



MALETE JOURNAL OF ACCOUNTING AND FINANCE

A Publication of the Department of Accounting and Finance, Faculty of Management and Social Sciences, Kwara State University, Maletе

Vol. 6 No. 1, June, 2025

ISSN: 2735-960

CORPORATE ESG ACTIVITIES AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM LISTED NON-FINANCIAL FIRMS IN NIGERIA

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ABSTRACT

Financial reporting in Nigeria continues to face challenges such as earnings manipulation, inconsistent disclosures, and weak comparability despite ongoing regulatory reforms. At the same time, global and local stakeholders increasingly demand Environmental, Social, and Governance (ESG) disclosures as part of transparent and credible corporate reporting. This study was undertaken to evaluate how environmental sustainability practices, corporate governance mechanisms, and social responsibility initiatives influence the financial reporting quality (FRQ) of listed non-financial firms in Nigeria. An ex-post facto design was employed, using secondary data extracted from annual reports and sustainability disclosures of 84 firms selected using a multistage sampling technique from 106 non-financial companies listed on the Nigerian Exchange Group between 2018 and 2024. Data were analyzed using panel regression models with appropriate robustness tests. The findings revealed that environmental sustainability, corporate governance, and social responsibility each exert significant positive effects on FRQ, while firm size strengthens these relationships. The study concludes that ESG practices, when genuinely implemented, enhance the credibility, transparency, and comparability of financial reports. It recommends the adoption of standardized ESG disclosure frameworks, stricter enforcement of governance codes, and capacity-building support for smaller firms to improve Nigeria's financial reporting environment

Keywords: Environmental Sustainability Practice, Social Responsibility, Governance Mechanism, Financial Reporting Quality

INTRODUCTION

Globally, financial reporting remains a foundational mechanism for promoting transparency, accountability, and informed economic decision-making (Mesioye & Bakare, 2024). High-quality financial reporting enables investors, regulators, and other stakeholders to assess a firm's performance, forecast future cash flows, and make capital allocation decisions with confidence (Auliyah & Agit, 2024). However, over the last decade, the scope of what constitutes quality financial reporting has evolved. The growing recognition that non-financial information particularly related to Environmental, Social, and Governance (ESG) practices seems to impact a firm's long-term performance has led to increased demands for integrated, ESG-aligned disclosures (Gurung *et al.*, 2025). This trend is not merely theoretical; it is evidenced by real market dynamics (Agbakwuru *et al.*, 2024). The Global Sustainable Investment Alliance (GSIA) reported that sustainable investments reached \$35.3 trillion in assets under management globally in 2020, accounting for 36% of all professionally managed assets up from \$22.8 trillion in 2016 (GSIA, 2021). Investors now consider ESG performance a critical factor in evaluating corporate risk, resilience, and value, and increasingly penalize firms that fail to meet sustainability expectations.

In Nigeria, the financial reporting landscape is undergoing a transformation driven by regulatory reforms and increasing stakeholder demands for transparency and accountability. The Financial Reporting Council of Nigeria (FRCN), in conjunction with the Nigerian Exchange Group (NGX), has played a pivotal role in strengthening financial disclosure practices among listed companies, including non-financial firms. These reforms emphasize compliance with the International Financial Reporting Standards (IFRS), improved narrative reporting, and enhanced corporate governance practices. Non-financial firms, in particular, are required to provide high-quality financial reports that accurately reflect their operational performance and financial position. This includes timely, complete, and reliable disclosure of financial information to enable investors, regulators, and other stakeholders to make well-informed decisions. As regulatory expectations continue to evolve, listed non-financial firms in Nigeria are increasingly adopting integrated financial reporting practices aimed at enhancing the credibility, consistency, and comparability of their financial statements.

Environmental, Social, and Governance (ESG) activities have become central to how modern organizations define performance, manage risk, and maintain long-term sustainability. ESG represents a strategic framework that goes beyond traditional financial metrics to include a firm's impact on the environment, its relationship with stakeholders, and the integrity of its internal governance structures. According to the World Economic Forum (2021), ESG considerations are no longer peripheral issues but essential drivers of value creation and corporate resilience in a rapidly changing global economy. Environmental sustainability is one of the key variables of interest in this study; it necessitates investments in risk management systems and environmental audits, which often translate into more rigorous financial reporting. Notably, firms in Nigeria's industrial and oil & gas sectors traditionally high-pollution industries have faced increasing scrutiny over their emissions and waste disposal practices. In 2022, Shell Nigeria reported over \$1 billion in environmental remediation expenses, a disclosure that significantly impacted its financial statements and investor perception (Shell Nigeria Sustainability Report, 2022).

Corporate governance mechanism plays a crucial role in enhancing financial reporting quality by promoting transparency, accountability, and integrity in financial disclosures (Bushman & Smith, 2001). Strong governance structures such as effective boards, audit committees, and internal controls reduce information asymmetry and managerial opportunism, thereby improving the accuracy and reliability of financial reports (Beekes, Pope & Young, 2004). In the Nigerian context, studies have shown that firms with sound corporate governance practices are more likely to produce high-quality financial reports that comply with regulatory standards and support investor confidence (Uwuigbe *et al.*, 2014). Thus, effective corporate governance is a critical determinant of credible and decision-useful financial information. Also, social responsibility initiative contributions, often disclosed in the form of community development projects or philanthropic activities, signal corporate integrity and stakeholder engagement. Nigerian Breweries Plc reported over ₦500 million in CSR spending in 2022, focusing on education, health, and economic empowerment initiatives (Nigerian Breweries Annual Sustainability Report, 2022). These contributions not only enhance public trust but also drive accountability structures that positively influence reporting quality.

Statement of the Problem

Financial reporting quality (FRQ) remains a fundamental concern for corporate governance, regulators, investors, and stakeholders across the globe. High-quality financial reporting

enhances transparency, reduces information asymmetry, and supports efficient decision-making by providing a true and fair view of a firm's financial health. However, in many developing economies, including Nigeria, financial reports are often plagued by inconsistencies, earnings management, delayed disclosures, and lack of comparability. These weaknesses undermine stakeholder confidence and impair market efficiency. Despite the Nigerian Exchange Group's sustainability reporting guidelines introduced to enhance non-financial disclosure, empirical investigations indicate that even after regulatory guidance was issued around 2018–2020, both the quantity and quality of sustainability reporting remain low among non-financial listed firms in Nigeria, with quality often below acceptable disclosure standards (sustainability quantity ~32.9%; quality ~20.4%) (Adesina, et al., 2024; Abdulrauf, et al., 2025). This under-disclosure is problematic because ESG information is an essential complement to traditional financial reporting, enabling stakeholders to evaluate long-term value creation, risk exposure, and management stewardship beyond conventional financial metrics.

Environmental responsibility practices, particularly in high-impact sectors like manufacturing and oil and gas, have emerged as major components of ESG performance. However, in Nigeria, many firms face challenges in implementing and disclosing environmental sustainability efforts effectively. Lack of technical expertise, inconsistent regulations, and weak environmental governance structures often result in vague, generalized, or voluntary environmental disclosures. (Adegbayibi, et al., 2024). Such disclosures may lack the rigor and measurability required to inform stakeholders adequately, potentially masking environmental liabilities or regulatory risks. When environmental reporting is poorly integrated into financial disclosures, it creates gaps in stakeholder understanding and may lower financial reporting quality (Akpan, 2025; Teryam, 2025).

Corporate governance especially board effectiveness and independence is another critical element in ESG and financial reporting quality. In the Nigerian context, concerns persist about the quality of corporate governance practices, including board composition, gender diversity, and oversight effectiveness. While governance frameworks are in place, enforcement is often weak, and some boards function more as formalities than as active monitors of management. This governance gap can lead to opportunistic financial reporting behavior, such as earnings manipulation or selective disclosure, which undermines the integrity of financial statements. Board gender diversity, a growing governance metric, has also produced mixed results in literature regarding its impact on FRQ, suggesting the need for more context-specific analysis Nigeria (Musa, et al., 2025).

Social responsibility initiatives, including employee welfare, community engagement, and CSR programs, have been promoted as indicators of ethical and stakeholder-oriented firms. Yet, in practice, such initiatives are frequently publicized without corresponding disclosure of their financial implications. In many Nigerian firms, CSR expenditures and social commitments are reported in narrative form without standardized performance indicators, making it difficult to assess their actual impact or financial accountability. This lack of standardized social reporting contributes to reporting opacity and may provide room for discretionary disclosures that obscure a firm's true financial performance (Anyago, 2024).

Empirical evidence on the relationship between ESG activities and financial reporting quality remains mixed and inconclusive. For instance, Velte (2024) and Şeker and Şengür (2021) report

that high ESG scores are positively associated with enhanced FRQ, suggesting that socially responsible firms are more transparent. Similarly, Ferdous *et al.* (2025) found a positive link between ESG performance and financial disclosure quality. Conversely, studies such as Moussa and Elmarzouky (2024) indicate that ESG disclosures, especially in firms with weak governance, may increase costs and reduce reporting clarity. Other research (Wang & Hussin, 2024; Choiriah *et al.*, 2024) notes that high-quality financial reporting may not always reflect firms' real conditions and that CSR can serve both informative and strategic purposes. These conflicting findings underscore the need for context-specific research to investigate the extent to which corporate ESG activities measured through environmental sustainability practice, corporate governance mechanism, and social responsibility initiatives contribute to or detract from the financial reporting quality of listed non-financial firms in Nigeria.

LITERATURE REVIEW

Conceptual Review

Financial Reporting Quality

Financial Reporting Quality (FRQ) refers to the extent to which financial statements accurately and faithfully represent the economic reality of an entity's performance and position. It involves the provision of timely, relevant, verifiable, and comparable financial information that enhances the decision-making capacity of investors, regulators, and other stakeholders. According to Dechow, Ge, and Schrand (2010), high-quality financial reports minimize information asymmetry and allow users to make more informed judgments about the future prospects of firms. In a broader sense, FRQ is not only a matter of compliance with accounting standards, but also a reflection of the integrity of the reporting process itself. As stated by Baker and Hayes (2019), financial reporting quality goes beyond the mechanical application of accounting rules; it involves the truthful communication of economic performance and the mitigation of managerial opportunism. Dewi *et al.* (2024), describe financial reporting quality as the cornerstone of financial market development, particularly in emerging economies where formal mechanisms for monitoring management are often weak. Similarly, Soyemi and Olawale (2019) argue that reliable financial reporting is essential for reducing agency problems and enhancing corporate governance structures, especially in developing markets like Nigeria.

Environmental, Social and Governance (ESG) Activities

Environmental, Social, and Governance (ESG) activities have emerged as key non-financial indicators that reflect a firm's commitment to sustainable and ethical operations. These three pillars of ESG represent a multidimensional approach to corporate responsibility. ESG components have become increasingly important in shaping stakeholder perceptions and influencing firm value, particularly through their impact on financial reporting quality (FRQ). High-quality ESG practices are associated with greater transparency, reduced information asymmetry, and stronger corporate governance factors that can significantly enhance the reliability of financial disclosures (Ellili, 2020). The environmental component focuses on a firm's impact on the natural environment, including its practices related to energy use, waste management, pollution control, and climate change mitigation (Awewomom *et al.*, 2024). The social dimension centers on the quality of a company's relationships with employees, suppliers, customers, and communities encompassing issues such as labor rights, workplace diversity, and community engagement. The governance pillar relates to the internal systems and controls that define corporate leadership, board structure, shareholder rights, executive compensation, and business ethics (Chen, 2024).

Theoretical Review

Agency Theory

Agency Theory was formally introduced by Jensen and Meckling (1976) and it explains the inherent conflicts that arise in a principal-agent relationship where one party (the principal) delegates authority to another (the agent) due to divergent interests and information asymmetry. The core assumption of Agency Theory is that agents typically managers or executives are rational and self-interested actors who may not always act in the best interest of the principals (shareholders or owners). Managers often have access to privileged information and make strategic decisions that may serve their personal goals, such as maximizing compensation or personal influence, rather than shareholder value. This misalignment of interests can lead to what is known as *agency costs*, which include the costs of monitoring, bonding, and the residual losses from unaligned behaviors (Jensen & Meckling, 1976). In the context of this study, agency theory remains highly relevant as financial reporting is one of the main arenas where agency conflicts are most visible. Managers may attempt to manipulate earnings or delay the disclosure of adverse information to present a more favorable image of the firm. However, the adoption of ESG-related practices such as fair employee treatment, transparent CSR reporting, environmental accountability, and inclusive governance structures can act as informal governance mechanisms that complement traditional agency-reducing strategies.

Stakeholder Theory

Stakeholder Theory as articulated by Freeman (1984) proposed that the long-term success of a company depends not solely on maximizing shareholder wealth, but also on fulfilling the interests of multiple stakeholder groups, including employees, customers, suppliers, communities, regulators, and the environment. Unlike traditional corporate governance models that focus exclusively on shareholders, Stakeholder Theory assumes that all stakeholders possess intrinsic value and should be factored into corporate decision-making, whether or not they have a direct financial interest in the firm. At its core, Stakeholder Theory views the corporation as embedded within a complex network of relationships. These relationships shape and are shaped by organizational activities. The theory asserts that companies should avoid actions that harm stakeholder interests and, instead, strive to create shared value. According to Freeman (1984), building trust, mutual respect, and cooperation with stakeholders cultivates long-term success, resilience, and legitimacy in dynamic and competitive markets. In relation to this study, Stakeholder Theory offers critical insights as ESG activities are a practical embodiment of stakeholder-oriented behavior. The four ESG proxies explored in this research environmental responsibility, employee relations, CSR contributions, and board gender diversity are fundamentally designed to serve various stakeholder groups. Stakeholder Theory also offers a framework for understanding the relationship between these ESG activities and financial reporting quality (FRQ) because firms that embrace stakeholder concerns are more likely to engage in transparent, ethical, and complete financial disclosures. By prioritizing broader accountability, such firms aim to maintain the trust and confidence of all stakeholder groups not just investors but also employees, regulators, customers, and civil society. High-quality financial reporting thus becomes a tool for reinforcing that trust.

Empirical Review

Ferdous *et al.* (2025) examines the impact of environmental, social, and governance (ESG) performance on financial disclosure quality as measured by disaggregated financial statements (FSDQ), using data from US-listed companies between 2002 and 2021. The study found a positive

Kadir, A. O. (2025). Corporate ESG Activities and Financial Reporting Quality: Evidence from Listed Non-Financial Firms in Nigeria. *Malet Journal of Accounting and Finance*, 6 (1), 279 – 297

association between ESG performance and FSDQ quality, suggesting that improved ESG performance is linked to enhanced disclosure quality and accountability and that managerial competence and strong organizational culture accentuate this relationship. Further analysis shows a stronger link between firms with high-quality accounting practices and good financial reporting readability, whereas complex financial reporting weakens this relationship.

Rahman *et al.* (2025) investigated the relationship between environmental, social, and governance (ESG) disclosure and both financial reporting quality (FRQ) and the efficiency of investment. The study focuses on a sample comprising all A-share listed companies in China from 2018 to 2022, employing various models and pertinent variables to assess the impact of ESG disclosure and FRQ on investment efficiency. The findings indicate that high-quality ESG disclosure is positively correlated with investment efficiency, with an increase in the volume of ESG data being associated with higher investment efficiency in firms. Additionally, superior ESG disclosure and FRQ are found to mitigate the information asymmetry between internal managers and external stakeholders, thereby enhancing the transparency of the company's data and information to external parties.

Obasan and Kuola (2025) explore the effect of corporate governance mechanisms on the quality of financial reporting in Nigeria, while also reviewing relevant past publications, textbooks, and academic journals. In the course of the study, agency theory explored the connection between corporate governance and financial reporting quality by focusing on the conflicts of interest that may occur between principals (shareholders) and agents (management). The study adopted the theoretical and content analysis approach (desk review). Extensive literature review was conducted. The study revealed that the increasing reliance on reputable international firms by larger companies has improved confidence in their financial disclosures. The conclusion highlighted that by strengthening governance structures and regulatory frameworks, Nigeria can enhance the credibility of its financial reports, ultimately fostering investor confidence and economic growth.

Oluwatimilehin *et al.* (2025) investigated the effects of corporate governance and financial reporting quality among listed oil and gas firms in Nigeria. The study sourced data through information collected from financial reports of Nigerian oil and gas firms. The population and sample of the study consists of all the nine listed oil and gas firms in Nigeria from 2012 to 2022. Both descriptive and pooled regression analysis were conducted. The findings of the study revealed that board independence and meeting have a significant positive effect on financial reporting quality while board size and audit committee size has a negative and insignificant effect. Therefore, the study concludes that increase in board independence and meetings contributes to timely financial reporting quality. The study recommends that firms should schedule strategic and regular board meetings to improve timeliness of disclosures.

METHODOLOGY

The study adopts an ex post facto research design, which is appropriate given that the variables of interest ESG activities and financial reporting quality already exist and cannot be manipulated. The population of this study consists of 106 non-financial firms listed on the Nigerian Exchange Group (NGX) as of December 31, 2024 spanning across various sectors, including agriculture, conglomerate, construction and real estate, consumer goods, healthcare, ICT, industrial goods, natural resources, oil and gas and services. This population is appropriate for this research

because non-financial firms in Nigeria are progressively engaging in ESG reporting, either due to regulatory encouragement, international investor interest, or competitive strategy. Using Cochran (1977) formula, 84 listed non-financial firms were selected with the aid of multistage sampling technique.

Model Specification

The model of Şeker and Şengür (2021) who investigated the international perspective of the impact of environmental, social, and governance (ESG) performance on financial reporting quality was adopted. The model was originally specified as:

$$FRQ_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \beta_5 FIRM_AGE_{it} + \sum YEAR + \sum INDUSTRY + \sum COUNTRY + \epsilon_{it} \text{-----(i)}$$

FRQ_{it} = Separately represents the models FRQ1, FRQ, FRQ 3 and FRQ 4

ESG_{it} = Separately represents ESG, ENV, SOC, and GOV

SIZE_{it} = The natural logarithm of the market value of equity

ROA_{it} = Return on assets

LEV_{it} = Total liabilities/total assets

FIRM_AGE_{it} = The natural logarithm of 1 + age of firm

To achieve the objective of this study, the model was adapted as follows:

$$FRQ_{it} = \alpha + \beta_1 ES_{it} + \beta_2 CGO_{it} + \beta_3 SR_{it} + \beta_4 FSZE_{it} + \beta_5 FAGE_{it} + \epsilon_{it} \text{-----(ii)}$$

Where:

FRQ_{it} = Financial Reporting Quality at time t

ES_{it} = Environmental sustainability at time t

CGO_{it} = Corporate Governance at time t

SR_{it} = Social Responsibility at time t

FSZE_{it} = Firm Size at time t

FAGE_{it} = Firm Age at time t

ε = Error term

i = Firm

t = Year

Measurement of Variables

Table 1: Measurement of variables

Variable	ID	Measurement	Source
Dependent:			
Financial Reporting Quality	FRQ	ROA (Net income divided by Total Assets)	Kusuma (2021)
Independent:			
Environmental sustainability	ES	Binary coding (1 = disclosed; 0 = not disclosed) of environmental sustainability practices	Amaya <i>et al.</i> (2021)
Corporate Governance	CGO	Board Gender Diversity (Proportion of female board members)	Kim and Kim (2023)

Social Responsibility	SR	Value of SR expenditure	Bhattacharyya and Rahman (2020)
Control			
Firm Size	SIZE	Natural log of total assets	Ayuba <i>et al.</i> (2019)
Firm Age	FAGE	Years of the firms establishment	Kieschnick and Moussawi (2018)

Method of Data Analysis

The data collected was analysed using descriptive statistics to summarize the central tendencies and dispersion of the variables across the sampled firms and years. Following this, a correlation matrix was generated to assess the degree and direction of linear relationships between the independent and dependent variables. The core of the analysis was conducted through panel data regression techniques, which are particularly suitable for this study due to the nature of the dataset observations across multiple firms over a five-year period (2018–2024). Both the fixed effects model and the random effects model will be estimated. The choice between these models was determined through the Hausman specification test, which helps in selecting the appropriate estimator based on the presence or absence of correlation between individual firm effects and the explanatory variables.

RESULTS AND DISCUSSIONS

Descriptive Analysis

This section focuses on the descriptive analysis of the variables under study. The analysed descriptive statistics include Mean, Median, Maximum, Minimum, Std. Dev., Skewness and Kurtosis.

Table 2: Descriptive statistics

	FRQ	ES	CGO	SR	SIZE	FAGE
Mean	0.072796	0.462585	0.323855	15777.00	15.36750	28.46429
Median	0.072896	0.000000	0.324800	1188.930	15.35022	27.00000
Maximum	0.121463	1.000000	0.600000	140727.7	16.59892	59.00000
Minimum	0.026931	0.000000	0.000000	88.86614	14.26348	4.000000
Std. Dev.	0.015755	0.499023	0.141988	20960.95	0.469918	13.73293
Skewness	-0.101439	0.150081	0.008448	1.775640	0.101277	0.256418
Kurtosis	2.841122	1.022524	2.196945	7.525229	2.546872	1.916589
Jarque-Bera Probability	1.626834 0.443341	98.01243 0.000000	15.80698 0.000369	810.6874 0.000000	6.035645 0.048908	35.20113 0.000000
Sum	42.80393	272.0000	190.4269	9276875.	9036.090	16737.00
Sum Sq. Dev.	0.145708	146.1769	11.83427	2.58E+11	129.6230	110704.3
Observations	588	588	588	588	588	588

Source: EViews Output, 2025

Keys: FRQ- Financial reporting quality, ES- Environmental sustainability, CGO- Corporate governance, SR- Social responsibility, SIZE-Firm size, FAGE- Firm Age.

Table 2 provides a comprehensive summary of the dataset, highlighting the distributional properties of the study variables. Financial reporting quality (FRQ) has a mean value of 0.073, indicating that on average, firms generate about 7.3 percent returns on their assets. The minimum and maximum values, 0.027 and 0.121 respectively, show some variation in reporting quality, though the low standard deviation of 0.016 suggests that FRQ is relatively stable across the sampled firms. The skewness of -0.101 and kurtosis of 2.84 point to an approximately symmetric distribution that closely resembles normality, a result confirmed by the Jarque-Bera probability of 0.443, which fails to reject the null hypothesis of normal distribution.

Environmental sustainability disclosure (ES), has a mean of 0.463, showing that approximately 46 percent of firm-year observations disclosed environmental practices. However, the median value of 0 suggests that non-disclosure is still more prevalent across the sample. The maximum of 1 and minimum of 0 reflect the binary nature of the variable, while the relatively high standard deviation of 0.499 highlights significant variation across firms. The skewness (0.150) and kurtosis (1.02) reveal a flatter-than-normal distribution, and the Jarque-Bera test probability (0.000) confirms that ES is not normally distributed, which is consistent with expectations for categorical data. Corporate governance (CGO), records an average of 32 percent female representation, with values ranging from 0 to 60 percent. This indicates that while some firms demonstrate substantial gender inclusivity, others still operate without any female representation on their boards. The median of 0.325 is close to the mean, suggesting a relatively balanced distribution, while the standard deviation of 0.142 reflects moderate variation. The distribution is nearly symmetric, as shown by the skewness value of 0.008, and the kurtosis value of 2.20 suggests a flatter-than-normal distribution. Nevertheless, the Jarque-Bera probability of 0.000 shows a significant departure from normality.

Social responsibility (SR) exhibits wide disparities among firms. The mean value is ₦15,777, but the median is considerably lower at ₦1,189, indicating that the distribution is heavily influenced by a few firms making very large contributions. The minimum and maximum values, ₦88.87 and ₦140,727.70 respectively, further highlight this inequality in CSR commitments. The high standard deviation of ₦20,961, coupled with the skewness of 1.776 and kurtosis of 7.53, reveals a highly skewed and leptokurtic distribution with extreme outliers. The Jarque-Bera probability of 0.000 confirms significant non-normality in CSR spending patterns. Firm size (SIZE), has a mean of 15.37, with values ranging from 14.26 to 16.60. The closeness of the mean and median (15.35) suggests a balanced distribution of firm sizes in the sample. The standard deviation of 0.470 indicates modest variability, while the skewness of 0.101 points to near symmetry in the data. The kurtosis of 2.55 is close to normal, though the Jarque-Bera probability of 0.049 indicates a mild but statistically significant departure from normality.

Firm age (FAGE) averages 28 years, with the youngest firm being 4 years old and the oldest 59 years. The standard deviation of 13.73 reflects substantial variation in the maturity of firms, and the median age of 27 suggests that both younger and more established firms are well represented in the dataset. The distribution is slightly skewed to the right (skewness = 0.256) and flatter than normal (kurtosis = 1.92), with the Jarque-Bera test ($p = 0.000$) confirming non-normality.

In all, the descriptive statistics show that financial reporting quality is relatively stable across firms, while environmental sustainability practices and CSR expenditures are unevenly distributed. Corporate governance reflects moderate gender diversity, although some firms still lack female representation entirely. Firm size is generally balanced, consistent with the large-cap

nature of listed non-financial firms in Nigeria, while firm age demonstrates considerable heterogeneity across the sample. The normality tests indicate that only FRQ follows an approximately normal distribution, whereas ES, CSR expenditure, and firm age deviate substantially, suggesting the need for robust econometric techniques in subsequent regression analysis.

Correlation Analysis

Table 3: Correlation analysis summary indicating the relationships between variables

	FRQ	ES	CGO	SR	SIZE	FAGE
FRQ	1.000000	0.247517	0.337596	0.108316	0.209722	0.128095
ENVR	0.247517	1.000000	0.351557	-0.016177	0.144073	0.003409
CGO	0.337596	0.351557	1.000000	0.081939	0.178460	0.143025
CSRC	0.108316	-0.016177	0.081939	1.000000	0.378106	-0.061220
SIZE	0.209722	0.144073	0.178460	0.378106	1.000000	0.107347
FAGE	0.128095	0.003409	0.143025	-0.061220	0.107347	1.000000

Source: EViews Output, 2025

Keys: FRQ- Financial reporting quality, ES- Environmental sustainability, CGO- Corporate governance, SR- Social responsibility, SIZE-Firm size, FAGE- Firm Age

Table 3 presents the correlation coefficients between the dependent variable, financial reporting quality (FRQ), and the independent variables of environmental sustainability disclosure (ES), corporate governance (CGO), and social responsibility (SR), as well as the control variables firm size (SIZE) and firm age (FAGE). The correlation matrix provides initial insights into the direction and strength of the linear relationships among the variables before proceeding to regression analysis. The results indicate that FRQ is positively correlated with all explanatory variables. Specifically, FRQ has a moderate positive correlation with corporate governance (0.338) and environmental sustainability disclosure (0.248), suggesting that firms with stronger governance structures and better environmental practices tend to exhibit higher reporting quality. The correlation with firm size (0.210) is also positive, indicating that larger firms are more likely to maintain higher-quality financial reporting, consistent with the view that firm size enhances monitoring and reduces information asymmetry. The correlations with firm age (0.128) and social responsibility expenditure (0.108) are positive but relatively weak, suggesting that these factors contribute less directly to variations in reporting quality.

Environmental sustainability disclosure (ES) is positively associated with corporate governance (0.352) and firm size (0.144), implying that firms with better governance mechanisms and larger asset bases are more likely to disclose environmental practices. However, the correlation between ES and social responsibility expenditure is slightly negative (-0.016), suggesting that environmental and social initiatives may not always move in tandem among Nigerian non-financial firms. The correlation between ES and firm age is negligible (0.003), indicating that

disclosure of environmental practices is not significantly influenced by how long a firm has been in existence. Corporate governance (CGO) shows positive correlations with all other variables, most notably environmental sustainability disclosure (0.352) and firm size (0.178). This suggests that well-governed firms, particularly those with gender-diverse boards, are more likely to engage in environmental disclosure and are generally larger in size. The correlation with firm age (0.143) is also positive, reflecting that older firms may have more established governance practices. Social responsibility expenditure (SR) correlates most strongly with firm size (0.378), which implies that larger firms are more financially capable of making CSR contributions. The positive association with corporate governance (0.082) is weak, while the relationship with firm age is slightly negative (-0.061), indicating that younger firms may sometimes spend proportionally more on CSR compared to their older counterparts.

The control variables show relatively low correlations with one another and with the main explanatory variables, which reduces concerns of multicollinearity. Firm size and firm age, for instance, have a weak positive correlation (0.107), suggesting that larger firms are not necessarily the oldest in the sample. The correlation analysis suggests that environmental sustainability and corporate governance are the most relevant ESG dimensions positively associated with financial reporting quality, while social responsibility expenditure shows a weaker but still positive link. Firm size also appears to play an important role, both directly influencing FRQ and indirectly through its association with CSR contributions and governance practices. These preliminary findings provide support for the hypothesized relationships, though causality can only be confirmed through regression analysis in subsequent sections.

Unit Root Tests

Table 4: Unit Root Test Results

Variables	Augmented Dickey Fuller		Philip- Perron	
	statistic	p-value	statistic	p-value
FRQ	266.50	0.0000	355.97	0.0000
ES	99.95	0.0430	192.30	0.0000
CGO	84.94	0.0001	136.10	0.0069
SR	238.13	0.0003	353.00	0.0000
SIZE	202.62	0.0352	336.37	0.0000
FAGE	133.24	0.0081	200.35	0.0023

Source: EViews Output, 2025

Note: Fisher-ADF is Fisher-type augmented Dickey-Fuller test; Fisher-PP is Fisher-type Phillip-Perron test; Modified Inverse Chi-squared statistic was reported for all variables

Table 4 reports the outcomes of the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests for financial reporting quality (FRQ), environmental sustainability disclosure (ES), corporate governance (CGO), social responsibility expenditure (SR), firm size (SIZE), and firm

age (FAGE). Both test procedures were employed to ensure robustness in the assessment of the time series properties of the panel dataset. The results show that all variables are stationary at level. For financial reporting quality (FRQ), the ADF statistic of 266.50 and PP statistic of 355.97 both yield p-values of 0.0000, which are highly significant at the 1% level. This indicates that FRQ does not contain a unit root and is stationary in its levels. Environmental sustainability disclosure (ES) is also stationary, though its ADF test produces a p-value of 0.043, which is significant at the 5% level, while the PP test produces a p-value of 0.000, significant at the 1% level. This confirms that ES is stable over time without requiring differencing.

Corporate governance (CGO) shows ADF and PP statistics of 84.94 ($p = 0.0001$) and 136.10 ($p = 0.0069$), respectively, both of which confirm stationarity at the 1% and 5% significance levels. Similarly, social responsibility expenditure (SR) is found to be stationary, with ADF and PP p-values of 0.0003 and 0.0000 respectively, again significant at conventional levels. Firm size (SIZE) also passes the stationarity test with an ADF p-value of 0.0352 (significant at 5%) and a PP p-value of 0.0000 (significant at 1%). This indicates that firm size is stable across time within the sample. Finally, firm age (FAGE) is stationary with ADF and PP p-values of 0.0081 and 0.0023, both significant at the 1% level. Overall, these results demonstrate that all variables are integrated of order zero, $I(0)$, meaning they are stationary at level. This outcome has important implications for subsequent econometric modeling, as it allows for the use of panel regression techniques without the need for differencing or cointegration adjustments. The absence of unit roots further validates the robustness of the dataset for reliable estimation of the relationship between corporate ESG activities and financial reporting quality.

Panel Regression Analysis

This section comprises a panel regression analysis of the study. The Panel regression uses the established model in chapter three to analyse the effect of corporate governance on the performance of manufacturing enterprises in Nigeria. The panel regression analysis incorporates methods like the Ordinary Least Squares (OLS), and the Hausman Test was used for fixed/random effects

Table 5: Summary of Panel Regression Analysis

Variable	OLS			Fixed Effects			Random Effects		
	Coefficient	t	p-value	Coefficient	t	p-value	Coefficient	t	p-value
ES	0.004523	3.495618	0.0005	0.004001	3.987936	0.0001	0.004293	4.484024	0.0000
CGO	0.027797	6.045549	0.0000	0.037479	5.692509	0.0000	0.029564	8.459290	0.0000
SR	3.85E-08	1.23506	0.2173	-3.32E-08	0.603016	0.5468	-1.81E-09	-0.041665	0.9668
SIZE	0.003894	2.75382	0.0061	-0.000742	0.129037	0.8974	0.003241	1.263808	0.2068
FAGE	9.46E-05	2.12193	0.0343	-0.000389	0.845970	0.3980	6.87E-05	0.753458	0.4515
Constant	-0.001444	0.06795	0.9458	0.081807	0.965995	0.3345	0.009505	0.245291	0.8063
R-squared	0.160			0.658			0.24		
F-statistic	22.25			10.935			35.81		
F-test of Homogeneity							8.77		
Hausman test							3.89		
							0.00		
							0.5651		

Source: EViews Output, 2025

Keys: FRQ- Financial reporting quality, ES- Environmental sustainability, CGO- Corporate governance, SR- Social responsibility, SIZE-Firm size, FAGE- Firm Age



Table 5 presents the regression results of the relationship between environmental sustainability (ES), corporate governance (CGO), social responsibility (SR), firm size (SIZE), and firm age (FAGE) on financial reporting quality (FRQ). Three estimation techniques were employed: Ordinary Least Squares (OLS), Fixed Effects (FE), and Random Effects (RE), to ensure robustness and determine the most suitable model for the panel data. The F-test of homogeneity and the Hausman test were further conducted to guide model selection. The results show that environmental sustainability (ES) has a consistently positive and statistically significant effect on financial reporting quality across all model specifications. Under OLS, the coefficient of ES is 0.004523 ($t = 3.50$, $p < 0.01$), while under FE and RE models, the coefficients are 0.004001 ($t = 3.99$, $p < 0.01$) and 0.004293 ($t = 4.48$, $p < 0.01$), respectively. These findings suggest that increased environmental disclosure and practices significantly improve the quality of financial reporting, thereby reinforcing the importance of ESG integration in corporate transparency. Corporate governance (CGO) also demonstrates a strong and positive influence on FRQ across all estimation methods. Under OLS, CGO has a coefficient of 0.027797 ($t = 6.05$, $p < 0.01$), while FE and RE models report coefficients of 0.037479 ($t = 5.69$, $p < 0.01$) and 0.029564 ($t = 8.46$, $p < 0.01$), respectively. This indicates that sound governance mechanisms play a crucial role in enhancing reporting credibility and reducing information asymmetry.

Conversely, social responsibility (SR) does not exhibit a statistically significant effect on FRQ in any of the models. The coefficients are very close to zero, with p-values of 0.2173 (OLS), 0.5468 (FE), and 0.9668 (RE), suggesting that CSR spending, in isolation, does not necessarily translate into improvements in financial reporting quality. This may imply that firms' CSR expenditures are not effectively structured or disclosed in ways that strengthen reporting practices. The results for firm size (SIZE) are mixed. While OLS suggests a positive and significant effect (coefficient = 0.003894, $t = 2.75$, $p < 0.01$), the FE and RE models show insignificant effects, with p-values of 0.8974 and 0.2068, respectively. This discrepancy implies that firm size may only have a weak or inconsistent impact on reporting quality, depending on the estimation approach. Similarly, firm age (FAGE) shows a weak positive significance under OLS (coefficient = 9.46E-05, $t = 2.12$, $p < 0.05$), but the effect becomes insignificant under FE and RE models, suggesting that the maturity of a firm may not robustly determine its reporting quality when controlling for unobserved firm-specific heterogeneity.

The model diagnostics indicate substantial differences in explanatory power across estimation methods. The OLS model yields an R-squared of 0.160, suggesting that only 16% of the variation in FRQ is explained by the predictors, while the FE model records a much higher R-squared of 0.658, indicating that firm-specific characteristics significantly improve model fit. The RE model produces an R-squared of 0.24, which is higher than OLS but considerably lower than FE. The F-statistics are highly significant across all models ($p < 0.01$), confirming that the explanatory variables jointly influence FRQ. The F-test of homogeneity ($F = 8.77$, $p = 0.000$) rejects the null hypothesis of pooled OLS adequacy, confirming that panel estimation is preferable. Furthermore, the Hausman test produces a statistic of 3.89 with a p-value of 0.5651, which is not statistically significant. This suggests that the Random Effects model is more efficient and consistent than the Fixed Effects model for the dataset. In summary, the Random Effects results are the most reliable

for this study, showing that both environmental sustainability and corporate governance exert significant positive effects on financial reporting quality, while social responsibility, firm size, and firm age do not have statistically significant impacts. These findings underscore the importance of environmental and governance dimensions of ESG activities in driving transparent and credible corporate reporting among listed non-financial firms in Nigeria.

Discussion of Findings

The findings revealed that environmental sustainability and corporate governance exert a significant positive influence on financial reporting quality, while social responsibility showed no statistically significant effect. In addition, firm size and firm age did not consistently predict the quality of financial reporting. These results provide useful insights into the dynamics of ESG practices within the Nigerian context and enrich the global debate on the role of sustainability and governance in shaping the credibility of corporate disclosures. The positive and significant effect of environmental sustainability on financial reporting quality suggests that firms which integrate environmentally responsible practices such as emission reduction, pollution control, and sustainable resource management are more likely to produce transparent and credible financial reports. This finding is consistent with studies conducted in other contexts. For instance, Şeker and Şengür (2021) found that environmental disclosures enhance reporting credibility, while Christensen, Hail, and Leuz (2021) reported that mandatory ESG disclosures in Europe improved transparency and consistency in corporate reporting. This outcome resonates strongly with stakeholder theory, which emphasizes that firms that meet the expectations of diverse stakeholders build trust and legitimacy. In Nigeria, where industrial activities often contribute to environmental degradation, proactive environmental engagement appears to strengthen the confidence of investors, regulators, and communities in corporate reports.

Corporate governance was also found to play a crucial role in improving reporting quality. The evidence shows that effective governance structures such as independent boards, strong audit committees, and transparent managerial oversight significantly improve the credibility of financial disclosures. This finding corroborates the conclusions of Chen, Li, and Zhang (2021), who demonstrated that board attributes and governance mechanisms enhance financial reporting quality, as well as Nigerian evidence from Amah and Ekwe (2021) and Ogbaisi and Ezuem (2021), who found that board independence and governance structures improved reporting integrity in manufacturing and pharmaceutical firms. Agency theory provides a compelling explanation for this outcome, since governance mechanisms act as checks against managerial opportunism and align managerial actions with shareholder interests. This is especially important in Nigeria, where weak enforcement of disclosure regulations has historically allowed managers to act in self-interest at the expense of transparency. Strong governance mechanisms, therefore, serve as essential safeguards against opportunistic reporting.

In contrast, the results showed that social responsibility initiatives did not significantly affect financial reporting quality. This outcome suggests that corporate social responsibility (CSR) activities such as philanthropy, employee welfare, or community projects may be pursued in isolation from reporting practices, thereby limiting their impact on disclosure credibility. This result mirrors the findings of Saygili *et al.* (2022), who reported that environmental and governance dimensions had stronger effects on firm outcomes than social factors, and the study by Bassey *et al.* (2023), which showed that ESG performance in Nigeria did not translate into improved reporting quality except in the environmental dimension. Viewed through the lens of

legitimacy theory, this result may reflect the symbolic nature of CSR in Nigeria, where firms often undertake philanthropic gestures to secure social approval rather than embedding social initiatives into structures that enhance transparency. The implication is that CSR spending, in the absence of accountability frameworks, may not necessarily contribute to the credibility of financial reporting.

The findings also indicated that firm characteristics such as size and age did not exert significant or consistent influence on financial reporting quality. Although larger and older firms are often expected to face greater scrutiny and have more resources to ensure transparent disclosures, this was not strongly supported in the Nigerian context. This is in line with the evidence from Hasan *et al.* (2022), who reported mixed results regarding firm characteristics in Pakistan and the UK, and with Nigerian studies such as Sunday and Sa'idu (2023), which highlighted governance mechanisms as more decisive than structural attributes in determining reporting quality. The implication is that organizational size and longevity may not independently guarantee transparency unless complemented by robust governance and accountability systems.

CONCLUSION AND RECOMMENDATION

This study concludes that the selected dimensions of Environmental, Social, and Governance (ESG) activities, environmental sustainability (ES), corporate governance orientation (CGO), and social responsibility (SR) exert varying degrees of influence on the financial reporting quality (FRQ) of listed non-financial firms in Nigeria. Among these indicators, social responsibility emerged as the most consistent and statistically significant determinant of financial reporting quality, while environmental sustainability and corporate governance orientation, though conceptually important, demonstrated mixed or weaker effects within the scope of this study.

Based on the findings and conclusions, the following recommendations are proposed:

- i. Firms should institutionalize environmental audits, pollution control, and sustainability initiatives within their reporting structures to strengthen transparency. Regulators, such as the NGX and FRCN, should also mandate standardized environmental disclosures to ensure consistency and comparability across firms, thereby enhancing the reliability of financial reporting.
- ii. Boards of directors should prioritize independence, diversity, and audit committee effectiveness to improve oversight of financial disclosures. Regulators must enforce compliance with corporate governance codes and penalize weak governance practices, as stronger governance mechanisms directly improve the credibility and decision-usefulness of financial reports.
- iii. Companies should adopt global CSR reporting frameworks, such as the Global Reporting Initiative (GRI), to standardize disclosures on community development, employee welfare, and philanthropic activities. Linking CSR activities explicitly to financial reports will enhance public trust, reduce discretionary reporting, and improve the overall quality of disclosures.
- iv. Larger firms should set industry benchmarks by publishing detailed ESG disclosures, while regulators should design support programs to assist smaller firms in developing ESG reporting capabilities. This will reduce disparities between large and small firms, improve comparability, and strengthen the overall financial reporting environment in Nigeria.

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