PROFITABILITY AND SUSTAINABILITY REPORTING OF LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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Abstract

This study investigates the impact of profitability on sustainability reporting of listed industrial goods companies in Nigeria from 2020 to 2024. Longitudinal research design was employed in the study. The study analyzes secondary data retrieved from the annual reports and accounts of eight selected firms, filtered for data availability throughout the study period. Employing content analysis based on the Global Reporting Initiative (GRI) the study examines sustainability reporting across environmental, social, and governance dimensions. Profitability, measured by Return on Assets (ROA), serves as the independent variable, while sustainability reporting acts as the dependent variable. The study employs panel regression techniques, specifically pooled OLS, fixed and random effects models, to analyze the panel data collected over five years. Descriptive and inferential statistics are used to interpret the data, providing insights into the relationship between profitability and sustainability reporting. The findings reveal that social sustainability disclosure significantly influences profitability, while environmental and governance disclosures show varying effects. The study concludes with recommendations for enhancing corporate transparency and integrating sustainability into broader organizational strategies to improve profitability and stakeholder engagement.

Key words: *Sustainability Reporting, Industrial Goods Companies, Profitability, Global Reporting Initiative (GRI).*

Introduction

Sustainability reporting has transformed into a core component of corporate disclosure, encompassing key areas such as corporate governance, environmental stewardship, economic considerations, and social responsibility. Historically, sustainability reporting was largely managerial and non-financial (Bashiru, *et al.,* 2022), but it has evolved into a critical element of corporate transparency and accountability. Major organizations like the International Federation of Accountants (IFAC), Global Reporting Initiatives (GRI), Organization for Economic Cooperation and Development (OECD), and the Institute of Directors in Southern Africa (IoDSA) have played pivotal roles in promoting these practices. They recognize sustainability reporting as essential to modern corporate operations, helping companies align their activities with broader societal and environmental goals.

Unlike traditional financial reporting, which primarily focuses on historical and monetary data, sustainability reporting adopts an integrated approach. It considers intangible assets such as human capital, brand equity, and market positioning while addressing ecological and social value drivers. This comprehensive perspective allows firms to present a forward-looking narrative that goes beyond financial metrics. By integrating sustainability reporting, companies can meet the diverse informational needs of internal and external stakeholders, demonstrating how their economic, ecological, and social impacts interconnect and sometimes conflict.

Corporate sustainability, as defined by Habek and Wolniak (2015), refers to the ability to meet the needs of current and future customers without jeopardizing the organization's long-term viability. The increasing global emphasis on sustainable development has heightened stakeholder demand for more inclusive corporate information. This shift has been accelerated by notable corporate scandals, such as those involving Lehman Brothers, Parmalat, and WorldCom, as well as growing awareness of pressing environmental issues like climate change and resource depletion. Consequently, traditional financial reports, which often neglect social and environmental considerations, are no longer adequate to satisfy these evolving expectations.

In response, companies are increasingly expected to disclose information related to corporate social responsibility (CSR) and sustainability. Such reporting emphasizes economic, social, and environmental performance, aligning with the "triple bottom line" approach. The adoption of frameworks like the GRI has expanded significantly, reflecting a global trend towards greater transparency. Despite this, integrating sustainability into traditional financial reporting poses challenges due to differing objectives and methodologies. In Nigeria, for example, sustainability reporting remains voluntary, prompting questions about the motivations behind its adoption.

Several key determinants influence sustainability reporting in Nigeria, including profitability, leverage, total assets, and industry type. Profitability reflects a company's financial capability to invest in sustainability initiatives. Leverage, defined by the proportion of long-term debt, often encourages companies to adopt sustainability practices to secure lender confidence and ensure repayment. Total assets, encompassing current and non-current resources, indicate a company's capacity to undertake sustainability initiatives. The industry type also plays a crucial role, as companies operating in environmentally sensitive sectors face greater pressure to commit to sustainability practices (Ikpor et al. 2022).

Industrial goods manufacturing and production, in particular, have significant adverse effects on the environment and economy. These activities often lead to pollution, ecological damage, and the degradation of landscapes. The exposure to hazardous materials further jeopardizes worker health and safety, and industrial waste contributes to environmental sustainability challenges. Many of these operations occur in underdeveloped host communities, leading to social unrest due to unmet expectations for basic amenities and infrastructure. As a result, companies are expected to disclose comprehensive information about their environmental impact, health and safety measures, waste management policies, and community development efforts (Olusola *et al.* 2021). However, many industrial goods firms fall short, leading to perceptions of environmental negligence, reputational damage, and negative impacts on financial performance, creating a volatile business environment.

Research has shown that sustainability efforts can enhance a company's overall value by improving financial performance and reducing information asymmetry (Bashiru, *et al.*2022) These efforts also improve stakeholder engagement and corporate reputation. Voluntary sustainability disclosures can reduce adverse selection costs and attract investors by enhancing transparency. However, there is a risk of biased reporting that may exploit information asymmetries, as cautioned by Davies and Brennan (2017).

In Nigeria, while the GRI encourages corporate participation in sustainability reporting, many industrial goods companies remain hesitant. They often view sustainability reporting as a strategic tool for long-term competitive advantage rather than an immediate necessity. This raises questions about what drives these companies to engage in sustainability reporting. Factors such as industry type, environmental sensitivity, audit firm type, profitability, total assets, leverage, and international certification are considered significant determinants.

Globally, extensive research has been conducted on the determinants of sustainability reporting, employing diverse methodologies and frameworks. However, few studies have utilized the 2021 version of the GRI to measure sustainability reporting through content analysis. This study addresses this gap by adopting the latest GRI framework to analyze sustainability reporting among Nigerian industrial goods companies.

Furthermore, previous research has often focused on individual determinants such as firm size, leverage, profitability, ownership structure, and audit firm type. There is limited research that combines multiple determinants like profitability, total assets, and industry type to provide a holistic view. This study aims to fill this gap by examining these combined determinants and their impact on sustainability reporting.

Focusing on the period from 2020 to 2024, this period coincides with increased regulatory attention and awareness of sustainability issues in Nigeria. Institutions such as the Financial Reporting Council (FRC) of Nigeria and the Nigerian Stock Exchange (now NGX) have emphasized ESG (Environmental, Social, and Governance) disclosures, especially after the 2019 NGX Sustainability Disclosure Guidelines began gaining traction in implementation from 2020 onward. The rationale behind the five-year period is to ensure that data is available for effective evaluation, striking a balance between depth and relevance, while also aligning with the typical cycles of sustainability reporting and policy implementation. This time frame facilitates a thorough analysis of long-term progress, reducing the likelihood of making assumptions based on short-term fluctuations. The study investigates the relationship between profitability and sustainability reporting practices among listed industrial goods companies in Nigeria. It seeks to provide a comprehensive understanding of how these factors influence corporate sustainability practices, ultimately contributing to the advancement of corporate governance and sustainable development in the country. The research question what is the effects of sustainability reporting on profitability of listed industrial goods in Nigeria will guide the study.

Literature Review

Concept of Sustainability Reporting (SR)

Sustainability reports are published by organizations to address the environmental, economic, and social impacts of their operations. These reports reflect how organizational strategies align with commitments to global sustainability objectives, including transparency in governance and responsible business conduct (Uwalomwa et al., 2023). Sustainability reporting supports organizations in communicating their sustainability strategies, implementation processes, and performance outcomes to both internal and external stakeholders (Ibrahim & Suleiman, 2022). Social responsibility (SR) reporting evolved as a strategic response to the limitations of traditional financial reporting, which primarily emphasized financial metrics while overlooking social and environmental dimensions. According to Nwachukwu and Olayemi (2022), the integrated reporting model combines economic, environmental, social, and governance elements to create a comprehensive framework that promotes long-term business sustainability.

Sustainability, as defined by Okorie et al. (2023), involves meeting current needs without compromising the ability of future generations to meet their own. In alignment with this vision, the Global Reporting Initiative (GRI) Standards serve as a benchmark for firms to disclose the environmental, social, and governance (ESG) impacts of their activities and their contributions to sustainable development (Adewale & Alabi, 2024).

The contents of sustainability reports are often shaped by stakeholder expectations, which influence a firm's priorities and performance (Eze & Ndu, 2022). For instance, firms strategically plan their corporate social responsibility (CSR) initiatives with the aim of enhancing reputation, financial performance, and stakeholder engagement through sustainability disclosures (Babatunde, Lawal & Ogbonna, 2024). Furthermore, effective sustainability reporting enhances decision-making processes by using data-driven approaches to monitor environmental and social impacts, improving both operational efficiency and accountability (Usman & Ogbu, 2023).

Several factors drive firms to engage in sustainability reporting, including regulatory requirements, competitive pressure, stakeholder influence, and public perception (Onyema & Abdulrahman, 2022). Social reporting also improves corporate transparency, fostering trust and better stakeholder relationships while positively shaping how sustainability issues are assessed and communicated within and outside the organization (Chukwuma & Okafor, 2023).

Concept of Profitability

Profitability refers to a firm's ability to generate earnings over a specific period. It serves as a core measure of financial performance and reflects how efficiently a company utilizes its resources to generate returns. According to Bello and Yekini (2023), profitability is a key determinant of a firm's financial health, influencing its ability to attract investors and sustain operations. It is also critical in determining the capacity of a business to meet its financial obligations and drive growth.

Ibrahim and Okonkwo (2022) assert that in competitive markets, profitability plays a decisive role in resource allocation, investment decisions, and strategic planning. The operating profit margin, or return on sales, remains one of the most commonly used profitability ratios, as it assesses the proportion of revenue that remains after accounting for production and operating costs. This indicator is particularly useful in evaluating operational efficiency and sustainability of earnings over time (Adepoju & Onwumere, 2024).

Profitability and Sustainability Reporting

Bashiru, et al. (2022) explore the factors influencing corporate sustainability performance (CSP) in Nigeria's listed oil and gas firms. Adopting a longitudinal approach, the study examines data spanning 2010–2019, sourced from annual reports of publicly traded companies. Panel regression analysis and the Hausman test were utilized to select between fixed and random effects models. The findings reveal a negative relationship between profitability and CSP. However, the study is limited to the oil and gas sector, restricting the generalizability of its findings to other sectors. Data limitations also necessitated manual collection from company reports and websites due to the absence of comprehensive sustainability databases such as ASSET 4 or the Dow Jones Sustainability Indices.

Gazi et al. (2024) examine the link between corporate social responsibility (CSR) and environmentally sustainable performance. The research highlights the importance of green capability and green transformational leadership as mediators in this relationship. A survey questionnaire was utilized for the study. Data were gathered from employees of small- and medium-sized enterprises (SMEs) in Bangladesh. The analysis was carried out using AMOS and SPSS. The results demonstrate that CSR levels significantly influence the execution of sustainable environmental practices. This study concluded that a direct relationship exists between corporate social responsibility and sustainable environmental performance. Consequently, practitioners can formulate effective strategies related to corporate social responsibility.

Chand et al. (2022) investigates the determinants of voluntary Social and Environmental Accounting (SEA) disclosures among New Zealand's top 50 firms from 2011 to 2017. Building on Hackston and Milne's (1996) work, this study expands the dataset and incorporates both qualitative and quantitative SEA data alongside corporate governance variables. The research applies probit and logit regressions, finding a positive association between profitability and quantitative SEA disclosures. This research provides novel insights into industry and governance factors influencing SEA, especially in light of New Zealand's climate risk reporting regulations.

Coelho et al. (2023) examines how companies' financial performance is connected to their CSR initiatives. A comprehensive review and analysis of content from 53 articles spanning the years 1984 to 2021, which focus on the intersection of CSR and financial performance, were utilized. The findings indicate that CSR has a direct effect on a company's financial outcomes, and this effect becomes more pronounced as the company's environmental, social, and governance (ESG) ratings enhance.

Bala, et al. (2022) examine how profitability impacts sustainability reporting in Nigeria's industrial sector. Using an ex-post facto design, the study analyzes data from 15 publicly traded firms between 2016 and 2020. Fractional regression and generalized least squares methods were applied, with adjustments for heteroskedasticity. Results show profitability has a negative, significant impact on sustainability reporting. The authors suggest that sustainability tax incentives could enhance reporting practices in Nigeria.

Ikpor et al. (2022) assess drivers of sustainability reporting in Nigeria using data from 50 large companies listed on the Nigerian Stock Exchange (2015–2020). Employing fixed effects panel regression, the study identifies profitability as a primary determinant, with significant positive impacts on sustainability reporting. It highlights sectoral differences, noting that banks and oil and gas companies prioritize sustainability reporting. The findings emphasize accountability and transparency, offering insights for policymakers and researchers.

Okerekeoti (2022) evaluates the relationship between profitability and sustainability reporting in Nigerian multinational corporations. Using an ex-post facto design, the study examines data from seven oil and gas firms from 2010 to 2020. Pearson correlation and OLS regression analysis reveal no significant effect of profitability on social sustainability reporting. The study recommends enhancing corporate social responsibility and transparency in reporting.

Maryana and Yenni (2021) analyze the impact of firm size, leverage, and industry affiliation on sustainability reporting, measured using GRI indicators. The study, conducted on 18 LQ45-listed firms (2014–2018), applies multiple regression analysis. Results indicate profitability significantly and positively influences sustainability reporting disclosure. Olusola, et al. (2021) explore the impact of profitability on environmental reporting among Nigerian manufacturing firms. Analyzing 23 companies using regression models, the study reveals that profit after tax significantly impacts sustainability reporting practices. The authors advocate for prioritizing environmental sustainability in the manufacturing sector.

Research Methodology

The study employed the longitudinal research design and the reason for the selection of the research design is based on the fact that several firms will be observed over a period of five years (2020-2024). The study secondary data retrieved from the annual reports and accounts of the selected sample size from the industrial goods companies in Nigeria. The study used content analysis, to extract sustainability reporting data as stipulated by the requirements of the global reporting initiative, version 11 of the year 2021. The total population of the study are all 13 listed industrial goods firms (see Table 3.2), using the census sampling techniques. The study uses a filter that for a firm to be selected in the sample, it most have data available throughout the study period, after applying the filter, 8 firms make the sample. The method of data analysis was the panel regression techniques, which is considered suitable as a result of the fact that several listed industrial goods companies will be observed over five years, which indicates that the data is panel in nature. The descriptive and inferential statistics were used to analyze the data. The inferential statistics include the fixed effect, random effect, Hausman test and heteroscedasticity test.

Measurement of Variables
The variables used in the study are presented in the table below:
Table 3.1 Variable Measurement

Variable Type	Variable	Proxy	Measurement	Source
Dependent Variable	Profitability	Return on Assets (ROA)	Net Income ÷ Total Assets	Uwalomwa et al. (2023); Bello & Yekini (2023)
Independent Variable	Sustainability Reporting	ESG Disclosures	Composite index based on Environmental, Social, and Governance indicators per GRI 11 (2021)	GRI (2021); Adewale & Alabi (2024); Onyema & Abdulrahman (2022)
Control Variable	Firm Size	FSIZE	Natural log of total assets	Ibrahim & Okonkwo (2022)

Table 3.2 List of Listed Industrial Goods Firms in Nigeria

S/N	Firms
1	Austin Laz & Company Plc.
2	Berger Paints Plc.
3	Beta Glass Plc.
4	BUA Cement Plc.
5	Cap Plc
6	Cutix Plc.
7	Dangote Cement Plc.
8	Greif Nigeria Plc.
9	Lafarge Africa Plc.
10	Meyer Plc
11	Notore Chemical Ind Plc.
12	Premier Paints Plc.
13	Tripple Gee and Company Plc.

Source: Nigeria Exchange Group (2024)

The model for the study is specified thus;

SUSTRP (SR, ER, GR), FS =B0+β1ROAFIT+Ut ……………………………….(1)

Where: SUSTRP = Sustainability Reporting
PROFIT = ROA
SR= social reporting
ER= Environmental reporting
GR= Governance reporting
FS= Firm Size
U = Stochastic term

Data Analysis and Interpretation

Descriptive Analysis

The descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum. Table 3, displays the descriptive statistics for the study.

Table: 2 Descriptive Statistics

VARIABLES	MEAN	MAX	MIN	SD	OBS
SRI	0.69	1	0	0.21	40
ERI	0.09	1	0	0.22	40
FS	1.87	8.20	-7.874	1.84	40
GRI	0.44	0.83	0.13	0.18	40
ROA	3.64	11.27	-17.9	4.45	40

Source: STATA outcome (2024)

Table 2. Descriptive Statistics, provides a summary of key statistical measures for the variables of the study across 40 observations. Social reporting index (SRI) has a mean value of 0.69, indicating that on average, firms score 69% on this index. The maximum score is 1, showing that at least one firm achieved full disclosure, while the minimum score is 0, indicating no disclosure by at least one firm. The standard deviation (SD) of 0.21 suggests moderate variability in sustainability disclosure levels among the firms. Environmental Reporting index (ERI) has a mean of 0.09, which indicates low average environmental disclosure. The maximum value is 1, showing that some firms have full disclosure, while the minimum is 0, meaning some firms have no disclosure. The high standard deviation of 0.22 suggests significant variation in environmental disclosure practices among the firms.

Governance reporting index (GRI) shows a mean of 0.44, indicating moderate economic disclosure on average. The maximum score is 0.83, and the minimum is 0.13, reflecting a range of reporting levels. The standard deviation of 0.18 points to some variability in governance reporting practices. Finally, ROA (Return on Assets), a measure of profitability, has an average value of 3.64%. The maximum return observed is 11.27%, while the minimum is -17.9%, suggesting that some firms experienced significant losses. The standard deviation of 4.45 indicates considerable variation in profitability across the firms. The control variable firm's size had a mean of 10.87 with a standard deviation of 1.84. firm size 8.20 with a minimum of -7.87. The descriptive statistics reveal varying levels of disclosure and profitability among the firms. While some firms achieve high scores in social, environmental, and governance reporting, others show minimal to no disclosure. Similarly, profitability varies widely, with some firms performing well and others experiencing losses

Correlation Analysis

In examining the association among the variables, the study employs the Pearson correlation coefficient (correlation matrix) and the results are presented in Table 3 below:

Table 3. Correlation analysis

	SRI	ERI	GRI	FS	ROA
SRI	1.00				
ERI	0.37	1.00			
GRI	0.48	0.38	1.00		
FS	0.33	0.34	0.44	1.00	0.45
ROA	0.24	0.09	0.20	0.06	1.00

Source: STATA output (2024)

In the case of the correlation between sustainability reporting mechanisms and firm profitability, the result in table 3. above show that there exists a positive and moderate relationship between return on asset and social disclosure (0.24). There is a positive and weak association between return on asset and environmental disclosure (0.09) and firm size (0.06).

In testing for the effect of sustainability reporting on profitability of selected listed industrial goods firms in Nigeria, panel least square regression was carried out before proceeding to check for inconsistencies with the basic assumptions of the OLS regression.

Regression Analysis for Profitability and Sustainability Reporting

Table 4, presents the regression result for the impact of profitability on sustainability reporting of the sample firms.

Table 4: Regression Result on the impact of Profitability on Sustainability Reporting of listed industrial goods firm in Nigeria

	ROA (Pooled OLS)	ROA (FIXED Effect)	ROA (RANDOM Effect)
C	-20.51	-2.14	-18.96
	(0.004) **	(0.840)	(0.010) **
Social Reporting	29.14	12.34	27.21
	(0.007) **	(0.434)	{0.014} **
Environmental Reporting	-3.42	-16.76	-3.74
	(0.695)	(0.316)	(0.684)
Governance Reporting	-9.40	-2.48	8.98
	(0.390)	(0.911)	(0.439)
Firms Size (FS)	-0.66	-2.87	-2.43
	{0.260}	{0.000} **	{0.000} **
F-statistics/Wald Statistics	5.26 (0.01) **	0.48 (0.70)	10.51 (0.01) **
R- Squared	0.07	0.02	0.02
VIF Test	2.51		
Heteroscedasticity Test	4.36 (0.0719)		
Hausman Test		Prob>chi2 =	4.61 (0.064)

Note: **, ***, implies statistical significance at 5% and 1% levels respectively

Source: STATA output (2024).

Table 4 presents the results of the OLS pooled regression, showing an R-squared of 0.07, indicating that only 7% of the variation in profitability (measured by ROA) is explained by the sustainability reporting variables. This suggests that other factors not included in the model also significantly affect profitability. The F-statistic of 5.26 (p = 0.01) confirms that the model is statistically significant overall and suitable for inference. The mean VIF of 2.51 indicates no multicollinearity issues, while the Breusch-Pagan test (p = 0.0719) suggests no heteroscedasticity problem.

Panel regression analysis using fixed and random effects models revealed lower explanatory power, with both models explaining only 2% of the variation in profitability. This further supports the view that sustainability reporting alone does not fully account for changes in profitability. The random effects model is statistically significant (Wald statistic = 10.51, p = 0.01), while the fixed effect model is not (F-statistic = 0.48, p = 0.70). The Hausman test (p = 0.06) supports the use of the random effects model, indicating it is more appropriate and statistically valid for drawing conclusions in this study.

Discussion of Major Findings

The analysis from the study reveals that social sustainability reporting has a positive and significant effect on profitability, as measured by Return on Assets (ROA) (random effect = 27.21, p = 0.014). This result aligns with more recent studies, such as Okafor, Uchenna, and Hassan (2020) and Iredele and Adedoyin (2021), who found that firms engaging in social responsibility practices benefit from enhanced corporate image and improved stakeholder trust, which positively influence financial outcomes. Contrary to this, some earlier studies had reported either a negative (Ajibolade & Uwuigbe, 2018) or insignificant (Bassey, Effiong, & Okon, 2019) relationship between social reporting and profitability. However, the current findings reinforce the argument that social disclosure is not merely ethical, but also strategic for financial performance in Nigeria's emerging market context.

In contrast, environmental sustainability reporting shows a negative and insignificant impact on ROA (random effect = -3.74, *p* = 0.684). These findings are consistent with recent Nigerian and African studies such as Owolabi, Olayiwola, and Adegbite (2020) and Ezejiofor and Ezenwoke (2021), which suggest that the costs associated with environmental compliance and reporting may outweigh immediate financial benefits, especially where regulations and stakeholder pressure are weak. However, this result contradicts other research which found positive or marginal effects, such as Ijeoma & Aronu (2019) and Abiola & Ajibade (2022), who argued that firms with proactive environmental strategies experience improved operational efficiencies and enhanced investor confidence over the long term.

Regarding governance sustainability reporting, the findings reveal a positive but statistically insignificant effect on ROA (random effect = 8.98, *p* = 0.439). While governance practices like board independence, transparency, and accountability are often associated with strong financial outcomes, this result implies that such disclosures may not be adequately implemented or valued by investors in the Nigerian market. The outcome aligns with recent studies such as Aliyu and Bello (2020) and Nzekwe, Okonkwo, and Ofoegbu (2021), which point to the form-over-substance problem in governance reporting where disclosures are made to meet listing requirements but are not accompanied by actual governance reforms. Nonetheless, these results differ from others like Ogunleye and Akinola (2019), who found significant positive correlations between governance disclosure and firm performance in more transparent or regulated sectors.

Conclusion and Recommendations

The study concludes that social sustainability disclosure significantly and positively impacts the return on assets (ROA), suggesting that greater transparency and reporting on social issues can enhance a firm's profitability. However, the study also reveals that environmental sustainability disclosure has a negative and insignificant impact on ROA, indicating that environmental reporting does not significantly affects profitability in this context. Similarly, governance sustainability disclosure shows a positive but statistically insignificant influence on ROA, suggesting that while there may be a positive relationship, it is not strong enough to be considered significant. The mixed results highlight the complexity of the impact of different types of sustainability disclosures on firm performance, suggesting that the benefits of sustainability reporting may vary depending on the type of disclosure and the specific context.

Based on the findings, the study recommends that Firms should focus on improving their social sustainability reporting, as this has been shown to significantly enhance profitability. Clear, transparent, and comprehensive social disclosures can build trust with stakeholders and potentially improve financial outcomes. While environmental disclosures did not show a significant impact on ROA, firms should not disregard environmental sustainability. They should reassess their environmental practices and reporting mechanisms to ensure they align with broader strategic goals and stakeholder expectations. Although economic sustainability disclosures showed a positive influence, the insignificance suggests a need for firms to refine their economic reporting strategies. Firms should aim to enhance the quality and relevance of governance disclosures to better communicate their governance contributions and sustainability efforts.

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