THE IMPACT OF SOCIAL GOVERNANCE REPORTING ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) IN EKITI STATE NIGERIA

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ABSTRACT

This study examined the impact of Social Reporting Index (SRI), Governance Quality Index (GQI), and Sustainability Reporting Disclosure Index (SRDI) on the financial performance (FP) of Small and Medium-Sized Enterprises (SMEs) in Ekiti State, Nigeria. Employed a survey research design, data were collected from 108 SME practitioners via structured questionnaires rated on a five-point Likert scale. Reliability analysis yielded a Cronbach's Alpha of 0.7530, confirming internal consistency. Descriptive statistics indicated moderate average engagement in SRI (mean = 2.13), GQI (2.10), SRDI (2.23), and FP (2.14), with positively skewed distributions. Bivariate correlations revealed significant positive associations between FP and both SRI ($r = .468$, $p < .001$) and SRDI ($r = .474$, $p < .001$), but not GQI ($r = .184$, $p = .057$). Multiple regression analysis showed that SRI ($B = 0.388$, $\beta = 0.373$, $p < .001$) and SRDI ($B = 0.373$, $\beta = 0.383$, $p < .001$) significantly predict FP, explaining 34.5% of its variance (Adjusted $R^2 = 0.326$), while GQI's direct effect was not significant ($B = -0.062$, $p = .501$). These findings align with empirical literature highlighting the financial benefits of social and environmental disclosures, yet they contrast with contexts where governance metrics drive performance. The study concludes that for SMEs in Ekiti State, strengthening social and sustainability reporting frameworks is more directly linked to financial gains than generic governance improvements. Recommendations include embedding social metrics into annual reports, adopting structured sustainability frameworks (e.g., GRI-adapted indices), and tailoring governance practices to SME realities.

1. INTRODUCTION

A company's ability to make money and efficiently manage its resources is reflected in its financial performance, which is essential to its health (Barauskaite & Streimikiene, 2021). Numerous financial metrics that offer information on profitability, liquidity, solvency, and general financial health are used to evaluate it. Profit generation is measured by profitability ratios such as return on equity (ROE), return on assets (ROA), and gross and net profit margins (Cho & Lee, 2019). While solvency ratios (debt-to-equity, interest coverage, and debt-to-assets) assess long-term financial stability, liquidity ratios (current, quick, and cash ratios) measure the fulfillment of short-term obligations (Devie et al., 2020). Efficiency ratios like the turnover of assets, inventory, and accounts receivable draw attention to how effectively resources are used (Binsaddig et al., 2023). Analysing these indicators enables stakeholders to gain a comprehensive understanding of a company's financial health, facilitating informed decisions for long-term sustainability and growth (Olayinka, 2022).

Despite its criticality, financial performance is susceptible to numerous challenges. Economic downturns, inflation, and fluctuating interest rates directly impact revenue and profitability (Spitsin, et al., 2020). Intense competition can erode profit margins, and complex, evolving regulations increase compliance costs (Carey, et al., 2020). Rapid technological advancements necessitate heavy investment to stay competitive. Addressing these challenges requires proactive financial management, strategic planning, and a strong focus on innovation and adaptability to mitigate risks and enhance long-term performance (Wang, 2024).

For both a company and the overall economy, poor financial performance can have serious repercussions. A company's capacity to fulfil short-term obligations may be hampered by a lack of cash flow, which could result in a liquidity crisis or expensive borrowing. (Safiq, et al., 2020). Persistent financial difficulties erode investor confidence, making it challenging to raise capital and limiting growth potential (Ferriswara et al., 2022). Beyond the company, stakeholders such as employees may face job losses or reduced benefits (Fridson & Alvarez 2022). At a broader economic level, declining corporate profitability can reduce government tax revenue and stifle job creation (Ojo, 2020). Therefore, prioritizing financial health, implementing sound financial management practices, and reducing these risks requires adjusting to shifting economic conditions.

For SMEs, especially those in Nigeria's Ekiti State, Sustainability and Governance (S&G) reporting offers a significant avenue for enhanced financial performance. S&G reporting provides a thorough analysis of the governance, social, and environmental aspects of a business, improving transparency and accountability (Abdul, et al., 2021). This transparency can attract investors and lenders, as strong corporate governance practices and social responsibility enhance reputation and credibility, leading to easier access to capital and more favourable terms (Thakor & Merton, 2024). Moreover, focusing on environmental and social issues can lead to improved operational efficiency through cost reduction, resource conservation, and risk mitigation (Siegel, et al., 2019). Strong governance practices also ensure effective internal controls and prevent fraud, ultimately contributing to the financial performance of SMEs in Nigeria's Ekiti State by encouraging long-term prosperity and sustainable growth (Awotomilusi, et al., 2023).

1.2 Statement of problem

Small and Medium-Sized Enterprises (SMEs) are crucial drivers of economic growth and development in Nigeria, contributing significantly to job creation and prosperity (Gherghina, et al., 2020). However, they usually face obstacles like restricted financial access, poor infrastructure, and a lack of managerial experience. One possible way to improve the financial performance of SMEs is through sustainability and governance (S&G) reporting (Chopra et al., 2024). In addition to traditional financial reporting, S&G reporting covers governance, social, and environmental issues that are important for long-term sustainability. S&G reporting can increase accountability, transparency, and trust by providing a more comprehensive view of performance. Research indicates that S&G reporting positively impacts financial performance by improving reputation, attracting investors, reducing operational costs, and aiding in risk management, operational efficiency, and innovation (Oncioiu, et al., 2020).

Awotomilusi et al., (2023) investigated the factors influencing ESG performance in Nigeria and the effects of financial planning and operational risk disclosure on the financial performance of SMEs in Ekiti State. However, the specific role of S&G reporting in enhancing SME financial performance, particularly in Ekiti State, remains underexplored. Deeper understanding of the opportunities and difficulties involved in SMEs' adoption of S&G reporting is acknowledged to be necessary. For SMEs in Ekiti State to fully benefit from S&G reporting for their long-term success, more research is necessary to pinpoint the

precise obstacles they encounter when implementing these practices and to investigate creative solutions.

2. Literature Review and Hypotheses Development

2.1 Social reporting index and financial performance

Nani (2019) found no significant perceptual difference on the objectives and motivations for social reporting between users and preparers in Indonesian Islamic banking, though they differed on potential users and required disclosures. Conversely, According to Cho et al. (2019), social contribution is the main driver of the partial positive correlation between Korean firms' financial performance and their CSR (corporate social responsibility) performance. In a similar vein, Hou (2019) observed that CSR has a positive effect on Taiwan's Corporate Financial Performance (CFP), a relationship that is reinforced by board ownership and firm visibility (though negatively in family businesses). Although they found a negligible correlation with Tobin's Q, Okafor et al. (2021) presented quantitative evidence that increased spending on socially responsible causes has a positive impact on the long-term revenue and profitability of U.S. technology companies. According to Awaysheh et al. (2020), best-in-class CSR companies beat their peers in terms of operating performance and market valuation; however, once endogeneity is taken into account, the relationship between operating performance and market valuation becomes less evident, but the positive relationship with market valuation persists. Landi and Sciarelli (2019), however, found no statistically significant positive impact of Socially Responsible Investment (SRI) on abnormal returns for Italian companies.

The subtleties of this relationship are highlighted by additional research. According to Xie et al. (2019), corporate efficiency and ESG information transparency, especially at a moderate disclosure level, are positively correlated, with governance information showing the strongest correlation. Additionally, they discovered that the majority of ESG activities which include efficiency, return on assets, and market value have a positive correlation with CFP. Barauskaite and Streimikiene (2021) carried out a thorough review of the literature and found that most studies indicate a positive or neutral relationship between CSR and financial performance. However, they also pointed out that there are alternative and negative connections that need more research. According to Nizam et al. (2019), loan growth and management quality are two ways that financial performance is greatly improved by financial access for banks worldwide. Internal environmental investments and manufacturing

companies' financial performance have a positive and significant relationship, according to Shabbir and Wisdom (2020), with environmentally conscious businesses showing higher profitability. Finally, Zhou et al. (2022) revealed that improved ESG performance positively impacts company market value, with financial performance and operational capacity mediating this relationship, especially for Chinese state-owned listed companies. Therefore, the study hypothesized as follow;

H$_1$:   *Social reporting index has a significant positive impact on financial performance of small and medium-sized enterprises (SMEs) in Ekiti State Nigeria.*

2.2 Governance quality index and financial performance

In a study of 173 Asian Microfinance Institutions (MFIs), Iqbal et al. (2019) discovered a reciprocal relationship: more profitable MFIs had better governance systems, and good governance practices increased profitability and sustainability. Al-Ahdal et al. (2020), however, found that board accountability, audit committees, and transparency had negligible or adverse effects on the performance of Indian and GCC listed companies. Through loan growth and management quality, Nizam et al. (2019) found a strong positive correlation between financial performance and access to financing in the banking industry, especially for smaller banks. However, Bătae et al. (2021) discovered that while emission reductions and European banks' financial performance were positively correlated, enhanced corporate governance quality unexpectedly had the opposite effect, indicating that market investors might not always value strong social responsibility or governance practices. Similarly, Kyere and Ausloos (2021) found mixed results on the impact of various corporate governance mechanisms on the financial performance of UK firms.

The precise mechanisms and moderating factors affecting this relationship are the subject of more research. According to Dewi et al. (2019), financial accountability and the information quality of local government financial statements are both favorably impacted by internal control and human resource competency. Rodríguez-Pose and Ketterer (2020) showed that improvements in governance are a powerful driver of development and that government quality has a positive impact on regional economic performance, particularly in Europe's underperforming regions. Finally, Nguyen et al. (2021) discovered that internal governance mechanisms have a mixed moderating effect on the relationship between financial performance and environmental performance, while board size and governing board meetings

positively influence environmental performance in China's highly polluting industries. Hence, the following hypothesis was proposed:

H₂: *Governance quality index has a positive impact on financial performance of small and medium-sized enterprises (SMEs) in Ekiti State Nigeria*

2.3 Sustainability reporting disclosure index and financial performance

Research into the impact of sustainability reporting on firm performance in developing countries presents mixed, though often positive, findings. Aifuwa (2020) conducted a systematic content analysis, revealing inconclusive results overall, yet a significant number of studies indicate a positive relationship. This research also highlights lower sustainability disclosure levels and methodological flaws in developing countries compared to developed ones. Conversely, Papoutsi and Sodhi (2020) demonstrated that sustainability reports are indeed informative, with their developed sustainability indicators positively correlating with external ESG ratings. Orazalin et al. (2019) found that improved sustainability performance enhanced financial stability in the Russian oil and gas industry, while Hongming et al. (2020) reported a positive link between sustainability reporting and firm performance in Pakistan. However, Raucci and Tarquinio (2020) noted a reduction in disclosed Sustainability Performance Indicators (SPIs) in Italy post-Directive adoption, suggesting a focus on "relevant" indicators rather than comprehensive disclosure.

Further studies delve into the nuances of this relationship across different sectors and regions. Buallay et al. (2021) investigated sustainability reporting and bank performance post-financial crisis, finding a positive impact of ESG on bank performance in developed countries, but a negative relationship in both developed and developing countries when using certain regression models. Ibrahim et al. (2021) observed that environmental sustainability had a positive and significant effect on Return on Assets (ROA) for listed Nigerian oil and gas firms, while economic and social sustainability had positive but insignificant effects. According to Thomas et al. (2020), company size had no discernible impact on sustainability report disclosure in Indonesia, but profitability and leverage did. According to Buallay (2019), ESG has a positive effect on market performance, but it can also have a negative impact on financial and operational performance, which is consistent with the cost-of-capital reduction theory. Ultimately, Siueia and Deladem (2019) came to the conclusion that there is a strong and positive correlation between Financial Performance (FP) and Corporate Social Responsibility (CSR) disclosure in the banking industry of Sub-Saharan Africa, with positive

disclosure having a greater effect than negative disclosure. Thus, based on the foregoing, we hypothesized that.

H3:   Sustainability reporting disclosure index *has a positive impact on financial performance of small and medium-sized enterprises (SMEs) in Ekiti State Nigeria.*

2.4 Theoretical frameworks

2.4.1 Resource-Based View (RBV) Theory

Resource-Based View (RBV) theory was introduced by Jay Barney in 1991. According to RBV, a company's distinct collection of valuable, rare, inimitable, and non-substitutable (VRIN) resources and capabilities is what gives it a competitive edge. These resources can be intangible (like knowledge, skills, and brand reputation) or tangible (like physical assets). RBV may overemphasize internal resources while ignoring external factors such as competitive dynamics and industry structure, according to critics. Because it necessitates a thorough comprehension of a firm's resources and capabilities, the VRIN framework can be difficult to implement in practice.   According to RBV, SMEs can see S&G practices as rare, valuable, and unique resources when it comes to S&G reporting. SMEs can improve their reputation, forge close bonds with stakeholders, and draw in socially conscious investors by implementing responsible business practices. Better financial performance may result from this since it may increase customer loyalty, lower capital costs, and improve access to capital. For instance, a strong S&G reputation can differentiate an SME from its competitors, giving it a competitive advantage.

This study was hinged on resources based theory because is grounded in the Resource-Based View (RBV) theory, which posits that a firm's competitive advantage stems from its unique bundle of valuable, rare, inimitable, and non-substitutable (VRIN) resources and capabilities. In the context of S&G reporting, SMEs can leverage this theory to understand how their S&G practices can contribute to their overall performance.

By effectively managing their S&G initiatives, SMEs can develop a strong reputation for social responsibility and environmental sustainability, which can be considered a valuable, rare, and inimitable resource. This enhanced reputation can lead to increased customer loyalty, improved access to capital, and reduced operational costs, ultimately driving financial performance.

2.5 Conceptual Framework

Figure 2.1 shows the interactions between the independent variable (S&G Reporting) and the dependent variable (Financial Performance**)**
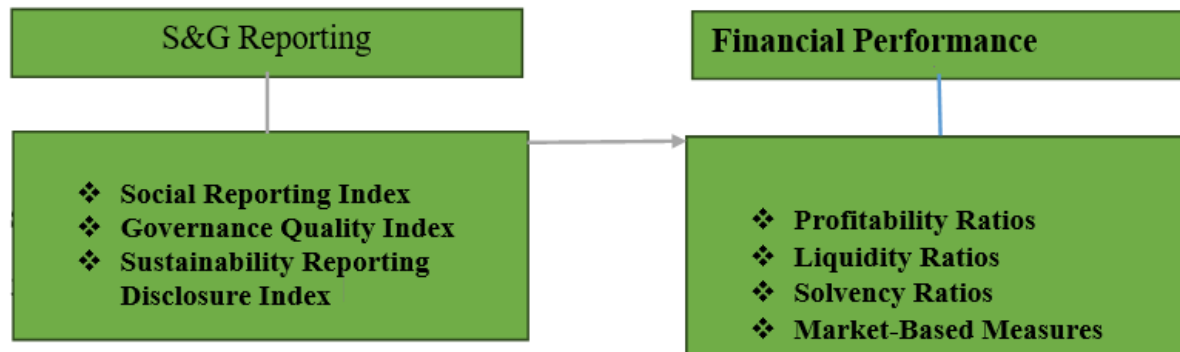
Source: Authors' Concepts (2025)

3. METHODOLOGY

In order to investigate the relationship between variables, this study used a survey research design with a correlation approach. A structured, closed-ended questionnaire with a five-point Likert scale was used to gather data mainly from 108 employees and owners of Small and Medium-Sized Enterprises (SMEs) in Ekiti State, Nigeria. To provide a consistent basis for assessment, the study's population was specifically targeted at SMEs in this area. To choose respondents with particular attributes pertinent to the study, a deliberate sampling technique was used. The E-view statistical package was then used to analyse the gathered data using panel regression and descriptive statistics.

Model Specification

The econometric model of this study was developed in line with the framework established byAbdul Rahman and Alsayegh (2021) to explore the relationship between the independent and dependent variables. It is outlined as stated thus;

FP= f (SGR)………………………………… *eqn. i*

FP= f (SRI, GQI, SRDI)………………………… *eqn. ii*

The model can therefore be formulated as econometrically as:

$FP = \beta_0 + \beta_1 SRI_{it} + \beta_2 GQI_{it} + \beta3 SRDIit + e_{it}$……………..*eqn. iii*

Where;

FP= financial performance

SRI= Social Reporting Index

GQI= Governance Quality Index

SRDI= Sustainability Reporting Disclosure Index

it = firm 'i' in period 't'

eit= Residual or error term of firm 'i' in period 't'

A priori expectation

The expectation based on literature and theories is that social governance reporting will have positive effect on financial performance of small and medium scale enterprises operating in Ekiti State.

$\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$

4. RESULT AND DISCUSSIONS

Descriptive Statistics

Table 1. Descriptive Statistics		SRI	GRI	SRDI	FP	Valid N (listwise)
N	Statistic	108	108	108	108	108
Minimum	Statistic	1.00	1.00	1.00	1.00	
Maximum	Statistic	4.00	3.40	4.20	4.20	
Sum	Statistic	229.80	227.00	240.60	231.60	
Mean	Statistic	2.1278	2.1019	2.2278	2.1444	
Std. Deviation	Statistic	.58547	.57127	.62560	.60948	
Skewness	Statistic	.576	.413	.462	.635	
	Std. Error	.233	.233	.233	.233	
Kurtosis	Statistic	.328	-.378	.082	.750	
	Std. Error	.461	.461	.461	.461	

The measures of central tendency. All four variables have means clustered just above 2 on their respective scales SRI at 2.1278, GRI at 2.1019, SRDI at 2.2278, and FP at 2.1444. Given that the theoretical minimum is 1, these means suggest that, on average, SMEs report only a moderate level of social, governance, and sustainability activities, and likewise perceive their financial performance as neither low nor high but somewhat above the very lowest scoring. SRDI's slightly higher mean (2.2278) indicates that sustainability disclosures are marginally more prevalent than social or governance reporting, while financial performance perceptions (2.1444) sit roughly in line with reporting engagement.

Turning to variability, the standard deviations .5855 for SRI, .5713 for GRI, .6256 for SRDI, and .6095 for FP indicate a moderate spread of responses around the mean. In practical terms,

this means that while many SMEs cluster around the average level of reporting and performance, there is still considerable heterogeneity: some firms report much more extensively or perceive their performance much more favorably than others. SRDI shows the greatest dispersion (.6256), hinting that sustainability reporting practices vary more widely across firms than do social or governance activities.

Examining the extrema, we see that each index ranges from the minimum possible score of 1.00 up to a maximum between 3.40 (GRI) and 4.20 (SRDI and FP). This tells us two things: First, no firm reported the very highest possible level for every item (assuming the full scale extends above what was observed), and second, some firms are engaging at comparatively high levels—particularly in sustainability disclosure and self-reported financial outcomes.

Finally, the distributional shape metrics—skewness and kurtosis—reveal that all four distributions are positively skewed (skewness from .413 to .635). This indicates longer right tails: a minority of firms score above the mean more extremely, while the bulk of observations lie below or near it. Kurtosis values around zero (from –.378 to .750) suggest distributions that are neither markedly peaked nor heavily tailed compared to the normal. Together, these shape indicators imply that although most SMEs report and perform at moderate levels, there exists a subset of firms with notably strong practices and outcomes.

In sum, the descriptive statistics reveal that SMEs in Ekiti State generally occupy the lower to middle portion of the reporting and performance scales, with sustainability reporting slightly ahead of social or governance initiatives. Moderate variability and right-skewed distributions point to a core group of more advanced firms driving up the upper tail, while most firms remain at modest engagement levels. These insights set the stage for exploring, via regression analysis, which reporting dimensions—social, governance, or sustainability—most powerfully explain variation in financial performance across this heterogeneous population.

4.1 Correlation Analysis

The interrelationships among Social Reporting Index (SRI), Governance Quality Index (GRI), Sustainability Reporting Disclosure Index (SRDI), and Financial Performance (FP) reveal several noteworthy patterns.

Table 2: Correlation Analysis.

Correlations		SRI	GRI	SRDI	FP
SRI	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	108			
GRI	Pearson Correlation	.304**	1		
	Sig. (2-tailed)	.001			
	N	108	108		
SRDI	Pearson Correlation	.296**	.337**	1	
	Sig. (2-tailed)	.002	.000		
	N	108	108	108	
FP	Pearson Correlation	.468**	.184	.474**	1
	Sig. (2-tailed)	.000	.057	.000	
	N	108	108	108	108
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Researcher's Computation 2025

SRI and FP share a moderately strong, positive correlation of r = .468 (p < .001). This indicates that SMEs reporting more extensively on social dimensions—such as community engagement, employee welfare, and social impact—tend to report better financial performance. Roughly 22 percent of the variance in financial performance scores can be explained by variation in social reporting intensity ($r^2 \approx .468^2 = .219$). The high statistical significance (p < .001) confirms this association is unlikely due to chance.

Second, SRDI and FP exhibit an even slightly stronger positive relationship at r = .474 (p < .001). Firms that more thoroughly disclose on sustainability issues—environmental stewardship, resource use, and long-term environmental risk management—also tend to report higher financial performance. Again, about 23 percent of the variance in FP aligns with SRDI, underscoring sustainability disclosure's important role alongside social reporting.

By contrast, GRI and FP are only weakly correlated (r = .184) and do not reach conventional levels of statistical significance (p = .057). Although the coefficient is positive, its p-value exceeds .05, suggesting that governance quality—measured here by indices such as board structure, audit practices, and transparency mechanisms—does not show a clear bivariate relationship with financial performance in this sample. It may be that governance effects operate indirectly (for example, through improved risk management) or that the range of

governance practices among these SMEs is too narrow to produce a detectable linear association.

Looking next at the inter-index relationships, SRI correlates with GRI at r = .304 (p = .001) and with SRDI at r = .296 (p = .002). These moderate positive correlations imply that firms emphasizing social reporting also tend to invest in governance quality and sustainability disclosure, reflecting a broader orientation toward responsible business practices. Likewise, GRI and SRDI correlate at r = .337 (p < .001), showing that governance and sustainability reporting often go hand in hand.

Taken together, these correlations suggest that, within this group of Ekiti State SMEs, it is the social and environmental facets of reporting—more than governance structures per se—that most closely align with self-assessed financial health. For further clarity, multivariate techniques (such as the panel regression outlined in Chapter Three) will help determine whether SRI and SRDI maintain their predictive power for financial performance once governance quality and other control variables are held constant.

4.2 Regression Analysis

The multiple regression results provide a coherent picture of how Social Reporting (SRI), Governance Quality (GRI), and Sustainability Reporting Disclosure (SRDI) jointly explain variation in SMEs' self-assessed financial performance (FP) in Ekiti State.

The model's R of 0.588 indicates a moderate overall correlation between the set of predictors (SRI, GRI, SRDI) and the criterion variable (FP). More meaningfully, the R-squared of 0.345 shows that about 34.5% of the variance in financial performance is explained by the three reporting indices. After adjusting for the number of predictors, the Adjusted R-squared remains a healthy 0.326, implying that roughly one-third of SMEs' performance perceptions can be attributed to differences in their social, governance, and sustainability reporting practices. While this leaves two-thirds of the variance unexplained (reflecting numerous other factors like market conditions, industry, firm size, etc.), it nevertheless demonstrates that non-financial reporting is a substantive predictor of performance.

Table 3: Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.588[a]	.345	.326	.50022	2.287
a. Predictors: (Constant), SRDI, SRI, GRI					
b. Dependent Variable: FP					

Table 4: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	13.723	3	4.574	18.282	.000[a]
1	Residual	26.023	104	.250		
	Total	39.747	107			
a. Predictors: (Constant), SRDI, SRI, GRI						
b. Dependent Variable: FP						

Table 5. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.619	.243		2.546	.012
	SRI	.388	.089	.373	4.370	.000
1	GRI	-.062	.092	-.058	-.676	.501
	SRDI	.373	.084	.383	4.436	.000
a. Dependent Variable: FP						

The ANOVA table confirms that the model as a whole is highly significant ($F(3,104)$ = 18.282, $p < .001$), meaning that the explained variance is not due to chance but reflects genuine associations between reporting indices and financial outcomes. With a Durbin–Watson value of 2.287, the model shows no serious first-order autocorrelation in the residuals (values between 1.5 and 2.5 are generally acceptable). This suggests that the assumption of independent errors is reasonably satisfied, lending further credibility to the coefficient estimates.

Social Reporting Index (SRI) has an unstandardized coefficient B = 0.388 (standard error = 0.089), which is statistically significant (t = 4.370, $p < .001$). In practical terms, holding GRI and SRDI constant, a one-unit increase in SRI (on its measurement scale) is associated with a 0.388-point increase in the financial performance score. The standardized beta of 0.373 confirms that SRI is a strong positive predictor—supporting the hypothesis that better social reporting enhances SMEs' financial outcomes.

Governance Quality Index (GRI) yields B = –0.062 (SE = 0.092), with t = –0.676 and p = .501. This coefficient is small, negative, and far from significance, indicating that, once social and sustainability reporting are accounted for, governance quality does not have a discernible direct effect on self-reported financial performance in this sample. Its standardized beta of –0.058 further underscores its negligible impact.

Sustainability Reporting Disclosure Index (SRDI) produces B = 0.373 (SE = 0.084), also highly significant (t = 4.436, p < .001). This means that a one-unit rise in SRDI is linked to a 0.373-point increase in performance, controlling for SRI and GRI. The standardized beta of 0.383 is slightly larger than that for social reporting, suggesting that sustainability disclosure may be the single strongest predictor among the three.

Taken together, the regression analysis demonstrates that social reporting and sustainability reporting both exert significant, positive influences on SMEs' financial performance, even when considered simultaneously. Governance reporting, however, appears not to contribute additional explanatory power beyond these two dimensions. From a theoretical standpoint, this suggests that tangible disclosures how firms engage their communities and manage environmental risks translate more directly into perceived financial outcomes than do formal governance structures alone.

4.3 DISCUSSION OF FINDINGS

The present study's regression results that Social Reporting Index (SRI) and Sustainability Reporting Disclosure Index (SRDI) each exert a significant, positive impact on SMEs' financial performance, whereas Governance Quality Index (GRI) does not both converge with and diverge from findings in the broader ESG literature.

Our finding that a one-unit increase in SRI raises financial performance by 0.388 points (p < .001) echoes numerous studies highlighting the value of social disclosures. Cho et al. (2019) similarly found that CSR performance driven largely by social contributions—correlates positively with profitability and firm value. Hou's (2019) analysis of Taiwanese firms also identified CSR's beneficial effect on corporate financial performance, particularly where firm visibility amplified the relationship. Even in the technology sector, Okafor et al. (2021) documented that greater CSR spending boosts revenue and profitability among U.S. tech firms. These consistent positive associations reinforce our result: investing in employee

welfare, community engagement, and stakeholder dialogue tends to pay dividends in bottom-line terms.

However, our study goes further by demonstrating that SRI retains its explanatory power even when controlling for sustainability and governance reporting. This robustness aligns with Shabbir and Wisdom (2020), who found that internal environmental (a dimension of social responsibility) investments were significantly linked to financial performance, while external environmental investments were less so. In our context, social disclosures may likewise be more directly tied to operational efficiencies and employee morale, which translate into financial gains.

The positive coefficient for SRDI (B = 0.373, p < .001) parallels empirical evidence from multiple contexts. Hongming et al. (2020) documented a positive relationship between sustainability reporting and firm performance among Pakistani firms, while Aifuwa (2020) observed that a majority of developing-country studies find sustainability disclosures bolster financial outcomes. Even in resource-intensive industries, Orazalin et al. (2019) showed that improved sustainability performance enhances financial stability in Russian oil and gas firms. Our standardized beta for SRDI (0.383) was marginally larger than for SRI, suggesting that environmental and long-term risk disclosures may be at least as important as social disclosures for SME performance in Ekiti State.

That said, not all literature is uniform: Buallay et al. (2021) reported a negative ESG-performance link for banks in developing countries, and Raucci and Tarquinio (2020) found Italian firms focused on fewer, more directive-relevant SPIs after new disclosure rules. Such mixed results often reflect differences in industry, regulatory regimes, and methodological choices. Nonetheless, our findings affirm that, in the SME context of Ekiti State, greater sustainability transparency correlates with stronger self-reported financial health.

Perhaps most striking is the non-significant, slightly negative coefficient for GRI (B = – 0.062, p = .501). This mirrors Shakil et al. (2019), who found no significant link between governance performance and banks' financial outcomes across emerging markets. Likewise, Landi and Sciarelli's (2019) Italian study reported no positive impact of SRI on market returns, and some governance mechanisms in Kyere and Ausloos (2021) showed mixed or negligible effects on U.K. firms.

By contrast, Xie et al. (2019) emphasized governance disclosures as the strongest driver of corporate efficiency albeit within large, listed firms where board structures and audit processes may be more mature. Our divergence suggests that for SMEs in Ekiti State, governance quality as measured may lack sufficient variation or depth to move the financial needle once social and environmental disclosures are taken into account. It may also reflect that SME governance challenges such as informality in board processes or limited separation of ownership and control are not fully captured by standard GRI metrics.

Overall, the empirical literature reveals that the impact of ESG components on financial performance is context-dependent. In our SME setting, social and sustainability disclosures emerge as the key levers, reinforcing stakeholder and resource-efficiency theories: transparent engagement with communities and environment builds trust, mitigates operational risks, and fosters resilience, which in turn supports financial outcomes. Governance practices, while critical for accountability and compliance, may require more nuanced or localized measures to display direct financial benefits among smaller firms.

5. CONCLUSION AND RECOMMENDATION

This study investigated the impact of Social Reporting Index (SRI), Governance Quality Index (GQI), and Sustainability Reporting Disclosure Index (SRDI) on the financial performance of Small and Medium-Sized Enterprises (SMEs) in Ekiti State, Nigeria. The findings indicate a strong positive correlation between social reporting and financial performance and similarly for sustainability disclosure and performance. Conversely, governance quality showed a weak, non-significant correlation. The combined model, incorporating SRI, GQI, and SRDI, explained 34.5% of the variance in financial performance, with SRI (B = 0.388, β = 0.373, p < .001) and SRDI (B = 0.373, β = 0.383, p < .001) emerging as significant positive predictors. However, GQI had no significant direct effect once social and sustainability reporting were controlled (B = –0.062, β = –0.058, p = .501). These results underscore that, for SMEs in Ekiti State, the social and environmental dimensions of reporting are the primary drivers of perceived financial performance, suggesting their strategic value in enhancing transparency, building stakeholder goodwill, and ultimately improving the bottom line.

5.1 Recommendations

Based on the findings of this study, the following recommendations are made:

Given the strong, positive effect of the Social Reporting Index on financial performance SMEs should systematically strengthen their social disclosures. This can include implementing regular reporting on employee welfare initiatives (e.g., training programs, health and safety measures) and community engagement activities.

With Sustainability Reporting Disclosure also proving a highly significant predictor of financial performance SMEs should develop or adopt structured sustainability reporting frameworks such as GRI Standards or a simplified, sector-adapted index that cover environmental and resource-management practices.

Although the Governance Quality Index did not directly predict financial performance in our model, sound governance remains the bedrock of organizational accountability. SMEs should therefore Review and adapt governance practices to their scale, focusing on measures with clear operational impact such as introducing basic internal controls, segregating duties between ownership and management, and convening regular governance committees;

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