

Impact of Environmental, Social and Governance Disclosure on Financial Performance of African Listed Companies

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Abstract

The study examined the impacts of social, environmental and governance disclosure on financial performance of African listed firms. The study was anchored on the resource-based view theory. The quantitative design was employed utilising panel data for the period from 2020 to 2024. Data was obtained from a sample of 13 firms drawn from S&P Africa 40 firms. Data was obtained from published audited financial statements of the selected firms and S&P Global database. Panel regression was employed where the random effects model was found the most suitable estimator. The results showed significant positive effects of ESG disclosure and environmental disclosure on financial performance. Governance disclosure, firm size and leverage were found statistically insignificant. The study recommended for mandatory ESG disclosure by governmental and regulatory authorities and increased investments in sustainability reporting by the firms.

Keywords: African listed companies, ESG Disclosure, financial performance, S&P Africa 40

1. Introduction

Environmental, social and governance (ESG) reporting has gained significant prominence as stakeholders particularly investors are increasingly prioritising ethical and sustainable corporate practices (Oyalabu & Oguntuase, 2025). The origins of ESG can be tracked back to January 2004 when the United Nations (UN) in report “Who Cares Wins” called for integration of ESG into the capital markets (Vigolo *et al.*, 2025). Since its emergence in 2004, ESG reporting has gained support in the corporate world for financial investment

decision-making (Grajales & Albanes-Uribe, 2024; Sharma *et al.*, 2024). Globally, investors are increasingly acknowledging the value of ESG reporting on firm value and performance such that they are willing to forego portions of their returns on investment in exchange for sustainability business commitments (Grajales & Albanes-Uribe, 2024). In accordance with the International Sustainability Disclosure Standards (ISSB), publicly listed firms are mandated to publish their financial statement reports together with sustainability reports (Shaxzoda, 2025). Over the past decade, there have been increasing ESG investments by firms such that they have been projected to grow by over 80% from US\$18.4 trillion to US\$33.9 trillion between 2021 and 2026 (PricewaterhouseCoopers (PwC), 2022). However, the level of ESG disclosure in the developing world particularly in Africa is still low compared to the developed world (Wasiuzzaman & Subramaniam, 2023; Krueger *et al.*, 2024).

Stakeholder pressure for ESG reporting has also mounted among firms operating in the African market as a strategy to attract increased investments (Ndung'u, 2021; Alessa *et al.*, 2024; Madzoke *et al.*, 2024). Due to its natural resource abundance, the African continent has been considered a lucrative investment destination (Geda & Yimer, 2024). Increased ESG disclosure by firms is considered key for corporate sustainability and attracting foreign investment for sustainable economic growth in African developing economies (Csordása & Al-Dalahmehb, 2024; Gidage & Bhide, 2025). However, the levels of ESG disclosure by firms operating in Africa is still low compared to firms in other continents (Khougali & Spataru, 2024; Ko *et al.*, 2025). In this regard, some countries such as Nigeria, Morocco, Kenya and South Africa have introduced regulations that mandate ESG disclosure by publicly listed firms (KPMG, 2024). In addition, the launch of the Africa ESG Information Disclosure Hub indicates commitments to promote ESG disclosure by firms across the continent (African Development Bank (AfDB), 2024). As a result, as of 2024, about 55% of the listed African firms have been practicing some form of ESG disclosure though not at full scale (AfDB, 2024). In support, the KPMG's (2024) survey showed persistent transparency gaps in ESG disclosure by listed African firms due to some observed surface-level disclosures which do not reflect genuine ESG disclosure. There is also supporting empirical evidence on the concern of greenwashing by firms in terms of ESG disclosure (Matemane *et al.*, 2024).

This implies the need for increased interventions and research to motivate ESG disclosure in Africa. There is supporting empirical evidence that ESG disclosure can enhance corporate financial performance (Minutolo *et al.*, 2019; Zainon *et al.*, 2020; Chen & Xie, 2022; Chininga *et al.*, 2023; Dewi *et al.*, 2025), such empirical evidence tends to be scarce in the context of African listed firms. In addition, existing evidence contains inconclusive results (Wasara & Ganda, 2019; Cunha *et al.*, 2025). This study therefore sought to address this knowledge gap by examining the impacts of ESG disclosure on financial performance of African listed firms focusing on the S&P African 40 firms. This research provides novel evidence on the ongoing scholarly debate between ESG disclosure and financial performance in the context of leading firms operating across the African market.

2. Theoretical Background

The study is anchored on the Resource Based View (RBV) theory propounded by Barney (1991). The theory speculates that a firm's competitiveness and superior performance stems from its unique capabilities and resources (D'Oria *et al.*, 2021). In addition, the RBV theory assumes that firm's resources are unique, valuable, inimitable and non-substitutable (Ahmad *et al.*, 2021). Such resources permit firms to conduct activities which help in developing brand image and reputation and gaining stakeholder satisfaction and trust which consequently enhance competitiveness and firm performance (Barney *et al.*, 2021). In this sense, ESG disclosure represent a unique capability and resource that can boost financial performance. The theory has also been employed in previous studies on ESG and financial performance (Ahmad *et al.*, 2021; Matemane *et al.*, 2024). Hence, the theory is of great relevance to the study as it helps in explaining the impacts of ESG disclosure on the financial performance of African listed firms.

3. Literature Review and Hypothesis Development

ESG disclosure as part of sustainability disclosure is understood as the degree in which corporate firms communicate information about their governmental, environmental and social practices, performance and policies to stakeholders (Sharawi & Sharawi, 2024). In short, ESG disclosure is all about accountability and transparency of firms in passing on information related to their sustainability practices to the stakeholders including investors (Canli & Sercemeli, 2025). The relationship between sustainability reporting particularly ESG disclosure and financial performance has attracted significant empirical research across the globe. However, existing studies have reported inconclusive results pertaining the impact between ESG disclosure and corporate financial performance. The study by Chung *et al.* (2024) investigated the impacts of ESG disclosure on performance of 109 listed firms in Hong Kong and found a significant positive relationship. However, the research found significant positive impacts of social disclosure significant whilst impacts of environment and governance disclosures were insignificant.

Oyalabu and Oguntuase (2025) found a significant positive relationship between financial performance and ESG disclosure among United Kingdom-based pharmaceutical companies. Another study in the context of listed firms in the United Kingdom by Ahmad *et al.* (2021) confirmed significant positive impacts of ESG disclosure on financial performance. The study by Chen and Xie (2022) focusing on Chinese firms using the GMM technique showed a significant positive relationship between ESG disclosure and financial performance. Minutolo *et al.* (2019) and Alareeni and Hamdan (2020) also found significant positive impacts of ESG disclosure on performance of S&P 500 firms. Similarly, Zainon *et al.* (2020), Chininga *et al.* (2023) and Dewi *et al.* (2025) found significant positive impacts of ESG disclosure on financial performance of publicly listed firms in South Africa, Indonesia and Malaysia respectively. Chawarura *et al.* (2025) also confirmed a significant positive association between financial performance and ESG disclosure by South African listed companies. Giannopoulos *et al.* (2022) revealed significant positive impacts of ESG disclosure on performance of Norwegian listed firms.

On the contrary, other studies found insignificant relationship. For instance, the study by Canli and Sercemeli (2025) done on the leading listed firms from the global energy sector revealed insignificant relationship between ESG disclosure and financial performance. However, environmental and social disclosures were found to have significant negative and positive impacts respectively whilst governance disclosure was insignificant (Canli & Sercemeli, 2025). Employing the two-step panel GMM technique, Matemane *et al.* (2024) found insignificant relationship between ESG disclosure and performance of South Africa’s listed firms even with disaggregated ESG disclosure indexes. Besides, a recent study by Pham *et al.* (2025) revealed a significant negative association between ESG disclosure and performance of commercial banks in Asia. In the context of South African listed mining firms, Wasara and Ganda (2019) revealed inconclusive findings on the association between ESG disclosure and performance. Drawing from the aforementioned empirical evidence, the study hypothesised that:

H1: ESG disclosure has significant positive impacts on financial performance of African listed firms

H2: Environmental disclosure has significant positive impacts on financial performance of African listed firms

H3: Social disclosure has significant positive impacts on financial performance of African listed firms

H4: Governance sustainability disclosure has significant positive impacts on financial performance of African listed firms

These hypothesised relationships are shown in the conceptual framework presented in Figure 1.

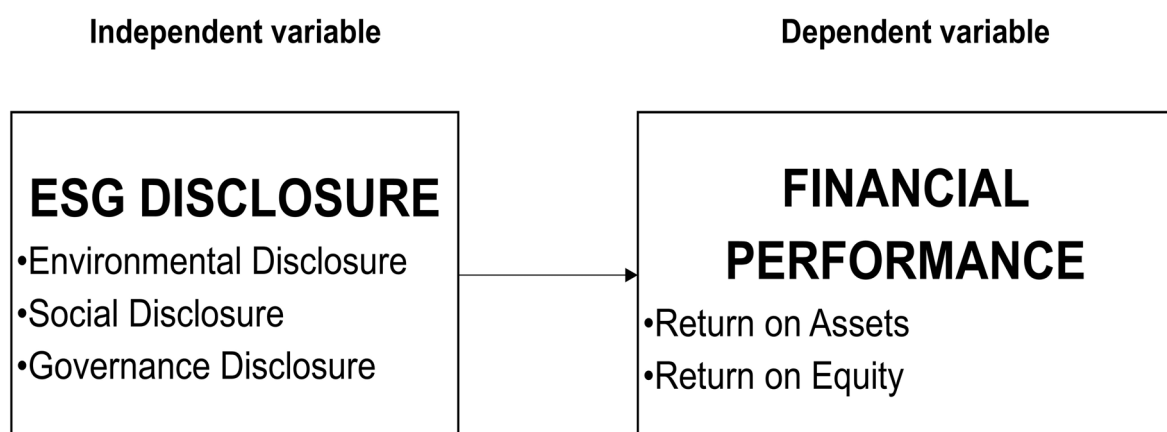


Figure 1. Research framework (Source: Author’s constructions)

4. Materials and Methods

This section presents the paper’s methodology and research design.

4.1 Population and Sample

The study population included all the S&P Africa 40 companies. These 40 companies are the most liquid and largest listed firms which represent the African corporate market (Afego & Biktimirov, 2024). However, the study's sample was made up of 13 companies which were selected based on data availability. In addition, the time period span from 2020 to 2024 also determined based on data availability.

4.2 Model Specification and Estimation

The study estimated the panel regression model. The linear-logarithmic model was estimated adapted from previous empirical studies such as Chung *et al.* (2024), Matemane *et al.* (2024), Canli and Sercemeli (2025) and Chawarura et a. (2025). The econometric model is specified in equation (1)

$$FP_{it} = \beta_0 + \beta_1 \ln ESG_{it} + \beta_2 \ln ED_{it} + \beta_3 \ln SD_{it} + \beta_4 \ln GD_{it} + \beta_5 \ln FS_{it} + \beta_6 \ln LEV_{it} + \delta_i + \gamma_t + \mu_{it} \dots (1)$$

Where:

FP_{it} = financial performance for firm i in period t measured by ROA and ROE, $\ln ESG_{it}$ = natural logarithm for ESG disclosure index for firm i in period t , $\ln ED_{it}$ = natural logarithm for environmental disclosure index for firm i in period t , $\ln SD_{it}$ = natural logarithm for social disclosure index for firm i in period t , $\ln GD_{it}$ = natural logarithm for governance disclosure index for firm i in period t , $\ln FS_{it}$ = Firm size measured by natural logarithm of the total assets for firm i in period t , $\ln LEV_{it}$ = Natural logarithm of leverage value for firm i in period t , δ_i = individual-specific effects (unobserved heterogeneity across units), γ_t = time fixed effects capturing time-specific shocks and μ_{it} is the idiosyncratic error term.

The static panel technique was employed to estimate the model. Similar previous studies such as Alareeni and Hamdan (2020) and Chawarura et a. (2025) also estimated a static panel model for the impacts of ESG disclosure on performance. The GMM technique was not suitable as the number of cross-sections (N=13) was significantly small (<50) (Barros *et al.*, 2020; Baltagi, 2021). The Hausman (1978) test was undertaken to determine the most fitting estimation model between the fixed-effects (FE) and the random-effects (RE) models. For multicollinearity, the correlation matrix method was employed where coefficients below 0.8 indicates absence of multicollinearity among predictor variables (Stock & Watson, 2020).

In addition, to avoid spurious regression, the study carried out panel unit root tests based on the tests for cross-sectional dependence (CD). The Pesaran (2015) CD test which is most suitable when N is larger than T was carried out. In the case of absence of cross-sectional dependence, first-generation panel unit root tests such as LLC, ADF and IPS are undertaken (Pesaran, 2015). However, second-generation panel unit root tests such as the Pesaran's CADF and the CIPS are most suitable and reliable when CD is present or when T is relatively small (T≤5) (Wooldridge, 2010; Hansen, 2022). STATA version 18 was utilised.

4.3 Variables and Data Sources

Financial performance represented the dependent variable measured by accounting-based measures namely ROE and ROA. These have been extensively employed in previous similar ESG-performance studies as measures of financial performance. ESG disclosure, the principal independent variable was measured using the S&P Global ESG scores. The study also added control variables (or covariates) such as firm size and leverage in order to alleviate the problem of misleading estimations due to omission of variables. Stock and Watson (2020) emphasise the inclusion of control variables or covariates in econometric modelling for robust results. Table 1 presents the summary of the operationalisation of variables.

Table 1. Operationalisation of variables

Variable	Type	Measurement	Data source	<i>Priori</i> expectations
Financial performance	Dependent variable	$ROE = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$ $ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	Financial statements	N/A
ESG disclosure	Independent variable	S&P Global ESG disclosure score	S&P Global	Positive
Environmental disclosure	Independent variable	Environmental disclosure score	S&P Global	Positive
Social disclosure	Independent variable	Social disclosure score	S&P Global	Positive
Governance disclosure	Independent variable	Governance disclosure score	S&P Global	Positive
Firm size	Control variable	Value of total assets	Annual reports	Positive
Leverage	Control variable		Statements	Positive

5. Results and Discussion

This section presents the key results starting with descriptive statistics reported in Table 2.

Table 2. Summary of descriptive statistics

Variable	ROA	ROE	ESG	ED	SD	GD	FS	LEV
Mean	3.46	11.94	46.88	44.18	49.38	45.58	7.12	0.62
Median	2.56	15.60	48.00	44.00	50.00	47.90	0.06	0.58
Maximum	37.84	52.78	66.00	64.00	69.00	62.00	327.23	0.99
Minimum	-21.04	-63.31	24.00	24.00	21.00	19.00	0.00	0.18
Std. Dev.	7.82	16.68	7.86	40.87	8.73	9.21	40.87	0.23
Skewness	0.97	-1.49	-0.15	7.57	-0.67	-0.66	7.57	0.02
Kurtosis	8.97	8.43	3.68	59.72	4.13	3.31	59.72	1.75
Sum	225.01	776.08	3047.24	2848	3210	2962.60	463.12	40.18
Obs.	65	65	65	65	65	65	65	65

Table 3 presents the results for the Pesaran (2015) CD tests for the three models estimated.

Table 3. Cross-sectional dependence results

Model	Dependent Variable	CD Test Statistic	p-value	Correlation	Absolute Correlation	Interpretation
Model 1	ROE	-0.387	0.707	-0.019	0.465	No cross-sectional dependence
Model 2	ROA	1.78	0.076	0.090	0.440	No cross-sectional dependence

The results in Table 3 show p-values of at least 0.05 implying the null hypothesis for the Pesaran (2015) CD test could not be rejected indicating absence of CD. Hence, first-generation unit root/stationarity tests were undertaken as shown in Table 4. The results of ADF test are reported in Table 4.

Table 4. ADF test results

Variable	Test statistic		Conclusion
	At level	At first difference	
ROE_{it}	62.14***		Stationary at level
ROA_{it}	57.87***		Stationary at level
$\ln ESG_{it}$	115.35***		Stationary at level
$\ln ED_{it}$	441.24***		Stationary at level
$\ln SD_{it}$	175.33***		Stationary at level
$\ln GD_{it}$	89.07***		Stationary at level
$\ln FS_{it}$	25.16	603.14	Stationary at first differencing
$\ln LEV_{it}$	69.07***		Stationary at level

The results in Table 4 shows that all the variables except for $\ln FS_{it}$ were found stationary at level. The variable ($\ln FS_{it}$) which contained unit roots at level and became stationary after first differencing. Table 5 presents the correlation matrix for multicollinearity testing.

Table 5. Pairwise correlation matrix

Variable	$\ln ESG_{it}$	$\ln ED_{it}$	$\ln SD_{it}$	$\ln GD_{it}$	$\ln LEV_{it}$	$d\ln FS_{it}$
$\ln ESG_{it}$	1.00					
$\ln ED_{it}$	-0.18	1.00				
$\ln SD_{it}$	0.67	-0.19	1.00			
$\ln GD_{it}$	0.63	-0.20	0.94	1.00		
$\ln LEV_{it}$	-0.39	-0.06	-0.31	-0.27	1.00	
$d\ln FS_{it}$	0.01	-0.10	-0.04	-0.02	0.16	1.00

The results show correlation coefficients of less than 0.8 for most paired independent variables implying absence of serious problems of multicollinearity. However, high collinearity was detected between $\ln GD_{it}$ and $\ln SD_{it}$. Hence, one of these, $\ln SD_{it}$ was dropped from the panel model guided by theory and practice.

The FE and RE models were estimated and the Hausman (1978) tests were undertaken. The results of the Hausman tests are reported in Table 6.

Table 6. Hausman test results

Model	Dependent Variable	Chi (2)	p-value	Decision
Model 1	ROE	7.74	0.171	RE model
Model 2	ROA	3.10	0.684	RE model

The Hausman tests' results showed that the RE model was the most appropriate model for estimating the impacts of ESG disclosure on financial performance. The results of the RE models are presented in Table 7.

Table 7. Panel random effects model results

Model	Model 1	Model 2
Dependent variable	ROE	ROA
<i>lnESG_{it}</i>	35.10*** (12.00)	14.20*** (4.03)
<i>lnED_{it}</i>	35.87*** (6.72)	13.18*** (2.65)
<i>lnGD_{it}</i>	1.25 (11.52)	-2.01 (3.61)
<i>lnLEV_{it}</i>	14.39*** (2.37)	-1.95 (1.31)
<i>dlnFS_{it}</i>	-1.38 (67.88)	-0.74 (0.42)
Constant	-257.49*** (67.88)	-95.76*** (21.89)
R-squared	0.84	0.80
Wald statistic	123.57***	35.23***
Number of observations	64	64

Note: Robust standard errors (S.E.) in parentheses (.); *** $p < 0.05$

The R-squared values from both models indicate that about 84% and 80% of the variations in financial performance across the African listed firms are explained by variations in ESG disclosures and other factors such as leverage and firm size. Firm size and government disclosure were found statistically insignificant across all the models. The Wald statistics statistically significant at 5% level show that at least one of the predictor variables included in the model significantly influenced financial performance.

From the two models, ESG disclosure was found to have statistically significant and positive impacts on performance measured by ROE and ROA. The results show that a percentage improvement in ESG disclosure can significantly increase ROE and ROA by 0.35 and 0.14 units respectively. The results mean that ESG disclosure can boost performance of African listed firms. In line with the RBV theory, ESG disclosure represent a resource for improving financial performance. This is because, ESG disclosure can boost stakeholder satisfaction and trust leading to higher performance. The findings are consistent with Minutolo *et al.* (2019), Alareeni and Hamdan (2020), Chung *et al.* (2024) and Oyalabu and Oguntuase (2025) that ESG has significant positive influence on performance. Ahmad *et al.* (2021), Chen and Xie (2022) and Chawarura *et al.* (2025) also found significant positive impacts of ESG disclosure on financial performance.

In addition, the disaggregated ESG disclosure score for environmental disclosure was found to have significant positive impacts on performance in terms of ROA and ROE. The results mean that a percentage improvement in environmental disclosure can increase ROE and ROA by approximately 0.36 and 0.13 respectively. The findings suggest that African listed firms which practice environmental sustainability disclosure tend to performance better. The results contradict the findings by Canli and Sercemeli (2025) that environmental disclosure has significant negative impacts.

6. Conclusions and Implications

The research paper made significant contributions to both theory and practice. The paper concludes that ESG disclosure has significant positive impacts on financial performance of African listed firms *albeit* insignificant impacts of governance disclosure. This could be as a result of low disclosure of governance performance or greenwashing of governance reporting. ESG represents a significant tool for boosting financial performance of firms operating Across the African market. Based on the findings, the research recommends for governments and regulatory bodies such as stock exchange markets across Africa to mandate transparent ESG disclosure. The study also recommends management of the listed firms operating in Africa to invest in sustainability reporting to enhance firm value and financial performance.

However, the study had its own limitations. Firstly, the time period of five years and the sample size were small to represent the entire African market. Hence, further studies can be done focusing on relatively wider time period and larger sample size. Secondly, the static model was utilised. Thus, further studies can also be undertaken using dynamic models via more robust and efficient techniques such as GMM.

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Data sharing statement

No additional data are available.

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