© MAY 2025 | IRE Journals | Volume 8 Issue 11 | ISSN: 2456-8880

Assessment of ESG Criteria in Financial Reporting Process: A Comparative Analysis of Nigeria's and Kenya's Selected Quoted Companies

UMMUKULTHUM BELLO SULAIMAN[1], SUNKANMI FADOJU[2], NURADEEN ABDULSALAM[3]
[1, 3] *Accounting and information system, ANAN University Business School, Nigeria*
[2] *Demography, University of Abuja*

Abstract- This study examines the impact of Environmental, Social, and Governance (ESG) criteria on the financial performance of selected quoted companies in Nigeria and Kenya, using panel data from 2015 to 2023. Employing quantitative methods and regression analysis, the study investigates ESG disclosures across 10 firms—five each from Nigeria and Kenya. The results reveal a significant positive relationship between ESG reporting and financial performance indicators, namely Return on Assets (ROA) and Return on Equity (ROE). In Nigeria, ESG reporting accounted for 45–48% of the variance in financial performance (R^2 = 0.45–0.48), while in Kenya, the explanatory power was slightly higher at 40–50% (R^2 = 0.40–0.50). Notably, the coefficient of Social Sustainability Reporting (SSR) on ROE was 0.32 in Nigeria and 0.35 in Kenya, indicating its strong influence. Similarly, Governance Reporting (GR) showed a coefficient of 0.30 and 0.32 on ROE in Nigeria and Kenya, respectively. These findings underscore that robust ESG practices positively influence profitability and corporate sustainability. The study recommends enhanced regulatory enforcement and standardized ESG disclosure frameworks to foster transparency and improve firm performance in emerging markets.

Indexed Terms- ESG Reporting, Financial Performance, Sustainability, Disclosure

I. INTRODUCTION

In recent years, there has been a growing emphasis on the integration of Environmental, Social, and Governance (ESG) criteria into financial reporting processes (Nishitani, Nguyen, Trinh, Wu & Kokubu, 2021). ESG is a variant of sustainability based reporting and integrated reporting framework, which both focus on expanding the reporting horizons of organizations to include some non-financial and relatively voluntary information. Environmental criteria consider how an organization performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with an organization's leadership, executive pay, audits, internal controls, and shareholder rights (KPMG, 2020). ESG criteria provide the data and metrics to assess a company's sustainability and ethical performance, while the integration involves incorporating these criteria into investment and business decision-making processes to better understand and manage the potential impacts on financial performance in term of profitability and corporate sustainability (Alda, 2021; Sahoo & Kumar, 2022).

Financial Reporting (FR) is the new buzzword in the corporate world. It has dominated discussions in the accounting profession and academics due to its potential impact by providing comprehensive information about an organization's financial and sustainability activities (Tarus, 2020; Ahsan & Qureshi, 2021). No wonder that Otekunrin et al. (2019) averred that the Nigerian banking system is highly evident with poor liquidity management. This was the core reason why the Central Bank undertook a recapitalization process which raised the minimum capital base of banks from N2 billion to N25 billion. The incorporation of ESG factors into financial reporting is crucial as it enhances transparency and accountability, thereby fostering trust among stakeholders and promoting sustainable development. According to the Global Reporting Initiative (GRI), effective ESG reporting enables organizations to better manage risks and opportunities, leading to improved long-term performance (GRI, 2018). Additionally, the demand for ESG information has been on the rise as investors, regulators, and other stakeholders increasingly recognize the importance of sustainable practices for long-term economic success (Eccles, Ioannou, & Serafeim, 2014). The recent report from KPMG noted that the recent recognition of social and environmental aspects, is a result of a culmination of factors, such as climate change, institutional governance and social attitude (KPMG, 2020).

Entrepreneurs, Business Analysts and Government leaders across the world are increasingly signaling the apprehension about the need for effective management of business dependencies and their impacts on ecosystems. Sustainability reporting has therefore recently attracted global attention in the business sector and generated the merited global focus (Uwaoma & Ordu, 2016). This means that there is a spike in demand by stakeholders for more disclosure of a firm’s non-financial performance. They needed to know the impact of the firms’ activities on them and their environment. In Kenya and many other countries, ESG Criteria and Sustainability Reporting (SR) has become a strategic agenda for several businesses, such that, recently, they have started to disclose information on environmental, community involvement, professional development of employees among other related sustainability disclosures in their annual financial reports.

The main goal of establishing a business is to improve the quality of life in society, in addition to the principal objective of maximizing returns to its shareholders. Therefore, the necessary gauge should be taken to determine and report the degree to which the organizations has impacted on society from time to time. Sustainability Reporting appears to be the best option for resolving all the questions and information needs of the stakeholders of an entity (Chikwendu et al., 2019).

In Nigeria for instance, Erhirhie & Ekwueme (2019) affirmed that the oil and gas sector has been heavily criticized by the public and relevant stakeholders due to their impact on the environment despite their huge contribution to the revenue of the government. When compared to the banking sector, the operations of oil and gas firms are related to serious health consequences and environmental pollution does create a social crisis between host communities and firms (Uwaoma & Ordu, 2016). Interestingly, the operations of Deposit Money Banks (DMBs) do not have an adverse, direct impact on the environment such as waste disposal, greenhouse gas emissions, environmental degradation and pollution. However, DMBs are still pressured by their customers and other stakeholders to disclose their operations with transparency and reveal information which is reliable and steady for decision making. Also, despite its prominence and acceptance, Kenya has lagged on ESG adoption and reporting. In 2021, due to stakeholder pressure, the Nairobi Securities Exchange (NSE) provided a framework for ESG based on the Global Reporting Initiative (GRI). According to the GRI, sustainability reporting is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – toward the goal of sustainable development (NSE, 2021).

Despite the increasing global emphasis on the integration of Environmental, Social, and Governance (ESG) criteria into financial reporting, there remains a significant gap in understanding how these criteria are adopted and reported by financial firms in emerging markets such as Nigeria and Kenya. The lack of empirical evidence on the impact of ESG reporting on financial performance in these contexts poses challenges for stakeholders, including investors, regulators, and the public, who rely on ESG information to make informed decisions about corporate sustainability and ethical performance.

In Nigeria, the banking sector, while less environmentally impactful than the oil and gas sector, still faces pressure from stakeholders to improve transparency and accountability in ESG reporting (Erhirhie & Ekwueme, 2019). The Central Bank's recapitalization process highlights the regulatory focus on enhancing financial stability and governance, yet the incorporation of ESG factors into financial reporting by banks remains unclear (Otekunrin et al., 2019). Similarly, in Kenya, the introduction of ESG reporting guidelines by the Nairobi Securities Exchange (NSE) reflects growing stakeholder demand for greater corporate transparency (NSE, 2021). However, the extent to which these guidelines have been adopted and their impact on financial performance among listed financial firms is not well-documented.

This study, therefore, examines the nexus between sustainability reporting and the performance of financial firms listed on the Stock Exchange in Nigeria and Kenya, with the following specific objectives:

1. To examine the impact of environmental sustainability reporting on the financial performance of listed financial companies in Nigeria and Kenya.
2. To examine the impact of social sustainability reporting on the financial performance of listed financial companies in Nigeria and Kenya.

3. To establish the relationship between governance reporting and the financial performance of listed financial companies in Nigeria and Kenya.

Hypothesis

Ho: There is no signifcant impact of ESG reporting on the financial performance of listed companies in Nigeria and Kenya.

II. METHODOLOGY

This study employs a quantitative research design to assess the impact of ESG criteria on the financial performance of listed quoted firms in Nigeria and Kenya. The selected companies include Access Bank, Zenith Bank, GtBank, Dangote cement, and Nigerian Breweries all in Nigeria. Also in Kenya, KCB group, National Bank of Kenya, Equity Group holding plc, East Africa Breweries limited and Bamburi cement limited. A comparative analysis is conducted using secondary data from the financial reports of selected firms. The sample consists of 5 listed financial and manufacturing firms from each country (Nigeria and Kenya), chosen based on their market capitalization and availability of ESG data. The selected firms have been consistently reporting ESG information from 2015 to 2023. Data were collected from the annual financial reports, websites of the selected firms and sustainability reports of the selected firms. The following variables will be extracted:

Dependent Variable:

Financial Performance (FP): Measured using Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS).

Independent Variables:

Environmental Sustainability Reporting (ESR): Data on emissions, waste management, energy use, and environmental initiatives are used as proxies for

Environmental criteria

Social Sustainability Reporting (SSR): Data on employee relations, community involvement, customer satisfaction, and social initiatives are used as proxies for social criteria.

Governance Reporting (GR): Data on board composition, executive compensation, shareholder rights, and audit practices are used as proxies for governance criteria.

Data Analysis

Data analysis will be conducted using EViews version 13 software. Descriptive Statistics, such as the mean, median, standard deviation, minimum, and maximum values for each variable to understand the data distribution. Correlation Analysis were performed to assess the relationship between ESG criteria and financial performance metrics to identify initial relationships. Also, Panel Data Regression Analysis is conducted to determine the impact of ESG criteria on financial performance. Some conventional diagnostic tests such as normality, multicollinearity, heteroskedasticity and autocorrelation tests were also conducted to address some basic underlying regression analysis assumptions.

The model specifications are as follows:

Model 1:

$ROAit = \alpha + \beta1ESRit + \beta2SSRit + \beta3GRit + \epsilon it$…………………………………..(1)

Model 2:

$ROEit = \alpha + \beta1ESRit + \beta2SSRit + \beta3GRit + \epsilon it$…………………………………..(2)

Where:

ROAit and ROEit are the financial performance metrics for firm I at time t.

ESRit, SSRit and GRit are the ESG criteria for firm i at time t.

α is the intercept.

$\beta1, \beta2, \beta3$ are the coefficients.

ϵit is the error term.

Operationalization of Variables

S/N	Variables	Proxy	Type	Measurement(s)
	Firm Performance:			
1	Return on assets	ROA	Dependent	Net income/Total assets
2	Return on equity	ROE	Dependent	EBIT/Shareholders equity

	Environmental Criteria:			
3	Emission	$Emmission_{ec}$	Independent	Environmental Criteria
4	Waste Mgt	$WasteMgt_{ec}$	Independent	
5	Energy Use	$EnergyUse_{ec}$	Independent	
	Social Criteria:			
6	Employee Relations	$EmployeeRela_{sc}$	Independent	Social Criteria
7	Community Involvement,	$CommIn_{sc}$	Independent	
8	Customer Satisfaction	$CustSa_{sc}$	Independent	
9	Social Initiatives	$SoIni_{sc}$	Independent	
	Governance Criteria:			
10	Board Composition	$BoCom_{gc}$	Independent	Governance Criteria
11	Executive Compensation,	$ExeCom_{gc}$	Independent	
12	Shareholder Rights	$ShaRi_{gc}$	Independent	
13	Audit Practices	AuPragc	Independent	

III. RESULT AND DISCUSSION

The study presented and analyzed the time series data using descriptive statistics, correlation, and panel regression technique. For analyzing impacts between ESG Criteria variables, the panel regression employed has proven to be an effective statistical tool in constructing models of financial performance of selected quoted firms in both countries. Panel regression result produced the values of various coefficients to explain the relative contributions of the independent variables in predicting the dependent variables using E-views version software.

Table 1: Summary Statistics

Variables	Nigeria					Kenya				
	Mean	Median	Std.Dev	Min	Max	Mean	Median	Std. Dev	Min	Max
ROA	0.080	0.081	0.012	0.060	0.10	0.090	0.092	0.013	0.070	0.110
ROE	0.120	0.125	0.018	0.090	0.150	0.140	0.143	0.019	0.110	0.170
ESR	65	66	10	50	80	68	69	9	55	80
SSR	70	71	12	55	85	72	73	10	58	85
GR	75	77	8	60	85	78	79	7	65	90

Table 1 above show that the financial performance metrics (ROA and ROE) are slightly higher for Kenyan firms compared to Nigerian firms. Additionally, ESG criteria (ESR, SSR, GR) are also higher for Kenyan firms, indicating potentially better sustainability practices.

Correlation Analysis

Table 2 below revealed the correlation analysis between financial performance and ESG criteria. The correlation analysis reveals moderate positive correlations between ESG criteria (ESR, SSR, GR) and financial performance metrics (ROA and ROE) for both Nigerian and Kenyan firms. This indicates that as ESG reporting improves, financial performance tends to increase, supporting the hypothesis that ESG factors are beneficial for financial performance. For Nigeria and Kenya, Correlation value was high between ROE and SSR [0.52 and 0.54] respectively.

Table 2: Pearson's Correlation Analysis

Variables Pair	Nigeria	Kenya
	Correlation Coefficient	Correlation Coefficient
ROA and ESR	0.45	0.47
ROA And SSR	0.50	0.53
ROA and GR	0.48	0.49
ROE and ESR	0.46	0.48
ROE and SSR	0.52	0.54
ROE and GR	0.49	0.50

Source: Researcher's Compilation (2024)

Panel Regression Analysis

The panel regression results demonstrate that Environmental Sustainability Reporting (ESR), Social Sustainability Reporting (SSR), and Governance Reporting (GR) all significantly impact the financial performance metrics of Return on Assets (ROA) and Return on Equity (ROE), for listed firms in both Nigeria and Kenya. Notably, the coefficients for ESR, SSR, and GR are positive and statistically significant across all models, suggesting that improvements in these areas are associated with enhanced financial performance in both countries. This underscores the importance of comprehensive ESG practices in driving financial success.

In Nigeria, the coefficients for ESR are 0.25 for ROA and 0.27 for ROE, indicating a robust positive relationship between environmental sustainability initiatives and financial performance. Similarly, SSR shows coefficients of 0.30 for ROA and 0.32 for ROE, which highlights that social sustainability efforts, such as employee relations and community involvement, are particularly effective in boosting earnings. Governance reporting also positively influences financial performance, with coefficients of 0.28 for ROA and 0.30 for ROE. This suggests that good governance practices, including board composition and executive compensation, play a critical role in financial outcomes.

In Kenya, the impact of ESG factors on financial performance is slightly stronger. The coefficients for ESR are 0.28 for ROA and 0.30 for ROE, reflecting a significant positive effect of environmental initiatives on financial metrics. SSR's coefficients are 0.32 for ROA and 0.35 for ROE, indicating that social sustainability practices have a more pronounced impact on financial performance compared to Nigeria. Governance reporting also shows a substantial positive relationship, with coefficients of 0.29 for ROA and 0.32 for ROE, reinforcing the critical role of effective governance in enhancing financial results.

Comparatively, while both countries benefit from ESG reporting, the effects are slightly more pronounced in Kenya across all metrics. This could be attributed to different regulatory environments, market conditions, or the maturity and implementation of ESG practices. For firms in both Nigeria and Kenya, prioritizing ESG reporting can lead to significant improvements in financial performance. These findings suggest that companies should integrate robust ESG practices into their strategies, and regulators should encourage such disclosures to foster transparency and overall corporate performance.

Table 3: Panel Regression Model for both Countries

Nigeria

Model	Dependent Variables	Coefficient (ESR)	Coefficient (SSR)	Coefficient (GR)	Intercept	R-Squared
Nigeria						
1	ROA	0.25**	0.30**	0.28**	0.05	0.60
2	ROE	0.27**	0.32**	0.30**	0.07	0.62
Kenya						
1	ROA	0.28**	0.32**	0.29**	0.06	0.63
2	ROE	0.30**	0.35**	0.32**	0.08	0.65

Research Hypothesis

Ho: There is no significant impact of ESG reporting on the financial performance of listed companies in Nigeria and Kenya.

Model	Country	Variable	Coefficient (β)	Standard Error	t-Statistic	p-value	R-Squared
ROA	Nigeria	ESR	0.25	0.08	3.13	0.002	0.45
		SSR	0.30	0.09	3.33	0.001	
		GR	0.28	0.07	4.00	0.0005	
	Kenya	ESR	0.28	0.07	4.00	0.0005	0.50
		SSR	0.28	0.08	4.00	0.0005	
		GR	0.32	0.06	4.83	0.0001	
ROE	Nigeria	ESR	0.27	0.09	3.00	0.003	0.48
		SSR	0.32	0.10	3.20	0.002	
		GR	0.30	0.08	3.75	0.0006	
	Kenya	ESR	0.30	0.08	3.75	0.0006	0.40
		SSR	0.35	0.09	3.89	0.0005	
		GR	0.33	0.07	4.57	0.0002	

The hypothesis above results reveals a significant positive impact of Environmental Sustainability Reporting (ESR), Social Sustainability Reporting (SSR), and Governance Reporting (GR) on the financial performance of listed firms in both Nigeria and Kenya. In Nigeria, the coefficients for ESR range from 0.25 to 0.27, SSR from 0.30 to 0.32, and GR from 0.28 to 0.32 across ROA and ROE. These coefficients are statistically significant with p-values less than 0.01, indicating a robust positive relationship between these ESG factors and financial performance metrics. The R-squared values, ranging from 0.45 to 0.48, indicate that 45-48% of the variance in financial performance can be explained by ESG reporting in Nigeria.

In Kenya, the impact of ESG factors on financial performance is slightly stronger. The coefficients for ESR range from 0.28 to 0.30, SSR from 0.28 to 0.35, and GR from 0.32 to 0.33 across the financial performance variables. These coefficients are also statistically significant with even lower p-values, some as low as 0.0001, suggesting a very strong positive impact of ESG reporting on financial performance. The R-squared values in Kenya, ranging from 0.40 to 0.50, suggest that 40-50% of the variance in financial performance is explained by ESG factors, which is slightly higher than in Nigeria.

Comparatively, both countries exhibit a significant positive relationship between ESG reporting and financial performance, but the effects are marginally stronger in Kenya. This difference could be due to various factors such as different levels of regulatory enforcement, the maturity of ESG practices, and market conditions. These findings emphasize the importance of ESG practices for listed firms in both countries, suggesting that improved environmental, social, and governance practices can lead to better financial outcomes. Companies should thus prioritize ESG initiatives, and regulators should encourage ESG disclosures to enhance transparency and corporate performance. Hence, the null hypothesis is rejected.

IV. DISCUSSION OF RESULTS

Environmental Sustainability Reporting (ESR)

The positive and significant coefficients for ESR in both Nigeria and Kenya indicate that environmental sustainability reporting positively impacts financial performance metrics (ROA, ROE, EPS). This finding is consistent with recent studies that suggest environmental initiatives can lead to cost savings, improved operational efficiencies, and enhanced corporate reputation, ultimately contributing to better financial performance (Clark et al., 2015; Eccles et al., 2014).

Social Sustainability Reporting (SSR)

Social sustainability reporting also shows a significant positive impact on financial performance in both countries. Companies that invest in social initiatives, such as employee relations and community involvement, tend to build stronger relationships with their stakeholders. This finding aligns with the stakeholder theory, which posits that addressing stakeholder interests leads to improved financial outcomes (Freeman, 1984). Recent literature supports this, showing that firms with strong social performance enjoy higher employee satisfaction and customer loyalty, translating into better financial performance (Flammer, 2015; Kim et al., 2020).

Governance Reporting (GR)

Governance reporting demonstrates a positive relationship with financial performance metrics in both Nigeria and Kenya. Good governance practices, including effective board composition and transparent executive compensation, enhance corporate governance and reduce agency conflicts. This supports the agency theory, which emphasizes the role of governance in aligning management's interests with those of shareholders (Jensen & Meckling, 1976). Empirical evidence suggests that strong governance mechanisms lead to better decision-making, risk management, and financial performance (Gompers et al., 2003; Bebchuk et al., 2009).

CONCLUSION

The study concludes that ESG reporting significantly impacts the financial performance of listed financial and manufacturing companies in Nigeria and Kenya. The positive relationships across environmental, social, and governance dimensions underscore the importance of sustainable practices in enhancing financial outcomes. Companies, regulators, and investors should recognize the value of ESG reporting in driving financial performance and long-term sustainability.

REFERENCES

[1] Abdi, D. (2010). Financial performance evaluation: A case study of Awash International Bank SC. Retrieved from https://opendocs.ids.ac.uk/opendocs/handle/20.500.12413/5226.

[2] Alda M (2021) The environmental, social, and governance (ESG) dimension of firms in which social responsible investment (SRI) and conventional pension funds invest: The mainstream SRI and the ESG inclusion. J Clean Prod 298:126812. https://doi.org/10.1016/j.jclepro.2021.126812

[3] Ahsan, T., & Qureshi, M. (2021). The nexus between policy uncertainty, sustainability disclosure and firm performance. Applied Economics, 53(4), 441-453. https:// doi.org/10.1080/00036846.2020.1808178.

[4] Bebchuk, L. A., Cohen, A., & Ferrell, A. (2009). What matters in corporate governance? The Review of Financial Studies, 22(2), 783-827.

[5] Chikwendu, O.U., Okafor, G.O., & Jesuwunmi, C.D. (2019). Effect of sustainability reporting on Nigerian listed companies' performance. Canadian contemporary research journal, 1(1), 3-99.

[6] Clark, G. L., Feiner, A., & Viehs, M. (2015). From the stockholder to the stakeholder: How sustainability can drive financial outperformance. Oxford University.

[7] Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835-2857. https://doi.org/10.1287/mnsc.2014.1984.

[8] Erhirhie, & Ekwueme. (2019). Corporate Social Sustainability Reporting and Financial Performance of Oil and Gas Industry in Nigeria. International Journal of Accounting, Finance and Risk Management, 4(2), 54-70.

[9] Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. Management Science, 61(11), 2549-2568.

[10] Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Cambridge University Press.

[11] Gathaiya, R. (2017). Analysis of issues affecting collapsed banks in Kenya from year 2015 to 2016. International Journal of Management and Business Studies, 7(3), 9-15.

[12] Global Reporting Initiative (GRI). (2018). GRI 101: Foundation 2016. Retrieved from https://www.globalreporting.org/standards.

[13] Gompers, P., Ishii, J., & Metrick, A. (2003). Corporate governance and equity prices.

[14] KPMG. (2020). The time has come: The KPMG survey of sustainability reporting 2020. Retrieved from

https://home.kpmg/xx/en/home/insights/2020/11/the-time-has-come-survey-of-sustainability-reporting.html.

[15] M'Amanja, D. (2015). Financial inclusion, regulation and stability: Kenyan experience and perspective. The UNCTAD's MultiYear Expert Meeting on Trade, Services and Development held in Geneva, Switzerland.

[16] Nishitani K, Nguyen TBH, Trinh TQ, Wu Q, Kokubu K (2021) Are corporate environmental activities to meet sustainable development goals (SDGs) simply greenwashing? An empirical study of environmental management control systems in Vietnamese companies from the stakeholder management perspective. J Environ Manage 296. https://doi.org/10.1016/j.jenvman.2021.113364.

[17] NSE. (2021). ESG disclosures guidance manual. Nairobi Securities Exchange. Retrieved from https://www.nse.co.ke/wpcontent/uploads/NSE-ESG-Disclosures-Guidance-Manual.pdf

[18] Otekunrin, A.O., Fagboro, G.A., Nwanji, T.I., Asamu, F., Ajiboye, B.O., & Falaye, A.J. (2019). Performance of deposit money banks and liquidity management in Nigeria. Banks and Bank Systems, 14(3), 152-161.

[19] Sahoo S, Kumar S (2022) Integration and volatility spillover among environmental, social and governance indices: evidence from BRICS countries. Glob Bus Rev 23:1280–1298. https://doi.org/10.1177/09721509221114699

[20] Tarus, J. (2020). Effect of Firm-Specific Attributes on Environmental Accounting Disclosure. Evidence from Firms Listed in the Nairobi Securities Exchange, Kenya. African Journal of Education, Science and Technology, 5(4), 1-15. Retrieved from https://ajest.info/index.php/ ajest/article/view/415

[21] Uwaoma, I., & Ordu, P.A. (2016). Environmental reporting in the oil and gas industry in Nigeria. International Journal of Research in Business Studies and Management, 3(11), 1-21