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Understanding Ghanaian Banks' Views On The Influence Of ESG Reporting On Their Financial Performance

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ABSTRACT
The present study aims to examine the influence of Environmental, Social, and Governance (ESG) performance on the financial performance of banks operating in Ghana. Drawing from the theoretical frameworks of stakeholder and resource-based view theories, this research study adopts a quantitative methodology to examine data collected from a sample of eight banks in Ghana and includes a total of 180 respondents. This study employs the partial least squares structural equation modelling (PLS-SEM) technique to assess the correlation between environmental, social, and governance (ESG) performance and financial performance. Based on the analysis, the findings suggest that while Social and Governance performances significantly influence the financial performance of banks, Environmental performance does not present a significant relationship. This highlights the crucial role of social responsibility and robust governance in promoting financial success within Ghana's banking sector, while the non-significant impact of environmental performance warrants further investigation. These insights offer valuable direction for policy-making and strategic decisions in the banking sector, underscoring the importance of effective ESG practices for financial performance.

Keywords: *Environmental, Social, Governance, Financial Performance, Sustainability, Banks*

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I. INTRODUCTION

The evaluation of banks' environmental, social, and governance (ESG) systems has experienced a surge in prominence in recent times. ESG is frequently characterised as a corporate obligation to promote societal well-being, alongside the equitable and sustainable generation of long-term value for stakeholders (Gary, 2019). Financial institutions are growing more and more concerned with environmental, social, and governance (ESG) issues, as well as the possibilities and risks that go along with them. Sustainability is not only an ethical issue for banks, it is also an economic issue, creating a new kind of risk which includes environmental, social, and governance risks (Crane et al., 2019; Grim & Berkowitz, 2020). In this sense, banks' corporate strategy has changed to accommodate society and the environment as a result of corporate globalization and growing interest in resource depletion and pollution. As a result, banks are more conscious of the importance of preserving environmental, social, and governance issues (Crane et al., 2019; Pawaskar et al., 2018).

In recent times, firm's investments have been screened using the environmental, social, and governance (ESG) standards in order to promote ethical business practices (Sherwood & Pollard, 2018; Widyawati, 2020). Grim and Berkowitz (2020) confirmed that socially conscious investors evaluate ESG as a set of guidelines to identify sound investments. Previous research (Chiaramonte et al., 2021; Mohammad & Wasiuzzaman, 2021; Reber et al., 2021) suggests that investors praise ESG-conscious banks but penalizing poorly disclosed ESG serves as a marker for unique risks. Morrow et al. (2017) argue that the omission of ESG factors by banks may result in the selection of investments in high-risk industries, which could have adverse effects on the environment and workers' welfare. The inclusion of ESG factors in a firm's investment decision-making process can assist investors in making more comprehensive assessments of performance, beyond solely focusing on financial success (Unruh et al., 2016).

Additionally, because banks are seen as driving the expansion and stability of the economy, shareholders and non-governmental organizations now demand openness when business decisions have a significant impact on society and the environment (Senyigit & Shuaibu, 2017). The importance of incorporating ESG risks into banks' risk management framework and adopting them as a supplementary non-financial performance metric alongside traditional financial measures is underscored by the rising investor interest in sustainable products and the

mounting regulatory scrutiny (Mohammad & Wasiuzzaman, 2021). Although it is true that the environment impacts all businesses, banks exhibit a heightened sensitivity to environmental changes (Pruteanu-Podpiera et al., 2016). Hence, it is imperative for the banker to remain consistently attentive in assessing environmental fluctuations, regardless of their positive or negative nature, so as to determine and implement the most suitable course of action.

Undoubtedly, the environment plays a crucial role in governing various socioeconomic activities. Disregarding the influence of a particular factor on any undertaking is likely to impede the achievement of desired outcomes. Social values, including honesty, trustworthiness, diligence, and cultural respect, also contribute to a positive environment for the banking industry (Brooks & Dunn, 2020; El Khoury et al., 2021a). The existence of social security bolsters the public's engagement in financial activity, ultimately driving revenue for the bank. As such, a bank's corporate values can serve as a guide towards promoting equity, fairness, and transparency in their strategies and relationships with various stakeholders (Ehrenhard & Fiorito, 2018; Lavinas, 2018). With these considerations in mind, it becomes increasingly advantageous for banks to critically evaluate their ESG initiatives to optimize future profitability. Given the emerging stage of ESG strategies, particularly within the Ghanaian banking sector, this study aims to provide a much-needed examination of the effects of ESG disclosure on banks' financial performance from the banks perspective. As Ghanaian banks drive economic expansion and stability, increased transparency becomes a necessity to meet the demands of shareholders, non-governmental organizations, and investors. The growing emphasis on ESG factors in investment decisions, especially amongst Ghanaian banks, further underlines the importance of this study.

II. LITERATURE REVIEW

Stakeholder theory

Based on the stakeholder theory, the effective management of relationships with all stakeholders is posited to contribute to the long-term success of a business (Harrison et al., 2015). Based on the theoretical framework, it is posited that a corporation ought to create value for all stakeholders, rather than solely prioritizing shareholders (Baumfield, 2016). Stakeholders refer to individuals or entities that experience either positive or negative consequences as a result of a company's operations (Wang et al., 2016). This theory highlights the interconnectedness of a company's engagements with its clients, vendors, employees, investors, communities, and other stakeholders (Dmytriyev et al., 2021; Mhlanga & Moloi, 2020). According to Freeman (1994), the long-term success of a firm is contingent upon its ability to satisfy the interests of all stakeholders, rather than solely prioritizing the concerns of its shareholders. The integration or transfer of ESG operations into a firm's market performance is contingent upon the stakeholder premise (Peng & Isa, 2020). Enhancement of a company's reputation leads to improvements in its financial performance and sustainability. For example, employees who experience satisfaction and happiness in their work are likely to exhibit higher levels of motivation and commitment. Similarly, customers who are satisfied with a company's products or services are more likely to develop a sense of loyalty. Additionally, suppliers who feel fulfilled in their business relationships may be more inclined to provide discounts or other favorable terms. Several studies (Ghoul et al., 2017; Gillan et al., 2021; Oprean-Stan et al., 2020) have demonstrated that the implementation of environmental, social, and governance (ESG) initiatives can effectively mitigate conflicts between management and stakeholders, thereby positively influencing business performance. This implies that the implementation of active environmental, social, and governance (ESG) initiatives is of significant importance in the preservation and enhancement of shareholder value.

Garcia-Torea et al. (2016) confirms that ESG played a crucial role in the sustainability of the firm, which promotes the interests of stakeholders (Rezaee, 2016). Business sustainability is the idea that organizations are committed to maximizing shareholder profits while defending the stakeholder interests in terms of the ESG components (Alsayegh et al., 2020; Peng & Isa, 2020). The application of stakeholder theory is relevant to businesses that demonstrate a commitment to environmental preservation, strive to improve social well-being and community involvement, and consistently adhere to governance practices that priorities value maximization, as exemplified by the core objective of the Environmental, Social, and Governance (ESG) framework (Jones et al., 2018; Low, 2016). According to Baumfield (2016), organizations that exhibit strong management practices and priorities value maximization have the capacity to adopt a stakeholder-oriented approach, which encompasses not only shareholder value but also the interests of other stakeholders. Consequently, organizations that possess robust managerial capabilities are more inclined to engage in ESG initiatives. Other studies have found evidence that supports the stakeholder perspectives on ESG involvement, such as the fact that contented workers are more productive (Bawa, 2017), build rapport with regulatory agencies, workers, community, and customers (Henisz et al., 2019) and consume less material and energy (Alkaraan et al., 2022; Vural-Yavaş, 2021). In this context, it is imperative for management to be cognizant of the impact that business decisions have on the environment, broader society, and the organizational framework of their respective entities.

Resource Based View (RBV)

According to the Resource Based View (RBV), an organization has the resources needed to gain a competitive edge and steer itself toward strong long-term success (Donnellan & Rutledge, 2019). Instead of the structural features of the sector, the firm's particular resources and competencies are principally responsible for variations in its performance over time (Assensoh-Kodua, 2019). Kull et al. (2016) posits that in order to build competitive edge, rare and valuable resources can be used. This will ensure that the resources they have persist for a long time are difficult to duplicate, transfer, or replace. The Resource-Based View is based on the suppositions that resources are dispersed similarly and differently between organizations, and that these distributional differences are stable across time (Hitt et al., 2016; Miller, 2019). Delery and Roumpi (2017) posits that businesses must use their resources differently from their rivals in order to gain a competitive advantage. For businesses to maintain a competitive advantage, their resource utilization must be impervious to imitation, scarce, precious, and non-substitutable (Barney & Mackey, 2016). According to Kjerstensson and Nygren (2019), an organization's ESG scores are a major resource that enable it to maintain a competitive advantage. A value-creating strategy that is not used by rival companies and that other businesses are unable to imitate is referred to as being sustainably competitive advantage (Ferreira et al., 2016). According to this concept, businesses that strategically manage the risks and opportunities associated with sustainability, such as ESG aspects, may be able to gain a competitive edge (Sharma et al., 2019). According to Bhandari et al. (2022), if businesses are successful in developing or acquiring ESG-related resources, they will get a competitive edge thanks to their ESG score, which acts as a valuable resource that is incomparable to others. It can be argued that investors are likely to assign value to it, leading to a potential reduction in the cost of debt within the capital market. Considering the ubiquitous integration of these components within diverse business models, which exhibit variability across companies, it is plausible to anticipate that the ESG score could emerge as a valuable strategic asset that presents difficulties for other organisations to replicate (Cornell, 2021; Grim & Berkowitz, 2020; Schanzenbach & Sitkoff, 2020). Given the inherent variability in the application of ESG measures across businesses, the successful implementation of a high ESG score can be regarded as a valuable resource that is not easily replicated. As a result, it engenders a sustained competitive advantage (Kjerstensson & Nygren, 2019).

Environmental, Social and Governance (ESG)

Inderst and Stewart (2018) asserts that, ESG is the term for a company's responsibility to increase social welfare and ensure stakeholders have fair and sustainable long-term wealth. Investors, lenders, and other sources of capital utilize ESG to assess a company's ethical and sustainable business practices. Johnson (2020) posit that an increasing number of investors base their decision to invest in or continue to invest in a specific company on these ESG considerations. The environmental component (E) evaluates the actions taken by businesses to conserve and mitigate environmental damage. The component under consideration encompasses various aspects, namely global warming, natural resources, pollution and waste, and environmental opportunity (Velte, 2017). The social component (S) examines the strategies employed by a business to uphold its relationships with stakeholders. Bofinger et al. (2022) identify several key areas of emphasis within the realm of corporate responsibility, including employee relations, working conditions, organisational diversity, human rights, worker equity and justice, inclusion, product responsibility, and community health and safety. The governance component (G), evaluates the manner in which the company's management exercises control and oversight over the allocation of organisational authority. This component explores the functions and organisational frameworks of the board, alongside company policies, remuneration, lobbying activities, corruption, donations, and strategic objectives and approaches (Gyönyörová et al., 2021). This method values businesses' decisions to be ethical, ecologically conscientious, and forward-thinking. Peng and Isa (2020) opine that ESG compliant businesses have stronger governance, care more about the environment and sustainable development, have fewer volatile earnings, and have access to lower cost funding. Whereas ESG investment may be ethical in the way it seeks to measure environmental and social consequences, at its foundation, ESG investment focuses on evaluating a company's long-term sustainability rather than its short-term viability (El Khoury et al., 2021b; Mohammad & Wasiuzzaman, 2021). According to Ackah and Lamptey (2017), the utilisation of ESG reporting has been perceived as a managerial instrument that has the potential to facilitate the restoration of credibility and confidence within Ghana's banking sector subsequent to the occurrence of the country's banking crisis. Companies and organizations have recently had to deal with new operational hazards and compliance issues in their respective markets and communities. Applying a sustainability lens to these issues is one helpful approach. As a result, companies and investors are focusing on evolving ESG criteria to meet regulatory requirements and enhance their overall operations and profitability (Hazen, 2020).

The phrase "ESG report," also known as "ESG disclosure" or "Sustainability reporting," refers to the both qualitative and quantitative disclosures of information pertaining to the operations of the organization in accordance with ESG standards (Dye et al., 2021). It is crucial to produce an excellent ESG report to show how committed your business is to sustainability (Arvidsson & Dumay, 2022). According to Eng et al. (2021) such

disclosure is a fantastic approach for businesses to demonstrate their ESG practices, achievements, and aspirations to a variety of stakeholders, including consumers, financiers, staff, vendors, and investors. The environmental impact section of the ESG report provides data on the firm's sewage treatment, emissions of greenhouse gases and energy and water usage. The social components cover the company's employment practices, diversity initiatives, and community involvement. Governance covers information on the company's compliance, political involvement, board composition, and diversity. Several important factors must be taken into account in order to evaluate the quality of an organization's ESG report. Heggen and Monsen (2020) posit that an ESG report needs to be fair, covering both the positive and negative ESG-related issues that have an influence on the business. ESG reports should be comparable by adhering to fundamental reporting criteria. Additionally, it must be true and contain real facts. ESG reports must be accessible and timely, covering the most recent data available from the company (Arvidsson & Dumay, 2022). Improved sustainability and governance standards as well as higher financial performance can be achieved with the help of ESG disclosures (Almeyda & Darmansya, 2019). According to Weber (2014) such reports can aid companies in integrating ESG into their operations, strategy, and purpose. On the other side, shareholders and investors can use the ESG reports to comprehend the associated opportunities and risks that might impact their portfolios. Additionally, they would be able to observe how one company manages risk and produces sustainable returns (Ellili, 2022). Tarmuji et al. (2016) posits that ESG disclosures are a useful tool for upholding openness among shareholders and within the company. In order to reduce financial risks, it can also serve as a guide for developing better social, political, and environmental policies (Atan et al., 2016).

Environmental performance and the financial performance of banks.

The stakeholder and resource-based view theories contend that there is a link between banks' environmental activities and their financial success. Despite not being the main contributors to pollution, banks may use a lot of energy and paper in their everyday operations (Jeucken & Bouma, 2017). Investors in Europe are becoming more critical of environmental practices when examining the financial and non-financial disclosures made by banks (Buallay, 2019). Miralles-Quirós et al. (2019) demonstrated that by implementing rules that reduce their use of water, paper, and electricity, European banks have helped the environment. These environmental measures significantly impacted the innovative goods and services offered by banks, which sharpened their competitive advantages. In their study, Manrique and Martí-Ballester (2017) examined the correlation between the environmental performance and financial performance of 2,982 prominent firms from 2008 to 2015, specifically focusing on the period of the global financial crisis. They discovered that both developed and developing nations' corporate financial performance are significantly and favourably impacted by the adoption of environmental practices. But for businesses in developing nations, this effect is more pronounced than for those in industrialized nations. In a recent study conducted by Mohammad and Wasiuzzaman (2021), the researchers examined the impact of businesses' ESG disclosures on company performance. The study also explored the role of firms' competitive advantages as a moderator in this relationship. The researchers collected data from a sample of 3966 firm-year observations, covering the period from 2012 to 2017. The sample consisted of 661 firms listed on the Bursa Malaysia. The researchers' findings unveiled a positive correlation between the disclosure of ESG information and performance, as evidenced by high scores in both environmental disclosure and overall ESG disclosure. In their study, Dhar and Chowdhury (2021) examined the relationship between environmental accounting and the financial performance of the banking sector in Bangladesh. The study demonstrated that financial institutions that adopted ESG reporting observed enhanced financial performance and market valuation. In a comparable investigation, Carè and Forgione (2019) examined the impact of environmental disclosure on the performance of listed companies in the EU15. A positive and statistically significant relationship was observed between environmental reporting and the financial performance of banks. Rueda et al. (2017) postulates that comparatively to less strict laws, embracing strict global environmental standards will result in considerably higher market value.

Albrizio et al. (2017) argues that environmental regulations that are strict but flexible may encourage businesses to innovate in management and technology. As a result, these technologies produce efficiencies that balance the extra expenses and eventually increase revenue. According to Maama (2021), through the utilisation of a content analysis technique, it was determined that environmental reporting exhibited a noteworthy and adverse impact on both the net interest margin and return on assets of banks. A significant relationship between environmental disclosure score and metrics for accounting performance (ROA) and marketing performance (Tobin's Q) was found in a study conducted by Sharma et al. (2019) examining the impact of ESG disclosure on business financial performance in India. However, it was found that companies operating in the healthcare and energy sectors possess a significant competitive edge as a result of their superior environmental performance. It is clear from the discussion above that a firm's environmental performance can affect its financial performance. This offers chances for more investigation into the occurrence in relation to Ghana's banking institutions.

H_1: Environmental performance of ESG positively influences the financial performance of banks in Ghana.
Social performance and the financial performance of banks.

Pelosi and Adamson (2016) discovered that, in contrast to environmental considerations, the "social" component of ESG frequently goes unnoticed. The acceptance of the corporation by the local community is a social factor. They might have highlighted rising economic instability, disputes, rising crime, violence against women, narcotics, etc. as risk areas by ignoring social aspects. Stakeholder theory states that social responsibility has a favorable effect on financial success. Social performance enhances the public's view of and reputation for banks' financial performance (Buallay, 2019; Salman & Laouisset, 2020; Velte, 2017). According to Sharma et al. (2019) social disclosure improves a bank's long-term profitability and market position. The financial performance of businesses is significantly improved by social performance disclosure. The impact of the social disclosure score on financial success is moderated by the firm's size. The ability of larger companies to turn their social performance into a competitive advantage was discovered to be higher. A study by Ofori et al. (2014) shows that social practices are a tactical strategy that help the Ghanaian banking system function financially. The Japan, United States of America, Canada, Japan, and other European nations all saw the same beneficial effects (Buallay, 2019; Buallay et al., 2020; Shen et al., 2016). Also in Shakil et al. (2019), the results show a strong correlation between emerging market banks' financial performance and their environmental and social performance.

On the other hand, Esteban-Sanchez et al. (2017) discovered a good relationship between staff motivation and financial performance, but a negative relationship between community service and product accountability. Matuszak and Różańska (2017) explored into the connection between Polish company financial performance and social responsibility disclosures. They discovered a weak correlation between the banks' net interest margin and their social responsibility disclosures, indicating that the banks with greater social information disclosure had worse performance. It is abundantly clear from the review that a company's social performance can affect its financial performance. However, it is evident that depending on the situation, the connection between social responsibility and firm financial performance might vary. This offers chances for additional investigation into the occurrence and how it pertains to Ghanaian banks.

H_2: Social performance of ESG positively influences the financial performance of banks in Ghana.
Governance performance and the financial performance of banks.

A company's future operations and maintaining steady financial performance and growth depend on its corporate governance being strong (Huy, 2015). Balachandran and Faff (2015) argue that poor corporate governance and carelessness on the part of top executives during business operations could hurt firms' earnings quality and cause equity price fluctuations. According to Youssef and Diab (2021), higher performance is a result of improved governance. As a result, businesses need to innovate their business strategies, revaluate their governance structures, and reinvent their value chains (Debnath & Shankar, 2014; El Khoury et al., 2021b). Better governance disclosure is required in the banking sector to decrease agency issues and align the interests of management and shareholders. As a result, there will be a more favourable correlation between governance and financial performance (Esteban-Sanchez et al., 2017; Miras-Rodríguez et al., 2015). Aminu et al. (2015) confirmed that through enhanced reputation, more oversight, and the reduction of mismanagement, governance techniques enhance performance. Diversity on boards, having international directors, and interconnecting performance have all been found to improve corporate success from a governance perspective (Shahwan, 2015; Terjesen et al., 2016). The relationship between governance effectiveness and financial performance, however, is still debatable as Shakil et al. (2019) discovered no connection between the effectiveness of governance and the financial performance of banks. According to a study by Barko et al. (2021) indicated that businesses that integrate ESG into their investment decisions are reported to have reduced investment risk, better governance, and higher engagement in ethical environmental and social behavior. The relationship between governance effectiveness and a firm's financial performance may thus vary. This presents opportunities for further research on the variables and how it relates to Ghanaian banks.

H_3: Governance performance positively influences the financial performance of banks in Ghana

III. METHODOLOGY

The design of this study is based on a quantitative approach using a cross-sectional survey method to explore the relationship between Environmental, Social, and Governance (ESG) performance and the financial performance of banks in Ghana. This approach is suitable because it facilitates the collection of numerical data to establish whether a relationship exists between the studied variables (Anaman et al., 2023). This research further employs a deductive approach where hypotheses derived from theoretical constructs are tested with empirical data. This study investigates the influence of ESG performance on the financial performance of banks in Ghana. The target population consisted of employees from various banking institutions in Ghana particularly in the Central region. Given the large population size, stratified random sampling was used to select a representative sample. This involved dividing the population into homogenous groups (strata) based on position, then selecting

random samples from each group. This ensured representation from all levels of the banks' hierarchy leaving the study with one hundred and eighty (180) respondents. Moreover, data collection was facilitated through a structured questionnaire, divided into four sections. Each section is designed to capture participants' perceptions on different aspects of ESG performance and financial performance. The questionnaire uses a 5-point Likert scale, ranging from "Strongly Disagree" to "Strongly Agree". The assertions from the questionnaire were developed by the researchers and to ensure content validity, the questionnaire was carefully examined by practitioners in the banking sector and a pilot study was conducted before the distribution of the questionnaire. The questionnaires were adapted from studies such as Chen et al. (2022) and Liu et al. (2022). The questionnaires were disseminated through an online survey platform, allowing for a wider geographical reach and prompt data collection. Participants were informed about the purpose of the study, and their consent to participate is obtained before they begin the survey. The collected data was analysed using the Structural Equation Modelling (SEM) approach via the SMARTPLS software. The tool allowed for the testing and confirmation of the hypothesized relationships among the latent constructs (ESG and financial performance) using the collected data. The SEM technique identified the strength and significance of relationships between variables. Ethical principles were strictly adhered to in this research. Participants' informed consent was obtained prior to data collection, and all responses were confidential and used solely for this study. Participants were assured of their right to withdraw from the study at any point without any adverse consequences. Any form of deception was avoided, and the findings were reported with transparency, maintaining credibility and integrity throughout the research process.

IV. FINDINGS AND DISCUSSION

Data collected from the respondents was analysed using SMARTPLS software. The data was analysed in two phases. First the data collected was tested for its validity and reliability and presented, followed by a partial least square analysis.

Reliability and Validity

The reliability and validity were conducted to ensure that the data collected was valid for further analysis. Each latent variable is measured by multiple items, and the factor loadings indicate the strength of the relationship between each item and its corresponding latent variable. The Variance Inflation Factor (VIF) indicates the extent of multicollinearity among the items within each latent variable. The Cronbach's alpha coefficients indicate the internal consistency of each latent variable whilst the composite reliability (rho_a and rho_c) are additional measures of reliability that consider the number of items and the strength of the loadings. Finally, the Average Variance Extracted (AVE) is an indication of how much variance is explained by each latent variable relative to measurement error. These are presented in the Table 1 below.

Table 1: Reliability and Validity Statistics

Latent Variable	Items	Factor Loadings	VIF	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
Environmental Performance	EP1	0.937	5.485	0.974	0.974	0.978	0.864
	EP2	0.921	1.997				
	EP3	0.948	2.146				
	EP4	0.899	2.111				
	EP5	0.909	3.502				
	EP6	0.948	2.196				
	EP7	0.942	1.740				
Social Performance	SP1	0.924	2.138	0.985	0.985	0.986	0.868
	SP2	0.956	2.742				
	SP3	0.896	2.519				
	SP4	0.939	2.687				
	SP5	0.952	2.444				
	SP6	0.951	2.776				
	SP7	0.934	2.374				
	SP8	0.908	2.428				
	SP9	0.879	4.022				
	SP10	0.946	4.022				
	SP11	0.963	2.344				
Governance Performance	GP1	0.945	2.420	0.981	0.981	0.984	0.883
	GP2	0.909	2.210				
	GP3	0.952	3.508				
	GP4	0.927	2.100				
	GP5	0.943	3.913				
	GP6	0.931	3.669				
	GP7	0.967	3.714				

	GP8	0.942	2.208				
Firm Performance	FP1	0.922	4.022	0.981	0.981	0.984	0.882
	FP2	0.967	2.344				
	FP3	0.957	4.061				
	FP4	0.943	3.882				
	FP5	0.943	2.632				
	FP6	0.935	2.519				
	FP7	0.892	2.687				
	FP8	0.952	2.444				

In this study, various key statistical measurements were applied to the questionnaire items to evaluate their reliability and validity. These measures encompassed Factor Loadings, Variance Inflation Factor (VIF), Cronbach's Alpha, Composite Reliability (rho_a, rho_c), and Average Variance Extracted (AVE). Factor Loadings were employed to determine the extent to which each item (question) contributes to its corresponding latent variable. All items exhibited factor loadings above the generally accepted threshold of 0.7, indicating a strong contribution to their respective latent variables (Hair et al., 2011). Also, the Variance Inflation Factor (VIF) was used to identify the presence of multicollinearity among the items. A common guideline suggests that VIF values exceeding 5 indicate a concerning level of multicollinearity (Henseler et al., 2015). In this study, most items fell below this threshold, indicating an acceptable degree of multicollinearity (Henseler et al., 2015). Moreover, the Cronbach's Alpha, a measure of internal consistency within each latent variable, was also calculated. Acceptable values are typically above 0.7, and all constructs in this study exceeded this, suggesting a high level of internal consistency (Hair Jr et al., 2017). Furthermore, Composite Reliability (rho_a, rho_c) was utilized to gauge internal consistency within constructs, similar to Cronbach's Alpha. The common threshold for composite reliability is 0.7, and this study observed values surpassing this threshold for all constructs, further affirming good internal consistency (Adu et al., 2020). Finally, the Average Variance Extracted (AVE) was measured. This statistic measures the proportion of variance a latent variable capture from its indicators relative to the variance due to measurement error (Hair et al., 2011; Henseler et al., 2015). AVE values above 0.5 are generally considered satisfactory, indicating that a construct explains over half of the variance of its items. All constructs met this criterion, suggesting they are well-measured by their respective items. Therefore, these statistical measures reveal that the questionnaire used in this study has demonstrated strong reliability and validity. This strengthens the credibility of the research findings and suggests that the questionnaire was an effective tool for assessing the environmental, social, governance, and firm performance of banks in Ghana.

Table 2: Discriminant validity - Fornell-Larcker criterion

	EP	FP	GP	SP
EP	0.929			
FP	0.989	0.939		
GP	0.983	0.99	0.94	
SP	0.991	0.992	0.981	0.932

The application of the Fornell-Larcker criterion was utilised to evaluate the discriminant validity. This criterion involves the comparison of the square root of the Average Variance Extracted (AVE) of each construct with the correlations between the construct and all other constructs, as proposed by Fornell and Larcker (1981b). The Fornell-Larcker criterion necessitates that the square root of the Average Variance Extracted (AVE), represented by the diagonal element, should exceed the correlation between the construct and any other construct, denoted by the off-diagonal elements in the same row/column. According to Fornell and Larcker (1981a), this criterion ensures that a construct exhibits a higher degree of correlation with its own items compared to the items of other constructs. Upon reviewing Table 2, it is evident from the study that the diagonal elements exhibit greater magnitudes compared to the corresponding off-diagonal elements within each respective row and column. Thus, this study met the Fornell-Larcker criterion, demonstrating strong discriminant validity. This result confirms that each construct in the questionnaire is distinctly different from the others and measures what it is intended to.

Structural path significance in Bootstrapping

The results of the bootstrapping analysis are shown in Table 3 and Figure 1. Each row represents a structural path from an independent variable (Environmental Performance, Governance Performance, or Social Performance) to the dependent variable (Firm Performance). The columns include the original sample path coefficients (O), the mean path coefficients from the bootstrapped samples (M), the standard deviations of the bootstrapped path coefficients (STDEV), the calculated t-statistics (|O/STDEV|), and the associated p-values. Looking at the results, the path from Environmental Performance (EP) to Firm Performance (FP) had an original sample path coefficient of 0.052 and a t-statistic of 0.468, which resulted in a p-value of 0.64. This indicates that

the path from EP to FP is not statistically significant at a conventional threshold (for instance, $p < 0.05$). The path from Governance Performance (GP) to Firm Performance (FP), however, had an original sample path coefficient of 0.422 and a t-statistic of 2.054. With a p-value of 0.04, this path is statistically significant, suggesting that governance performance significantly influences firm performance. Similarly, the path from Social Performance (SP) to Firm Performance (FP) is also statistically significant, with an original sample path coefficient of 0.526, a t-statistic of 3.014, and a p-value of 0.003. This means that social performance significantly impacts firm performance. Therefore, these results indicate that both Governance Performance and Social Performance significantly affect Firm Performance in banks in Ghana, but the same cannot be confirmed for Environmental Performance as this study found out that it does not affect performance of banks in Ghana significantly.

Table 3: Results of the partial least square path analysis

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Hypothesis
EP -> FP	0.052	0.037	0.112	0.468	0.64	Rejected
GP -> FP	0.422	0.481	0.205	2.054	0.04	Accepted
SP -> FP	0.526	0.483	0.175	3.014	0.003	Accepted

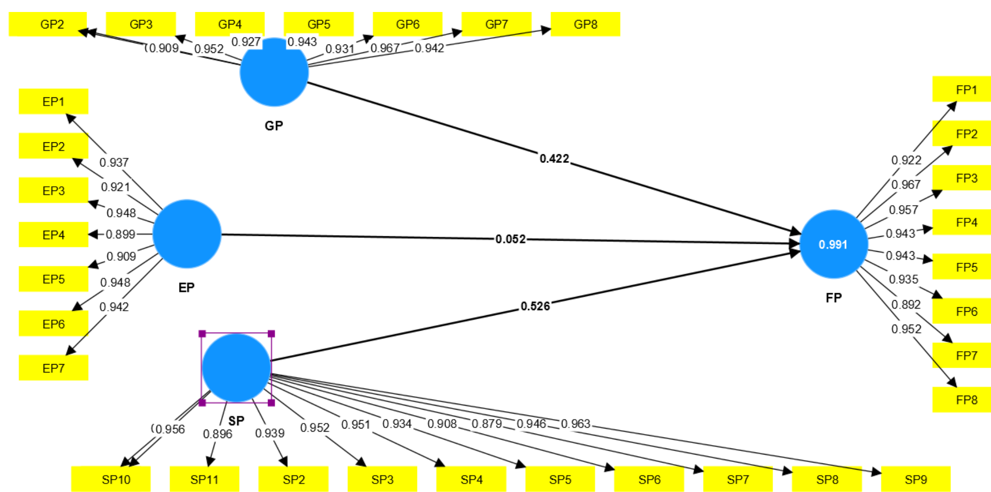

Figure 1: Results of Structural Model Assessment

Discussion of Findings

In terms of Environmental Performance (EP) and its relation to the financial performance of banks, the study's findings contradict the observations made by Miralles-Quirós et al. (2019), Manrique and Martí-Ballester (2017), Mohammad and Wasiuzzaman (2021), Dhar and Chowdhury (2021), Carè and Forgione (2019), Albrizio et al. (2017), and Sharma et al. (2019). These researchers established a positive relationship between corporate environmental performance and corporate financial performance. However, the current study found that the path from Environmental Performance to Firm Performance was not statistically significant in the Ghanaian banking context. Therefore, these findings deviate from the established literature. The analysis's findings corroborate the literature on the influence of Social Performance (SP) on the financial performance of banks. Research by Buallay (2019), Salman and Laouisset (2020), Velte (2017), Sharma et al. (2019), and Ofori et al. (2014) consistently found a positive association between social performance and financial outcomes. The study further supports these findings, indicating a statistically significant path from Social Performance to Firm Performance in Ghana's banking sector. The current study also supports the literature concerning the role of Governance Performance (GP) in financial outcomes. Research conducted by Youssef and Diab (2021), Esteban-Sanchez et al. (2017), Aminu et al. (2015), and Shahwan (2015) found a positive association between governance practices and corporate performance. Despite Shakil et al.'s (2019) study, which found no significant relationship, the results of the current analysis showed a significant path from Governance Performance to Firm Performance. This strengthens the argument for the importance of governance practices in influencing financial outcomes in the banking sector.

V. CONCLUSION

In this study, we empirically examined the influence of environmental, social, and governance (ESG) performance on firm performance in the banking sector of Ghana using a robust partial least square path analysis. The results reveal that Governance Performance and Social Performance exert significant positive effects on Firm

Performance, thereby reinforcing the notion that both governance and social integration in strategies are pivotal to banks' performance. However, contrary to our expectations, Environmental Performance did not yield a statistically significant effect on Firm Performance. The impact of Governance Performance on Firm Performance underlines the indispensable role effective governance plays in driving firm success. The significant positive influence of Social Performance attests to the importance of creating inclusive and diverse work environments, promoting gender and cultural equality, and embracing community engagements. The lack of significant impact of Environmental Performance on Firm Performance, however, warrants further exploration. The non-significance may be attributed to factors such as less mature integration of environmental considerations into bank operations or the longer gestation period of environmental measures to show visible impact on firm performance. In conclusion, this study enriches the understanding of ESG performance's role within the banking sector, particularly within a developing context like Ghana. It underscores the necessity to consider ESG performance as an integral part of strategic management, where the balance between economic, social and environmental considerations can pave the way for sustainable banking.

VI. RECOMMENDATIONS AND FUTURE RESEARCH

Our findings have several implications for practice and research. For practitioners, specifically bank managers and policy makers in Ghana, the results advocate for the continuous emphasis on governance practices and social performance. Our results recommend building more transparent governance structures, creating more inclusive work environments, and actively integrating the bank into community activities. Despite the non-significant result, the pursuit of improved environmental sustainability should not be discounted given its broader implications on society and the banking sector's potential role in fostering sustainable development. For researchers, the non-significant relationship between Environmental Performance and Firm Performance presents an interesting avenue for further investigation. Longitudinal studies could be performed to ascertain whether environmental performance might have a lagged effect on firm performance. Finally, we recommend broadening the scope of future research to include other sectors or regions to validate our findings, as the influence of ESG performance on Firm Performance may vary across different contexts.

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