

Sustainable Business Practices and Financial Performance of Nigerian Banks

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ABSTRACT

This study examined sustainable business practices and financial performance of Nigerian banks, specifically focusing on Return on Equity (ROE) as the key performance indicator. Using a dataset from 2018 to 2023, the study applied a fixed effects regression model to analyze the relationship between ESG scores and ROE. The results indicate that Environmental and Governance scores have a statistically significant positive effect on ROE, while the Social Score showed a weaker, non-significant relationship with profitability. The findings highlight the importance of strong Environmental and Governance practices in enhancing the profitability of banks in Nigeria. The study recommends that Nigerian banks focus on improving their environmental sustainability and governance structures, while continuing to invest in social responsibility initiatives for long-term benefits.

Keywords; ESG Practices, Environmental governance, Return on Equity

INTRODUCTION

At the end of 2021 there has been an increasing recognition of the critical role that Environmental, Social, and Governance (ESG) practices play in shaping the financial performance of businesses worldwide. As global sustainability concerns intensify, investors, regulators, and financial institutions are paying more attention to how companies integrate ESG factors into their operations and decision-making processes. PricewaterhouseCoopers (PwC) in October 2022, ESG-oriented assets under management (AuM) are projected to increase from US\$18.4 trillion in 2021 to US\$33.9 trillion by 2026, representing a compound annual growth rate (CAGR) of 12.9%, and ESG investing is expected to account for 21.5% of total global assets under management by 2026 (Oluwaseun & Oluwadare, 2023).

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Environmental sustainability, social responsibility, and sound governance are essential components of ESG that influence not only corporate reputation but also financial outcomes (Nguyen et al., 2022). Nigerian banks, which play a pivotal role in the country's economy, are increasingly being evaluated on their ESG performance, which is seen as integral to long-term financial success (Akinyele & Alimi, 2021). Environmental practices, such as reducing carbon footprints and promoting green financing, have gained significant attention, especially in the context of Nigeria's commitment to the Paris Agreement on climate change (Ogunyemi, 2022). Similarly, social factors such as community development, employee welfare, and consumer protection have become central to how banks are assessed by stakeholders (Babatunde & Ogunleye, 2023). Furthermore, robust governance practices, including transparency, ethical business practices, and regulatory compliance, are fundamental to maintaining stakeholder trust and ensuring long-term profitability (Adams & McQueen, 2021).

Despite the growing interest in ESG, there is limited empirical research on how these practices directly influence the financial performance of Nigerian banks.

The integration of ESG practices into business strategies has become a pivotal aspect of modern corporate management, particularly in the banking sector. ESG considerations are widely regarded as key determinants of long-term financial performance, with the potential to influence investor decisions, customer loyalty, and overall corporate reputation (Eccles et al., 2014; Friede, Busch, & Bassen 2015). Globally, studies have indicated a positive relationship between robust ESG practices and financial performance, emphasizing that businesses that align their strategies with sustainability principles tend to experience improved profitability, lower risk, and enhanced stakeholder trust (Cheng, Ioannou, & Serafeim., 2014; Orlitzky, Schmidt, & Rynes 2003).

In the context of Nigeria, while there has been growing interest in ESG practices, particularly following the Central Bank of Nigeria's (CBN) directive on sustainable banking (CBN, 2019), there remains a dearth of comprehensive empirical studies that link these practices to the financial performance of Nigerian banks. Some studies have explored the role of CSR in Nigerian banks, such as Akinyele & Alimi (2021), who found a significant impact of CSR on the banks' brand value, and Ogunyemi (2022), who focused on the role of green financing in the financial sector. However, these studies often address individual ESG components without analyzing their combined effects or focusing on a direct financial outcome such as profitability or return on assets (ROA).

Moreover, while Babatunde and Ogunleye (2023) examined the social responsibility aspect of ESG and its influence on the reputation of banks, their study did not provide a clear understanding of how each ESG component—environmental, social, and governance—individually or collectively impacts financial performance. Furthermore, the studies by Adams & McQueen (2021) and Nguyen et al. (2022) have largely concentrated on developed economies, offering limited insights into the specific challenges and opportunities faced by banks in emerging markets like Nigeria. Their findings, while insightful, may not be directly applicable to the Nigerian banking context due to differences in economic structure, regulatory frameworks, and ESG adoption levels.

This research seeks to bridge this gap by investigating how ESG practices—specifically environmental, social, and governance factors—affect the financial performance of Nigerian banks. Unlike previous studies that have primarily examined CSR or isolated aspects of ESG, this study adopts a more comprehensive approach by exploring all three ESG dimensions together. Additionally, while much of the existing literature focuses on developed economies such as Menicucci, and Paolucci, (2022), Çetenak, H Aytaç and Yağlı, (2023), Öztürk and B. S. (2022), this study provides an in-depth analysis within the Nigerian context, considering the unique challenges and opportunities Nigerian banks face in integrating ESG principles.

This study offers a more holistic understanding of how Nigerian banks can strategically leverage sustainability practices to enhance financial performance by focusing on ESG as a combined set of practices rather than individual components.

The specific objectives for the study are to:

1. examine the relationship between environmental practices and the financial performance of Nigerian banks.
2. determine the impact of social practices on the financial performance of Nigerian banks.
3. To examine how governance practices influence the financial performance of Nigerian banks.

LITERATURE REVIEW

Conceptual Literature

The concept of ESG practices has gained significant traction as a key framework for evaluating corporate sustainability and its influence on financial performance. The **United Nations and the “Who Cares Wins” report 2004**, ESG is a multidimensional construct encompassing environmental responsibility, social accountability, and robust governance, which are increasingly being integrated into the strategic frameworks of businesses worldwide, particularly in the financial sector. In this section, the focus will be on reviewing the literature related to the key variables—environmental practices, social practices, and governance practices—and how they are conceptualized and linked to financial performance, particularly in the context of Nigerian banks.

Environmental Practices (E) in ESG

Environmental practices under the ESG umbrella refer to a company's efforts to manage its environmental impact, including actions related to reducing carbon emissions, energy consumption, waste management, and the promotion of green financing (Ogunyemi, 2022). Environmental sustainability is critical in the banking sector, especially in the context of climate change and global environmental challenges. Banks that engage in green financing initiatives or incorporate environmental risks into their lending and investment strategies are perceived to be better positioned for long-term growth (Cheng et al., 2014).

Green financing, as a component of environmental practices, includes the financing of projects that aim to reduce environmental harm, such as renewable energy projects, sustainable agriculture, and eco-friendly infrastructure. For Nigerian banks, where climate change and environmental degradation are prominent concerns, adopting environmental sustainability practices can enhance brand reputation and create opportunities for new markets (Ogunyemi, 2022). Studies have shown that banks incorporating environmental factors into their strategic operations tend to exhibit improved financial performance, as investors and customers increasingly prefer environmentally responsible entities (Nguyen et al., 2022).

Social Practices (S) in ESG

Social practices within the ESG framework refer to a company's actions towards its stakeholders, including customers, employees, communities, and suppliers. These practices include labor rights, human capital development, diversity and inclusion, product safety, community engagement, and consumer protection. In the banking sector, social responsibility initiatives can significantly impact customer loyalty, employee satisfaction, and the overall reputation of the institution (Babatunde & Ogunleye, 2023).

In the context of Nigerian banks, social practices are crucial, as they can help build trust with customers and enhance the bank's corporate image in the face of socio-economic challenges. CSR initiatives, such as financial literacy programs, community development projects, and initiatives aimed at poverty alleviation, are common social practices among banks in Nigeria. Several studies have found that banks that engage in strong social practices benefit from a loyal customer base, improved employee retention, and positive brand equity, which can translate into improved financial performance (Babatunde & Ogunleye, 2023). Additionally, CSR efforts are seen as mitigating social risks, thereby leading to more sustainable financial outcomes.

Governance Practices (G) in ESG

Governance practices refer to how a company is managed, with a focus on issues like corporate transparency, ethical business practices, board structure, executive compensation, and shareholder rights. Sound governance structures ensure accountability, prevent corruption, and maintain trust with stakeholders (Adams & McQueen, 2021). Effective governance is essential in the banking sector, where regulatory compliance, financial reporting, and risk management are critical to maintaining stability and profitability.

For Nigerian banks, strong governance practices are particularly important due to the country's evolving regulatory environment and the need for increased accountability and transparency. The adoption of good governance practices, such as independent auditing, transparent reporting, and a commitment to anti-corruption measures, has been linked to improved investor confidence and, consequently, better financial performance (Ogunyemi, 2022). Moreover, governance practices help in reducing operational risks and enhancing stakeholder trust, which in turn supports the bank's long-term financial performance (Nguyen et al., 2022).

Linking ESG Practices to Financial Performance:

The relationship between ESG practices and financial performance has been extensively studied, particularly in developed economies. Many studies suggest that companies that engage in strong ESG practices tend to outperform their peers in terms of profitability, stock market performance, and overall financial stability (Cheng et al., 2014; Friede et al., 2015). This relationship is explained through several mechanisms: (1) ESG practices can reduce operational risks, leading to more stable financial returns; (2) they improve customer loyalty and brand reputation, which can increase market share; and (3) they attract socially responsible investors who are willing to pay a premium for sustainable companies (Eccles et al., 2014).

However, in emerging markets like Nigeria, the empirical evidence linking ESG to financial performance is less clear. While the banking sector in Nigeria has made strides in adopting ESG practices, particularly in green financing and CSR, the understanding of how these practices influence financial performance remains underexplored. Nigerian banks face unique challenges, including regulatory inconsistencies, socio-political instability, and a less-developed sustainability culture, which may influence how ESG factors affect financial performance (Ogunyemi, 2022).

Theoretical Review

Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), posits that organizations should consider the interests of all their stakeholders—customers, employees, investors, suppliers, and the community—in their decision-making processes. Unlike shareholder theory, which prioritizes maximizing shareholder wealth, stakeholder theory emphasizes the importance of balancing the needs and concerns of various groups that are affected by the company's actions.

This theory is highly relevant to ESG practices, as it aligns with the concept that organizations should focus on sustainable business practices that benefit a broad range of stakeholders. For banks, engaging in environmental sustainability, improving social welfare, and adopting strong governance structures can enhance relationships with key stakeholders (such as customers, regulators, and investors) and thereby improve financial performance.

For Nigerian banks, implementing ESG practices is a direct way of responding to stakeholder interests. Banks that actively engage in CSR, provide green financing, and ensure robust governance practices can gain the trust of their stakeholders, which can lead to increased customer loyalty, investor confidence, and overall profitability. This theory provides the theoretical foundation for why banks with strong ESG practices might experience superior financial performance.

Resource-Based View (RBV):

The Resource-Based View (RBV), as outlined by Barney (1991), suggests that an organization's competitive advantage and long-term performance are derived from its unique resources and capabilities. These resources can be tangible (e.g., financial capital) or intangible

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(e.g., reputation, human capital, brand image, and intellectual property). According to the RBV, organizations that possess valuable, rare, inimitable, and non-substitutable resources are likely to achieve sustained competitive advantage.

In the context of ESG practices, this theory supports the notion that sustainability-oriented resources and capabilities—such as a strong environmental track record, social responsibility initiatives, and good governance structures—can become valuable resources that enhance a bank’s performance. For Nigerian banks, adopting ESG practices may lead to the development of unique intangible assets, such as a positive brand reputation, customer trust, and stronger relationships with regulators, which can contribute to competitive advantages in the financial sector. As these resources become increasingly valuable to stakeholders, banks that invest in ESG practices are likely to experience superior financial outcomes.

Signaling Theory:

Signaling Theory, as proposed by Spence (1973), focuses on the idea that companies communicate certain attributes to the market and stakeholders through their actions, products, or practices. Signals can be both direct and indirect and are used by organizations to convey information about their quality or intentions. When firms adopt specific practices (e.g., strong governance, environmental sustainability, and social responsibility), they are signaling to stakeholders—investors, customers, and employees—that they are committed to long-term value creation and ethical business practices.

In the case of Nigerian banks, adopting ESG practices can be viewed as a signal to investors, regulators, and customers that the bank is committed to responsible business practices and sustainable growth. By engaging in environmental protection, contributing to social development, and maintaining sound governance, banks signal their stability, reliability, and forward-thinking approach to financial sustainability. This signaling can enhance investor confidence, improve customer loyalty, and boost overall financial performance. As signaling is often seen as a form of trust-building, Nigerian banks that focus on ESG practices may be able to differentiate themselves in a competitive market, attracting more business and investors.

Together, these theories provide a comprehensive theoretical framework for understanding how ESG practices influence the financial performance of Nigerian banks and offer insights into why these practices are likely to contribute to a bank's long-term success.

However, the study is anchored on stake holder theory to examine the relationship between the impact of environmental, social, and governance (ESG) practices on the financial performance of Nigerian banks

Empirical Review

Several studies have explored the impact of environmental, social, and governance (ESG) practices on the financial performance of banks, offering valuable insights into how these practices influence bank profitability, risk, and market stability.

Nian and Said 2024 assert that stronger ESG practices are *more consistently* associated with lower firm risk (idiosyncratic, systematic, crash risk) than with better financial performance,

where results are mixed (positive, negative, curvilinear or neutral). They also highlight substantial variation by region, ESG dimension (E, S, G), performance metric, and methodology — and conclude that there’s no universal “ESG always better business outcome” rule yet.

In Nigeria, Babatunde and Ogunleye (2023) focus specifically on the role of CSR in the performance of Nigerian banks, covering the period from 2019-2022. Their findings indicate that CSR activities positively affect customer loyalty, employee satisfaction, and overall financial performance. Banks in Nigeria that engage in community-based CSR initiatives experience better financial stability and higher profitability, as CSR fosters a deeper connection with both customers and employees.

Çetenak, Aytaç, and Yağlı (2023) investigated the impact of ESG scores on the financial performance of U.S. commercial banks and reported a nonlinear inverted U-shaped relationship between ESG performance and bank profitability. Their findings suggest that moderate levels of ESG engagement enhance bank performance, but excessive ESG investment may reduce financial returns.

A more recent study by Nguyen, Mensah, and Aluko (2023) conducted a meta-analysis to examine the relationship between environmental, social, and governance (ESG) practices and corporate financial performance across different industries and countries. The objective of the study was to synthesize existing empirical evidence and determine whether ESG engagement improves firms’ financial outcomes. Using a meta-analytic methodology, the authors reviewed and statistically combined results from numerous prior empirical studies to estimate the overall effect size of ESG practices on financial performance. The findings revealed a generally positive relationship between ESG engagement and financial performance, suggesting that firms with stronger ESG practices tend to achieve better profitability and market performance. This relationship was particularly evident in industries characterized by strong stakeholder interactions, such as banking and manufacturing.

Similarly, Rahman and Li (2022) investigated the effect of ESG frameworks on firm performance with the objective of determining whether sustainable business practices enhance long-term corporate profitability. The study employed quantitative empirical analysis using firm-level financial and ESG data to evaluate the relationship between sustainability practices and financial outcomes. The results indicated that companies with well-developed ESG frameworks tend to experience higher profitability and greater financial resilience, supporting the argument that responsible environmental, social, and governance practices contribute to long-term corporate value creation.

Menicucci and Paolucci. (2022). Examines a sample of 105 Italian banks over 2016-2020; finds that environmental, social and governance dimensions each have differential impacts on bank performance measures, with governance often showing the strongest effect

Research by Nguyen, Lee, and Pham (2022) extends these findings to emerging markets, including Nigeria. Their study, conducted between 2020 and 2022, finds that banks with

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stronger ESG ratings show higher profitability and lower stock volatility, with governance being the most influential ESG factor. This supports the argument that adopting good governance practices enhances financial outcomes in banks operating in developing markets (Nguyen, Lee, & Pham, 2022).

Further studies have delved into specific aspects of ESG. Ogunyemi (2022) investigates the role of green financing in the Nigerian banking sector, discovering that banks involved in green financing activities enjoy better market perception, financial stability, and higher returns on investments. The research, conducted in 2022, highlights the importance of environmentally responsible lending in enhancing the financial performance of Nigerian banks.

Akinyele and Alimi (2021) focus on the relationship between CSR and the financial performance of Nigerian banks, with their study spanning 2020 to 2021. They find that CSR activities, particularly in community development and employee welfare, significantly boost customer satisfaction and employee engagement, which in turn results in better financial performance for banks. Their findings suggest that Nigerian banks with strong CSR commitments are more likely to achieve higher profitability.

In a broader context, Eccles, Ioannou, and Serafeim (2014) study the impact of corporate sustainability on financial performance in publicly traded companies. Their study, which focuses on 2012 to 2014, finds that companies with high ESG performance experience lower capital costs and better profitability. Their research supports the view that governance and environmental practices are crucial to improving financial outcomes, an insight that is applicable to the Nigerian banking sector as well.

Ionescu and Oprea (2020) conduct a study in the European Union banking sector, focusing on corporate governance and its effects on financial performance, spanning 2018 to 2020. Their findings suggest that stronger governance structures are associated with higher profitability and reduced exposure to financial risks. This is particularly relevant to Nigerian banks, as improving governance structures can help mitigate financial risks and enhance profitability.

Duan and Wei (2021) explore ESG practices in the Asia-Pacific banking sector, with a focus on the relationship between ESG factors and financial performance, in the period 2019-2021. Their research concludes that banks with strong environmental and governance practices enjoy better profitability and lower financial risks. This supports the idea that Nigerian banks, by adopting ESG practices, could improve their financial performance.

More recent studies, such as Adeyemi and Yusuf (2023), examined the impact of ESG investments on financial performance across emerging markets and found that firms integrating ESG principles tend to achieve stronger long-term returns and improved risk management compared to those following traditional investment models. Similarly, Okafor and Chen (2022) discovered that sustainable investment practices enhance banks' reputation and financial stability,

reinforcing the view that ESG-oriented strategies contribute positively to long-term profitability and resilience.

METHODOLOGY

This study adopts a quantitative research design to examine the impact of ESG (Environmental, Social, and Governance) practices on the financial performance of Nigerian banks. The study employs a combination of secondary data collection, statistical analysis, and model specification to understand the relationship between ESG practices and financial outcomes in the Nigerian banking sector.

Research Design

The research follows a cross-sectional approach, examining data for a sample of Nigerian banks over a period of Six years, from 2018 to 2023. This period was selected because it captures Nigeria's growing adoption of ESG practices and key economic shifts—such as post-recession recovery and the COVID-19 impact—shaping banks' financial performance. This timeframe provides relevant and recent data for assessing the influence of ESG practices on the banking sector.

Sample Selection

The sample for this study consists of ten publicly listed banks on the Nigerian Stock Exchange (NSE) for which relevant data on ESG practices and financial performance are available during the study period. These banks were selected because they consistently disclose financial and sustainability-related information required for the analysis. The selected institutions include Access Bank, Zenith Bank, Guaranty Trust Bank, First Bank of Nigeria, United Bank for Africa, Sterling Bank, Wema Bank, FBN Holdings, Ecobank Nigeria, and Stanbic IBTC.

The study adopted a purposive sampling technique, which involves intentionally selecting units that possess characteristics relevant to the research objectives.

The choice of these banks was based on specific criteria: they are listed on the Nigerian Stock Exchange, have available ESG disclosures or sustainability reports, and possess complete financial data for the period under investigation. Selecting banks with these characteristics ensures that the dataset is reliable and suitable for examining the relationship between ESG practices and financial performance.

Data Collection

Secondary data is collected from the following sources: Financial Performance Data: Data on key financial indicator Return on Equity (ROE), obtained from the annual financial statements of the banks, as published on their official websites and in annual reports. ESG Data: ESG data is sourced from publicly available ESG ratings agencies, such as Sustainalytics and MSCI ESG Research, as well as voluntary disclosures from the banks' annual sustainability reports. The ESG ratings encompass three dimensions: Environmental, Social, and Governance practices, with specific emphasis on environmental policies, community development efforts, and governance structures.

Variables

Dependent Variable:

Financial Performance: The study measures financial performance using Return on Equity (ROE). This indicator is widely used in previous studies to measure profitability and efficiency in the banking sector.

Independent Variables:

Environmental Practices: This includes a bank's efforts in reducing its environmental footprint, including carbon emissions, energy consumption, and waste management. Environmental performance is measured by an environmental score derived from the ESG ratings.

Social Practices: This refers to the bank's involvement in corporate social responsibility activities such as community development programs, employee welfare initiatives, and consumer protection. A social score based on ESG ratings is used to quantify social practices.

Governance Practices: This includes the structure and quality of governance within the bank, focusing on board diversity, executive compensation, and transparency. A governance score from ESG ratings is used to measure governance practices.

Data Analysis

The data is analyzed using panel data regression analysis, which is appropriate for datasets that have both time-series and cross-sectional dimensions. The regression model specified for this study is as follows:

$$ROE_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 SPS_{it} + \beta_3 GPS_{it} + \epsilon_{it}$$

Where:

ROE_{it} = Return on Equity for Bank i at Time t

EPS_{it} = Environmental Practice Score for Bank i at Time t

SPS_{it} = Social Practice Score for Bank i at Time t

GPS_{it} = Governance Practice Score for Bank i at Time t

β_0 = Constant term.

$\beta_1 - \beta_3$ = Coefficients for the independent variables.

ϵ_{it} = Error term.

Additionally, Descriptive Statistics was used to summarize the basic features of the data, including means, standard deviations, and correlation coefficients, while Pearson's Correlation Analysis will help identify relationships between ESG practices and financial performance variables. The model was estimated using the Fixed Effects Model (FEM) and Random Effects Model (REM). The Hausman Test was used to determine whether the Fixed or Random Effects Model is more appropriate for the data.

RESULTS AND DISCUSSIONS

This section presents the analysis of the data collected to examine the impact of Environmental, Social, and Governance (ESG) practices on the financial performance of Nigerian banks. The analysis begins with descriptive statistics, providing an overview of the dataset, including measures of central tendency and dispersion for both the dependent and independent variables. This is followed by correlation analysis, which assesses the relationships between ESG practices and financial performance indicators such Return on Equity (ROE).

Further, panel regression analysis is conducted to establish the causal relationships between ESG practices and financial performance, using both the Fixed Effects Model (FEM) and Random Effects Model (REM). The Hausman test is applied to determine the most appropriate model for the study. Additionally, diagnostic tests, including multicollinearity, heteroskedasticity, and autocorrelation tests, are performed to validate the reliability of the regression results.

Through these analyses, this section provides empirical evidence on whether ESG practices significantly influence financial performance in the Nigerian banking sector, thereby addressing the study’s research objectives and testing the stated hypotheses.

Table 1: Descriptive statistics

Variable	Mean	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis	Jarque-Bera Statistic
Return on Equity (ROE)	15.67	5.34	8.45	22.78	0.12	0.07	2.46
Environmental Score	65.21	8.12	50.32	80.45	-0.05	0.05	0.52
Social Score	70.89	7.98	55.67	85.34	0.06	0.17	1.76
Governance Score	80.45	6.45	65.89	90.78	-0.002	-0.23	2.28

Source: Authors Computation 2025

Return on Equity (ROE): The mean of 15.67% indicates a healthy average return on equity across the banks in the dataset. This suggests that on average, the banks are able to generate a solid return on their shareholders' equity. The standard deviation of 5.34% shows moderate variation in the profitability across banks. This variability reflects differences in how efficiently banks use their equity to generate profits. Skewness of 0.12 indicates a slight positive skew in the ROE distribution. This suggests that most banks have lower returns on equity, with a few banks having exceptionally high returns, but the data is close to being symmetric. Kurtosis of 0.07 suggests that the distribution of ROE is nearly normal. The data does not have heavy tails or extreme values, and there are no sharp peaks in the distribution. The Jarque-Bera statistic of 2.46 suggests that the ROE distribution is approximately normal, as the statistic is not significantly high to reject the hypothesis of normality.

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Environmental Score: The mean of 65.21 indicates that on average, the banks in the sample have a moderate environmental performance, reflecting their engagement with sustainability and eco-friendly initiatives. The standard deviation of 8.12 indicates a fair degree of variation in the environmental practices of the banks, with some banks performing significantly better or worse than others in environmental sustainability. Skewness of -0.05 suggests a nearly symmetric distribution, indicating that there is no significant skew in the data. The distribution is roughly even with no notable bias toward the higher or lower scores. Kurtosis of 0.05 implies that the environmental scores follow a distribution close to normal. There are no significant outliers, and the data does not show extreme behavior. The Jarque-Bera statistic of 0.52 is relatively low, indicating that the environmental score data closely follows a normal distribution, with no significant deviations from normality.

Social Score: The mean of 70.89 indicates that the banks tend to have a relatively high commitment to social responsibility (e.g., community engagement, employee welfare). The standard deviation of 7.98 shows that there is some variation in the level of social responsibility across the banks, with some banks performing much better than others in their social engagement. Skewness of 0.06 indicates a very slight positive skew, meaning the distribution of social scores is slightly tilted to the right, but it is almost symmetric. Kurtosis of 0.17 suggests that the distribution of social scores is close to normal, with a small degree of flatness compared to a perfect normal distribution, indicating moderate variability in scores. The Jarque-Bera statistic of 1.76 suggests that the social score data is fairly close to normal, with a small deviation from normality, but overall the data does not show significant signs of non-normal distribution.

Governance Score: The mean of 80.45 indicates that the banks generally have strong governance structures, reflecting effective leadership, transparency, and ethical management. The standard deviation of 6.45 shows that there is moderate variability in governance scores across the banks, indicating some differences in the quality of governance. Skewness of -0.002 suggests an almost perfectly symmetrical distribution of governance scores, indicating that the data is evenly spread around the mean. Kurtosis of -0.23 suggests that the distribution of governance scores is slightly platykurtic, meaning the distribution is somewhat flatter than a normal distribution. There are fewer extreme values, and the peak of the distribution is lower. The Jarque-Bera statistic of 2.28 indicates that the governance score data is close to normal, though there is a slight deviation from normality. However, the deviation is not large enough to question the normality assumption.

Summary: All variables are approximately normally distributed, with slight deviations in skewness and kurtosis for some variables. The ROE and Governance Score show moderate to low variability, while the Environmental and Social Scores display slightly higher variability, indicating diverse performance across banks in these areas. Skewness and kurtosis values suggest that most variables have near-normal distributions, supporting the assumption of normality for further statistical analysis.

Table 2: Correlation result

ROE	Environmental Score	Social Score	Governance Score
1	0.63	0.49	0.75
0.63	1	0.54	0.68
0.49	0.54	1	0.72
0.75	0.68	0.72	1

Source: Author’s Computation, 2025

ROE and Environmental Score (0.63): There is a moderate positive correlation between ROE and the Environmental Score. This suggests that banks with better environmental performance tend to have better returns on equity.

ROE and Social Score (0.49): The correlation between ROE and Social Score is moderate. This indicates that banks with stronger social responsibility programs tend to have moderately better returns on equity.

ROE and Governance Score (0.75): There is a strong positive correlation between ROE and Governance Score. Banks with better governance practices tend to generate higher returns on equity, suggesting that good governance plays a critical role in profitability.

Environmental Score and Social Score (0.54): There is a moderate positive correlation between the Environmental and Social Scores, implying that banks that perform well in one area of ESG (Environmental or Social) tend to do well in the other.

Environmental Score and Governance Score (0.68): A strong positive correlation between Environmental and Governance Scores indicates that banks with good governance are more likely to also have better environmental sustainability practices.

Social Score and Governance Score (0.72): The strong positive correlation between Social and Governance Scores indicates that banks with strong governance practices are also likely to invest in social initiatives.

Table 3: Diagnostic Tests Results

Test	Statistic	Value	Critical Value	Decision
Multicollinearity	VIF (Variance Inflation Factor)	Environmental Score: 1.45	< 10 (No multicollinearity)	No multicollinearity detected
		Social Score: 1.62		
		Governance Score: 1.39		
Heteroskedasticity	Breusch-	Chi-Square:	p-value = 0.031	Heteroskedasticity

	Pagan	4.62		absent
			p-value = 0.031	
Autocorrelation	Durbin-Watson	1.82	2 (No autocorrelation)	No autocorrelation detected

Source: Author’s Computation, 2025

Multicollinearity Test: The Variance Inflation Factor (VIF) values for Environmental Score (1.45), Social Score (1.62), and Governance Score (1.39) are all well below the threshold of 10, indicating no multicollinearity in the model. This suggests that the independent variables are not highly correlated with each other, allowing them to independently explain variations in the dependent variable (Return on Equity).

Heteroskedasticity Test (Breusch-Pagan Test): The Breusch-Pagan test resulted in a Chi-Square statistic of 4.62 with a p-value of 0.031, which is below the common significance level of 0.05. This result suggests that heteroskedasticity is absent, meaning the residuals have constant variance across all observations, satisfying one of the core assumptions of linear regression. This indicates that the model does not suffer from non-constant variance in residuals.

Autocorrelation Test (Durbin-Watson Test): The Durbin-Watson statistic of 1.82 is close to the ideal value of 2, which suggests no autocorrelation in the residuals. This indicates that the residuals are independent of each other, which is a positive result for the model’s reliability.

Conclusion: No Multicollinearity was detected, meaning the independent variables do not exhibit high correlations and can contribute independently to the model. Heteroskedasticity is absent, suggesting that the residuals have constant variance, which is ideal for linear regression analysis. No Autocorrelation was found, suggesting that the residuals are independent and do not exhibit serial correlation.

Table 4: Hausman test result, showing which model to use (Fixed Effects or Random Effects)

Statistic	Value	Standard Error	Chi-Square	p-value	Decision	Model to Use
Test Statistic	25.34	3.45	25.34	0.0002	Reject the null hypothesis	Fixed Effects
Degrees of Freedom	3					
Null Hypothesis	No significant difference between the Fixed and Random Effects models					
Alternative Hypothesis	Significant difference exists, Fixed Effects model is more appropriate					

Source: Author’s computation, 2025

The Chi-Square value (25.34) with 3 degrees of freedom and a p-value of 0.0002 indicates that the difference between the Fixed Effects and Random Effects models is statistically significant. Since the p-value is less than the 0.05 significance level, we reject the null hypothesis, which suggests that the Random Effects model would be appropriate. Therefore, the Fixed Effects model is preferred for this analysis. The decision supports the conclusion that the Fixed Effects model should be used, as it better accounts for the individual heterogeneity in the data.

Table 5: Fixed Effects model

Variable	Coefficient	Standard Error	t-Statistic	p-value
Return on Equity (ROE)	0.075	0.025	3.00	0.003
Environmental Score	0.105	0.030	3.50	0.001
Social Score	0.067	0.027	2.48	0.019
Governance Score	0.085	0.022	3.86	0.000
Constant	2.50	1.12	2.23	0.028

Source: Author’s Computation 2025

Return on Equity (ROE) has a positive coefficient of 0.075, which is statistically significant with a p-value of 0.003. This suggests that an increase in ROE is positively associated with improved financial performance, holding all other variables constant.

Environmental Score has a positive coefficient of 0.105 with a p-value of 0.001, indicating that banks with better environmental practices tend to have higher financial performance (measured by ROE), which is significant at the 1% level.

Social Score shows a positive coefficient of 0.067 with a p-value of 0.019, which is statistically significant at the 5% level. This implies that banks with stronger social responsibility programs tend to have better financial performance as well.

Governance Score has the highest coefficient of 0.085 with a p-value of 0.000, making it the most statistically significant variable. This shows that banks with better governance practices experience significantly higher ROE.

The constant term is 2.50, with a p-value of 0.028, which is significant at the 5% level. This indicates that when all independent variables are zero, the predicted ROE is 2.50%.

The results show that all the independent variables (Environmental, Social, and Governance scores) have a positive and statistically significant impact on the Return on Equity (ROE), suggesting that banks with better ESG practices tend to have higher financial performance.

Discussion of Findings

The findings from the Fixed Effects model show that all three ESG dimensions—Environmental, Social, and Governance scores—positively influence the Return on Equity

(ROE) of Nigerian banks. This aligns with the growing body of literature that recognizes the significant role of sustainability practices in shaping financial performance.

Return on Equity (ROE), as a measure of financial performance, is positively affected by a bank's commitment to environmental sustainability, social responsibility, and strong governance. In line with the findings, Jiraporn et al. (2014) argue that firms with better environmental practices tend to be viewed more favorably by investors, leading to higher profitability and returns on equity. This study shows that the Environmental Score is significantly associated with a higher ROE, reflecting the growing investor preference for companies that actively manage their environmental impact. Banks with better environmental practices benefit not only from improved public perception but also from reduced operational costs through more efficient resource use, which contributes to increased profitability (Jiraporn et al., 2014).

Similarly, the Social Score is found to have a positive effect on ROE, a result that corroborates the findings of Liu et al. (2019). Their study found that companies with higher social scores, which reflect better corporate social responsibility (CSR) practices, experience improved financial outcomes. This can be attributed to factors such as customer loyalty, brand strength, and employee satisfaction, all of which have a direct impact on the bottom line. In the Nigerian context, banks that invest in community engagement and social welfare programs build trust and strengthen relationships with stakeholders, which can lead to long-term financial benefits.

The Governance Score, which showed the strongest impact on ROE, reinforces findings from Kotsantonis and Serafeim (2019), who found that corporate governance plays a central role in driving financial performance. Banks with strong governance structures tend to attract better investors, face lower capital costs, and experience better financial stability (Kotsantonis & Serafeim, 2019). This result suggests that good governance—characterized by transparency, accountability, and ethical practices—is crucial for Nigerian banks to achieve sustainable financial success. It also aligns with Bassen et al. (2006), who highlight that well-governed firms are more likely to manage risks effectively, leading to better overall performance.

Moreover, the positive relationship between Environmental, Social, and Governance scores and ROE is consistent with studies conducted in other emerging markets. For instance, Roush (2020) found a similar trend in the banking sector in India, where banks with higher ESG scores outperformed their counterparts in terms of profitability. The significant and positive coefficients for the governance dimension further emphasize the importance of strong leadership and ethical standards, particularly in developing markets like Nigeria, where institutional frameworks are still evolving.

In contrast, some studies such as Mollah et al. (2021) found no significant relationship between ESG performance and financial outcomes in the financial sector of some countries. However, these studies typically focus on developed markets or use broader industry data. Our findings indicate that in the Nigerian banking sector, the impact of ESG practices on ROE is not only statistically significant but also practically relevant, suggesting that Nigerian banks can leverage ESG strategies to enhance financial performance.

Overall, these findings confirm the positive impact of sustainable business practices on the financial performance of Nigerian banks, aligning with global trends in which institutional investors are increasingly integrating ESG factors into their decision-making processes. The results underscore the importance of sustainability in the banking sector as a driver of profitability, echoing the perspectives of Eccles et al. (2014), who argue that integrating ESG factors into business strategies can lead to a competitive advantage.

In conclusion, the study contributes to the understanding of ESG practices within the Nigerian banking sector, reinforcing that sustainability is not only a social or environmental concern but also a financial strategy that can enhance profitability. This aligns with the broader global trend where financial performance and sustainability are becoming increasingly interconnected, particularly in emerging markets like Nigeria.

CONCLUSIONS AND RECOMMENDATIONS

Based on the findings, we can conclude the following:

Banks that are actively engaged in strong environmental and governance practices tend to show improved financial performance, as evidenced by higher Return on Equity (ROE). This underscores the growing significance of sustainability efforts in boosting profitability within the banking sector. On the social dimension, although the Social Score did show a positive correlation with ROE, the effect was not statistically significant — suggesting that for Nigerian banks, social initiatives may not translate into profitability in the short term in the same way that environmental and governance practices do. Regarding the econometric controls, the model diagnostics revealed no multicollinearity among the independent variables and no autocorrelation in the residuals, supporting the reliability of the estimates. In addition, the absence of heteroskedasticity indicates that the variance of residuals was constant across observations, which further bolsters the robustness of the analysis.

Based on the findings of this study, the following practical recommendations are proposed to strengthen the link between ESG practices and financial performance in Nigerian banks:

- **Deepen ESG Integration in Banking Operations:** Nigerian banks should embed Environmental and Governance principles into their core business strategies. Efforts such as cutting carbon emissions, financing green projects, and ensuring transparency in management will enhance both profitability and reputation.
- **Expand Social Responsibility Initiatives:** Although the study found limited short-term effects of social practices on financial performance, banks should continue to invest in corporate social responsibility (CSR) programs. Sustained efforts in community development, employee welfare, and customer satisfaction can yield long-term financial and reputational benefits.
- **Improve ESG Reporting and Accountability:** Banks should adopt standardized ESG reporting frameworks, regularly monitor performance indicators, and disclose progress

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publicly. Transparent reporting will attract socially conscious investors and strengthen stakeholder trust.

- **Enhance Corporate Governance Frameworks:** Given the strong link between governance and profitability, banks must reinforce governance systems through independent board oversight, effective risk management, and strict adherence to ethical and regulatory standards.
- **Encourage Advanced Analytical Research:** Future studies should employ robust estimation techniques and incorporate broader data sets to better understand how ESG dimensions influence financial performance across different time periods and sectors.

Contribution to knowledge

The study enriches the literature on sustainable banking by providing context-specific evidence from the Nigerian banking sector, thereby addressing the contextual gap in ESG research within African financial markets. Prior studies have noted that ESG outcomes may vary significantly across countries due to differences in regulatory enforcement, institutional quality, and market development.

Also, findings of this study offer practical contributions for policymakers, regulators, and bank management by highlighting how ESG practices can support financial stability, enhance investor confidence, and promote sustainable economic development within the banking sector.

Finally, the study contributes to theory by reinforcing the relevance of stakeholder theory and sustainability perspectives in explaining the relationship between ESG practices and financial performance in emerging markets.

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