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Sustainability, Development, and Financial Performance of Banks in the United Kingdom

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Abstract

Sustainable development, driven by responsibility toward the planet and society, has become a central focus across sectors. In response, the Environmental, Social, and Governance (ESG) framework has emerged as a key approach to evaluating corporate sustainability performance. While extensive literature explores ESG's broader implications, limited research has specifically addressed its impact on the financial performance of the banking sector in the United Kingdom. This study investigates the relationship between ESG performance and the financial outcomes of UK-listed banks included in the FTSE 100 Index. ESG scores are used as the independent variable, with financial performance measured through accounting-based indicators—Return on Assets (ROA) and Return on Equity (ROE), and the market-based measure of market value. Using panel data from 2017 to 2022, the results show that ESG performance has a significant positive impact on ROA, a significant negative impact on ROE, and an insignificant negative effect on market value. These findings offer practical insights for UK banking managers and policymakers in balancing ESG initiatives with financial goals, particularly in optimizing ESG strategies that align with profitability and shareholder value.

Keywords

Sustainability, Development, ESG, United Kingdom, financial performance

1. Introduction

The twenty-first century has made sustainability a maxim. According to Dyllick and Hockerts (2002), the idea aims to spur social progress toward an understanding of the importance of treating our environment fairly. Due to the increased worldwide comprehension of environmental, social, and financial issues over the past ten years, sustainability and sustainable development vocabulary have become more popular (Nájera-Sánchez, 2020), and are one of the most crucial management subjects, as indicated by previous literature such as Glavič and Lukman (2007) and Perdana (2023). Consequently, the importance of sustainable investments in the world of international financial decision-making has grown over the past several years. Investment strategies were integrated with sustainability by Investors, as a result of increased awareness of the three main aspects, including environmental, social, and governance (ESG) (Onuselogu and Shahzad, 2023).

As a result, the dimensions of ESG were tackled by corporate policies, where the first significant companies to attempt integrating ESG sustainability principles into their business models also developed numerous self-regulatory schemes (Vitell & Hidalgo, 2006). According to Agudelo et al. (2019), ESG practices have been increasingly popular across companies as well as countries over the course of the subsequent 20 years. Beneficial reaction from institutional and civil society actors has accelerated their spread. Regardless of the widespread praise that ESG practices have received, as mentioned by Carter et al. (2023), there is still a sizable minority of laggards, and there is a substantial cross-firm variation in compliance with ESG policies.

The existence of businesses that do not adhere to ESG norms is one factor that calls into question the financial benefits of ESG practices. It is uncertain from an economic standpoint, as indicated by several studies (Gillan et al., 2021; Ozili (2023), and Taj et al., 2023), whether and how ESG policies might impact firms` financial performance. Financial systems as a whole, including Investors, managers, and financial institutions, have begun focusing on environmental, social, and governance (ESG) issues, in particular, from an economic perspective. As a component of financial systems, banks have begun to incorporate sustainability into the core of their operations by including environmental, social, and governance (ESG) elements in their goods and services design, procedures for managing risk, strategic plans, and mission statements. This is due to the significant danger that ESG and climate change pose. A meeting at the Bank Governance Leadership Network (BGLN) in London was scheduled to explore how existing banks are addressing climate risk and sustainability in general. In order to discuss how banks could tackle sustainability, the meeting combined four primary subjects: communicating sustainability methods, responding to shifting climate issues, addressing issues, and assessing green finance opportunities (Al Breiki and Nobanee, 2019).

As reflected previously by Benau et al. (2022) and Gutiérrez-Ponce et al. (2022), companies from various industries and geographical areas are used to investigate the impact of sustainability development and financial indicators. The findings of specific financial research linking ESG and financial performance are dependent on the regulatory environment in each part of the world. After the 2008 financial crisis, studies including Shakil et al. (2019), Buallay et al. (2020), and Simsek and Cancaya (2021) have revealed notable discrepancies between different countries in this regard. To cover a significant research vacuum in sustainability for developed countries, this study aims to examine the impact of sustainability development on banks` financial performance in the United Kingdom, which, to the author's knowledge, has not been applied to banks in the UK or at least has not received much attention to date.

This study makes significant contributions to the body of literature. First of all, it builds on past studies that examined the link between sustainable development and various elements of companies' performance. It also adds to the body of knowledge on bank performance that examines sustainable development as a key performance indicator in the banking industry. Second, the findings raise awareness of ESG practices in British banking, which eventually has an effect on the international banking industry's sustainable expansion.

2. Literature review and hypotheses development

According to Ozili (2022), “Defining sustainability is not an easy task. The literature shows that sustainability is a philosophy, approach, or practice that guides the use of today’s resources in an efficient manner to ensure that resources are available and sufficient to meet today’s needs and the needs of future generations. Sustainability is also defined as the ability to make responsible decisions in using and allocating resources to economic and non-economic activities in an effort to achieve certain desired social, economic, and environmental outcomes. He also added that many nations have committed to achieving the Sustainable Development Goal, which is regarded as the culmination of the United Nations' global development strategy.

The UN Global Compact's publication of the study "Who Cares Wins" provided the groundwork for ESG aspects of economic activity, highlighting the significance of ethics in finance (Vigolo et al., 2025). The focus of the environmental concerns includes air and water quality, biodiversity, and climate change. It assesses a firm commitment to reducing emissions, maximizing the efficient utilization of natural resources, and maximizing energy effectiveness. The social element, on the other hand, focuses on the society where the company operates and incorporates the company's compliance with rights in society, equal treatment, and gender equality. It also aims for fair conditions for employees and inclusion within the community. The firm's dedication to transparent accountability

and compensation, as well as a fair division of duties across the stockholders, are all aspects of the governance component (Eccles et al., 2014).

Banks are the basic building block of financial systems, and using sustainable banking practices has significant implications for sustainable development. Bank deposits are generally funds that banks receive from account holders. Investors who ask for credits are given money from their cumulative deposits. Banks are regarded as among the more important financial entities in the bank-based monetary system for easing the flow of money between savers and investors. Many banks significantly improved their internal systems for environmental management in order to lower their environmental impact. Borrowers' actions and the financial goods they are provided have an indirect effect on the natural environment and society. Consequently, the banks' products don't directly affect the environment; however, consumers of financial products may have an impact on others and the natural environment through how they behave. As a result, the investments, credit decisions, and additional financial services provided by banks may adversely impact both individuals and the natural environment indirectly. Nevertheless, banks transform cash with regard to volume, time frame, place, and hazard as financial intermediaries. Therefore, the role of a bank's hazard assessor is crucial to achieving the objective of sustainable growth. (Yüksel et al., 2016). Nevertheless, by putting protection and modification methods in place, some risks associated with the reporting of sustainability might be mitigated. (Almansoori and Nobanee, 2019).

Regardless of that, there are more considerations recently (by managers, decision and, policy makers, shareholders, and investors) in regard to ESG practices according to Cerciello et al. (2022), but initial researches date back to 1970 as indicated by Friede et al. (2015). This makes them a significant tool in the process of making decisions by providing more information on financial indicators. The products offered by businesses with an effective ESG focus are more desirable from the perspective of the consumer since they contain greater sustainability. In addition, the shares of companies that prioritize ESG standards tend to be less hazardous for investors (Benau et al., 2022). As Cerciello et al. (2022) mentioned, over one hundred appraisal agencies, like Morgan Stanley Capital International, Thomson Reuters, and Bloomberg, offered ESG data starting in 2016. The companies' willingness to publish data about ESG (sometimes separate reports) has increased as the importance of ESG has increased. This can be true as Coppola (2018) shows that the percentage of listed firms that introduce reports of ESG in the S&P 500 had increased by almost 70% between 2011 and 2018. Moreover, the portfolio choice decisions of investors in Europe become more connected with ESG reports` information, as mentioned by Amel-Zadeh and Serafeim (2018).

Environmental, Social, and Governance concerns are now essential components of business strategy. Even though these topics have been investigated from a variety of angles, attempts to measure these concepts in various organizational and cultural contexts have led to inconsistent and varying outcomes in their examination of the effect of ESG practices on financial performance (Galant and Cadez, 2017). Likewise, as stated by Galletta and Mazzù (2022), since the banking industry was not thought to be implicated in the problem of climate change, the body of research on environmental, social, and governance performance in the banking industry has grown significantly over the last ten years. Regulators have sparked this paradigm shift by bringing up the sustainability issue in finance and encouraging academics to research the effects of sustainability in the financial sector.

The financial performance metrics (ROA and ROCE) and ESG, GPS, according to Nollet et al. (2016), are related in a U-shape. For S&P 500 companies, they did not discover any appreciable non-linear associations among financial performance indicators. In Australia, ESG and profitability were investigated by Gholami et al. (2022), including both financial and non-financial enterprises. They claimed that more profitable firms are related to higher ESG performance. The relationship between both financial and non-financial enterprises was different, though. ESG and share price movement in Latin European and Nordic samples were not shown to be significantly correlated. The US banks were targeted by Brogi and Lagasio (2019); it was revealed that ROA was impacted positively by ESG. In addition, Buallay (2020) introduces comparative research considering how financial, operational, and market performance are affected by ESG reports targeting 80 countries` banking and manufacturing industries. The results show that all these performance types are impacted by ESG in the banking and manufacturing industries. Moreover, it was found by Nizam et al. (2019) that the financial performance of 713 banks in 75 countries is impacted positively by environmental finance. Further, the European banking sector was selected by Buallay (2019) to analyze the impact

of ESG on Tobin`s Q, and the impact was found to be positive and significant. The banking sector in Sub-Saharan Africa reflects a positive impact on financial performance through social responsibility development, as examined by Siueia et al. (2019). Furtherly, the Jordanian firms are employed by Azzam et al. (2020), who show that ESG has a significant positive impact on the financial performance in Jordan. Bually et al. (2019) applied research on 530 banks and 392 manufacturing firms from 80 different countries, and they found that bank performance is impacted negatively by ESG practices.

Buallay also wrote another study with other researchers (Buallay et al., 2020), ESG practices were found to negatively impact the market value (by Tobin`s) of MENA banks. Furthermore, Zhou et al. (2022) examined the effect of ESG performance on financial performance; they observed that listed companies' improved ESG performance increased their market value. Additionally, bank value is impacted negatively by ESG scores as reflected by Di Tommaso and Thornton (2020). Banks in the European Stock Market are employed for investigating sustainability reports on bank value. This research by Setyaningsih (2024) investigation reveals a significant negative and insignificant positive impact on share price and earnings per share, respectively. Furthermore, as found by Bolton (2022), the value of US banks is related to social performance. Malaysian companies were targeted by Atan et al. (2018), who demonstrated that there is no correlation between ESG and company value as determined by Tobin's Q.

The previous literature reflects that the impact of ESG practices (performance, scores, and elements) on financial performance is contradictory. This proves that each part of the world has special features that distinguish it from others, and the results of studies cannot be generalized (Gutiérrez-Ponce and Wibowo, 2023, and Yavuz et al., 2025). Therefore, this research aims to extend the current literature in this regard, and accordingly, the hypotheses development will be reflected in the following.

As discussed by Perdana et al. (2023), the classical concept in finance focuses on the fact that firms mainly aim to maximize shareholders' profits. Accordingly, the financial statements' improvement is the core focus of companies as it is the source of shareholders` accountability. They argue that commitment to environmental, social, and governance (ESG) activities results in maximising costs, which, in turn, impacts firm value and financial performance adversely. On the other hand, poor financial performance due to irrational management can be justified by the excuse of commitment costs. However, regardless of the fact that the ESG practices` cost can be a shelter for justifying poor performance, but, as stated by Teye-Ali (2025), recovering reputation after the global financial crisis left companies with no option except to focus more on ESG. This has also been approved recently by Shui (2025), “Amidst the escalating challenges of global climate change and environmental crises, sustainable development has emerged as a global consensus. Governments worldwide, international organizations, and various sectors of society have increasingly focused on environmental protection, social responsibility, and corporate governance.

According to Nizam et al. (2019), Shakil et al. (2019), Aydoğmuş et al. (2022), Rao et al. (2023), Meini and Setijaningsih (2024), and Shui (2025), despite the expanding interest in the impact of ESG and companies` financial performance, the existing literature is still limited; some of these studies indicate that the banking industry in particular faces a shortage in studies. In addition, the current literature indicates that there is no consensus in outcomes regarding ESG and financial performance, where a positive impact is revealed by various studies, such as Atan et al. (2018, Buallay (2019, Shakil et al. (2019), Bartolacci et al. (2020), Boakye et al. (2020), Broadstock et al. (2021), Aydoğmuş et al. (2022), Zhou et al. (2022), and Shui (2025). While other studies found either a negative or insignificant impact, this includes Utz (2018), Srour (2022), Rao et al. (2023), and Intezar et al. (2024). Therefore, this study aims to analyze the effect of ESG on financial performance.

Meini, Z., & Setijaningsih, H. T. (2024). The impact of ESG on firm value: Empirical study on Indonesia and Singapore companies. *EQUITY*, *27*(2), 128-146.

2.1. Hypotheses Development

The research hypotheses are demonstrated below based on this study`s main objective and literature review, which were mentioned previously in this study. One main null hypothesis is introduced, and three sub-null hypotheses are formulated to best achieve this study's aim.

- **The main null hypothesis:**

H0: There is no significant impact of ESG practices on the banks` financial performance in the UK.

- **The sub null hypotheses:**

H01: There is no significant negative impact of ESG Score on the banks` Return on Assets (ROA) in the UK.

H02: There is no significant negative impact of ESG Score on the banks` Return on Equity (ROE) in the UK.

H03: There is no significant negative impact of ESG Score on the banks` market value in the UK.

Accordingly, the research framework is demonstrated by Figure 1 below:

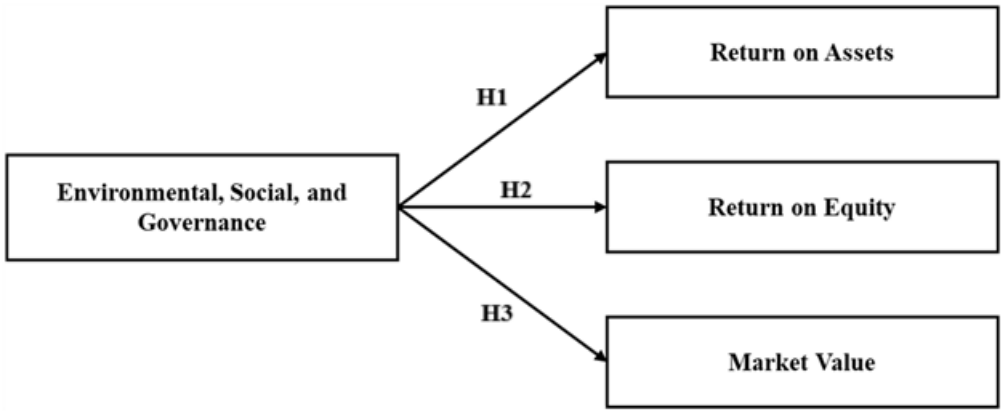

Figure 1. Research Framework (source: by authors.)

3. Research Methodology

3.1. Study Sample

This study targets the UK banks which are listed in the London Stock Exchange, the final sample includes all listed banks in the FTSE100 Index in the London Stock Exchange (LSE). According to the Bank of England report (2020), the UK banking sector is controlled by very few banks; these five banks manage more than 75% of individual accounts and over 85% of business accounts. The period is selected to be from 2017 to 2022 due to the ease and availability of obtaining data for this research.

3.2. Data Collection

The required data is obtained from various resources, banks' official websites, banks' sustainability reports, banks ' annual reports, financial statements, and official databases such as Refinitiv, S&P Global, and Yahoo Finance. All these banks are active during the selected period, have available ESG data, and are not merged during the study period.

3.3. Variables Measurements

As this research aims to investigate the impact of ESG practices on banks` financial performance, ESG practices can be measured by ESG Scores. This measurement is employed following previous literature such as Shakil et al. (2019), Menicucci and Paolucci (2022), and Gutiérrez-Ponce and Wibowo (2023). ESG Scores can be found by employing qualitative and quantitative indicators that are relative to governance structure and practices, social responsibility, and environmental impact. On the other hand, financial performance can be calculated through accounting-based measures and market-based measures. ROA and ROE are accounting-based measures; accounting processes and manipulation can affect these measures. This research employs accounting-based measures, including ROA and ROE, following Nizam et al. (2019), Buallay et al. (2020), and Gutiérrez-Ponce and Wibowo (2023). However, market-based measures are extremely vital for investors; thus, market-based measure is also employed in this study. Most previous studies employ price to book value, stock return, and Tobin`s Q as market-based measures, yet this research

adopts market value following Ersoy et al. (2022) as a market-based measure of financial performance. Consequently, the following table (1) illustrates these measurements' explanation:

Table 1. Variables Explanation (source: by authors)

Variable	Formula
Independent variable	
ESG Score	ESG Score is an overall company score based on the self-reported information in the environmental, social, and corporate governance pillars.
Dependent variables	
Accounting-based measure: ROA ROE	Net income after taxes divided by average total assets. Net income after taxes divided by average total equity
Market-based measure: Market value	Market value is the share price multiplied by the number of outstanding ordinary shares.

3.4. Empirical Model

3.4.1. Regression Model

For investigating the impact of each independent variable on banks` financial performance, simple regression analysis was applied. This study adopts the following regression model:

$FP\ i, t = \beta 0 + \beta 1 ESG\ i, t + €$ … … … … (1)

Where:

FPB: is banks` financial performance, which is measured by ROA and ROE ratios, and market value (M.V).

β0 and β1 are the coefficients of regression.

ESG: overall score of Environmental, Social, and Governance practices of UK banks

€: error term

It should be noted that regression analysis will be applied three times separately: the first time to investigate the impact of ESG Scores on the banks` ROA, the second to measure the impact of ESG Scores on the banks` ROE by ESG Scores, and the third to investigate the impact of ESG Scores on the banks` market value. Consequently, this research employs three regression models.

3.4.2. Robustness Tests

To ensure that the regression analysis outcomes are valid, basic assumptions are necessary to be met. This includes normality using the Kolmogorov–Smirnov test, no multicollinearity using the Variance Inflation Indicator (VIF), and no heteroscedasticity by employing Breusch–Pagan (BP) test.

4. Analyze outcomes and discussion

4.1. Descriptive statistics

According to Table 2 below, the mean of ESG is 57.83 with a S.D. of 4.33, the ROA and ROE means are 0.0033 and 0.046, respectively, with a standard deviation of 0.0014 (ROA) and 0.023 (ROE). Lastly, the market value reflects a mean of 29.962 and a standard deviation of 4.8. The highest standard deviation is 4.8 for market value, and the lowest is for ROA, yet, SD of all variables are low which accordingly suggesting the data is more reliable, where ESG and market value (M.V) have higher standard deviation comparing to ROA And ROE, but as long as these values are lower than variables means, this reflects a precise estimation. Consequently, the data seem to be clustered narrowly around the mean.

Table 2. Descriptive Statistics (source: by authors)

Variables	Mean	S.D	Max.	Min.
ESG	57.83	4.33	73.6	51.2
ROA	0.0033	0.0014	0.0045	0.0015
ROE	0.046	0.023	0.072	0.015
M.V	29.962	4.80	37.575	24.912

4.2. Regression result and discussion:

The regression test was done three separate times: the first test is for the ESG scores' impact on ROA, the second test is for the ESG scores' effect on ROE, and the last test is for the ESG scores' influence on market value. According to Table 3 below, which reflects the outcomes of regression analyses, the ESG scores of UK banks have a positive and significant impact on these banks` ROA, where the p-value is 0.0267, which is lower than the significance level of 0.05, with a Coefficient of 38.24. The impact of ESG scores was revealed to be negative (Coefficient = -32) and significant (p-value = 0.0176 < 0.05) on the ROA of banks in the UK. Lastly, the regression analysis reveals that the market value of banks in the UK is affected negatively (Coefficient = -0.21) and insignificantly (p-value = 0.0759 > 0.05) by the ESG scores. The outcomes of regression analysis are demonstrated by the following table (3):

Table 3. Regression Analysis (source: by authors)

Regression analysis				
Variable	**Coeff.**	**Coeff. SE**	**T-value**	**p- value**
ESG on ROA	38.24	11.175	3.422	0.0267
ESG on ROE	-32.79	13.44	-2.44	0.0176
ESG on market value	- 0.21	0.0615	-3.42	0.0759

According to the regression outcomes, when the ESG overall score is increased by one score, the ROA of UK banks will increase by 38.24%. The ROE of banks in the UK will decrease by 32.79% for each score increment of the ESG overall score. Finally, regardless of the insignificant impact of the ESG score on UK banks` market value, as the ESG overall score goes up by one score, the market value will be reduced by 21%.

Therefore, the acceptance or rejection of this study`s hypotheses is illustrated in Table 4 in the following. The hypothesis (**H01**) is rejected as long as the ESG score affects ROA positively, and H02 is also rejected as it suggests

no significant negative impact of the ESG score on ROE, and the result fails to prove it. The last hypothesis is H03, is accepted, where the market value of UK banks is affected negatively and insignificantly by the ESG score. The table (4) below reflects the hypotheses summary:

Table 4. Hypotheses Summary (source: by authors)

Hypothesis	Result
H01: There is no significant negative impact of ESG Score on the banks` Return on Assets (ROA) in the UK.	Rejected
H02: There is no significant negative impact of ESG Score on the banks` Return on Equity (ROE) in the UK.	Rejected
H03: There is no significant negative impact of ESG Score on the banks` market value in the UK.	Accepted

The outcomes of this research can be explained by firstly, the ROA is impacted positively and significantly by ESG score, this is because that when bank performs with more social responsibility and environmental friendly, this will enhances its reputation among society, bank`s clients (individual and business) show more respect to this bank and might transfer from another bank to this particular bank. In addition, such banks might receive more facilities from the government, as well as get access to cheaper capital, as highly committed firms are favoured by banks. And having a stronger governance structure might reduce defaults, strengthen accountability, and better consequences. Furthermore, the acquisition and retention of talent are enhanced, which might lead to better productivity and reduced turnover. Lastly, having an effective ESG framework enhances banks' position to be resilient to crisis, where, for instance, during COVID-19, these banks were able to exploit their ESG frameworks to respond to the challenges posed by the crisis. All these, therefore, can enhance the revenue and net income and thus return on assets. Regarding the ESG score significant negative impact on ROE, this outcome is unexpected, even though ESG practices enhance the ROA due to better brand image and more facilities, but ESG application requires a huge investment, thus, banks needs more fund to enhance its ability for improving ESG performance, thus, bank might borrow to get such fund and interest expense maximized, or it can be because of that bank issue more shares to fund its ESG profile, in turn, the net income for shareholders is divided on more number of shareholders which is know as a dilution effect, and thus ROE declined. Further, shareholders might have a negative perception of emphasizing ESG extensively. This can be concluded by the fact that there might be a tradeoff between ROE and long-term sustainability practices. Lastly, the market value seems to be influenced slightly and negatively by the ESG score. This can be explained by the fact that the market might perceive ESG practices not as an enhancing strategy but rather as a cost-driven or compliance initiative. This can also be justified based on the idea of financial benefits recognition, in particular by investors, as ESG practices' implications are yet to be recognized and materialized. Moreover, investors' priorities and short-term dynamics moderate this effect. This might also be connected to the fact that the share price might be reduced as long as more shares were issued and the attributable profit for each share decreases; meanwhile, more expenses on ESG practices, the decline of the share price reduces the market value.

It is important to consider the important phenomena that might be exploited to justify this research`s outcomes. Firstly, the Brexit in 2016 impact, ESG involvement allows banks in the UK to have stable operations and efficient asset allocation, which leads to improved ROA. However, Brexit burdens banks to be capital and loans conservative-driven with higher costs of compliance, as well as maximizing the capital buffers by retained earnings during the unstable Brexit transitions. Secondly, regarding COVID-19, banks that are strictly committed to ESG might have had more responsible practices of lending that resulted in low loan losses, more social confidence and respect, which helps in absorbing unforeseen social impacts. Simultaneously adopting strict strategies, including capital retention and social responsibility actions, might be a significant reason behind shareholders` return dilution in the short term, and accordingly negatively impact the ROE.

The outcomes of this research regarding the impact of ESG on ROA are in line with Nollet et al. (2016), Brogi and Lagasio (2019), Azzam et al. (2020), and Buallay (2020) and inconsistent with Buallay et al. (2019) and Gutiérrez-Ponce and Wibowo (2023). While the outcomes regarding ESG effect on ROE confirm the findings of Buallay et al. (2019) and Gutiérrez-Ponce and Wibowo (2023), and reject the outcomes of Nizam et al. (2019). Regarding ESG influence on market value, it is consistent with Atan et al. (2018), Buallay et al. (2020, and Di Tommaso and Thornton (2020), and contradicts Buallay (2019), Bolton 2022, and Ersoy 2022.

5. Conclusion and Further Research

The recent international interest and initiative in the profile of sustainable development at all levels has forced firms to change their way of dealing with society, environment, and governance. In turn, this put high pressure on firms in terms of cost or efforts to do so and comply with ESG values. Banks are a part of this, and more importantly, banks are one of the funding sources for ESG applications. Banks are put under pressure, like other companies, to comply with ESG practices. This has for sure impacted banks' financial performance.

The previous literature identifies various studies on whether ESG practices impact banks` financial performance, but these studies' outcomes cannot be generalized internationally. In addition, the banks in the UK have not been examined by previous literature in terms of ESG implication on financial performance. Consequently, this study aims to reveal the impact of ESG on banks' financial performance in the United Kingdom.

This study formulates a main regression model to be applied three times based on the selected variables of this study, where the ESG score is the independent variable, while ROA, ROE, and market value are the dependent variables.

The findings show that the ESG score has a significant positive impact on ROA, a significant negative impact on ROE, and an insignificant negative impact on market value.

It is recommended to apply such a study to broaden banks in the UK and other countries. In addition, an investigation into the impact of ESG on financial performance in other sectors in the UK to reveal how it differs. Further, research on which is the most important element of ESG is dominant in the UK banking sector.

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I do declare that there is no competing interest

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