

**ENVIRONMENTAL ACCOUNTING AND FINANCIAL
PERFORMANCE
OF MANUFACTURING COMPANIES IN KWARA STATE
(A CASE STUDY OF TUYIL PHARMACEUTICAL ILORIN)**

BY

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CERTIFICATION

This is to certify that this project work has been written by SAHEED OLALEKAN ISHOLA HND/23/ACC/FT/0216 and has been read and approved as meeting the parts of the requirements for the Award of Higher National Diploma (HND in the department of accountancy, institute of finance and management studies, Kwara state polytechnic, Ilorin, Kwara state.

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DEDICATION

I dedicate this project to my deceased Grandfather Alhaji Abdul Wakeel, my family, friends, and loved ones who have supported me throughout this journey. Your encouragement, patience, and love have been invaluable. May this achievement bring joy and fulfillment to all who have contributed to my Success.

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Almighty Allah I stand in awe of your goodness and faithfulness in my life. From the very beginning of my life until this moment, you have been my Rock, my Guide, and my Strength.

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CHAPTER ONE INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The financial performance of manufacturing companies has become a pressing issue and difficulty to their environmental system. Recent studies have highlighted the importance of considering environmental sustainability in financial decision-making. For instance, a study by Mir and Bhat (2022) emphasized the need for green banking practices to mitigate environmental degradation and promote sustainable development.

The pursuit of financial gains has led companies to prioritize short-term profits over environmental sustainability, resulting in environmental degradation and resource depletion. However, this approach can have long-term negative consequences on financial performance. As Porter and Kramer (2016) noted, companies that prioritize environmental sustainability may incur higher costs in the short term, but these costs can lead to long-term financial benefits.

Recent studies have also highlighted the importance of stakeholders' pressure in influencing companies to prioritize environmental sustainability. For example, a study by Bukhari, Hashim, and Amran (2020) found that stakeholder pressure can influence companies to adopt green banking practices, which can lead to improved environmental performance. Moreover, the concept of sustainable banking has gained significant attention in recent years. Sustainable banking involves using green banking techniques to take ethical, social, and environmental concerns into account. A study by Alsayegh, Abdul Rahman, and Homayoun (2020) emphasized the importance of sustainable banking in promoting environmental sustainability and reducing the negative impacts of climate change.

Global economic capitals, from New York to London, Hong Kong to Tokyo, are measured by the strength of their manufacturing sectors. Manufacturing sector provides the enabling environment for economic development, hence, almost all other sectors of the economy in one way or another depend on the products and services of the manufacturing sector in order to carry out their operations. In Nigeria, the concept of environmental accounting is gradually gaining attention among stakeholders, shareholders, regulatory bodies, corporate entities, employees and civil society. In Kwara State, a hub for various manufacturing activities, the extent to which companies

implement environmental accounting and the impact of such practices on financial performance is not well-documented (Nweze & enekwe, 2017).

In Nigeria, for example, this sector of the economy has sparked widespread public outrage over environmental concerns. Fasua and Osifo (2020) opined that many companies are created with the objective of maximizing owners' wealth without considering its economic footprints on the other stakeholders as well as the community at large. They further stated that the activities of many companies such as oil and gas companies and manufacturing companies do generate negative impacts which are called social failure and threats. These include deforestation, elimination of marine life, increased atmospheric carbon dioxide, increased climatic disruption, persistent deposit of toxic chemicals, constant melting of mountain, increased health hazard caused by the sound and smoke emission from generators and factory plants (Jepkogei, Chumba & Bongoko, 2015; Eze, Nweze & Enekwe, 2016). The Nigerian government is strongly reliant on the oil and gas industry, yet their operations often pose major health concerns and environmental degradation, sparking chronic societal tensions and disrupting the economic operations of several global firms in recent years (Uwaoma & Ordu, 2016). Environmental pollution issues like air and water contamination from weighty modern hardware, a lack of spotless, new water, and a shortage of marine fish as an outcome of an oil slick have raised the worries of partners and the host local area.

As a result, most countries and responsible corporate management teams throughout the globe are concerned and focused on the need for sustainable environmental cost management in the manufacturing sector. In today's world, organizations must show that they are aware of and addressing the environmental and social impacts of their activities (Uwuigbe & Jimoh, 2019). In a bid to foster the activities that will protect the environment, the international communities established Global Reporting Initiative to promote the course of environmental reporting. There is need for continuous studies to improve on environmental accounting measures and to identify its impacts that affect other stakeholders; as well to find out how it will affect corporate performance of firms listed in the manufacturing sector. Consequently, this study is pointed toward inspecting

the connection between ecological bookkeeping and the authoritative execution of recorded firms in the modern area in Nigeria.

1.2 STATEMENTS OF THE PROBLEM

Global economic development is at stake as most operating firms neglect both environmental and social responsibilities to their host community. This is a great concern to most stakeholders who have sole interest in their firm's operating output. This is even visible in their financial report statement as there is little or no disclosure on environmental information as this has effect on the firm's value in the long run. However, firm value usually measures market value of the entire organization. It is the overall interest of all the shareholders of the organization. The market value, profitability and growth prospect of the organization implies the determinants of the organizational performance.

Thus, the organization is supposed to give back to the community in which it operates by providing it with basic infrastructure. The effects of the provision of infrastructure together with the effects of their activities on the environment can positively or/and negatively influence the environment which in turn serves as a performance indicator when such information relating to environment is disclosed in the organization's annual reports (Oyedokun, Egberioyinemi, & Tonademukaila, 2019). On the other hand, when organizations give back to the community in which they operate in form of provision of infrastructure, it helps to promote the organization's reputation, corporate image and helps to gain competitive advantage, which in turn enhances their value (Oti & Mbu-Ogar, 2018). Therefore, since the value of the organization can be influenced by disclosing environmental information, its increase in company's disclosures happens to have a remarkable effect on the host environment.

Indeed, the lack of proper disclosure of environmental activities by operating firms reduces the level of confidentiality of stakeholders on the reported statement. As a result of this, the study aimed at examining the significance of environmental information

disclosure and its credibility on the stakeholders' reliance on the performance of manufacturing companies in kwara state.

Firm always face uncertainty when necessary decision is be to made about environmental cost, fearing a negative impact on profitability as it is evidence in the literature with conflicting findings , while findings by some researchers gave a positive impacts as a prove that environmental cost has influence on the profitability measures of every organization, therefore, the study intends to look into how environmental cost impact on the financial performance of manufacturing companies in kwara state.

In Nigeria, most law enacted on the area of environmental accounting like the national environmental standards and regulations enforcement agency (NESREA) are not strictly complied with enforcing environmental laws and regulations on every companies that failed to carry out its operation base on its legal requirements.

1.3 RESEARCH QUESTIONS

- i. To what extent does adequate disclosure of environmental activities affect financial performance of manufacturing companies in Kwara state?
- ii. Is there any effect of environmental cost on financial performance of manufacturing companies in Kwara state?
- ii. Does regulatory pressure have any significant impact on financial performance of manufacturing company in Kwara State?

1.4 OBJECTIVES OF THE STUDY

The primary objective of this study is to access the impact of environmental accounting on financial Performance of manufacturing companies in Kwara State. To achieve this, the study will address the following specific objectives:

- i. To investigate and determine how adequate disclosure of environmental activities affect financial performance of manufacturing companies in kwara state
- ii. To investigate the effect of environmental cost on financial performance of manufacturing companies in Kwara state.

iii. To examine the significant impact of regulatory pressure on financial performance of manufacturing company in Kwara State?

1.5 RESEARCH HYPOTHESIS

H_{o1}. There is no adequate disclosure of environmental activities affect financial performance of manufacturing companies in Kwara state

H_{o2}. Environmental cost does not have any effect on financial performance of manufacturing companies in Kwara state.

H_{o3}. There is no significant impact of regulatory pressure on financial performance of manufacturing company in Kwara State

1.6 SIGNIFICANCE OF THE STUDY

This study is significant for several reasons. First, it provides insights for manufacturing companies into the potential benefits of environmental accounting, encouraging them to adopt practices that could improve both financial performance and environmental impact. Second, the study contributes to academic knowledge in the area of environmental accounting and financial performance, especially within the context of developing countries like Nigeria, in addition, the findings could serve as a reference point for further research in environmental accounting, encouraging scholars to explore similar studies in other sectors and regions within Nigeria. Lastly, it provides policymakers with data on the importance of environmental accounting, which could inform regulations and incentives that promote sustainable industrial practices. For stakeholders, including investors and customers, the study highlights the role of environmental responsibility in corporate performance, potentially influencing investment and purchasing decisions.

1.7 SCOPE OF THE STUDY

This study investigated environmental accounting and financial performance of manufacturing companies operating in Kwara State, using Tuyil Pharmaceuticals as a case study. The choice of manufacturing companies in this study is anchored on the fact that manufacturing companies' activities have negative effects on the environment, the

study uses adequate disclosure, environmental cost and regulatory pressure to proxy environmental accounting in this study.

1.8 LIMITATION OF THE STUDY

The study is limited by factors such as access to data, as some companies may not fully disclose environmental activities, environmental cost and regulatory pressure.

Additionally, the study's findings may not be entirely generalized outside the manufacturing sector in Kwara state or to other states in Nigeria due to regional and industry-specific factors. Time and resource constraints may also limit the depth of the analysis.

1.9 DEFINITION OF TERMS

Environmental Accounting: The process of identifying, measuring, and reporting environmental costs to improve decision-making and accountability within an organization.

It can also be defined as the process of evaluating and reporting the environmental impact of a company's activities, products, and services, encompassing the identification, measurement, and communication of environmental costs and benefits associated with operation

Environmental accounting is a subset of accounting that deals with the costs and benefits associated with the use and depletion of natural resources, aiming to enhance the accountability and sustainability of organizations

Financial Performance: A measure of a company's profitability, efficiency, and financial health, typically assessed through indicators such as net profit, return on assets, and return on equity.

Financial performance is the evaluation of a firm's financial outcomes, using metrics such as profitability, liquidity, efficiency, and solvency to assess its operational and strategic effectiveness.

Financial performance encompasses the use of financial indicators to evaluate the results of an organization's strategies and operations, typically focusing on metrics such as return on investment, net income, and earnings growth.

Sustainability Reporting: The practice of disclosing a company's environmental, social, and governance (ESG) practices and performance to stakeholders.

Sustainability reporting is the practice of measuring, disclosing, and being accountable for organizational performance while working toward sustainable development goals, addressing economic, environmental, and social impacts.

Sustainability reporting is the process of providing stakeholders with a balanced and objective account of an organization's sustainability performance, including its social, environmental, and economic impacts.

Environmental Costs: Costs associated with the environmental impact of a company's operations, including waste management, pollution control, and resource conservation.

Environmental costs refer to the financial and non-financial impacts of an organization's activities on the environment, covering preventive, remediation, and compliance-related expenditures.

Environmental costs encompass all costs related to a company's interaction with the environment, including those aimed at minimizing environmental harm, adhering to regulations, and addressing environmental risks.

Sustainability development: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Sustainable development is a process of change in which resource exploitation, investments, and institutional changes are all made consistent with future as well as present needs.

Sustainable development is a holistic approach that integrates economic growth, environmental stewardship, and social equity to ensure long-term well-being for humanity and the planet."

CHAPTER TWO

LITERATURE REVIEW

2.1 PREAMBLE

This Part of the work discusses the conceptual review, theoretical review and empirical review of environmental accounting and financial performance of manufacturing company in Kwara State. The study of environmental accounting and financial performance is becoming relevant because many organizations in the recent past had fallen a victim of premature liquidation as a result of inadequate attention to financial performance from the management of the affected firms.

2.2 CONCEPTUAL REVIEW

2.2.1 ENVIRONMENTAL ACCOUNTING

Environmental accounting referred to as green accounting and it measures (in economic terms) the performance of firms in respect to the environment. It involves the identification, measurement and reporting of environmental specific cost, (weng , chenand chen 2017) for example liability cost and waste disposal cost. It covers more than reporting or accounting for environmental cost and benefits. It is the accounting for any cost or benefit that occurs from changes in an organization's product or process, while the change can also have impact on the environment. It plays a major role in understanding the significant contribution of the natural environment to the economy and humanity survival (Baba, 2015). Any organization that incorporates the improvement of quality of life of habitants into their operations, will most likely experience some improvements their financial performance due to enhanced image, increased company's shares due to enhanced product image and environmental risk rating (Weng, Chen & Chen, 2018).Unethical business practices are no longer fashionable even in a country as

poverty-ridden as Nigeria. Such practices only attract negative image to any organization on a result of undue media attention, in the print and electronic media (Osemene, 2016).

2.2.2 ENVIRONMENTAL DISCLOSURE ACTIVITIES

Situ, H., & Tilt, C. (2018) Environmental disclosure refers to the voluntary or mandatory communication of information that shall help company's stakeholders to recognize the impact of business decisions on the environment. Disclosed information usually includes narratives about company's environmental programs and policies, compliance with local environmental legislation, achievement of environmental certifications or awards, adoption of environmental management systems, description of environmental risks, as well as quantitative information like environmental indicators or measures related to the amount of waste produced, the usage of natural resources, emissions, company expenses, and investments made to reduce possible negative impacts on the environment.

2.2.3 ENVIRONMENTAL COST

Environmental cost has proven difficult to define the phrase environmental cost. The problem is compounded by the fact that it must take into account both intangible and tangible costs, as well as the difficulty in estimating the burden and impact of the policy's effects outside a certain geographic area. Costs that are difficult to measure and aren't immediately apparent are referred to as "intangible." It is difficult to determine the value of intangibles since they are difficult to detect from the outset, and the evaluations are loaded with both complexity and subjectivity. The burden and incidence of an environmental cost make it difficult to quantify. Degradation of the environment, on the other hand, is borne by all of society's current and future generations, not just the companies that are directly responsible for it. Externality and the difficulty of estimating environmental costs add to the difficulty of defining environmental costs (Bartolacci, Paolini, Soverchia, & Zigiotti, 2016). An environmental cost is defined by the way information is used in a company (Betianu, 2015), and it can be conventional (natural

substances and energy expenses with ecological significance) or potentially unavailable (costs caught by bookkeeping frameworks, however at that point lose their personality in overheads) or contingent (costs that will be paid in the future – contingent liabilities) or image/rebranding costs (Betianu, 2015). As a result, environmental costs might be described as the repercussions of human and manufacturing activity on the environment, both implicit and apparent. Non-financial repercussions of corporations' actions or inactions, as well as costs that cannot be simply determined in connection to environmental degradation, have made it important to incorporate explicit and implicit environmental implications in the definitions of environmental costs. Environmental costs are costs incurred by companies in order to protect the environment, prevent environmental problems and minimize damages to the environment. They are those costs incurred in compliance with, or prevention of breach of environmental laws, regulations and company policies. However, the true environmental costs to a firm can be far broader, including costs of resources both those directly related to production and those involved in general business operations, waste treatment and disposal costs, the costs of poor environmental reputation and the cost of paying an environmental risk premium.

2.2.4 REGULATORY PRESSURE

Regulatory pressure is one of the critical aspects that organizations should consider nowadays; It forces action to manage the government rules imposed on every companies especially manufacturing companies, Baboukardos D(2018), regulatory pressures may serve as a driver for environmental action, Choi B, Luo L (2021), government regulatory pressure is the force that the government uses to control and restrict organization and business practices. Regulatory pressure can be used to maintain competitive trade practices, protect vulnerable parties in economic transactions, alter a firm's pricing, entry, production, investment, and product choice decisions and lastly encourage sustainable behaviors by businesses and consumer.

2.2.5 FINANCIAL PERFORMANCE

Financial Performance According to Farrukh and Faizan (2016), the word “performance” originates from the old French word called “parfournir” meaning to carry out, to bring forth, or to bring through Conceptualizing the word “performance” has been viewed from different dimensions. From the study of Nwaimo (2020), performance of a firm is pointed out to three specific areas. These areas are financial performance, market performance, and shareholders returns. Financial performance refers to the level in which the financial health of an organization is being measured over time (Farrukh & Faizan, 2016).. This is carried out to give stewardship accounting to the owners of the business (shareholders) by the management. Hence, financial performance could be viewed from the difference between the starting point of a business concern and the target points within a space of time. According to Magara, Aming and Momanyi (2018), financial performance could be measured in different ways, including profitability, market share growth, return on investment (ROI), return on equity (ROE), and liquidity.

Environmental Restoration Cost Iheduru and Chukwuma (2019) viewed environmental costs as costs incurred for breaching environmental laws and company policies. These are costs incurred to comply with regulatory standards which must have been incurred in a bid to reduce or eliminate release of hazardous substances and corporate practices aimed at reducing environmental impacts of a company's operation (Chinedu, Udama & Ali, 2019). As posited by Agboola and Oroge (2019), these costs have to do with all allocated costs of preventing, reducing, and avoidance of environmental impact, removal of such impact and restoration of environment to its original state. Emeakponozo and Udih (2015) gave a broader explanation of these costs, to include waste treatment and disposal, cost of poor environmental reputation, repair and maintenance, and cost of paying an environmental risk premium. Community Development Costs According to Anselm and Janefrances (2020), social responsibility encourages firms to balance environmental responsibilities with profits. Community development ideas, as explained by Etale, Ochuba and Sawyerr (2021), emanated from the principle of social responsibility, and these costs as sacrifices to the society. Mensah, Agyapong and Nuerthey (2017) argued that

agitation for clean environment by the host communities propelled several companies to implement a wide range of Corporate Social Responsibility (CSR) practices. Egbunike and Okoro (2018) opined that environmental cost involves probable social cost emanating to the environment as a result of production externalities. Such cost, according to Che-Ahmad, Osazuwa and Mgbame (2016), should be included in the firm's costs and reflected in the books rather than perceiving it as an opportunity cost for corporate profiteering. Community development costs are incurred within and outside the host communities. Examples of these costs, according to Nwambeke et al. (2019), are building or renovation of schools, building of hospitals, construction of roads, and so on.

Employee Health and Safety Costs In the conduct of business operations, employees are exposed to environmental pollution and other environmental health-related challenges. In view of this, companies are expected to make provisions for protection of human lives, avoidance of accidents, and preventions against all forms of disability within the environment. An environmental health and safety cost is the cost expended in caring for the safety and health of the workers, including the cost of securing the environment (Chinedu, Udama & Ali, 2019). Health and safety cost dwells on securing and promoting safety and health of staff, both physical and mental. Safe workplaces are profitable workplaces and, as such, activity should be carried out to preserve the health of employees, sub-contractors, and the general public (Oshiole, Elama & Ndubuisi 2020). This assertion soon gave rise to stakeholders' theory.

2.2.6 RELATIONSHIP BETWEEN ENVIRONMENTAL ACCOUNTING AND FINANCIAL PERFORMANCE

The relationship between environmental accounting and financial performance has garnered significant attention in both academic and corporate spheres. Companies worldwide are increasingly recognizing that adopting environmentally responsible practices is not merely a regulatory requirement but also a potential avenue for achieving financial benefits. Environmental accounting has its own special impacts on the financial

performance of any firm. Impacts of Environmental Accounting on Financial Performance.

Cost Reduction:

Environmental accounting helps identify inefficiencies in resource use, waste management, and energy consumption, enabling companies to reduce operational costs. For example, by adopting energy-efficient technologies, companies can lower utility expenses, contributing to improved profitability.

Compliance and Risk Management:

Compliance with environmental regulations reduces the risk of penalties, lawsuits, and reputational damage. Environmental accounting ensures accurate tracking and reporting of compliance-related activities, fostering financial stability.

Enhanced Corporate Reputation:

Companies with robust environmental accounting practices are often perceived as socially responsible, attracting environmentally conscious customers and investors. A positive reputation can translate into increased sales and favorable financing terms.

Market Opportunities:

The adoption of sustainable practices can open new market opportunities, such as green products or services, which cater to the growing demand for environmentally friendly options.

Innovation and Efficiency:

Environmental accounting encourages innovation by revealing opportunities for cleaner production processes, waste recycling, and resource optimization. These innovations can lead to long-term financial benefits.

2.2.7 CHALLENGES IN LINKING ENVIRONMENTAL ACCOUNTING TO FINANCIAL PERFORMANCE

I. Implementing environmental accounting requires significant investment in training, technology, and systems, which may strain short-term financial performance, especially for small and medium-sized enterprises (SMEs).

- ii. Quantifying the financial benefits of environmental practices can be complex. For instance, the long-term gains from reputation enhancement or risk mitigation may not be immediately evident.
- iii. The impact of environmental accounting on financial performance often depends on the industry, the scale of operations, and the level of environmental impact. Manufacturing companies, with their resource-intensive operations, may experience more pronounced effects than service-oriented firms.
- iv. The absence of standardized environmental accounting practices can lead to inconsistencies in reporting and difficulty in comparing performance across companies or industries.
- v. The relationship between environmental accounting and financial performance is multifaceted and context-dependent. While empirical evidence generally supports a positive link, the extent of the impact varies across industries and regions. For manufacturing companies in Kwara State, the adoption of environmental accounting has the potential to enhance financial performance through cost savings, risk mitigation, and improved stakeholder relationships. However, challenges such as high implementation costs and lack of standardization must be addressed to realize these benefits fully.

2.3 THEORETICAL REVIEW

2.3.1 Stakeholder Theory

Stakeholder theory has long been a foundational framework in understanding the relationship between businesses and their broader network of stakeholders. Originating with Freeman (1984), it posits that companies have responsibilities not only to shareholders but to a wide range of stakeholders, including employees, customers, suppliers, communities, and governments. Post-2016, this theory has been significantly refined to account for the rising importance of environmental, social, and governance (ESG) considerations, sustainability, and the interconnected nature of global economies. This note explores the post-2016 advancements in stakeholder theory, emphasizing its relevance in today's corporate landscape, particularly in relation to environmental

accounting, corporate social responsibility (CSR), and financial performance. The evolving business environment has brought new dimensions to stakeholder theory. Stakeholders now demand that companies address broader societal and environmental challenges. Businesses are expected to take proactive measures to combat climate change, Engage in transparent and sustainable practices and Consider long-term societal impacts alongside financial performance. These developments have shifted stakeholder theory from a traditional framework of managing competing interests to a dynamic model of creating shared value (CSV) for all stakeholders. Post-2016, stakeholder theory has expanded to include environmental stakeholders such as ecosystems, future generations, and advocacy groups.

Environmental accounting serves as a critical tool for businesses to demonstrate accountability to these stakeholders. Studies like Li et al. (2019) show that companies investing in sustainability initiatives often experience improved stakeholder trust, which translates to enhanced customer loyalty and market competitiveness. Companies engaging stakeholders in sustainability initiatives report higher financial performance due to increased brand loyalty and reduced operational risks. Firms adopting environmental accounting practices experienced improved relationships with environmentally conscious stakeholders, leading to better market performance. Post-2016 refinements to stakeholder theory reflect the growing importance of environmental and social responsibility in corporate governance. By emphasizing inclusivity, accountability, and sustainability, these advancements have reshaped the way companies engage with stakeholders. Environmental accounting plays a pivotal role in operationalizing these refinements, providing the tools to measure and report environmental impacts transparently. For manufacturing companies in emerging economies like Nigeria, adopting these practices can lead to enhanced reputation, innovation, and long-term financial success.

2.3.2 Legitimacy Theory: Post-2016 Developments

Legitimacy theory is a widely recognized framework used to understand how organizations seek to align their operations with societal norms, values, and expectations

to maintain social approval or legitimacy. Originating from the work of Dowling and Pfeffer (1975), legitimacy theory has gained new relevance and refinement in the modern era, particularly in light of global sustainability challenges, increased regulatory pressures, and the growing importance of Environmental, Social, and Governance (ESG) factors. This note explores the theoretical advancements, practical applications, and empirical evidence of legitimacy theory post-2016, with a focus on its implications for environmental accounting and corporate financial performance.

Legitimacy theory posits that organizations must operate within the boundaries of what society deems acceptable to maintain their legitimacy. This legitimacy is crucial for long-term survival, as it fosters trust and support from stakeholders, including regulators, investors, customers, and communities. Businesses are part of a broader societal framework and must adhere to societal expectations, failure to align with these expectations may result in reputational damage, loss of stakeholder support, and financial penalties. Organizations actively seek legitimacy through strategies like public disclosures, corporate social responsibility (CSR) initiatives, and sustainability practices. In the Integration with Sustainability and ESG, Sustainability has become a major societal expectation. Organizations are increasingly judged on their environmental and social performance, Legitimacy theory now emphasizes the role of sustainability reporting and ESG disclosures in maintaining legitimacy.

Legitimacy theory continues to evolve as businesses navigate increasing societal and environmental pressures. Post-2016 refinements emphasize sustainability, stakeholder-centric strategies, and proactive approaches to maintaining legitimacy. Environmental accounting serves as a vital tool for companies to demonstrate accountability, transparency, and alignment with societal expectations. By adopting legitimacy theory principles, organizations can build trust, reduce risks, and achieve long-term financial success in a rapidly changing global landscape.

2.3.3 Corporate Social Responsibility (CSR) Theory

Corporate Social Responsibility (CSR) theory is a framework that explains the responsibility of businesses to contribute positively to society beyond generating profit. Rooted in the work of Carroll (1979), the theory evolved to emphasize ethical, social, environmental, and economic responsibilities. Over the years, CSR has become an integral part of corporate strategies, with businesses increasingly held accountable for their impact on stakeholders and the environment. This note explores the evolution, dimensions, post-2016 developments, practical applications, and challenges of CSR theory, with a focus on its relevance to environmental accounting and financial performance.

CSR theory argues that businesses have a duty to engage in practices that benefit society, alongside creating shareholder value. The theory is based on the premise that corporations exist within a societal framework and derive legitimacy from their contributions to the well-being of society. The evolving global landscape since 2016 has brought new dimensions to CSR theory, driven by factors such as climate change, stakeholder activism, and technological advancements. CSR has increasingly merged with ESG frameworks, where social and environmental impacts are quantified and linked to corporate governance. CSR is no longer limited to philanthropy; it is integrated into core business strategies to create shared value for society and businesses.

Environmental accounting plays a critical role in operationalizing CSR initiatives. By quantifying the environmental impacts of corporate activities, it provides the data necessary for Tracking CSR goals, such as carbon neutrality or waste reduction.

Communicating progress to stakeholders through sustainability reports.

CSR theory continues to evolve in response to societal expectations and global challenges. Post-2016, the integration of CSR with ESG, SDGs, and strategic business practices has made it a central component of corporate governance. Environmental accounting serves as a vital tool for implementing and measuring CSR initiatives, ensuring accountability and transparency. By adopting CSR principles, businesses can enhance their reputations, foster stakeholder trust, and achieve sustainable financial success while contributing to

societal well-being. and accounts of thirty-six randomly selected quoted companies in Nigeria Using panel data.

2.4 EMPIRICAL REVIEW

Oraka and Egbunike, (2020) appraise environmental accounting information in the financial statements of consumer goods manufacturing companies in Nigeria. The study made use of a descriptive research design. The study finds that there is a significant difference in the environmental disclosure themes of consumer goods manufacturing firms. Also, there is a significant effect of environmental disclosure on total asset turnover and returns on equity, however, no significant effect was found for the cash flow ratio, current ratio, and returns on assets of the manufacturing companies.

Ofoegbu and Megbuluba, (2019) Justifies on the impact of an accounting information system on financial performance, while considering the mediating role of internal control. The study collected data through 90 questionnaires distributed among employees of 18 industrial companies. The findings revealed that Timeliness, Accuracy, and Verifiability significantly affected financial performance.

Nguyen and Tran, (2020) assessed the relationship between disclosure levels of environmental accounting information and financial performance. Based on data collected from firms listed in Vietnam between 2017 and 2020, it has been found that there is a significant correlation between the level of disclosure of environmental accounting information and financial performance. Furthermore, the study indicates that firms that disclose their ecological accounting information tend to have better financial performance compared to those that do not disclose such information.

Ezeagba et al. (2019) investigated the relationship between environmental accounting disclosures and the financial performance of food and beverage companies in Nigeria. Data for the study were collected through secondary sources. The study revealed that there is a significant relationship between environmental accounting disclosures and the return on equity of selected companies. It also revealed a negative relationship between

environmental accounting disclosures and return on capital employed and the net profit margin of selected companies.

Osemene et al. (2016) examine the relevance of environmental accounting practices to sustainable development and performance of listed manufacturing companies in Nigeria. Data was collected from annual reports and accounts of thirty-six randomly selected quoted companies in Nigeria. Results revealed that there is a significant positive relationship between sustainable development and return on equity (ROE) and return on assets (ROA); a significant positive relationship between environmental accounting and return on equity (ROE).

Nkwoji, (2021) investigated on the relationship between environmental accounting and the Profitability of selected quoted oil and gas companies in Nigeria in recent years 2022-2023. The result shows that there is no significant relationship between environmental expenditure and the net profit of the oil and gas companies in Nigeria.

Umoren et al. (2018) investigated on Oil Companies Performance and Environmental Accounting Reporting in Nigeria. The result reviews no significant correlations between environmental accounting reporting and performance measures such as return on capital employed ($P = 0.175$), net profit margin ($P = 0.95$), earnings per share ($P = 0.423$), and dividend per share ($P = 0.542$).

T. D. Nguyen, (2020) evaluated the factors that affect the degree of environmental accounting information disclosure. Data are collected from 87 industry companies listed on the Vietnamese stock market from 2019 to 2023. The results show that the extent of environmental accounting information disclosure is influenced by factors: firm size, uptime, and independent audit.

Shabbir and Wisdom (2020) ascertain the relationship between corporate social responsibility, environmental investments, and financial performance in Nigerian manufacturing firms. The results indicate a positive and significant relationship exists between internal environmental investments and the firm's financial performance.

Thabit and Jasim (2021) evaluated the role of environmental accounting disclosure to reduce harmful emissions from oil refining factories through review the annual financial statements of some oil refining companies in the Kurdistan Region (KGR), and distributing 50 questionnaires. The research suggests that oil refining Kurdistan (KGR) companies have insufficient environmental accounting disclosure practices, with annual financial statements providing limited or no information on environmental accounting. Simsek and Öztürk, (2021) [1] evaluates the impact of environmental accounting approaches of businesses on the overall performance of businesses. The data was obtained by random sampling method. The result shows a mutually significant relationship between environmental accounting, and performance.

CHAPTER THREE

METHODOLOGY

3.1 PREAMBLE

This chapter contains the method used in conducting the study, i.e. the research design, the sources of data collection, the population of the study, the sample size and the statistical techniques, the instruments of data collection, the methods of data analyses, and the model specification.

3.2 RESEARCH DESIGN

Since there are so many types of research design, the one that was used in this study is the chi-square test method. The variables that will be tested in the studied firms are environmental disclosure activities, environmental costs, and regulatory pressure.

3.3 SOURCES OF DATA

In order to obtain the needed data for this research work both primary and secondary data collection were conducted. The primary data are collected through oral interview, direct observation and response from the interview conducted while the secondary data are obtained from various journals, financial reports, periodical bulletins and information relevant to the research study.

3.4 POPULATION OF THE STUDY

The population of this study shall be the entire top management staffs i.e. the administrative department consisting of 12 staffs, the production department consisting of 24 staffs, and the personnel department consisting of 39 staffs of Tuyil Pharmaceutical Industry, 75 staffs were totally selected for this study, this is necessary to give all

manufacturing companies equal opportunity of being selected and to remove all forms sample bias.

3.5 SAMPLING TECHNIQUES AND SAMPLE SIZE

The sampling technique adopted to gather the necessary information for this research work was “systematic random sampling”. However to get the sampling size Yaro Yamane (1967) formula was used given the sampling size of 63.

$$\frac{N}{1+N(e)^2}$$

Given N = total population and e = significant level of error (0.05)

3.6 INSTRUMENTS OF DATA COLLECTION

Primary data will be collected from the management staff of Tuyil Pharmaceutical Industry staffs using questionnaire constituting of closed ended questionnaire targeted to Tuyil Pharmaceutical Industry staffs. This will consists of structural items to elicit information from the respondents, also adopted because it allows a systematic collection of information about the object of the study.

3.7 METHODS OF DATA ANALYSIS

The collected data will be analyzed and presented using chi-square test method to test hypothesis formulated in chapter 1 and to ensure effective and easy analysis of the research work.

3.8 MODEL SPECIFICATION

The study adapts the model of Nguyen (2020) in explaining the factors that affect the degree of environmental accounting information disclosure on financial performance of manufacturing companies. The model is stated below:

$$FP = \beta_0 + \beta_1 ED_i + \beta_2 EC_i + \beta_3 RP + e_i$$

Where,

FP = Financial performance

ED = Environmental disclosure

EC = Environmental cost

RP = Regulatory pressure

e_i = Error term

Chapter Four

Discussion of Findings

4.1 Preamble

This chapter presents the analysis of data collected from the questionnaire administered to 63 respondents from Tuyil Pharmaceutical Industry, Ilorin, Kwara State. The data were analyzed using frequency distributions, percentages, and the chi-square test to test the hypotheses formulated in Chapter One. The analysis is divided into demographic characteristics (Section A) and subject matter responses (Section B), followed by the testing of hypotheses and discussion of findings.

4.2 Data Presentation

The data collected from the respondents are presented in tables, with each table analyzed based on frequency and percentage distributions. The analysis of each option is provided 10 offer insights into the respondents' perspectives.

4.2.1 Bio- Data Respondents

Table 1: Gender Distribution

Option	Frequency	Percentage (%)
Male	40	63.49
Female	23	36.51
Total	63	100

Source: Researcher's Survey, 2025

The majority of respondents (63.49%) were male, while 36.51% were female. This distribution suggests a male-dominated workforce in Tuyil Pharmaceutical Industry, which may reflect the industry's operational structure.

Table 2: Age Range

Option	Frequency	Percentage(%)
18-25 years	10	15.87
20-35 years	25	39.68
36-45 years	20	31.75
46 years and above	8	12.70
Total	63	100

Source: Researcher's Survey, 2025

The largest age group was 26-35 years (39.68%), followed by 36-45 years (31.75%).

Younger employees (18-25 years) and older employees (46 years and above) were less represented, indicating a workforce primarily composed of middle-aged professionals.

Table 3: Educational Qualification

Option	Frequency	Percentage (%)
Secondary School Certificate	5	7.94
Diploma/OND	15	23.81
Bachelor's Degree/HND	35	55.56
Postgraduate Degree	8	12.70

Total	63	100
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Source: Researcher's Survey, 2025

The majority of respondents (55.56%) held a Bachelor's Degree or HND, indicating a well-educated workforce. Only 7.94% had a secondary school certificate, suggesting that higher qualifications are common among employees.

Table 4: Department

Option	Frequency	Percentage (%)
Administrative Department	10	15.87
Production Department	20	31.75
Personnel Department	33	52.38
Total	63	100

Source: Researcher's Survey, 2025

The personnel department had the highest representation (52.38%), followed by the production department (31.75%). The administrative department had the least representation (15.87%, reflecting the population distribution outlined in the methodology.

4.2.2 Analyses of Primary Data

Table 5: Impact of Environmental Disclosure on Financial Performance

Option	Frequency	Percentage (%)
Strongly positive	10	15.87
Positive	30	47.62
Neutral	15	23.81
Negative	5	7.94

Strongly negative	3	4.76
Total	63	100

Source: Researcher's Survey, 2025

A significant portion (47.62%) viewed environmental disclosure as having a positive impact on financial performance, while 15.87% saw it as strongly positive. Only 12.70%

Perceived a negative or strongly negative impact, indicating a generally favorable view of environmental disclosure's financial benefits.

Table 6: Extent of Environmental Disclosure

Option	Frequency	Percentage (%)
To a very great extent	8	12.70
To a great extent	15	23.81
To a moderate extent	25	39.68
To a low extent	110	15.87
Not at all	5	7.94
Total	63	100

Source: Researcher's Survey, 2025

Most respondents (39,68%) indicated that environmental disclosure occurs to a moderate extent, while 23.81% reported a great extent. Only 7.94% stated no disclosure, suggesting that Tuyil Pharmaceutical Industry engages in some level of environmental reporting, though it may not be comprehensive.

Table 7: Effect of Environmental Costs on Financial Performance

Option	Frequency	Percentage (%)
To a very great extent	5	7.94

To a great extent	10	15.87
To a moderate extent	30	47.62
To a low extent	15	23.81
Not at all	3	4.76
Total	63	100

Source: Researcher's Survey, 2025

The majority (47.62%) believed environmental costs affect financial performance to a moderate extent, with 15.87% indicating a great extent. Only 4.76% felt no impact. Suggesting that environmental costs are perceived as relevant to financial outcomes.

Table 8: Impact of Regulatory Pressure on Financial Performance

Option	Frequency	Percentage (%)
Strongly positive	7	11.11
Positive	20	31.75
Neutral	25	39.68
Negative	8	12.70
Strongly negative	3	4.76
Total	63	100

Source: Researcher's Survey, 2025

The largest group (39.68%) viewed regulatory pressure's impact as neutral, while 31.75% saw it as positive. A smaller portion (17.46%) perceived a negative or strongly negative impact, indicating mixed perceptions of regulatory pressure's financial implications.

Table 9: Environmental Accounting and Cost Reduction

Option	Frequency	Percentage (%)
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Strongly agree	10	15.87
Agree	30	47.62
Neutral	15	23.81
Disagree	6	9.52
Strongly disagree	2	3.17
Total	63	100

Source: Researcher's Survey, 2025

Most respondents (47.02%) agreed that environmental accounting contributes to cost reduction, with 15.87% strongly agreeing. Only 12.69% disagreed or strongly disagreed. Indicating a positive perception of cost-saving potential.

4.3 Test of Hypotheses

The hypotheses formulated in Chapter One were tested using the chi-square test at a 5% Significance level ($\alpha = 0.05$). The chi-square formula is: $\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$

O_i = observed frequency,

E_i = expected frequency.

Hypothesis 1: There is no adequate disclosure of environmental activities affecting financial performance of manufacturing companies in Kwara State.

Table 11: Chi-Square Test for Hypothesis 1 (Environmental Disclosure and Financial Performance)

Option	Observed (O)	Expected (E)	(O - E)	(O - E) ²	(O - E) ² /E
Strongly positive	10	12.6	-2.6	6.76	0.54
Positive	30	12.6	17.4	302.76	24.03
Neutral	15	12.6	2.4	5.76	0.46

Negative	5	12.6	-7.6	57.76	4.58
Strongly negative	3	12.6	-9.6	92.16	7.31
Total	63	63			36.92

Calculation:

- * Expected frequency = $63 / 5 = 12.6$
- * $\chi^2 = 36.92$
- * Degrees of freedom (df) = $(5 - 1) = 4$
- * Critical value at $\alpha = 0.05$, df = 4 is 9.488.

Since $\chi^2 = 36.9259.488$, we reject the null hypothesis. There is adequate disclosure of environmental activities affecting financial performance.

Hypothesis 2; Environmental cost does not have any effect on financial performance of manufacturing companies in Kwara State.

Table 12: Chi-Square Test for Hypothesis 2 (Environmental Cost and Financial Performance)

Option	Observed (O)	Expected (E)	(O - E)	(O - E)'	(O - E)JI
To a very great extent	5	12.6	-7.6	57.76	4.58
To a great extent	10	12.6	-2.6	6.76	0.54
To a moderate extent	30	12.6	17.4	302.76	24.03
To a low extent	15	12.6	2.4	5.76	0.46
Not at all	3	12.6	-9.6	92.16	7.31
Total	63	63			36.92

Calculation:

- * Expected frequency = $63 / 5 = 12.6$

* $\chi^2=36.92$

* Degrees of freedom (df) = 4

* Critical value at $\alpha = 0.05$, df = 4 is 9.488.

Since $\chi^2=36.92 > 9.488$, we reject the null hypothesis. Environmental costs have significant effect on financial performance.

Hypothesis 3: There is no significant impact of regulatory pressure on financial performance of manufacturing companies in Kwara State.

Table 13: Chi-Square Test for Hypothesis 3 (Regulatory Pressure and Financial Performance)

Option	Observed (O)	Expected (E)	(O - E)	(O - E) ²	(O - E) / E
Strongly positive	7	12.6	-5.6	31.36	2.49
Positive	20	12.6	7.4	54.76	4.35
Neutral	25	12.6	12.4	153.76	12.20
Negative	8	12.6	-4.6	21.16	1.68
Strongly negative	3	12.6	-9.6	92.16	7.31
Total	63	63			28.03

Calculation:

* Expected frequency = $63 / 5 = 12.6$

* $\chi^2=28.03$

* Degrees of freedom (df) = 4

* Critical value at $\alpha = 0.05$, df = 4 is 9.488.

Since $\chi^2=28.03 > 9.488$, we reject the null hypothesis. Regulatory pressure has a significant impact on financial performance.

4.4 Discussion of Findings

The findings indicate that environmental disclosure significantly affects financial performance, as 63.49% of respondents perceived a positive or strongly positive impact.

This aligns with Nguyen and Tran (2020), who found a significant correlation between environmental disclosure and financial performance. The rejection of the null hypothesis for environmental costs suggests that costs related to waste management and pollution control influence financial outcomes, supporting Shabbir and Wisdom (2020), who noted

Positive financial impacts from environmental investments. The significant impact of regulatory pressure aligns with Choi and Luo (2021), indicating that compliance with regulations like NESREA influences financial performance, though perceptions are mixed (39.68% neutral). These findings suggest that environmental accounting practices enhance financial performance through cost reduction, improved reputation. And regulatory compliance, though challenges like high implementation costs remain.

Chapter Five

Summary, Conclusion, and Recommendations

5.1 Summary

This study examined the impact of environmental accounting on the financial performance of manufacturing companies in Kwara State, using Tuyil Pharmaceutical Industry as a case study. Data were collected from 63 respondents through a questionnaire, analyzing demographic characteristics and subject matter variables (environmental disclosure, environmental costs, and regulatory pressure). The chi-square test rejected all null hypotheses, confirming that environmental disclosure, costs, and regulatory pressure significantly affect financial performance. Key findings indicate that environmental accounting enhances corporate reputation and cost efficiency, though its implementation faces challenges like high costs and lack of standardization.

5.2 Conclusion

The study concludes that environmental accounting practices significantly influence the financial performance of Tuyil Pharmaceutical Industry. Adequate disclosure of environmental activities improves stakeholder trust and corporate reputation, while environmental costs and regulatory pressures impact financial outcomes through compliance and operational efficiency. These findings underscore the importance of integrating environmental accounting into corporate strategies to achieve sustainable financial success.

5.3 Recommendations

1. Enhance Environmental Disclosure: Tuiyil Pharmaceutical Industry should improve the transparency and comprehensiveness of environmental disclosures in financial reports to boost stakeholder confidence and attract environmentally conscious investors.
2. Invest in Cost-Effective Environmental Practices: The company should adopt energy-efficient technologies and waste management systems to reduce environmental costs while enhancing profitability.
3. Strengthen Compliance with Regulations: Management should ensure strict adherence to NESREA regulations to avoid penalties and leverage regulatory pressure as a driver for sustainable practices,

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