

ESG Disclosure, Performance And Competitive Advantage In Financial Service Firms In Nigeria

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Abstract

This study examined the effect of Environmental, Social, and Governance (ESG) disclosure on firm performance and competitive advantage among listed financial service firms in Nigeria. Adopting an ex-post facto research design, panel data were collected from 31 firms over the period 2020–2024 and analyzed using fixed and random effects regression models. ESG disclosure was measured using environmental, social, and governance scores, while firm performance and competitive advantage were proxied by Return on Assets (ROA) and finance cost respectively. The findings revealed that environmental and governance disclosures had no significant impact on firm performance or competitive advantage in listed financial service firms in Nigeria. However, social disclosure exhibited a significant negative relationship with finance cost, indicating its role in enhancing competitive advantage through reduced financing costs. The results further showed that firm-specific factors such as age and leverage significantly influenced performance outcomes. Overall, the study concludes that ESG disclosure does not uniformly affect firm performance in Nigeria, although social disclosure plays a critical role in improving firms' financial positioning. The study recommends improved ESG reporting standards and deeper integration of sustainability practices into corporate strategy to enhance long-term value creation.

Keywords: ESG disclosure, firm performance, competitive advantage, financial services, Nigeria, sustainability

1.0 Introduction

Increasing speed of industrialization and economic growth have only deepened the environmental degradation, which has become a global concern on

sustainability and responsible business activities. The industrial processes have greatly added to greenhouse gas emissions and the depletion of resources thus

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posing a threat to the ecological stability in the long term (Environmental Protection Agency, 2023; Ganivet, 2020). Such issues have increased the pressure towards sustainable development, imposing more and more pressure on governments, corporations, and other stakeholders to be environmentally and socially responsible (Abdulkaki, 2023; Oyewo, 2023). In reaction, Environmental, Social, and Governance (ESG) factors have become a fundamental guideline in the actions of corporations and their investment choices. In particular, ESG disclosure is a tool that helps firms share their sustainability practices, increase transparency, and respond to stakeholder expectations (Ahmad et al., 2024; Guluma, 2021; Wan et al., 2023). More investors are considering firms based on their ability to create sustainable value in the long term as opposed to considering their short-term profitability, thus moving away the short-term profitability orientation to sustainability-based strategies (Tunde-Ayinuola, 2025).

The increasing significance of ESG disclosure has significant ramifications in both firm performance and competitive positioning. ESG disclosure has the potential to decrease information asymmetry, better risk management, and corporate reputation, which can lead to financial performance improvement (Owoeye, 2024). Nevertheless, there is still inconclusive empirical evidence on the relationship between ESG and performance. Whereas others have statistically significant positive relationships (Hamdouni, 2025; Ogboi et al., 2024), others record negative or non-significant relationships especially between individual ESG components (Bukar et al., 2025). In addition to

financial results, ESG disclosure can also help create a competitive advantage as it can allow firms to distinguish themselves, draw responsible investments, and enhance stakeholder trust (Tunde-Ayinuola, 2025). However, existing data on this connection is limited and disjointed, particularly in the case of emerging economies such as Nigeria where, ESG frameworks and reporting regulations are still in progress (Fasan, 2021).

The case of Nigeria offers an appropriate situation to explore these relationships because of its increasing dedication to sustainability and its developing regulatory landscape. The policies implemented in the country, including the Climate Change Act, and the frameworks adopted, like the Nigerian Sustainable Banking Principles, facilitate the integration of ESG in the financial system (Lambo et al., 2023; Saxena et al., 2021). Moreover, the Nigerian Exchange Group has come up with guidelines on sustainability reporting to promote the disclosure of ESG by listed companies (Tunde-Ayinuola, 2025). Nevertheless, the adoption of ESG in Nigeria is still comparatively small, and its further implementation is hindered by the lack of the uniformity of the reporting standards, awareness, and the reliability of the data (PwC, 2024; ADSR, 2023). The financial services are an important part of the economy of Nigeria, as they contribute to its Gross Domestic Product and affect the sustainable development due to its financing and investment processes (National Bureau of Statistics, 2024). Nevertheless, the studies that have been conducted in Nigeria have mostly addressed environmentally sensitive sectors like oil and gas and manufacturing with little consideration of the financial services sector

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(Adeyoola, 2024). Moreover, previous studies have focused mostly on ESG disclosure in connection with financial performance without considering its impact on the competitive advantage. Such a gap coupled with the lack of consistency in the results of the available literature indicates that a more thorough study in the field of financial services could be required.

Considering these gaps, this research paper will investigate how ESG disclosure is linked with firm performance and competitive advantage in the financial services industry in Nigeria. Combining these dimensions, the study offers a deeper picture on the effect of ESG disclosure on financial performance and strategic positioning in an emerging market setting.

2. Literature Review

2.1 Conceptual Review of ESG

ESG is an integrated approach to corporate performance assessment outside the financial norms. It integrates environmental stewardship, social responsibility and governance practices into the decision making processes. ESG is a key indicator of both the long-term sustainability and value creation of firms, indicating the effectiveness with which organizations can manage non-financial risk and opportunities in addition to financial performance (Bukar et al., 2025). Its conceptualization started picking up after the report Who Cares Wins by the United Nations Global Compact 2024, which proposed the incorporation of ESG factors into financial analysis and investment decision-making, which initiated its widespread use internationally. Since that time, the growing need of transparency and sustainable investing has led to the expansion of the ESG disclosures and corporate responsibility practices (Dhaliwal et al., 2011; Amel-Zadeh and Serafeim, 2018), especially following the 2008 Global Financial Crisis, and the necessity to have more robust corporate accountability (El Khoury et al., 202). In more recent times, international frameworks like the Paris Climate Agreement and the United Nations Sustainable Development Goals have solidified ESG adoption, making it a key pillar of corporate strategy and sustainable development (Kumar, 2023; Ogboro et al., 2024).

Environmental Disclosure

The environmental aspect of ESG shows how the firm affects the natural environment and its dedication to the ecological sustainability, which include pollution, waste management, carbon emissions, biodiversity, and climate change (Ogboro et al., 2024). Though banks and other financial institutions might not have a direct impact on environmental pollution, their lending and investment choices affect the environmental performance through the support of sustainable projects or by funding high-emission industries (Ogboi et al., 2024). The growing worldwide interest in environmental sustainability supported by regulatory measures like the Paris Climate Agreement has placed greater pressure on companies to reduce environmental risks and report on activities associated with them (Billio et al., 2022). In Nigeria, the policies like the Climate Change Act and the commitment to reach net-zero emissions by 2060 once again drive the significance of corporate environmental responsibility (Lambo et al., 2023). As such, environmental considerations in the corporate strategy are not only a guarantee of regulatory compliance but also of

a firm reputation, minimized operational risks, and sustainability-oriented investors, which lead to the long-term value creation (Boffo and Patalano, 2020; Edward et al., 2024).

Social Disclosure

Social aspect of ESG revolves around how a firm interacts with its stakeholders, such as employees, customers, suppliers, host communities, and includes aspects like labor relations, workplace safety, diversity, human rights, and community development (Bukar et al., 2025; Owoeye, 2024). This dimension indicates how much the organizations encourage ethical behaviors, inclusiveness, and social responsibility within their operations. Companies are increasingly aware that effective social performance can improve stakeholder relationships, boost brand reputation, and help ensure the long-term sustainability of the company (Kumar, 2023; Wang et al., 2024). The positive social and ethical activities also help to create stakeholder value and may impact the perception and decision-making of the investors (Yeye and Egbunike, 2023). Moreover, long-term economic gains linked to investments in corporate social responsibility (CSR) are operational risks and cost-efficiencies (Bassey et al., 2022). The social aspect is especially crucial in the setting of the financial services industry in Nigeria, where the performance of the institutions is largely reliant on the trust of the population, the competence of employees, and the quality of relationships with customers (Adebite et al., 2019; Ogboi et al., 2024).

Governance Disclosure

The governance aspect of ESG explores how organizations are guided and managed with transparency, accountability and ethical decision-making by looking at the internal systems, structures and processes. It includes such important aspects as board structure, executive pay, corporate policies, anti-corruption policies, and strategic management (Bukar et al., 2025). Corporate governance is vital in ensuring that organizations work within the law and ethical provisions without compromising on the interests of stakeholders and avoiding corporate malpractices (Ghazi et al., 2023). Research also emphasizes the role of board diversity and inclusive corporate governance in promoting innovation, financial performance, and corporate performance, in general (Elshandidy et al., 2024). The growing importance of corporate governance across the world is indicative of its contribution to enhancing investor confidence and facilitating long-term sustainability (Manuel, 2021). Through good governance practices, companies will be able to increase their performance, efficiency in operations, and have a strong base of sustainable growth.

2.2. Competitive Advantage

Competitive advantage is the capability of a firm to outcompete its competitors by providing value in a superior way through cost effectiveness, differentiation or unique potential that is hard to imitate. It is born out of different sources such as access to resources, skilled labor, technology and strategic positioning that help firms to attain sustained performance above the competition. According to the Resource-Based View (RBV), valuable, rare, and inimitable resources contribute to competitive advantage, especially intangible ones that increase the innovation, operational efficiency, and organizational effectiveness (Lubis, 2022; Bandaranayake and Pushpakumari, 2021). On the same note, Michael Porter points out that companies can attain competitive advantage by cost leadership or differentiation

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strategies, which establish differentiated market positioning. Although it is important, there is no universally recognized definition and universal way of measuring competitive advantage, and the literature tends to use financial metrics as the proxies of high performance, including Return on Investment (ROI), Return on Sales (ROS), market share, and Return on Assets (ROA) (Urbanek, 2024).

2.3. Firm Performance

Firm performance is defined as the capability of an organization to attain its financial and strategic goals by effectively using the resources that are available to the organization and also by making good managerial decisions (Richard et al., 2009). It is usually measured based on financial and non-financial metrics, with financial metrics concentrating on profitability and economic results, and non-financial metrics concentrating on such aspects as customer satisfaction, employee engagement, and corporate reputation (Kaplan and Norton, 1996). Accounting-based measures can be used to evaluate the financial performance as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are measures that give an insight on the efficiency of the operations and the past performance of the company (Venkatraman and Ramanujam, 1986). Instead, market-based indicators, including Tobin Q, market-to-book ratio and stock returns, show the expectations of investors and future growth opportunities (Chung and Pruitt, 1994). In this work, however, performance of firms is gauged on ROA because it offers a consistent and objective measure of how well firms use their resources to earn profits, especially in the asset-intensive financial services industry, and is not volatile to changes in market-driven measures (Muntari, 2014).

2.4. Theoretical Framework

In this study, the multi-theoretical framework would be used because it would rely on the Stakeholder Theory and Legitimacy Theory as the foundation theories of the relationship between ESG disclosure, firm performance, and competitive advantage.

The stakeholder theory defines that corporations have an obligation to shareholders and an obligation to a broad array of stakeholders, such as employees, customers, suppliers, communities, and regulators, the interests of which must be taken into account in making corporate decisions. The theory holds that companies manage stakeholder relationships effectively are more likely to be successful and sustainable in the long-term (Ubandawaki, 2024). Stakeholder theory (in the context of ESG) describes the reasons why companies use environmental, social, and governance practices, as such practices demonstrate responsiveness to the expectations of stakeholders (Kumar, 2023). Empirical evidence has reinforced this idea, revealing that the better firms perform in terms of ESG, the better their corporate results are, as they will attract and maintain stakeholders whose values are compatible with sustainability practices (Wang, 2024; Ogboi et al., 2024). ESG reporting also implies that a company is dedicated to responsible activities, which boosts reputation, decreases information asymmetry, and may decrease the cost of capital and improve competitive advantage (Qureshi et al., 2020; Yeye and Egbunike, 2023; Musa et al., 2025). Izgarova et al. (2023), Lee and Raschke (2023), Srivastava (2023), and Yu and Xiao (2022) are only a few examples of studies that employ the stakeholder theory to describe the correlation between ESG practices and firm value and prove its applicability in the correlation of ESG

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disclosure and financial performance and competitive advantage. Nevertheless, the theory is not without its shortcomings since it fails to specify how companies should strike a balance amid the conflicting interests of stakeholders, especially in such a context as Nigeria when financial institutions might be inclined to prioritize the interests of their shareholders over those of the broader stakeholders (Owoeye, 2024).

The legitimacy theory is an addition to the stakeholder theory that is concerned with the external pressures that motivate corporate disclosure practices. The theory states that organizations aim to make their operations seen as legitimate by aligning their operations to be in line with the societal norms and expectations. When organizational actions and societal values are congruent, and the disclosures are employed by firms as a strategic instrument to retain or reestablish this congruence, legitimacy is realized (Deegan, 2002). ESG disclosure is therefore a process by which companies report to the stakeholders, regulators and the general population the adherence to social, environmental, and governance requirements. Applying the Uwuigbe et al. (2016) model to the Nigerian context, it was revealed that by doing sustainability reporting, firms aim to create, sustain, or restore legitimacy. This implies that it is not just ethical considerations that cause ESG disclosure but also the necessity to ensure further acceptance and further stability in operations. ESG disclosure can create competitive advantage and enhance the performance of firms by boosting the level of stakeholder support and long-term sustainability by improving credibility, developing public trust, and strengthening reputation (Owoeye, 2024).

Thus, a combination of stakeholder and legitimacy theory offers a solid base to fully comprehend not only the internal but also the external motivations behind ESG disclosure and what it means to the performance and the competitive edge of firms. Stakeholder theory describes the way in which firms can generate value by responding to the interests of the stakeholders, but legitimacy theory emphasizes the importance of the societal expectations and institutional pressures in the context of disclosure practices. Collectively, the theories support the presumption that ESG disclosure can be used to increase competitive advantage and financial performance in the financial services sector in Nigeria.

2.5. Empirical Review

Empirical studies of ESG disclosure and firm performance show a developing but inconclusive body of research in both developed and developing economies. Although a significant amount of literature indicates that there is a positive correlation between ESG disclosure and firm performance, other researchers note that some studies have shown ambivalent or even negative effects and this is why the relationship is very context-specific. Nordic evidence suggests that an increase in ESG scores correlates with better financial performance, especially ROE, which is

an indicator of better profitability and investor trust (Ghannadighomi et al., 2023). The same is observed in the case of Malaysia, where reputational benefits, lessening financing constraints, and competitive positioning show significant improvements in the disclosure of ESG (Mohammad and Wasiuzzaman, 2021; Ab Aziz et al., 2023). Research in China also indicates that ESG participation increases innovation, operational cost, and firm value and, thus, leads to better financial performance (Li et al., 2025; Zhang, 2025). In Europe, positive financial performance has also been associated with ESG disclosure, with

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investors shifting to companies with high sustainability profiles (Mahmood et al., 2025). All these studies contribute to the argument that the ESG disclosure can lead to better performance of the firm due to increased efficiency, innovation, and perception of the firm in the market.

But, the universality of this relationship is disputed by evidence. According to some studies, ESG investments can lead to extra costs that are not directly associated with monetary gain, especially in the short term, which decreases the value of firms (Brammer et al., 2006; Branco and Rodrigues, 2008; Lee et al., 2009; Suresha et al., 2022; Agarwal et al., 2023). Other methodological limitations that can lead to inconsistent results include short study periods, low rates of ESG disclosure, as well as information asymmetry (Md Nor et al., 2016; Atan et al., 2018; Farooq, 2015; Ab Aziz et al., 2023). Moreover, the issue of greenwashing when companies inflate or distort their ESG engagements erodes the quality of disclosures and can have a poor effect on the reputation and financial outcomes of firms (Suchman, 1995; Xue et al., 2023; Treepongkaruna et al., 2024; Fristamara and Musmini, 2024). These inconsistencies imply that ESG disclosure may not necessarily translate into a better financial performance, but instead, it is subject to the quality, credibility, and strategic combination of the ESG practices.

A finer view is seen when ESG is broken down into its environmental, social and governance constituents. In Nigeria, it has been shown that the individual pillars of ESG can have varying impacts on the performance of firms. As an example, Bukar et al. (2025) discovered that, environmental and social disclosure

had a negative and insignificant impact on Return on Assets, and governance disclosure had a positive and significant impact. On the same note, Omokiti et al. (2024) also found that although the individual ESG elements have positive impact on financial performance, cumulative ESG index had both positive and negative impacts on various performance indicators, including ROA, ROE, Q of Tobin, and Economic Value Added. These results indicate that by aggregating ESG dimensions into one index, one can be confused with the unique input of each of the aspects, and the analysis of ESG pillars separately should be emphasized.

Sector-specific research also indicates that there are differences in ESG disclosure practices and outcomes. In the insurance sector, external institutional pressures seem to affect the adoption of ESG more than internal strategic factors. Cicirko and Cicirko (2023) established that compliance with ESG in Polish insurers was mostly influenced by the regulatory demands and the influence of the parent companies with little perceived effect on the performance. On the same note, Khovrak (2020) revealed that reduced ESG risk is correlated with increased alignment with sustainable development goal, which implies that ESG disclosure has a wider impact on sustainability results. Ullah et al. (2019) indicated in Bangladesh that the governance mechanisms, including the independence of the board and gender diversity, affect the level of disclosures to ESG considerably, indicating the importance of internal governance structures.

Across the banking industry, the evidence on the world stage is that ESG engagement has the potential to increase financial resilience and stability, especially in

case of economic crisis. Shakil et al. (2019) discovered that environmental and social activities have positive impacts on bank performance, but the effects of governance are not consistent. A positive correlation between ESG reporting and financial performance among European banks was also reported by Buallay (2018). Recent research by Danisman and Tarazi (2022, 2024) shows that banks that had higher ESG scores were less exposed to risk and less prone to a decrease in lending and profitability in the case of a financial crisis, which speaks to the risk-reducing nature of ESG practices. These results indicate that ESG reporting can not just improve profitability but also resilience and sustainability.

In Nigeria, the empirical evidence is very few and scattered more so in the financial services sector. Ogboi et al. (2024) discovered that environmental disclosure has a positive impact on the financial performance of deposit money banks but social and governance variables have mixed impacts. Bukar et al. (2025), on the contrary, mentioned that only governance disclosure matters greatly in performance, meaning that there are inconsistencies even within the same sector. Owoeye (2024) also noted that the

3. Methodology

This paper used ex-post facto research design to test the relationship between the ESG disclosure and the firm performance and the competitive advantage of listed financial service firms in Nigeria. The design was suitable since the variables of interest already took place and could not be controlled (Saunders et al., 2019). The research was conducted in the positivist approach where quantitative data was used to estimate hypothesized relationships (Creswell and Creswell, 2018). To augment the strength of the analysis, panel data that integrate cross-sectional observations and time-series observations were used to mitigate the effects of firms. This methodology aligned with previous research on ESG reporting and company performance (Emeka-Nwokeji et al., 2019; E-Vahdati and Menike, 2022).

The sample included 43 financial service companies traded on Nigerian Exchange Group (NGX) out of which 31 companies were selected by purposive sampling using data available in the year 2020 to 2024. Corporate annual

application of ESG principles is not well balanced as Nigerian financial institutions focus on the governance aspects and underreport the environmental and social ones. Irrespective of these constraints, the adoption of ESG is gaining more and more acceptance as a strategy to increase competitiveness, attract investors, and improve image (Capgemini, 2024; PwC, 2023).

In general, the empirical evidence shows that although ESG disclosure can positively affect the performance and competitive advantage of a firm, its effects are not uniform and cannot be guaranteed. These differences in the results of the studies indicate the role of the contextual factors, including regulatory environment, industry specifics, and quality of the ESG implementation. More to the point, the literature has not devoted much to competitive advantage with much emphasis being directed to financial performance, especially in the Nigerian financial services industry. This is where the gap can be seen, as the ESG disclosure, firm performance, and competitive advantage are intimately connected and should be analyzed in the same framework, which is what this study is aiming to provide.

reports and sustainability disclosures were used as a source of secondary data. Environmental (EDS), social (SDS), and governance (GDS) scores derived by the use of content analysis were used to measure the level of ESG disclosure (using the scale of 0 (no disclosure), 1 (qualitative disclosure), and 2 (quantitative disclosure)). Return on Assets (ROA) was used as a proxy of firm performance, and finance cost (FINCOST) as a competitive advantage, assuming that the better firms disclosed their ESG, the lower the financing cost. Control variables were firm size (FSIZE), firm age (FAGE) and leverage (LEV). The study specified two panel regression models to examine the relationships:

Model 1 (Firm Performance):

$$ROA_{it} = \beta_0 + \beta_1EDS_{it} + \beta_2SDS_{it} + \beta_3GDS_{it} + \beta_4FSIZE_{it} + \beta_5FAGE_{it} + \epsilon_{it}$$

Model 2 (Competitive Advantage):

$$FINCOST_{it} = \beta_0 + \beta_1EDS_{it} + \beta_2SDS_{it} + \beta_3GDS_{it} + \beta_4FSIZE_{it} + \beta_5FAGE_{it} + \epsilon_{it}$$

Descriptive statistics and correlation analysis were conducted, followed by panel regression estimation using pooled OLS, fixed effects, and random effects models. The Hausman test was applied to determine the appropriate model specification (Bukar *et al.*, 2025; Ogboro, 2024). The analysis was performed using EViews. The methodology was subject to limitations, including potential reverse causality, omitted variable bias, and reliance on secondary data sources.

4. Results and Analysis

Table 1 : Summary of Descriptive Statistics

Statistic	ROA	FINCOST	EDS	SDS	GDS	FSIZE	FAGE	LEV
Mean	3.72	6.81	0.33	0.41	0.75	12.27	36.87	0.73
Median	2.72	6.50	0.25	0.38	0.83	11.13	33.00	0.76
Maximum	23.54	14.61	1.00	0.94	1.00	17.58	79.00	3.69
Minimum	-23.23	0.00	0.00	0.00	0.17	8.12	8.00	0.10
Std. Dev.	5.60	4.45	0.34	0.22	0.19	2.68	17.15	0.43
Skewness	-0.22	-0.04	0.80	0.47	-0.84	0.55	0.41	3.55
Kurtosis	8.69	1.72	2.38	2.58	3.05	1.81	2.52	22.04
Jarque-Bera	210.15	10.66	19.07	6.85	18.32	17.03	5.88	2665.93
Probability	0.00	0.00	0.00	0.03	0.00	0.00	0.05	0.00
Observations	155	155	155	155	155	155	155	155

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Source: Author’s Computation (2025)

Descriptive statistics in Table 1 show that the firms sampled had average financial performance with a Return on Assets (ROA) of 3.72% (SD = 5.60) which reveals a large variation in the levels of profitability between firms. The broad distribution of the values of ROA (minimum = -23.23; maximum = 23.54) indicates that there are both very poor growth firms and very profitable firms in the sample. Finance cost (FINCOST) had an average of 6.81 (SD = 4.45) with a significant variance in financing structures and cost of borrowing by companies. The distributional properties indicate that ROA was skewed to the left (skewness = -0.22) with extreme kurtosis (8.69) and FINCOST was close to symmetrical (skewness = -0.04), but not normal. The Jarque-Berra statistics indicated that both variables were out of normality ($p < .05$), indicating that there were outliers and non-linear relationships in the performance of firms and their financing costs.

In terms of ESG disclosure, the findings show that environmental (EDS: M = 0.33, SD = 0.34) and social disclosure (SDS: M = 0.41, SD = 0.22) were relatively low, in comparison to governance disclosure (GDS: M = 0.75, SD = 0.19), which seemed to be more widely disclosed. The positive skew of both EDS (0.80) and SDS (0.47) indicates that majority of firms reported incomplete environmental and social information and governance disclosure was skewed negatively (-0.84) which implies that most firms reported at high rates. Firm-specific factors reveal that the firms were large (FSIZE: M = 12.27) and mature (FAGE: M = 36.87), but with a high level of dispersion, and extreme kurtosis (22.04) of leverage (LEV: M = 0.73, SD = 0.43) was observed, meaning that there are highly leveraged firms. All in all, the Jarque-Berra test scores affirmed the fact that the majority of the variables were not normally distributed ($p < .05$), which supported the suitability of panel regression methods that do not assume normality in the data.

Table 2: Correlation Matrix

	ROA	FINCOST	EDS	SDS	GDS	FSIZE	FAGE	LEV
ROA	1							
FINCOST	-0.30349 (0.0001)	1						
EDS	-0.11938 (0.139)	0.57175 (0)	1					
SDS	-0.02378 (0.7689)	0.39554 (0)	0.68621 (0)	1				
GDS	-0.08094 (0.3167)	0.43553 (0)	0.45085 (0)	0.38615 (0)	1			

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FSIZE	-0.15096 (0.048)	0.87613 (0)	0.69098 (0)	0.48494 (0)	0.42006 (0)	1		
FAGE	0.12604 (0.1181)	-0.23918 (0.0027)	-0.10913 (0.1765)	-0.09775 (0.2263)	-0.20667 (0.0099)	-0.16637 (0.0385)	1	
LEV	-0.37560 (0)	0.44961 (0)	0.17892 (0.329)	0.17482 (0.0296)	0.28117 (0.0004)	0.30047 (0.0001)	-0.26305 (0.0009)	1

Source: Author’s Computation (2025)

The correlation findings show that there is a statistically significant negative correlation between the cost of finance (FINCOST) and firm performance (ROA) ($r = -.303, p < .01$) indicating that an increase in the cost of financing results in a decrease in profitability. In the same manner, leverage (LEV) had a considerable negative correlation with ROA ($r = -.376, p = .01$) suggesting that higher levels of debt increase have a negative impact on firm performance. Firm size (FSIZE) too exhibited a weak but significant negative correlation with ROA ($r = -.151, p < .05$) which suggests that bigger firms, in fact, might have lower profitability because of inefficiencies. Conversely, the relationship between firm age (FAGE) and ROA was positive and non-significant ($r = .126, p > .05$), implying that profitability is not strongly dependent on firm maturity. Moreover, environmental (EDS), social (SDS), and governance (GDS) disclosures were correlated with ROA negatively, but not statistically significant ($p > .05$), which means that ESG disclosures were not directly linearly correlated with firm performance in the studied firms.

Concerning the finance cost, the findings indicate that the variables of environmental ($r = .572, p < .01$), social ($r = .396, p < .01$) and governance disclosures ($r = .436, p < .01$) are significantly positively associated with the finance cost, indicating that higher ESG disclosure levels are likely to result in a higher financing cost among firms. Firm size too showed a strong and significant relationship with FINCOST ($r = .876, p < .01$), which reflects that greater size of the firms means that more financing is needed and hence higher costs. On the other hand, firm age exhibited a strong negative correlation with finance cost ($r = -.239, p < .01$), which means that older firms have lower financing costs, possibly because they have built a reputable position. There was a positive and significant relationship between leverage and FINCOST ($r = .450, p < .01$), indicating that the cost of financing would rise with an increase in the level of debt. Altogether, the findings indicate that even though ESG disclosures are not closely tied to profitability, they are related to high financing costs in the Nigerian financial services sector.

Table 3: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
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Cross-section random	26.478029	5	0.0001
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Source: Author's Computation (2025)

The Hausman test for the ROA model yielded a p-value of 0.0001. Since this p-value is less than 0.05, the null hypothesis (random effects is appropriate) is rejected. Therefore, the Fixed Effects model is deemed more appropriate for the analysis of ROA.

Table 4 : Fixed Effects Regression Results for Financial Performance (ROA)

Dependent Variable: ROA

Method: Panel Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-40.43642	11.21598	-3.605250	0.0005
EDS	-0.974174	2.777207	-0.350775	0.7264
SDS	-1.237917	3.597592	-0.344096	0.7314
GDS	1.623364	5.188394	0.312884	0.7549
FSIZE	-0.848200	1.949481	-0.435090	0.6643
FAGE	1.469397	0.542147	2.710328	0.0077

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.533130	Mean dependent var	3.720675
Adjusted R-squared	0.395815	S.D. dependent var	5.599955
F-statistic	3.882543	Durbin-Watson stat	1.811728
Prob(F-statistic)	0.000000		

Source: Author's Computation (2025)

The regression outcomes in Table 4 show that the general model was found to be statistically significant ($F = 3.883$, $p < .001$) and hence that the explanatory variables were related to firm performance. The model described a variation of Return on Assets of about 53.3 percent ($R^2 = .533$) though the adjusted R^2 (0.396) represents a more modest

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explanatory capacity once the complexity of the model is taken into consideration. The Durbin -Watson value (1.812) indicates that there is no significant issue with autocorrelation. Nevertheless, all of the individual variables of ESG disclosure environmental (EDS: $\beta = -0.974$, $p = .726$), social (SDS: $0.974 -1.238$, $p =.731$), and governance (GDS: $1.623 -1.238$, $p =.755$) were statistically non-significant,

Firm age (FAGE) was among the other control variables with a positive and significant correlation with ROA (= 1.469 , $p <.01$) and this was because old firms were more likely to perform well financially, possibly because of the experience and a stable operation. Conversely, the firm size (FSIZE) exhibited a negative but non-significant impact (= -0.848 , $p =.664$) implying that size did not have any meaningful impact on profitability here. The constant value was a negative, significant value (= $-.4036$, $p <.01$) indicating baseline effects in the model. On the whole, the results indicate that the model is statistically sound, but the elements of ESG disclosure did not have the significant effect on the firm performance, and the firm specific factors, especially age, had a more significant impact.

Table 5: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.166719	6	0.9785

Source: Author’s Computation (2025)

The Hausman’s test for the FINCOST model resulted in a p-value of 0.9785. As this p-value is far greater than 0.05, the null hypothesis is accepted, indicating that the Random Effects model is the more suitable choice for the analysis of FINCOST.

Table 6: Cross-section Random Effects Regression Results for Competitive Advantage (FINCOST)

Dependent Variable: FINCOST

Method: Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.46561	1.677058	-6.836740	0.0000
EDS	0.132657	0.718263	0.184691	0.8537
SDS	-1.955066	0.916005	-2.134340	0.0345
GDS	1.300630	1.176857	1.105172	0.2709
FSIZE	1.411663	0.123299	11.44912	0.0000
FAGE	-0.012021	0.018669	-0.643902	0.5206



LEV	1.612560	0.603128	2.673660	0.0083
R-squared	0.571351	Mean dependent var		2.032442
Adjusted R-squared	0.553974	S.D. dependent var		1.782540
S.E. of regression	1.190473	Sum squared resid		209.7494
F-statistic	32.87851	Durbin-Watson stat		1.645534
Prob(F-statistic)	0.000000			

Source: Author’s Computation (2025)

Table 6 shows that the results of a random effects regression revealed that the overall model was statistically significant ($F = 32.879, p < .001$) and this implies the joint effect of the explanatory variables on competitive advantage, which is represented by finance cost (FINCOST). The model attributed about 57.1 percent of the variation in FINCOST ($R^2 = .571$; adjusted $R^2 = .554$) which means that it has good explanatory strength. The value of Durbin-Watson (1.646) indicates that there are no severe autocorrelation problems. Social disclosure (SDS) was the only ESG variable that showed a negative and statistically significant relationship with finance cost ($\beta = -1.955, p < .05$) indicating that the higher the social disclosure, the lower the financing cost, which may be a result of better stakeholder trust and less perceived risk. Meanwhile, the environmental (EDS: $\beta = 0.133, p = .854$) and governance disclosures (GDS: $\beta = 1.301, p = .271$) were not statistically significant, meaning that they did not have a significant impact on financing costs.

In terms of control variables, the size of the firm (FSIZE) positively and significantly impacted finance cost ($\beta = 1.412, p < .001$) with bigger firms bearing higher financing costs, probably because they had higher capital needs. Likewise, leverage (LEV) was positively and significantly related ($\beta = 1.613, p < .01$), which implied that the higher the leverage of a company the higher the cost of financing, which is in line with financial theory. The negative influence of firm age (FAGE), however, was insignificant ($\beta = -0.012, p = .521$) implying that there was no significant impact of maturity when it comes to borrowing costs in this scenario. The negative constant was large and significant ($\beta = -11.466, p < .001$) indicating some baseline effects. On the whole, the results indicate that despite the fact that ESG disclosure does not have a direct impact on the competitive advantage, social disclosure has a substantial role of lowering the cost of financing, though such company-specific variables as size and leverage still have a strong impact.

Table 7 Multicollinearity Test (Variance Inflation Factor - VIF)

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
FINCOST	0.044694	17.88845	5.324313
EDS	4.829605	6.208160	3.069321

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SDS	6.991372	9.147818	1.981056
GDS	6.269808	22.70413	1.407977
FAGE	0.000628	6.285683	1.112345
FSIZE	0.132060	126.1948	5.718699
LEV	1.363589	5.933836	1.472575

Source: Author's Computation (2025)

Table 7 shows that all centered Variance Inflation Factor (VIF) values were lower than the traditional value of 10 with the highest value of 5.719 (firm size) and 5.324 (finance cost). This implies that there was no strong multicollinearity between the independent variables and as such, there was no strong correlation between the predictors and the regression estimates were very valid. The fact that the VIF of ESG disclosure variables environmental (EDS = 3.069), social (SDS = 1.981) and governance (GDS = 1.408) are relatively low, further supports the fact that each variable has a specific influence in the model but did not inflate standard errors. Generally, the results indicate that multicollinearity was not an issue in this research thus justifying the validity and strength of the regression findings..

Discussion of Findings

The results indicated that environmental disclosure (EDS) did not significantly affect financial performance (ROA) or competitive advantage (finance cost) of the Nigerian financial service firms. Both of them were not significant and thus had a weak economic impact even though the coefficients indicated that they had a negative correlation with the ROA and a positive correlation with the finance cost. Such a result can be associated with the comparatively low rate of environmental disclosure that is present among companies, indicating that the environmental practices are not integrated. According to the legitimacy theory, these disclosures can be very symbolic and are meant to comply with the regulations and not the actual performance in sustainability. This

observation supports the previous research like Bala and Ibrahim (2022) and Bukar et al. (2025), which indicated insignificant or negative relations between environmental disclosure and the performance of firms in Nigeria. Nevertheless, it is on the contrary of the research by such scholars as Ogboi et al. (2024) and Omokiti et al. (2024), which identified positive effects, indicating that the impact of environmental disclosure is context-dependent and depends on the depth and credibility of the implemented actions.

Contrarily, social disclosure (SDS) showed strong negative correlation with finance cost, which implied that the higher the social disclosure the lower the cost of capital of the firms and competitive advantage. This observation is consistent with the stakeholder theory which assumes that companies that effectively interact

with stakeholders are able to develop trust, perceived risk is lower and more favourable financing terms are obtained. This finding is empirically aligned with that of Owoeye (2024), who concluded that high social performance increases investor confidence and stakeholder support. It also corroborates the more general evidence that suggests that socially responsible firms have better access to finance and reputational benefits. Nonetheless, social disclosure was not a major factor in financial performance (ROA) which means that though it has an effect on the external benefits like lower financing costs, it is not associated directly with profitability. This result is consistent with research that indicates that ESG advantages might be realized in the long-term and not in the short-term.

Governance disclosure (GDS) did not have any significant impact on the cost of finance or the financial performance, although it had positive coefficients. Such an outcome implies that disclosure of governance by itself is not a significant motivator of firm outcomes in the Nigerian financial sector. One of them is that practices in governance are already more or less standard and well established as the average level of disclosure is high and thus they are less likely to confer further competitive advantage. This is in line with Bala and Ibrahim (2022) who indicated that governance disclosure has no significant effects, but contrary to Bukar et al. (2025) who revealed that governance is a substantial factor influencing firm performance. The differing results imply that the effectiveness and quality of governance practices might be given more weight by the stakeholders as opposed to the level of disclosure,

which implies that formal reporting without actual implementation might not bring any quantifiable performance gains.

5. Conclusion and Recommendations

Conclusion

This paper explored the relationship between the Environmental, Social, and Governance (ESG) disclosure and the performance and competitive advantage of firms in the financial services industry of Nigeria. The results have shown that ESG disclosure do not consistently lead to better financial performance, with environmental and governance disclosures proving to be statistically non-significant to profitability. Nevertheless, the social disclosure proved to have a strong influence on the competitive advantage by means of a decrease in finance costs, which means that the stakeholder-oriented practices are highly important in terms of the formation of the external financial positioning of firms. These findings indicate that the disclosure of ESG in Nigeria is still unequal, with governance practices quite developed, whereas environmental and social aspects are in the early stages of development.

The paper also indicates that firm-specific attributes, specifically firm age and leverage, have a significant impact on the performance outcomes, and it can be inferred that structural and financial forces are still the leading cause of success in firms in the Nigerian financial market. The inconsistent results in the dimensions of ESG support the point that the success of ESG disclosure does not only rely on the reporting but the extent, authenticity, and strategic approach of sustainability practices. Generally, the research adds to the ever-increasing literature on the topic by

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offering proof that disclosure of ESG and social disclosure in particular can help in improving

competitive positioning, even though its financial performance effect is indirect or long-term.

Recommendations

Depending on the results, the following recommendations will be suggested:

1. Financial service companies must shift away from symbolic environmental reporting and consider more substantial and quantifiable environmental policies to increase credibility and long-term performance.
2. Social disclosure should be the first priority of firms especially in those sectors like employee welfare, customer engagement and community development which has been found to lower financing costs and enhance stakeholder trust.
3. The Central Bank of Nigeria (CBN) and regulatory agencies like the Nigerian Exchange Group (NGX) ought to impose uniform ESG reporting systems to enhance transparency, comparability, and reliability of reporting.
4. Instead of viewing ESG considerations as compliance issues, organizations need to implement them as part of overall business strategies, so that sustainability initiatives can add value to performance.
5. To curb the chances of greenwashing and encourage investor trust, companies ought to embrace third-party validation of ESG disclosures.
6. Use of incentives in government and regulatory bodies like tax relief or lighter compliance load on firms to implement and enhance ESG practices.

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