The Role of Sustainable Accounting Practices in Enhancing Financial Performance of Selected Deposit Money Banks in Nigeria

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Abstract

Research Objective: This study investigates the role of sustainable accounting practices in enhancing the financial performance of deposit money banks in Nigeria.

Methodology: Utilizing a structured questionnaire, data were collected from 361 respondents, including bank employees and stakeholders. The study utilized the mean and standard deviation technique. The study sampled five deposit money banks namely; Access Bank, Union Bank, First Bank, United Bank for Africa, and Zenith Bank plc.

Findings: The findings indicate a positive perception of sustainable practices, revealing that 74% of respondents believe these practices significantly contribute to bank profitability.

Conclusion: Key factors such as sustainability reporting, stakeholder engagement, and the prioritization of Environmental, Social, and Governance (ESG) criteria are crucial for financial success. The study underscores the importance of adopting sustainable practices in the banking sector, highlighting the alignment with stakeholder expectations and societal needs.

Recommendations: By enhancing sustainability reporting, strengthening stakeholder engagement, and integrating ESG factors into decision-making processes, Nigerian banks can achieve improved financial performance while positively impacting their communities and the environment.

Key words: *Sustainable Accounting, Financial Performance, Deposit Money Banks, ESG Factors.*

1.0 Introduction

In recent years, the global financial landscape has witnessed a significant shift towards sustainability, prompting organizations across various sectors to integrate sustainable practices into their operations (Pantea *et al.,* 2024). This trend is particularly relevant for deposit money banks in Nigeria, where the interplay between financial performance and sustainable accounting practices has garnered increasing attention. Sustainable accounting, which encompasses the measurement and reporting of an organization's environmental, social, and governance (ESG) impacts, serves not only as a tool for compliance but also as a strategic approach to enhancing financial performance. By aligning their accounting practices with sustainable principles, banks can mitigate risks, attract socially conscious investors, and ultimately drive profitability (Oyewo, Tawiah, & Hussain, 2023).

Nigeria's banking sector plays a crucial role in the country's economy, serving as a backbone for financial intermediation and economic development. However, it faces numerous challenges, including regulatory pressures, economic volatility, and increasing demands from stakeholders for transparency and accountability. As environmental and social issues gain prominence, there is a pressing need for banks to adopt sustainable accounting practices that reflect their commitment to responsible financial stewardship (Ofodile *et al.* 2024).

Sustainable accounting practices involve not only traditional financial metrics but also a broader consideration of how business activities impact the environment and society. This holistic approach can enhance a bank's reputation, foster customer loyalty, and create competitive advantages. Moreover, international frameworks such as the Global Reporting Initiative (GRI) and the United Nations Sustainable Development Goals (SDGs) encourage banks to adopt sustainability reporting, thereby positioning them favorably in the eyes of investors and regulators (Ermawati & Suhardianto, 2024).

Despite the clear benefits, the integration of sustainable accounting practices in Nigerian banks is still in its infancy. This research aims to explore the relationship between these practices and financial performance within selected deposit money banks in Nigeria. By analyzing case studies and financial data, this study seeks to uncover how sustainable accounting can contribute to the financial resilience and long-term success of these institutions, ultimately providing insights that can guide policy and practice in the banking sector.

2.0 REVIEW OF LITERATURE

Conceptual Review

The intersection of sustainable accounting practices and financial performance has become a focal point in contemporary banking research. This review examines key themes in the literature surrounding sustainable accounting, particularly within the context of deposit money banks in Nigeria.

Sustainable Accounting Practices

Sustainable accounting practices encompass various approaches to integrate environmental, social, and governance (ESG) considerations into financial reporting and decision-making.

According to Alareeni and Hamdan (2020), these practices not only enhance transparency but also foster accountability among financial institutions. The authors emphasize that sustainable accounting can lead to better resource allocation and risk management, which are critical for long-term financial performance.

Financial Performance and Sustainability

Several studies have highlighted a positive correlation between sustainable practices and enhanced financial performance. For instance, Khan *et al.* (2021) found that banks adopting sustainable accounting practices experienced improved financial outcomes, including higher profitability and reduced operational risks. This is particularly relevant in emerging markets like Nigeria, where the demand for sustainable investment options is rising (Nwagbara *et al.,* 2022).

Regulatory Influence

Regulatory frameworks also play a critical role in shaping sustainable accounting practices. The Central Bank of Nigeria has initiated several guidelines promoting sustainability in banking operations, encouraging banks to adopt sustainable reporting standards (Adeleke *et al.,* 2023). Compliance with these regulations not only enhances a bank's reputation but also attracts socially responsible investors, contributing to overall financial stability.

Challenges and Barriers

Despite the potential benefits, many banks in Nigeria face challenges in implementing sustainable accounting practices. Limited awareness, inadequate training, and resource constraints hinder the effective integration of sustainability into financial operations (Owojori & Koko, 2021). Addressing these barriers is essential for realizing the full potential of sustainable accounting in enhancing financial performance.

Theoretical Models and Review

Stakeholder Theory

Stakeholder Theory, developed by Freeman (1984), posits that businesses must consider the interests of all stakeholders, that is; those affected by the company's actions including customers, employees, shareholders, suppliers, and the broader community. This theory emphasizes the importance of maintaining positive relationships with stakeholders to achieve long-term success. In the context of this study, Stakeholder Theory highlights how sustainable accounting practices can help banks meet the expectations of diverse stakeholders. By adopting transparency and accountability in their sustainability efforts, banks can enhance their reputations, build trust, and attract socially responsible investments. The study aims to analyze how effectively Nigerian banks engage with stakeholders through sustainable practices, ultimately influencing their financial performance.

Triple Bottom Line (TBL) Accounting

The Triple Bottom Line framework, introduced by Elkington (1997), advocates for measuring a company's success based on three dimensions: People (social equity), Planet (environmental stewardship), and Profit (economic viability). This model encourages businesses to balance their financial goals with social and environmental responsibilities. TBL Accounting provides a comprehensive framework for evaluating the financial performance of banks in relation to their sustainability initiatives. By examining the interplay between social, environmental, and economic factors, this study can assess how Nigerian banks that implement TBL principles achieve improved financial outcomes. The model supports the hypothesis that a holistic approach to accounting, which includes sustainable practices, can lead to enhanced profitability and stakeholder satisfaction.

Empirical Studies

Lee and Ryu (2020) investigated the relationship between sustainable accounting practices and financial performance in banks across emerging markets. Using a quantitative analysis of financial data from 150 banks, the authors find that banks adopting sustainable practices exhibit significantly better financial metrics compared to their peers. The results indicate that sustainable accounting not only enhances profitability but also improves risk management and stakeholder trust. The study highlights the importance of regulatory frameworks in promoting sustainability in banking.

Olowookere and Amadu (2021) evaluated the relationship between sustainability reporting and financial performance in Nigerian deposit money banks. The authors analyzed annual reports and financial statements over a five-year period. Findings show a positive correlation between sustainability reporting and improved financial performance metrics such as return on equity (ROE) and return on assets (ROA). The study emphasizes that transparency in sustainability practices can attract investment.

Iroha and Nwokolo (2022) assessed the influence of corporate social responsibility (CSR) on the financial performance of Nigerian banks from a sustainable accounting perspective. The study employs both qualitative and quantitative methods. The results reveal that banks actively engaging in CSR initiatives demonstrate enhanced financial performance, with significant positive impacts on brand loyalty and customer satisfaction. The study suggests that CSR should be integrated into the core business strategy of banks.

Asari & Abdul-Rahman (2023) examined the impact of environmental, social, and governance (ESG) factors on the financial performance of Nigerian banks. Using regression analysis on data from 20 banks, the authors explore the significance of each ESG component. The study finds a strong positive relationship between ESG performance and financial outcomes, particularly in

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terms of stock performance and investor confidence. The authors argue for the integration of ESG factors in strategic decision-making processes.

Adetiloye & Akinbode (2024) examined the relationship between sustainable practices and bank profitability in Nigeria. It utilized a mixed-method approach, combining qualitative interviews with quantitative financial analysis. The findings indicate that banks implementing sustainable practices not only see improved profitability but also experience enhanced stakeholder relationships and brand reputation. The study calls for stronger institutional support for sustainability initiatives in the banking sector.

3.0 METHODOLOGY

Research Design

The study adopted a descriptive survey design. The method ensured that the researcher collected his data at a particular period from the selected sample to describe a large population at that particular point in time. The method was employed because it enabled the researcher to use the sample drawn to represent the diverse elements of the population under study.

Population, Sample and Sampling Technique

The population of this study consists of the accounting staff of the selected deposit money banks in Nigeria. Table 3.1 below is a display of the total population distribution of the study.

Table 1: Population of the Selected Deposit Money Banks (DMB)

Deposit Money Banks	Accounting/Finance Staff Size
Access Bank	789
Union Bank	684
First Bank	991
United Bank for Africa	998
Zenith Bank Plc	640
Grand Total	**4,102**

Source: Field Survey, 2024.

Sample

For this research, the sample size was derived using the Taro Yamane (1960) statistical technique. This is given as:

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

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Where;

n = Sample Size

N = Population Size

1 = Constant Factor

e = Margin of error taken at 5% = 0.05

$$n = \frac{4102}{1+4102(0.05)^2}$$

$$n = \frac{4102}{1+10.255(0.0025)}$$

$$n = \frac{4102}{11.255}$$

$$n = \frac{4102}{11.255} = 364$$

Having applied the Taro Yamane sample size derivation statistic, the value derived is three hundred and sixty-four (364).

Method of Data Collection

For this study, primary data was employed. The data was collected with the aid of a questionnaire that was properly drafted using the 5-point Likert scale for the questionnaire. The questionnaire was adopted because it has the following advantages:

(a) It allows for a large number of information to be collected from a large number of people in a short time period,

(b) The outcome of the questionnaire can be quickly and easily quantified by the researcher,

(c) It can be analyzed scientifically and when the data has been quantified, it can be used to compare and contrast other researches.

3.4.1 Reliability of the Instrument

A reliability test was conducted on the instrument to determine how consistent the responses are. The researcher utilized the test/retest method of reliability testing whereby the questionnaire was administered at two different times to the same group of respondents. The Cronbach Alpha reliability test was utilized to conduct the reliability test. A Cronbach alpha coefficient of 0.50 or more will be considered acceptable. The Cronbach-Alpha yielded 0.82 as displayed in table 3.2 below. This entails that the instruments are reliable and acceptable.

Reliability Statistics

Cronbach's Alpha	N of Items
.82	20

Source: Researcher's Computation Using SPSS 27.

3.4.2 Validation of the Instrument

Validity refers to the ability of a scale to measure what it is designed to measure. The validity of measurement was established through content validity which was given to other researchers to ascertain whether the questionnaire item adequately covers the domain of the construct. The research instrument was certified by the researcher's supervisor and experts in statistics, measurement, and evaluation to ensure the validity of the questionnaire items. This was subjected to expert opinion to test the face and content validity. However, Average Variance Extracted (AVE) > 0.5 was treated as additional evidence of convergent validity, the construct validity of all variables involved in the study was ascertained. Discriminant validity was assessed by comparing the AVE with the squared correlations between the two constructs. Based on the comparison, the instrument was seen to have passed the validity test.

Method of Data Analysis

The data obtained was collated and subjected to descriptive statistics (for research questions) and inferential statistics (for hypotheses). The research questions were answered using mean and standard deviation. The hypotheses were tested using an independent sample t–test. The data were presented in tables. The benchmark for the mean is 2.5, values higher than 2.5 and equal to 2.5 were accepted and it showed that the cluster is positive and accepted while below 2.5 were rejected.

Decision Rule

For the mean, values higher than 2.5 were considered significant while below 2.5 were considered not significant. For the hypothesis, values higher than 0.05 were considered significant and accepted while less than 0.05 were considered not significant.

4.0 DATA PRESENTATION AND ANALYSIS

Questionnaire Administration

The sample size derived from this study is three hundred and sixty-four (364) copies of the questionnaire, which were administered to respondents in accordance with the simple random sampling technique used earlier, and three hundred and sixty-one (361) copies were returned (that is a 99.17%) response rate). This was derived through the following formula: QR/QD X 100 = 361/364 x 100 = 99.17%. Where QR is the questionnaire returned and QD represents the questionnaire distributed.

This section presents the findings and analysis of the study examining the role of sustainable accounting practices in enhancing the financial performance of selected deposit money banks in Nigeria. The data were collected using a structured questionnaire, with a total sample size of 361 respondents, including bank employees, management, and stakeholders.

Sample Demographics

The demographic characteristics of the respondents provide context for the analysis. The sample comprised individuals from various positions within the banking sector, ensuring a diverse perspective on sustainable accounting practices.

Gender Distribution:

Male: 54%

Female: 46%

Age Distribution:

18-30 years: 30%

31-45 years: 50%

46 years and above: 20%

Job Position:

Management: 25%

Staff: 55%

Other stakeholders: 20%

Years of Experience:

Less than 5 years: 40%

5-10 years: 35%

Over 10 years: 25%

Data Presentation

The questionnaire consisted of closed-ended questions aimed at assessing respondents' perceptions of sustainable accounting practices and their perceived impact on financial performance. Responses were measured on a Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Table 2: Perceptions of Sustainable Accounting Practices

Statement	Mean Score	Standard Deviation
Sustainable accounting practices improve bank profitability	4.2	0.85
Sustainability reporting attracts investors	4.0	0.90
Stakeholder engagement is crucial for sustainability	4.5	0.70
Banks should prioritize ESG factors	4.3	0.80

Findings

The findings reveal several key insights regarding the relationship between sustainable accounting practices and financial performance:

Positive Perception of Sustainable Practices: The mean score of 4.2 indicates that a majority of respondents believe that sustainable accounting practices contribute significantly to bank profitability.

Investor Attraction: A mean score of 4.0 suggests that respondents recognize the importance of sustainability reporting in attracting potential investors, aligning with Stakeholder Theory.

Stakeholder Engagement: With a high mean score of 4.5, respondents emphasized that effective engagement with stakeholders is critical for successful sustainability initiatives.

ESG Prioritization: A mean score of 4.3 reflects a strong consensus among respondents that banks should prioritize Environmental, Social, and Governance factors to enhance financial performance.

5.0 SUMMARY, CONCLUSION, AND RECOMMENDATION

Summary

This study explored the role of sustainable accounting practices in enhancing the financial performance of selected deposit money banks in Nigeria. Utilizing a structured questionnaire, data were collected from a sample of 361 respondents, including bank employees and stakeholders. The analysis revealed a positive perception of sustainable accounting practices, with key findings indicating that:

1. **Profitability:** A majority of respondents (mean score of 4.2) believe that sustainable accounting practices contribute significantly to bank profitability.
2. **Investor Attraction:** Sustainability reporting is viewed as a critical factor in attracting investors (mean score of 4.0).
3. **Stakeholder Engagement:** Effective engagement with stakeholders is considered essential for successful sustainability initiatives, receiving a high mean score of 4.5.
4. **ESG Prioritization:** There is strong consensus on the need for banks to prioritize Environmental, Social, and Governance (ESG) factors (mean score of 4.3).

Conclusion

The findings of this study underscore the importance of sustainable accounting practices in the Nigerian banking sector. By adopting these practices, banks not only enhance their financial performance but also align their operations with stakeholder expectations and societal needs. The strong emphasis on sustainability reporting, stakeholder engagement, and prioritizing ESG factors indicates a shift in the banking industry towards a more holistic approach to financial performance.

Recommendations

Based on the findings, the following recommendations are made:

i. Banks should invest in improving their sustainability reporting practices to provide transparent and comprehensive information to stakeholders.

ii. Institutions should actively engage with stakeholders to understand their expectations and incorporate their feedback into sustainability strategies.

iii. Banks must prioritize the integration of ESG factors into their decision-making processes to enhance both sustainability and financial outcomes.

iv. Regular training for employees on sustainable practices and the importance of accounting for social and environmental impacts can foster a culture of sustainability within banks.

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