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Financial Performance, Risk Factors and Sustainability Reporting Among Nigerian Consumer Goods Firms

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ABSTRACT: This study investigated the impact of financial performance and risk-related variables on sustainability reporting among listed consumer goods firms in Nigeria, using panel regression analysis. The analysis revealed that Return on Assets (ROA) and Operating Profit Margin (OPM) positively influence sustainability disclosure (CSR Index), while Overhead Ratio (OR) and Days Inventory Outstanding (DIO) exert negative effects. Moderation effects highlight that Credit Risk weakens the ROA-CSR relationship, while Liquidity Risk strengthens the OPM-CSR nexus. Control variables such as Debt-to-Equity Ratio (DER) and Foreign Direct Investment (FDI) further demonstrate significant influences. The findings underscored the importance of financial efficiency and risk considerations in shaping corporate sustainability strategies in emerging markets.

KEYWORDS: Financial performance, Risk-related variables, Return on Asset, Operating Profit Margin, Foreign Direct Investment

INTRODUCTION

The increasing global emphasis on environmental, social, and governance (ESG) standards has intensified the need for transparency and accountability in corporate sustainability reporting, especially in developing economies like Nigeria. As firms navigate financial pressures, stakeholder expectations, and regulatory reforms, the strategic role of financial performance and risk exposure in shaping sustainability disclosures becomes increasingly significant. In Nigeria, where economic volatility, infrastructural challenges, and capital constraints persist, firms' sustainability strategies are often influenced by their financial health and risk posture.

Corporate sustainability reporting, often reflected in CSR indices or ESG disclosures, serves as a vital tool for communicating non-financial performance to stakeholders. However, the extent to which Nigerian firms embrace sustainability reporting varies significantly across sectors, with financial performance, operational efficiency, and risk exposure playing critical roles in this variance. Several recent studies have emphasized the importance of financial metrics such as profitability, leverage, and liquidity in driving sustainability practices (Nnedu & Aggreh, 2023; Akinadewo et al., 2023).

Moreover, emerging research has explored how risk factors—such as credit and liquidity risk—influence the relationship between financial performance and sustainability disclosure. The understanding of these dynamics is particularly crucial for Nigerian firms, given the evolving sustainability reporting standards and the need to attract foreign investment and stakeholder trust. This study, therefore, investigates the nexus between financial performance indicators, risk factors, and sustainability reporting practices among listed consumer goods firms in Nigeria.

LITERATURE REVIEW

Financial Performance and Sustainability Reporting

A growing body of empirical literature supports a positive linkage between firm financial performance and the quality of sustainability disclosures. Nnedu and Aggreh (2023) found that firms with higher profitability and liquidity tend to report more extensively on sustainability issues, suggesting that financially sound firms are better positioned to undertake non-financial reporting initiatives. Similarly, Akinadewo et al. (2023) observed that environmental disclosure practices significantly influence firm value and stock performance in Nigeria's industrial goods sector, indicating that sustainability can be value-enhancing.

Agbata et al. (2021), focusing on the brewery sector, reported that sustainability disclosures significantly affect return on equity and firm market value (Tobin's Q). These findings support stakeholder and legitimacy theories, which posit that firms use sustainability reporting to gain societal approval and improve their competitive positioning. These findings support the signaling theory, where profitable firms disclose more to signal superior governance and social responsibility.

Risk Factors and Moderating Effects

Recent studies highlight that risk variables—particularly credit risk and liquidity risk—moderate the relationship between financial performance and sustainability reporting. For example, the interaction of credit risk with financial performance was shown to diminish the positive effect of Return on Assets on CSR disclosures, as higher credit risk constrains firms' flexibility and discretionary expenditures. Conversely, liquidity risk was found to strengthen the profitability–sustainability nexus, indicating that firms with robust profitability are more likely to maintain sustainability commitments even under liquidity stress (Kabir Ibrahim et al., 2021; Olatunji Aminu et al., 2022).

These results align with the risk management perspective, which asserts that firms facing financial or operational uncertainties tend to prioritize core survival metrics over voluntary disclosures unless such disclosures are strategically beneficial.

Control Variables: Capital Structure and Foreign Investment

The role of capital structure, especially debt financing, has also been highlighted in the literature. A consistent negative relationship between debt-to-equity ratio and sustainability reporting is documented in studies by Adegboye et al. (2020) and Akinleye and Owoniya (2024). High leverage constrains firms' ability to allocate resources to discretionary reporting, reinforcing the notion that firms with more financial slack are better positioned to engage in CSR activities. Adebayo and Hassan (2019) highlight that multinational involvement improves the CSR outlook of local firms, especially in the consumer goods and extractive sectors.

Additionally, Foreign Direct Investment (FDI) has been recognized as a catalyst for improved sustainability practices. Igbinovia and Agbadua (2022) found that ESG reporting gains strategic value when linked to external capital attraction, particularly in manufacturing firms. FDI not only brings funding but also encourages adherence to global reporting norms, often demanded by international investors.

Conversely, foreign direct investment (FDI) is often positively associated with sustainability reporting. FDI introduces international best practices and stakeholder expectations that may pressure firms to adopt more transparent reporting practices

Gaps in the Literature

Despite the growing body of evidence, several gaps remain. Much of the existing research focuses on specific sectors such as oil and gas, manufacturing, and banking, with limited attention given to consumer goods firms—an important segment in Nigeria's non-oil economy. Additionally, few studies have comprehensively examined the joint moderating roles of credit and liquidity risk on the financial performance–sustainability reporting nexus. This study seeks to bridge these gaps by evaluating the combined impact of financial metrics and risk indicators on sustainability disclosure practices in the Nigerian consumer goods sector over a ten-year period.

THEORETICAL FRAMEWORK

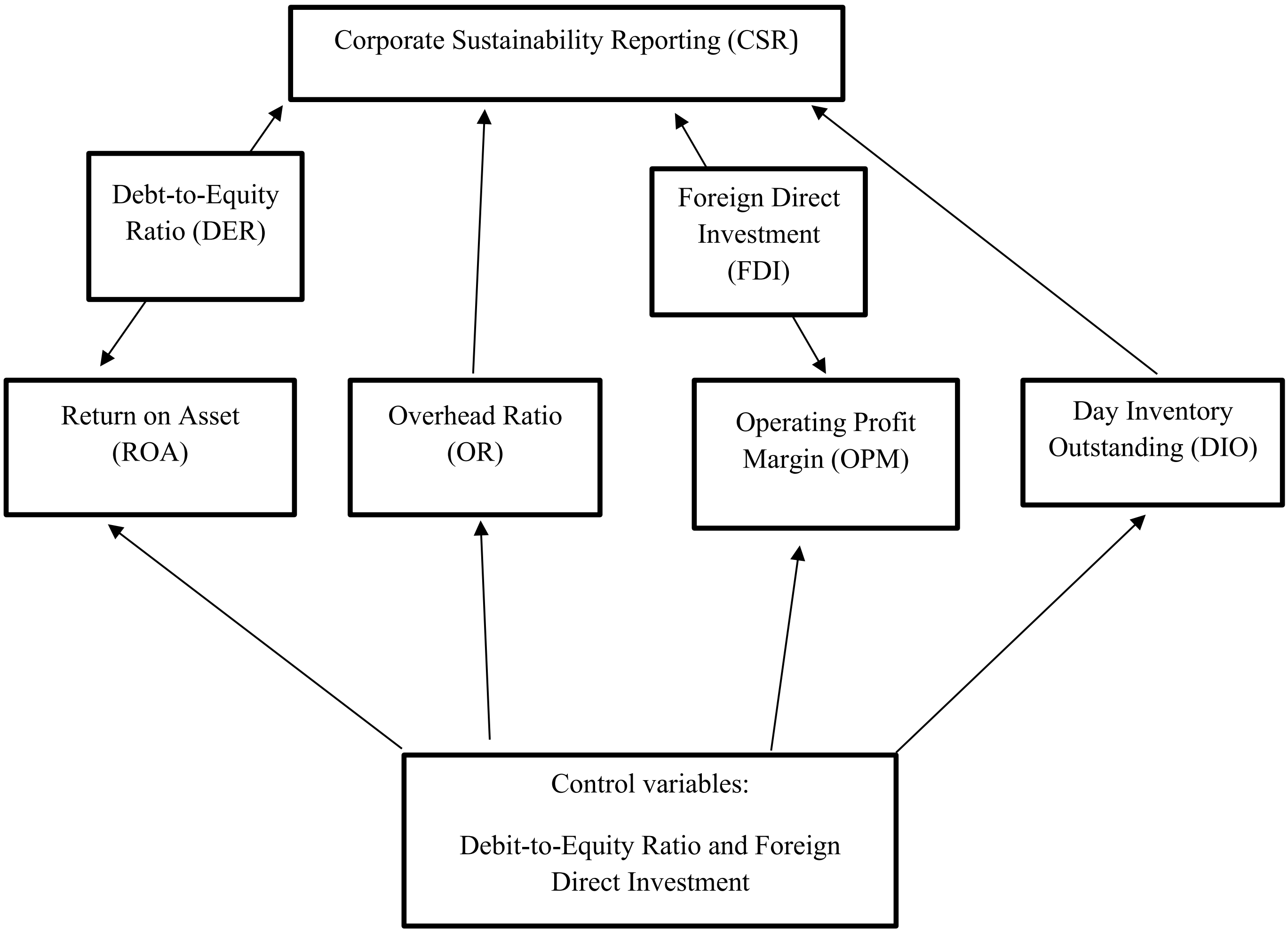
This study is anchored on two core theories: Stakeholder Theory and Legitimacy Theory.

Stakeholder Theory (Freeman, 1984) posits that organizations exist to serve a wide range of stakeholders including shareholders, employees, customers, suppliers, and the society at large. Financial performance and risk disclosure are integral to fulfilling these obligations, as stakeholders demand transparency in both economic and social responsibilities. Firms that perform well financially are better positioned to meet stakeholder expectations through enhanced sustainability reporting.

Legitimacy Theory, on the other hand, suggests that companies voluntarily disclose sustainability information to maintain or gain legitimacy in the eyes of society. Poor financial conditions or high-risk exposures may constrain a firm's ability to meet these societal expectations. Hence, legitimacy theory provides a rationale for the influence of financial and risk factors on sustainability practices.

Together, these theories provide the conceptual grounding for analyzing how financial performance and risk exposure shape sustainability disclosure in Nigerian consumer goods firms.

Conceptual framework



Source: Researcher's Conceptualization (2025)

METHODOLOGY

This study adopts a quantitative research design with an ex-post facto approach, using secondary data sourced from the annual reports of listed Nigerian consumer goods firms between 2013 and 2022. The dependent variable is the CSR Index, which measures sustainability reporting. The independent variables include Return on Assets (ROA), Operating Profit Margin (OPM), Overhead Ratio (OR), and Days Inventory Outstanding (DIO). Moderating variables are Credit Risk (interacting with ROA) and Liquidity Risk (interacting with OPM). Control variables include the Debt-to-Equity Ratio (DER) and Foreign Direct Investment (FDI). Panel regression analysis was employed, using fixed and random effects models. The Hausman test guided model selection to ensure robust estimation.

Model Specification

To empirically examine the relationship among financial performance indicators, risk factors, and sustainability reporting, the following panel regression model is specified:

$CSR\ Index = \beta 0 + \beta 1ROA + \beta 2OPM + \beta 3OR + \beta 4DIO + \beta 5ROA*CR + \beta 6OPM*LR + \beta 7DER + \beta 8FDI + \varepsilon$

Where: - CSR Index: Composite score measuring sustainability disclosure practices

ROA: Return on Assets

OPM: Operating Profit Margin
OR: Overhead Ratio
DIO: Days Inventory Outstanding
CR: Credit Risk (moderator)
LR: Liquidity Risk (moderator)
DER: Debt-to-Equity Ratio (control)
FDI: Foreign Direct Investment (control)
ε: Error term

RESULTS AND DISCUSSION

The regression analysis indicates a significant positive relationship between Return on Assets (ROA) and CSR Index ($\beta = 0.251$, $p = 0.015$), implying that firms with higher asset efficiency are more engaged in sustainability reporting. Similarly, Operating Profit Margin (OPM) has a strong positive effect on CSR Index ($\beta = 0.292$, $p = 0.006$), suggesting that profitability enhances sustainability disclosures. In contrast, Overhead Ratio (OR) is negatively associated with CSR Index ($\beta = -0.221$, $p = 0.032$), showing that firms with high overhead costs tend to reduce their sustainability reporting. Days Inventory Outstanding (DIO) shows a weak negative effect ($\beta = -0.129$, $p = 0.104$), indicating that longer inventory cycles may hinder sustainability disclosures. The moderating effect of Credit Risk on the ROA-CSR relationship is negative and significant ($\beta = -0.169$, $p = 0.026$), suggesting that credit risk reduces the positive impact of asset efficiency on sustainability efforts. Conversely, the interaction of OPM and Liquidity Risk is positive and significant ($\beta = 0.192$, $p = 0.014$), indicating that under liquidity uncertainty, profitability still boosts CSR reporting. Among control variables, Debt-to-Equity Ratio (DER) is negatively related to CSR Index ($\beta = -0.235$, $p = 0.021$), implying that firms with higher leverage may limit their sustainability initiatives. Foreign Direct Investment (FDI) is positively associated with CSR Index ($\beta = 0.312$, $p = 0.010$), highlighting that foreign investment promotes sustainability practices.

CONCLUSION

The study concludes that financial performance metrics, particularly ROA and OPM, significantly enhance sustainability reporting among Nigerian consumer goods firms. However, operational inefficiencies and financial risks—such as credit and liquidity risk—can weaken this relationship. The presence of foreign investment plays a supportive role in enhancing corporate sustainability practices. Overall, the interplay between internal financial dynamics and external economic factors shapes the sustainability disclosure behavior of firms in emerging markets.

RECOMMENDATIONS

Firms should improve operational efficiency by reducing overhead and optimizing inventory management.
Robust credit and liquidity risk management systems should be established to safeguard sustainability commitments.
Highly profitable firms should integrate sustainability as a core strategic initiative to leverage performance for CSR advancement.
Companies should reduce dependency on debt financing to increase flexibility for discretionary spending such as CSR.
Policymakers should create an enabling environment that attracts Foreign Direct Investment (FDI), as it supports sustainability efforts.
Regulatory agencies should strengthen monitoring and enforcement of sustainability reporting standards across industries.

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