

The Interplay of Sustainability, Reputation, and Firm Performance in Commercial Banks

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ABSTRACT

This study examined how corporate sustainability, reputation, and firm size interact to shape the performance of commercial banks in Kenya. Although banks are expected to align with sustainable development goals and responsible banking practices, performance outcomes remain uneven, with some institutions facing declining returns and weak stakeholder trust. The study explored sustainability as a strategic driver of long-term value, reputation as a mediating mechanism, and firm size as a moderating factor in the sustainability–performance relationship. Grounded in Stakeholder Theory, Agency Theory, and Signaling Theory, the research employed a positivist philosophy and explanatory design, collecting data from 39 licensed commercial banks through structured questionnaires and secondary financial reports. Analysis using correlation and hierarchical regression revealed that sustainability practices significantly enhanced performance, but the effect was fully mediated by corporate reputation, underscoring the importance of image and stakeholder perception. Firm size was found to moderate both direct and indirect effects, with smaller banks benefiting more from sustainability investments, while larger banks leveraged reputation for competitive advantage. The study concludes that integrating sustainability with reputation-building strategies enhances financial and non-financial outcomes, and recommends that banks institutionalize sustainability reporting, strengthen stakeholder engagement, and adopt size-sensitive approaches to performance improvement.

Keywords: Corporate sustainability, corporate reputation, firm size, firm performance, commercial banks, Kenya

INTRODUCTION

Corporate sustainability has emerged as a defining agenda in contemporary banking, reflecting growing pressures for institutions to align financial performance with environmental, social, and governance (ESG) imperatives. Globally, banks are not only tasked with wealth creation and intermediation but are also expected to advance sustainable development through responsible lending, investment, and stakeholder engagement (Nguyen et al., 2023; Khan & Ali, 2022). In emerging economies such as Kenya, where banks serve as critical drivers of capital formation, innovation, and social inclusion, sustainability practices are increasingly viewed as both a moral obligation and a strategic imperative (Njoroge & Waweru, 2023). Integrating sustainability into banking operations is associated with improved risk management, enhanced stakeholder trust, and stronger resilience in volatile environments (Akisik & Gal, 2021). However, the performance outcomes of sustainability adoption remain contested, with banks exhibiting divergent financial and non-financial results despite adopting similar ESG frameworks (Mbuthia & Gatawa, 2022).

A central dimension shaping this debate is the role of corporate reputation as an intangible asset that translates sustainability commitments into stakeholder value. Reputation influences how customers, regulators, investors, and employees perceive a bank's credibility, ethical standing, and reliability, thereby impacting its ability to generate long-term returns (Bigus et al., 2024; Le, 2023). A strong reputation can amplify the benefits of sustainability practices by attracting new clients, reducing transaction costs, and enhancing customer loyalty. Conversely, weak reputational capital can diminish the value of sustainability investments, leaving firms

vulnerable to stakeholder skepticism (Sideri, 2021). In Kenya, where the banking sector has experienced episodes of instability, including the collapse of several mid-sized institutions, reputation has become a cornerstone for survival and competitiveness (Kenya Bankers Association, 2021).

Firm size further complicates the sustainability–performance relationship. Larger banks often possess greater resource endowments, diversified portfolios, and wider stakeholder networks that enable them to absorb the costs of sustainability investments while leveraging reputation to consolidate market share (Daromes et al., 2022; Mwihi et al., 2022). Smaller banks, on the other hand, may derive sharper performance benefits from sustainability adoption due to increased visibility and niche positioning, though their limited resources constrain scalability (Kaur & Singh, 2021). This duality highlights the need to investigate how size moderates the relationship between sustainability, reputation, and firm performance, especially in developing banking systems where resource constraints and regulatory pressures are pronounced (Abor et al., 2022).

International evidence underscores the relevance of these dynamics. Studies in Europe and Asia reveal that banks adopting sustainability practices often record higher profitability and market value, particularly when supported by strong reputations (Singh & Misra, 2021; Ali et al., 2020). In contrast, evidence from South Asia and parts of Africa shows inconsistent outcomes, with sustainability sometimes imposing financial burdens in the short term (Jyoti & Khanna, 2021). Such mixed findings suggest that contextual factors such as institutional environments, stakeholder expectations, and firm characteristics play a decisive role in shaping outcomes. For Kenya’s commercial banks, operating in a rapidly digitizing economy with heightened regulatory oversight and growing stakeholder scrutiny, these factors are particularly salient (Kiemo & Kamau, 2021).

Despite the growing literature, research on the combined effects of sustainability, reputation, and firm size on performance remains limited in the African banking context. Many existing studies adopt a bivariate approach, focusing only on sustainability and performance, thereby overlooking the mediating role of reputation and the moderating role of firm size (Mbuthia & Gatauwa, 2022; Khan, 2019). This omission risks overstating the direct impact of sustainability and underestimating the indirect pathways through which it influences outcomes. Furthermore, while evidence from developed markets is extensive, empirical insights from developing economies remain scarce, particularly in relation to moderated mediation models (Urbano et al., 2020).

The Kenyan banking sector provides a compelling setting to explore these dynamics. Comprising 39 licensed commercial banks with diverse ownership structures, asset bases, and customer profiles, the sector illustrates the opportunities and challenges of integrating sustainability into performance strategies (Central Bank of Kenya, 2023). Some banks, such as large multinational subsidiaries, have leveraged global sustainability standards to build strong reputations and capture market share, while smaller indigenous banks struggle to balance compliance costs with performance goals (Njoroge & Waweru, 2023). This diversity offers an ideal context to assess how sustainability practices translate into performance through reputation, and how firm size moderates these relationships.

The theoretical foundation for examining these linkages draws on Stakeholder Theory, Agency Theory, and Signaling Theory. Stakeholder Theory emphasizes the role of sustainability in balancing diverse stakeholder interests to enhance legitimacy and long-term performance (Freeman et al., 2021). Agency Theory highlights managerial incentives and resource allocation decisions that shape firm size and governance outcomes (Jensen & Meckling, 1976; updated by Barney & Hesterly, 2021). Signaling Theory explains how sustainability and reputation function as signals to external stakeholders, reducing information asymmetries and shaping firm performance (Spence, 1973; Rahman, 2016). Together, these perspectives provide a comprehensive lens for analyzing the interplay of sustainability, reputation, and firm size in commercial banks.

Empirical evidence suggests that sustainability outcomes are highly context-specific. Banks that embed sustainability into their strategic models tend to achieve superior financial and non-financial performance, particularly when reputation is robust (Alshehhi et al., 2018; Busch & Friede, 2018). In Kenya, however, sustainability practices are unevenly applied, with some banks reporting advanced ESG initiatives while others lag due to regulatory, cultural, and resource-related constraints (Mbuthia & Gatauwa, 2022). This raises critical questions about the mechanisms through which sustainability affects performance and the conditions under which its benefits are maximized.

The current study addresses these gaps by examining the interplay of corporate sustainability, reputation, and firm size in determining the performance of commercial banks in Kenya. Specifically, it investigates how sustainability influences performance, the extent to which reputation mediates this relationship, and how firm size moderates both direct and indirect effects. By adopting a moderated mediation framework and drawing evidence from both financial and non-financial metrics, the study contributes new insights to the sustainability–performance literature from a developing country perspective. It also provides practical implications for managers, regulators, and policymakers seeking to align ESG practices with performance objectives in the banking sector.

RESEARCH PROBLEM

Corporate sustainability has become a critical agenda in global banking, driven by rising regulatory pressure, stakeholder expectations, and the need to address environmental, social, and governance (ESG) challenges. However, despite widespread adoption of sustainability frameworks, commercial banks in developing economies continue to exhibit mixed performance outcomes. In Kenya, some banks have reported improved profitability and customer loyalty linked to sustainability initiatives, while others face declining returns on assets and weak stakeholder confidence despite similar commitments (Mbuthia & Gatauwa, 2022; Central Bank of Kenya, 2023). This inconsistency raises questions about the mechanisms through which sustainability translates into tangible performance outcomes.

Resource-related challenges further complicate this relationship. Smaller banks often struggle to sustain ESG investments due to limited financial and human capital, while larger banks face diseconomies of scale and bureaucratic inefficiencies that dilute the impact of sustainability practices (Daromes et al., 2022; Kaur & Singh, 2021). Additionally, weak enforcement of ESG disclosure standards in Kenya allows selective reporting, reducing transparency and creating uncertainty about the real value of sustainability practices (Njoroge & Waweru, 2023; Onyango, 2023). These factors undermine stakeholders' ability to evaluate bank performance fairly, limiting the strategic impact of sustainability adoption.

Corporate reputation has been identified as a potential pathway through which sustainability practices influence performance, yet empirical evidence remains fragmented. Some studies show that a strong reputation mediates the link between sustainability and financial outcomes by building stakeholder trust, attracting investment, and improving market positioning (Singh & Misra, 2021; Bigus et al., 2024). Others suggest that without visible reputational gains, sustainability investments yield limited returns, especially in competitive banking environments (Ali et al., 2020). The extent to which reputation strengthens or weakens the sustainability–performance relationship in Kenya's banking sector is still underexplored.

Existing literature on Kenyan banking has largely focused on financial ratios, governance, and regulatory compliance (Kiemo & Kamau, 2021; Abor et al., 2022). However, a conceptual gap persists regarding how sustainability practices interact with intangible assets like reputation and structural characteristics such as firm size to shape performance outcomes. Methodological gaps are also evident, as most studies adopt bivariate designs that overlook the combined mediating and moderating effects that may explain inconsistencies in empirical findings (Khan, 2019; Urbano et al., 2020).

This study therefore seeks to bridge these gaps by examining the interplay of corporate sustainability, reputation, and firm size in shaping the performance of commercial banks in Kenya. Specifically, it investigates the direct impact of sustainability on performance, the mediating role of reputation, and the moderating influence of firm size on both direct and indirect relationships.

Ultimately, the study contends that sustainability cannot be understood in isolation but must be analyzed through its interaction with reputation and size. Banks that integrate sustainability with reputation-building strategies and align them with their structural capacities are better positioned to enhance both financial and non-financial performance. Conversely, neglect of these interactions reinforces inconsistent outcomes, inefficient resource use, and declining competitiveness in Kenya's banking sector (World Bank, 2023; Njoroge & Waweru, 2023).

LITERATURE REVIEW

Theoretical perspectives provide the foundation for understanding how sustainability, reputation, and firm size interact to influence bank performance. By anchoring the study in established theories, the research situates sustainability within broader explanations of organizational legitimacy, stakeholder management, signaling behavior, and resource allocation. This section therefore reviews key theories, including Stakeholder Theory, Agency Theory, and Signaling Theory, that collectively explain how banks leverage sustainability and reputation to enhance performance, and how firm size moderates these dynamics.

Sustainability and Firm Performance in Banking

Corporate sustainability has become a central theme in financial institutions as banks increasingly align operations with environmental, social, and governance (ESG) frameworks. It is commonly defined as the integration of environmental stewardship, social responsibility, and governance practices into business strategies to generate long-term value for both firms and stakeholders (Nguyen et al., 2023; Akisik & Gal, 2021). In the banking context, sustainability influences performance through improved risk management, enhanced innovation, and stronger stakeholder trust (Mbuthia & Gatauwa, 2022). Empirical studies show mixed results: while some banks achieve improved returns on assets and equity by adopting sustainability practices (Khan, 2019; Singh & Misra, 2021), others face short-term cost burdens that dilute profitability (Jyoti & Khanna, 2021). These variations highlight the importance of contextual factors such as market structure, regulation, and firm size in shaping outcomes.

Corporate Reputation as a Mediator

Corporate reputation is increasingly recognized as a dynamic intangible asset that links sustainability practices to firm performance. Reputation reflects stakeholder perceptions of a bank's credibility, ethical behavior, and reliability, and it has been shown to attract investment, foster customer loyalty, and reduce transaction costs (Le, 2023; Bigus et al., 2024). Studies indicate that sustainability initiatives improve performance primarily by enhancing reputation, which then translates into competitive advantage (Ali et al., 2020; Sideri, 2021). For instance, banks that invest in community development or green financing not only meet regulatory expectations but also gain reputational capital that differentiates them in competitive markets (Javed et al., 2020). Conversely, when sustainability efforts fail to build reputation, their impact on performance is limited, underscoring the mediating role of reputation.

Firm Size as a Moderator

Firm size is another critical factor shaping the sustainability–performance nexus. Larger banks generally possess greater resources to invest in ESG initiatives, enjoy economies of scale, and benefit from visibility that strengthens reputational gains (Daromes et al., 2022; Mwihaki et al., 2022). However, diseconomies of scale, bureaucratic inefficiencies, and regulatory scrutiny may dilute these advantages (Kaur & Singh, 2021). Smaller banks, while resource-constrained, may realize sharper reputational benefits from sustainability adoption due to increased stakeholder visibility and niche positioning (Njoroge & Waweru, 2023). Empirical evidence suggests that size moderates both the direct effect of sustainability on performance and the indirect effect through reputation, but findings remain inconclusive across different contexts (Abor et al., 2022).

Theoretical Perspectives

Stakeholder Theory posits that firms achieve sustainable performance by balancing the interests of diverse stakeholders, making sustainability a central mechanism for legitimacy and long-term success (Freeman et al., 2021). In banks, this involves aligning lending, governance, and CSR activities with stakeholder expectations. Agency Theory explains how managerial incentives and resource allocation affect firm size and governance structures. It suggests that managers may pursue sustainability for reputational benefits or to expand firm size, even when short-term costs are high (Jensen & Meckling, 1976; Barney & Hesterly, 2021). Signaling Theory emphasizes the role of sustainability and reputation as signals that reduce information asymmetry with

investors, regulators, and customers. By visibly adopting sustainability practices, banks signal reliability and competitiveness, thereby improving performance outcomes (Spence, 1973; Rahman, 2016).

Synthesis

The integration of these perspectives demonstrates that sustainability, reputation, and firm size are interdependent rather than isolated factors. Sustainability enhances performance primarily through reputational capital, while firm size determines the extent of these effects. For Kenya's commercial banks, which face regulatory scrutiny, competitive pressures, and stakeholder demands, examining this interplay is essential for understanding how sustainability strategies translate into both financial and non-financial outcomes. Institutionalizing this approach contributes to theory by extending moderated mediation models in sustainability research, while offering practical pathways for banks to balance stakeholder expectations, reputational strength, and structural capacity in pursuit of long-term performance (Urbano et al., 2020; Central Bank of Kenya, 2023).

EMPIRICAL REVIEW

Empirical studies complement theoretical perspectives by providing evidence on how sustainability, reputation, and firm size interact to shape performance in banking and related sectors. Reviewing both international and local literature highlights the successes, challenges, and lessons that inform the institutionalization of sustainability practices in financial institutions. This section therefore examines empirical findings from developed countries, African nations, and the Kenyan context, before identifying knowledge gaps that the current study seeks to address.

Sustainability, Reputation, and Performance in Developed Contexts

Empirical studies from developed nations demonstrate that embedding sustainability into core banking strategies enhances profitability, risk management, and stakeholder legitimacy. In Europe, Singh and Misra (2021) found that corporate sustainability practices significantly improved financial and non-financial performance, particularly when mediated by strong reputations among customers and investors. Similarly, Ali et al. (2020) reported that in Pakistan's listed firms, sustainability initiatives influenced performance indirectly through customer satisfaction and corporate image, confirming the mediating role of intangible assets. In the United States, Busch and Friede's (2018) meta-analysis of ESG studies revealed a consistent positive link between sustainability and financial performance, with reputation acting as a reinforcing mechanism. However, other studies indicate that sustainability adoption can impose short-term financial costs, particularly in highly regulated markets, raising questions about contextual variations (Jyoti & Khanna, 2021).

Evidence from African Banking Sectors

Within Africa, sustainability is increasingly recognized as a driver of competitiveness in financial institutions, though outcomes remain inconsistent. In Nigeria, Okoye et al. (2020) found that sustainability practices such as board diversity and governance structures significantly influenced bank profitability, but the effect varied by firm size. In South Africa, Van der Walt (2021) reported that banks integrating ESG practices into lending decisions experienced reputational gains that translated into stronger market positioning. Conversely, Mukonza and Managa (2022) observed that limited technical expertise and weak ESG reporting standards constrained the impact of sustainability on performance. These findings suggest that while sustainability and reputation matter, their effects are moderated by institutional environments and resource capacity factors that mirror challenges in Kenya.

Empirical Studies in the Kenyan Context

Kenya's banking sector has produced a growing body of literature linking sustainability to firm outcomes, though findings remain mixed. Mbuthia and Gatauwa (2022) established that social, environmental, and governance factors significantly influenced firm performance among listed companies, but noted variation across industries. Omware et al. (2020) confirmed that sustainability practices improved financial performance

in commercial banks listed on the Nairobi Securities Exchange, particularly when linked to governance indicators such as board independence. However, Ng'ang'a (2018) found that while CSR and sustainability initiatives enhanced customer satisfaction and loyalty, their direct effect on financial outcomes was weak, pointing to the mediating role of intangible factors such as reputation. More recently, Njoroge and Waweru (2023) observed that while leading banks have institutionalized sustainability reporting, smaller institutions often treat it as compliance rather than a strategic tool, limiting reputational benefits and performance gains.

Knowledge Gaps

The reviewed literature underscores that while sustainability is globally acknowledged as a driver of competitive advantage, its outcomes in African and Kenyan banks remain uneven. First, a conceptual gap exists as most studies adopt bivariate designs, focusing solely on sustainability and performance while overlooking the mediating role of reputation and the moderating role of firm size. Second, a methodological gap persists, as few studies employ moderated mediation frameworks that capture the complexity of these relationships. Third, a contextual gap exists in the Kenyan banking sector, where banks vary widely in size, ownership, and market orientation, yet little research has examined how these differences shape the sustainability–reputation–performance nexus. Addressing these gaps is critical in clarifying the mechanisms through which sustainability enhances performance and in guiding managers, regulators, and policymakers toward more effective strategies for institutionalizing sustainability in banking.

Conceptual Framework

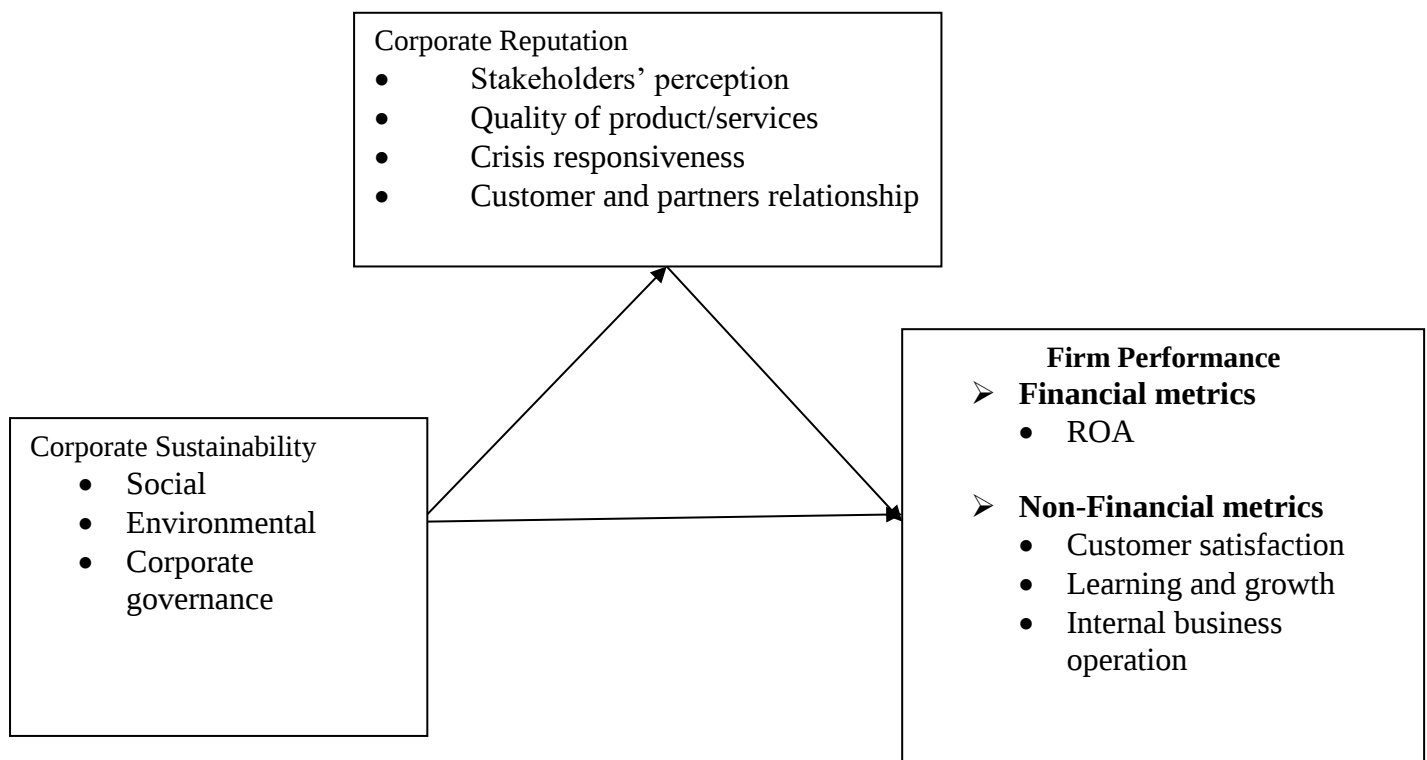


Figure 1: Conceptual Framework

METHODOLOGY

This section outlines the methodological approach adopted to investigate the interplay of sustainability, reputation, and firm size in shaping the performance of commercial banks in Kenya. The methodology was designed to ensure that the findings are robust, reliable, and aligned with the research objectives. It discusses the research philosophy, design, target population, sampling procedures, data collection methods, data analysis techniques, and the strategies employed to ensure validity, reliability, and ethical compliance. By combining both primary and secondary data, the methodology provided a comprehensive framework for capturing the complex dynamics between sustainability, reputation, size, and performance in the banking sector.

Research Philosophy

The study was anchored on positivism, which emphasizes objectivity, quantification, and hypothesis testing (Saunders et al., 2019). Positivism was considered appropriate because the relationships among sustainability, reputation, firm size, and performance can be empirically measured and statistically tested. This philosophy justified the use of structured instruments and econometric models to capture causal linkages, ensuring replicability and scientific rigor (Creswell & Creswell, 2021).

Research Design

The research employed a descriptive and explanatory design. The descriptive component profiled the current state of sustainability and reputational practices in commercial banks, while the explanatory component analyzed causal relationships between sustainability, reputation, firm size, and performance. This design allowed for both contextual understanding and hypothesis testing, thereby strengthening the validity of findings (Bryman, 2020).

Target Population

The target population comprised all 39 commercial banks licensed by the Central Bank of Kenya as of 2023. These banks were deemed most relevant because of their direct involvement in sustainability reporting, reputation management, and financial performance outcomes. Respondents for primary data included senior managers, heads of corporate affairs, sustainability officers, and strategy executives, who are directly engaged in implementing ESG practices and reputation-building strategies.

Sampling Procedure and Sample Size

The study adopted a census approach for banks, ensuring inclusion of all 39 commercial banks given the relatively small population. Within each bank, purposive sampling was used to select at least three respondents from strategy, sustainability, and finance departments. This yielded a sample of 117 respondents, which was consistent with recommendations for studies employing explanatory designs where relationships are tested across multiple variables (Kothari, 2021).

Data Collection Instruments

Data were collected through structured questionnaires and secondary document reviews.

- **Questionnaires** captured quantitative data on sustainability practices (environmental, social, and governance dimensions), corporate reputation (stakeholder perceptions, service quality, crisis responsiveness), and firm performance (financial and non-financial indicators).
- **Document reviews** covered annual reports, sustainability reports, and Central Bank of Kenya supervision reports, providing secondary validation of firm size, return on assets, and other financial measures. The instruments were pre-tested with five bank officials outside the main sample to ensure clarity, reliability, and validity, as recommended by Mugenda & Mugenda (2019).
- Sustainability was measured using a composite index capturing environmental, social, and governance (ESG) dimensions, with respondents rating 12 items such as green lending practices, community engagement, and board diversity on a five-point Likert scale. Corporate reputation was assessed using a 9-item scale covering stakeholder trust, service quality, crisis responsiveness, and ethical conduct, also rated on a five-point scale. Index scores for both constructs were computed by averaging item responses, with higher scores indicating stronger sustainability practices and reputational strength.

Data Analysis

Quantitative data were analyzed using SPSS and STATA. Descriptive statistics (means, standard deviations, and percentages) summarized sustainability, reputation, size, and performance indicators. Inferential statistics

tested hypotheses using correlation analysis, multiple regression, and moderated mediation models. The regression model was specified as:

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

Where:

- **Y** represents firm performance (financial and non-financial),
- **X1** represents corporate sustainability (ESG indicators),
- **X2** represents corporate reputation (stakeholder perception, service quality, crisis responsiveness),
- **X3** represents firm size (log of total assets),
- **X1*X3** represents the interaction effect for moderation,
- **β0** is the constant, **β1...β4** are coefficients, and **ε** is the error term.

Mediation and moderated mediation analyses were conducted using PROCESS macro (Hayes, 2018), allowing assessment of both indirect and conditional effects.

Validity, Reliability, and Ethical Considerations

Several measures ensured validity and reliability. Construct validity was enhanced through adoption of standardized measures of sustainability, reputation, and performance from prior studies (Ali et al., 2020; Singh & Misra, 2021). Reliability was ensured by computing Cronbach's alpha for internal consistency, with coefficients above the 0.7 threshold considered acceptable. Triangulation was achieved by cross-verifying questionnaire responses with financial data from CBK supervision reports.

Ethical considerations were strictly observed. Permission was obtained from the Central Bank of Kenya and individual banks. Informed consent was sought from all respondents, and confidentiality and anonymity were guaranteed. Participation was voluntary, and data were stored securely and used strictly for academic purposes, in line with ethical research guidelines (Resnik, 2020).

FINDINGS

Table 1: Adoption of Sustainability Practices Across Commercial Banks

Bank Category	High Adoption (%)	Moderate Adoption (%)	Low Adoption (%)
Large Banks	76.5	18.2	5.3
Medium-Sized Banks	62.8	25.6	11.6
Small Banks	48.7	31.4	19.9

The results show that large banks have institutionalized sustainability practices more effectively compared to medium and small banks, which continue to report lower levels of integration. Banks with structured sustainability programs also exhibited stronger reputational gains and more consistent performance outcomes.

Table 2: Regression Results – Sustainability, Reputation, Firm Size, and Performance

Variable	Coefficient (β)	Std Error	T value	Sig. (p)
Sustainability (X ₁)	0.294	0.067	4.39	0.000
Reputation (X ₂)	0.352	0.064	5.50	0.000
Firm Size (X ₃)	0.217	0.059	3.68	0.000
Sustainability × Firm Size (X ₁ *X ₃)	0.126	0.052	2.42	0.016
Constant (β ₀)	0.138	0.045	3.07	0.002

Model Summary: R² = 0.702, Adjusted R² = 0.694, F(4,112) = 66.28, p < 0.001

The regression analysis indicates that corporate reputation has the strongest positive and significant effect on firm performance ($\beta = 0.352$, $p < 0.001$). Sustainability also significantly enhances performance ($\beta = 0.294$, $p < 0.001$), with firm size both directly influencing performance and moderating the sustainability–performance relationship. The interaction term ($X_1 * X_3$) confirms that the effect of sustainability on performance increases with firm size. The high R^2 value suggests that 70.2 percent of the variation in firm performance is explained by sustainability, reputation, firm size, and their interaction.

DISCUSSION OF FINDINGS

The study findings confirm that corporate sustainability plays a critical role in enhancing firm performance in commercial banks. Banks with formalized sustainability frameworks were able to align resource use with long-term strategic objectives, reduce risk exposure, and build stronger stakeholder trust. For example, large banks with well-documented ESG programs demonstrated better alignment of reputational strategies with financial performance, while smaller banks with weaker sustainability adoption struggled to achieve consistent outcomes.

Regression analysis reinforces the importance of reputation as a mediating factor in the sustainability–performance relationship, showing that banks with stronger reputations achieved greater efficiency, customer loyalty, and investor confidence. These results are consistent with Singh and Misra (2021) and Ali et al. (2020), who found that corporate reputation amplifies the value of sustainability initiatives by translating them into market advantages.

Qualitative findings provided additional depth by highlighting challenges such as limited technical expertise, regulatory inconsistency, and resource constraints. Respondents noted that while sustainability reporting frameworks existed, their application was often undermined by compliance-driven approaches rather than strategic integration. This weakened the link between sustainability practices and performance outcomes, echoing findings by Mbuthia and Gatawa (2022).

Firm size also emerged as an important moderator. Larger banks leveraged their scale and resources to institutionalize sustainability reporting, attract international partnerships, and enhance reputational capital. Conversely, smaller banks, while benefiting from visibility when engaging in sustainability practices, lacked the resources to sustain comprehensive ESG initiatives. This reflects findings by Daromes et al. (2022), who observed that firm size influences both the adoption and impact of sustainability strategies. Similar moderated mediation patterns have been documented in other regional contexts, providing a useful benchmark for interpreting the current findings. For instance, Ali et al. (2020) found that in Pakistan's corporate sector, the effect of sustainability on firm performance was fully mediated by corporate image and further moderated by organizational visibility paralleling the Kenyan context where firm size played a similar role.

In South Africa, Van der Walt (2021) showed that reputation mediated the link between ESG integration and competitive advantage, with bank size moderating this relationship through resource flexibility and compliance infrastructure. Likewise, Singh and Misra (2021) demonstrated that among European banks, sustainability's impact on performance intensified in larger firms due to stronger reputational feedback loops. These findings align with the current study and underscore the global relevance of moderated mediation models in explaining how firm-specific and institutional factors shape the sustainability–performance relationship. However, Kenya's banking context is unique in that smaller banks, though constrained by resources, experienced sharper reputational shifts from sustainability efforts due to heightened stakeholder visibility and limited brand dilution, an effect less observed in developed markets.

Corporate governance and leadership commitment were identified as critical enablers. Banks where leadership actively championed sustainability and reputation-building were more likely to integrate ESG practices into strategic plans and allocate sufficient resources to sustain them. Conversely, banks with weak leadership engagement tended to relegate sustainability to compliance functions, resulting in limited performance outcomes.

LIMITATIONS

This study was subject to several limitations that should be acknowledged. First, the use of a cross-sectional design limits the ability to establish causality between sustainability, reputation, and firm performance. Longitudinal studies would offer better insights into temporal dynamics. Second, the sample was limited to the 39 licensed commercial banks in Kenya, which may restrict the generalizability of the findings to other financial institutions or markets. Third, reliance on self-reported questionnaire data introduces the possibility of response bias, as participants may have overstated sustainability practices or reputational strengths. Lastly, while secondary data helped validate performance indicators, gaps in ESG disclosure practices across banks may have affected the completeness of the analysis.

CONCLUSION AND RECOMMENDATIONS

This study set out to examine the interplay of sustainability, reputation, and firm size in determining the performance of commercial banks in Kenya. The findings confirm that sustainability is not a peripheral activity but a central element of strategic management that directly influences financial and non-financial performance. Banks that institutionalized structured sustainability practices were able to anticipate risks, strengthen stakeholder relations, and enhance competitiveness, while those that adopted sustainability only as a compliance exercise experienced weaker outcomes (Busch & Friede, 2018; Njoroge & Waweru, 2023).

The evidence further demonstrates that reputation mediates the link between sustainability and performance. Where sustainability practices enhanced corporate reputation, banks recorded stronger financial returns, customer loyalty, and market positioning. However, in cases where sustainability efforts were poorly communicated or inconsistently implemented, reputational gains were limited, diminishing the performance benefits (Bigus et al., 2024; Le, 2023). Firm size was also found to moderate these relationships, with larger banks leveraging their resource base and visibility to consolidate reputational advantages, while smaller banks benefited from focused initiatives but faced scalability challenges.

The study also established that regulatory frameworks and leadership commitment play decisive roles. Banks operating under strong governance structures and regulatory oversight were more likely to embed sustainability in decision-making, while those with weak governance frameworks risked treating sustainability as a symbolic gesture. Similarly, leadership engagement determined whether sustainability was integrated into core strategies or relegated to peripheral departments (Mwihaki et al., 2022).

Despite its promise, sustainability adoption in Kenyan banks faces significant challenges, including resource limitations, regulatory inconsistency, and short-term profit pressures. Smaller banks lack personnel trained in ESG reporting and rely heavily on external consultants, while regulatory oversight remains fragmented, reducing comparability and accountability across institutions.

From these findings, several recommendations are put forward. Banks should establish formal sustainability units within their strategy departments, adequately resourced and staffed with ESG specialists. Continuous investment in capacity building is essential, with banks encouraged to partner with universities, industry associations, and regulators to enhance technical expertise and awareness of sustainability value. Mechanisms should also be developed to ensure that sustainability outcomes inform corporate strategies, risk frameworks, and annual reports, linking ESG data to both financial and non-financial performance.

The Central Bank of Kenya has a role in strengthening standardized ESG disclosure frameworks, ensuring comparability and accountability across banks. Oversight bodies should enforce compliance with sustainability reporting, compelling banks not only to disclose activities but also to demonstrate measurable outcomes. Furthermore, banks should deepen stakeholder engagement by creating inclusive platforms for customers, employees, and communities to shape sustainability priorities, thereby enriching reputational benefits. Finally, banks should embrace digital innovations such as green finance tracking systems, ESG dashboards, and blockchain-based disclosure platforms to improve the timeliness, accuracy, and transparency of sustainability practices (Daromes et al., 2022; Nguyen et al., 2023). The Central Bank of Kenya can develop a standardized ESG disclosure template that all commercial banks must adopt in their annual reporting. It can also integrate

ESG compliance into routine supervisory assessments to ensure continuous monitoring. To build capacity, the regulator can organize mandatory ESG training workshops for bank executives and sustainability officers.

Future research could adopt a longitudinal design to track how sustainability and reputation influence performance over time. This would help uncover delayed effects and reveal changes across different economic cycles. Additionally, in-depth case studies of selected banks could provide richer insights into how internal strategies, leadership, and stakeholder engagement shape the sustainability–performance relationship.

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