

**AN INVESTIGATION ON THE EFFECTS OF SUSTAINABLE BANKING ON
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
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
JUNE 2024

DECLARATION

DECLARATION

Declaration by the student

This project is my original work and has not been presented for a degree in any other university.

Signature..... 

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I confirm that the work reported in this project was carried by the candidate under my supervision.

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I appreciate God for providing me with strength in my studies.



ABSTRACT

Over the past ten years, Kenya's banking sector has experienced a massive upheaval due to increased competition, shifting consumer demands, the emergence of business risk, and technological advancements. Banks have had to rethink their tactical models due to these elements in order to enhance their competitiveness and sustainability. This study determined how Kenyan commercial banks' financial performance is affected by sustainable banking. This research specifically focuses on three main goals: analysing the impact of social and environmental sustainability on the financial performance of Kenyan commercial banks, assessing the impact of economic sustainability on those banks' financial performance, and analysing the impact of social sustainability on those banks' financial performance. This research technique was underpinned by the Resource Based View (RBV) Theory, Open Systems Theory, and Stakeholder Theory. RBV stresses that only those rare and valuable resources can produce a competitive advantage. Open system theory underscores the importance of the surrounding environment concerning organisations. Stakeholder theory posits that organisations have responsibilities to more than just shareholders, including customers, employees, suppliers, and society. This research also employed a description research design. The study population comprised forty-two chief operating managers from Kenya's forty-two commercial banks. Enough information about economic, social, and environmental sustainability practices was gathered through primary data collecting using standardised questionnaires. Regression modelling was used to generate the assumptions, while predictive analysis was used in the data analysis. The null hypotheses that economic, social, and environmental sustainability do not significantly affect the financial performance of commercial banks and that these three dimensions of sustainability do not considerably affect commercial banks' financial performance were supported at the 95% significance level. Another area that

demonstrated a highly positive impact was social sustainability, which includes CSR and stakeholder management. They concluded that environmentally sustainable practices like low carbon operations and green banking help increase the overall financial performance index by increasing the bank's perceived image and operational efficiency. From the established results, the study suggested that commercial banks must improve initiatives that support economics, social, and environmental sustainability. Besides helping banks achieve higher financial performance, these programs also assist organisations in achieving their corporate social responsibilities and sustainability goals. Such a view of banking is crucial to achieving the Kenyan banking sector's positive and organic development. This study recommended that commercial banks enhance economic, social, and environmental sustainability programs to improve financial performance.



Mount Kenya University

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LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
CSR	Corporate Social Responsibility
GABV	Global Alliance for Banking on Values
NIM	Net Interest Margin
ROA	Return on Assets
SDG	Sustainable Development Goals
SRI	Sustainable Responsible Investment



CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Global Perspective on Sustainable Banking

Financial performance has been and will continue to be a concern to management executives and scholars because it is an essential measure of an organisation's health and performance. Financial performance is significant in terms of the sustainability and competitiveness of a bank in the financial sector. It includes various indexes such as profitability, return on assets, and a shareholder's value, which, in sum, gives an overall picture of the effectiveness of its functioning and the economic solvency of a bank. It is evident that through the effective and constant tracking and enhancement of financial performance, banks can attract investors, gain customer confidence, and maximise operations (Subanidja, Legowo & Sorongan, 2021). It emphasises the need to combine strong financial solutions with sustainability for organisational development and success.

Over time, tremendous efforts have been made to comprehend financial performance in terms of elements that contribute to its realisation or lack thereof (Subanidja, Legowo & Sorongan, 2021). Organisations are open systems that are always interacting with the external world, which is constantly changing. Organisational adaptability is crucial for survival and achieving goals and objectives because it enables the organisation to react appropriately to erratic external changes. Organisations depend on and serve their immediate environment. Changes in the environment affect the strategies those organisations put in place to maintain their performance and sustainability (Sideri, 2021).

According to Karpuz, Güray, and Kirikkaleli (2021), financial performance is a company's capacity to meet several financial objectives, including profitability. The degree to which an organisation has either met or surpassed its financial benchmarks defines its financial performance (Olmo, Saiz & Azofra, 2021). It shows how well financial objectives are being attained. Zhang, Wang, Zhong, Yang, and Siddik (2022) note that financial performance provides guidance to the stakeholder in their decision-making by demonstrating how a company generates revenues from its assets. According to Khan, Bose, Mollik, and Harun (2021), the banking industry's health is heavily influenced by financial performance. Furthermore, in order to regulate banks, the government and regulatory bodies are interested in how they operate.

The primary focus of financial performance is on factors that directly affect the firm's reporting or financial statements (Kosasih, Rahman, Aulia & Prastiwi, 2021). The primary evaluation method used by third parties is the company's performance (Madami, 2021). This explains why the performance of the firm is used as a standard. The extent to which the company's objectives were met determines its performance—a company's financial performance results from meeting internal and external objectives (Madami, 2021). There are different ways that performance may be defined, including performance in terms of development, competition, or even consolidation. Financial performance is mainly analysed using performance indices, including the net interest margin (NIM) and the return on assets (ROA). These assessments measure the extent to which a commercial bank can profit from its assets (Dawood et al., 2021). The calculation of ROA involves using the ratio of operating profit and total assets, which show the profits obtained from the various financial assets owned. On the other hand, NIM depicts the variation between the total interest a bank earns from its securities and that which is paid to the debt holders, bearing in mind the value of the total assets the bank possesses. Net interest income is divided by the total earned assets to

calculate the NIM variable (Inácio & Delai, 2022). Tobin Q, Return on Sales, and Return on Equity are other metrics employed in the past to measure financial performance.

Yip and Bocken (2018) assert the importance of the banking industry in promoting sustainable development. The administration and dispersion of sustainable, responsible investment (SRI) funds, as well as support for green initiatives, are in place to ensure the financing of the Sustainable Development Goals (SDGs). The COVID-19 pandemic is a perfect example of how external shocks have significantly impacted the core principles of the banking sector's business model. These shocks hasten the banks' sustainability (Forcadell et al., 2020). According to Yip and Bocken (2018), sustainable banking integrates environmental responsibility with traditional financial services. It aims to meet customers' financial needs while simultaneously safeguarding the planet and maintaining profitability. This approach to banking plays a vital role in promoting broader sustainable development goals.

Given the increasing significance of sustainable banking as a distinct area of study, a thorough evaluation of existing literature is necessary. The currently accessible literature reviews on sustainable banking concentrate on individual subdisciplines rather than giving a thorough overview. Fabregat, Barbera, Terceño and Pié (2019) evaluate socially responsible funds, Zhang and Managi (2019), Sarma and Roy (2019), and Gutiérrez and Serrano (2019) assess the literature on microfinance, socially responsible funds, and green banking, respectively. More people are realising that sustainability is necessary for an economy to grow. Since social justice and environmental protection are now the primary values of any economy, commercial banks should provide a sustainable environment that may help realise considerable benefits. To foster sustainable development, financial operations incorporate ethical, social, and environmental factors. This is known as sustainable banking. Corporate social responsibility (CSR), green

banking, ethical behaviour, and social duty are all included in sustainable banking. In order to stand out from their rivals, obtain the support of important stakeholders, separate themselves from their competition, attract new customers, capital, and market share, and build goodwill, banks that employ sustainable banking practices benefit from its advantages (Kumar & Prakash, 2019).

According to Carè (2018), growing consumer awareness of environmental issues has driven demand for specialized financial products and services. In response, some banks have begun incorporating climate change considerations into their fundamental business strategies. A study examining six leading sustainable banks in Europe revealed a trend towards increased production of green bonds and other environmentally-focused financial instruments. Furthermore, it is acknowledged that corporate governance is a critical factor in the banking sector's promotion of sustainability. Avrampou et al. (2019) contend that addressing the challenges presented by the SDGs is critical to ensuring prosperity, social cohesion, economic welfare, and environmental quality. However, they also found that European banks generally disclose little SDG information.

Kumar and Prakash (2019) acknowledge that sustainable development is increasingly acknowledged in India as the focal point around which all other development initiatives should be centred. Achieving sustainable development largely depends on the financial industry's embrace of sustainable banking practices. An essential component of this is banking. In terms of banking sustainability, India is only now starting to embrace the global code of conduct. There is a strong connection between their company operations and sustainability challenges. In the realm of sustainable banking, many commercial financial institutions tend to place a stronger emphasis on social responsibility initiatives. This focus often overshadows other crucial aspects of sustainability, such as environmental stewardship, the development of ecologically conscious products and services, and transparent reporting on sustainability efforts. Rather than the

internalisation of sustainability challenges in banking business operations, Handajani, Akram, and Rifai (2021) discovered that a bank's attributes, such as institutional and foreign ownership and bank age, significantly influence bank performance in Indonesia. Stakeholder groups must compromise on their interests in order to achieve regulatory legitimacy for financial organisations and meet stakeholder expectations for sustainable banking practices.

Regional Perspective on Sustainable Banking

Sustainably managed banks and environmental disclosures are two examples of how corporate governance principles support sustainable behaviour (Adu, 2022). Sub-Saharan African banks are performing better financially as a result of sustainable banking initiatives. Strong corporate governance frameworks can enhance the relationship between a bank's sustainability initiatives and its financial outcomes. This improved connection may benefit financial institutions by increasing their responsiveness to sustainability-driven performance metrics. The bank's corporate governance procedures need to be operational for sustainability-for-performance sensitivity. According to Ajibade and Mutul (2020), the two biggest nations on the continent, South Africa and Nigeria, have successfully integrated their economies thanks primarily to effective banking systems. For the African continent to flourish sustainably, financial institutions must be integrated, secure, and efficient.

According to Abor et al. (2019), the sustainability of banking is facilitated by social responsibility and corporate governance. It would be important to note that integration and practice of shared values are key to sustainability in the banking sector. Deloitte's survey, conducted in 2017 on seven Nigerian banks and published in April 2017, indicated that awareness of Nigerian sustainable banking principles (NSBP) was high. The key priorities that the banks listed were energy, access to finance, and human and labour rights. Similarly, the findings presented by the European

Investment Bank (EIB), Deloitte, KKS Advisors, and the Global Alliance for Banking on Values (GABV) (2019) reveal that there is a positive correlation between the financial soundness of financial institutions and their dedication to sustainable development. The report claims that commercial banks that do better receive high scores on significant ESG issues.

Nwagwu (2020) observed that despite the current surge in interest in sustainable banking, banks continue to encounter specific challenges in embracing and executing this concept. Learning more about commercial banks' role in sustainable development is interesting. Nwagwu (2020) emphasised the role that Nigerian banks play in helping to realise the Sustainable Development Goals (SDGs). Nevertheless, she also emphasised that in order for banks to assist sustainable development effectively, they must give up on conventional banking methods and include sustainability in their daily operations.

Local Perspective on Sustainable Banking

Commercial banks in Kenya have started advancing sustainable banking to support sustainable growth in the nation's unique market context. The loss of natural resources, poverty, and climate change are significant environmental, social, and economic issues Kenya is currently experiencing. In order to improve their operations and performance while simultaneously addressing these issues, Kenyan banks should adopt sustainable banking practices. According to the Central Bank of Kenya, Kenya has 42 licensed commercial banks. State-controlled companies and the government own the bulk of the three banks' shares. Private financial institutions make up the remainder. Fourteen private banks are foreign commercial banks, and 28 are local (CBK, 2023). Generally, the banking industry's financial performance in recent years has dramatically improved. According to data from the Central Bank of Kenya, the industry has grown tremendously in all areas, including financial performance (CBK, 2023). Innovations like mobile banking, online

banking, and agency banking, which provide exciting new avenues for serving consumers and expanding access to the Kenyan populace, are significant drivers of the banking business. The conduct of banking transactions and bank operations across the nation has been influenced by exposure to global business trends. As an illustration, industrial involvement in corporate social responsibility has increased (Okari et al., 2018).

Commercial banks are crucial to the nation's economic growth. The increase in savings, the rise in investments, the rise in employment rates, the requirement for cash transfers, and the provision of loans to the government are all examples of the relevance of bank operations. Additionally, through the provision of affordable loans, commercial banks serve as platforms for expanding capital creation and a way to promote balanced growth throughout a nation (Sideri, 2021). Every sort of company must contend with an ever-changing and accelerating economic environment. Most organisations are increasingly adopting a strategy to address the situation in response to the new economic climate. Commercial banks in Kenya have taken an active role in leading the sustainability movement over the years due to difficult economic times, disasters, the rise in society's awareness of the need for inclusivity in responding to calamities, and generally improving livelihoods.

Local Perspective on Sustainable Banking

To comprehend the idea of sustainability, one must consider the social, economic, and environmental problems related to development (Kariuki, 2021). When advancing economically, sustainability ensures that social and environmental issues are considered. Due to the significant role of Kenyan financial institutions' funders, sustainability is vital to the financial system. The significant environmental and social implications of these investments drive the adoption of sustainable financing. Nevertheless, the industry's sustainability programs are frequently ill-

structured, which reduces their chances of yielding substantial, long-term advantages for business, the environment, and society. Therefore, the industry must adopt a collaborative approach to sustainability. Kenya must employ a hybrid approach to achieve sustainable banking (Kariuki, 2021). The proposed concept aims to integrate the benefits of compliance-based and market-driven regulatory systems. Such a model might include industry-developed voluntary norms and regulations and a regulator to enforce and guarantee adherence to those regulations.

Commercial banks should create a balance between the various facets of sustainable banking. The banks should employ economic, environmental, and social sustainability models and follow through to ensure they are achieved. This would enhance good governance, integrity, transparency, resource efficiency, and environmental protection. Additionally, small and medium enterprises would benefit from the activities of commercial banks' sustainability programs (Madami, 2021). According to Okari et al. (2018), the local and international banking sector is continually undergoing great fluidity for various reasons that present new challenges and the industry's players with exclusive chances. Several factors, including advances in technology, rising customer demands, and greater levels of competition, have boosted competitiveness. To stay relevant and maintain their competitiveness in such a dynamic business has forced the industry's key players to create new approaches and strategies. Banks operating in Kenya must continue to invest in and improve the stated strategies to develop and maintain their competitive fronts toward ideal performance (Okari et al.,2018). Commercial banks should continuously look for and invest in technologically advanced products that increase customer convenience and flexibility, diversify financial services, and recruit and maintain customers through a robust branch network (Kariuki, 2021). This study answers the question: What are the effects of sustainable banking on the financial performance of commercial banks in Kenya?

1.2 Statement of the Problem

Over the past ten years, Kenya's banking industry has experienced significant transformations. One problem in the ever-changing corporate climate is the heightened competitiveness. Customer needs, business risks, and technological innovations have all led banks to go back to the drawing board to review their strategies. Banks that do not align with economic, social, and environmental sustainability have faced financial distress that has led to their collapse. These commercial banks include Dubai, imperial, and Chase (CBK, 2021). Spire Bank had to be acquired more recently because of poor performance (CBK, 2023). These highlights systemic problems facing the financial sector. Although sustainability requires addressing economic, social, and environmental factors, there is little discussion of how sustainable banking affects commercial banks' financial performance in the literature. Carè (2018) examined sustainable banking in Europe and demonstrated how banks are more likely to create green bonds and other sustainable financial instruments. The study was conducted in a different jurisdiction, so there is a contextual gap. Kumar and Prakash (2019) assessed India's sustainable banking performance. Due to its focus on a sustainable financial organisation, the study contained a conceptual gap. The performance of Indonesian banks and sustainable banking were the subjects of a secondary study by Handajani et al. (2021). Abor et al. (2019) emphasised the importance of social responsibility and corporate governance in fostering sustainable banking. On a more localised level, Okari et al. (2018) examined current strategic approaches aimed at enhancing sustainable competitiveness. The suggested study aimed to bridge the conceptual, contextual, and methodological gaps identified in these investigations. Thus, this study examined the impact of sustainable banking on the financial performance of Kenyan commercial banks.

1.3 Purpose of the Study

This research sought to determine how sustainable banking practices impacted Kenyan commercial banks' financial performance.

1.4 Objectives of the Study

The study's objectives were:

- i. To examine the effect of economic sustainability on the financial performance of commercial banks in Kenya
- ii. To examine the effect of social sustainability on the financial performance of commercial banks in Kenya
- iii. To examine the effect of environmental sustainability on the financial performance of commercial banks in Kenya

1.5 Research Hypotheses

H01: Economic sustainability practices in Kenyan commercial banks do not have a statistically significant effect on their financial performance.

H02: Social sustainability practices in Kenyan commercial banks do not have a statistically significant effect on their financial performance.

H03: Environmental sustainability practices in Kenyan commercial banks do not have a statistically significant effect on their financial performance.

1.6 Significance of the Study

The results of this study can be significant for commercial bank management. The results of the study could help management comprehend how sustainable banking affects financial performance.

The study's recommendations for improving sustainable banking might be put into practice by

commercial bank management. This study will help the public comprehend commercial banks' role in social sustainability. This study may prove useful for researchers interested in exploring the impact of sustainable banking on the financial performance of commercial banks. It will serve as a valuable reference for scholars specialising in banking and related fields.

1.7 Scope of the Study

The study focused exclusively on Kenyan commercial banks to allow the general audience to assess how sustainable banking impacts their financial performance. Notably, many other factors could influence commercial banks' financial performance; nevertheless, this study intentionally limits its analysis to the three sustainability characteristics listed above. A thorough examination of the part that each aspect of sustainability plays in the operations and financial health of Kenya's commercial banks is made possible by this focus. By thus excluding these factors, the study intends to offer straightforward and practical recommendations, thereby benefiting policymakers, bank managers, and other relevant parties who wish to improve the sustainability and profitability of the banking industry.

1.8 Study Limitations

Researchers' attitudes and perceptions are not easily controllable. This is because there may be a tendency among the responders to give answers that are deemed appropriate. Therefore, the data that respondents submitted about the performance and sustainability of commercial banks may be biased.

1.9 Delimitations of the Study

When the respondents provided information about how sustainable banking affects Kenya's commercial banks' financial performance, the researcher guaranteed their privacy.

1.10 Assumptions of the Study

The research assumed that the respondents had adequate knowledge of sustainable banking to provide indispensable data for the study. It also assumed that the efficiency of the CBs depends on economic, social, and environmental sustainability. The study also presumed that respondents were sufficiently capable of connecting sustainable banking practices with the financial performance of banks. Furthermore, it was assumed that respondents provided accurate and truthful answers in their responses.

1.11 Operational Definition of Key Terms

Commercial Banks	are financial institutions with the dual purpose of lending money and accepting deposits from clients.
Economic Sustainability	these methods encourage sustained economic growth while safeguarding the social, environmental, and cultural characteristics of the community.
Environmental Sustainability	is the ability to conserve natural resources and maintain ecological balance in the planet's natural environment.
Financial Performance	is a gauge of how well a business can produce income using resources from its main line of activity.
Social Sustainability	emphasises the requirement that "people come first" in the development processes and encourages the social inclusion of the poor and vulnerable.

1.12 Time Scope

The study was carried out for six months, starting from January 2024 to July 11, 2024. This timeframe was adopted to encompass a half-year cycle of the phenomenon under analysis. The study was set out in a number of phases, which are the planning phase, collection phase, analysis phase, and reporting phase. This period was chosen to ensure adequate data was collected and analysed within a reasonable time to produce accurate and dependable results.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The empirical literature pertaining to the current investigation into how Kenyan commercial banks operate in relation to sustainable banking was covered in this part. The study assessed the financial profitability of these banks by considering social, environmental, and economic sustainability. Additionally, this chapter established the conceptual framework for examining the relationships between the study variables and the relevant theoretical model. Lastly, a summary of the literature review was presented.

2.1 Empirical Literature

Globally, grave concerns about the economy, environment, and society significantly impact financial performance. The problems include the overuse of food and natural resources, depletion of natural resources, increased human rights violations, and the accumulation of chemicals and hazardous waste (Jan et al., 2019). Most individuals concur that over half of the natural resources on Earth have already been depleted and should be conserved for future generations (Sideri, 2021). Sustainability related issues rank among the top three global hazards in terms of this likelihood. Sustainability was a factor in seven of the ten most critical global hazards in the earlier Global Risks Reports (2018). In terms of likelihood, sustainability risk is far more than other global threats, such as the risk of nuclear weapons.

The Sustainable Development Goals (SDGs) are based on a shared understanding among the nations that make up the UN, with a common focus. According to the 17 sustainable development goals, businesses must incorporate elements into their business models that address issues like

societal poverty reduction, public health and education improvement, access to clean water and affordable energy, fair labour practises, combating global climate change, and inequality reduction. Using those criteria, many businesses have linked their domestic business practices to the Sustainable Development Goals of the United Nations. For the next 15 years, the development bank intends to boost its financial support to achieve the SDGs of more than USD 150 billion (World Finance, 2019). These initiatives unequivocally demonstrate the scope and gravity of the sustainability problem on the global stage and how it affects banking in particular. Despite its great importance, studies on sustainability practise and their measurement in banking are scarce, according to the literature (Zheng et al., 2021). A company's financial performance may be adversely affected by banks' poor, unsustainable business practises. Studies have shown that organisations implementing sustainable business strategies often experience improved financial outcomes (Tawfik et al., 2021). This relationship suggests that adopting environmentally and socially responsible practices can contribute to a company's economic success.

According to Subanidja, Legowo, and Sorongan (2021), the banking and financial sectors are increasingly concerned about the FinTech industry's rapid rise and the sustainable performance debate. These concerns raise the question of how much FinTech disrupts or even helps the banking and financial industries. The empirical inquiry in this paper will be based on these facts, and it will examine how FinTech affects sustainable business performance and whether or not it facilitates collaboration. Because FinTech may increase the quality of services provided, the financial system can become more transparent, safe, and affordable, resulting in a stable, varied, and appealing financial environment. Sustainable finance is strongly associated with fintech. Even though the two fields have long been treated independently, in recent years, some characteristics have surfaced that, when combined, exhibit considerable promise. This quantitative research method

used surveys with questionnaires and data collecting utilising convenience sampling techniques. The principal discoveries of this research indicate that FinTech functions as a moderator in the effects of business driver factors on durability. Additionally, they are collaborating to improve banking and long-term financial performance.

Global pressure on the banking industry is prompting banks to take more initiative in corporate sustainability, including the economic, environmental, and social elements (Handajani et al., 2021). In order to solve the sustainability issue, the bank uses a range of solutions, contingent upon which of them support social, environmental, or economic objectives (Zimmermann, 2019). They may choose to use the funds they have been given to assist external sustainability projects, take a different tack when it comes to addressing social and environmental challenges, or concentrate only on the financial sector. Environmental and social concerns may not be disregarded by the entity that raises and distributes people's money. The financial aspect of the banking industry alone is insufficient to adequately reflect bank performance since it ignores the importance of how company operations affect society and the environment, regardless of how well or poorly they operate (Anantharaman, 2017). Afroz (2017) suggests that senior management can create sustainable banking policies and plans by internalising environmental hazards as part of risk management. Aside from monetary hazards, corporate decisions also need to consider social and environmental factors. This is such that the bank's legal, credit, and reputational risks are increased by poor corporate governance.

Handajani (2019) examined how state-owned banks began to address environmental issues and found that they had already incorporated sustainable banking practises into their operations. In a second study, Akter, Siddik, and Mondal (2017) examined bank sustainability reports from numerous commercial banks in Bangladesh and found that the metrics addressed were more social

and economic than environmental. Most banks included economic climate indicators, such as the financial effects of climate change and environmental factors. Handajani (2019) researched potential drivers that might encourage Indonesian public banks to embrace green banking as a sustainable banking practice. As demonstrated by the supervisory boards' supervision role, the results confirmed the advancement of sustainable banking practices and bank corporate governance.

Mustofa et al. (2020) assert that, in addition to their commitment to social and environmental responsibility and long-term ecological stability, banks also employed sustainable banking as a critical strategy. According to a different study, bankers saw the adoption of sustainable banking favourably due to factors like central bank regulation, social rivalry, performance expectations, and environmental concerns. According to Sroufe and Gopalakrishna (2019), bank rules reacted favourably to the idea and execution of sustainability initiatives. According to Weber (2017), Sustainable banking is the most important component of the banking business. However, in order to assess its application and demand trade-offs during its implementation, all stakeholders must be involved.

Although there is much emphasis on sustainable banking, the integration of sustainable banking in the banking sector has drawbacks and challenges. One major issue is the incorporation of sustainability into the corporate and commercial strategies of banks (Aracil et al., 2021). Some of these include the fact that many banks still regard sustainable banking practices as extra-functional activities that are not central to their strategic planning. Such a perception can contribute to low commitment and, consequently, a low level of investment in sustainability initiatives (Aracil et al., 2021). Further, there are many instances where no standard tools and methods are available to

evaluate the effectiveness of sustainable banking practices, which puts banks at a comparative disadvantage in sustainability reporting.

Also, variations in the regulations and policies of different regions may lead to some formations of complexity and act as a barrier to implementing standardised sustainable banking practices. Banks frequently face pressure from shareholders and other stakeholders who may prioritize short-term business gains over long-term sustainability goals (Aracil et al., 2021). To overcome these threats, banks and other stakeholders must establish directional policies and standard measurement frameworks and cultivate sustainable practices across the banking industry (Aracil et al., 2021). While Kenyan and other developing economy banks grapple with these challenges, it is necessary to identify emerging strategies and partnerships that can help incorporate sustainability into the banking value proposition to yield improved performance and positive societal impact.

2.1.1 Economic Sustainability on Financial Performance of Commercial Banks

Economic sustainability is about the utilisation of strategies for the improvement of the economic benefits in order to make them sustainable for future usage while at the same time not harming the future economic benefits (Sideri, 2021). To commercial banks, economic sustainability entails good financial health, the ability to control risks and generate steady profits. Incorporating economic sustainability into the banking process is crucial to acquire the competitive edge necessary for financial stability.

Risk management is a significant component of the overall economic sustainability. Banks are exposed to different categories of risks, such as credit, market, operational, and liquidity risks. Risk management frameworks, which are elaborate, help the banks identify threats to their financial stability, quantify them, and develop ways to avoid these scenarios (Zheng et al., 2021).

Such an approach not only helps the banks minimise the stress that may lead to huge losses but also helps them become more financially secure in the future, given uncertain conditions. Stable and forecastable operations enable better handling of risks, which is essential for sustaining investors' confidence and attracting funds.

Banks are seen as important actors shaping the financial system in any nation's economy and as essential components of contemporary society (Pinto et al., 2017). Financial institutions are essential for providing the capital and financial services that drive economic growth. Their influence extends to both industrialised and emerging economies, particularly in the realm of monetary markets. These entities serve as key drivers of financial growth and stability in diverse economic contexts. In particular, banking operations contribute to the nation's economic growth by helping mobilise financial resources necessary for investments in certain industrial activities. As per Mangwa et al. (2022), financial success is regarded as a subjective metric that signifies if a company is operationalising its assets correctly and generating the necessary revenues. Analysing this component reveals the company's financial stability. Analysing these organisations' financial performance is the most efficient way to evaluate them because these businesses aim to produce a profit (Mangwa et al., 2022). To put it plainly, determining a company's level of success entails assessing its financial efficiency, liquidity, ability to repay debt, solvency, and, most importantly, profitability—a metric that indicates how much a business is making above and beyond the committed factors of production (Mangwa et al., 2022). Key financial factors for evaluating these commercial banks include net operating income, profit after taxes, earnings before interest and taxes, and net asset value. These financial performance evaluation factors offer arbitrary metrics for assessing how well these businesses use their resources and how effective their operational framework is when compared to other businesses in related or unrelated industries.

Despite the rising importance of sustainable investment and green finance in the SDGs, little research has been done on how these elements affect banks' sustainable performance. The elements of green finance were studied by Zheng et al. (2021), along with how they affected financial institutions' sustainability performance. The study provided illustrations of how banks and non-bank financial firms employ green financing. The goals of the study were achieved through the use of structural equation modelling. According to the report, private commercial banks are the leading banks and non-bank financial organisations that offer green finance. Results showed that the SDGs' economic, social, and environmental facets are connected to green finance's characteristics. The social, economic, and environmental aspects of green finance have a significant influence on the sustainability performance of banks. More than 90% of bankers said that a banking strategy's short- and long-term development must include green finance. Because the study was conducted in a different jurisdiction, contextual gaps exist. The study looked into an element of economic sustainability-green financing-hence a conceptual gap.

Corporate disclosures previously focused primarily on the financial and economic success of the companies (Anantharaman, 2017). Voluntary information disclosure on Schemes has also gained momentum in the last decade with regard to business ventures. This practice is commonly contemporary and is called corporate sustainability reporting, which gives stakeholders more information than just the company's financial health. Companies provide information on the social, environmental, and economic consequences of their operations, allowing report readers to gain a comprehensive understanding of the firm's sustainability initiatives and outcomes. Previous research studies on sustainability declarations of Malaysian enterprises have primarily focused on environmental disclosures, with an emphasis on Islamic sustainability disclosures as well. Anantharaman (2017) evaluated Maybank's sustainability report. The findings demonstrate that

Maybank disclosed sustainability information at a high level. In order to ensure that their sustainability disclosures are uniform and comparable, banks in Malaysia should employ a single sustainability reporting methodology (Anantharaman, 2017). The study focused on one bank, hence a narrower scope.

A concept in financial reporting known as "sustainability reporting" provides data on the environmental, social, and economic aspects of a bank's operations. The study by Mustofa, Edy, Kurniawan, and Kholid (2020) looked into how green accounting and financial performance affected Islamic Commercial Banks' CSR. The study also examined the relationship between financial performance and corporate social responsibility. Multiple linear regression analysis and route analysis were two of the descriptive quantitative methodologies used in the study. The demographic and sample of the study comprised all Islamic Commercial Banks. Green accounting was the dependent variable, and corporate social responsibility was the independent variable. While the research findings indicate a relationship between financial performance and corporate social responsibility within the framework of green accounting, a conceptual gap emerged as the research variables did not align with the expected outcomes.

Sustainable development is built around environmental, social, and economic pillars. To engage in sustainable development, a corporation must prioritise social progress, environmental sustainability, and economic growth. Ecological preservation, social sustainability, and economic growth are the three main pillars of sustainable development. Tawfik, Kamar, and Bilal (2021) looked at the relationship between accounting indicators and a company's sustainability-related KPIs. The bottom lines of commercial banks are not substantially and positively impacted by sustainability concerns. The study focused on commercial banks operating in three Arab countries, using data from their sustainability and financial reports. The analysis revealed a generally positive

correlation between the banks' financial performance and all sustainability metrics. There is a gap to be filled because the study was carried out in Arab nations, which have legal, political, economic, and social frameworks that differ from Kenya's.

2.1.2 Social Sustainability on Financial Performance of Commercial Banks

The importance of corporate sustainability has grown significantly among businesses, stakeholders, academics, researchers, and regulators. Several essential aspects, including corporate governance and sustainability, may impact a company's long-term commercial performance. Corporate governance is how an organisation successfully directs and manages its activities using various systems, procedures, and guidelines (Xue et al., 2022). It consists of the systems and procedures a business uses to decide, distribute funds, and guarantee accountability. Sustainability refers to an organization's or business's ability to operate in a way that meets current needs and goals without compromising the ability of future generations to do the same. It involves balancing economic, environmental, and social factors to ensure long-term viability and positive impact (Xue et al., 2022).

A comprehensive evaluation can inform a company's long-term business plan of corporate governance and sustainability, which can assist in identifying strengths, weaknesses, and potential for development in these areas. Examining the business's governance framework and procedures, financial results, social and environmental effects, and stakeholder connections (Xue et al., 2022).

A business may ensure it runs sustainably and responsibly and is well-positioned for long-term success by performing a thorough analysis and making any required modifications. The purpose of corporate governance was to shield shareholder capital from unscrupulous management. There is an increasing trend in the application of governance to oversee business operations, including their effects on society and the environment (Xue et al., 2022). Stakeholders usually seek this

sustainability feature. Organisational strategies are increasingly incorporating sustainability as a core component and building connections with value chain participants.

Over time, sustainability has evolved. It was once generally accepted that a company's environmental impact was a component of its social responsibility and had nothing to do with its business plan or expectations from the market. It had only legal, ethical, or moral implications. Due to several issues, businesses have shifted their focus and increased their investment in sustainability (Qi et al., 2020). Sensitivity to the long-term goals of businesses, the requirement to adapt to changing laws, the need to increase product quality, reduce manufacturing costs, and enhance consumer perception. Good corporate governance benefits society, not just businesses and their shareholders. Since stakeholders hold corporations accountable, there is a perception that social responsibility and sound corporate governance go hand in hand (Qi et al., 2020). The growing emphasis on CSR and ESG problems is putting pressure on businesses to strengthen their stakeholder interactions and governance. It is also underlined how crucial sustainability is to ensuring businesses continue to prosper.

A number of research papers have also highlighted the close and significant connection between a company's financial success and sustainable corporate economic development (Anantharaman, 2017). Nobanee and Ellili (2017) examined the volume of information provided by listed banks in the United Arab Emirates' financial markets about their economic, social, and environmental sustainability. A recent study examined the potential connection between the financial outcomes of banks in the United Arab Emirates (UAE) and their level of transparency regarding social, environmental, and economic sustainability practices. The researchers employed dynamic panel data analysis techniques to investigate this relationship. Despite expectations, the study found that the financial performance of UAE banking institutions does not seem to be significantly influenced

by the level of their sustainability-related disclosures in the three key areas examined. Accordingly, interaction with stakeholders can be precious after performing the disclosure strategy to achieve even superior outcomes.

Al Mazrouei (2019) writes that the fields of operation, profitability, and funding are often positively correlated with operating sociology. However, it negatively correlates with banks' liquidity and credit quality. The inverse association between liquidity and operational sociology may result from higher expenditures. On the other hand, operating sociology may be to blame for the inverse relationship between loan quality and gross loan growth since it focuses on the internal effects of a bank's operations on society (Al Mazrouei, 2019). Previous research has determined that the main indicators of operating sociology include challenges associated with labor training, staff training methods, and education. Therefore, highly skilled and knowledgeable employees will not give out loans unless the requirements for which they were educated are satisfied.

Conversely, the sociology of products and services positively affects loan quality and liquidity; this may be because it results in more customer satisfaction. Loan quality is anticipated to rise in tandem with improvements in product and service sociology (Al Mazrouei, 2019). The people who use these products, not the products themselves, are the ones who greatly influence society. Moreover, the sociology of goods and services is mainly shown by considering the social risks associated with customers and company segments (Al Mazrouei, 2019). Because of this, banks will only lend to more ethical businesses after considering these criteria. Since the expenditures associated with sustainability initiatives are offset by the savings from other costs, product and service sociology probably has little effect on other performance metrics.

Sroufe and Gopalakrishna (2019) assessed American companies' social sustainability and financial performance. Understanding how creative businesses incorporate sustainability and put theory into

practice is crucial, given the increasing body of research showing the favourable correlations between social sustainability and financial performance. The study's sample consisted of Fortune 500 organisations. The study discovered relationships between the concepts of corporate financial success and the administration of sustainable practices that improve social sustainability performance. The study's findings investigated connections between financial performance metrics and improved the creation of concepts and products for environmental and social sustainability practices. Future research and innovation could encompass broader cross-sector samples, the development and assessment of social sustainability practices from secondary sources, longitudinal studies, and the evolving nature of measuring organizational performance. A methodological gap was caused by the study's absence of statistical data analysis.

A study conducted by Weber (2017) examined the connection between the financial indicators of Chinese banks and their sustainability performance. The study examined Chinese banks' websites and reports to determine causal linkages. Additionally, it employed panel regression and Granger causation to identify a number of corporate sustainability factors. The social and environmental performance of Chinese banks has improved significantly. Additionally, it has been discovered that Chinese banks' financial success and sustainability performance are causally related in both directions. Institutional theory suggests that the Chinese Green Credit Policy might have an impact on this relationship. The statistics indicated that a company's financial and sustainability performance were positively correlated rather than indicating a trade-off. By investing in corporate sustainability, Chinese banks can improve their financial performance and reinvest part of their increasing income. Conceptual and contextual gaps were found because the investigation was conducted in China, and the study variables differed from the original study.

A business model known as sustainable banking strikes a balance between economic, social, and environmental concerns. Supporting small and medium-sized firms fosters environmental preservation, embeds resource efficiency, and improves financial inclusion. It also ensures good governance, transparency, and integrity. Environmental and societal variables are also taken into account while making lending decisions. According to Kariuki (2021), development must take social, economic, and environmental problems into consideration in order to be sustainable. Sustainability ensures that while the economy is growing, social and environmental issues are considered. Because sustainability plays such a vital part in a nation's development, it is imperative in the financial industry. Projects related to mining, manufacturing, housing, infrastructure, and agriculture are funded by Kenya's financial institutions. Sustainable financing is required because of the significant negative social and environmental repercussions of these investments. Even so, the industry's numerous and disorganised sustainability projects make it doubtful that they will have a significant, long-term positive impact on business, the environment, and society. Therefore, the industry must adopt a collaborative approach to sustainability. According to the paper, Kenya should offer sustainable banking through a hybrid approach. The model would combine the advantages of market-driven and compliance-based regulatory systems. Such a model might include industry-developed voluntary norms and regulations and a regulator to enforce and guarantee adherence to those regulations.

2.1.3 Environmental Sustainability on Financial Performance of Commercial Banks

Research indicates that a bank's profitability is not significantly impacted by the environmental components of sustainability. This implies that a bank's commitment to internal and external environmental efforts is driven by factors other than a desire to maximise profits. Prior research has demonstrated that when stakeholder relevance rises, banks enhance the ecological elements of

their operations, products, and services (Richter & Dow, 2017). According to Richter and Dow's (2017) research, increased ecological activity is less likely to boost banks' bottom lines. This argues that the environmental aspect of sustainability may be ethically acceptable, bolstering the normative form of stakeholder theory. Stakeholder theory, in its normative form, maintains that businesses have genuine duties to communicate with stakeholders, regardless of whether doing so improves financial performance (Richter & Dow, 2017). Consequently, there is no relationship between bank performance and the environmental component of sustainability.

The fight against climate change to reduce corporate impacts by creating and adopting sustainable policies has garnered global attention for over thirty years (Huiskamp et al., 2022). For example, more and more politicians and heads of state departments are taking heed of possible effects on the climate due to climate change. As a result, national governments and supranational organisations are adopting different kinds of sustainability policies to combat these challenges, suggesting more significant concern with such threats (Marrucci et al., 2022). The United Nations has a policy direction on sustainable development, and we strive to achieve the ultimate vision by 2030. In order to realise the goals of the SDGs, it is recommended that banks embrace and incorporate sustainable business models (Adu, 2021).

Looking at today's banking sector, one can see that after nearly a decade after the financial crisis, the banking system has not yet overcome the problem of trust and genuine partnership with customers, employees, and other stakeholders (UNEP-FI, 2020). Such findings, coupled with the concern raised in this paper on the weakened public confidence with regard to the banking industry's successful engagement with the groups, require that the banking industry clearly articulates its role in the development of a sustainable future (UNEP-FI, 2020). It would mean a willingness and ability to show how the organisation is ready to serve a more diversified

contemporary social need or objective, and such is important for the banking industry to remain useful in the 21st century (Adu, 2021; UN Global Compact, 2020; UNEP-FI, 2020). Among the strategies for attaining this aim is through measures that are referred to as sustainable or responsible lending.

Studies exploring the link between sustainable banking activities in emerging economies are rare and have several drawbacks, according to a systematic evaluation of the literature on the sustainability measure (Orazalin, 2019). Although prior research indicates that corporate governance framework quality can enhance sustainable business choices, the focus of current banking studies has been on the effects of specific corporate governance elements on sustainable banking operations (Orazalin, 2019). Still, the researchers might not be able to fully quantify the intricate idea of corporate governance using specific corporate governance variables like board independence and board size, as it has been suggested that corporate governance is a difficult concept to operationalise (Adu, 2021). According to Munjal and Sharma (2019), using certain corporate governance factors alone may result in measurement errors. According to the authors, such measurement inaccuracies can result in conflicting regression coefficients. Prior experts advise researchers to utilise wide governance indices that may cover various corporate governance requirements instead of using specific corporate governance variables to avoid measurement errors (Platonova, Asutay, Dixon & Mohammad, 2018).

Kartadjumena and Rodgers (2019) explored the possibility that CEO compensation will spur managers to achieve business sustainability goals. The study examined how executive compensation, societal standards, and environmental challenges affect a company's financial success, market value performance, and financial health. The study concentrated on financial institutions in a developing nation. The findings demonstrated that higher CEO pay in Indonesian

banking institutions may inspire management to take more action regarding climate and environmental issues. Climate and environmental issues adversely affect both financial performance and market value performance. It is possible that Indonesian banking institutions prefer to participate in CSR initiatives just out of charity. Concerns about corporate sustainability are portrayed as a weakening element and a limited mediator in the relationship between executive pay and financial performance—variables of CEO salary and business sustainability present conceptual gaps.

The necessity for sustainable measures in the Romanian banking sector was evaluated by Nitescu and Cristea (2020). The empirical study highlights how Romanian banks are impacted by environmental, social, and governance issues and how they may be included in their risk management strategies by using linear regressions and data processing by a statistics and data science application. Corporate governance served as the dependent variable. The findings of the study demonstrate that the likelihood that the bank will implement a risk management strategy linked to environmental, social, and governance factors decreases as the return on assets or the leverage multiplier increases, and the size of the management body has a positive influence on the decision to engage in social responsibility activities. This research assessed the possibility of integrating sustainable development risks into development and risk management plans at the financial intermediary level and the importance of standardising sustainable practices throughout Romania's banking sector. There are conceptual gaps because the research's variables differ from those in the planned study.

Organisations need to report on their environmental performance due to environmental challenges like climate change and global warming. The literature that is now available emphasises how adopting environmental policies is anticipated to affect firms' financial performance. There is

much research on the subject, but opinions on how environmental success and financial performance relate to one another are still somewhat divided. In particular, the 2019 study by Munjal and Sharma examined the Indian commercial banks' environmental performance reports. The information that the researchers acquired from secondary sources included sustainability reports, corporate responsibility reports, annual reports and accounts from banks, and CSR reports. The results revealed no discernible relationship between the environmental and financial performance of public sector banks in India. Since their study was conducted in India, there is a contextual difference. The return on equity of private sector banks and environmental performance did not significantly connect. Banks operating in the private sector were shown to have positively significant environmental performance and returns on assets. Integrating environmental best practices into core business operations is something the banking industry should do to boost profitability.

Innovation and new market entrants in the past few years have increased competition among companies in the banking sector. The only way for banks to continue operating effectively is to develop durable competitive advantages. Creating a competitive advantage on your own is insufficient. The crucial factor is its sustainability. This part of a competitive advantage requires time and careful thought from the managers involved. Due to their inability to develop offerings and maintain long-term relationships with their clients, many businesses today are challenged by rivals. Mnjala (2020) examined how a business might establish a competitive edge to lead the market and its overall operations. The study sought to bring to light the nature of tangible resources to explain how they can foster the creation of durability and competitive advantage, which ultimately results in superior organisational performance. Since organisational sustainability competencies are connected with business success, it is evident that issues of environmental, social

and governance characteristics that are at the core of the sustainability strategy, are becoming significance in acquiring sustainable competitive advantage. Numerous businesses consider sustainability while responding to major strategic concerns. Businesses should be able to overcome the resistance to change and pursue fresh market prospects.

2.2 Theoretical Framework

Through Kenya's efforts, sustainable banking has become a critical agenda in the banking sector, particularly in the developing world. This has become more important as commercial banks work towards improving financial performance and efficiency. The purpose of this study is to determine how Kenyan commercial banks' financial performance is affected by sustainable banking. Thus, by combining the theories of the Resource Based View, Open System, and Stakeholder, the study aims to demonstrate how these four theories promote sustainable banking practices and their effects on performance. Lending money, supporting eco-friendly projects, and implementing corporate social responsibility initiatives are just a few examples of the various activities that make up sustainable banking. While realising environmental and social benefits, such actions also have impacts on the banks' revenue and competitive advantage. It is anticipated that the outcome of this study will generate useful knowledge on how sustainable banking practices can be effectively introduced to capture economic and social benefits in the Kenyan banking industry.

2.2.1 Resource Based View Theory

Resource based theory, often known as the Resource Based View (RBV), is a strategy that highlights the importance of organisational resources and capabilities in attaining competitive advantage and performance. A corporation may more easily recognise opportunities and anticipate threats when it has access to a pool of highly qualified workers. They may also use it to implement

plans that will increase their operations' efficacy and efficiency. Organisations developed it to comprehend the company's components and gain a sustained competitive edge. The Resource Based View Theory was first developed by Wernerfelt (1984) to support the idea that a corporation's strategy serves as justification for the additional resources that the firm has on hand. The primary source of competitive advantage for a corporation can be linked to its sustained holding of resources, which allow it to carry out its operations more successfully than its competitors in the industry. The theory enables businesses to identify and develop resources that provide a market niche and create a long-lasting competitive edge over rivals. According to David (1997), the idea posits that a company's capacity to establish a durable, sustainable, and competitive advantage is contingent upon its distinct resources, which can encompass technological, human, financial, or physical assets. According to the principle, a company can use its resources to gain a competitive advantage in a market where there is competition. This idea is pertinent since it offers recommendations for utilising its financial resources to enhance its financial performance in a sustainable manner.

In today's rapidly changing market landscape, firms must continuously adapt their resources to stay competitive. Based on the dynamic capabilities, this perspective is the result of the Resource Based View. Dynamic capabilities refer to an organisation's resource-use strategies, namely the procedures for acquiring, repurposing, integrating, and releasing resources. The dynamic capability focusses on how resources and capabilities must adapt over time to be relevant in a changing economy, whereas RBV primarily on the strategic importance of resources and capabilities. Resources and skills were viewed by the RBV as static, meaning that they could be established to be stationary within a specific time period and would stay that way for a while. The underlying hypothesis of this work is that when an organisation possesses resources that are rare,

valuable, distinctive, and non-replaceable, it may create value-enhancing tactics that are difficult for rivals to imitate. In order to be competitive in this ever-changing economic landscape, firms need to acquire new competencies. Dynamic capabilities, then, are said to represent organisational procedures or strategic routines that allow companies to design new resource configurations in response to market needs. Because of these dynamic capacities, businesses must set up procedures to gradually alter their routines, offerings, goods, and markets.

The Resource Based View (RBV) theory is particularly valuable in understanding sustainable banking for commercial banks in Kenya. Subsequently, while organisations, especially banks continue to compete for the customers, then the relative utilisation of the resources at their disposal becomes important. For example, through its technology advancement, a bank can win by offering its customers unique and efficient financial services. Skills and knowledge of employees, especially human resources, are also significant as they are involved in executing the bank's strategies and promoting innovation and adaptability to market changes. Assets like capital also play an important role in funding sustainable initiatives and handling risks in the banking sector. Further, human resources strengthen the capacity for sales and services, while physical resources such as branches and online presence increase customers' access to the bank. In this regard, it is argued that Kenyan commercial banks can harness exclusive resources to build and execute strategies for improving competitive advantage and sustainability. This approach is consistent with RBV, a strategic management theory that suggests a firm's competitive advantage is derived from its unique and valuable resources. Therefore, such banks are better positioned to have superior financial performance and sustainability throughout time due to the sustainability of their resources and their capacity to plan for changes in the banking environment. The capacity to utilise valuable, uncommon, unique, and non-substitutable resources gives a business a competitive edge,

according to RBV theory. According to the hypothesis, the performance of sustainable banking is influenced by the banking industry's capabilities in resource efficiency and financial services product innovation. Banks are able to enhance the financial performance of their operations through funding of environmentally friendly projects, which include the implementation of CSR initiatives.

2.2.2 Open Systems Theory

Ludwig Von Bertillon proposed the open systems theory in 1928. The idea that an organisation's environment significantly impacts it is known as open systems theory. The environment also includes other groups with various economic, political, or social sway. Important resources that sustain the organisation, encourage change, and guarantee its life are also provided by the environment (Sony & Naik, 2020). Open systems theory originated in contrast to earlier organisational theories, such as Elton Mayo's human relations approach and Henri Fayol's administrative theories, which saw organisations essentially as self-contained entities after World War II (Sony & Naik, 2020). Almost all contemporary theories of the organisation make use of the open systems viewpoint.

Consequently, there are several varieties of open systems theories. Contingency theorists, for instance, contend that organisations are set up to suit best the environments in which they are immersed (Sony & Naik, 2020). Institutional theorists see organisations as vehicles through which society's values and ideas are incorporated into organisational structure and manifested in organisational transformation. According to proponents of resource dependence theory, an organisation adjusts to its surroundings based on what its resource suppliers require (Sony & Naik, 2020). Although open systems theories provide a variety of perspectives, they are all centered

around the notion that an organisation's capacity for survival is contingent upon its interactions with its environment.

Open systems theory (OST), a modern systems-based better management philosophy, aims to build dynamic, creative, and adaptable communities and organisations in today's quickly changing and unpredictable surroundings. Various communities and organisations conduct and impact enterprises daily, attending to their exterior settings. Even though the external environments will always have an impact on businesses, they must constantly deal with the external changes that affect both the local and global settings (Sony & Naik, 2020). In order to guarantee its sustainability, an organisation has to verify that its external environment has an open and dynamic relationship with its open system. A robust, functional, open system is directly related to those evolving expectations and beliefs about the external world throughout time (Sony & Naik, 2020). A corporation or community risks being unhealthy and unviable if its expectations and ideals are at odds with those elements that impact the external environment.

According to this theory, environments with inputs and outputs are necessary for organisations to form, function, and prosper. The organisations operate in a technological, legal, political, and economic environment. The framework for fiscal and monetary policy in a nation where a firm conducts business is essentially the economic environment. The political climate influences the actions made by the existing administration. This might affect an organisation negatively or favourably. The legal environment refers to the legal structure and legislation an organisation must abide by to function. The software and networks that make up the technological environment support an organisation's operations. All of these environmental factors impact the interactions between an organisation and both internal and external elements. The existence of an organisation is dependent on its immediate surroundings. The theory is relevant to this study as it underpins the

organisation's role in social sustainability. Through various corporate responsibility programs, organisations could engage with the immediate environment. This would enhance the organisation's public image and consequently attract more customers. The ultimate effect is improved financial performance.

Open system theory focuses on the fact that organisations are not closed systems but are rather strongly affected by the environment (Sony & Naik, 2020). Relative to the Kenyan commercial banks, this theory portrays the ever-evolving relationship of these institutions with the economic, social, political, and technological environment they exist in. Banks, as players in the economy, are governed by legislation and policies that may affect the conduct of their business and their monetary management. From the political aspect, shifts in government policies may affect the flow of business and the stability of the market. In the legal aspect, it maintains compliance with banking laws and regulations to avoid legal ramifications and promote business validity. Besides, the last technological environment, digital infrastructure, and cybersecurity are other significant factors determining customer interactions and banking services.

Therefore, for commercial banks in Kenya, appreciation of these factors is important in terms of their influence on their operation and performance in the external environment. Corporate responsibility is not only an effective way to improve banks' image but also a means to increase stakeholders' confidence. Implementing strategies consistent with social values and norms will help banks reduce the public's negative perception and gain customers' sensitivity to ethically sound practices (Sony & Naik, 2020). Finally, implementing open systems theory in the banking industry enables banks to manage the external environment. It promotes adaptability, creativity, and sustainability in their banking systems—the Open System Theory focuses on the interaction between an organisation and its outside environment. In the case of commercial banks, this means

‘greening up’ or changing in order to incorporate sustainable activities in compliance with outside forces like rules, public opinion, and climate change. This theory is relevant to the study as it emphasises the importance of adaptability to external circumstances, enhancing banks' efficiency and financial results.

2.2.3 Stakeholder Theory

Freeman (2004) stated that stakeholders can influence or are influenced by attaining corporate goals. Other stakeholders range from customers, employees, suppliers, communities, governments, and competitors in the market. This theory stresses understanding the interactions between an organisation and its stakeholders. It also argues that organisations should work for the creation of value for all stakeholders as opposed to shareholders only. Managers often create externalities, which are costs or benefits that affect people not within the business. These externalities can also be referred to as externality benefits or costs depending on whether they have a positive or negative impact (Freudenreich et al., 2020). For instance, a bank may provide loans that enable economic growth (an external benefit) or engage in activities that harm the environment (external cost). According to stakeholder theory, organisations should attempt to reduce environmental harm and increase benefits. This incorporates the assessment of each stakeholder's interest and the selection of options that favour each of them.

Stakeholder mapping and the management of stakeholders are foundational to the implementation of stakeholder theory. According to Freeman (2004), stakeholders are those interested in or likely to be impacted by an organisation's actions. These are customers and employees, citizens of the country and inhabitants of the world, as well as the environment itself. There are diverse forms of stakeholder engagement, the primary of which is constant two-way communication, information sharing, and inclusiveness in decision-making. Stakeholder engagement can provide organisations

with important information, increase the level of trust, and improve organisational relationships with stakeholders for the benefit of sustainable future operations.

According to Freeman et al. (2020), it is essential to point out that organisations, such as banks, have obligations that cannot be limited to the provision of financial results. They reason that companies are part of a larger society and environment and, therefore, have the responsibility of considering their actions' effect on society and the environment. This comprises the provision of equal employment opportunities, environmentally sustainable production, and the provision of support to society. In this same framework, governments are involved in the formulation of laws and other measures that ensure proper corporate conduct.

Another aspect of stakeholder management is monitoring and evaluating the stakeholder's interests. Thus, to follow the expectations of the stakeholders, Barney and Harrison (2020) asserted that the stakeholders' needs and concerns should be reviewed from time to time. Thus, this requires early detection of issues affecting financial performance and any negative social and environmental effects. For instance, banks should identify how their lending portfolio influences customers, employees, and society, including the physical environment. Such evaluations can assist an organisation in finding opportunities for improvement and applying measures that would increase satisfaction among people interested in the organisation and its performance level.

According to Miles (2017), it is not easy to consider which interest takes precedence over the other stakeholders. For instance, personnel projects like public projects tend to balance out the different stakeholders' interests, hence the possibility of conflicts and bargains. Similarly, commercial banks have to manage conflicts between stakeholders, such as shareholders who need monetary gains, customers who want proper and honest treatment, employees who want proper treatment, and

shareholders and communities who expect banks to act socially and environmentally responsibly (Miles, 2017). Stakeholder management entails the ability of an organisation to efficiently balance such factors and make choices that yield the most significant net benefit.

The use of stakeholder theory can be most effectively applied in the commercial banking industry. Banks are strategic organisations with multi-dimensional interconnectivity with other players in the market; hence, their activities have far-reaching consequences. Customers depend on the banks for such services, employees depend on the banks for income, suppliers supply the necessary products, and governments oversee the workings of the banks (Freudenreich et al., 2020). In addition, they found that the investment and lending practices of the banks affect the community and the larger environment. It is, therefore, important that all these stakeholders work hand in hand and cooperate in order for the commercial banking system to survive (Freudenreich et al., 2020). For example, an organisation that pays attention to offering satisfactory services and the welfare of its employees is likely to gain a good reputation and a loyal customer base, thus improving its financial outlook.

Specifically, stakeholder theory is most relevant for the analysis of social sustainability in relation to financial performance in commercial banks. Social sustainability entails activities that enhance or prioritise the welfare of all individuals in a project involving employees' rights, people within the community, and legal standards of business operations. Social sustainability is an effective measure that may help banks strengthen stakeholder relations, improve their image, and manage the negative externalities related to social problems (Freudenreich et al., 2020). For instance, corporate social responsibility activities in financial institutions like banks, whereby they embark on community development projects or undertake environmental conservation measures, will allure principled customers who want to do business with a bank that adopts high ethical standards.

The stakeholder theory offers a robust theoretical framework for explaining various engagements between an organisation and its stakeholders. The awareness of stakeholder interests and demands allows for better-balanced decision-making for organisations and improves the efficiency and sustainability of operations in commercial banks (Miles, 2017). This theory underscores the need to strike a balance between the different stakeholder groups in sustainable banking. By being socially responsible and managing their affairs more transparently, it is implied that the banks can improve their image, gain more customers, and thus achieve better performance. This theory is applicable to the study as it underscores how sustainable banking practices can address and balance the competing demands of stakeholders, including the pursuit of profitability.

2.3 Conceptual Framework

According to Perry and Towers (2018), a conceptual framework is a coherent set of presumptions or theories describing how a specific phenomenon functions or is connected to its components. It highlights the ways in which a conceptual framework supports your claim regarding the uniqueness and importance of your research in relation to a topic or even novel situations or issues. It is easier to visualise the suggested linkages when there is a diagrammatic schematic description (Perry & Towers, 2018). It offers the structure needed to understand the causal or correlational connections between the observations and the interpretations of those links. The study investigates the relationship between sustainability and financial performance. The three independent variables are environmental, social, and economic sustainability, while financial performance serves as the dependent variable. The conceptual framework outlining these relationships is depicted in Figure 2.1.

Independent Variables

Dependent Variable

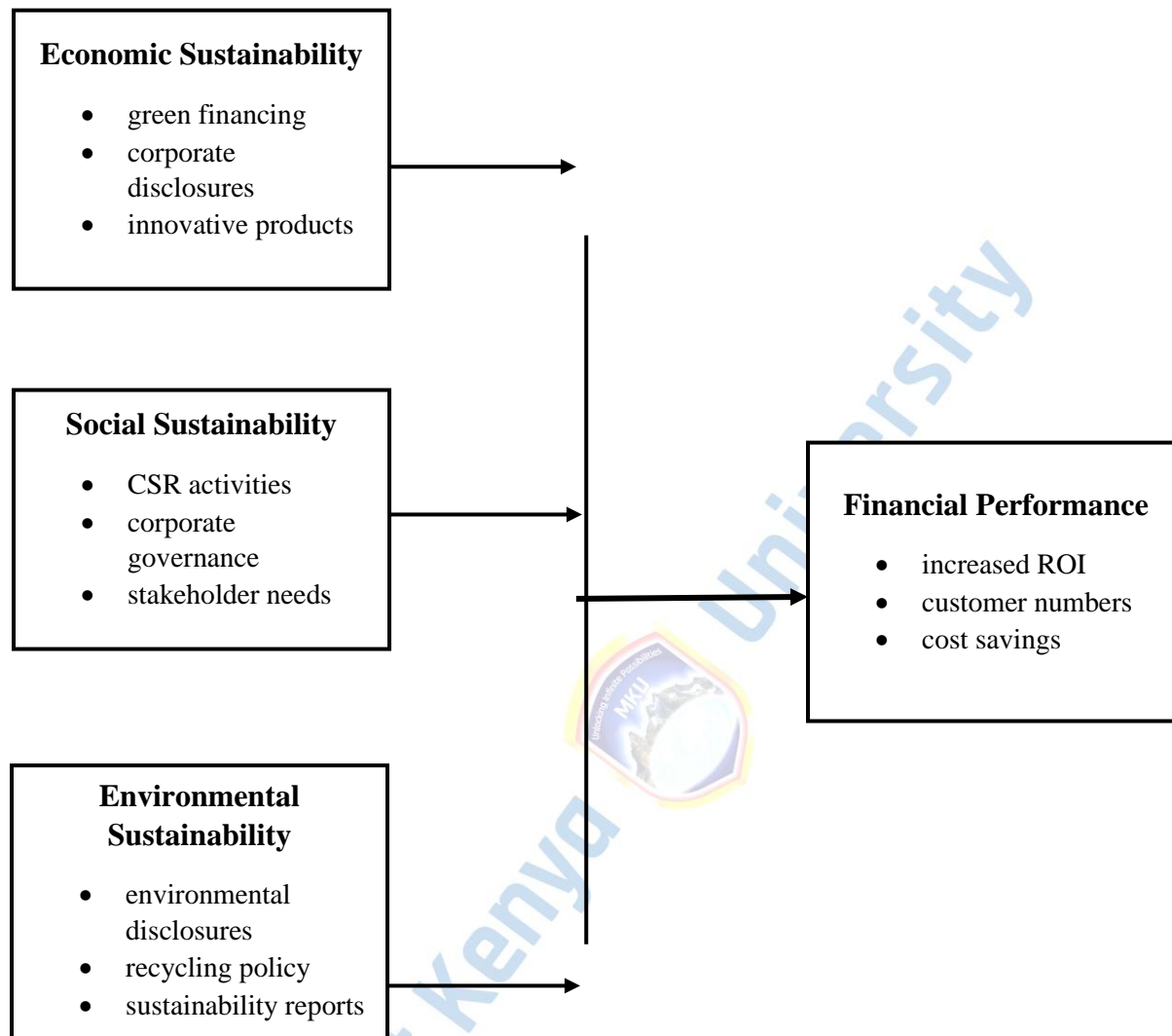


Figure 2.1 Conceptual Framework (Researcher, 2023)

2.4 Research Recap

The literature has shown that businesses are faced with economic, environmental, and social issues that have a significant impact on their performance. The UN member states' similar understanding and shared focal points serve as the foundation for the SDGs. Global pressure on the banking industry is prompting banks to take more initiative in corporate sustainability (Handajani et al., 2021). Previous studies present knowledge gaps that need to be filled with the proposed study.

Zheng et al.'s (2021) study reviewed existing literature to identify the components of green finance and their potential impact on the long-term sustainability of financial institutions. The study found that these components align with both the characteristics of green finance and the economic, social, and environmental dimensions of the Sustainable Development Goals (SDGs). However, the study was limited by its focus on a specific jurisdiction, highlighting a contextual gap. Mustofa et al.'s (2020) study explored the influence of green accounting on corporate financial performance and social responsibility. Findings showed that financial performance and green accounting, as well as corporate social responsibility and green accounting, all significantly and favourably relate to each other. Due to the study variables being different from those in the proposed study, there is a conceptual gap in the study.

Tawfik, Kamar, and Bilal (2021) investigated the relationship between accounting indicators and a company's sustainability-related metrics. There is a gap in the literature because the study was carried out in Arab nations with distinct legal, political, economic, and social circumstances from Kenya. Sroufe and Gopalakrishna (2019) assessed American companies' social sustainability and financial performance. The research discovered correlations between the concepts of financial success in a company and the administration of sustainable practices that enhance social sustainability performance. Due to the study's inability to examine data statistically, there is a methodological gap.

Weber (2017) investigated the relationship between Chinese banks' sustainability performance and financial indices. It was found that there was a positive link rather than a trade-off between the financial performance and sustainability performance of the organisation. The study exhibits conceptual and contextual gaps because it was carried out in China with different study variables than the original study. Kartadjumena and Rodgers (2019) explored the possibility that CEO

compensation is intended to spur managers to achieve business sustainability goals. Executive salary and company sustainability were the study variables, hence conceptual gaps. The Romanian banking industry needs to embrace sustainability practises (Nitescu & Cristea, 2020). The study presents conceptual gaps as the variables are different from the proposed study.



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives the reader a systematic description of the flow of the research process. It describes the approach used for the study and provides information on the intended research strategy. It also points out the aspects of sampling that were employed to sample a sample population from the target population for the analysis. Furthermore, the identification and elaboration of the tools and methods that have been utilised for data collection are evident in the chapter. Other subsequent sections encompass the steps taken in the analysis of the collected data while the last section of the chapter provides a brief on the measures taken in the course of conducting the study in concern with the ethical issues.

3.1 Research Design

A research design entails a researcher's methodical approach when performing scientific investigations (Abutabenjeh & Jaradat, 2018). Creswell (2014) argues that the modern research environment is diverse, dynamic, and complex, necessitating researchers to complement their research methods. To enhance research quality and outcomes, it is essential to explore effective methodologies. The study employed a descriptive research design, which was suitable for understanding phenomena in their natural state without manipulation. Qualitative data was collected using closed ended questionnaire where Likert Scales was used.

3.2 Location of the Study

The study was conducted among commercial banks in Kenya, specifically focusing on Nairobi County. This region is home to the majority of the 42 licensed commercial banks listed by the Central Bank of Kenya.

3.3 Target Population

This research focused on the 42 Chief Operations Managers of commercial banks in Kenya, with each manager representing one of the 42 licensed banks listed by the Central Bank of Kenya.

3.4 Sampling Procedures and Techniques

According to Kendra (2018), a sample is a portion of the population that is representative of the full group, particularly when it is not practicable to poll every member of a huge community. Kothari (2004) asserts that the research population's size determines the analysis unit. If the study population is significantly small ($N < 200$), the unit of analysis should include every member of the study population (Israel, 2012). The study used a census survey, wherein the entire target population of the study respondents was involved. As a result, all 42 chief operations managers participated in a census survey. By using this method, the standard error is decreased, and the results are more broadly applicable.

3.5 Construction of Research Instruments

By giving study participants questionnaires, the primary data for this research was acquired. In order to enhance anonymity and privacy, the researcher gave the respondents guidelines on how to complete the questionnaires when name inclusion was not necessary. The questionnaires were divided into five sections: one for demographic data and the other for Likert scales measuring

economic, social, and environmental sustainability research variables as they related to Kenyan commercial banks' financial performance.

3.6 Testing for Validity and Reliability

The pilot study was conducted at Faulu Microfinance Bank, Nairobi. The choice of the microfinance bank was motivated by its elaborate structures that included sustainable banking policies and guidelines. Four responders were chosen as a sample for the pilot study. Connelly (2008) states that the pilot sample ought to represent 10% of the sample anticipated for the main study.

3.6.1 Validity

When a data gathering tool measures something accurately, it is said to have valid instrument validity (Sürücü & Maslakçi, 2020). The validity of these tools can be assessed through construct, content, and criterion validity. Construct validity ensured that the tools effectively captured the intended concepts. Since neither of the two by itself is adequate to measure construct validity, it was to be established at the intersection of both. In order to confirm construct validity, the construct elements of financial performance, social sustainability, environmental sustainability, and economic sustainability were thoroughly factored during the pilot study.

3.6.2 Reliability

Reliability is the degree to which an instrument consistently measures the variables of interest with accuracy (Mohajan, 2017). This refers to the capacity of the instrument to generate the same or nearly the same scores any time the test is administered. Pilot testing can be valuable in determining the inter-observer reliability of an instrument; one way this could be accomplished is

by using pilot-test retest and internal consistency evaluations. The test-retest method assesses the reliability of results over time, and internal consistency looks at how much the questions in the instrument agree with each other. Cronbach's Alpha coefficient of 0.7 or more is often accepted as a standard measure of reliability (Segal & Coolidge, 2018).

3.7 Data Collection Methods and Procedures

Data collection by the researcher will begin as soon as the instruments have been validated properly. A person was present to administer the questionnaire. Before visiting the bank's headquarters, the researcher spoke with managers to get an audience. The goals of the research were outlined during the discussions, and the dates for the actual distribution of the questionnaires were decided upon. On the agreed dates, the researcher visited each bank where the questionnaires were delivered, filled in, and collected.

3.8 Data Analysis Techniques and Procedures

In order to improve the accuracy of data, editing, coding and tabulating the data were important stages in the data cleaning process. This process assisted in determining any disagreements in the responses and assigned unique numerical values to each item for further examination. The statistical analysis was done using the Statistical Package for Social Sciences, commonly referred to as SPSS. Frequencies and percentages were employed as a type of basic quantitative analysis for the study variables. Descriptive and inferential statistics, including multiple and simple linear regression analyses at a 95% confidence level, were used to evaluate the study hypotheses, with data analysed using SPSS. The following multiple linear regression model was used in the investigation: -

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y is financial performance

β_0 is a constant

$(\beta_i; i=1, 2, 3)$ are the Beta coefficients of independent variables

X_1 is economic sustainability

X_2 is social sustainability

X_3 is environmental sustainability

ε is the error term

3.9 Ethical Consideration

The researcher consulted the National Commission for Science, Technology & Innovation (NACOSTI), Mount Kenya University, and the management of the commercial banks involved in the study. To ensure ethical conduct, all respondents provided informed consent to participate in the study. Their identities were kept confidential, and their privacy was maintained throughout the research.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter's primary goal was to offer analyses and an explanation of the findings and results. This included testing hypotheses through descriptive, inferential, and demographic analysis. The purpose of the study was to determine how sustainable banking practices impacted Kenyan commercial banks' financial performance.

4.1 Response Rate

The study focused on the Chief Operations managers from all 42 commercial banks authorised to operate in Kenya. A comprehensive approach was adopted, surveying the entire population rather than using a sample. This census method resulted in full participation, with every manager completing and returning their questionnaire in a timely manner. All responses were deemed valid and included in the analysis. Research methodology experts suggest that a response rate exceeding 70% is considered highly satisfactory for analytical purposes. In this case, the 100% response rate achieved was exceptional, providing a robust dataset for thorough analysis.

4.2 Demographic Information

Demographic information collected from respondents included gender, age, educational level, and years of experience in the banking industry.

4.2.1 Gender

The study found that there were more males 60 % (n=25) than females 40 % (n=17), portraying gender inequality among senior staff in the banking sector. This finding concurs with Van den

Besselaar and Sandström (2016) who argued that gender inequalities in the banking sector is very common, especially in developing countries. Table 4.1 depicts this finding.

Table 4.1: Response by Gender

Gender	Frequency	Percentage
Male	25	60
Female	17	40
Grand Total	42	100

4.2.2 Age Brackets of the Respondents

The respondents represented various age groups, as shown in Table 4.2. The study's findings revealed that the majority of participants were between 46-55 years old (n=16, 38%), followed by those aged 36-45 years (n=15, 36%). The remaining participants were over 55 years old (n=5, 11.9%), 25-35 years old (n=4, 9.5%), and 18-25 years old (n=2, 4.7%). The distribution of respondents' ages is well-balanced, providing the study with a more comprehensive and unbiased analysis.

Table 4.2 Response by Age

Age	Frequency	Percentage
Above 55 years	5	11.9
46-55 years	16	38
36-45 years	15	36
26-35 years	4	9.5

18-25 years	2	4.7
Grand Total	42	100

4.2.3 Level of Education

Table 4.3 indicates that the majority of the participants held a master's degree (n=25, 59.9%), followed by a bachelor's degree (n=10, 23.8%), a Doctor of Philosophy (n=5, 11.9%), and a Diploma (n=2, 4.7%). This distribution of participants by level of education provides essential insights into the knowledge and expertise of the participants, which can impact the results of the research. Given the high level of education among respondents, their understanding of theories, practices, and processes related to economic, social, and environmental sustainability would likely contribute to more accurate responses to the questionnaire (Van den Besselaar & Sandström, 2016).

Table 4.3 Respondents Level of Education

Gender	Frequency	Percentage
Diploma	2	4.7
Bachelor's degree	10	23.8
Master's degree	25	59.5
Doctor of Philosophy	5	11.9
Grand Total	42	100

4.2.4 Years of Experience

Table 4.4 indicate that majority (n=26, 62%) of the respondents had worked for 15-29 years, (n=6, 14%) for 10-14 years, (n=5, 12%) for more than 30 years; (n=3, 7%) for 5-9 years while a few (n=2, 5%) less than 4 years. Since most of the respondents had worked for a long time in the banking sector, their rich experience at work helped provide in-depth and accurate responses, making the study findings more reliable.

Table 4.4 Years of Experience

Gender	Frequency	Percentage
1-4 years	2	5
5-9 years	3	7
10-14 years	6	14
15-29	26	62
30+years	5	12
Grand Total	42	100

4.3 Descriptive analysis of the study variables

4.3.1 Effect of Economic Sustainability on the Financial Performance of Commercial Banks

Six items were used to measure economic sustainability among commercial banks, as shown in Table 4.5. From the findings, a majority (48%) of the respondents agreed that the bank embraced green financing in its business model, 7% were not sure, and a few 45% disagreed. This indicates that some banks had embraced green financing in their business model while others had not.

Commercial banks that have not embraced green financing in their business model could probably have faced challenges such as capital constraints and weak financial structures that barred them from embracing green financing. On the other hand, those who embraced the green financing model could probably have developed better strategies that helped them finance green financing requirements to gain a competitive edge in the market, leading to economic sustainability. These results are congruent to those obtained by Fateme (2021), who asserted that the advantage that comes with green finance enhances financial performance. Therefore, there is a need for banks to embrace green financing to enhance economic sustainability as well as financial performance.

Most participants (84%) agreed that banks disclose their economic sustainability activities in periodical reports, while a few 17% do not. By disclosing economic sustainability activities, commercial banks can effectively communicate how they are committed to achieving their economically sustainable goals. Thus, they can engage stakeholders and demonstrate their commitment to enhancing positive environmental and social impacts. Commercial banks can choose different sustainability reporting frameworks to communicate their efforts, progress, and commitment to business practices that are responsibly sustainable. These findings are similar to those of Anantharaman (2017), who proposed adopting standardised sustainable reporting methods.

The majority (76%) of the participants agreed that banks had come up with innovative products for economic sustainability, while a few 21% were of a contrary opinion. To enable economic sustainability among commercial banks, innovative products such as green deposits, green trade loans, green letters of credit, green guarantees, and sustainable supply chain financing are required. The benefit of innovative products for economic sustainability is that they improve client experience, help stay at a competitive edge, and help streamline operations, thus enhancing

financial performance among commercial banks. These findings are similar to those of Siden (2021), who asserts that sustainability relies on services provided by commercial banks that aim to increase savings, facilitate cash transfers, and boost investment to enhance capital formation and balanced economic growth. The findings also resonate with Okari, Katula and Nyanumba (2018), who established that innovations such as mobile banking, agency, and online banking enhanced sustainability by opening avenues for serving more customers globally.

The results showed that 84% of participants believed that banks have a strategic plan outlining their financial sustainability, compared to 17% who disagreed. The majority had strategic plans because banks can prioritise their efforts while effectively allocating resources and aligning shareholders and employees to reach their organisational objectives through the availability of data that enables them to make informed decisions. These findings are similar to those of Ajibade and Mutul (2020), who established that the two largest African economies of South Africa and Nigeria have Strategic plans outlining their economic sustainability, thus integrating them into their business thus resulting in increased efficiency within the banking system.

From the findings, 84% of the respondents disagreed that banks train staff on economic sustainability products. This is contrary to 10% who agreed while 2% were not sure. Training on the economic sustainability of products is very important since it enhances productivity and financial performance by giving employee room to improve their skills, which is important when it comes to completing their tasks. It also enhances independence by helping employees acquire knowledge to carry out their duties without help. This indicates that commercial banks need to train their employees on economic sustainability products to enhance their financial performance.

From the findings, 45% of the participants agreed that banks had instituted policies for green operations, 45% did not, and 10% were not sure. This could be attributed to the fact that they lack

a green financing business model, as evidenced by the findings where 48% agreed that the bank had embraced green financing in its business model, contrary to 45% who agreed that the bank had embraced green financing. The lack of instituted policies for green operations results in risks and setbacks, such as legal consequences, decision-making inconsistencies, and a lack of operational structures. Nevertheless, it might make employees incapable of handling certain situations, resulting in conflicts and confusion. Therefore, this calls for commercial banks to institute policies for green operations to enhance their financial performance. These results mirror those of Nwagwu (2020), who observed that despite the recent attention given to sustainable banking, banks still encounter obstacles in adopting and implementing green financing. A notable challenge is the lack of understanding regarding the role of commercial banks in green financing.

Table 4.5 Economic Sustainability and Financial Performance of Commercial Banks

Statement	5 Strongly agree	4 Agree	3 Not sure	2 Disagree	1 Strongly Disagree
The bank has embraced green financing in its business model	18 43%	2 5%	3 7%	1 2%	18 43%
The bank discloses its economic sustainability activities in periodical reports.	20 48%	15 36%	0	4 10%	3 7%
The bank has come up with innovative products for economic sustainability.	21 50%	11 26%	0	2 5%	8 19%
The bank has a strategic plan that outlines	20 48%	15 36%	0	2 5%	5 12%

its economic sustainability goals.					
	2	2	1	10	27
The bank trains its staff on economic sustainability products.	5%	5%	2%	24%	64%
The bank has instituted policies for green operations.	14	5	4	3	16
	33%	12%	10%	7%	38%

4.3.2 Effect of Social Sustainability on Financial Performance of Commercial Banks

There were six items that were used to measure the Social Sustainability and Financial Performance of Commercial Banks, as depicted in Table 4.6. From the findings, 71% of participants agreed that banks engage in corporate social responsibilities (CSR) with communities, 24% disagreed, and 5% were not sure. When commercial banks involve themselves in corporate social responsibilities, it shows their commitment to social issues, thus enhancing their reputation and building a positive image for their investors, community, and customers. It also enables them to create trust and credibility with their stakeholders, thus enhancing their financial performance. These findings mirror those of Mustofa, Edy, Kurniawan, and Kholid (2020), who established that corporate social responsibility positively impacted financial performance with a reciprocal relationship for green accounting. The findings are also identical to those of Munjal and Sharma (2019), who established a statistically significant relationship between private sector banks' CSR performance and their return on assets.

From the results, an overwhelming majority (86%) of the respondents agreed that commercial banks had a robust corporate governance mechanism for social sustainability, 12% disagreed, and

2% were not sure. The fact that many commercial banks have good corporate governance mechanisms demonstrates that interaction with current social and environmental trends is necessary to secure long-term financial success. Embracing strong corporate governance towards social sustainability, such as diversity, independence, sustainability committees, disclosure, and transparency, helps guide commercial banks to a sustainable direction through integration and thus enhances financial performance. The openness, as per the system theory, allows commercial banks to embrace corporate governance mechanisms that can bring about change within the banks and attain social sustainability, which in turn enhances financial performance. These results resemble those of Adu (2022), who asserted that corporate governance practices positively impact sustainability-related actions, including environmental disclosures and social sustainability activities in the banking industry within Sub-Saharan African Nations. Afroz (2017) warned banks with inadequate corporate governance mechanisms that are likely to increase legal, credit, and reputational risks, likely leading to low performance.

From the findings, 45% of the participants agreed that stakeholders are engaged in decisions, 50% disagreed, and a few 5% were not sure. This is an indication that as much as stakeholders are engaged in decision-making, not all commercial banks engage stakeholders in decision-making. According to stakeholders' theory, it is essential to engage stakeholders in decision-making since they enable firms to make informed decisions that increase market share. Additionally, the interests of stakeholders differ. Thus, they might or might not take part in the decision-making process, depending on their interests. Stakeholders need to be involved in the social sustainability decision-making process in order to enhance financial performance. Compared to 17% who were not sure. These findings are identical to those of Anantharaman (2017), Nobanee and Ellili (2017), Kumar and Prakash (2019), and Anantharaman (2017), who established that stakeholders are significant

in enhancing social sustainability, which results in increased business growth. The results further mirror Nobanee and Ellili (2017), who noted that banks that adopt sustainable banking practices gain various advantages by engaging stakeholders, garnering their support, attracting new customers, capital, and market share, and cultivating goodwill.

Table 4.8 further shows that 69% of the participants disagreed that the management of the bank is appraised on social sustainability benchmarks, contrary to only 31% who agreed. The fact that the majority were not being appraised on social sustainability benchmarks is an indication that they are not aware that social responsibility is a key ingredient in meeting the needs of the community. Through social appraisal and benchmarking, commercial banks are able to get feedback from the community regarding areas of improvement that are likely to enhance financial performance. These findings are the same as those of Sroufe and Gopalakrishna (2019), who assert that the evaluation of social sustainability efforts among American businesses is critical to their growth and performance.

The majority of respondents—55 percent—agreed that banks regularly determine the needs of stakeholders. Comparatively, 45% disagreed, which is consistent with past research showing that stakeholders are underutilised when making decisions. Stakeholders are a crucial component of social sustainability. Daily involvement with stakeholders should lead to an improvement in commercial banks' financial performance. This outcome parallels Handajani, Akram, and Rifai (2021), who established that adopting sustainable banking practices is seen to align with stakeholder expectations and gain regulatory approval for the presence of financial institutions. This process often requires balancing the interests of different stakeholder groups. Additionally, Adu (2021) agreed that the banking industry can restore trust by involving its stakeholders in most operations.

Lastly, Table 4.6 further showed that 74% of the respondents disagreed that banks train their stakeholders on their programs for social sustainability, contrary to 27% who agreed. This shows that banks are not cognisant of the need to train stakeholders on ways of improving social sustainability goals. Training stakeholders on social sustainability creates an environment where stakeholders can work independently without help or supervision. It also enhances performance, reduces errors in social sustainability, and motivates people. It also enhances organisational culture and morale by demonstrating ethical practice. From the findings, as social sustainability is limited, a lack of stakeholder training may have a detrimental impact on commercial banks' financial performance. These findings are the same as those of Freeman (2004), who asserted that training stakeholders helps businesses get the best support from them, leading to better financial performance.

Table 4.6 Social Sustainability and Financial Performance of Commercial Banks

Statement	5 Strongly agree	4 Agree	3 Not sure	2 Disagree	1 Strongly Disagree
The bank engages in CSR activities with the communities.	20 47%	10 24%	2 5%	4 10%	6 14%
The bank has robust corporate governance mechanisms for social sustainability.	25 60%	11 26%	1 2%	2 5%	3 7%
Stakeholders are engaged in decision making.	10 24%	9 21%	2 5%	10 24%	11 26%

Management of the bank is appraised on social sustainability benchmarks.	6 14%	7 17%	0	9 21%	20 48%
The banks identify stakeholders' needs in their day-to-day operations.	15 36%	8 19%	0	9 21%	10 24%
The bank trains its stakeholders on its programs for social sustainability.	6 14%	5 12%	0	11 26%	20 48%

4.3.3 Effect of Environmental Sustainability on Financial Performance of Commercial Banks

There were six items that were used to measure the effect of environmental sustainability on the Financial Performance of Commercial Banks, as indicated in Table 4.7. From the study findings, the majority, 71% of the participants, were of the view that banks disclosed their environmental sustainability program and its report while only a few 29% were of a contrary opinion. By so doing, banks demonstrate their firm commitment to positive environmental change through disclosure. Additionally, the banks can finance or give loans to clients in the renewable sector to protect the environment. The findings align with those of Avrampou, Skouloudis, Iliopoulos, and Khan (2019), who found that for financial institutions to achieve Sustainable Development Goals (SDG) related to environmental protection, economic growth, societal cohesion, and improving people's standard of living, it is crucial for them to disclose information about their social, economic, and environmental sustainability. However, their study also revealed that European banks generally provided limited disclosure of information related to the SDGs, probably explaining why 29% of participants of this study disagreed with the statement.

From the findings, 72% of the participants disagreed that banks have a recycling policy for waste. This is contrary to 26% who agreed and 2% who were not sure that the bank has a recycling policy for waste. This is an indication that very few banks have a recycling policy for recycling. By failing to have a recycling policy, commercial banks deny the community a healthy environment, which is prime for their day-to-day wellbeing and business survival. Nevertheless, 28% who had a recycling waste could probably become agents of change and push the banking industry into being champions of environmental sustainability. This is in line with Care (2018), who argued that banks are beginning to include climate change issues in their day-to-day functions in response to rising consumer demand for goods and services that address their customers' increasing environmental and sustainability concerns.

Table 4.7 further shows that 76% of the respondents disagreed that Bank trains their staff on environmental sustainability, 19% of the respondents agreed, while a few 5% were not sure. By failing to train employees on environmental sustainability, the banks deny them knowledge on reducing waste, conserving available resources, and enhancing energy efficiency. From the 24% of the respondents who agreed that staff training takes place, this indicates that they have embraced environmental practices that help in minimising costs in the long run, resulting in increased financial performance.

From the findings, 28% of the participants agreed that bank management rewards employee actions towards environmental sustainability, contrary to 72% who disagreed that bank management rewards employee actions towards environmental sustainability. This is an indication that most employees are not rewarded for their actions toward environmental stability. The use of reward and recognition on the basis of environmental stability has a positive impact on employee

motivation to experiment with green financing. Employee motivations are linked to employee productivity, thus enhancing financial performance.

From the findings, 76% of the participants agreed that banks are involved in sustainability projects, compared to 22% who disagreed. This is a glaring example of how commercial banks perform better when involved in environmental sustainability projects because they increase cost savings and efficiencies, open up new markets and opportunities, and improve the reputation of their companies. These findings align with those of Tawfik et al. (2021), who found that involvement in environmental sustainability programs provides a foundation for improved financial performance in companies.

Lastly, table 4.7 depicts that 78% of the study respondents disagreed that employees are aware of the environmental sustainability goals of the bank, 17% agreed, and 5% were not sure. This indicates that most of the employees working in commercial banks are not aware of environmental sustainability goals, probably due to a lack of training, as earlier found out in this study. The 24% of the respondents who agreed with this statement are probably aware that the primary purpose of environmentally sustainable goals is to ensure that firms operate within ecological borders where humans can operate safely within the environment's constraints for better performance. These findings are the same as those of Sarma and Roy (2019) and Gutiérrez and Serrano (2019), who agreed that environmental sustainability goals are vital to the growth of an economy through integrating best sustainable practices and ethical, social, and environmental factors. Kariuki (2021) further avers that environmental sustainability is equally critical to the economic progress of a country.

Table 4.7 Environmental Sustainability and Financial Performance

Statement	5	4	3	2	1
	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
The bank discloses its environmental sustainability programs in its reports.	19 45%	11 26%	0	5 12%	7 17%
The bank has a recycling policy for waste.	8 19%	3 7%	1 2%	10 24%	20 48%
The bank trains its staff on environmental sustainability.	6 14%	2 5%	2 5%	11 26%	21 50%
The bank's management rewards employee actions towards environmental sustainability.	9 21%	3 7%	0	12 29%	18 43%
The bank is involved in environmental sustainability projects.	17 40%	15 36%	1 2%	4 10%	5 12%
Employees are aware of the environmental sustainability goals of the bank.	15 12%	2 5%	2 5%	14 33%	19 45%

4.4 Financial Performance

There were six items responded to, as indicated in Table 4.7, pertaining to Financial Performance of Commercial Banks as shown below.

Table 4.8 Financial Performance of commercial banks

Amount in KSH in billions.

Variable/Year	2016	2017	2018	2019	2020	2021	2022
Social sustainability	84.6	100.3	126	130.4	132.4	135.9	139.5
Economic sustainability	42.5	48.9	50.0	51.8	60.9	61.4	65.6
Environmental Sustainability	2.8	3.2	3.5	3.8	4.5	4.7	5.1
Total income	129.9	152.4	179.5	186	197.8	202	210.2

Source: CBK

During the study period, the three sustainable banking practices were used to measure the overall income of commercial banks in order to assess their financial success. The total income increased by 117.3 percent in 2017, 117.77 percent in 2018, 103.62 percent in 2019, 106.34 percent in 2020, 102.12 percent in 2021 and 104.05 percent in 2022.

4.5 Testing Statistical Assumptions

Before performing inferential and hypothesis testing, the data was checked to make sure that there were no assumptions broken. This allows for analysis because tests for normality, heteroscedasticity, and multicollinearity were performed and determined to be within acceptable bounds.

4.5.1 Normality test

The difference between the actual and anticipated values of the study's model, or residual errors, is referred to as normality. This distribution of residual errors is normal. The purpose of the normality test is to establish whether the data sample used in the study was taken from a population that is regularly distributed. Mishra, Pandey, and Keshri (2019) assert that this is important because parametric tests assume a normal distribution of data. A standardised residual histogram was generated, as shown in Figure 4.1 to test for normality. This figure demonstrates that the standardised residuals are normally distributed as indicated by the histogram's bell-shaped curve, implying that the data is suitable for inferential analysis.

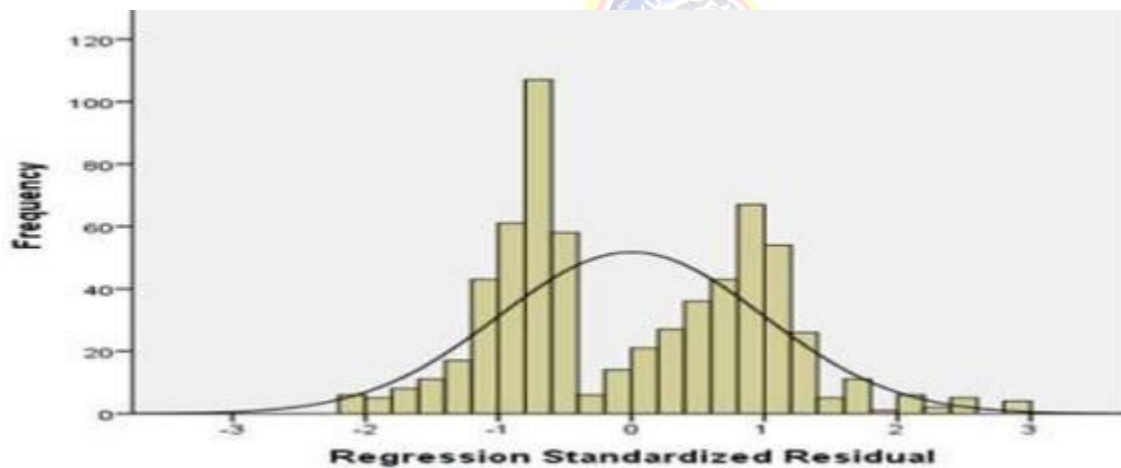


Figure 4.1 Normality Test

4.5.2 Homoscedasticity test

Normally, homoscedasticity is observed when the variance of errors remains consistent across the dependent variable's values (Park, 2008; Tabachnick & Fidel, 2007). This study used a scatter plot to test homoscedasticity, plotting standard residual data against the predicted data. The homoscedasticity assumption is usually violated when the data points spread across predicted

values have a similar pattern. In this study, the homoscedasticity assumption was not violated because visual examination in the scatter plot depicts dots with no particular pattern, as demonstrated in Figure 4.2 below.

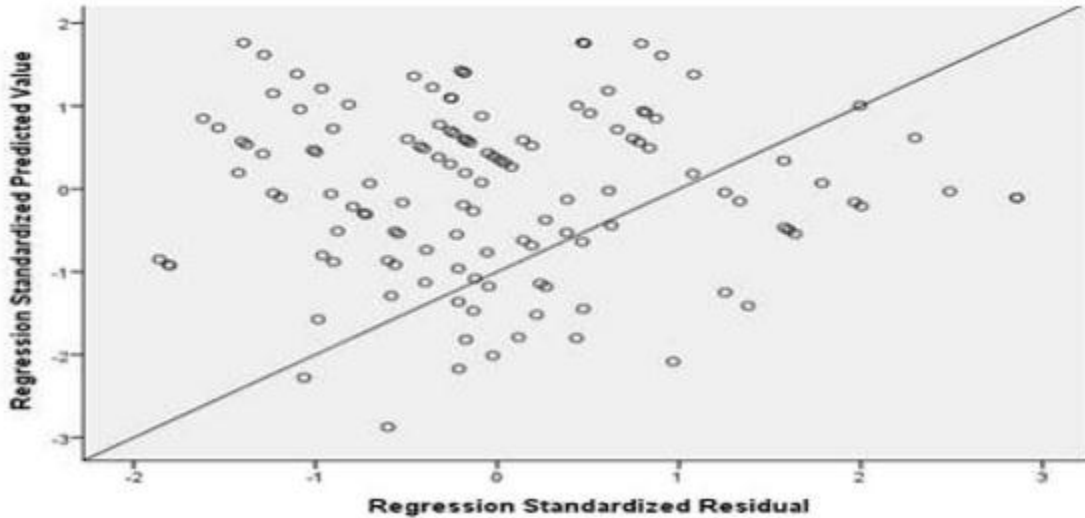


Figure 4.2 Homoscedasticity Test

4.5.3 Multi collinearity test

The multicollinearity test assumes that the independent variable will not have a high correlation with the other variables in the equation. Variance Inflation Factor (VIF) was used to establish the presence of absolute multicollinearity within this research. Ringle (2015) stated that if the VIF is less than 10, there is no multicollinearity issue among the independent variables. In this research, the VIF test was conducted to assess multicollinearity between the three independent variables, and the results are presented in Table 4. 9.

Table 4.9 Multi-collinearity test

Model	Collinearity Statistics	
	Tolerance	VIF

Const		
Economic Sustainability	.571	2.111
Social Sustainability	.624	1.660
Environmental Sustainability	.782	1.218
Total		4.989

Source: Field Data (2024)

4.5.4 Testing for validity of data

Factor analysis was used to test data validity in this research. This analysis method entails establishing each construct's validity by identifying commonalities contained in every construct factor. Commonalities show the contributing variances for each factor seen in a research variable. This is key since it gives room for the researcher to establish how appropriate each variable factor is by the number of commonalities the variable contributes, thus helping in making decisions on which variables are to be excluded or included. According to Diane (2009), commonalities < 0.50 show that factors do not fit well within the variables and thus need to be away with during analysis. A commonality value of > 0.5 is considered appropriate.

The three variables (constructs) in this research included economic sustainability, social sustainability, and environmental sustainability had 6 factors. The communalities in each of the 6 factors are shown in Table 4.10 below.

Table 4.10 Validity of Data

Communalities		
	Initial	Final
The bank has embraced green financing in its business model.	1.00	.825

The bank discloses its economic sustainability activities in periodical reports.	1.00	.800
The bank has come up with innovative products for economic sustainability.	1.00	.911
The bank has a strategic plan that outlines its economic sustainability goals.	1.00	.813
The bank has instituted policies for green operations.	1.00	.824
The bank trains its staff on economic sustainability products.	1.00	.789
The bank engages in CSR activities with the communities.	1.00	.750
The bank has robust corporate governance mechanisms for social sustainability.	1.00	.811
Stakeholders are engaged in decision making.	1.00	.756
Management of the bank is appraised on social sustainability benchmarks.	1.00	.812
The banks identify stakeholders' needs in its day to day operations.	1.00	.813
The bank trains its stakeholders on its programs for social sustainability.	1.00	.800
The bank discloses its environmental sustainability programs in its reports.	1.00	.789
The bank has a recycling policy for waste.	1.00	.812
The bank trains its staff on environmental sustainability.	1.00	.777
The bank's management rewards employee actions towards environmental sustainability.	1.00	.790
The bank is involved in environmental sustainability projects.	1.00	.812
Employees are well aware of the environmental sustainability goals of the bank.	1.00	.802

Extraction Method: Principal Component Analysis (PCA)

Source: Field Data (2024)

From the findings in the table above, all constructs were more significant than 0.5 and are acceptable, showing that the constructs fit well with the rest of the constructs in their factors, demonstrating that construct validity exists in the data.

4.6 Hypothesis Testing for the Study Variables

This study had three main hypotheses to be tested which were tested using a simple linear regression model. Subsequently, a multivariate linear regression model was used to determine how the independent factors generally affected Kenya's commercial banks' performance.

4.6.1 Effect of economic sustainability on the performance of commercial banks in Kenya

The primary objective of the study was to determine whether economic sustainability affects the performance of commercial banks in Kenya. To test this objective, the following hypothesis was formulated.

H₀₁: Economic sustainability has no significant effect on the performance of commercial banks in Kenya.

Table 4.11 shows that economic sustainability was statistically significant ($p=.000$, $\beta=.444$). Since the p-value was less than 0.05, the null hypothesis was rejected, indicating that the model was significant at the 95% confidence level. The beta value of 0.444 suggests that for each 1-point increase in economic sustainability performance, the performance of commercial banks is expected to change by 0.444 points. The research findings that Kenya's commercial banks' performance is influenced by economic sustainability were made possible by testing this hypothesis. This was consistent with a study by Tawfik, Kamar, and Bilal (2021) that found a substantial relationship between economic sustainability and Arabian banks' financial success.

Table 4.11 Regression Model Coefficient for Economic Sustainability

Model	Unstandardised		Standardised		
	Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	1.454	.231		6.300	.000
Economic Sustainability	.444	.092	.606	4.821	.000

a. Dependent Variable: Performance of Commercial Banks

4.6.2 Effect of social sustainability on the performance of commercial banks in Kenya

The study aimed to determine whether social sustainability influences the performance of commercial banks in Kenya. The hypothesis was:

H₀₂: Social sustainability has no significant effect on the performance of commercial banks in Kenya.

The analysis presented in Table 4.12 revealed that social sustainability was statistically significant at $p = 0.000$, with a predicted coefficient (β) of 0.757. Since the p-value (0.021) was less than the significance level of 0.05, the null hypothesis was rejected. This indicates that the model is significant at a 95% confidence level, supporting the hypothesis. The established relationship suggests that a one-point increase in social sustainability performance of a commercial bank is expected to lead to a 0.757 increase in its overall performance. This hypothesis was followed by results generation regarding this hypothesis, and based on the results obtained, the study could conclude that social sustainability does have an impact on the

performance of Commercial Banks in Kenya. This is tallied with the study conducted by Sroufe and Gopalakrishna (2019), which established that social sustainability influences the performance of businesses in America, including commercial banks.

Table 4.12 Regression Coefficients Model of Social Sustainability

Model		Unstandardised		Standardised		
		Coefficients		Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.477	.142		3.356	.002
	Social Sustainability	.757	.051	.921	14.917	.000

a. Dependent Variable: Performance of Commercial Banks

4.6.3 Effect of environmental sustainability on the performance of commercial banks in Kenya

The third specific objective of the study was to establish whether environmental sustainability influences the performance of commercial banks in Kenya.

The hypothesis to test this objective was: -

H₀₃: Environmental sustainability has no significant effect on the performance of commercial banks in Kenya.

Table 4.13 shows that environmental sustainability was statistically significant ($p=.000$, $\beta=.757$). Seeing that the p-value was less than 0.05, we can conclude that the null hypothesis was rejected. The model was significant at $p < 0.05$ or 95% confidence level. Thus, the beta value of 0.757

shows that if the environmental sustainability performance of commercial banks increases by 1 point, the mean difference is expected to be 0.757. The realisation of this hypothesis helped the study to establish that environmental sustainability played a significant role in determining the performance of commercial banks in Kenya. This is in line with a study by Kartadjumena and Rodgers (2019) work that established that environmental sustainability impacts the financial performance of commercial banks in Indonesia.

Table 4.13 Regression Coefficients Model of Environmental Sustainability

Model		Unstandardised		Standardised		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.010	.220		4.584	.000
	Environmental Sustainability	.561	.081	.742	6.902	.000

a. Dependent Variable: Performance of Commercial Banks

Multiple Linear Regression Model

A multiple linear regression model was conducted to establish the overall effect of the independent variables (economic, social, and environmental sustainability) on the performance of commercial banks in Kenya. The proposed multiple linear regression model was: -

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where: Y=Performance of commercial banks, β_0 = Y-intercept or the constant term, β_1 - β_3 = regression coefficients; X_1 = economic sustainability; X_2 = social sustainability; X_3 = environmental sustainability while ε = error term.

Model Summary

Table 4.14 illustrates the application of R-square to display the variance in the dependent variable (commercial bank performance) that can be accounted for by the independent variables (environmental, social, and economic sustainability). With an R square of 0.847, the predictor variables were able to account for 84.7% of the performance of commercial banks.

Table 4.14 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.920 ^a	.847	.834	.38361

a. Predictors: (Constant), Environmental Sustainability, Economic Sustainability, Social Sustainability

To evaluate the appropriateness of fitting regression model and to study the variability between groups the analysis of variance (ANOVA) was used. According to the findings highlighted in Table 4.15, the calculated F-value was 68.109, while the value of p was 0.000. Since the p-value is less than 0.05, this means that the model of regression has well fitted in the above data. Moreover, some of the evidence seems to indicate that the variance differences between the groups are indeed statistically significant.

Table 4.15 Analysis of variance

		Sum of				
Model		Squares	df	Mean Square	F	Sig.
1	Regression	32.311	1	32.311	222.512	.000 ^b
	Residual	5.808	41	.145		
	Total	38.119	42			

a. Dependent Variable: Performance of Commercial Banks

As shown in Table 4.16, all three independent variables (economic, social, and environmental sustainability) had a significant impact on the performance of commercial banks in Kenya. This is evident from their respective p-values, which were all less than 0.05 (economic sustainability: 0.007, social sustainability: 0.000, and environmental sustainability: 0.004).

From Table 4.16, the unstandardised regression coefficients are substituted to form the regression equation model.

$$Y = .507 + .756X_1 + .674X_2 + .614X_3 + e$$

Regression analysis results show that economic sustainability had the greatest influence on commercial bank performance, with social and environmental sustainability following closely behind. These findings corroborate the research conducted by Nitescu and Cristea in 2020, which demonstrated that environmental, social, and economic sustainability measures significantly influenced the performance of Romanian banks.

Table 4.16 Multiple Regression Coefficientsa

Model	Unstandardised		Standardised	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	.507	.145		3.490	.001
Economic Sustainability	.756	.070	.777	8.804	.007
Social Sustainability	.674	.092	.956	18.415	.000
Environmental Sustainability	.614	.093	.618	9.147	.004



a. Dependent Variable: Performance of Commercial Banks

Summarised findings following the testing of the three proposed correlations are shown in Table 4.17. Three null hypotheses were rejected at the 95% significance level ($p < 0.05$). The dependent variable showed positive and substantial relationships with all explanatory factors, indicating that these factors had a noteworthy influence on the financial performance of Kenya's commercial banks.

Table 4.17 Summary of Hypotheses Testing Results

Hypotheses	Std error of estimate (SEE)	t- value	Results	Conclusion
H ₀₁ : There is no significant relationship between economic sustainability and the performance of commercial banks in Kenya.	.092	4.821	Positive and statistically significant	Reject H ₀₁
H ₀₂ : There is no significant relationship between social sustainability and the performance of commercial banks in Kenya.	0.051	14.92	Positive and statistically significant	Reject H ₀₂

H₀₃: There is no significant relationship between environmental sustainability and the performance of commercial banks in Kenya. 0.081 6.902 Positive and statistically significant Reject H₀₃



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The chapter comprises a summary of the research findings, conclusion and recommendations based on the specific research objectives. The chapter finally points out areas of future research that can be explored by other scholars.

5.1 Summary of the findings

The study aimed to evaluate the performance of Kenyan commercial banks in terms of sustainable banking practices. Financial performance was considered the dependent variable, while economic, social, and environmental aspects of banking initiatives were the independent variables. A conceptual framework was developed based on existing research to illustrate the relationship between these variables. Linear Regression Analysis was employed to test the hypothesised relationships and generate findings. Before executing the empirical tests, the study checked some assumptions concerning the variables since these assumptions are crucial for utilising most statistical tests. The analysis supported the understanding that there were no compromises of the underlying presence of heteroscedasticity, normality, and multicollinearity.

5.1.1 Effect of Economic Sustainability on the Financial Performance of Commercial Banks

The study found a positive correlation between the financial performance of Kenyan commercial banks and economic sustainability, rejecting the null hypothesis. This indicates a statistically significant relationship between these two variables. Additionally, the variation in performance among Kenyan commercial banks supports the importance of economic sustainability. The

findings are consistent with prior research highlighting the importance of economic sustainability in corporate organisations' operations. For example, Ajibade and Mutul (2020) established that the two largest African economies, South Africa and Nigeria, have been developing economic sustainability plans to increase businesses' efficiency and financial performance, especially commercial banks.

5.1.2 Effect of Social Sustainability on Financial Performance of Commercial Banks

The study identified a positive relationship between the financial performance and social sustainability of Kenyan commercial banks, resulting in the rejection of the null hypothesis. Additionally, it was revealed that social sustainability has a statistically significant impact on the financial performance of these banks. Furthermore, social sustainability can explain the above-average variation in the performance of Kenyan commercial banks. The results resonate with other studies that have emphasised the need for social sustainability in the performance of business organisations. The research aligns with prior studies that have underscored the significance of social sustainability in the financial outcomes of corporate entities. The research by Mustofa et al. (2020) supports these findings, highlighting a positive influence of green accounting on financial performance and a reciprocal link between corporate social responsibility and financial success. Similarly, a statistically significant correlation between the CSR performance of private sector banks and their return on assets was established by Munjal and Sharma (2019).

5.1.3 Effect of Environmental Sustainability on Financial Performance of Commercial Banks

The 2008 financial and economic crisis sparked worries about how sustainability initiatives might affect banks' bottom lines (FP). Aside from exposing shortcomings in the environmental, social, and governance (ESG) aspects of sustainability, scandals and disputes surrounding the involvement of banks in the crisis have also raised concerns about the social responsibility policies of banks, particularly with regard to their true strategic commitment to key stakeholders (Gutiérrez-Ponce & Wibowo, 2024). Numerous businesses and geographical areas have seen research on the connection between FP and the effectiveness of ESG initiatives. The results demonstrate a strong correlation between financial measures and ESG data. More specifically, FP and the ESG pillars are negatively correlated, according to Gutiérrez-Ponce and Wibowo's (2024) analysis of sustainability reports from the banking industry under various political and economic circumstances.

Environmental sustainability and commercial banks' financial performance are favorably associated in Kenya. The null hypothesis was subsequently disproved. The financial performance of Kenyan commercial banks has been determined to be significantly impacted by environmental sustainability. Furthermore, these banks' outstanding performance variability can be explained by environmental sustainability.

The findings are consistent with other research that has underlined how important environmental sustainability is to corporate organisations' operations. These results are consistent with those of Tawfik et al. (2021), who discovered that participation in environmental sustainability programs and efforts can help commercial enterprises perform financially better. Furthermore, as companies

are now compelled to disclose how their operations affect the environment globally in their annual sustainability reports, economic sustainability may also influence an enterprise's total profitability.

5.2 Conclusions

The findings demonstrated a statistically significant positive correlation between Kenya's economic sustainability and the financial stability of the nation's commercial banks. This aligns with the Resource Based Perspective Theory of Wernefelt (1984), which supports the idea that a firm's strategy justifies the additional resources the organisation has at its disposal. The primary source of competitive advantage for a corporation may be linked to its sustained holding of resources, which allows it to carry out its operations more successfully than its competitors in the industry. It also enables businesses to identify and develop resources that provide a market niche and create a long-lasting competitive edge over rivals. Therefore, in a market where competition is fierce, a bank might gain an edge by leveraging its distinct and non-tangible assets to enhance its financial outcomes.

The results demonstrated a statistically significant positive correlation between Kenyan commercial banks' financial success and social sustainability. This was in line with Freeman's (2004) idea of stakeholders, which emphasises the interdependencies between a company and its creditors, suppliers, customers, and investors who own stock in the company. This embodies the social milieu in which the bank functions. This study makes significant connections to this notion because a commercial bank ought to generate significant value for all community stakeholders in addition to shareholders and investors. These stakeholders' cooperation is essential to the health of the commercial banking system. To advance sustainability and enhance performance, each stakeholder category must contribute in some way.

The results showed that Kenyan commercial banks' financial performance and environmental sustainability were positively correlated in a statistically meaningful way. This reflects the ideas of the 1928 open system theory developed by Ludwig Von Bertillon. This idea states that settings having inputs and outputs are essential for organisations' formation, growth, and success. The technological, legal, political, and economic environments in which the organisations operate. The legal framework and laws that an organisation must follow in order to operate are referred to as the legal environment. The software and networks that make up the technological environment support an organisation's operations. All environmental factors impact the interactions between an organisation and both internal and external elements. The existence of an organisation is dependent on its immediate surroundings. This supports the study's conclusion that environmental sustainability can substantially support Kenya's commercial banks' financial success.

The research study's empirical results indicate that indicators of economic, social, and environmental sustainability considerably impact commercial banks' performance in Kenya. Tawfik et al. (2021) conducted a similar study to explore the relationships between the financial performance of commercial banks in Oman, the United Arab Emirates, and Jordan, and various aspects of sustainability, including economic, social, and environmental factors. These three indicators of sustainability were found to correlate positively with banks' financial performance. Therefore, it is anticipated that this work will advance the knowledge in this field and assist commercial banks in appreciating the significance of sustainable banking and its impacts on financial performance. This study also fills the following important research gaps in the current knowledge on sustainable banking and its effects on commercial banks' financial performance. Thus, it demonstrates the connection between Kenyan commercial banks' stock returns and

sustainable banking, which can be informative. According to this study, commercial banks in Kenya and throughout the world can use the model as a guide to enhance their operations.

5.4 Recommendations

The results provide practitioners with important insights by highlighting the benefits that commercial banks and other financial enterprises can derive from sustainable banking practices.

5.4.1 Recommendations on the effect of economic sustainability on the financial performance of commercial banks in Kenya.

The main conclusion of this research was that many commercial banks fail to provide their staff with training on goods that promote economic sustainability. According to this study, commercial banks should set aside money for staff training on economic sustainability since it increases productivity, which improves financial performance by allowing team members to advance their skills—which are crucial for finishing assignments. It also enhances independence by helping employees acquire knowledge to carry out their duties without help.

5.4.2 Recommendations on effect of social sustainability on the financial performance of commercial banks in Kenya.

Another significant finding was that commercial banks are not appraised on social sustainability benchmarks, which indicates that they are not aware that this appraisal is a key ingredient in meeting the community's needs. This study recommends that social sustainability benchmarks should be conducted regularly among commercial banks to get feedback from all stakeholders regarding areas of improvement which, if addressed, could lead to enhanced financial performance.

Again, the study found that commercial banks do not train their stakeholders on programs regarding social sustainability. This shows that banks are not cognisant of the need to train stakeholders on ways of improving social sustainability goals. This study recommends that stakeholders should be trained. Training stakeholders on social sustainability banks creates an environment where stakeholders can work independently without seeking help or supervision. It also enhances performance, reduces errors in social sustainability, and motivates people. It also enhances organisational culture and morality by demonstrating ethical practice among all stakeholders.

5.4.3 Recommendations on the effect of environmental sustainability on the financial performance of commercial banks in Kenya.

According to the research, management at commercial banks does not give team members credit or recognition for their efforts to advance environmental sustainability. According to this report, employees of commercial banks should be compensated for their dedication to environmental sustainability. This is because reward and recognition form the basis of environmental sustainability, which positively impacts employee motivation to experiment with green financing. Additionally, employee motivations are closely linked to productivity and enhancement of financial performance in the long run.

5.5 Areas for Further Studies

Putting a focus on social, economic, and environmental sustainability, this study examined how sustainable banking practices affected Kenyan commercial banks' financial results. Subsequent studies need to establish how these theories of economic, social, and environmental sustainability and financial performance will impact other industries apart from banking. Further, the dependence on financial performance as a measure of success could be broadened to examine the

effects of sustainable banking practices on other bottom-line results of commercial banks including strategic plan realisations, customers' satisfaction, innovation, employees' motivation, and competitive market position.



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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Dear Participant,

I am a student at the Mount Kenya University pursuing a Master's Degree in Business Administration. I am undertaking a research project on," *effects of sustainable banking on financial performance of commercial banks in Kenya.*" Kindly be a respondent in the study. The findings of this study will assist in to understand the effects of sustainable banking on financial performance of commercial banks in Kenya. The management of banks may implement the study's recommendations to enhance performance. The findings of this study will be important to financial services regulators in Kenya. The regulators will better understand sustainable banking and performance. Consequently, appropriate policies would be formulated to navigate the dynamic business environment.

Thank you.

YASMIN YUSSUF

ADM.NO.

APPENDIX II: QUESTIONNAIRE

This questionnaire seeks your responses on the effects of sustainable banking on financial performance of commercial banks in Kenya.

SECTION A: BACKGROUND INFORMATION

1.Indicate your gender.

- i. male
- ii. female

2. Indicate your age bracket.

- i. 18-25 years
- ii. 26-35 years
- iii. 36-45 years
- iv. 46-55 years
- v. above 55 years

3. Indicate your highest education level.

- i. diploma
- ii. bachelor's degree
- iii. master's degree
- iv. PhD

5. How many years have you worked at the bank?

- i. 1-4 years
- ii. 5-9 years
- iii. 10-14 years
- iv. 15-29 years
- v. 30+ years

SECTION B: Economic sustainability on financial performance

In this section, and the subsequent three sections, use the below scale and tick (√) the score that you agree with most scale: *5=strongly agree ,4= agree, 3=not sure, 2=disagree and 1=strongly disagree*

Statement	5	4	3	2	1
The bank has embraced green financing in its business model.					
The bank discloses its economic sustainability activities in periodical reports.					
The bank has come up with innovative products for economic sustainability.					
The bank trains its staff on economic sustainability products.					
The bank has instituted policies for green operations.					

SECTION C: Social sustainability on financial performance

Statement	5	4	3	2	1
The bank engages in CSR activities with the communities.					
The bank has elaborate corporate governance mechanisms for social sustainability.					
Stakeholders are engaged in decision making.					

The banks identify stakeholders needs in its day-to-day operations.					
The bank trains its stakeholders on its programs for social sustainability.					

SECTION D: Environmental sustainability on financial performance

Statement	5	4	3	2	1
The bank discloses its environmental sustainability programs in its reports.					
The bank has a recycling policy for waste.					
The bank trains its staff on environmental sustainability.					
The bank is involved in environmental sustainability projects.					
Employees are well aware of the environmental sustainability goals of the bank.					

SECTION E: Financial performance

Statement	5	4	3	2	1
The banks have increased its return on investments.					

Customer numbers for the bank have increased.					
The bank has realised savings due to sustainability efforts					



APPENDIX IV: PROPOSAL APPROVAL LETTER



REF: MKU/ISERC/3428
TO: YASMIN YUSSUF

Date: 21 February 2024

REG: MBA/2022/45710

Dear Sir/Madam,

RE: AN INVESTIGATION ON THE EFFECTS OF SUSTAINABLE BANKING ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

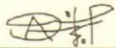
This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **2472**. The approval period is **21/02/2024 - 20/02/2025**.

This approval is subject to compliance with the following requirements;

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,



Dr. Alfred Owino, PhD
Chairman, Mount Kenya University ISERC

The Chairman
Mount Kenya University
P.O. Box 342-01000, Thika

APPENDIX V: UNIVERSITY INTRODUCTION LETTER



DIRECTORATE OF GRADUATE STUDIES

MBA/2022/45710

22nd February, 2024

*National Commission for Science Technology & Innovation (NACOSTI)
Off Waiyaki Way, Upper Kabete,
P.O Box 30623- 00100
NAIROBI, KENYA*

Dear Sir/Madam,


RE: YASMIN YUSSUF - REGISTRATION NO. MBA/2022/45710

The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**

The title of the research is **"An Investigation on the Effects of Sustainable Banking on Financial Performance of Commercial Banks in Kenya."** It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **February, 2024 and April, 2024.**

Any assistance accorded to the student will be highly appreciated.

Thank you.


Mount Kenya University
P. O. Box 342 - 01000, THIKA
Dr. Samuel M. Karonga, Ph.D. Director,
Director, Graduate Studies
Enc.

APPENDIX VI: TURNITIN REPORT

