IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

SUSTAINABILITY REPORTING AND LOAN TO DEPOSIT RATIO OF SELECTED DEPOSIT MONEY BANKS IN NIGERIA.

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Abstract

The paper investigated sustainability reporting and loan to deposit ratio of deposit money banks in Nigeria, from 2013 – 2022 using data collected from annual report of selected deposit money banks. Ordinary Least Square regression technique was used to evaluate the relationship between sustainability reporting and loan to deposit ratio of the sampled banks.

Empirical result obtained from the study showed that sustainability reporting has a significant and positive effect on loan to deposit ratio of selected deposit money banks in Nigeria for the period of the study. It was recommended that deposit money banks in Nigeria should sustain sustainability practices in order to improve their financial performance.

Keywords: Sustainability reporting, Financial performance, Loan to deposit ratio, Deposit money banks.

1. Introduction

The banking industry acts as an intermediary between people/firms who need funds, and those who have surpluses. This expression implies that there is little or no direct relationship between banks and the environment. The users of the products or services offered by banks, determines how such products or services affects or impact on the environment. The operations of deposit money banks indirectly affect both firms and individuals, because to have an efficient and sustainable economy, the financial sector must make provision for financial resources, which is a potential key driver in any economy. Going by the investment and lending activities of deposit money banks, if they adopt responsible sustainability practices, the financial industry has the ability to cause a major multiplier effect (CBN, 2012).

The Central Bank of Nigeria has since 2012 adopted the Nigeria sustainable banking principles, expected to guide banks in sustainability reporting and also promised necessary incentives (CBN, 2012). Between 2012 and 2022, which is already a decade, the study tried to look at the level of compliance to the Nigeria sustainable banking principles, how sustainability reporting had impacted the volume of customers' deposits, the banks' profitability and the total assets of the banks. Because as banks are now expected to be environmentally responsible, they cannot afford to lose focus on their bottom-line, which may cause lack of efficiency in using resources, resulting in adverse effect on profitability. Whereas, sustainable practices is expected to improve the efficiency of banks, making them more profitable (CBN, 2012).

Financial performance measures the success of a business in monetary term, for a given period of time. Financial performance in the suggestion of Alalade et al., (2020) refers to the act of conducting a financial activity by the managers of a business. They argued further that financial performance is used to measure the extent to which the objectives of a business are being achieved or has been achieved in monetary terms and it is also used in comparing firms in similar line of business. Financial performance in the suggestion of Abhishek and Ashok (2019) refers to a subjective means of measuring the extent at which firms are able to judiciously utilize their operating resources in the course of the main business of an entity. While Hawaldar et al., (2017) opined that financial performance is a useful tool in analyzing the result of policies, performance, effectiveness and efficiency in monetary terms.

Herzig and Schaltegger (2006) suggested five advantages of sustainability reporting by organizations which they described as improved organizations' goodwill, advantage against competitors, boosting employees' moral to identify with the sustainability activities of their organization, comparison of organizations sustainability activities among competitors and displaying the level of transparency by organizations.

Sustainability reporting is more than just generating reports from data; it is a technique for an organization to internalize and improve its commitment to sustainable development, in a way that can be proved to both internal and external stakeholders. Sustainability development according to Amahalu et al., (2018), tends to focus on how to organize and manage human actions in a way that they fulfill physical and psychological needs while not jeopardizing the ecological, social, or economic foundation that allows these needs to be met (Alhassan et al., 2021). Sustainability reporting for companies is useful for publishing information that reflects organizational performance in economic, social and environmental dimensions. In the current era of globalization, stakeholders do not only look at the company's performance from financial angle. Stakeholders also look from the side of non-financial performance, such as environmental and social. Social and environmental events that occur in several companies today are also triggers for stakeholders' guidance (Buallay, 2022).

Recently, the deposit money banks in Nigeria have been identified with unhealthy financial performances as evidenced in low liquidity, high rate of loan default and low asset quality to mention a few. Going by the poor performance of banks in Nigeria, many of them have folded up in the past, while some that are still in operation are only struggling for survival, thereby making the banking sector not as sound as expected. The deposit money banks try to achieve great returns from their financial and investment activities. The accomplishment of deposit money banks' objectives of survival, advancement, growth and increasing shareholders' wealth cannot be done in isolation of social, economic and environmental sustainability. However, the major bottleneck in sustainability reporting is how such information should be presented, as there is no single law that mandates entities to report their sustainability activities in a particular way. Thus creating problems for entities, management, preparers of financial statements and stakeholders (Akintoye & Kassim, 2022).

From the discussion above, this study investigates sustainability reporting and loan to deposit ratio of deposit money banks in Nigeria from 2013 to 2022.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Legitimacy Theory

Legitimacy theory is not all about an organization's financial performance, rather it deals with how well an organization relates and impacts the society. The legitimacy theory is derived from the concept of organizational legitimacy, which was defined by Dowling and Pfeffer (1975) as a condition or status, which exists when an organization's value system is in harmony with the value system of the larger society where the entity operates. Legitimacy theory shows how well an organization is accepted by its environment which provides the initial platform for its existence and going concern before the focus on economic factor is considered.

Buallay (2022) explained how this theory takes care of stakeholders' interest by explaining that for organizations to practice legitimacy, the rights of stakeholders and the environment will be taken care of, in order for them to be accepted in the society. This is also demonstrated by organizations reporting the consequence of their activities on their immediate environment through sustainability reporting, just like they would do to shareholders through financial reporting.

2.1.2 Agency Theory

Agency theory explains how best to organize relationships in which one party (principal) determines the work which another party (agent) undertakes (Buallay, 2022). The theory argues that given incomplete information and uncertainty, which characterize many organizations, there are two agency problems: (1) the problem of adverse selection and (2) the problem of moral hazard. Under adverse selection, the principal cannot be sure that the agent's representation of him, for which the agent receives payment, is accurate. Moral hazard on the other hand is the condition under which the principal cannot be sure whether the agent has put forth maximal effort.

The theory argues that in the modern corporation, in which ownership is widely held by individual shareholders, managerial actions are not just those of maximising shareholder returns. This theory which had been in existence was applied to directors and boards from the 1980s. Inherent in the theory is the belief that people would rather act in their own self-interest than in the interest of others. The Agency theory presents as a contract, the interaction between directors and stakeholders (including shareholders). The management serves as agent of the stakeholders, making decisions in their own interest and being subject to transaction costs for the checks and balances necessary to reduce non-compliance over enforcement costs. The theory assumes a contractual agreement between the principal and agent for a limited or unlimited future period, where the future is uncertain. The theory assumes that contracting can eliminate the agency problem, but practically it faces many hindrances like information asymmetry, rationality, fraud, and transaction cost. Shareholders' interest in the firm is only to maximize their return, but their role is limited in the firm (Masud et al., 2018).

2.1.3 Stakeholder Theory

The origin of the stakeholder theory of corporate governance can be traced to Freeman in 1994. He sees stakeholders as groups or individuals who can affect or are affected by the achievement of a corporation's goals. Stakeholder theory proposes that firms should serve all groups or individuals who have a stake in it. Stakeholder perspective further posits that the objective of corporate governance is maximization of the interests of all stakeholders instead of shareholders' alone. The firm with a stakeholder orientation is ethical because it treats all that is concerned with it equally while providing a fair share of benefits and burdens, rights and duties to all stakeholders. This approach to corporate governance is also economically efficient since firms which consider the interests of and develop trust relationships with suppliers, clients, employees, and communities can build up competitive advantages, which, in turn, lead to better performance. Stakeholder theories assume that shareholders are not the only group with a stake in a company. Stakeholder theories argue that clients or customers, suppliers, and the surrounding communities also have a stake in a company, as they can be affected by the success or failure of a company. Therefore, managers have special obligations to ensure that all stakeholders (not just the shareholders) receive a fair return from their stake in the company (Donaldson & Preston, 1995).

The stakeholders' theory builds a reduced representation of the social and environmental responsibility of the company that the existing theoretical perspectives about the firm-stakeholder interaction do provide only a partial and incomplete explanation for the reporting decision by management (Roper & Davies, 2007).

2.2 Empirical Review

Wahyuningtyas et al., (2022) investigated the effect of sustainability reporting on financial performance of 15 listed mining companies in Indonesia from 2015 to 2020. The result of the regression analysis document that economic reporting has a significant positive effect on profitability while it was found to have an insignificant effect on market and operational performance.

Aifuwa (2020) using a literature review approach analyzed the effect of sustainability reporting on firm financial performance in developing countries. The result of the reviewed literature show inconclusiveness as to the effect of sustainability reporting on financial performance. The study also shows that the level of sustainability reporting in most developing clans is generally low.

Polycarp (2019) examined the effect of environmental accounting of financial performance of oil and gas companies in Nigeria. The objective of the study was achieved through the use of questionnaire, using three major theories – stakeholders theory, legitimacy theory and positive accounting theory. The study employed return on asset and return on capital employed as measures of financial performance. The result of the analysis deposited that the absence of uniformity in the reporting model of environmental reporting in the financial statement is caused by lack of environmental disclosure and reporting standards. The study called on the government to make environmental disclosure and reporting a mandatory endeavour, in order to increase the degree of its disclosure.

Nkwoji (2021) examined the effect of environmental accounting on profitability, specifically net profit of oil and gas companies in Nigeria, by obtaining data from the annual reports and accounts of the selected companies from 2012 to 2017. The study used return on capital employed and net profit as profitability performance indicators, and adopted environmental theory and stakeholders theory. The study used regression analysis and the result of the analysis showed that there is no significant effect of environmental expenditure on profitability of listed oil and gas companies in Nigeria. The study recommended that the management of the oil and gas companies in Nigeria should channel their efforts to adequate environmental spending and disclose same, so as to increase stakeholders' trust and show transparency in their operations.

Onuora and Chiedu (2019) analysed the effect of environmental cost on financial performance of listed Nigerian oil and gas companies. The study collected two years' data, 2017 and 2018, of seven (7) selected listed oil and gas companies at Nigeria stock change. The study applied ordinary least square and regression analysis in testing the formulated hypothesis and was anchored on agency theory. The result of the regression analysis document that environmental expenditures do not significantly affect gross profit margin, but significantly affect return on capital invested.

Yilmaz (2021) examined the effect of sustainability reporting on financial performance. The study obtained data from five emerging countries ranging from 2014 to 2018 and regression analysis was adopted. The result shows significant positive effect of sustainability reporting on financial performance.

Atanda et al., (2021) examined the effect of sustainability reporting on firm's value. The study selected 10 listed deposit money banks in Nigeria and obtained data ranging from 2014 to 2018 using regression analysis. The result of the analysis shows no significant effect of environmental sustainability reporting and economic sustainability reporting on firms' value while social sustainability reporting was found to have significant positive effect.

Temiz (2021) examined the effect of corporate governance disclosure on firm's value and financial performance. The study aggregated data of Turkish firms and subjected the obtained data to regression analysis. The study found that firm disclosure has a statistically significant effect of firm value while it has no significant positive effect on performance.

Amosun et al., (2022) analyzed the effect of environmental and social reporting on financial performance of 13 selected listed banks for data set of ten years ranging from 2011 to 2020. The result of the regression analysis deposit that social and environmental reporting has significant effect on return on capital employed of listed deposit money banks in Nigerian and that such relationship is moderated by firm size.

Itoya et al., (2022) the study was to examine the effect of corporate social responsibility on financial performance. The study used data spanning from 2010-2014 for the selected banks. The study found significant positive effect of corporate social responsibility on financial performance of listed deposit money banks in Nigeria.

Handayati et al., (2022) examined the effect of corporate social responsibility disclosure on firm's value. The study sampled 49 mining companies in Indonesia and obtained data spanning from 2019 to 2020 using regression analysis. The study found significant effect of CSR disclosure on firms' value.

3.0 Methodology

3.1 Research Design

The study adopted *ex-post facto* research design which is informed by the secondary nature of the data as they relate to past event.

3.2 Data Source

The data for the study were collected from secondary source by extracting the necessary data from the annual reports and accounts of the referenced banks from 2013 to 2022.

3.3 Population and Sample Size of the Study

The population for this study was all the twenty seven (27) Deposit Money Banks in Nigeria licensed by the Central Bank of Nigeria (CBN) with international, national and regional authorization (As shown in Appendix 1).

A sample size of ten (10) deposit money banks in Nigeria was judgmentally selected, in order to have a minimum of 30% of the population as the sample size, considering their category of authorization (national and international) and consistent reporting of sustainability activities in the research period (As shown in Appendix 2).

3.4 Method of Data Analysis

The study examined the effect of sustainability reporting on loan to deposit ratio of listed deposit money banks in Nigeria. To achieve this, regression analysis involving ordinary least square was used to evaluate the effect of sustainability reporting on loan to deposit ratio of deposit money banks in Nigeria.

3.5 Model Specification

The model for this study was coined and modified with respect to the objective of the study and given as:

$$LDR_{it} = \beta 0 + \beta 1ENR_{it} + \beta 2SOR_{it} + \beta 3ECR_{it} + \mu_{it}$$

3.6 A priori Expectation

This refers to the sign and size of the economic relationship between the dependent and independent variables. A positive relationship is expected between sustainability reporting and loan to deposit ratio.

4.0 Data Analysis and Discussion of Results

Research Hypothesis:

Sustainability reporting has no significant effect on loan to deposit ratio of selected deposit money banks in Nigeria.

Model specification: $LDR_{it} = \beta_0 + \beta 1_t LDR_{it-1} + \beta 2SOR_{it} + \beta 3ENR_{it} + \beta 4ECR_{it} + \mu_{it}$

Table 4.1 Result of the Random Effect Regression

VARIABLES	Coefficient	Std. Error	t-Statistic	Prob.
C	1.619814	0.362990	4.462424	0.0000
LDR(-1)	0.583507	0.076694	7.608269	0.0000
SOR	-0.213012	0.102161	-2.085073	0.0402
ENR	0.050405	0.190755	0.264240	0.7923
ECR	0.021534	0.310923	0.069258	0.9450
R-squared 0.730839				
Adjusted R-squared 0.707862				
F-statistic 31.80721				
Prob(F-statistic) 0.000000				
Durbin-Watson stat = 1.78761				
Hausman Test: 0.0034				

Interpretation

The result of the regression analysis above shows sustainability reporting, measured by social reporting, environmental reporting and economic reporting have varying effects on financial performance in Nigeria deposit money banks. This is indicated by the coefficient of ($\beta 0$ = 1.619814, $\beta 1$ = -0.213012, $\beta 2$ = 0.050405 and $\beta 3$ = 0.021534). Additionally, social reporting has a negative but significant effect on liquidity ratio in Nigeria (β = -0.213012, t = -2.085073, p = 0.0402), environmental reporting has a positive but no negative effect on liquidity ratio of selected deposit money banks in Nigeria (β = 0.050405, t = 0.264240, p = 0.7923), economic reporting has a positive but no significant effect on loan to deposit ratio of selected deposit money banks in Nigeria (β = 0.021534, t = 0.069258, p = 0.9450).

This implies that a percentage rise in social reporting will result to almost 21% decrease in liquidity ratio, a percentage increase in environmental reporting will result to almost 5% increase in liquidity ratio; a percentage increase in economic reporting will result to almost 2.1% increase in liquidity ratio.

The Adjusted R^2 of the model showed that the independent and control variables of the study 71% of the variations in liquidity ratio while the remaining 29% is caused by factors outside the scope of the study. From the result of the individual effect of sustainability reporting, and on liquidity ratio and the joint effect as shown by the probability of the F-statistics, which is significant at 5%, we conclude that sustainability has a significant joint effect on liquidity ratio of selected deposit money banks in Nigeria.

5.0 Conclusion and Recommendation

5.1 Conclusion

Every business outfit aims to maximize profitability in order to maximize the wealth of the shareholders and guarantee their going concern. Profit indicates the actualization of firm main objective and it is very important in attracting more investment to the business. However, as important as profitability is, it cannot be attained without due consideration being given to the interest of other stakeholders of which the environment is an integral part. The study therefore examined the effect of sustainability on financial performance of selected deposit money banks in Nigeria with the aim of examining whether or not it pays to engage in sustainable activities.

The conclusion arising from the finding is that sustainability reporting has a significant effect on financial performance.

5.2 Recommendations

Based on the outcome of the study, the following recommendations are made:

i. Firms should improve on their environmental, social and economic disclosure so as to legitimate their operations in the community so as to increase profitability.

ii. Banks should also increase their corporate social spending and disclose more information on this, so as to attract more investible funds.

iii. As banks get committed to sustainable initiatives, attention must be given to liquidity, which may be significantly affected negatively.

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Appendix 1

S/N	Name of Institution	Category of license by CBN
1	Access Bank Plc	International Authorization
2	Fidelity Bank Plc	International Authorization
3	First Bank Nigeria Limited	International Authorization
4	First City Monument Bank Plc	International Authorization
5	Guaranty Trust Bank Plc	International Authorization
6	Union Bank of Nigeria Plc	International Authorization
7	United Bank for Africa Plc	International Authorization
8	Zenith Bank Plc	International Authorization
9	Citibank Nigeria Limited	National Authorization
10	Ecobank Nigeria Plc	National Authorization
11	Heritage Bank Limited	National Authorization
12	Keystone Bank Limited	National Authorization
13	Polaris Bank Plc	National Authorization
14	Stanbic IBTC Bank Plc	National Authorization
15	Standard Chartered Bank Limited	National Authorization
16	Sterling Bank Plc	National Authorization
17	Titan Trust Bank Limited	National Authorization
18	Unity Bank Plc	National Authorization
19	Wema Bank Plc	National Authorization
20	Jaiz Bank Plc	National Authorization (Non-Interest)
21	Globus Bank Limited	Regional Authorization
22	Suntrust Bank Nigeria Limited	Regional Authorization
23	Providus Bank Plc	Regional Authorization
24	Parallex Bank Limited	Regional Authorization
25	Premium Trust Bank Limited	Regional Authorization
26	Taj Bank Limited	Regional Authorization (Non-Interest)
27	Lotus Bank Limited	Regional Authorization (Non-Interest)

Appendix 2

S/N	Name of Institution	Category of license by CBN
1	Access Bank Plc	International Authorization
2	Fidelity Bank Plc	International Authorization
3	First Bank Nigeria Limited	International Authorization
4	First City Monument Bank Plc	International Authorization
5	Guaranty Trust Bank Plc	International Authorization
6	Union Bank of Nigeria Plc	International Authorization
7	United Bank for Africa Plc	International Authorization
8	Zenith Bank Plc	International Authorization
9	Sterling Bank Plc	National Authorization
10	Wema Bank Plc	National Authorization