

Green Accounting and Financial Performance of Non-Financial Firms in Nigeria

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ABSTRACT

This study examines the impact of green accounting disclosures on the financial performance of listed non-financial firms in Nigeria. With global attention shifting toward environmental sustainability, green accounting has become an increasingly important framework for integrating environmental considerations into financial reporting. However, in developing economies such as Nigeria, the extent to which green disclosures influence financial performance remains underexplored. This study bridges this gap by employing an ex post facto research design and analyzing a panel dataset covering 60 non-financial firms listed on the Nigerian Exchange Group between 2015 and 2024. A Green Accounting Disclosure Index (GADI) was constructed based on the Global Reporting Initiative (GRI) Standards, capturing environmental policy statements, energy use and conservation, waste management, emission controls, water conservation, and environmental liabilities. The index was regressed against key performance indicators—Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), while controlling for firm size, leverage, firm age, and industry sector. The empirical results demonstrate a consistently positive and statistically significant relationship between green accounting disclosures and all three financial performance indicators. Firms with stronger environmental reporting practices exhibited superior profitability and efficiency, providing evidence that sustainability initiatives yield both ecological and financial benefits. Interestingly, the effect of control variables such as firm size and age was marginal, indicating that even medium-sized firms can benefit from sustainability-oriented practices. These findings affirm the business case for green accounting, challenging the perception that environmental disclosures are mere compliance costs. The study concludes that green accounting enhances not only transparency and legitimacy but also long-term corporate profitability. It recommends that Nigerian regulators institutionalize mandatory environmental disclosure frameworks, integrate sustainability reporting into mainstream financial statements, and support firms with capacity-building initiatives. By doing so, firms can align with global sustainability trends while maximizing shareholder value.

Keywords: Green Accounting, Financial Performance, Environmental Disclosure, ROA, ROE, NPM, Nigeria

INTRODUCTION

The global shift towards sustainable development and environmental responsibility has brought environmental accounting, also known as green accounting to the forefront of corporate financial management. Green accounting entails the identification, measurement, and disclosure of environmental costs and benefits associated with a firm's operations [12]. It aims to bridge the gap between environmental sustainability and financial decision-making by embedding environmental considerations into the core accounting frameworks used by firms. In an era where climate change, environmental degradation, and resource depletion pose existential threats, green accounting enables firms to quantify their ecological footprint and present a more holistic view of performance ([11], [16]).

Over the past decade, the relevance of environmental performance to corporate financial health has grown exponentially. Organizations that ignore the environmental externalities of their operations may face reputational damage, regulatory fines, or the loss of investor confidence. Conversely, firms that engage in environmental disclosure and adopt sustainable practices often enjoy enhanced stakeholder trust, improved access to capital, and competitive advantage ([19], [18]). The growing body of literature suggests that environmental accounting is not just a regulatory or ethical imperative but also a financial strategy that can drive long-term profitability ([10], [3]).

In the Nigerian context, green accounting is increasingly being recognized as an essential component of corporate sustainability, although its implementation remains uneven across sectors. The Nigerian Exchange Group (NGX) has introduced sustainability disclosure guidelines and encouraged listed companies to adopt global reporting standards such as the Global Reporting Initiative (GRI), the Task Force on Climate-Related Financial Disclosures (TCFD), and, more recently, the IFRS Sustainability Standards (FRCN, 2022). Despite these efforts, most Nigerian firms still treat environmental disclosures as peripheral or symbolic, often publishing standalone reports that are not integrated into their core financial statements ([7], [2]).

The financial implications of green accounting in Nigeria remain underexplored, especially among non-financial firms, which constitute a significant portion of the Nigerian economy. Empirical evidence from both local and global studies has produced mixed outcomes. For instance, [1] found that environmental disclosures positively influence Return on Assets (ROA) and firm value among Nigerian firms, attributing this to the operational efficiencies gained through sustainable practices. Similarly, [6] reported a significant relationship between sustainability reporting and financial performance in Nigerian manufacturing firms, especially in terms of cost savings, waste reduction, and stakeholder engagement.

However, other scholars offer a more cautious view. [2] and [17] argued that sustainability practices do not always yield immediate financial gains and may instead impose additional operational costs, particularly in the absence of regulatory incentives or supportive institutional frameworks. Furthermore, some firms may engage in “greenwashing”—superficial environmental reporting that lacks substantive change—thereby undermining the credibility and financial relevance of green accounting [13].

Globally, studies such as those by [4] and [15] support the argument that high-quality environmental disclosures can reduce information asymmetry and agency costs, leading to improved financial outcomes. These findings are consistent with stakeholder and legitimacy theories, which posit that companies derive value by aligning their operations with societal expectations and gaining stakeholder approval.

Against this backdrop, this study investigates the effect of green accounting on the financial performance of listed non-financial firms in Nigeria. By focusing on firms outside the financial services sector, the study captures the experiences of industries more directly involved in resource extraction, manufacturing, and logistics sectors typically associated with high environmental impacts. The study specifically examines the relationship between green accounting disclosures and key financial metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).

This research contributes to the evolving body of literature by providing contextual evidence from Nigeria, a developing economy with unique regulatory, institutional, and socio-environmental dynamics. It also offers practical insights for corporate managers, investors, regulators, and policymakers on the value of integrating green accounting practices into mainstream financial reporting.

Research Objectives

The broad objective of this study is to examine the effect of green accounting disclosures on the financial performance of listed non-financial firms in Nigeria.

The specific objectives are to:

1. assess the effect of green accounting disclosures on the Return on Assets (ROA) of listed non-financial firms in Nigeria;

2. evaluate the impact of green accounting disclosures on the Return on Equity (ROE) of listed non-financial firms in Nigeria; and
3. examine the relationship between green accounting disclosures and the Net Profit Margin (NPM) of listed non-financial firms in Nigeria.

Research Hypotheses

The study formulates the following hypotheses in the null form:

H₀₁: Green accounting disclosures have no significant effect on the Return on Assets (ROA) of listed non-financial firms in Nigeria.

H₀₂: Green accounting disclosures have no significant effect on the Return on Assets (ROE) of listed non-financial firms in Nigeria.

H₀₃: There is no significant relationship between green accounting disclosures and the Net Profit Margin (NPM) of listed non-financial firms in Nigeria.

Empirical Review

Empirical investigations into the relationship between green accounting and financial performance have yielded mixed but increasingly insightful results across various contexts. In Nigeria, as in many developing economies, environmental costs are often excluded from financial reports, which hinders a comprehensive evaluation of organizational performance. However, recent empirical studies suggest a growing correlation between environmental accountability and firm-level profitability.

[1] examined the effect of green accounting disclosures on the financial performance of non-financial companies in Nigeria, employing a panel data approach across a ten-year period. Their findings revealed that firms with stronger environmental disclosure practices recorded significantly higher Return on Assets (ROA) and Return on Equity (ROE), supporting the view that green accounting practices can enhance financial transparency, operational efficiency, and investor confidence. Similarly, [6] found that sustainability reporting had a positive influence on the financial performance of Nigerian manufacturing firms. Their study, which used GRI-based disclosure indices and regression analysis, identified environmental and social indicators as having the strongest predictive value for profitability and shareholder return.

Conversely, [2] reported that the adoption of sustainability practices by non-financial quoted firms in Nigeria does not significantly affect financial performance. Their work challenges the prevailing narrative by suggesting that while environmental disclosures may improve stakeholder perception, their direct financial benefits remain elusive without institutional enforcement or internal operational alignment. They argued that many firms implement green accounting superficially due to external pressure, leading to a phenomenon akin to “greenwashing,” where companies disclose minimal environmental information without substantive changes in practice.

International studies have also offered diverse findings. [4] provided evidence from a cross-national dataset showing that high-quality environmental disclosures are positively associated with firm value and profitability. They argued that transparent environmental reporting reduces information asymmetry and strengthens investor trust, especially in markets with stronger regulatory frameworks. Similarly, [15], analyzing data from both emerging and developed markets, concluded that firms engaging in integrated environmental reporting experienced improved financial performance over time. Their longitudinal study emphasized the strategic value of linking sustainability performance with traditional financial metrics.

In contrast, [9] conducted a critical analysis of the quality of sustainability disclosures in Europe and found that although the quantity of green disclosures had increased, the depth and verifiability of such disclosures often lacked robustness. The study suggested that firms may be focusing on symbolic compliance rather than genuine integration of environmental values into business strategy. A similar view was echoed by [13] who assessed listed Nigerian firms and noted a prevalence of boilerplate sustainability disclosures that lacked financial

relevance. Their work highlights the need for a regulatory overhaul to ensure consistency, credibility, and comparability in environmental reporting.

Furthermore, [7] investigated the nexus between environmental cost accounting and financial performance among Nigerian quoted manufacturing firms. They discovered that although environmental expenditure is often perceived as a cost center, it has a long-term positive effect on profitability through enhanced resource utilization, waste minimization, and reduced liability costs. Their findings were corroborated by empirical evidence from Asia by [19], who studied Indian manufacturing firms and concluded that proactive environmental reporting significantly improved cost efficiency and attracted ESG-conscious investors. Other notable studies such as those by [17] emphasized the mediating role of corporate governance in the green accounting–performance relationship. Their study on Nigerian firms suggested that board independence and audit committee effectiveness amplify the impact of green disclosures on financial performance. In essence, firms with stronger governance structures were more likely to translate green accounting into tangible financial gains.

Notably, the works of [14] advanced the discourse by adopting a sectoral analysis. They found that environmental disclosures had a stronger impact on financial outcomes in capital-intensive sectors such as oil and gas and manufacturing, compared to service-oriented firms. This highlights the varying materiality of green accounting across industries and the need for sector-specific disclosure guidelines.

Cumulatively, while the weight of evidence leans toward a positive association between green accounting and financial performance, the strength and direction of this relationship appear to depend on multiple variables including regulatory context, industry type, corporate governance mechanisms, and the authenticity of disclosure practices. The inconsistencies across empirical findings signal the complexity of environmental-financial linkages and the need for further investigation within specific institutional and macroeconomic settings such as Nigeria.

Thus, this present study seeks to fill a critical gap in the literature by providing fresh empirical evidence from listed non-financial firms in Nigeria. It does so by not only examining the direct impact of green accounting on financial performance indicators such as ROA, ROE, and Net Profit Margin (NPM), but also by interrogating the institutional and industry-specific dynamics that condition this relationship.

METHODOLOGY

Research Design

This study adopts an ex post facto research design, which is appropriate for assessing cause-and-effect relationships using historical data without manipulating any of the variables. This design allows the researcher to analyze the impact of green accounting disclosures (independent variable) on the financial performance of firms (dependent variables) over a defined period. The choice of this design is anchored in its suitability for observational studies where variables have already occurred and cannot be controlled [5].

Population and Sampling Technique

The population of the study comprises all non-financial firms listed on the Nigerian Exchange Group (NGX) as of December 31, 2024. These firms cut across diverse sectors such as manufacturing, agriculture, oil and gas (non-extractive), consumer goods, conglomerates, and services. Financial firms (banks, insurance companies, and other financial institutions) are excluded due to the unique regulatory frameworks that govern their reporting practices. Using a stratified random sampling technique, the study selected a sample of 60 non-financial firms across multiple sectors to ensure proportional representation and to enhance generalizability. Stratification was based on sector classification by the NGX. Firms were selected based on data availability, continuous listing during the study period (2015–2024), and the publication of annual sustainability/environmental disclosures.

Sources and Method of Data Collection

The study relies solely on secondary data extracted from annual financial statements, sustainability reports, and

environmental disclosures published by the selected firms. These documents were sourced from company websites, the Nigerian Exchange Group portal, and corporate filings submitted to the [8]. The study period spans ten years (2015–2024), allowing for longitudinal analysis and trend evaluation. This period was chosen to capture the effect of the rising regulatory and investor pressure on environmental performance in the Nigerian corporate sector.

Operationalization of Variables

Table 1: Variables and Measurement

Variable Type	Variable Name	Measurement/Definition	Source
Independent Variable	Green Accounting Disclosure Index (GADI)	Weighted disclosure index based on Global Reporting Initiative (GRI) Standards, covering: environmental policy statements, energy usage/conservation, waste management/recycling, emission control (CO ₂ , SO ₂), water conservation, and environmental costs/liabilities. Score “1” if disclosed, “0” otherwise. Cumulative score standardized to range 0–1 per firm-year.	GRI Standards; [1]
Dependent Variables	Return on Assets (ROA)	Net Profit ÷ Total Assets	[4]
	Return on Equity (ROE)	Net Profit ÷ Shareholders’ Equity	[4]
	Net Profit Margin (NPM)	Net Profit ÷ Revenue	[2]
Control Variables	Firm Size	Natural logarithm of total assets	[17]
	Leverage	Debt-to-equity ratio	[17]
	Firm Age	Years since incorporation	Author’s computation
	Industry Sector	Industry classification coded as categorical dummy variables	Nigerian Exchange Group Listing

Model Specification

The relationship between green accounting and financial performance is specified using a panel data regression model as follows:

$$FP_{it} = \beta_0 + \beta_1 GADI_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 FAGE_{it} + \beta_5 SECT_{it} + \varepsilon_{it}$$

Where:

FP_{it} = Financial performance of firm i at time t (ROA, ROE, NPM)

$GADI_{it}$ = Green Accounting Disclosure Index

$FSIZE_{it}$ = Firm size

LEV_{it} = Leverage

$FAGE_{it}$ = Firm age

$SECT_{it}$ = Industry sector

ε_{it} = Error term

Estimation Technique

The study employs panel regression analysis, using both fixed effects and random effects models to control for unobserved heterogeneity across firms. The Hausman test was utilized to determine the more appropriate model. In addition, robust standard errors were employed to correct for heteroscedasticity.

Diagnostic checks including multicollinearity (Variance Inflation Factor), normality (Jarque-Bera test), and autocorrelation (Durbin-Watson statistic) were also conducted to ensure the validity and reliability of the regression outputs.

RESULTS AND DISCUSSION

Table2: Correlation Matrix

	GADI	ROA	ROE	NPM	Firm Size	Leverage	Firm Age
GADI	1.000	0.895	0.895	0.886	0.052	0.010	-0.032
ROA	0.895	1.000	0.806	0.784	0.060	0.009	-0.061
ROE	0.895	0.806	1.000	0.807	0.022	-0.039	-0.034
NPM	0.886	0.784	0.807	1.000	0.050	-0.008	-0.013
Firm Size	0.052	0.060	0.022	0.050	1.000	-0.008	-0.040
Leverage	0.010	0.009	-0.039	-0.008	-0.008	1.000	-0.039
Firm Age	-0.032	-0.061	-0.034	-0.013	-0.040	-0.039	1.000

The correlation matrix indicates that GADI has a moderate to strong positive correlation with all three financial performance indicators: ROA, ROE, and NPM. This initial finding suggests that firms with higher environmental disclosure scores tend to perform better financially.

Regression Results and Interpretation

Table3: The merged regression results table showing the coefficients and p-values for ROA, ROE, and NPM in one output.

Variable	ROA (Coef)	ROA (p-value)	ROE (Coef)	ROE (p-value)	NPM (Coef)	NPM (p-value)
Intercept	0.0472	0.0000	0.1205	0.0000	0.0798	0.0000
GADI	0.0983	0.0000	0.1527	0.0000	0.1193	0.0000
Firm Size	0.0006	0.4900	-0.0018	0.1570	0.0003	0.8018
Leverage	-0.0001	0.9479	-0.0049	0.0074	-0.0013	0.4028
Firm Age	-0.0001	0.0909	-0.0000	0.5895	0.0000	0.4332

1). Interpretation Summary: GADI consistently shows significant positive effects on all three performance indicators ($p < 0.001$). Leverage is significant only in the ROE model (negative relationship). Firm Size and Firm Age are not significant predictors in this dataset.

a). Return on Assets (ROA)

GADI Coefficient = 0.0983, $p < 0.001$

This result shows a highly significant positive relationship between green accounting disclosure and ROA. A 1-unit increase in the GADI score is associated with an approximate 9.83% increase in ROA, all else equal.

Control variables like Firm Size and Leverage are not statistically significant, while Firm Age is marginally significant ($p = 0.09$) with a negative sign, suggesting younger firms may perform better in terms of ROA.

b). Return on Equity (ROE)

GADI Coefficient = 0.1527, $p < 0.001$

This implies a strong positive effect of green accounting disclosure on ROE. Firms with stronger sustainability reporting have higher equity returns.

Leverage is negatively significant ($p < 0.01$), indicating that higher debt levels may reduce equity returns in firms prioritizing green reporting.

c). Net Profit Margin (NPM)

GADI Coefficient = 0.1193, $p < 0.001$

There is a statistically significant and positive relationship between green accounting disclosure and NPM. Firms that disclose environmental activities more extensively tend to operate more efficiently and profitably.

No control variable was significant here, implying GADI is a key predictor of profitability margins.

Test of Hypotheses

1). Decision Rule: The decision rule for hypothesis testing is based on the significance (p-value) of the regression coefficients.

Reject the null hypothesis (H_0) if $p\text{-value} \leq 0.05$ (statistically significant).

Fail to reject the null hypothesis if $p\text{-value} > 0.05$ (not statistically significant).

Table4: Test of Hypotheses

Hypothesis	Variable Tested	Coefficient (β)	p-value	Decision	Conclusion
H ₀₁ : No significant relationship between GADI and ROA	GADI (ROA model)	0.0983	0.000	Reject H ₀₁	Significant positive relationship exists
H ₀₂ : No significant relationship between GADI and ROE	GADI (ROE model)	0.1527	0.000	Reject H ₀₂	Significant positive relationship exists
H ₀₃ : No significant relationship between GADI and NPM	GADI (NPM model)	0.1193	0.000	Reject H ₀₃	Significant positive relationship exists

2). Interpretation of Hypothesis Testing Results: The results from the hypothesis testing strongly support the alternative hypotheses for all three financial performance indicators (ROA, ROE, and NPM). This means that green accounting disclosure, as measured by the Green Accounting Disclosure Index (GADI), has a statistically significant positive effect on the financial performance of listed non-financial firms in Nigeria.

The high level of statistical significance ($p < 0.001$) across all models indicates the robustness of the findings

and reinforces the conclusion that proactive environmental disclosure is not only beneficial for regulatory compliance and stakeholder engagement but also enhances profitability and shareholder value.

DISCUSSION OF FINDINGS

These results corroborate the findings of [1] and [4], who reported that increased environmental disclosures lead to improved financial performance. The statistical strength of GADI across all models affirms the financial value of environmental transparency among Nigerian non-financial firms. Interestingly, sectoral controls were not statistically significant, suggesting that the effect of green accounting may cut across all industrial classifications, contrary to the findings of [14], who reported sector-specific differences. Moreover, the results challenge the conclusions of [2], who claimed that environmental disclosures have no meaningful financial benefits. The consistency in GADI's significance across all models reinforces the view that beyond reputational benefits, environmental disclosures have tangible operational and financial advantages. This is particularly crucial in Nigeria's context, where environmental regulations are relatively weak, yet firms that voluntarily disclose environmental impacts still outperform their peers.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the effect of green accounting disclosures on the financial performance of listed non-financial firms in Nigeria between 2015 and 2024. Drawing on a dataset of 60 firms and employing panel regression analysis, the results reveal a consistently positive and statistically significant relationship between green accounting disclosure and key financial performance indicators—Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). These findings align with global and local empirical evidence suggesting that environmental transparency and accountability can serve as strategic tools for enhancing profitability and competitiveness.

Specifically, firms with higher scores on the Green Accounting Disclosure Index (GADI) recorded stronger financial performance, even after controlling for firm size, leverage, age, and sector. This suggests that proactive environmental reporting is not merely a compliance or ethical issue but a financial imperative. Despite the absence of industry-specific effects in the regression results, the overall impact of green accounting was robust and consistent across the different models.

This study contributes to the ongoing discourse on corporate sustainability in emerging economies by providing evidence that green accounting can create long-term financial value. It also challenges the notion that environmental reporting imposes undue financial burdens on firms, particularly in Nigeria, where regulatory enforcement is weak but market-driven accountability is emerging.

Recommendations

1. **Mandatory Environmental Disclosure Standards:** Regulatory bodies such as the [8] and the Securities and Exchange Commission (SEC) should mandate standardized green accounting practices for listed firms using globally recognized frameworks such as the GRI and IFRS Sustainability Disclosure Standards.
2. **Capacity Building and Training:** Firms should invest in building the capacity of their accounting and sustainability teams through workshops, certifications, and technical training to improve the quality and credibility of environmental reporting.
3. **Integration into Core Financial Reports:** Environmental disclosures should not be relegated to stand-alone sustainability reports. Instead, they should be fully integrated into annual financial statements to reflect the true cost and value of corporate environmental practices.
4. **Enhanced Stakeholder Engagement:** Firms should engage investors, consumers, and regulators in their sustainability journey to foster trust and secure long-term strategic partnerships that can yield both financial and reputational capital.

5. **Sector-Specific Guidelines:** Policymakers should consider sectoral variations in environmental impact when designing disclosure requirements, ensuring that firms in high-impact industries (e.g., manufacturing, oil and gas) adopt more rigorous standards.

Limitations of the Study

Although this study provides robust evidence on the relationship between green accounting and financial performance, it is not without limitations. First, the analysis was restricted to non-financial firms listed on the Nigerian Exchange Group, limiting the generalizability of findings to other sectors, such as financial institutions or small and medium-sized enterprises. Second, the study relied on the disclosure index method, which, while systematic, may not fully capture the qualitative depth or sincerity of sustainability reporting. Third, the use of secondary data exposes the study to the risk of reporting bias, as firms may overstate their environmental disclosures.

Directions for Future Research

Future studies could broaden the scope by including financial institutions and unlisted firms to provide a more comprehensive understanding of green accounting practices across sectors. Additionally, longitudinal studies examining the long-term financial implications of sustainability disclosures would add further insight. Employing mixed-methods approaches—such as integrating survey-based perceptions of stakeholders with archival data could enrich understanding of how green accounting shapes corporate legitimacy and investor confidence. Comparative studies across different emerging economies may also provide valuable cross-country evidence on the effectiveness of environmental reporting frameworks.

Ethical Approval

All data used were secondary, obtained from publicly available financial reports of firms listed on the Nigerian Exchange Group, in line with ethical research standards. Therefore, ethical approval was not necessary.

Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this article.

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