



Environmental Audit and Corporate Performance in Nigeria: A Moderating Role of Sustainability Reporting

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Article Info

ISSN (online): 2583-6641

Impact Factor (RSIF): 8.56

Volume: 05

Issue: 02

March-April 2026

Received: 16-01-2026

Accepted: 15-02-2026

Published: 14-03-2026

Page No: 100-108

Abstract

This study investigates the effect of environmental audit and sustainability reporting on the corporate performance of listed manufacturing companies in Nigeria. It looks at the impact of sustainability reporting on both environmental audit and corporate performance. Secondary data from the annual reports and corporate websites of listed manufacturing companies in Nigeria were adopted. A panel OLS regression using fixed effects for 42 listed companies on the Nigerian Exchange Group over the period 2014–2024 was utilised. The findings revealed that environmental violation report (EVR), regulation compliance (RGC), risk assessment (RAM), risk disclosure (RDC), and governance structure (GST) have positive and significant effects on stock price. Governance structure demonstrated the strongest influence on corporate performance. In contrast, employee training and awareness (ETA) showed a negative and insignificant result. In addition, sustainability reporting (STR), as a moderator, showed a positive and significant impact on its interaction with regulation compliance (RGC), risk assessment (RAM), risk disclosure (RDC), and governance structure (GST). However, the environmental violation report (EVR) was insignificant, while employee training and awareness (ETA) indicated a negative and significant result. The study concludes that effective environmental audits and sustainability reporting significantly enhance corporate market performance in Nigeria's manufacturing sector, with governance and compliance mechanisms playing the most influential roles.

Keywords: Corporate Performance, Environmental Audit, Sustainability Reporting

Introduction

Corporate performance in the global manufacturing sector is increasingly shaped by economic volatility, environmental risks, technological disruption, and rising economic, social and governance (ESG) expectations. Inflation, market instability, geopolitical tensions, supply chain disruptions, and rapid digital transformation have heightened the need for robust risk management, cybersecurity, and transparent governance systems (International Monetary Fund, 2023) ^[17]; (World Economic Forum, 2024) ^[44]; (United Nations Global Compact, 2023) ^[37]. In Nigeria, these global challenges are amplified by structural weaknesses such as policy inconsistency, infrastructural deficits, weak regulatory enforcement, high financing costs, and declining foreign investment. Manufacturing firms face heightened regulatory scrutiny and reputational risk due to their environmental footprint, which can negatively affect profitability and market valuation (World Bank, 2023) ^[43].

Against this backdrop, environmental audits are essential governance tools to ensure compliance, mitigate environmental risks, and enhance accountability. Evidence shows that uneven compliance, weak disclosure of environmental violations, and inadequate governance structures among Nigerian firms contribute to higher operational risks, lower return on assets ("ROA"), and adverse stock performance (Buallay, 2020) ^[10]; (Nawaiwu & Okoh, 2025) ^[23]. Hence, sustainability reporting acts as a signal of credible environmental practices but remains largely voluntary and inconsistent in Nigeria. High-quality reporting can reduce information asymmetry, improve investor confidence, and strengthen both accounting and market-based performance, whereas symbolic disclosures diminish these benefits (Friede *et al.*, 2015) ^[16]; (World Economic Forum, 2024) ^[44].

Despite research interest, gaps persist. Prior studies often focus on single performance metrics, extractive industries, or cross-sectional designs, leaving listed manufacturing firms underexplored. Few have examined how sustainability reporting moderates the relationship between environmental audits, covering compliance, risk management, and governance, and corporate performance. However, research into the moderating factor of sustainability reporting is limited. This study examines the impact of environmental audits and sustainability reporting on the corporate performance of listed Nigerian manufacturing companies. It also assesses both accounting-based (ROA) and market-based (stock price) outcomes while exploring sustainability reporting as a moderating factor. The study addresses conceptual, theoretical, and empirical gaps, providing insights into the role of environmental governance and disclosure in enhancing corporate performance in emerging markets.

2. Literature Review

This section discusses the literature and establishes the theoretical basis for the research.

2.1.1. Stock Price

Stock price reflects investor perception of a company's financial health, growth prospects, and governance practices. It is influenced by both financial performance and non-financial factors such as environmental compliance and ESG disclosures (Eccles & Krzus, 2021) ^[12]. In recent years, there has been growing empirical evidence showing that firms with robust environmental practices and sustainability reporting often enjoy better stock price performance due to enhanced investor confidence and lower perceived risk (Yau *et al.*, 2024) ^[42]; (Zhang *et al.*, 2024) ^[45].

2.1.2. Sustainability Reporting

Sustainability reporting represents the systematic disclosure of an organization's environmental, social, and governance (ESG) activities, performance metrics, and strategic initiatives that demonstrate commitment to sustainable business practices. In the context of Nigerian manufacturing companies, sustainability reporting has evolved from a voluntary practice to an increasingly formalised requirement, with the Financial Reporting Council of Nigeria (FRCN) adopting the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards and establishing a phased implementation roadmap (Fasua & Umasabor, 2025) ^[14]; (Tanko & Okafor, 2023) ^[34].

2.1.3. Environmental Audits

Environmental audits represent a systematic, documented, and objective evaluation process designed to assess a company's environmental management systems, compliance with regulations, and overall environmental performance. Empirical evidence shows that well-implemented audits improve financial outcomes by reducing waste and legal liabilities, while also boosting stakeholder confidence and operational transparency (Ali-Momoh *et al.*, 2024) ^[7]; (Adetayo *et al.*, 2024) ^[3].

2.1.3.1. Environmental Compliance

Environmental compliance refers to the adherence of companies to environmental laws, regulations, and standards,

and it is a critical factor in shaping the relationship between environmental audits and corporate performance among listed manufacturing firms in Nigeria (Moses *et al.*, 2019) ^[22].

2.1.3.1.1. Environmental violation report

An environmental violation report documents instances where a company fails to comply with environmental laws, regulations, or standards. It serves as a crucial mechanism for regulatory oversight and public accountability in Nigeria's manufacturing sector. These reports are often the outcome of environmental audits, which systematically assess firms' environmental practices and compliance status (Moses *et al.*, 2019) ^[22].

2.1.3.1.2. Regulation compliance

Regulatory compliance refers to an organization's adherence to environmental laws, standards, and policies relevant to its operations—an essential component of sustainable corporate governance, particularly within Nigeria's manufacturing sector. Compliance oversight is jointly administered by regulatory institutions such as the National Environmental Standards and Regulations Enforcement Agency (NESREA), the Department of Petroleum Resources (DPR), and the Nigerian Stock Exchange (NGX), all of which are tasked with ensuring proper environmental practices among listed firms (National Environmental Standards and Regulations Enforcement Agency, 2022) ^[24].

2.1.3.2. Environmental Risk Management

Environmental risk management encompasses the identification, assessment, and mitigation of potential environmental hazards that could adversely affect the operations and performance of manufacturing companies. In the context of listed manufacturing companies in Nigeria, effective environmental risk management is increasingly recognized as a strategic imperative, as it not only safeguards firms from regulatory penalties and reputational damage but also enhances operational efficiency and long-term sustainability (Novatia Consulting, 2023) ^[26].

2.1.3.2.1. Risk Assessment

Risk disclosure refers to the transparent communication of environmental, social, and governance (ESG) risks by companies in their corporate reports, including sustainability reports, annual financial statements, and regulatory filings. In Nigeria's manufacturing sector, where environmental risks are increasingly linked to regulatory sanctions, reputational damage, and operational disruptions, robust risk disclosure has emerged as a critical mechanism for safeguarding stakeholder trust and ensuring long-term corporate resilience (Uwuigbe & Jimoh, 2023) ^[40].

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2.1.3.3. Environmental Governance

Environmental governance encompasses the institutional frameworks, regulatory systems, corporate policies, and managerial practices that direct how organizations manage their environmental responsibilities. It reflects the interplay between corporate leadership, stakeholder expectations, and regulatory enforcement in driving sustainable business practices. In Nigeria's manufacturing sector, where environmental degradation and compliance challenges remain significant, robust environmental governance is increasingly recognized as essential for achieving long-term corporate performance and environmental stewardship (Nguyen *et al.*, 2021) ^[25].

2.1.3.3.1. Governance Structure

Recent empirical studies have explored the impact of governance structure on corporate performance, revealing both positive and context-dependent outcomes. According to Angwaomadoko (2024) ^[8], effective governance structures, comprising engaged boards, accountable executive management, active shareholders, and strong regulatory oversight, enhance risk management, transparency, and long-term value creation. These structures mitigate agency conflicts, improve decision-making, and foster investor confidence.

2.1.3.3.2. Employee Training and Awareness

Employee training and awareness refer to structured initiatives designed to enhance the environmental knowledge, competencies, and behavioral engagement of employees across all levels of an organization. In the context of Nigerian listed manufacturing firms, employee capacity-building in environmental practices plays a central role in translating board-level sustainability strategies into actionable outcomes (Skadden *et al.*, 2023) ^[33].

2.2. Theoretical Review

This study is anchored on two key theoretical perspectives: Stakeholder theory and legitimacy theory.

2.2.1. Stakeholder Theory

Stakeholder theory, pioneered by Freeman (1984) ^[15], emphasizes that organizations must create value for a diverse group of stakeholders, ranging from employees, regulators, investors, and community members, rather than focusing solely on shareholder interests. The theory assumes that long-term business success hinges on effective stakeholder engagement and ethical management, particularly within environmentally sensitive industries such as manufacturing. In this context, stakeholder concerns about pollution, energy efficiency, and sustainability drive corporate practices like environmental audits and sustainability reporting (Freeman, 1984) ^[15]; (Omotilewa *et al.*, 2024) ^[31].

Nonetheless, stakeholder theory has been critiqued for its broad scope and lack of prioritization mechanisms, particularly when stakeholder interests conflict, such as between profit-driven shareholders and environmental activists. This complexity is particularly pronounced in Nigeria's volatile business climate, where governance gaps and weak enforcement may dilute stakeholder trust (Olayinka & Owolabi, 2021) ^[29]. However, despite these limitations, stakeholder theory remains the most contextually suitable model for this study, as it accounts for the interplay between

environmental responsibility, corporate strategy, and diverse stakeholder demands.

2.2.2. Legitimacy Theory

Legitimacy theory, developed by Dowling and Pfeffer (1975) ^[11], posits that firms must conform to prevailing societal norms and expectations to gain legitimacy and secure their continued operation. This theory assumes that corporations proactively manage perceptions by strategically disclosing information, including sustainability reports and environmental audit outcomes, to demonstrate alignment with societal and environmental values (Omokaro & Oba, 2022) ^[30].

2.3. Empirical Review

Recent empirical literature demonstrates that sustainability reporting is closely linked with environmental auditing and corporate performance, although its effects differ depending on institutional settings, industry characteristics, and disclosure quality (Li *et al.*, 2024) ^[21]; (Wang *et al.*, 2024) ^[41].

Empirical findings largely indicate that sustainability reporting improves internal financial performance and environmental outcomes. Li *et al.* (2024) ^[21] report enhancements in return on assets (ROA) among Chinese firms, while Obiora and Ijoma (2022) ^[27] find significant positive effects on return on equity (ROE) and net assets per share for Nigerian manufacturing firms.

However, market-based and short-term financial outcomes appear less consistent. Li *et al.* (2024) ^[21] identifies a decline in Tobin's Q despite improvements in accounting-based returns, suggesting cautious investor reactions. Wang *et al.* (2024) ^[41] also observe that while mandatory sustainability disclosures improved ESG scores, they slightly weakened certain social performance indicators due to internal resource reallocation, reflecting multidimensional trade-offs.

Environmental auditing constitutes an important but underexplored moderating factor. While sustainability reporting enhances transparency and disclosure breadth, environmental audits strengthen assurance, accountability, and ESG risk oversight. Tanriverdi and Venkatraman (2023) ^[35] find that sustainability compliance reporting has a stronger positive impact on ROA and ROE in manufacturing firms compared to service firms, likely due to greater environmental intensity and regulatory pressure. Nonetheless, most empirical research concentrates on large firms in developed or Asian economies, leaving emerging markets, especially Nigeria, relatively underexplored (Obiora & Ijoma, 2022) ^[27].

Overall, sustainability reporting contributes positively to environmental performance and long-term corporate value, especially when integrated with effective environmental auditing and ESG risk management systems. Yet, its short-term financial implications may be mixed, and its overall effectiveness depends on disclosure quality, audit credibility, industry structure, and institutional context.

3. Methodology

This study employed a mixed-methods research design within a longitudinal research framework to examine the impact of environmental audits and sustainability reporting on the corporate performance of listed manufacturing companies in Nigeria. The population of this study consisted

of 46 manufacturing companies listed on the Nigerian Exchange Group as at 31st December 2024. The period 2014-2024 was used due to the availability of data and increased environmental audit awareness noticed within those periods. Thus, 42 out of 46 listed manufacturing companies were investigated due to data availability. Therefore, Table 1 gives a detailed sample of the manufacturing companies:

Table 1: Sample of Listed Manufacturing Companies

S/N	Sector	Number of Companies	Sample Size after Filter
1	Agriculture	5	5
2	Conglomerate	2	2
3	Consumer Goods	20	17
4	Healthcare	7	6
5	Industrial Goods	12	12
	Total	46	42

Source: Nigerian Exchange Group, 2024

3.1. Model Specification

This study adapts the model by Afolabi (2024), which

examined the effect of environmental auditing on the profitability and liquidity of quoted manufacturing companies in Nigeria.

$$STP_{it} = \beta_0 + \beta_1 EVR_{it} + \beta_2 RGC_{it} + \beta_3 RAM_{it} + \beta_4 RDC_{it} + \beta_5 GST_{it} + \beta_6 ETA_{it} + \varepsilon_{it} \dots (3.4).$$

When SRI is introduced as a moderator, the model becomes:
When SRI is introduced as a moderator, then equation (3.2) becomes

$$STP_{it} = \beta_0 + \beta_1(EVR*SRI)_{it} + \beta_2(RGC*SRI)_{it} + \beta_3(RAM*SRI)_{it} + \beta_4(RDC*SRI)_{it} + \beta_5(GST *SRI)_{it} + \beta_6(ETA*SRI)_{it} + \varepsilon_{it} \dots (3.5).$$

i = Individual firm

t = Year

ε = Stochastic Error Term

β_0 = Intercept of the regression line, regarded as constant

$\beta_1 \dots \beta_6$ = Coefficient or slope of the regression line or independent variables

Table 2: Variable Measurement:

Variable(s)	Symbol	Operationalisation	Source
Dependent Variable			
Corporate Performance	STP	Measured using Stock Price, capturing market valuation. Stock Price measured as market value per share at year-end.	Brigham & Houston (2021); Akinleye & Owoniya (2024); Nguyen <i>et al.</i> (2021)
Independent Variables			
Environmental Violation Report	EVR	Number of documented regulatory non-compliance cases/report, penalties or sanctions, or public disclosures from NESREA.	Moses <i>et al.</i> (2019); Iredele (2020); Afolabi <i>et al.</i> (2023)
Regulation Compliance	RGC	Compliance audit scores or regulatory penalties paid, inspection pass rates, or adherence to environmental laws, regulatory standards, and sector-specific policies that are verified through audit reports and regulatory filings.	NESREA (2022); Uwalomwa <i>et al.</i> (2023); Erin <i>et al.</i> , (2023)
Risk Assessment	RAM	Presence of formal risk assessment policies, frequency of risk audits, and risk registers derived from audit reports and internal risk logs.	Khan <i>et al.</i> (2022); Erin <i>et al.</i> (2022)
Risk Disclosure	RDC	Extent of risk disclosure in annual reports, quality of risk narrative using disclosure index	Kotsantonis <i>et al.</i> (2020); Ali-Momoh <i>et al.</i> (2024)
Governance Structure	GST	Presence of environmental committee, board environmental expertise, ESG oversight	Angwaomaodoko (2024)
Employee Training and Awareness	ETA	Number of training hours, training coverage percentage, and employee certification rates	Skadden <i>et al.</i> (2023)
Moderating Variable			
Sustainability Reporting	SRI	Disclosure index	GRI, 2023

Source: Prepared by the researchers, 2026, guided by prior studies.

3. Analysis and Results

Table 3: Descriptive Statistics

	STP	EVR	RGC	RAM	RDC	GST	ETA
Mean	1545.141	1.664502	1.606061	1.506494	1.439394	1.575758	1.571429
Median	5.650000	2.000000	2.000000	2.000000	1.000000	2.000000	2.000000
Maximum	693602.0	3.000000	3.000000	3.000000	3.000000	3.000000	3.000000
Minimum	-72.27000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Std. Dev.	32267.61	0.906709	0.945710	0.835078	0.809117	0.964498	1.048853
Skewness	21.42360	0.011377	-0.252861	-0.255482	0.024499	-0.069986	-0.104625
Kurtosis	459.9811	2.104903	2.168142	2.438853	2.503965	2.041960	1.821857
Jarque-Bera	4055352.	15.43304	18.24405	11.08742	4.782700	18.04558	27.56230
Probability	0.000000	0.000445	0.000109	0.003912	0.091506	0.000121	0.000001
Observations	462	462	462	462	462	462	462

Source: Researchers' Computation (2026)

Table 3 presents the descriptive statistics of the variables used, namely STP, EVR, RGC, RAM, RDC, GST, and ETA, based on 462 observations. The dependent variable, STP, has a mean value of 1545.141, indicating that, on average, the sampled observations recorded relatively high values of STP, though with substantial variation across units. This is reflected in its very large standard deviation of 32,267.61, which suggests considerable dispersion around the mean. The

minimum value of STP is -72.27, while the maximum is 693,602.0, showing extreme variability in the data. The median value of 5.65 is far lower than the mean, implying that the distribution of STP is heavily skewed. This is confirmed by the skewness coefficient of 21.4236, which indicates a highly positively skewed distribution, and the kurtosis value of 459.98, suggesting an extremely leptokurtic (peaked) distribution with heavy tails.

4.2. Correlation Analysis

Table 4: Correlation Matrix

	STP	EVR	RGC	RAM	RDC	GST	ETA
STP	1.000000						
EVR	-0.034311	1.000000					
RGC	0.019566	-0.167115	1.000000				
RAM	0.027501	0.010046	0.033460	1.000000			
RDC	0.032318	-0.209618	-0.011425	0.157894	1.000000		
GST	0.068662	0.191596	-0.117034	-0.047743	0.047591	1.000000	
ETA	-0.025345	0.062889	0.177138	-0.113216	-0.194261	-0.010721	1.000000

Source: Researchers' Computation (2026)

Table 4 presents the pairwise correlation matrix among the dependent variable (STP) and the explanatory variables (EVR, RGC, RAM, RDC, GST, and ETA). The correlation between STP and the independent variables is generally weak, indicating that no explanatory variable has an extremely strong linear relationship with the dependent variable. Specifically, STP is negatively correlated with EVR (-0.0343) and ETA (-0.0253), suggesting that increases in these variables are associated with slight decreases in STP, although the relationships are very weak. In contrast, STP shows a weak positive correlation with RGC (0.0196), RAM (0.0275), RDC (0.0323), and GST (0.0687), implying that higher values of these variables are mildly associated with higher STP values. Hence, there is no problem with correlation as the correlation coefficients were less than 0.8, showing the correlation percentage limit usually suggested by prior studies (Gujarati & Mishra, 2018).

4.3. Unit Root Test

The Augmented Dickey Fuller (ADF) test panel unit root test is used to test for the presence of a unit root (absence of stationarity) for EVR, RGC, RAM, RDC, GST, ETA, and STP variables examined in the study. Table 4.3 contains a summary of the Augmented Dickey Fuller stationary test for dependent and independent variables. Table 4.3 shows the summary of the results of the unit root test at levels and at first difference for each of the variables in the study.

Table 5: Summary of Augmented Dickey Fuller (ADF) Unit Root Test

Variable	Statistics	Prob.	Conclusion
EVR	-117.518	0.0093	Stationary
RGC	177.495	0.0000	Stationary
RAM	215.727	0.0000	Stationary
RDC	109.575	0.0320	Stationary
GST	146.588	0.0000	Stationary
ETA	158.197	0.0000	Stationary
SRI	577.773	0.0000	Stationary

Source: Researcher's Computation (2026).

Table 5 presents the results of the Augmented Dickey-Fuller (ADF) unit root test conducted on the study variables. The ADF test is employed to determine whether a time series

variable is stationary, meaning its statistical properties, such as mean, variance, and autocorrelation, remain constant over time. Stationarity is essential in econometric analysis to avoid spurious regression results and ensure reliable inferences.

4.5. The Hausman Test

The Hausman Test was carried out to verify if there is a significant discrepancy between the estimates of the fixed effect estimator and that of the random effect estimator. The null hypothesis underlying the test is that fixed effect estimates do not distinguish significantly from the random effect estimates. The test statistic formulated by Hausman has an asymptotic chi-square distribution. Having estimated the Hausman Test Hypothesis:

H₀: Random effect model is appropriate

H₁: Fixed effect model is appropriate

The rule is that if the probability value of the Chi-Square Statistics is statistically significant, we accept fixed effects model, otherwise, the random effects model is appropriate.

Table 6: Extract from the Hausman Test Result

Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	26.86516	6	0.047

Source: Author's Computation (2026)

Table 6 presents the extract from the Hausman specification test used to determine the appropriate estimator between the Fixed Effects and Random Effects models for Model II. The Hausman test evaluates whether the individual-specific effects are correlated with the explanatory variables. If such correlation exists, the Fixed Effects model is preferred; otherwise, the Random Effects model is appropriate. The test reports a Chi-square statistic of 26.86516 with 6 degrees of freedom and a corresponding probability value of 0.047. Consequently, the Fixed Effects model is preferred and adopted for Model II, as it provides consistent and unbiased estimates by controlling for time-invariant firm-specific heterogeneity. This outcome justifies the reliance on the Fixed Effects results for interpretation and policy inference in the study.

4.6. Moderating Effect of Sustainability reporting on environmental audit variables and corporate performance

The study is to establish whether sustainability moderates the relationship between environmental audit variables and the financial performance of listed manufacturing firms in

Nigeria. The corresponding null hypothesis states that sustainability reporting does not significantly moderate this relationship. Table 6 shows the comparative analysis of the moderating effect of sustainability reporting on environmental audit and corporate performance.

Table 7: Summary of Estimation of Panel Least Squares Results of Model I and II

	Dependent Variable: STP								
	MODEL I				MODEL II				
	Fixed Effect or Least Square Dummy Variable (LSDV)		Random Effects		Fixed Effect or Least Square Dummy Variable (LSDV)			Random Effects	
	Coeff.	Prob.	Coeff.	Prob.	Variable	Coeff.	Prob.	Coeff.	Prob.
EVR	1896.490	0.0000	-1521.747	0.1714	EVR*SRI	-668.9138	0.4643	-737.0997	0.4032
RGC	667.7836	0.0005	838.0529	0.9389	RGC*SRI	93.39187	0.0000	-21.00821	0.0079
RAM	876.6519	0.0000	1021.758	0.0018	RAM*SRI	206.5711	0.0073	113.8870	0.0000
RDC	749.1278	0.0036	485.5724	0.0009	RDC*SRI	111.4995	0.0000	-161.6218	0.0091
GST	2592.851	0.0000	2675.884	0.0639	GST*SRI	773.4139	0.0003	706.1197	0.4267
ETA	-185.0084	0.9050	-613.1052	0.5662	ETA*SRI	-221.5366	0.0074	-431.2076	0.5852
R ²	0.697697		0.509090			0.697755		0.497755	
DW Sta	2.409749				2.209668				
F-Stat	6.953741				5.695626				
P(F-Sta)	0.000007				0.000284				
Hausman. Test Pro.	0.0470				0.0470				

Source: Author's Computation (2026)

Table 7 summarises the Panel Least Squares results for the moderated model incorporating sustainability reporting (SRI). Interaction terms were included to test whether sustainability reporting moderates the relationship between environmental risk management practices and stock price. The Fixed Effects results show mixed moderating effects. The interaction between environmental violation reporting and sustainability reporting (EVR*SRI) is negative and insignificant, indicating no meaningful moderating influence. In contrast, RGCSRI, RAMSRI, RDCSRI, and GSTSRI are positive and statistically significant, suggesting that sustainability reporting strengthens the positive effects of regulatory compliance, risk assessment, risk disclosure, and

governance structure on stock price. However, the interaction between employee training and sustainability reporting (ETASRI) is negative and significant, implying that sustainability reporting weakens the market impact of employee environmental training.

The model explains approximately 69.78% of the variation in stock price ($R^2 = 0.697755$), and the significant F-statistic confirms its overall robustness. Overall, the findings indicate that environmental risk management practices enhance market performance, while sustainability reporting generally reinforces these effects, except in the case of environmental violations and employee training, where its moderating role is insignificant or adverse.

4.7. Statistical Properties and Post-Diagnostic Results

Table 8: Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.004693	Prob. F(2,453)	0.9953
Obs*R-squared	0.009572	Prob. Chi-Square (2)	0.9952

Source: Author's Computation (2026)

Table 4.7 presents the results of the Breusch–Godfrey Serial Correlation Lagrange Multiplier (LM) test conducted to examine whether the residuals of Model exhibit autocorrelation. The presence of serial correlation in panel regression models can lead to biased standard errors and unreliable statistical inferences; hence, testing for this problem is essential for validating the robustness of the estimated model. The null hypothesis of the Breusch–Godfrey test states that there is no serial correlation in the residuals, while the alternative hypothesis suggests the presence of autocorrelation.

As shown in Table 4.7, the F-statistic is 0.004693 with a corresponding probability value of 0.9953, while the Obs*R-squared statistic is 0.009572 with a Chi-square probability of 0.9952. Both probability values are far greater than the conventional significance levels of 1%, 5%, and 10%. Given these high p-values, the study fails to reject the null

hypothesis of no serial correlation. This implies that the residuals of Model II are free from serial correlation, confirming that the panel regression estimates are not affected by autocorrelation bias.

Table 9: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.702342	Prob. F(6,455)	0.6479
Obs*R-squared	4.239619	Prob. Chi-Square (6)	0.6443
Scaled explained SS	926.5814	Prob. Chi-Square (6)	0.0000

Source: Author's Computation (2026)

The Breusch–Pagan–Godfrey test was conducted to examine whether the residuals of Model II exhibit heteroskedasticity, which occurs when the variance of the errors is not constant across observations. Heteroskedasticity can undermine the

efficiency of regression estimates and lead to invalid inferences, so it is important to verify that this assumption holds. The null hypothesis of the test posits that the residuals are homoskedastic, meaning that their variance is constant, while the alternative hypothesis suggests the presence of heteroskedasticity. The test results show an F-statistic of 0.702342 with a corresponding probability of 0.6479, and an Obs*R-squared statistic of 4.239619 with a Chi-square probability of 0.6443. Both p-values are well above conventional significance levels of 1%, 5%, and 10%, indicating that there is no statistical evidence to reject the null hypothesis.

This finding confirms that the residuals of the model are homoskedastic. As a result, the regression estimates are efficient, the standard errors are correctly specified, and the statistical inferences drawn from the model are valid. Therefore, the model satisfies the classical assumption of constant variance, supporting the reliability and robustness of the empirical findings.

4.8. Discussion of Findings

The results presented in Table 4.6 indicate that the Fixed Effects estimation produces varied moderating outcomes. Specifically, the interaction term between environmental violation reporting and sustainability reporting (EVR*SRI) is negative and statistically insignificant (Coefficient = -668.91; $p = 0.4643$), implying that sustainability reporting does not meaningfully modify the relationship between environmental violations and stock price. In contrast, the interaction terms RGCSRI, RAMSRI, RDCSRI, and GSTSRI are positive and statistically significant (Coefficients = 93.39, 206.57, 111.50, and 773.41; $p = 0.0000, 0.0073, 0.0000$, and 0.0003 , respectively). These findings suggest that sustainability reporting reinforces the favorable impact of regulatory compliance on market value. Similarly, firms that integrate robust risk assessment mechanisms with high-quality sustainability disclosures tend to achieve superior stock market performance. Sustainability reporting also strengthens the positive effects of risk disclosure and sound governance structures on stock price, indicating that transparent and credible reporting enhances investor confidence and market valuation.

However, the interaction between employee training and awareness and sustainability reporting (ETA*SRI) is negative and statistically significant (-221.54; $p = 0.0074$). This outcome suggests that sustainability reporting diminishes the influence of employee environmental training initiatives on stock price, possibly because investors assign greater weight to formal, externally visible disclosures than to internal capacity-building programs. The moderated regression model yields an R^2 of 0.697755, demonstrating that approximately 69.78% of the variation in stock price is explained by the explanatory variables. The F-statistic (28.87; $p = 0.0000$) is highly significant, confirming the overall reliability and explanatory strength of the model. Collectively, the results indicate that environmental risk management mechanisms, particularly regulatory compliance, risk assessment, risk disclosure, and governance structure, significantly enhance corporate market performance.

These findings align with Adegbite *et al.* (2020)^[2] who report that sustainability reporting plays a significant moderating role in the environmental audit–corporate performance nexus by improving transparency, governance credibility, and investor trust. Their studies show that firms with superior sustainability disclosures experience stronger positive effects of regulatory compliance, environmental risk management, and governance mechanisms on both accounting-based and market-based performance indicators. Conversely, the results diverge from Abiola *et al.* (2024)^[1] and Onyebuenyi & Ofoegbu (2022)^[32], who find that sustainability reporting either weakens or does not significantly influence the relationship between certain environmental practices, particularly employee-focused initiatives, and corporate performance. They attribute such outcomes to issues of low disclosure quality, substantial compliance costs, and limited stakeholder responsiveness, especially within emerging market environments.

5. Conclusion and Recommendation

The study concludes that effective environmental auditing systems, supported by transparent and reliable sustainability reporting, significantly improve market-based corporate performance within Nigeria's manufacturing sector. It therefore advocates for stricter regulatory compliance enforcement, higher-quality sustainability disclosures, and strengthened governance frameworks to promote sustainable long-term value creation. By offering empirical insights from an emerging market environment, the study enriches existing literature and highlights the important moderating role of sustainability reporting in shaping the relationship between environmental audit practices and corporate performance.

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How to Cite This Article

Samuel SO, Jinadu O, Ajayi DA, Fasua HK. Environmental audit and corporate performance in Nigeria: A moderating role of sustainability reporting. *Int J Manag Organ Res.* 2026;5(2):100–108.

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