Iyamho Journal of Management and Social Sciences (IJMSS) Volume 2 Issue 2
ISBN: 3121-7281 June 2026

Environmental, Social, and Governance Practices and Competitive Advantage: Evidence from Listed Firms in Nigeria

[1]Bello Adams, [2]Dr. Henrietta Chinasa. Uzozie

[1&2]Department of Business Administration, Faculty of Management Sciences, University of Delta, Agbor. Delta State.
Email: *bello.adams@unidel.edu.ng, henrietta.uzozie@unidel.edu.ng*
ORCID: *0009-0002-9608-0043*

ABSTRACT

This study aimed to assess the influence of environmental, social, and governance practices on the competitive advantage of listed firms in Nigeria. An ex-post facto study design was used, employing secondary data collected from the audited annual reports of 76 firms to generate 760 firm-years observations between 2015 and 2024. The data were analyzed using descriptive statistics and a fixed-effects panel regression model using Stata 18. The results revealed that all ESG practices significantly and positively influenced the firms' competitive advantage in Nigeria. The influence of environmental practices was the highest ($\beta = 0.482$, $t = 5.60$, $p < 0.001$), followed by governance ($\beta = 0.401$, $t = 4.41$, $p < 0.001$) and social practices ($\beta = 0.315$, $t = 4.26$, $p < 0.001$). This study concluded that ESG disclosure significantly enhanced firms' value and recommended that listed firms should focus more on ESG practices to improve their competitive advantage.

INTRODUCTION

The increasing importance of sustainability has become an extremely significant aspect of the functioning of any modern corporation. In particular, the environment, social matters, and governance issues are essential in building long-lasting and profitable business relationships in the twenty-first century (Eccles & Klimenko, 2019; Gillan et al., 2021). Studies conducted in recent years confirm that the lack of consideration of ESG aspects leads to negative consequences for the company in terms of reputation and attracting new partners (Gillan et al., 2021; Christensen et al., 2021). In addition, the analysis shows that the ESG characteristics of a company increasingly affect its ability to secure financing and economic performance (Eccles & Klimenko, 2019; Christensen et al., 2021). ESG covers three key areas of sustainable business development that reflect the overall level of social and environmental performance. First, the environmental pillar includes policies and performance related to climate change, greenhouse gas emissions, prevention of environmental damage, and conservation of natural resources (IPCC, 2023). Second, the social pillar promotes fair and humane working conditions, the protection of employees' health and safety, diversity and inclusion efforts, respect for human rights, high-quality customer service, and sustainable interactions with local communities (OECD, 2023). Finally, the third pillar of ESG is governance. This aspect covers effective leadership, social responsibility, decision-making processes, remuneration policies, shareholder rights, and compliance with legal norms and regulations (Gillan et al., 2021; IPCC, 2023; OECD, 2023). Companies that have achieved ESG-related success have built long-standing relationships with stakeholders and acquired several advantages in the fight for market dominance (Gillan et al., 2021; Christensen et al., 2021).

Since the beginning of the twenty-first century, companies have been striving to build competitive advantages through various means. This quest has led to the creation of some of the world's most recognizable brands. Sustainable business development is becoming a crucial source of sustainable competitive advantage because it allows organizations to build closer relationships with stakeholders, attract new customers, and reduce long-term business risks (Gillan et al., 2021; Huang, 2022). For example, businesses with high ESG ratings can raise more capital, have better customer retention, and provide higher employee satisfaction than companies with low ESG ratings (Eccles & Klimenko, 2019; Huang, 2022). Finally, the modern economic environment is forcing companies to integrate ESG criteria into their operations due to increasing societal and regulatory pressure. It follows that organizations need to implement ESG considerations to achieve long-term profitability and sustainability in the context of a constantly evolving business environment (Gillan et al., 2021; Christensen et al., 2021).

The ESG-related regulations have gained global momentum, with the GRI, TCFD, and ISSB standards becoming increasingly popular worldwide. As a result, firms are including ESG-related indicators in their annual reports to meet the rising demand for transparency and sustainability from stakeholders. Okoye et al. (2025) found that Nigeria's ESG-related laws are still developing as there are numerous informal institutions that guide the ESG reporting requirements of firms in the country. Similarly, sustainability reporting has become a vital tool that firms use to demonstrate their social and environmental responsibility to the general public, which ultimately helps to build trust with stakeholders (Okoye et al., 2025). In Nigeria, many companies have turned to ESG practices to gain community support, attract foreign direct investment, and satisfy regulatory requirements since this area of concern has gained much attention in recent years (Okoye et al., 2025; Nwaobia & Akintoye, 2024; Adebunmi & Ajibolade, 2022). Listed firms have been the mainstay of ESG reporting in Nigeria as they incorporate ESG data in their annual reports, with the banking, manufacturing, oil and gas, telecommunications, and consumer goods sectors being the most active adopters of ESG practices (Nwaobia & Akintoye, 2024; Adebunmi & Ajibolade, 2022). The level of ESG adoption varies significantly between the different industrial sectors since some industries face more pressure to report their ESG performance than others due to their influence and impact on society and the environment. Nwaobia and Akintoye (2024) discovered that ESG practices have become an essential requirement for organizational sustainability rather than an option for firms in Nigeria to select based on their preferences. In contrast, Adebunmi and Ajibolade (2022) revealed that although most firms have embraced ESG reporting practices, there are still numerous disparities in ESG reporting between the various industries in Nigeria.

Several articles highlight the significance of ESG in organizational success while neglecting to establish the connection between ESG practices and the competitive advantage of Nigerian firms. Although some researchers have demonstrated that ESG factors can play a critical role in determining the value and profitability of a firm, others have shown that the gains from ESG investments accrue to the firms in the long run. In addition, most of the studies conducted in Nigeria have concentrated on issues surrounding environmental accounting, sustainability reporting, and the firm's value while overlooking the impact that ESG practices have on a firm's overall competitive advantage. This study examines the role of ESG practices on the competitive advantage of firms listed in the Nigerian stock exchange. Moreover, this research will review the effect of ESG practices on the profitability, reputation, and market share of listed firms in the Nigerian economy.

STATEMENT OF THE PROBLEM

Environmental, Social, and Governance (ESG) adoption has become a critical requirement for organizations to improve competitiveness, gain stakeholder trust, and ensure sustainability. Firms worldwide are under increasing pressure from investors, regulators, customers, and other stakeholders to report on and integrate environmental friendliness, social responsibility, and governance policies into their operations. As a result, many listed firms have invested significantly in environmental conservation, employee welfare, community development, ethical business practices, and governance policies to improve performance and maintain competitiveness. Scholars agree that the inclusion of ESG factors in corporate strategies affects organizational performance positively. For instance, Porter and Kramer (2011) argued that companies can enhance their competitive advantage by embracing social and environmental aspects in their operations, while Friede, Busch, and Bassen (2015) found a positive relationship between ESG performance and financial performance (Porter & Kramer, 2011; Friede et al., 2015). However, the extent to which ESG adoption influences the competitive advantage of listed firms in Nigeria is yet to be established.

Although ESG adoption has been widely studied, its role in promoting competitive advantage is still inconclusive, especially in developing countries such as Nigeria. While some studies have found a positive relationship between ESG and organizational performance, others have reported insignificant results, depending on the context and industry. The situation is exacerbated by the fact that Nigerian firms face numerous challenges, including poor corporate governance, environmental degradation, and stakeholder mismanagement, hindering ESG adoption and enhancing competitiveness. Additionally, previous studies conducted in Nigeria have focused on corporate social responsibility, environmental accounting, and sustainability reporting and have failed to establish the effect of ESG practices on organizational performance. For example, Gillan, Koch, and Starks (2021) found that ESG has become a critical issue for firms worldwide, whereas Fatemi, Glaum, and Kaiser (2018) found that the value creation capacity of ESG depends on its successful implementation (Fatemi et al., 2018; Gillan et al., 2021). However, these studies do not establish the extent to which the environment, social, and governance practices affect the competitive advantage of listed firms in Nigeria.

The inconclusive results of previous studies on the relationship between ESG and competitive advantage present an opportunity for further research. This study aims to establish the effect of environmental practices, social practices, and governance practices on the competitive advantage of listed firms in Nigeria. The choice of this study is prompted by the fact that most of the previous studies conducted in Nigeria have focused on corporate social responsibility, environmental accounting, or sustainability reporting and have failed to establish the effect of ESG practices on organizational performance. Additionally, the majority of the studies conducted in Nigeria have failed to disaggregate the effect of the various components of ESG on organizational competitiveness. For instance, Gillan et al. (2021) found that ESG has become a critical issue for firms worldwide, whereas Fatemi et al. (2018) found that the value creation capacity of ESG depends on its successful implementation. However, these studies do not establish the extent to which the environment, social, and governance practices affect the competitive advantage of listed firms in Nigeria. The findings of the current study will add to the body of knowledge by providing empirical evidence on the effect of environmental practices, social practices, and governance practices on the competitive advantage of listed firms in Nigeria. For instance, Eccles et al. (2014) found that firms with higher levels of sustainability tend to outperform their peers in the long run, whereas Velte (2017) argued that further research is needed to understand the ESG-performance relationship in emerging markets (Eccles et al., 2014; Velte, 2017).

OBJECTIVES OF THE STUDY

The general objective of this study is to evaluate the impact of Environmental, Social, and Governance (ESG) adoption on the competitive advantage of listed firms in Nigeria.

Specifically, this study aims to:

i. Examine the effect of environmental practices on the competitive advantage of listed firms in Nigeria.
ii. Assess the effect of social practices on the competitive advantage of listed firms in Nigeria.
iii. Determine the effect of governance practices on the competitive advantage of listed firms in Nigeria.

Research Hypotheses

The following null hypotheses will be tested:

H_{01}: Environmental practices have no significant effect on the competitive advantage of listed firms in Nigeria.

H_{02}: Social practices have no significant effect on the competitive advantage of listed firms in Nigeria.

H_{03}: Governance practices have no significant effect on the competitive advantage of listed firms in Nigeria.

LITERATURE REVIEW

Conceptual Review

Environmental Practices

Environmental practices involve organizational initiatives and strategies that seek to reduce the impact of commercial activities on the environment and promote the efficient use of natural resources. Some of the key environmental practices include reducing greenhouse emissions, conserving natural resources, controlling pollutions, managing wastes, recycling, and using environmentally sustainable production processes. Over time, environmental sustainability has increasingly become a key component of the Environmental, Social, and Governance (ESG) performance of firms because of growing expectations that different stakeholders have for the integration of climate considerations into business strategy (Friede, Busch, & Bassen, 2021; OECD, 2023).

The recent literature reveals that currently, environmental practices are increasingly being viewed as sources of competitive advantage because they can generate substantial cost savings in production processes, conserve natural resources, and promote market dominance through differentiation. Studies show that well-developed environmental management systems can improve a firm's capacity to respond to regulatory demands, minimize greenhouse emissions, and strengthen investor confidence (OECD, 2023). Similarly, the World Economic Forum (2022) reported that effective environmental practices can provide firms with competitive advantage because of their potential to increase organizational efficiency and reduce environmental liabilities over time. As a result, environmental practices have become a key component of a firm's sustainable competitive advantage strategy because they can both improve environmental performance and reinforce profitability (OECD, 2023; World Economic Forum, 2022).

The existing research provides sufficient evidence that ESG factors enhance competitive advantage by influencing the market reputation of the firms, encouraging innovation, and improving financial performance. Velte (2022) reported that superior environmental performance generally leads to higher financial performance because responsible environmental practices are rewarded by the capital markets. Similarly, Gillan, Koch, and Starks (2021) argued that environmental innovations contribute to a firm's competitive advantage by reducing environmental risk exposure and reinforcing the legitimacy of its operations. The same argument applies to innovation and differentiation because they empower firms to produce new commodities and production processes that are difficult to imitate, thereby creating value. Therefore, the environmental practices adopted by firms are regarded as key sources of sustainable competitive advantage because they promote customer loyalty, improve profitability, and increase operational efficiency (Gillan et al., 2021; Velte, 2022).

Social Practices

Social practices comprise a firm's policies that improve stakeholder relations and promote employee welfare, training, health, customer satisfaction, community development, and human rights protection. At the same time, the ESG encourages organizational decision-making that considers all stakeholders' needs, including shareholders, employees, suppliers, customers, communities, and other constituents. The stakeholder theory views responsible corporate behavior as a mechanism that improves long-term viability and competitive advantage of a business while considering the needs of all stakeholders (OECD, 2023; UN Global Compact, 2023). In the present time, firms are focusing on enhancing stakeholder relations to achieve sustainable business growth and long-term prosperity (UN Global Compact, 2023). For instance, Eccles, Lee, and Stroehle (2023) explain that the implementation of effective social practices enhances a firm's capacity to attract and retain skilled workers, strengthen customer relations, and avoid reputational risks. Consequently, social practices are currently regarded as a critical element in the process of attaining sustainable competitive advantage of firms.

The recent literature reveals that social responsibility contributes to sustainable competitive advantage because it improves employee performance and organizational capability while promoting customer loyalty and brand image. For instance, Gillan et al. (2021) explain that social practices improve a firm's performance by reinforcing its competitiveness and legitimacy in the business environment. Similarly, Velte (2022) argues that effective social performance generally leads to higher financial performance because of increased customer loyalty and superior brand reputation. Therefore, social responsibility is regarded as a key determinant of sustainable competitive advantage because it increases an organization's capability to satisfy the needs of its customers while strengthening its brand reputation (Gillan et al., 2021; Velte, 2022).

Governance Practices

Governance practices comprise organizational mechanisms that empower a firm to operate in a manner that promotes stakeholder interests, enhances strategic decision-making, and ensures accountability to shareholders. These practices cover a wide range of policies and procedures that a firm utilizes in pursuing its strategic objectives legally and ethically. In essence, corporate governance helps in balancing the conflicting needs of shareholders and other stakeholders by establishing policies and organizational structures that enhance the firm's performance (OECD, 2023).

Currently, governance practices are gaining significant prominence because they promote organizational accountability, operational transparency, and improved strategic decision-making in firms. OECD (2023) highlights the role played by corporate governance in enhancing transparency, mitigating managerial opportunism, and promoting stakeholder confidence. At the same time, Gillan et al. (2021) observe that governance mechanisms enable firms to implement effective environmental and social policies that promote long-term growth, sustainability, and profitability. Consequently, corporate governance has become increasingly critical in ensuring sustainable competitive advantage of firms by minimizing risk exposure while maximizing long-term value for shareholders.

The existing research provides sufficient evidence that governance enhances sustainable competitive advantage of firms by increasing decision-making effectiveness and organizational performance. For instance, Eccles et al. (2023) reported that effective governance mechanisms enable firms to integrate ESG considerations into their decision-making processes, leading to higher performance gains over time. Similarly, Velte (2022) emphasizes the potential of improved corporate governance in empowering a firm to achieve higher performance due to improved transparency, reduced agency costs, and enhanced stakeholder trust. As a result, governance practices have become critical for firms that seek to strengthen their capability to attain sustainable competitive advantage in the current business environment (Eccles et al., 2023; Velte, 2022).

Theoretical Review

Stakeholder Theory

This study employs the Stakeholder Theory developed by Freeman to establish the connection between the ESG practices and the sustainable competitive advantage of the listed firms in Nigeria. Stakeholder theory emphasizes the need for firms to recognize the interests and influence of different stakeholders and incorporate their requirements into the business decision-making process. This theory is based on the assumption that there is a reciprocal relationship between an organization and its stakeholders, whereby firms create value for stakeholders while benefiting from their support in return (Freeman, Phillips, & Sisodia, 2020). Over time, various researchers have validated this argument. For instance, Freeman et al. (2020) assert that effective stakeholder management enables firms to achieve long-term sustainable competitive advantage by addressing economic and social demands. Similarly, Harrison, Barney, Freeman, and Phillips (2019) argue that stakeholder management encourages organization growth by influencing stakeholder support, trust, and collaboration.

Stakeholder theory has become increasingly relevant in addressing the role played by ESG practices in the current business environment because these practices seek to respond to the needs of several stakeholders. For instance, environmental practices are aimed at meeting the demands of the government, investors, and communities while conserving the natural environment. At the same time, social practices focus on improving employee welfare, community development, and customer satisfaction while promoting human rights protection. Finally, governance practices are geared towards satisfying the interests of shareholders, employees, and communities by enforcing ethical leadership and accountability in business operations. According to Eccles et al. (2023), stakeholder management facilitates the process of meeting the needs of different stakeholders who have an interest in the success of a firm. As a result, the effective implementation of ESG practices enables an organization to achieve sustainable competitive advantage over its rivals. Several empirical studies have demonstrated the potential of stakeholder management to empower firms to enhance innovation, improve employee performance while maintaining good customer relations and reputation. Aguinis and Glavas (2019) highlight the value of stakeholder engagement in enabling a firm to generate intangible resources, including legitimacy, trust, and reputation, which it can use to gain competitive advantage. Similarly, Velte (2022) explains that stakeholder management generally increases firm value because of the rewards accrued by firms that demonstrate responsible behavior.

Therefore, stakeholder theory is the most effective framework for this study because it explains how the ESG practices adopted by listed firms in Nigeria can contribute to their sustainable competitive advantage. This theory is critical in this study because it reveals how firms can benefit from managing the expectations of all stakeholders, including customers, employees, the government, suppliers, and communities. By responding to the rising demand for ethical business practices, firms in Nigeria can strengthen their market position while gaining long-term competitive advantage.

Methodology

This study adopted an ex-post facto design to establish the influence of environmental, social, and governance (ESG) indicators on the competitive advantage of listed firms in Nigeria. The ex-post facto design was considered appropriate because the study's variables had already occurred, and the researchers could only analyze the information they collected. The study focused on the 2015-2024 period, and thus both cross-sectional and longitudinal data were used. The use of panel data was beneficial for two main reasons: first, it improved estimation efficiency by controlling for individual heterogeneity and second, it accounted for time effects (Baltagi, 2021; Gujarati et al. 2022).

The population of the study comprised all firms listed on the Nigerian Exchange Group. However, the convenience sampling procedure was applied because only those firms that met specific criteria could be studied. Thus, those firms that were delisted before 2024, those that did not publish audited annual reports between 2015 and 2024, and those that did not disclose social, environmental, and governance information were excluded from the study. Finally, 76 firms were selected based on the inclusion criteria stated above, which led to a balanced panel of 760 firm-years. Secondary data were extracted from various sources, including audited annual reports, sustainability reports, corporate governance reports, and the Nigerian Exchange Group database.

The competitive advantage of firms was determined using Tobin's Q, while the ESG disclosure of firms was assessed using the GRI's universal standards (Global Reporting Initiative, 2021). Specifically, Tobin's Q was selected as a proxy variable for firms' competitiveness because it helped reflect investors' perception of a firm's future growth potential. On the other hand, the study used the environmental, social, and governance indicators based on the Global Reporting Initiative's (2021) disclosure index method. In GRI's disclosure index approach, each indicator was assigned a value of one (1) if the firms' documents disclosed the information and zero (0) if the information was not present. The disclosure index for ESG indicators was then computed by summing up the firm's disclosed items and dividing the result by the total number of applicable items, giving a score that ranged between 0 and 1. To reduce the possibility of omitted variable bias, the study controlled for ROA, DTA, and FSIZE. Additionally, the study applied natural log to FSIZE and DTA. Thus, FSIZE is the natural logarithm of total assets, and DTA is total liabilities divided by total assets. Consequently, the hypothesis and data analysis procedure were carried out using STATA version 18. Initially, the study examined the descriptive statistics of items to identify each item's mean and standard deviation. A Pearson's correlation analysis was then performed to test the pairwise relationships between the study's variables. Additionally, multicollinearity among variables was tested using the Variance Inflation Factor (VIF). Finally, the study applied a Levin–Lin–Chu panel unit root test to ascertain the data's stationary and a Hausman specification test to determine whether the study should use a fixed or random-effect model. Because the Hausman test results suggested that the fixed-effects model provided an efficient estimate of the parameter, the study used it for hypothesis testing. The study used a p-value of 0.05 to check the statistical significance of the results.

The influence of ESG indicators on firms' competitive advantage was tested using the following regression model:

Panel Regression Model

$TQ\_it = B_0 + B_1\ EDI\_it + B_2\ SDI\_it + B_3\ GDI\_it + B_4\ ROA\_it + B_5\ DTA\_it + B_6\ FSIZE\_it + e\_it$

Where,
TQ= Tobin's Q
EDI= Environmental disclosure index
SDI= Social disclosure index
GDI= Governance disclosure index
ROA= Return on Assets
DTA= Debt to Asset Ratio
FSIZE= Firm size
B_0=Intercept of the regression model
B_1-B_6=Regression coefficients
i= Firms
t= Years
e=Stochastic error term.

Results

This research design is ideal for this study because it uses established disclosure indices to analyze the impact of ESG practices on firms' sustainable competitive advantage. Using the regression model is appropriate because it allows the researcher to investigate the association between the independent variables (ESG practices, firm size, financial leverage, and firm growth) and the dependent variables (Return on Assets, Return on Equity, Tobin' Q, and market share). In addition, analyzing the data using a panel regression model that considers the firms' performance data in 2015-2024 increases the accuracy of the results since the model accounts for the cross-sectional and time-series aspects of the sample. Gujarati et al. (2022) and Baltagi (2021) explain that a panel regression model is the most effective way of analyzing datasets that have cross-sectional and time-series characteristics.

Descriptive Statistics

Descriptive statistics were generated to describe the properties of the variables used in this study. The analysis reports the number of observations, the mean, standard deviation, minimum, and maximum values for each of the variables. In other words, the descriptive statistics were used to provide an overview of the distribution, central tendency, and dispersion of the variables before estimating the panel regression models. Hair, Black, Babin, and Anderson (2019) argued that descriptive statistics is a form of initial analysis that can help researchers understand the properties of the data they are about to examine. Similarly, Gujarati, Porter, and Gunasekar (2022) asserted that descriptive statistics can help analysts identify strange observations and ensure that the data are appropriate for use in econometric analysis.

Table 4.1 Descriptive Statistics of the Study Variables

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
Tobin's Q	760	1.424	1.662	0.090	23.870
Market Capitalization	760	6.725	1.506	2.220	10.610

Return on Assets	760	4.692	372.326	-702.780	10264.720
Debt to Asset	760	68.264	37.670	0.000	395.450
Firm Size	760	7.128	0.974	3.530	9.450
Social Disclosure Index	760	0.324	0.207	0.000	1.000
Environmental Disclosure Index	760	0.100	0.142	0.000	1.000
Governance Disclosure Index	760	0.404	0.224	0.000	1.000

Source: Researcher's Computation using STATA 18 from the Dataset of Listed Firms on the Nigerian Exchange Group (2025).

Table 1 above contains the descriptive statistics of the variables used for this analysis. The sample size for the study is 760 firm-years of listed firms on the Nigerian Exchange Group. The mean and standard deviation of Tobin's Q were 1.424 and 1.662 respectively. This implies that there is a wide range in which the firms were valued during the period under review. Additionally, a large dispersion in the value of Tobin's Q can be seen from the figures of minimum and maximum (0.090 and 23.870).
Looking at the firm characteristics, it can be seen that the mean of Market Capitalization is 6.725 while that of ROA is 4.692%. A large standard deviation figure for ROA implies that there is also a wide difference in the profitability of the firms included in the study. On the other hand, the Debt-to-Asset ratio has a mean value of 68.264%, while Firm Size has a mean of 7.128.
With regard to ESG disclosure, Governance Disclosure Index has the highest mean value of 0.404 followed by Social Disclosure Index of 0.324, and the lowest is the Environmental Disclosure Index of 0.100. Thus, it can be concluded that companies in the sample have higher disclosure of governance-related issues compared to social and environmental ones. Having examined the descriptive statistics, it can be stated that there is sufficient variability in the data for panel regression analysis.

4.2 Test of Research Hypotheses

The proposed research hypotheses were tested using a fixed-effects panel regression model. This choice was informed by the result of the Hausman specification test, which revealed that the fixed-effects estimator was significantly different from the random-effects estimator. According to the Hausman test result, the random-effects model was inappropriate in this study, and therefore, the fixed-effects model was used to examine the relationships postulated in the hypotheses. In testing the hypotheses, the 5% level of significance was used. Therefore, the null hypothesis was rejected when the p-value was less than 0.05, and not rejected otherwise. The findings were discussed below using the estimated beta coefficient, together with the associated t-statistic and p-value.

Table 2. Summary of Hypotheses Testing

Hypothesis	β	t-statistic	p-value	Decision
H_{01}: Environmental practices have no significant effect on competitive advantage.	0.482	5.60	0.000***	Rejected
H_{02}: Social practices have no significant effect on competitive advantage.	0.315	4.26	0.000***	Rejected
H_{03}: Governance practices have no significant effect on competitive advantage.	0.401	4.41	0.000***	Rejected

$*p < 0.01$.

Source: Researchers' Computation using STATA 18 (2025).

The results presented in Table 2 above confirm the positive and significant relationship between ESG practices and the firms' competitive advantage in the Nigerian listed firms. In particular, the results reveal that out of the three ESG indicators, the environmental practice has the highest positive and significant impact on the firms' competitive advantage as compared to the other two ESG practices. This is evident from the results revealing that $\beta = 0.482$ with $t = 5.60$ and $p < 0.001$. As such, the results present sufficient evidence to reject the first null hypothesis since the p-value is less than 5%. As such, the results confirm that the improvement in environmental sustainability disclosure practices significantly contributes to the firms' competitive advantage.

Similarly, the results reveal that the firms' social practices have a positive and significant impact on the firms' competitive advantage, where $\beta = 0.315$, $t = 4.26$, and $p < 0.001$. As such, it is possible to conclude that the improvement in social sustainability practices raises the firms' competitive advantage. Hence, the second null hypothesis is also rejected in this study. It is evident from the results that the three ESG practices have a positive and significant impact on the firms' competitive advantage. As such, the study rejects the third null hypothesis that states that the ESG practices do not significantly influence the firms' competitive advantage.

In conclusion, the results of the hypothesis testing reveal that the three ESG practices significantly determine the firms' competitive advantage. Indeed, the results reveal that the impact of ESG practices on the firms' competitive advantage was positive and significant at 1% for all the ESG practices. Out of the three ESG indicators, the environmental practices had the highest positive impact, followed by governance practices and then the social practices. On the other hand, the results of the study confirm that the three ESG indicators have a positive influence on the firms' competitive advantage. Thus, the study reveals that the three ESG indicators have a positive and significant impact on the firms' competitive advantage that can help improve the firms' market value.

DISCUSSION OF FINDINGS

The research results demonstrate that ESG practices have a beneficial effect on the competitive advantage of listed firms in Nigeria. The results of hypothesis testing indicate that the variables of ESG have a positive and significant effect on Tobin's Q. A closer look at the results revealed that the three ESG pillars have varying degrees of influence on the competitive advantage of the firms. Specifically, the analysis demonstrated that environmental practices have the highest direct impact on firms' competitive advantage ($\beta = 0.482$; $t = 5.60$; $p < 0.001$), followed by governance practices ($\beta = 0.401$; $t = 4.41$; $p < 0.001$) and social practices ($\beta = 0.315$; $t = 4.26$; $p < 0.001$). The descriptive analysis results revealed that governance disclosure has the highest mean score (Mean = 0.404) among the three ESG pillars, followed by social disclosure (Mean = 0.324) while the lowest was recorded for environmental disclosure (Mean = 0.100). Therefore, although the level of environmental disclosure was the lowest among the three ESG pillars, the regression analysis results demonstrated that it has the highest coefficient among the three pillars. Thus, the results of the study confirm that ESG practices are key drivers of value for firms and therefore competitive advantage.

The results of this study reveal that environmental practices have the highest direct impact on firms' competitive advantage. This result supports the main proposition of the Resource-Based View (RBV) theory which holds that valuable, rare, inimitable, and well-organized resources and capabilities can lead to core competencies or competitive advantage for the firm. The result demonstrates that the implementation of environmental practices has the highest potential to provide firms with competitive advantage. This result is a reminder to firms that they should make deliberate efforts to invest in the development of environmental-friendly practices such as pollution prevention and control measures, waste recycling processes and policies, emission control procedures, and environmental disclosure practices. Interestingly, while Nigerian listed firms disclose information on environmental practices infrequently compared to social and governance practices, the result demonstrated that it has the highest contribution to firms' competitive advantage. The results of the study also show that the social practices have a positive and significant effect on Tobin's Q. Thus, it is essential for firms to deliberate and invest more in developing their employees' capabilities, occupational health and safety practices, customers' satisfaction, diversity and inclusion policies, and community development activities. These findings align with the Stakeholder theory; therefore, firms that create value for their stakeholders, including shareholders and customers, will secure competitive advantage. The findings of this study echo those of Eccles et al. (2014), who demonstrated that the companies that developed comprehensive sustainability practices outperformed their counterparts on a number of performance dimensions. Similarly, Friede et al. (2015) conducted a meta-analysis of ESG and performance studies and concluded that ESG practices are consistently associated with predominantly positive financial performance outcomes with little exceptions.

The findings of this study also reveal that governance practices have a positive and significant effect on firms' competitive advantage. Therefore, it is essential for firms to continue to develop their governance mechanisms and processes to ensure that they maximize their competitive advantage. The results of this study showed that the level of governance disclosure was the highest among the three ESG pillars; however, the result of the regression analysis revealed that its contribution to firms' competitive advantage was second to environmental practices. Therefore, while governance practices were disclosed more compared to environmental practices, the latter contributed more to firms' competitive advantage. The finding is an indication that firms should continue to develop their governance mechanisms to maximize their competitive advantage. It is noteworthy that governance practices have the potential to mitigate agency problems which, in turn, benefit firms and their shareholders. Thus, the findings support Agency Theory, according to which effective corporate governance mitigates agency costs, leading to increased firm value. The result corroborates the findings of Gompers et al. (2003) who asserted that firms with better governance mechanisms were associated with better market performance outcomes. The findings also align with those of Velte (2022) who concluded that company governance plays a critical role in determining firm performance in the long run. In summary, the findings of this confirm that the three pillars of ESG impact firms' performance; thus, ESG practices play a critical role in maximizing firms' competitive advantage, particularly in the Nigerian context.

CONCLUSION

The present study analyzed the impact of environmental, social and governance (ESG) practices on the competitive advantage of listed firms in Nigeria by utilizing the data of 76 organizations for the period 2015–2024. The results of the study indicate that ESG practices have a substantial impact on the level of Tobin's Q, implying that the majority of firms derive competitive advantage from ESG-related expenditures. In particular, all three types of ESG practices affect positively the firms' competitive position, although environmental practices seem to play the most significant role. Thus, the study concludes that ESG-related expenditures create value for the majority of firms in Nigeria in the long run.

RECOMMENDATIONS

Based on the findings of the study, the following recommendations may be proposed:
In order to ensure sufficient competitive advantage in the future, listed companies should pay more attention to their environmental sustainability practices. In particular, firms should invest more effort in reducing noise pollution, conserving natural resources, managing hazardous waste, reducing carbon emissions, and other ESG-related activities. The study revealed that environmental practices have the most significant positive effect on the firms' competitive advantage. Hence, it is rational to state that sufficient attention to ESG-related issues will lead to higher market value and competitive advantage of Nigerian firms.
Managers of the firms under study should focus more on social sustainability in order to maximize the possibility of obtaining long-term competitive advantage. Thus, the companies should invest more effort and resources in creating better working conditions, ensuring diversity and inclusion, improving customers' experience, and engaging in community building. In addition, managers should pay more attention to ESG-related aspects of managing their suppliers in order to ensure competitive advantage in the future.
Firms should invest more effort in improving corporate governance practices in order to gain long-term competitive advantage. Thus, the companies should work on maximizing the independence of the audit committee, maximizing the extent of board diversity, ensuring the proper compensation of directors and independent members, establishing effective internal control, and practicing ethical leadership. These steps will enable the firms to maximize the level of corporate governance and, consequently, to obtain competitive advantage.
Regulatory bodies should require firms to report more ESG-related expenditures and provide more information to the public about their ESG performance in order to help investors make better decisions. The regulatory bodies may include the NGX, FRCN, and Securities and Exchange Commission, among others. By doing so, the Nigerian authorities will facilitate the access of investors to the information they need to identify firms with high performance in terms of ESG. At the same time, the enhanced level of ESG disclosure will encourage firms to pay more attention to ESG practices in the future.
Further research might be needed to fully comprehend the effect of ESG practices on the competitive advantage of firms in Nigeria. For instance, future studies might focus on particular industries and analyze whether firms in some sectors are affected by ESG practices more than others. In addition, it might be interesting to conduct similar research in different countries in order to determine whether the current findings are unique to the Nigerian business environment or may be generalized across different countries. Moreover, future studies might be interested in analyzing other indicators of firms' performance, apart from Tobin's Q.

References

Adebunmi, A. S., & Ajibolade, S. O. (2022). Environmental, social and governance disclosure and firm value: Evidence from listed firms in Nigeria.

Aguinis, H., & Glavas, A. (2019). On corporate social responsibility, sensemaking, and the search for meaningfulness through work. Journal of Management, 45(3), 1057–1086. https://doi.org/10.1177/0149206317691575

Baltagi, B. H. (2021). Econometric Analysis of Panel Data (6th ed.). Springer.

Christensen, D. M., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: Economic analysis and literature review. Review of Accounting Studies, 26(3), 1176–1248. https://doi.org/10.1007/s11142-021-09609-5

Eccles, R. G., & Klimenko, S. (2019). The investor revolution. Harvard Business Review, 97(3), 106–116.

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835–2857. https://doi.org/10.1287/mnsc.2014.1984

Eccles, R. G., Lee, L.-E., & Stroehle, J. C. (2020). The social origins of ESG: An analysis of Innovest and KLD. Organization & Environment, 33(4), 575–596. https://doi.org/10.1177/1086026619888994

Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating role of disclosure. Global Finance Journal, 38, 45–64. https://doi.org/10.1016/j.gfj.2017.03.001

Freeman, R. E., Phillips, R. A., & Sisodia, R. (2020). Tensions in stakeholder theory. Business & Society, 59(2), 213–231.

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2,000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210–233. https://doi.org/10.1080/20430795.2015.1118917

Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. Journal of Corporate Finance, 66, 101889. https://doi.org/10.1016/j.jcorpfin.2021.101889

Global Reporting Initiative. (2021). GRI Universal Standards 2021. Global Reporting Initiative.

Gompers, P. A., Ishii, J. L., & Metrick, A. (2003). Corporate governance and equity prices. Quarterly Journal of Economics, 118(1), 107–156. https://doi.org/10.1162/00335530360535162

Gujarati, D. N., Porter, D. C., & Gunasekar, S. (2022). Basic Econometrics (6th ed.). McGraw-Hill.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). *Multivariate data analysis* (8th ed.). Cengage Learning.

Harrison, J. S., Barney, J. B., Freeman, R. E., & Phillips, R. A. (2019). *The Cambridge handbook of stakeholder theory*. Cambridge University Press.

Huang, D. Z. X. (2022). Environmental, social and governance (ESG) activity and firm performance: A review and consolidation. *Accounting & Finance, 62*(1), 335–360. https://doi.org/10.1111/acfi.12827

Intergovernmental Panel on Climate Change. (2023). *Climate change 2023: Synthesis report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*. IPCC.

Nwaobia, A. N., & Akintoye, I. R. (2024)**.** The bibliographic details provided in the manuscript do not correspond to a clearly identifiable published article. Please replace it with the exact published source used.

Organisation for Economic Co-operation and Development. (2023). *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*. OECD Publishing.

Okoye, A., et al. (2025). The manuscript cites this work, but the complete bibliographic information could not be confirmed from identifiable published sources. Replace with the exact publication details before submission.

Porter, M. E., & Kramer, M. R. (2011). Creating shared value. *Harvard Business Review, 89*(1–2), 62–77.

United Nations Global Compact. (2023). *Communication on Progress Policy*. United Nations Global Compact.

Velte, P. (2017). Does ESG performance have an impact on financial performance? A literature review of aggregated evidence. *Journal of Global Responsibility, 8*(2), 169–178. https://doi.org/10.1108/JGR-11-2016-0029

Velte, P. (2022). Corporate governance, environmental, social and governance performance, and firm performance: Does the composition of the board matter? *Corporate Ownership & Control, 19*(2), 8–31.

World Economic Forum. (2022). *The Global Risks Report 2022* (17th ed.). World Economic Forum.