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Effect of Environmental, Social and Governance Initiatives on the Financial Performance of Cameroonian Small and Medium-Size Enterprises

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Abstract

This paper seeks to examine the effect of Environmental, Social and Governance (ESG) initiatives on the financial performance of Small and Medium-size Enterprises (SMEs) in Cameroon. In order to achieve this objective, a quantitative research strategy was adopted, in which an ordinary least square regression analysis was conducted on data collected from 64 SMEs demonstrating corporate citizen characteristics from two specific sectors of activities. The findings suggest that social and governance scores have a positive and significant effect on the financial performance of SMEs. Contrarily, the environmental score had a positive but rather insignificant effect on SMEs' financial performance. The result shows that SMEs in Cameroon should devote more energy to social and governance issues especially if they aspire to operate on a large scale, as ESG practices would likely attract massive investment form ethical investors.

Keywords: Environmental score; social score; governance score; financial performance; corporate social responsibility

JEL classification : Q56, J24, G30, M14

Introduction

The quest to remain in the race for the achievement of sustainable development goals has enhanced firms' considerations toward sustainability. Firms all over the world are engaging in environmental, social and governance (ESG) initiatives in order to satisfy varied groups of stakeholders. These firms get stakeholders informed about their ESG activities through ESG disclosure. Halid et al. (2023) posit that ESG disclosure provides shareholders with a way to identify and understand critical issues that are usually not accounted for within the scope of financial reporting, yet have a crucial impact on the firm's risks and opportunities. The participation of firms in sustainability activities, in most contexts is voluntary, geared at striking the balance between the expectations of shareholders (investors) and other stakeholders. Ethical investors are increasingly getting interested in firms that operate within the scope of ESG because compliance with the ESG principles is much more sustainable, have more resources for development

in the long-run, resulting into a better financial performance (Egorova et al., 2022). This assertion is further reinforced by Breuer and Nau (2014), who hold that New York Stock Exchange Euronext in the United States grant more importance to ESG data, which is considered as a support to socially responsible investment decisions.

ESG takes its root from the concept of sustainability, which is considered as meeting the social, environmental and economic needs of the present without compromising the ability of future generations and assuring these needs are met through the adoption of corporate governance practices (Dongmo and Tegofack, 2025). The economic pillar is the financial aspect of sustainability whereas the environmental, social and governance pillars are non-financial aspects of sustainability, usually called the three pillars of sustainability (Staub-Bisnang, 2012). On the basis of that, in this study ESG, Sustainability and CSR will be used interchangeably. According to Watson (2015), cited in Sharma et al., (2020), the environmental factors are material, environmental compliance, investment sustainable technology, water, emission, biodiversity, effluent and waste, and supplier environmental assessment. The social factors are training and education, health and safety, philanthropic actions, child labour, local community, freedom of association, diversity and equal opportunity, and customer privacy. Governance includes all matters relating to corporate governance such as board diversity, board meetings, attendance, agenda issues, corruption, corporate ethics, risk management, transparency, and accountability. ESG disclosure is a way of communicating to society that the firm is not operating for the quest for profit at detriment of the interest of its employees, customers, local community or the firm's stakeholder at large (Rashidah and Alsayegh, 2021).

Scholars (Uwuigbe & Egbide, 2012) argue that the combination of environmental, social and governance actions jointly lead to increase in firms' value and better performance. However, ESG initiatives does not automatically lead to improved performance, given that there exist mixed findings on the relationship between ESG and firms' performance. The question that still remain is whether ESG leads to better performance as conclusive findings are yet to be established. This is because some studies conclude that there is positive relationship between ESG and the financial performance of firms (Carnini Pulino et al., 2022; Koundouri et al., 2021; Kaiser, 2020; Shabbir et al., 2020; Verheyden et al., 2016; Giese et al., 2019), some studies indicate a negative correlation (Brammer et al., 2006; Crisóstomo et al., 2011) or even no correlation (Atan et al., 2018 and Nelling & Webb, 2009).

In Cameroon, ESG practices is more of a voluntary engagement, especially for small firms given that the regional accounting framework; OHADA Accounting System (SYSCOHADA) via note 35 of financial statement, prescribes that firms with a staff number of 250 employees and above ought to disclose social and environmental information. But the studies of Fomba and Jang (2020), and Fonyuy and Tita (2018) clearly indicate the active participation of Small and Medium Size Enterprises (SMEs) in ESG activities. This practice is therefore voluntary because the classification of enterprises by size in Cameroon as per the records of the Ministry of Small and Medium-Size Enterprises Social Economy and Handicraft (MINPMEESA) is governed by Law N^0 2015/010 of 16th July 2015. This law considers; "small enterprises" to be businesses that employ between 06 (six) and 20 (twenty) people, with an annual turnover tax exclusive of more than fifteen (15) million CFA francs and less than two hundred and fifty (250) millions CFA francs.

The same law considers medium enterprises to be businesses that employ between twenty-one (21) and one hundred (100), people with an annual turnover tax exclusive of more than two hundred and fifty (250) millions CFA francs and less than three (03) billion CFA francs (MINPMEESA, 2025).

Hence, this corporate citizen behavior portrayed by SMEs in Cameroon in the absence of regulatory obligation for ESG disclosure for the SMEs, raises interrogation relating to the effect of SMEs' involvement in ESG initiatives on their performance. This questioning draws its essence from the traditional neo-classical school of thought, which considers that, ESG initiatives do not correspond to the profit maximization principle of the firm. According to Palmer et al. (1995), investing in corporate social responsibility activities result into supplementary costs for the organization and in a competitive environment, additional costs result into a reduction of the firm's profit margin (Baumol 1991). This outcome stands against the shareholder theory of Friedman (1970); which suggests that, the only social responsibility of a firm is to maximize the wealth of the providers of funds.

It is against this backdrop that this study seeks to examine the impact of ESG initiative on the performance of SMEs given the lack of empirical studies on ESG and firms' financial performance within the Cameroonian context. Existing studies either generalizes findings from developed economies that overlooks country-specific characteristics of a developing country like Cameroon; where there are varying degrees of ESG awareness among firms, inconsistent regulatory enforcement, limited stakeholder activism, and differing cultural perceptions of corporate responsibility. These specificities underscore the need to conduct a scientific inquiry that maps the institutional, economic and social realities of Cameroon. The need of this scientific inquiry is further compounded by the absence of studies that simultaneously test the effect of the three specific pillars of EGS on financial performance while controlling for sectorial difference.

The contribution of this study is to provide evidence on the impact of ESG on firms' performance especially within a developing country of Sub-Sahara Africa where the economic sector is mostly composed of SMEs, hence providing data for small firms, given that most of the existing data on EGS concerns large firms of developed economies. In addition, all the three dimensions of ESG (environmental, social and governance) will be examined in this study because; each dimension may impact the firm in a different way and with varying intensity, thereby providing a solid empirical foundation for subsequent studies. Beside the traditional sustainability theories (stakeholder theory and legitimacy theory) mobilized in most ESG studies, this research will used Shared Value Theory and Natural Resource Based-View Theory as a base to understand SMEs' involvement in EGS activities. The rest of the study is organized as follows: The next section provides an overview of the literature on ESG and firms' performance. The section that follows suit discusses how the research was conducted, followed immediately by the presentation and discussion of results. The last section is reserved for the conclusion.

1. literature review

This section seeks to present a vivid discussion of the theoretical foundation of the study, from which the hypotheses relating to each of the ESG's pillar will be developed. The section will equally present the empirical findings of previous ESG's studies.

1.1. Theoretical Framework and Hypotheses Development

The theoretical framework that underpins this study will explore three theoretical perspectives; Natural resource-based view theory, Share value theory and Agency theory.

1.1.1. Natural Resource-Based View Theory and Environmental Dimension

Hart (1995) proposed the Natural Resource-Based View theory (NRBV), which is an extension of the traditional Resource-Based View theory (RBV) of the firm, initially developed by Barney (1991). The NRBV holds that firms must undertake actions to address environmental sustainability in order to maintain long-term competitiveness. These actions concern the reduction of waste and emissions; the recycling of material, reduction in energy consumption; and sustainable development. The relevance of NRBV theory in the current study is evident as Cameroon faces environmental challenges such as deforestation, water pollution, and unsustainable exploitation of natural resources. The application of the NRBV theory by firms will go a long way to protect and preserve the eco-system. The sustainable use of resources tapped from the environment guarantees the continued existence of firms and their long-term success (Tegofack and Kamdem, 2022).

ESG's first pillar concerns environmental aspects. Morelli (2011) relates the term "environmental" to the consequences of human activities on the natural environment and defined environmental sustainability by drawing inspiration form the definition of sustainable development (meeting the needs of the present generation without compromising the ability of future generations to meet their needs). The author considers environmental sustainability as, meeting the resource and services needs of present and coming generations without jeopardizing the health of the ecosystems providing the resources.

According to the Natural Resource-Based View Theory, there is a positive relationship between SMEs' environmental practices and financial performance. (Buallay 2019). This assumption is further reinforced by Bachtiar et al. (2025), who posit that from the perspective of NRBV theory that a strong implication of firms in ESG strengthens a firm's market position by creating unique resources not easily imitated by competitors. Referring to Cardillo and Cruz Basso (2025), previous studies strongly support the notion that ESG practices, when integrated into a firm's resource base, can enhance financial performance. A case in point is the study of Ghosh and Gupta (2023), who found that, firms investing in decarbonization and sustainable innovation exhibit superior financial performance compared to those that do not practice these environmental activities. In addition, Saini et al. (2023), cited in Cardillo and Cruz Basso (2025), demonstrated that ESG practices improve risk management and reduce capital costs, reinforcing the idea that ESG can act as a valuable resource for strengthening a firm's financial position.

Despite the generally positive relationship between ESG practices and firms' financial performance suggested by the NRBV theory, some studies report an inverse relationship or no relationship between environmental activities and financial performance. For instance, the study of Gray and Shadbegian (1993), indicates that environmental regulations are negatively associated with productivity, implying that CSR dimensions, in particular environmental ones, would have a negative impact on the firm financial and operating performance. Similarly, Deswanto and Siregar (2018), hold that the disclosure of environmental information has no impact on the firm's value.

Even though, the studies of Gray and Shadbegian (1993, and Deswanto and Siregar (2018), do not position the dissemination of environmental information as a strong determinant of firm's financial performance, the current study's prediction rest on the assumption of Natural Resource-Based View theory of Hart (1995), in which environmental initiative such as waste reduction, energy efficiency and investment in sustainable technology can result into a long-term competitive advantage and an eventual improvement in profitability. However, given that the findings from previous studies are not conclusive as regard to the predictive sign of the environmental initiatives on firm's financial performance, in addition to the weak enforcement of environmental laws in Cameroon, the following hypothesis is formulated:

H_1. *Environmental initiatives have an effect on firms' financial performance.*

1.1.2. Shared Value Theory and Social Dimension

Porter and Kramer (2011), introduced the Shared Value Theory, which assumes that the competitiveness of a firm and the wellbeing of the local communities are mutually dependent. This implies that the firm ought to aligned it economic goals to social considerations. According to Angelova (2019), contrary to the traditional view, the firm's objective should not be solely economic but the social consequence of their activities should be taken into perception, hence uplifting the good of society above that of the firm. Hasbu et al. (2022) suggest that relying on Share Value theory is important for the firm, as it can improve the firm's profit maximisation objective via its ability to serve as strategic instrument for gaining competitive advantage through loyalty from their stakeholder. For instance, the brewery industry industry in Cameroon is dominated by two giant firms; *Les Boissons du Cameroun and Union des Brasseries du Cameroun* and for the past years, the former has consistently occupied the first position in the practice of CSR as per the studies conducted by ASCOMT (Tegofack and Dongmo, 2022). This This performance has increased the market share of *Les Boissons du Cameroon*, such that it currently dominates the Cameroonian market with 80% share. Poerter and Kramer (2011) argue that Share Value theory focuses on the integration of social value creation into the core business model via three key aspects; conceiving and developing new products in order to unlocked new customer segments and revenue streams; redefining productivity in the value chain via the improvement of employees' working conditions, or sourcing raw materials locally, leading to a reduction in operational costs; investing (infrastructure, education, and healthcare systems) in local communities.

ESG's second dimension relates to social aspects. Elkington (1997) considers the social dimension of ESG as long-term efforts that affect the welfare of the society. These efforts comprise

among others, undertaking philanthropic activities (Chow and Chen, 2012); freedom of association; human right assessment (GRI, 2016); customer health safety; customer privacy; socio-economic compliance and workplace discrimination (Chow and Chen, 2012). These social initiatives mitigate the adverse effect of the firm's activities on society and solve problems associated to social considerations. According to Dempsey et al. (2011), the principal goal of social sustainability is to preserve positive social values for people and society at large. Firms' engagement in social actions implies incurring extra-ordinary expenses, which from the point of view of Aupperle et al. (1985) are un necessary and ought to be taken care-off by the central authorities. The off-ordinary expenses will eventually reduce the extent of firms' profitability. Waddock & Graves (1997) argues that the cost of social responsibility outweighs the benefit and Friedman (1970) posits that the only social responsibility of a firm is to maximize profit. These thoughts are far from the proposition of the Share Value theory which holds that firms can create economic value by creating social (Porter and Kramer, 2011), Similarly, Hasbu et al. (2022) maintain that social responsibility and financial performance are associated, as high social performance leads to better financial performance. Hence, based on the Share Value theory, social initiatives such as fair labour practices, community development programs, health and safety policies, and philanthropic contributions will enhance the visibility of the firm in the social setting in which it is operating, culminating into improved profit margin.

H_2. *Social initiatives have a positive effect on firms' financial performance.*

1.1.3. Agency Theory and Governance Dimension

Referring to Jensen and Meckling (1976), cited by Carnini Pulino (2022), the agency theory rests on two fundamental pillars; the relationship between the providers of funds (principal) and the manager of the said money (agent), on one hand; and the separation between ownership and control on the other hand. This gives rise to a conflict of interest between the principal and agent, where both actors seek to maximize their welfare. In order to protect the principal from the self-interest of the agent, corporate governance could be a reliable instrument. As Shleifer and Vishy (1997) put it, corporate governance consists of the ways in which providers of funds to the firm assure themselves of having their returns on capital invested.

ESG' third pillar is governance, which refers to the firm implementing principles to assist the stakeholders in monitoring controls, solving conflicts of interest and enforcing transparency (Buallay et al., 2017). Breuer and Nau (2014), hold that it is around the 21st century that corporate governance was no longer used only as a mechanism for firms to protect shareholder wealth but it began paying attention to new issues such as ethics, accountability, transparency and disclosure. From the same perspective, Gill (2008) posits that firms in their corporate social responsibility (CSR) endeavour use corporate governance as an instrument to integrate environmental and social issues in business strategy and decision making, which turns out to be beneficial to the firm's stakeholders. The relationship between CSR and corporate governance is further reinforced via the assertion of Rosam and Peddle (2004), who posit that CSR and corporate governance are concepts that allow organizations to operate profitably yet in a socially and environmentally responsible manner to achieve business sustainability and stakeholder satisfaction. Jensen and Meckling (1976) suggest that well-governed firms might have a more

efficient operating performance and therefore, expected future cash-flows are higher compared to poorly governed companies, leading to higher firm value in the long-run.

According to Cardillo and Cruz Basso (2025), empirical evidence demonstrates that the correlation between ESG activities and financial performance as per Agency Theory, is frequently influenced by various moderating factors, such as the firm's governance structure. The work of Rousseau et al. (2023) show that firms with well-structured executive compensation schemes tied to ESG performance will experience better financial performance than firms without. This enables these firms to align managerial incentives with shareholder interests by ensuring that executives are rewarded not just for short-term financial results but also for achieving long-term sustainability goals. This assertion is supported by Cohen et al., (2023) who suggest that firms with weaker governance structures are more susceptible to agency problems, where managers may pursue ESG initiatives that enhance their personal reputation or social standing but fail to deliver financial returns for shareholders (cited in Cardillo and Cruz Basso, 2025).

The study of Ye et al. (2021) revealed that the effectiveness of ESG activities depends on other moderating factors such as, the presence of corporate governance quality and industry specific dynamics. Enciso-Afaro and Garcia-Sanchez (2024) highlighted the risks of over-investing in sustainability activities as it can instead cause the firm to experience diminishing financial gains if the ESG policy in accordance with the firm's core business strategy. Notwithstanding the possibility of having an inverse relationship between Governance score and financial performance, especially in the Cameroonian context where the majority of SMEs are family-owned businesses in which corporate governance mechanisms are still weakly implemented, the general trend enshrined in the agency theory is that, better corporate governance contributes to higher performance (Jamile and Diab, 2021, and Sun et al., 2022). In line with agency theory, it is anticipated that governance mechanisms such as board independence, corporate ethics, transparency and accountability will contribute in reducing agency problems, which will eventually improve the operating efficiency leading to high future cash flows.

H_3. *There is a positive effect of corporate governance initiatives on firms' financial performance*

2.2. Review of Empirical Literature

Shafitranata et al. (2026), examined the effect of ESG reporting on the financial performance of green companies listed in Indonesia between 2020 and 2024, totaling 85 companies with 425 observations. Using ESG scores and corporate financial data from Bloomberg, three panel models were estimated: a random-effects model for ROA, a fixed-effects model for ROE. The results showed that governance scores are positively associated with ROA ($\beta = 0.011$, $p = 0.092$), whereas ESG scores are weakly positively associated with ROA ($\beta = 0.020$, $p = 0.080$). Contrarily to the governance score, environmental and social scores were not statistically significant to ROA or ROE. The results further highlighted the existence of differences between the energy and non-energy sectors, with the energy sector reporting higher financial performance. Finally, this study indicates that ESG reporting policies that promote good governance can yield faster returns to shareholders.

Wilson et al. (2026), explored the relationship between ESG Reporting (ESGR) and financial performance (FP) in Nigerian telecommunications companies listed on the Nigerian Exchange

Group (NGX). Using panel data from 2017 to 2023 and a Random Effects Model (REM), the research examined the impact of carbon emissions (CE), employee diversity (ED), and board composition (BC) on financial performance. The findings revealed that CE have a negative effect on FP, while ED positively influences it. Although the effect of BC on FP is not significant, the study suggests investing in cleaner technologies, promoting employee diversity, and increasing board representation to enhance financial performance and mitigate environmental risks.

Detthamrong et al. (2026), conducted a study on the impact of Environmental, Social, and Governance (ESG) performance on the financial sustainability of publicly listed companies in Thailand. Using an unbalanced panel dataset of 965 firm-year observations across multiple industries, multiple regression models were employed to assess the influence of ESG performance on two financial indicators such as return on capital employed and return on assets. Granger causality tests were also conducted to explore directional relationships between sustainability performance and financial outcomes. The empirical results reveal a significant negative short-term association between ESG performance and return on assets (ROA), whereas the relationship with return on capital employed (ROCE) is statistically insignificant. The causality analysis indicates that ESG performance Granger-causes ROA, implying that sustainability-driven strategic decisions may precede and influence financial outcomes over time.

Tutar et al. (2025) investigated the relationship between Environmental, Social, and Governance (ESG) performance and the financial performance of global firms by integrating stakeholder theory, legitimacy theory, and the resource-based view (RBV). Their analysis focused on a panel of 287 publicly listed firms from multiple sectors and regions, covering the 2015–2025 period. According to their findings, environmental performance demonstrated more stable positive associations with financial indicators than social and governance dimensions. Furthermore, Granger results indicate that ESG affects financial performance with varying time lags depending on the sector and ESG dimension. Ganlin Pu (2023), conducted a study on the assessment of non-linearities between ESG activities and firm performance in emerging markets. The regression analysis carried on 232 Chinese listed firms revealed that ESG and firm's performance is positively associated, even though this relationship was non-linear; indicating a positive relationship with in a certain threshold and a negative relationship once ESG activities go beyond that limit. The author therefore suggested that firms engaged in ESG ought to establish the boundaries related to their ESG activities in order to derive maximum returns.

Shaikh (2022), aimed at assessing the relationship between sustainability disclosure and the financial performance of firms. The regression analysis showed that the implementation of ESG results into a decline in firm's financial performance (ROA and ROE). Further analysis conducted on each pilar of ESG revealed that the social and environmental pillars had a negative impact on firm's performance. On the other hand, the governance pillar had a positive effect on the operating efficiency of firms. Nguyen et al. (2022), investigated the impact of ESG practices on the financial performance of firms in the US. The Least Square estimation conducted on a sample of 57 US non-financial firms revealed that effective practice of ESG could boast the financial performance (ROA, ROE and Tobin's Q) of firms. The study further established that investors find firms practicing ESG to be attractive, which brings up the market value of firm's assets and eventually an increased in Tobin's Q ratio.

Carnini Pulino et al. (2022), examined the impact of ESG disclosure on the financial performance of firms, measured through EBIT and ROA. The panel regression analysis was applied on a sample of Italian listed firms, covering a period of 10 years; from 2011 to 2020. The results indicated that ESG disclosure had a positive impact the financial performance of firms. Specifically, the environmental and social dimensions of ESG had a positive and significant impact on firm's financial performance, unlike the governance dimension, which had no significant impact on financial performance.

The necessity of this study is evident considering the unexplored aspect of individual disclosure indicators (scores) of ESG corresponding to each of the ESG's pillars. The current study will provide an insight to four distinct disclosure scores (indicators) per ESG' pillar. This is pertinent given that, there could be a possibility that some environmental or social or governance disclosure score have a positive effect and other scores could instead have a negative effect. These outcomes are neglected by previous studies (Nguyen et al., 2022; Detthamrong et al. 2026; and Wilson et al., 2026). In addition, the population of this study comprises SMEs unlike previous studies (Ganlin Pu, 2023; Carnini et al., 2022; Tutar et al., 2025; Detthamrong et al., 2026; and Wilson et al., 2026), which collected data from listed firms from contexts where ESG regulations are solidly monitored by the competent authorities. This contrast with the Cameroonian context, where SMEs practice ESG because of memetic consideration (copying from multi-national companies) which can potentially result into differences in contextual findings.

2. Methods

This study adheres to the philosophical assumption of positivism and in line with this school of thought, the deductive approach was adopted given that hypothesis testing is conducted to establish the possible effect of ESG's dimensions on financial performance. The quantitative research strategy was employed involving a correlational research design, as it facilitates the quantification of data collected from many units, which is a specific characteristic of the study. Data was collected from Financial Directors of the sampled SMEs via the administration of questionnaires. The collected data was analyzed using the logistic regression in order to quantify the effect of ESG on financial performance. This analysis was done with the Statistical Package for Social Sciences, version 21. The target population are SMEs operating in the city of Douala, the economic capital of Cameroon. This city alone hosts 33.5% of SMEs in Cameroon, out of 14 major cities in Cameroon (MINPMEESA, 2025).

The sampling technique is the multi-stage purposive sampling. The multi-stage procedure is chosen because of the complexity involved in locating SMEs in Cameroon that practice ESG and also because Cameroonian economy is predominantly informal. The sample was derived through the procedure that follows, comprising four stages.

Stage 1: Cameroon represents the spatial scope of the study. Cameroon has fourteen (14) major cities (urban councils) and amongst these cities, Douala has been chosen because it is the economic capital of Cameroon, hosting 33.5% of SMEs in Cameroon (MINPMEESA, 2025).

Stage 2: The area of investigation was narrowed down to the municipality of AKWA, which is the business center of the economic capital of Cameroon.

Stage 3: The divisional tax center that has authority over the municipality provided a data base of SMEs operating in her area of jurisdiction. A list of 250 SMEs with taxpayer's number was obtained from the center.

Stage 4: Pre-online investigation was carried on the 250 SMEs by visiting their websites in order to identify SMEs that disclose ESG information on their platforms. This process resulted into the identification of 76 SMEs (made up of 30 small enterprises and 46 medium enterprises) that eventually constituted the population of this study. The number of SMEs finally used for this study was 64 firms (28 small enterprises and 36 medium enterprise) because not all questionnaires administered were exploited at the phase of data analysis. The distribution of questionnaires is shown on table 1.

Table 1: Response rate of Questionnaires Distributed

Sector of activity	Population	Sample size / Distributed questionnaires	Returned questionnaires	Excluded questionnaires	Usable questionnaires	Response rate
Secondary sector	16	16	13	3	13	81.25%
Tertiary sector	60	60	51	9	51	85%
Total	76	76	64	12	64	84.21%

A total of 12 questionnaires were excluded from the analysis because the respondents of those questionnaires had indicated in the demographic section of the questionnaire that their first language is French and their second language is English. The quest to reduce the risk of having ambiguous responses from individual who may have had different interpretations of the statement than expected, and to guarantee the reliability of responses obtained, those questionnaires were excluded.

The choice for SMEs is motivated by two factors. Firstly, SMEs are the backbone of the economy of Cameroon, representing over 99.8% of Cameroon production base and over 70% of the employment force of the country. In terms of sector, 77.2% of all these SMEs operate in the tertiary sector and 22.7% in the secondary sector (MINPMEESA, 2025). Secondly, the exclusion of large enterprises; which represent only 0.2% of Cameroon production base from this study is due to the quest for empirical results that will be a reflection of Cameroon business reality, without any external influence. This is because approximately 80% of large enterprises in Cameroon are multi-national companies or companies with majority shareholdings belonging to foreigners (MINPMEESA, 2025).

2.1 Model Specification

The model was specified as follows:

$$Fp = C + \beta 1ER + \quad \beta 2SR + \quad \beta 3GOV + ei \ldots\ldots 1$$

Where Fp is the financial performance, representing the dependent variable; C is the intercept or constant; ER, SR and GOV are the independent variables, corresponding to the environmental, social and governance pillars respectively; β1–β3 are the regression coefficients of the independent variables in the model and ei is the residual error. Sector and size controls have not been included in the regression model because previous studies (Dongmo, 2017 and Tegofack and Kamdem, 2022) suggest that firm's size and sector of activity have a weak predictive power

over firms' engagement in sustainability reporting in the context of Cameroon. Table 2 explains the dependent and independent variable of the model.

Table 2. Operationalization of Variables

Variable	Indicator	Operational meaning	Proxy
Dependent Variable			
Financial performance (FP)	Profitability	Overall firm's effectiveness measured financially.	Return on Assets (Buallay 2018; Velte 2017; Tutar et al. 2025 ; and Shafitranata et al., 2026)
Independent variables			
Environmental pillar (ER)	Energy efficiency	Reduction in the consumption of energy per output unit via improved processes or technology (GRI, 2016).	Aggregate scores of environmental indicators (Carnini Pulino, 2022; Shaikh, 2021; Tutar et al. 2025; Shafitranata et al., 2026)
	Waste reduction	Implementation of practices to reduce, recycle, or manage waste efficiently (Porter and van der Linde, 1995).	
	Compliance with environmental law	Respecting environmental regulations, permits, and legal standards (Dongmo and Tegofack, 2025).	
	Investment in sustainable technology	Expenditure incurred in eco-efficient technologies and sustainable development processes (GRI, 2016).	
Social pillar (SR)	Fair labour practices	Employment practices ensuring fair wages, non-discrimination, and decent working conditions (GRI, 2016).	Aggregate scores of social indicators (Carnini Pulino, 2022; Shaikh, 2021; Tutar et al. 2025; Shafitranata et al., 2026)
	Health & safety policies	Measures to ensure employee health and safety at work (GRI, 2016)	
	Community development programs	Corporate initiatives supporting local communities through education, health, and infrastructure (Visser, 2006).	
	Philanthropic contribution	Voluntary donations or sponsorships supporting societal causes (Carroll, 1991).	
Governance pillar (GOV)	Corporate ethics	Organizational values and behaviors guided by moral principles (Victor and Cullen, 1987).	Aggregate scores of governance indicators (Carnini Pulino, 2022; Shaikh, 2021; Tutar et al. 2025; Shafitranata et al., 2026)
	Board independence	Proportion of independent/non-executive directors on the board (Fama and Jensen, 1983).	
	Transparency / Accountability	Extent and quality of ESG disclosures (Buallay et al., 2017).	
	Risk management practices	Processes for identifying, assessing, and mitigating business risks (COSO, 2004).	

3. Results

Prior to the test of hypotheses, Cronbach's Alpha and multicollinearity tests were conducted, to guarantee the internal consistency and reliability of items used to measure ESG on one hand, and to ensure that the predictors in the model are not strongly correlated, on the other hand as presented in tables 3 and 4, respectively. This test is important because it will guarantee the reliability, accuracy and interpretability of the global model of the study

Table 3. Cronbach's Alpha for ESG Dimensions and Financial Performance

Construct	No. of Items	Cronbach's Alpha (α)
ER	4	0.82
SR	4	0.79
GOV	4	0.85
FP	2	0.77

Abbreviations: ER: Environmental pillar; SR: Social pillar; GOV: Governance pillar; FP: Financial performance.

All constructs recorded α values in table 3 fall within the recommended threshold of 0.70, indicating strong internal consistency of the items measuring ESG dimensions and firm' s financial performance. Governance had the highest reliability ($\alpha = 0.85$), suggesting that governance dimension was well captured by the items.

Table 4. Multicollinearity Test

	ER	SR	GOV
Tolerance	0.834	0.760	0.778
VIF	1.576	1.891	1.459

Abbreviations: ER: Environmental pillar; SR: Social pillar; GOV: Governance pillar

Source: Data processed (2025)

Table 4, presents the result of the multicollinearity test performed using two standard diagnostic measures; Tolerance and Variance Inflation Factor (VIF). All three independent variables demonstrate tolerance values well above the critical threshold of 0.10, indicating that each variable retains substantial unique variance not explained by the other independent variables. The lowest tolerance value is 0.760 for social scores, which means that 76% of the variance in social practices is not explained by environmental disclosure and corporate governance disclosure. This level is well within acceptable limits. Similarly, all VIF values are substantially below the critical threshold of 10, with the highest VIF being 1.891 for social pilar. This indicates that the variance of the regression coefficient for social disclosure is inflated by a factor of approximately 1.891 due to its correlation with other independent variables, representing a modest and acceptable level of inflation. The VIF values for environmental pillar (1.576) and governance (1.459) are even lower, depicting minimal multicollinearity concerns.

Table 5 shows the empirical results of the correlation test conducted to establish the relationship between ESG initiative and financial performance.

Table 5. Correlation Matrix of ESG Dimensions and Financial Performance

Variables	ER	SR	GOV	FP
ER	1			
SR	0.66**	1		
GOV	0.58**	0.61**	1	
FP	0.62**	0.57**	0.69**	1

Abbreviations: ER: Environmental pillar; SR: Social pillar; GOV: Governance pillar; FP: Financial performance; ** Statistically significant at $p < 0{,}01$.

ESG dimensions (ER, SR and GOV) correlate positively with financial performance (FP). The strongest relationship was between governance and financial performance ($r = 0.69$, $p < 0.01$). This is followed by environmental and social dimensions, which indicate a strong positive correlation with financial performance ($r = 0.62$, $p < 0.01$) and ($r = 0.57$, $p < 0.01$), respectively. While correlations indicate association, they do not imply causation; regression models address predictive effects with controls.

The confirmation of positive correlation between the independent and dependent variables paves the way for the conduct of the regression analyses, in order to quantify the effect of each of the independent variables on the dependent variable, as shown in table 6.

Table 6. Regression result of ESG and Financial performance

index	Coef.	Std.Err.	z	P>|z|	[0.025	0.975]
const	1.653	0.810	2.041	0.041	0.065	3.242
ER_composite	0.134	0.180	0.748	0.455	-0.218	0.487
SR_composite	0.222	0.183	1.217	0.032	-0.191	0.255
GOV_composite	0.204	0.124	1.642	0.041	-0.163	0.245
Observation	64					
Sum of weight	64					
R2	0.450			$p < 0.001$		
Adjusted R^2	0.396					
MSE	0.125					
RMSE	0.358					
MAPE	0.118					
AIC	-268.463					
AICC	-268.126					
SBC	-259.285					

Abbreviation: ER: Environmental pillar; SR: Social pillar; Governance pillar, ISC: Industrial sector; SSC: Service sector.

The regression result of table 6 depicts that the model is significant at a 5% level ($p < 0.001$). The R^2 shows that 45% variation in financial performance can be explained by joint variation in ESG disclosure's pillars. The difference between R^2 (0.450) and adjusted R^2 (0.396) of 0.055 indicates that the model is not overfitted and that the explanatory power is genuine rather than an artifact of including multiple predictors. This suggests that all three independent variables make meaningful contributions to the model. The coefficient values of social and governance pillars ($\beta = 0.222$ and $\beta = 0.204$) indicate that these pillars have a positive and significant effect ($p = 0.032$ and $p = 0.041$) on financial performance of SMEs. On the contrary, the environmental pillar did not pass the test of significance, even though the effect is positive ($\beta = 0.134$) and hence, can be concluded that it has no significant effect on SMEs' financial performance.

3.1 Robustness of Results

The robustness of the overall model is guarantee by the goodness of fit statistics (project quality) such as the Mean Squared Error (MSE), and, Root Mean Squared Error (RMSE) the Mean Absolute Percentage Error (MAPE), the Akaike Information Criterion (AIC) and Schwarz Bayesian Criterion (SBC), as presented in table 6. The MSE of 0.124 and RMSE of 0.358 indicate the average magnitude of prediction errors. These relatively low values suggest that the model's predictions are generally close to actual financial performance values, with prediction errors averaging approximately 0.289 units on the measurement scale. The MAPE of 0.118 indicates that on average, the model's predictions deviate from actual values by approximately 11.8%. This is an acceptable level of prediction accuracy and further confirms the model's strong performance. The AIC = -268.463, corrected AIC (AICC) is -268.126, and SBC = -259.285. The negative values indicate very good model fit, suggesting that the current model is well-specified.

Table 7 presents the result of ANOVA test, which aims at determining whether there is any significant difference in EGS disclosure between the firms operating in the secondary sector and tertiary sector.

Table 7. ANOVA: Sector differences

	F	p_value	k_groups
FP_composite	1.128	0.334	2
ESG_composite	1.091	0.346	2

Abbreviation: FP: Financial performance, ESG: Environmental, Social and Governance pillars
Source: Data processed (2025)

The ANOVA result in table 7 shows that there is no significant difference in ESG disclosure across sectors (F=1.091, p=0.346). Also, SMEs, that practice ESG, irrespective of the sector of activity do not experience varying levels of financial performance, as the ANOVA result indicates that there is no significant difference in financial performance across sector (F=1.128, p=0.334). Hence, SMEs found either in the secondary sector or tertiary sector will experience an improvement in their financial performance once they behave like corporate citizens. Meanwhile, one would have expected SMEs in the secondary sector practicing ESG to overperform compared to those in the tertiary sector, as the former is exposed to stakeholder pressure.

4. Discussion

4.1 Effect of Environmental Actions on the Financial Performance of SMEs

The regression suggests a positive but insignificant effect of environmental initiatives on the performance of SMEs in Cameroon (β=0.134 and p=0.455). This suggest that while SMEs in Cameroon pay attention to environmental considerations, such practices are yet to be translated into quantifiable financial returns. This finding aligns with Shaikh (2022) and Tutar et al. (2025), who found an insignificant effect of environmental score on firm performance. This outcome is supported by Crisóstomo et al., 2011, who argue that immediate financial returns emanating from firms' environmental actions is not achievable but rather in the long term because it builds the firm's reputation over time and will eventually be translated into higher sales. It is worth mentioning that this positive relationship could be attributed to SMEs' relative compliance to environmental laws edited by the Ministry of Environment, Nature Protection and Sustainable Development. The respect of environmental laws keeps SMEs away from extra-ordinary cost such as fines, which could have affected their financial result negatively. However, this finding contrast with those of Carnini Pulino et al. (2022) and Shafitranata et al. (2026), who instead found a positive and significant effect of the environmental pillar on firm's performance in Italy and Indonesia respectively.

This contextual difference in results may have as explanation the fact that, the studies of Carnini Pulino et al. (2022) and Shafitranata et al. (2026) had as units of analysis listed firms that face different pressures (such as stock exchange listing requirements and ESG rating availability) than unlisted firms, as it is the case with Cameroonian SMEs. Also, this empirical variation in results is explained by the differences in the enforcement of environmental laws and sustainability reporting framework, which is more advanced in Italy than Cameroon. In the Cameroonian context, the enforcement of environmental laws is relatively weak. SMEs have inadequate finance to invest in sustainable technology, inadequate technology to implement eco-efficient production system that will enable them to reduce their waste or better still recycle the waste. SMEs stand the chance to experience a considerable improvement on their profitability in the

long-run once they must have embedded in their organizational culture, the environmental scores of ESG. This result is contrary to the prediction of the Natural Resource-Based View (NRBV), theory of Barney (1991) and Hart (1995), which suggests that firms must undertake actions to address environmental sustainability in order to maintain long-term competitiveness and eventually increased financial return. Hence, the NRBV theory turns out not to have a strong explanatory power on environmental practices in the Cameroon context because of weak environmental regulatory framework. This finding can also be explained by the fact the firm's engagement in environmental activities does not have a strong echo in the society as social initiatives probably because the classical media diffuse more of firms' social action because they directly impact local communities. Consequently, customers in Cameroon may not reward environmental efforts because the impact to society seems to be less visible as compared to firms' social efforts. Added to that, investment in sustainable technology is costly and the return from such investment, becomes evident only in the long-run. This is reinforced by Verma and Mukhtaruddin (2023), who posit that the financial effect of environmental responsibilities can vary significantly based on geographical and regulatory differences. According to them, Firms in developed markets tend to experience more positive financial outcomes from proactive environmental practices, while firms in emerging economies may face challenges in translating ESG activities into financial gains due to weaker regulatory frameworks and less demand for sustainability from consumers (cited in Cardillo and Cruz Basso, 2025). The NRBV theory will have a contextual validity if the public authorities in Cameroon render the compliance to exiting national environmental regulations mandatory for firms no matter the sector of activity.

4.2 Effect of Social Initiatives on the Financial Performance of SMEs

The regression of the overall model indicates a positive and significant effect of social scores on the financial performance of SMEs in Cameroon ($\beta = 0.222$ and $p = 0.032$). This result highlights the societal engagement of SMEs in Cameroon that are involved in philanthropic activities, execute series of community development programs and implement fair labour practices within the organizational setting. The only social score in which SMEs are still struggling to embrace is health and safety policies. This finding is consistent with that of Carnini Pulino et al. (2022) who found a positive and significant effect of the social scores on firm's performance in the Italian context. The present result contradicts those of Shafitranata et al. (2026) and Tutar et al (2025), as both researcher found and insignificant relationship.

SMEs that actively engaged in community development like the electrification of the neighbourhood in which they are implanted enhances further their goodwill and eventually improve their profitability. Also, the philanthropic actions carried out by SMEs in the educational milieu in Cameroon attracts the sympathy of the educational stakeholders, who show appreciations by patronising the products of SMEs portraying these corporate citizen characteristics. This finding conforms to the prediction of Share Value theory of Porter and Kramer (2011). This theory maintains that firms can augment their profitability and at the same time advancing the economic and social conditions in the community where they are implanted.

The relevance of the Shared Value Theory in this study cannot be undermined as Cameroon is confronted to serious social and economic problems such as youth unemployment, healthcare

deficits, and infrastructural inadequacies. Firms operating in such society can apply the Shared Value approach by investing in vocational training of youth, supporting community development projects, and fostering local supply chains. These initiatives will not only improve the condition of local communities but it will also boast the firms' competitiveness and long-term profitability.

4.3 Effect of Governance Scores on the Financial Performance of SMEs

The regression indicates a positive and significant effect of governance scores on the performance of SMEs in Cameroon ($\beta = 0.032$ and $p = 0.041$). The governance indicators that contributed to this positive outcome are corporate ethics, transparency and accountability and risk management practices. This finding goes in line with those of Shafitranata et al. (2026), Carnini Pulino et al. (2022), Nguyen et al. (2022), and Shaikh (2022). However, it does not corroborate the findings of Tutar et al. (2025), Who found an insignificant effect of governance activities on financial performance. Corporate ethics fall within the ethical responsibility of organization, representing the third dimension of Carroll's pyramid of corporate social responsibility (CSR). According to Carroll (1991), cited in Tegofack and Dongmo (2022), ethical responsibility is the obligation to perform what is right which represent principles that are generally accepted by the community. Hence SMEs with sound ethical values that are in harmony with the community are attractive and standout to realized better financial performance compare to unethical firms. This stand is reinforced by Breuer and Nau (2014), who posit that, ESG is seen as the moral condition of firm's existence.

The outcome of this study supports the agency theory, which assumes that one way to reduce agency cost is to adopt robust governance structure such as independent board, transparency and accountability, corporate ethics, risks management practices and performance based executive compensation. The transparency and accountability are geared at mitigating the information asymmetry that may exist among the firm's stakeholders most especially between the shareholders and the agent, as managerial actions will align with shareholder interest (Cardillo and Cruz Basso, 2025). At the end, not only the principal will be happy with that transparency but the non-financial stakeholders such as customers will be satisfied (Carnini Pulino et al., 2022).

Conclusion

This study examined the effect of ESG disclosure scores on the financial performance of SMEs in Cameroon. The result of the regression analysis revealed that the social and governance dimensions of ESG positively associate with SMEs' financial performance. On the other hand, the environmental dimension had a positive but insignificant effect on financial performance. The methodological novelty of this study relies on the procedure used to derive the sample size; multistage sampling which is scarcely used in sustainability studies. Regarding the contextual implication, this study builds-up ESG literature in Cameroon, as it provides an insight to each of the dimensions of ESG, given that it stands out to be the only study in Cameroon that has examined the overall dimensions of ESG's effect on financial performance. Concerning the theoretical implication, the current study has broken the myth of using only the legitimacy theory, stakeholder

theory and institutional theory as theoretical foundations to ESG studies. The combination of these theories as used in this study provides a holistic theoretical framework to be exploited in future ESG studies, aside the traditional sustainability reporting theories. This is because the empirical findings show that the Natural Resource-Based View Theory (in the existence of mandatory environmental laws and regulations) and Shared Value Theory can be used to explain firms' consideration toward the adoption and application of corporate citizen behaviors.

Recommendations

This study showed that, the firm's financial performance via return on assets is enhanced by social and governance initiatives and to a limited extent by environmental initiative. This is an important call for SMEs that are still reluctant to get into the race of sustainable development. ESG disclosure does not only improve the financial performance of firms but also attracts ethical investors who are ready to bring the required financial resources needed by SMEs to operate on a large scale and consequently enjoy the underlying benefit of economies of scale, that is, reduction in cost of production, leading to a reduction in selling prices. This eventually boast sales and firm's profitability. For SMEs already practicing ESG, they stand the chance of being retained by the Association for the Communication of Tropical Diseases (ASCOMT/Malaria) in its study concerning stakeholders' perception on the practice of CSR by firms in Cameroon; conducted by this association on yearly basis. Any firm whose efforts towards ESG considerations are recognized by the local community get into the classification of best corporate citizens in Cameroon. This will enhance further the goodwill of the SMEs at the national and international levels. Furthermore, Cameroonian SMEs with limited resources should prioritize social initiatives (local community health and educational projects) and governance transparency (publishing annual one-page ethics statement) over costly environmental investment that may not yield short-term returns.

Limits and Future Avenues of Research

The limitation of this study may reside on the sampling procedure; multi-stage sampling, where the researcher may have been expose to subjective considerations in the selection of stages and this may affect the generalization of results of this study. The study relied on self-reported data from questionnaire and this data collection method usually give rise to social desirability bias. In addition, the excluded questionnaires that were answered by respondents who were predominantly French speaking could have provided different patterns if included in the analysis. This flaw could be settled by future researchers who are encouraged to conduct similar studies on large entities especially multinational companies operating in Cameroon, given that there is no doubt on their engagement in ESG' s practices. The self-reported data in this case will be solved by collecting data from the integrated annual reports or sustainability reports of produced and published by the large entities.

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