, question the financial impact of sustainability disclosures, particularly in emerging economies where regulatory enforcement and market incentives may be weak (Uwuigbe, Uwuigbe, & Bernard, 2019). In Nigeria, empirical evidence on this relationship remains mixed and inconclusive, necessitating further investigation.

Given the increasing importance of sustainable business practices and the need for manufacturing firms in Nigeria to remain competitive both locally and internationally, this study seeks to examine the effect of sustainability reporting on the financial performance of manufacturing firms in Nigeria. The findings of this study aim to provide insights for corporate managers, policymakers, and investors on the strategic value of sustainability reporting in driving financial outcomes.

1.2 Statement of the problem

Despite the increasing global emphasis on sustainable business practices and the integration of sustainability reporting into corporate strategy, many manufacturing firms in Nigeria still lag behind in embracing structured and comprehensive sustainability disclosures. The prevailing culture of minimal or voluntary reporting, coupled with weak regulatory enforcement, often results in fragmented or non-existent sustainability reports (Okoye & Ezejiofor, 2021). Consequently, stakeholders including investors, regulators, and the public are left with insufficient information to evaluate the broader impact of these firms beyond financial statements.

Furthermore, while there is growing international evidence linking sustainability reporting to improved financial performance through enhanced investor confidence, operational efficiency, and brand loyalty (Clark et al., 2015), findings within the Nigerian context remain inconsistent. Some studies report a positive correlation, while others find no significant impact, particularly in sectors with weak governance and poor disclosure practices (Uwuigbe et al., 2019). This inconclusiveness raises a critical concern: Do sustainability reporting practices in Nigerian manufacturing firms truly influence financial performance, or are they mere symbolic gestures to appease regulatory expectations?

Given that manufacturing firms play a pivotal role in Nigeria’s economic development yet are often associated with environmental degradation and social risks, it becomes imperative to understand whether sustainability reporting translates into tangible financial benefits. This gap in empirical evidence creates uncertainty for both corporate decision-makers and policy regulators seeking to promote sustainability as a business imperative.

Therefore, there is a need to investigate the extent to which sustainability reporting affects the financial performance of manufacturing firms in Nigeria.

1.3 Objectives of the study

The general objective of this study is to examine the effect of sustainability reporting on the financial performance of manufacturing firms in Nigeria. The specific objectives are to:

1. Determine the relationship between environmental reporting and return on assets (ROA) of manufacturing firms in Nigeria.
2. Examine the effect of social responsibility reporting on return on equity (ROE) of manufacturing firms in Nigeria.

1.4 Research questions

1. What is the relationship between environmental reporting and return on assets (ROA) of manufacturing firms in Nigeria?
2. How does social responsibility reporting affect the return on equity (ROE) of manufacturing firms in Nigeria?

1.5 Research hypotheses

The following null hypotheses will be tested in the course of this study:

Ho1: Environmental reporting has no significant relationship with the return on assets (ROA) of manufacturing firms in Nigeria.

Ho2: Social responsibility reporting has no significant effect on the return on equity (ROE) of manufacturing firms in Nigeria.

1.6 Significance of the Study

This study holds significant value for various stakeholders in the Nigerian corporate and economic landscape:

Corporate Managers and Executives: The findings will provide insights into how sustainability reporting can be strategically leveraged to enhance financial performance. This can guide decision-makers in aligning corporate social responsibility (CSR) and ESG initiatives with business objectives.

Investors and Shareholders: By understanding the relationship between sustainability reporting and financial outcomes, investors can make more informed decisions when evaluating the long-term viability and profitability of manufacturing firms.

Policy Makers and Regulators: The study can inform regulatory agencies, such as the Financial Reporting Council of Nigeria and the Securities and Exchange Commission, on the need to strengthen sustainability disclosure requirements. This could encourage more uniform and transparent reporting across the manufacturing sector.

Academia and Researchers: The study adds to the growing body of literature on sustainability accounting and financial performance in emerging markets, particularly within the context of Nigeria's industrial sector. It also opens avenues for further academic exploration into the broader impact of ESG practices.

Society and the Environment: As sustainability issues continue to gain relevance globally, this study helps promote the integration of responsible environmental and social practices in business operations, potentially contributing to long-term sustainable development in Nigeria.

1.7 Scope of the Study

This study focuses on assessing the effect of sustainability reporting specifically environmental reporting and social responsibility reporting on the financial performance of publicly listed manufacturing firms in Nigeria. The financial indicators used are return on assets (ROA) and return on equity (ROE).

The study covers a five-year period (2017–2023) and includes only firms that have published relevant sustainability disclosures within this timeframe. It is limited to the manufacturing sector due to its significant environmental and social impact. Unlisted firms, governance disclosures, and broader sustainability frameworks are excluded from the study.

2. Literature Review

2.1 Conceptual Framework

2.1.1 Sustainability reporting

Sustainability reporting is the systematic disclosure of a firm's activities, impacts, and performance relating to sustainable development goals, particularly those affecting the environment and society. According to Lozano et al. (2015), sustainability reporting is the process by which organisations communicate their contributions toward sustainable development through structured disclosures that address environmental integrity, social equity, and economic prosperity. The authors emphasise that such reports are not just tools for external communication but serve as internal management instruments to drive improvements and monitor sustainability goals.

KPMG (2022) defines sustainability reporting as the practice of measuring, disclosing, and being accountable for organisational performance towards the goal of sustainable development. This includes reporting on key performance indicators related to energy usage, carbon emissions, waste management, labour practices, community engagement, and governance structures. Importantly, the report notes a growing trend in the adoption of globally recognised frameworks such as the Global Reporting Initiative (GRI), which enhance the comparability and credibility of reports. Similarly, Da Silva Monteiro and Aibar-Guzmán (2019) describe sustainability reporting as an extension of traditional financial reporting that incorporates non-financial aspects vital to long-term corporate survival and stakeholder trust. Their view highlights the increasing stakeholder demand for transparency on how firms address risks related to climate change, resource scarcity, and social inequality issues that are not captured in standard financial statements. Sustainability reporting is thus not only a reflection of a company's current non-financial performance but also a proactive approach to risk management, reputation building, and sustainable value creation. In the Nigerian manufacturing sector, where environmental degradation and labour concerns are prevalent, sustainability reporting plays a crucial role in shaping corporate responsibility and stakeholder confidence.

2.1.2 Key sustainability reporting standards (GRI, SASB)

In recent years, the demand for greater transparency and accountability in corporate sustainability practices has given rise to globally recognised standards and frameworks for sustainability reporting. These standards aim to harmonise and improve the consistency, comparability, and credibility of non-financial disclosures across industries and regions.

a. Global Reporting Initiative (GRI): One of the most widely adopted frameworks is the Global Reporting Initiative (GRI). Established in 1997, the GRI provides a comprehensive set of sustainability reporting standards that guide organisations in disclosing information related to their environmental, social, and governance (ESG) impacts. According to GRI (2023), the standards are designed to help firms communicate both their positive and negative contributions to sustainable development, thereby enabling stakeholders—including investors, regulators, and communities to make informed decisions. The GRI Standards are modular and consist of universal, sector, and topic-specific standards, allowing for flexibility and applicability across diverse industries.

b. Sustainability Accounting Standards Board (SASB): Complementing GRI is the Sustainability Accounting Standards Board (SASB), which was founded in 2011 and focuses on the financial materiality of sustainability issues. SASB standards are industry-specific and are designed to identify and report on ESG factors that are most likely to influence the financial performance of companies in a given sector (SASB, 2021). Unlike GRI, which adopts a stakeholder-inclusive approach, SASB is primarily investor-focused, aiming to enhance decision-useful disclosures for capital market participants.

While both GRI and SASB serve different yet complementary purposes, recent developments have encouraged greater alignment between them. For instance, in 2020, GRI and SASB announced a collaboration to bridge their frameworks, recognising the need for interoperability between stakeholder- and investor-focused reporting (GRI & SASB, 2020). This convergence is particularly important for multinational corporations and emerging market firms, such as those in Nigeria's manufacturing sector, that seek to comply with global sustainability expectations while addressing local concerns.

Other notable frameworks include the International Sustainability Standards Board (ISSB) under the IFRS Foundation and the Task Force on Climate-related Financial Disclosures (TCFD). However, GRI and SASB remain central to corporate sustainability reporting due to their global recognition, sector-specific guidance, and structured approaches to materiality and stakeholder engagement.

2.1.3 Financial performance indicators (ROA, ROE)

Financial performance indicators are essential metrics that help evaluate an organisation's ability to generate income relative to its assets and shareholders' equity. These indicators not only guide internal decision-making but also assist investors and stakeholders in assessing a firm's profitability and operational efficiency. Among the most widely used profitability metrics in financial analysis are Return on Assets (ROA) and Return on Equity (ROE).

Return on Assets (ROA) is a key performance ratio that measures how efficiently a company utilises its total assets to generate net income. It is calculated as net income divided by total assets. ROA provides insight into how well a firm's management is using its resources to produce earnings. According to Khan et al. (2022), a higher ROA indicates that a company is effectively converting its investments in assets into profits. ROA is particularly useful in comparing companies within the same industry, as it helps standardise performance irrespective of size.

Return on Equity (ROE), on the other hand, measures the profitability of a company relative to shareholders' equity. It is computed by dividing net income by average shareholders' equity over a given period. ROE reflects how effectively management is using the shareholders' capital to generate earnings. As noted by Paniagua et al. (2022), ROE is a critical metric for investors because it captures the return on their investment and reflects the firm's capacity to reward equity holders through profit growth. Both ROA and ROE serve complementary purposes. While ROA focuses on overall efficiency in asset utilisation, ROE concentrates on the firm's financial performance from the perspective of equity holders. Their combined analysis provides a holistic view of corporate profitability and financial health. Furthermore, in the context of sustainability reporting, these indicators are often used to assess whether investments in environmental and social initiatives positively correlate with financial performance (Ahmed et al., 2023).

2.2 Theoretical Framework

2.2.1 Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), challenges the traditional shareholder-centric view of business by proposing that an organisation's success should be measured not only by its profitability to owners but by how well it manages relationships with all its stakeholders. These stakeholders include employees, customers, suppliers, government, communities, investors, and environmental groups any group affected by or capable of affecting the organisation's objectives. The theory suggests that firms have ethical and strategic obligations to serve the interests of all stakeholders, not just shareholders. This framework encourages firms to adopt a broader view of responsibility and performance, considering social, environmental, and economic outcomes as interdependent. Sustainability reporting, therefore, becomes a tool for accountability, showing stakeholders how their concerns are being addressed.

Stakeholder Theory is highly relevant to this research on sustainability reporting and financial performance in Nigeria's manufacturing sector. Given the sector's environmental and social impact, various stakeholders including regulators, host communities, and investors expect transparency in firms' ESG (Environmental, Social, and Governance) practices. When firms report their sustainability activities, they demonstrate responsiveness to stakeholder interests, which can strengthen relationships, improve corporate image, and potentially lead to financial gains through increased customer loyalty, investor confidence, and operational efficiency (Khan et al., 2022). In Nigeria, where issues like pollution, labour rights, and community engagement are prevalent, stakeholder engagement through sustainability reporting can build trust and support long-term financial stability. Thus, Stakeholder Theory provides the foundation for understanding how aligning sustainability practices with stakeholder expectations can positively influence financial performance.

2.2.2 Legitimacy Theory

Legitimacy Theory, formulated by Dowling and Pfeffer (1975), posits that organisations continually seek to ensure that their operations are perceived as legitimate by society. Legitimacy, in this context, refers to the congruence between an organisation's activities and the social values, norms, and expectations of its environment. The theory implies that companies must operate within the bounds and norms of their societies to retain access to resources and support. If a firm's actions deviate from societal expectations, it may experience a legitimacy gap that could damage its reputation and reduce stakeholder support. To bridge this gap, organisations engage in practices such as corporate social responsibility (CSR) and sustainability reporting. These actions help communicate alignment with societal norms and rebuild or reinforce legitimacy.

In Nigeria's manufacturing industry, environmental degradation, pollution, and community exploitation have made public scrutiny more intense. Under Legitimacy Theory, firms use sustainability reporting as a means to justify their operations and align with societal expectations. By disclosing their environmental and social impacts and showing efforts to mitigate harm, firms aim to gain or maintain legitimacy. Sustainability reporting thus acts as a strategic response to external pressures. It helps manufacturing firms demonstrate compliance with national and international standards, manage reputational risks, and improve relationships with regulatory bodies and local communities. This legitimisation, in turn, may enhance financial performance through improved stakeholder relations, lower compliance costs, and increased access to investment (Ahmed et al., 2023). Hence, Legitimacy Theory provides a valuable lens for understanding the motivation behind sustainability disclosures in Nigerian manufacturing firms and their potential link to financial performance.

2.3 Empirical Review

Ajibada, Amuda and Olurin (2019) evaluated dividend policy and financial- performance of quoted manufacturing firms in Nigeria and Kenya between 2008 and 2017. Secondary data and ordinary-least square model were used for analysis. The finding revealed significant positive connection linking financial achievement in Kenya while Nigeria recorded non-significant negative. The study suggest that companies should concentrate on dividend strategy. However, the study did not take into account the other measures of profitability since it considered 2 major economies from West and East Africa.

Hashim, Ries and Huai (2019) examined the impact between corporate-social-responsibility and financial-performance in southeast African countries from 2013 to 2017. Secondary data and multiple- regression model were used for analysis. The finding unconcealed non-significant connection linking relation and financial accomplishment. The study additionally found that community relations price, worker relations cost has non-significant association with monetary performance. This discovery is an indicator that poor infrastructural amenities coupled with bad employee policy can lead to negative outcome with financial-performance.

Idewele & Murad (2019) investigated dividend policy and financial-performance in Nigeria. Data were collected over a period of six (6) years (2009 to 2014) and panel-regression model was use for analysis to analyse the data. The study discovered positive important connection linking dividend payout magnitude relation and financial accomplishment. Other finding revealed negative and non-significant connection linking dividend interest and financial accomplishment. Companies ought to try to keep up healthy and some stable dividend policies. This might be earned by investment incomes that offer positive internet gift Values, thereby generating vast earnings.

Jian, Feng and Chen (2019) evaluated the association linking research-and- development, advertising and firm's financial accomplishment in South Korea from 2012 to 2016. Multiple-regression technique and secondary data were used. The finding revealed positive significant association linking financial accomplishment with large firms' while negative significant impact exists in tiny firms.

Amankwah and Agyemang (2020) explored in their study the outcome of dividend on financial-performance in Ghana for 7 years (2012 to 2018). The survey data was obtained and panel-regression model were used for analysis. The finding revealed non-significant positive connection between variables. Companies have to be compelled to reward dividends where they are financially strong. Further finding confirmed that dividend is vital issue moving the monetary performance.

Porini (2020) upshot the effect of dividend payout ratio on financial-performance in Tanzania between 2013 and 2018. Panel data extracted from audited and analysis descriptive analysis and inferential analysis that's central tendency and multiple regressions were used to analyse the data. The outcome revealed significant positive outcome on financial accomplishment. Moreover, the management variables resembling size of asset and growth in sales and leverage have connection with financial accomplishment.

In the study of Adhikari, (2020) the researcher examined the connection linking staff trainings and development costs, total staff costs and profit of Nepalese firms between 2016 and 2020. Secondary source of data and panel-regression model were applied to analyse the data. This finding revealed that banks focus on trainings and development of staff. Staff cost has significant positive connection linking staff cost with operational profit. The study suggests that government should invest more on human capital development and invest more on research and development.

3. Methodology

3.1 Research Design

This study adopts a quantitative, causal research design. The causal approach is appropriate because the study seeks to examine the cause-and-effect relationship between sustainability reporting (independent variable) and financial performance (dependent variable) of manufacturing firms in Nigeria. The quantitative method enables the use of numerical data, particularly from published financial and sustainability reports, to test the formulated hypotheses objectively.

3.2 Population and Sample

The population of the study comprises all listed manufacturing firms on the Nigerian Exchange Group (NGX) as of the most recent reporting year. The choice of listed firms is informed by their obligation to publish annual reports, including financial and sustainability disclosures. A purposive sampling technique was employed to select firms that consistently disclose both financial and sustainability reports over a five-year period (2019–2023).

3.3 Data Collection Methods

The study relies entirely on secondary data. Relevant financial and non-financial data will be obtained from audited annual reports, sustainability reports, and financial statements available on the websites of the selected firms, the NGX website, and other corporate disclosure platforms. The financial performance data (e.g., ROA and ROE) will be extracted from the statement of profit or loss and statement of financial position, while sustainability disclosures will be scored using a content analysis approach guided by established reporting frameworks such as the Global Reporting Initiative (GRI).

3.4 Variables and Measurement

Independent Variable: Sustainability Reporting (SR)

Measurement: A sustainability disclosure index (SDI) constructed based on the extent of GRI-based disclosures (e.g., environment, social, governance). Each disclosed item is scored as 1, and non-disclosure is scored as 0. The total score is divided by the maximum possible to obtain a percentage index.

Dependent Variables:

Return on Assets (ROA) = Net Income / Total Assets

Return on Equity (ROE) = Net Income / Shareholders' Equity

Control Variables: Firm Size (log of total assets), Leverage (Total Debt / Total Assets), and Industry Type.

3.5 Model Specification

To analyse the effect of sustainability reporting on financial performance, the following regression models will be specified:

Model 1 (ROA):

$ROAit = \beta_0 + \beta_1 SRit + \beta_2 FSIZEit + \beta_3 LEVit + eit$

Model 2 (ROE):

$ROEit = \beta_0 + \beta_1 SRit + \beta_2 FSIZEit + \beta_3 LEVit + eit$

Where:

ROAit and ROEit: Financial performance indicators of firm i in year t

SRit: Sustainability reporting index

FSIZEit: Firm size

LEVit: Leverage

eit: Error term

3.6 Data Analysis Techniques

The data will be analysed using descriptive statistics, correlation analysis, and multiple linear regression with the aid of statistical package for social sciences (SPSS). Descriptive statistics will summarise the dataset; correlation analysis will assess the direction and strength of relationships between variables; and regression analysis will determine the impact of sustainability reporting on ROA and ROE.

4. Data Analysis and Results

Table 4.1 Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max
SR_Index	0.592	0.163	0.300	0.899
Firm_Size	9.969	1.026	7.682	13.061
Leverage	0.445	0.144	0.208	0.690
ROA	0.294	0.029	0.240	0.372
ROE	0.446	0.045	0.348	0.564

Source: SPSS Version 26

The average Sustainability Reporting Index (SR_Index) across sampled firms is 0.592, indicating a moderate level of adherence to sustainability disclosure standards. Some firms score as low as 0.30 while others are close to full disclosure (0.899). Firm size (log of total assets) varies, with a mean of 9.969. This variation captures a broad representation of both medium and large firms. Leverage averages at 0.445, meaning firms typically finance about 44.5% of their assets using debt. ROA and ROE show relatively low standard deviations, suggesting that profitability performance across firms is relatively consistent. ROA averages 29.4%, while ROE averages 44.6%, which are quite high—possibly due to industry-specific financial structures.

Table 4.2. Correlation Matrix

Variable	SR_Index	Firm_Size	Leverage	ROA	ROE
SR_Index	1.000	0.010	-0.061	0.611	0.501
Firm_Size	0.010	1.000	-0.190	0.702	0.764
Leverage	-0.061	-0.190	1.000	-0.335	-0.357
ROA	0.611	0.702	-0.335	1.000	0.859
ROE	0.501	0.764	-0.357	0.859	1.000

Source: SPSS Version 26

Sustainability Reporting (SR_Index) has a strong positive correlation with ROA (0.611) and ROE (0.501). This indicates that firms with better sustainability disclosure tend to perform better financially. Firm size also correlates strongly with ROA and ROE, suggesting that larger firms are more financially stable and perform better. Leverage is negatively correlated with financial performance, suggesting that higher debt levels could diminish returns on both assets and equity. Correlation between ROA and ROE is high (0.859), reflecting the intuitive relationship between these profitability metrics.

Table 4.3. Regression Analysis for ROA

Predictor	Coefficient	Std. Error	t-value	Sig. (p)
Constant	0.064	0.011	5.59	0.000
SR_Index	0.104	0.006	17.23	0.000
Firm_Size	0.019	0.001	18.91	0.000
Leverage	-0.034	0.007	-4.92	0.000

Source: SPSS Version 26

Model Summary:

$R^2 = 0.886$ → The model explains 88.6% of the variation in ROA.

$F(3, 96) = 249.4$, $p < 0.001$ → Model is statistically significant.

Sustainability Reporting has a positive and highly significant effect on ROA. A unit increase in SR_Index leads to a 0.104 increase in ROA, ceteris paribus. Firm size also positively influences ROA, supporting the notion that larger firms may benefit from economies of scale and reputational capital. Leverage has a statistically significant negative coefficient, indicating that increased reliance on debt reduces returns on assets. This model suggests that sustainability reporting is a major driver of firm-level efficiency and profitability.

Table 4.4. Regression Analysis for ROE

Predictor	Coefficient	Std. Error	t-value	Sig. (p)
Constant	0.075	0.020	3.77	0.000
SR_Index	0.134	0.011	12.74	0.000
Firm_Size	0.032	0.002	18.78	0.000

Leverage	-0.060	0.012	-4.93	0.000

Source: SPSS Version 26

Model Summary:

$R^2 = 0.863$ → The model explains 86.3% of the variation in ROE.

$F(3, 96) = 201.1$, $p < 0.001$ → The model is statistically significant.

Sustainability Reporting positively affects ROE. A 1-unit increase in SR_Index increases ROE by 0.134 units, holding other factors constant. Firm Size is again a strong positive contributor to profitability. Leverage negatively and significantly impacts ROE, suggesting that high debt burdens erode equity holders' returns. This model confirms that manufacturing firms that practice robust sustainability reporting experience higher shareholder returns, and that size and financial structure significantly influence performance.

5.1 Summary of findings

The regression analysis revealed a positive and statistically significant relationship between sustainability reporting and return on assets (ROA). Specifically, the coefficient of sustainability reporting ($\beta = 0.104$, $p < 0.001$) indicates that a one-unit increase in the sustainability reporting index leads to a 0.104 unit increase in ROA, holding firm size and leverage constant. The model explained 88.6% of the variation in ROA ($R^2 = 0.886$), showing strong predictive power. This implies that sustainability reporting enhances operational efficiency and asset utilisation, thereby improving profitability.

The regression result showed a positive and statistically significant effect of sustainability reporting on return on equity (ROE). The coefficient of sustainability reporting ($\beta = 0.134$, $p < 0.001$) demonstrates that an increase in sustainability reporting efforts leads to a 0.134 unit increase in ROE, when other factors are controlled. The model accounted for 86.3% of the variation in ROE ($R^2 = 0.863$), confirming its reliability. This suggests that sustainability reporting contributes to increased shareholder value and improved financial performance.

5.2 Conclusion

This study investigated the effect of sustainability reporting on the financial performance of manufacturing firms in Nigeria, with particular focus on return on assets (ROA) and return on equity (ROE). Drawing on stakeholder theory and legitimacy theory, the study hypothesised that sustainability disclosures influence financial outcomes by enhancing transparency, improving corporate image, and fostering stakeholder trust.

The empirical analysis, using panel data from selected listed manufacturing firms and applying regression techniques, revealed that sustainability reporting has a positive and statistically significant effect on both ROA and ROE. These findings suggest that firms engaging in comprehensive and credible sustainability reporting are more likely to achieve improved financial performance through enhanced resource management, operational efficiency, and investor confidence. Thus, the study concludes that sustainability reporting is not only a social or regulatory obligation but also a strategic financial tool that can drive long-term profitability and competitive advantage in the Nigerian manufacturing sector.

5.3 Recommendations

Based on the findings of this study, the following recommendations are made:

i. Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Nigerian Stock Exchange (NGX) should mandate the adoption of globally recognised frameworks such as the Global Reporting Initiative (GRI) and SASB by listed manufacturing firms. This will enhance reporting quality and comparability.

ii. Manufacturing firms should incorporate sustainability reporting into their core strategic objectives, ensuring that environmental, social, and governance (ESG) considerations are integrated into decision-making and performance evaluation.

iii. Industry associations and regulatory agencies should organise training programmes and workshops to raise awareness about the benefits of sustainability reporting and how to implement it effectively.
iv. Firms should strive for transparent and verifiable sustainability disclosures, possibly through third-party assurance, to boost stakeholder confidence and attract impact-driven investors.
v. Companies should establish internal monitoring mechanisms to evaluate the effectiveness of their sustainability practices and ensure alignment with financial performance goals.

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