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Brian Kaveke Kiima, Dr.Susan Wamitu & Dr. Michael Wahome

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Influence of Green Finance Governance Practices on Financial Performance of Commercial Banks in Nairobi County, Kenya

[1*]Brian Kaveke Kiima, [2]Dr.Susan Wamitu & [3]Dr. Michael Wahome

[1,2 &3]Department of Business and Entrepreneurship, South Eastern Kenya University

***Email of the Corresponding Author:** kavekebrian3940@gmail.com

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Abstract

This study examined the influence of green finance governance practices on the financial performance of commercial banks in Nairobi County, Kenya. The research was motivated by growing evidence that governance structures which integrate environmental, social, and sustainability considerations play a critical role in strengthening institutional resilience and driving long-term financial outcomes. Guided by Institutional Theory, the study focused on board oversight, ESG reporting, accountability mechanisms, and the integration of environmental risk into decision-making. A descriptive research design was adopted, targeting 156 managerial staff from 39 commercial banks, with a sample of 112 respondents selected using Yamane's formula. Data were collected through structured questionnaires and analyzed using descriptive statistics, correlations, and regression models. The results showed that green finance governance practices are moderately to highly adopted across banks, with an overall mean of 3.70, reflecting strong board commitment to sustainability oversight, regular ESG disclosures, and emerging accountability systems. Inferential analysis revealed a strong positive relationship between governance practices and bank performance, with a correlation coefficient of 0.768 and an R Square of 0.590, indicating that fifty nine percent of the variance in performance is explained by green governance practices. Regression findings further confirmed that a one-unit increase in green governance leads to a significant improvement in financial performance ($\beta = 0.704$, $p < 0.05$). The study concludes that green finance governance is a strategic driver of profitability, liquidity strength, and institutional competitiveness. It recommends strengthening board-level ESG oversight, enhancing sustainability reporting, expanding accountability systems, and adopting clear regulatory standards to deepen governance integration and improve financial outcomes within Kenya's banking sector.

Keywords: *green finance governance, ESG oversight, commercial bank performance, sustainability reporting, Kenya banking sector*

1.1 Background to the Study

Green finance governance has emerged as a central pillar in transforming how banks structure their strategic priorities, risk-management processes, and performance systems. Around the world, banking institutions now face growing pressure to embed environmental responsibility into core governance structures, including board oversight, sustainability committees, disclosure obligations, and ESG-linked accountability mechanisms. Research shows that banks with strong green governance frameworks make more informed sustainability investments and demonstrate superior adaptability to climate-related financial risks, which ultimately strengthens long-term performance (Bătae et al., 2021). This shift reflects the rising expectation that boards internalize environmental risk as a financial risk, aligning governance practices with the Paris Agreement and global financial stability mandates (Hussain et al., 2024).

A key dimension of green finance governance is the integration of ESG criteria into internal policies, executive incentives, credit evaluation procedures, and risk-modelling systems. Studies illustrate that when governance structures transparently embed environmental metrics into credit appraisal and compliance processes, banks improve their operational efficiency and reduce exposure to carbon-intensive assets (Lu et al., 2023). Board-level sustainability committees, for instance, have been linked to better monitoring of environmental obligations and improved allocation of capital toward sustainable portfolios (Udeagha et al., 2023). These internal mechanisms demonstrate how governance practices translate sustainability intent into measurable performance outcomes, ensuring that environmental considerations guide strategic and operational decisions.

Globally, policy frameworks such as the Principles for Responsible Banking and the Equator Principles have formalized governance expectations by requiring banks to conduct environmental due diligence, publish sustainability disclosures, and evaluate lending impacts across entire value chains. Evidence suggests that banks adhering to these governance standards tend to report stronger market valuations and enhanced stakeholder confidence because sustainability governance reduces regulatory uncertainty and strengthens institutional legitimacy (Chen et al., 2022). Nonetheless, adoption varies widely, with many developing-country banks struggling to internalize these governance requirements due to weak regulatory enforcement and limited technical capacity (Rehman et al., 2021). This uneven adoption highlights the influence of regulatory maturity on the translation of governance practices into financial outcomes.

Across Africa, governance reforms related to green finance have gained momentum through initiatives promoted by the African Development Bank and UNECA, which emphasize standardized ESG reporting and structured board accountability. Empirical evidence shows that African firms with stronger sustainability governance structures achieve better financial resilience, particularly those that link board oversight with environmental risk disclosure and green investment policies (Opuni-Frimpong et al., 2024). Still, challenges persist due to fragmented governance infrastructures, limited climate-risk modelling capabilities, and inadequate incentives for banks to prioritize sustainable lending (Ganda, 2022). These governance gaps continue to constrain the continent's ability to institutionalize green finance at scale.

In Kenya, green finance governance has taken shape through frameworks such as the Sustainable Finance Initiative (SFI) by the Kenya Bankers Association, the Green Bond Program by the National Treasury, and emerging ESG guidelines championed by regulatory bodies. These initiatives encourage banks to integrate environmental risks into lending, establish sustainability governance structures, and adopt transparent environmental reporting. Yet despite these policy commitments, practical adoption remains inconsistent. A recent KBA review revealed that fewer than half of Kenyan commercial banks have embedded environmental risk assessment into their credit policies, and even fewer have structured sustainability oversight at the board level—limitations that directly weaken the governance–performance linkage (Kenya Bankers Association, 2023). Banks also report gaps in ESG data systems, limited internal expertise, and high compliance costs, which restrict the effectiveness of governance reforms designed to enhance green finance performance.

In the Nairobi County, the commercial banks are in a dynamic financial ecosystem where governance systems are progressively defining competitiveness, regulatory compliance, as well as institutional resilience. The bodies of global banking studies indicate that banks that have an organized ESG governance structure, including board-level sustainability control, ESG-related performance measures, a climate-risk disclosure system, and formal accountability structures, continue to have a better financial and operational performance (Chen et al., 2022). Research also reveals that application of climate-risk governance on credit appraisal and risk-management functions increases profitability, decreases exposure to non-performing loan, and promotes a long-term stability (Hussain et al., 2024). Moreover, it has been found that ESG-based governance has been associated with a higher level of stakeholder confidence, reduced reputational risk, and even more effective access to sustainable finance instruments, such as green bonds and climate-oriented investment products (Gulzar et al., 2024). Conversely, better regulatory uncertainty, lower market legitimacy, and access to new green finance opportunities are more characteristic of institutions with weak sustainability governance (Opuni-Frimpong et al., 2024). These facts support the necessity to determine the effects of green-oriented governance mechanisms on the financial performance in the changing regulatory and economic environment in Kenya..

1.2 Statement of the Problem

Although green finance governance has become a global benchmark for strengthening financial stability, enhancing risk management, and improving institutional performance, commercial banks in Kenya continue to exhibit weak governance structures in relation to environmental sustainability. The Central Bank of Kenya has repeatedly highlighted governance shortcomings in credit oversight, board accountability, and risk evaluation processes, with non-performing loans reaching 15.0% in 2023—three times higher than the CBK benchmark of 5.0%—an indication that governance frameworks have not adequately integrated environmental and social risk assessments into lending practices (CBK, 2023). Weak governance alignment also contributes to liquidity inefficiencies, as banks maintain high liquidity ratios averaging 49.3% yet underutilize capital for sustainable lending, reflected in a loan-to-deposit ratio of only 74.6%. These trends point to governance gaps that hinder strategic deployment of funds toward environmentally responsible and financially viable investments.

Despite national policy commitments such as the Sustainable Finance Principles, Green Bond Guidelines, and the Green Economy Strategy and Implementation Plan (GESIP), governance adoption across the banking sector remains limited. A Kenya Bankers Association audit revealed that fewer than 40% of commercial banks had incorporated environmental and social risk governance into credit evaluation, and only 22% had developed structured oversight mechanisms for green financial instruments (KBA, 2023). The absence of a unified green taxonomy, coupled with inadequate board-level expertise in sustainability governance, further constrains institutional capacity to evaluate environmental risks and oversee green investment decisions. These weaknesses create a disconnect between national sustainability ambitions and actual governance practices within banking institutions.

Empirical research from global and regional contexts consistently shows that strong governance—particularly board oversight, ESG disclosure, sustainability committees, and environmental risk governance enhances financial performance, reduces operational vulnerability, and improves stakeholder confidence (Bătae et al., 2021; Opuni-Frimpong et al., 2024). Nonetheless, the Kenyan context is characterized by limited empirical evidence on how governance structures related to green finance shape bank performance. Little is known about how governance mechanisms such as ESG-linked board responsibilities, environmental risk integration, sustainability disclosures, or compliance structures influence profitability, liquidity, and asset quality. Consequently, the relationship between green finance governance and financial performance remains underexplored, creating a significant knowledge gap given Kenya's growing sustainability obligations.

This study therefore addressed these gaps by evaluating how governance practices related to green finance influence the financial performance of commercial banks in Nairobi County, Kenya, providing much-needed evidence to guide regulators, policymakers, and banking institutions in strengthening sustainability governance for improved institutional performance.

1.3 Objective of the Study

The objective of the study was to assess the influence of green finance governance practices on the financial performance of commercial banks in Nairobi County, Kenya.

1.4 Research Hypothesis

i. **H_{01}:** Governance practices related to green finance have no significant impact on the performance of commercial banks in Nairobi County, Kenya.

1.5 Significance of the Study

This study is important because governance is the backbone of effective green finance integration, yet the governance dimension remains poorly understood within Kenya's commercial banking sector. By examining how board oversight, ESG compliance structures, sustainability committees, and environmental risk governance relate to financial performance, the study provides actionable evidence on whether current governance systems meaningfully influence profitability, liquidity, and asset quality. The findings offer banking executives and sustainability managers practical guidance for strengthening internal governance mechanisms, ensuring that green finance decision-making is grounded in structured oversight, measurable accountability, and climate-related risk assessment.

For financial regulators—including the Central Bank of Kenya, the National Treasury, and the Capital Markets Authority—the study provides clear policy signals on the governance reforms required to support a resilient and sustainability-aligned banking system. The evidence highlights that institutional performance improves when banks adopt structured ESG governance rather than relying on general green financing efforts. This can inform the development of supervisory expectations on ESG reporting, climate-risk evaluation, and board accountability. A stronger policy stance on governance standards may help close the existing gap between sustainability commitments and the level of implementation observed across banks, particularly in environmental risk governance and sustainability disclosure.

The study also contributes to academic literature by addressing a critical gap: the limited empirical examination of green finance governance and its relationship with financial performance in developing-country banking environments. While international research recognizes governance as a key driver of sustainable finance outcomes, the Kenyan context remains underexplored. By anchoring the analysis within institutional and stakeholder-oriented theoretical frameworks, the study expands scholarly understanding of how governance structures, organizational capacities, and compliance mechanisms influence sustainable financial performance. The findings establish a foundation for future comparative research across African markets and provide evidence to guide policy design, regulatory reforms, and sector-wide governance strengthening.

2.1 Literature Review

Institutional Theory, initially articulated by Meyer and Rowan (1977) and later expanded by DiMaggio and Powell (1983), provides a powerful lens for understanding why organizations adopt particular structures and practices, including sustainability-oriented governance. The theory argues that organizations do not operate purely on the logic of technical efficiency; instead, they respond to pressures embedded within their institutional environment—regulative mandates, normative expectations, and cognitive belief systems. Scott’s (2014) formulation of the three institutional pillars—regulative, normative, and cognitive—clarifies how these forces shape organizational behaviour. Under this framework, governance practices related to green finance emerge not only as operational choices but as responses to broader pressures to secure legitimacy, maintain reputation, and align with evolving societal expectations.

The theory assumes that organizations seek legitimacy for survival and that conformity to institutional pressures often outweighs internal efficiency considerations (Meyer & Rowan, 1977). These pressures may take the form of coercive directives from regulators, normative expectations from industry bodies, or mimetic tendencies where firms emulate peers perceived as successful or reputable (DiMaggio & Powell, 1983). Consequently, firms across a sector tend to converge toward similar governance forms, generating widespread adoption of practices such as ESG reporting frameworks, board-level sustainability oversight, and environmental risk governance. This convergence is not always a reflection of internal capability or performance needs, but of external pressures that make compliance strategically advantageous.

Institutional Theory’s core strength lies in its ability to explain the diffusion and normalization of governance practices, especially those linked to sustainability and environmental responsibility. It shows how global standards—such as the Equator Principles or the Principles for Responsible Banking—gain traction not merely because they improve performance, but because they enhance institutional legitimacy and strengthen stakeholder relations (Greenwood et al., 2017). This perspective is essential in understanding why governance mechanisms related to green finance are rapidly becoming entrenched within the global banking sector, even where empirical validation of their performance benefits is still emerging.

Nonetheless, the theory has been critiqued for portraying organizations as passive recipients of external pressures rather than active shapers of governance transformations. Scholars argue that its emphasis on conformity underestimates organizational agency, innovation, and the possibility of strategic resistance (Oliver, 1991). Additional critiques note that institutional conformity may encourage symbolic rather than substantive adoption, creating ESG governance structures that exist in form but not in function (Friedland & Alford, 1991). Such limitations challenge empirical assessment, as it becomes difficult to distinguish meaningful governance integration from performative compliance.

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Institutional Theory is particularly relevant to the present study, which seeks to evaluate how governance practices related to green finance influence the performance of commercial banks in Nairobi County. Kenyan banks operate under strong coercive pressures from the Central Bank of Kenya and the Capital Markets Authority to adopt sustainability reporting, environmental risk evaluation, and ESG governance standards. Normative pressures arise from the Kenya Bankers Association, which promotes sector-wide adherence to the Sustainable Finance Principles, while mimetic pressures emerge as local banks emulate global peers that have embedded climate-related governance into board structures and risk committees. These institutional forces shape the adoption of governance mechanisms such as ESG disclosures, sustainability-linked audits, board oversight frameworks, and environmental risk governance (Mbuthia & Gatauwa, 2022; Opuni-Frimpong et al., 2024). Institutional Theory therefore provides a coherent foundation for examining why these governance practices are being integrated and how their adoption may translate into financial performance outcomes for commercial banks in Nairobi County.

2.2 Empirical Literature Review

Empirical studies show that governance practices have a strong influence on the financial performance of commercial banks across different contexts. Temba et al. (2023) found that governance structures such as board size, board activity levels, directors' shareholding, and the presence of board committees enhanced earning capacity, asset quality, and capital adequacy in Tanzanian commercial banks. These findings highlight the importance of clear oversight and effective monitoring in improving financial stability. The study also showed that governance weaknesses, including overboarding and poorly managed board diversity, reduced liquidity and limited the efficient use of equity. This demonstrates that governance processes only support institutional performance when board arrangements are well designed and functionally aligned with strategic goals.

In Kenya, governance practices linked to strategic evaluation have also been shown to influence bank performance. Ongongo et al. (2022) reported that regular performance reviews, variance analysis, and corrective action processes were associated with significant improvements in profitability and operational results among commercial banks. By evaluating all forty banks in the sector, the study demonstrated that governance mechanisms guiding strategic review strengthen managerial accountability and promote informed decision making. These findings suggest that governance practices which support continuous monitoring and evaluation are essential for maintaining performance in a competitive and regulated financial environment.

Further evidence from Aluoch et al. (2023) shows that governance interacts with financial characteristics and macroeconomic conditions to shape bank performance in Kenya. Using panel data from listed banks, the study revealed that Return on Assets and Tobin's Q were significantly influenced by board level governance structures and by regulatory expectations issued by the Central Bank of Kenya and the Capital Markets Authority. Although some governance elements such as liquidity management and investment decisions showed limited influence, the overall results confirmed that institutions with stronger governance frameworks were better positioned to achieve financial resilience and long-term competitiveness.

These studies are directly relevant to the present research which examines governance practices specifically related to green finance. The evidence consistently points to the fact that governance is a central determinant of financial outcomes. In the context of green finance, governance structures guide the integration of environmental responsibility into decision making, risk assessment, and compliance processes. Therefore, understanding how green finance governance affects the performance of commercial banks in Nairobi County becomes essential for strengthening institutional capacity and enhancing sustainable financial performance.

2.3 Conceptual Framework

The conceptual framework for this study illustrates the relationship between Green Governance Practices and the Financial Performance of Commercial Banks in Nairobi County. It is grounded in the argument that governance is the mechanism through which sustainability intentions are translated into strategic actions, risk controls, and measurable performance outcomes. In this framework, green governance represents the independent variable, while financial performance constitutes the dependent variable.

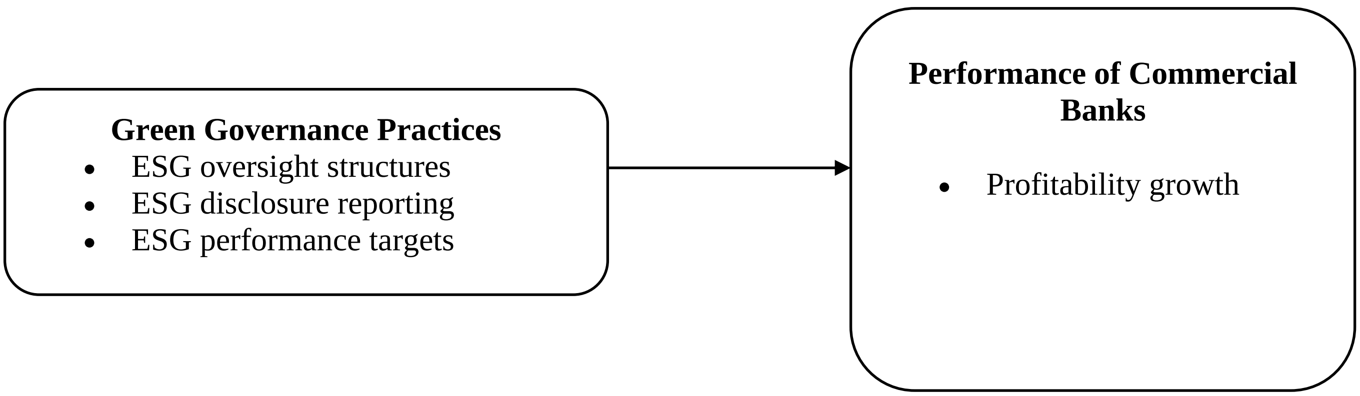

Figure 1: Conceptual Framework

Green governance practices encompass three core dimensions: ESG oversight structures, ESG disclosure reporting, and ESG performance targets. ESG oversight structures refer to the institutional arrangements—such as board-level committees or designated sustainability officers—responsible for guiding environmental and social risk integration. ESG disclosure reporting captures the degree of transparency in communicating sustainability outcomes, compliance, and progress to stakeholders. ESG performance targets reflect the extent to which environmental and social objectives are embedded in organizational strategy and used to hold managers accountable for sustainability results. Together, these governance mechanisms enable banks to align their operations with regulatory expectations, global sustainability standards, and stakeholder demands.

The framework proposes that strong green governance practices enhance the performance of commercial banks, measured in this study through profitability growth. The underlying logic is that well-governed banks are better equipped to manage environmental risks, allocate capital responsibly, safeguard reputation, and improve operational efficiency. By embedding sustainability into governance systems, banks can reduce exposure to climate-related financial risks, attract responsible investors, strengthen customer trust, and improve long-term value creation. Thus, the conceptual framework positions governance as the critical pathway through which green finance principles contribute to superior financial performance in Kenya's banking sector.

3.0 Research Methodology

The study adopted a descriptive research design to assess how green finance governance influences the performance of commercial banks in Nairobi County, enabling the systematic examination of existing governance structures, ESG oversight mechanisms, reporting frameworks, and environmental risk governance without manipulating variables. The target population comprised 156 managerial staff from all 39 licensed commercial banks—including finance managers, investment managers, sustainability or ESG officers, and risk managers—purposively selected due to their direct involvement in governance and sustainability decisions. A sample of 112 respondents was derived using Yamane's formula and distributed proportionately across managerial categories. Data were collected using structured questionnaires organized around the study variables and measured on a five-point Likert scale. The tool was pilot tested on 11 respondents, with validity confirmed through expert review, KMO and Bartlett's tests, and reliability established through Cronbach's Alpha values exceeding 0.7. Ethical approval, a NACOSTI permit, and institutional authorization were obtained prior to data collection, and questionnaires were issued physically and electronically to maximize participation. Completed questionnaires were coded, cleaned, and analyzed using SPSS Version 28. Descriptive statistics summarised the extent of adoption of green governance practices, while Pearson correlation analysis and multiple regression assessed the strength and direction of the relationship between governance practices and financial performance, focusing on profitability, liquidity, and asset quality. Hierarchical regression was also applied to determine whether regulatory policies moderated these effects, with statistical significance evaluated at the 95 percent confidence level. This methodological approach ensured rigorous and reliable evidence on how governance practices related to green finance shape performance outcomes among commercial banks in Nairobi County.

4.0 Findings

This section presents the findings of the study. These include descriptive and inferential statistics.

4.1 Descriptive Statistics

The study set out to determine the effect of green governance practices on the financial performance of commercial banks in Nairobi County, Kenya. This construct examined how governance structures, board oversight, and accountability mechanisms support the implementation of sustainable finance. Respondents were asked to rate six statements on a five-point Likert scale ranging from *Strongly Disagree (1)* to *Strongly Agree (5)*. The results are summarized in Table 1.

Table 1: Green Governance Practices

Indicator of Green Governance	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev
Our bank has ESG oversight structures at board or senior management level.	6 (5.8%)	7 (6.8%)	17 (16.5%)	50 (48.5%)	23 (22.3%)	3.75	1.064
Regular sustainability or ESG disclosure reports are published by our bank.	2 (1.9%)	13 (12.6%)	19 (18.4%)	45 (43.7%)	24 (23.3%)	3.74	1.019

Indicator of Green Governance	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev
Green performance targets are incorporated in our strategic plans.	4 (3.9%)	17 (16.5%)	16 (15.5%)	39 (37.9%)	27 (26.2%)	3.66	1.151
Governance mechanisms ensure accountability in implementing green finance.	6 (5.8%)	11 (10.7%)	20 (19.4%)	39 (37.9%)	27 (26.2%)	3.68	1.148
Board commitment to ESG practices improves our bank's competitiveness.	5 (4.9%)	9 (8.7%)	16 (15.5%)	48 (46.6%)	25 (24.3%)	3.77	1.068
Green governance practices have contributed to better financial and reputational outcomes.	4 (3.9%)	14 (13.6%)	21 (20.4%)	41 (39.8%)	23 (22.3%)	3.63	1.094
Overall Mean	–	–	–	–	–	**3.70**	–

The descriptive results in Table 1 show that green governance practices are increasingly embedded within the institutional structures of commercial banks in Nairobi County. The overall mean of 3.70 indicates that most respondents agreed their banks have adopted governance frameworks that promote environmental and social responsibility. When combining Agree and Strongly Agree responses across all indicators, approximately sixty nine percent of participants affirmed that ESG considerations are formally integrated into board or senior management decision making. This reflects a sector wide recognition that sustainability governance is no longer peripheral but a central component of strategic leadership.

The highest endorsement emerged for the statement "Board commitment to ESG practices improves our bank's competitiveness," which achieved a mean of 3.77 and an agreement level of 70.9 percent. This suggests a strong belief among managers that active board involvement in sustainability drives both market credibility and institutional performance. This observation is consistent with Ndungu and Njoroge (2023), who found that board level leadership accelerates ESG adoption and enhances long term profitability in Kenyan financial institutions. Respondents also strongly agreed that ESG oversight structures exist at the board or senior management level (mean = 3.75), reaffirming that governance responsibilities for sustainability have been formalized. These results mirror findings by Kibet and Muriuki (2022), who reported that establishing ESG committees improves coordination of green policies and strengthens accountability.

Regular publication of sustainability or ESG disclosure reports also attracted substantial agreement (mean = 3.74), with 67 percent of respondents confirming active reporting practices. This indicates that most banks have embraced transparency in communicating environmental and social performance. Otieno and Mwangi (2021) similarly observed that institutions with established ESG disclosure mechanisms experience improved stakeholder trust and reduced regulatory exposure. Moderate but positive responses were recorded for governance mechanisms ensuring accountability in green finance implementation (mean = 3.68) and for the incorporation of green performance targets into strategic plans (mean = 3.66). These patterns suggest that while governance structures are in place, some banks may still be advancing toward full integration of sustainability metrics into performance monitoring. Achieng and Wekesa (2022) noted that banks often adopt sustainability goals but face challenges in linking them to measurable financial outcomes, a trend reflected in the current findings.

Perceptions regarding the contribution of green governance practices to financial and reputational outcomes were also favorable, with a mean of 3.63 and sixty two percent overall agreement. Respondents acknowledged that sustainability governance had enhanced brand value and institutional trust, supporting Owino and Kamau's (2023) conclusion that effective ESG governance strengthens ethical conduct, improves risk mitigation, and elevates corporate image. These outcomes reinforce the theoretical claim that governance structures serve as enablers of financial performance by embedding accountability, transparency, and environmental responsibility in organizational processes.

The open-ended responses provide additional depth to these findings. Banks reported an average of 6.85 ESG related board or senior management meetings annually, indicating sustained leadership engagement in sustainability oversight. The average of 3.08 sustainability or ESG reports produced in the past three years reflects ongoing commitment to disclosure practices. Furthermore, the proportion of annual strategic objectives linked to ESG or green finance averaged 14.90 percent, demonstrating deliberate efforts to institutionalize sustainability within long term planning. Although this proportion suggests that ESG targets still occupy a modest share of overall strategic focus, it highlights clear progress toward integrating environmental and social considerations within corporate strategy.

The results reveal that green governance is firmly established within commercial banks in Nairobi County. Board level oversight, formal ESG structures, and disclosure mechanisms have become defining features of governance practice. These structures not only enhance accountability in sustainability initiatives but also reinforce competitiveness and financial resilience. The findings affirm empirical and theoretical perspectives that governance plays a pivotal role in shaping the effectiveness of green finance adoption and its translation into institutional performance.

4.2 Inferential Analysis

The inferential analysis examining the influence of green governance practices on the performance of commercial banks in Nairobi County revealed a strong and statistically meaningful relationship between governance structures and institutional outcomes. The regression model, summarised in Table 2, shows that green governance practices are strongly associated with bank performance, as reflected by a correlation coefficient of 0.768. The results of the regression model are summarized in Tables 2, 3 and 4

Table 2: Model Summary for Green Governance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.768[a]	.590	.586	.19030

a. Predictors: (Constant), Green Governance

This high coefficient indicates that stronger ESG related governance structures correspond with better financial and operational results among the sampled banks. The model further demonstrates that green governance accounts for a substantial proportion of performance variation, with an R Square value of 0.590 showing that fifty nine percent of changes in performance can be attributed to differences in governance quality, including board oversight, leadership commitment, and

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accountability for sustainability objectives. The adjusted R Square of 0.586 confirms the stability and predictive strength of the model, indicating that green governance provides a consistent explanation for performance outcomes even when model adjustments are applied. These findings highlight that governance is not merely a compliance requirement but a strategic driver of resilience, competitiveness, and value creation within commercial banks in Nairobi County.

The ANOVA results show an F-statistic of 145.211 with a p-value of 0.000, which is below the 0.05 significance level.

Table 3: ANOVA for Green Governance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.259	1	5.259	145.211	.000[b]
	Residual	3.658	101	.036		
	Total	8.916	102			

a. Dependent Variable: Bank Performance

b. Predictors: (Constant), Green Governance

This confirms that the regression model is statistically significant and that green governance practices have a meaningful impact on the performance of commercial banks. The high F value demonstrates that the variation explained by the model is considerably greater than that attributed to random error, reinforcing the conclusion that governance structures significantly influence performance outcomes.

The regression coefficients further strengthen this conclusion. The unstandardized coefficient (B) for green governance is 0.704, with a t-value of 12.050 and a p-value of 0.000.

Table 4: Coefficient of Regression for Green Governance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.023	.166		6.152	.000
	Green Governance	.704	.058	.768	12.050	.000

a. Dependent Variable: Bank Performance

This means that a one-unit improvement in green governance results in a 0.704-unit increase in bank performance, holding other factors constant. The standardized beta coefficient ($\beta = 0.768$) confirms that green governance exerts a strong and direct influence on bank performance. This relationship implies that institutions with well-established governance frameworks—characterized by ESG oversight, regular sustainability reporting, and clear accountability mechanisms—tend to perform better financially and reputationally.

These findings are consistent with Ndungu and Njoroge (2023), who found that board-level commitment to sustainability drives ethical conduct, effective oversight, and improved stakeholder relations in Kenyan banks. Similarly, Achieng and Wekesa (2022) reported that governance mechanisms promoting ESG accountability improve decision making and reduce exposure to financial and operational risks. The positive and significant results in this study therefore affirm that strong governance is not only an enabler of sustainability but also a determinant of overall organizational success.

In summary, the regression analysis shows that green governance practices have a statistically significant and positive effect on the performance of commercial banks in Nairobi County. The model explains 59 percent of the variance in performance, demonstrating that leadership commitment, transparency, and accountability in sustainability implementation are critical drivers of profitability, operational efficiency, and institutional reputation. These results validate the argument that effective governance is central to translating sustainability principles into tangible financial outcomes within the banking sector.

5.0 Discussion

The findings of this study show clearly that green finance governance is a powerful driver of financial performance among commercial banks in Nairobi County. Descriptively, respondents reported relatively high levels of adoption of governance structures that support sustainability, with an overall mean of 3.70 for green governance practices. Most managers agreed that their banks have ESG oversight at board or senior management level and that board commitment to ESG improves competitiveness, which recorded the highest mean of 3.77. These results confirm that sustainability is increasingly treated as a governance matter rather than a purely operational concern, in line with arguments that boards must internalize environmental risk as financial risk to safeguard long term performance (Bătae et al., 2021; Hussain et al., 2024). The perception that green governance contributes to better financial and reputational outcomes further reinforces the view that ESG governance is not an add on, but part of the performance architecture of modern banks (Mbuthia & Gatauwa, 2022).

The inferential results deepen this picture by showing that green governance is not only present, but materially consequential for performance. The regression model produced a strong correlation coefficient of 0.768 and an R Square of 0.590, meaning that fifty nine percent of the variance in bank performance is explained by differences in the quality of green governance practices. A one unit improvement in green governance is associated with a 0.704 unit increase in performance, and the effect is statistically significant with p less than 0.05. This confirms that institutions with stronger ESG oversight, regular sustainability reporting, and clear accountability mechanisms outperform those with weaker governance structures. The high F statistic and significant ANOVA result show that this relationship is unlikely to be due to chance, aligning with international evidence that banks with robust sustainability governance frameworks achieve better financial resilience and investor confidence (Chen et al., 2022; Opuni Frimpong et al., 2024).

At the same time, the descriptive statistics point to a governance landscape that is still evolving. Although most banks have put in place ESG committees, oversight structures, and disclosure practices, the proportion of strategic objectives directly linked to ESG or green finance averages only 14.90 percent. This indicates that sustainability targets still occupy a relatively small share of overall strategic focus, echoing sector assessments that highlight gaps in ESG data systems, skills, and full integration of environmental risk into credit policies (Kenya Bankers Association, 2023).

The moderate means for statements on accountability mechanisms and green performance targets suggest that some institutions are still working to embed sustainability more deeply into performance management systems. This pattern is consistent with local studies that report adoption of sustainability goals, but highlight challenges in tracking ESG financial impacts due to limited metrics and capacity (Achieng & Wekesa, 2022; Owino & Kamau, 2023).

The results also sit comfortably within the broader empirical literature on governance and performance in African banking. Temba et al. (2023) found that board structures, committees, and oversight activities improve earning ability and capital adequacy in Tanzanian banks, while weaknesses such as overboarding and poorly configured boards undermine liquidity. In Kenya, Ongongo et al. (2022) reported that governance driven strategy evaluation improves profitability through regular performance reviews and corrective action. Aluoch et al. (2023) further showed that performance indicators such as Return on Assets and Tobin's Q are significantly shaped by board governance and regulatory expectations from the Central Bank of Kenya and the Capital Markets Authority. The present study extends these findings by showing that when governance is specifically oriented toward green finance through ESG oversight, disclosure, and risk governance, it explains a large share of performance variation in commercial banks in Nairobi County.

Theoretically, the findings strongly support the application of Institutional Theory to green finance governance. Kenyan banks operate under coercive pressures from regulators, normative expectations from the Kenya Bankers Association, and mimetic pressure to align with global frameworks such as the Principles for Responsible Banking and the Equator Principles (Scott, 2014; Greenwood et al., 2017). The relatively high levels of ESG oversight, the average of 6.85 ESG related board meetings per year, and regular publication of sustainability reports suggest that banks have moved beyond symbolic adoption toward more substantive governance practices. This corresponds with the argument that organizations adopt and deepen governance mechanisms not only to meet formal requirements, but to secure legitimacy and access to resources in environments where sustainability has become a core institutional expectation (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). The strong and significant effect of green governance on performance in this study implies that when institutional pressures lead to genuine integration of sustainability into governance systems, the outcome is both enhanced legitimacy and improved financial results.

The findings indicates that green finance governance has become a central lever for strengthening profitability, liquidity, and asset quality in Nairobi's commercial banking sector. Board level engagement, ESG oversight structures, and disclosure systems are no longer peripheral, and where they are robust, banks experience superior performance and reputational benefits (Ndungu & Njoroge, 2023; Kibet & Muriuki, 2022). At the same time, the relatively modest proportion of ESG aligned strategic objectives and the known gaps in taxonomy, skills, and enforcement underline that there is still space for deeper integration and standardization of green governance practices across the sector (CBK, 2023; KBA, 2023). The study therefore confirms that effective governance is the bridge between sustainability ambition and measurable financial outcomes, and that strengthening green finance governance is essential for banks seeking to remain resilient and competitive in an environment defined by climate risk and rising stakeholder expectations.

6.0 Conclusion

Green finance governance practices have a clear and measurable influence on the financial performance of commercial banks in Nairobi County, with most institutions already embedding ESG oversight, disclosure structures, and accountability mechanisms into their operations.

Descriptive results show strong respondent agreement that board commitment and structured governance systems improve competitiveness and institutional accountability. Inferential analysis further confirms that these governance practices significantly enhance financial performance, explaining fifty-nine percent of the variation in profitability, liquidity, and stability. The study therefore concludes that strengthening green finance governance is vital for improved financial outcomes and for positioning Kenya's banking sector for long-term competitiveness in a sustainability-focused global environment.

7.0 Recommendation

The study recommends that commercial banks strengthen board level oversight of sustainability by creating dedicated ESG committees, training board members on climate related financial risks, and linking executive evaluations to ESG performance. It also recommends improving the quality and consistency of ESG disclosures through standardized reporting frameworks, stronger data systems, and regular sustainability reporting supported by internal audit mechanisms for tracking ESG targets. In addition, banks should embed sustainability obligations across departments to reinforce accountability and align operational priorities with green finance objectives. Finally, the study recommends that regulators develop clearer national guidelines including a unified green taxonomy, mandatory ESG risk assessment standards, and incentive structures to harmonize governance expectations and accelerate the adoption of strong green finance governance practices across the sector..

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