

Exploring the Impact of Firm Size on the Relationship between Sustainability and Performance

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ABSTRACT

This study examined how firm size influences the relationship between corporate sustainability and firm performance in Kenya's commercial banking sector. Although sustainability is increasingly recognized as a strategic driver of long-term value creation, performance outcomes remain inconsistent across firms of different sizes. The study explored sustainability as a predictor of financial and non-financial performance, with firm size assessed as a moderating factor shaping this relationship. Grounded in Stakeholder Theory, Agency Theory, and Resource-Based View, the research employed a positivist philosophy and explanatory design. Data were collected from all 39 licensed commercial banks through structured questionnaires and secondary financial reports. Analysis using correlation and moderated regression revealed that sustainability practices significantly enhanced firm performance, but the magnitude of the effect varied by firm size. Larger banks benefited from economies of scale and reputational advantages that amplified the sustainability–performance link, while smaller banks recorded sharper but less sustainable gains due to limited resources. The study concludes that firm size is a decisive factor in determining the extent to which sustainability contributes to performance and recommends that banks adopt size-sensitive strategies that align ESG investments with their structural and resource capacities.

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

INTRODUCTION

Corporate sustainability has emerged as a defining theme in the financial sector, reflecting growing pressures for institutions to integrate environmental, social, and governance (ESG) considerations into their business strategies. Globally, banks and financial institutions are expected not only to generate shareholder value but also to contribute to sustainable development through responsible lending, investment, and stakeholder engagement (Nguyen et al., 2023; Khan & Ali, 2022). In developing economies such as Kenya, commercial banks serve as critical drivers of growth and inclusion, making sustainability adoption a strategic priority for long-term performance and resilience (Njoroge & Waweru, 2023). By embedding sustainability in operations, banks are better positioned to manage risks, meet regulatory expectations, and strengthen stakeholder trust (Akisik & Gal, 2021). However, despite these promises, empirical findings on the link between sustainability and performance remain mixed, with some institutions realizing significant gains while others struggle to translate ESG efforts into tangible outcomes (Mbuthia & Gatawa, 2022).

One explanation for these divergent outcomes lies in firm size. Larger banks often have greater financial and technical capacity to invest in sustainability initiatives, leverage reputational benefits, and absorb associated costs, thereby amplifying the positive effect of sustainability on performance (Daromes et al., 2022; Mwihaki et al., 2022). Smaller banks, on the other hand, may experience sharper reputational gains from sustainability adoption due to increased visibility, but resource limitations hinder their ability to sustain long-term initiatives (Kaur & Singh, 2021). This size effect raises important questions about whether sustainability has a uniform impact on performance across banks, or whether firm size moderates this relationship in significant ways.

International evidence supports the importance of size in shaping sustainability outcomes. In Europe, Singh and Misra (2021) found that large banks with comprehensive sustainability programs achieved superior

financial returns and reputational capital. Similarly, Ali et al. (2020) reported that sustainability investments improved performance when supported by strong governance structures, which are more common in larger firms. Conversely, studies in Asia and Africa suggest that smaller firms sometimes struggle to scale sustainability initiatives, leading to inconsistent or short-lived performance benefits (Jyoti & Khanna, 2021; Okoye et al., 2020). These contrasting results highlight the need for context-specific research on how firm size conditions the sustainability–performance nexus.

The Kenyan banking sector provides an ideal setting for such inquiry. Comprising 39 commercial banks of varying sizes, ownership structures, and market orientations, the sector illustrates the diversity of sustainability adoption. Large multinational banks have integrated global ESG frameworks into their operations and reporting, while smaller indigenous banks often approach sustainability from a compliance perspective, focusing on mandatory disclosures rather than strategic integration (Njoroge & Waweru, 2023; Central Bank of Kenya, 2023). This uneven adoption suggests that firm size may determine not only the level of sustainability engagement but also the extent to which such practices enhance performance outcomes.

The theoretical foundation for examining these dynamics is grounded in several complementary perspectives. Stakeholder Theory emphasizes the importance of addressing diverse stakeholder interests to achieve legitimacy and long-term performance (Freeman et al., 2021). Agency Theory highlights how managerial incentives and organizational constraints influence resource allocation and the pursuit of sustainability initiatives (Jensen & Meckling, 1976; Barney & Hesterly, 2021). The Resource-Based View (RBV) underscores the role of firm-specific capabilities such as financial resources, human capital, and technological systems that differ significantly by firm size (Barney, 1991). Together, these theories suggest that sustainability outcomes cannot be fully understood without accounting for firm size as a moderating factor.

Empirical studies reinforce the relevance of this perspective. In South Africa, Van der Walt (2021) demonstrated that larger banks integrating ESG practices into their strategies reported stronger reputational and financial outcomes compared to smaller banks. In Kenya, Mbuthia and Gatawa (2022) found that ESG practices positively influenced listed firms' performance but noted significant variation across industries and firm sizes. This indicates that the sustainability–performance relationship may not be linear but conditioned by structural characteristics such as size, resources, and market positioning.

Against this backdrop, the current study explores the moderating role of firm size in the relationship between sustainability and performance in Kenyan commercial banks. Specifically, it investigates whether the performance benefits of sustainability are equally accessible to banks of all sizes, or whether larger institutions are better placed to translate ESG commitments into long-term value. By addressing this question, the study contributes to theory by extending the sustainability–performance debate to a moderated framework and provides practical insights for banks, regulators, and policymakers seeking to design size-sensitive strategies for sustainable competitiveness in the financial sector.

Research Problem

Corporate sustainability has become a strategic imperative in the global banking industry, reflecting pressures from regulators, investors, and stakeholders to align financial performance with environmental, social, and governance (ESG) goals. However, the relationship between sustainability and firm performance remains contested, with some banks reporting improved profitability and customer loyalty from sustainability adoption, while others experience high implementation costs with limited returns (Busch & Friede, 2018; Nguyen et al., 2023). This inconsistency raises questions about the contextual and structural factors that shape the sustainability–performance nexus.

Firm size is one such factor that may significantly condition outcomes. Larger banks often enjoy economies of scale, diversified portfolios, and wider stakeholder networks, enabling them to leverage sustainability investments more effectively (Daromes et al., 2022; Mwihi et al., 2022). Conversely, smaller banks, while more agile and visible in their sustainability initiatives, face resource constraints that limit the depth and continuity of ESG adoption (Kaur & Singh, 2021). Weak disclosure frameworks in developing economies further exacerbate these disparities, as reporting is often compliance-driven rather than strategically embedded,

creating uncertainty about the real performance impact of sustainability practices (Njoroge & Waweru, 2023; Onyango, 2023).

Empirical studies have produced fragmented findings. While Singh and Misra (2021) demonstrate that sustainability positively influences performance when combined with strong reputational capital in European banks, African evidence remains mixed, with sustainability benefits often diluted by resource limitations and governance challenges (Okoye et al., 2020; Van der Walt, 2021). In Kenya, research has largely focused on the direct link between sustainability and performance, neglecting the moderating role of firm size in shaping this relationship (Mbuthia & Gatauwa, 2022; Omware et al., 2020). This leaves a conceptual gap, as few studies apply moderated models that capture how firm size conditions the sustainability–performance linkage.

A contextual gap also exists. Kenya’s banking sector is characterized by wide diversity in firm size, ownership structures, and market reach, yet empirical evidence on how these differences affect the translation of sustainability into performance outcomes remains scarce. Smaller indigenous banks and larger multinational subsidiaries face distinct opportunities and challenges, making it essential to examine sustainability through a size-sensitive lens (Central Bank of Kenya, 2023).

This study therefore seeks to bridge these gaps by examining the moderating role of firm size in the relationship between sustainability and performance in commercial banks in Kenya. Specifically, it investigates whether larger banks are better positioned to translate sustainability practices into financial and non-financial outcomes compared to smaller institutions.

Ultimately, the study contends that firm size is a critical determinant of the effectiveness of sustainability practices. Larger banks that integrate ESG into strategy and governance frameworks are likely to amplify performance benefits, while smaller banks must adopt tailored, resource-conscious approaches to realize sustainable gains. Neglecting the role of size risks overstating the uniformity of sustainability’s impact, leading to incomplete understanding and misaligned strategies in Kenya’s banking sector (Le, 2023; World Bank, 2023).

LITERATURE REVIEW

Theoretical perspectives provide the foundation for understanding how firm size shapes the relationship between sustainability and performance. By drawing on established theories, the study situates firm size within broader explanations of organizational legitimacy, resource allocation, adaptability, and strategic decision-making. This section therefore reviews key theories including Stakeholder Theory, the Resource-Based View, Agency Theory, and Signaling Theory that collectively explain how banks of varying sizes leverage sustainability practices to enhance performance.

Sustainability and Firm Performance in Banking

Corporate sustainability is increasingly recognized as a strategic determinant of firm performance, particularly in the financial sector where stakeholder trust and long-term stability are essential. It is commonly defined as the integration of environmental, social, and governance (ESG) considerations into core business practices to generate both financial and non-financial value (Nguyen et al., 2023; Akisik & Gal, 2021). In banking, sustainability has been linked to improved risk management, innovation, and stakeholder loyalty, which in turn enhance profitability and competitiveness (Mbuthia & Gatauwa, 2022). However, empirical findings remain mixed: while some studies demonstrate strong positive associations between sustainability and financial outcomes (Singh & Misra, 2021), others report short-term cost pressures that limit performance benefits (Jyoti & Khanna, 2021). These variations highlight the importance of moderating variables such as firm size in explaining inconsistencies.

The Role of Firm Size

Firm size significantly influences the adoption and effectiveness of sustainability practices. Larger banks often possess extensive financial and human resources that allow them to absorb sustainability costs, implement

advanced ESG reporting frameworks, and achieve economies of scale (Daromes et al., 2022; Mwihaki et al., 2022). They also benefit from enhanced visibility, enabling them to convert sustainability into reputational gains and investor confidence. Smaller banks, while more agile, face resource constraints that limit the depth and consistency of ESG adoption (Kaur & Singh, 2021). Nevertheless, their niche positioning and proximity to communities may amplify reputational benefits when sustainability is adopted strategically. This duality suggests that firm size moderates the sustainability–performance relationship, strengthening it for larger institutions while producing sharper but less sustainable effects for smaller banks.

Theoretical Perspectives

Stakeholder Theory emphasizes that firms enhance performance by meeting the expectations of diverse stakeholders, making sustainability a mechanism for legitimacy and long-term success (Freeman et al., 2021). Larger banks, with wider stakeholder networks, often experience greater pressure and rewards from sustainability adoption compared to smaller ones.

The Resource-Based View (RBV) highlights that firms achieve sustained advantage by deploying valuable, rare, inimitable, and non-substitutable resources (Barney et al., 2021). Larger banks are better positioned to deploy financial, technological, and human resources for sustainability, while smaller banks must strategically prioritize limited resources.

Agency Theory explains how managerial incentives and constraints affect resource allocation. Managers in large firms may invest in sustainability to enhance corporate reputation and mitigate agency costs, while those in smaller firms may prioritize immediate financial survival (Jensen & Meckling, 1976; Barney & Hesterly, 2021). Signaling Theory suggests that sustainability practices act as signals of credibility and long-term orientation to investors, regulators, and customers (Spence, 1973; Rahman, 2016). Larger firms are often better able to send credible signals due to their scale, while smaller firms may face challenges in signaling authenticity without strong disclosure mechanisms.

Synthesis

The integration of these theoretical perspectives demonstrates that sustainability cannot be analyzed in isolation from firm size. While sustainability practices can enhance financial and non-financial performance, the extent of their impact is shaped by organizational resources, governance structures, and stakeholder reach all of which differ by firm size. Larger banks are positioned to amplify sustainability's benefits through resource endowments and reputational capital, while smaller banks can achieve focused gains but face challenges in sustaining them over time. For Kenya's banking sector, where institutions vary widely in size and resource capacity, examining sustainability through the lens of firm size is therefore essential for advancing both theory and practice (Njoroge & Waweru, 2023; Central Bank of Kenya, 2023).

Empirical Review

Empirical studies complement theoretical perspectives by providing evidence on how firm size shapes the sustainability–performance relationship across different contexts. Reviewing both international and local literature highlights the successes, challenges, and lessons that inform how banks of varying sizes integrate sustainability into strategy and performance outcomes. 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 and Firm Size in Developed Contexts

Empirical studies from developed economies consistently demonstrate that larger firms are better positioned to institutionalize sustainability practices and translate them into performance benefits. In Europe, Singh and Misra (2021) found that large banks with comprehensive ESG frameworks achieved stronger profitability and reputational gains compared to smaller institutions. Ali et al. (2020) reported similar results in Pakistan, where larger firms leveraged resources and governance structures to amplify sustainability's impact on performance. In the United States, Busch and Friede (2018) conducted a meta-analysis of ESG–performance studies and

concluded that firm size positively moderated the sustainability–performance nexus, as larger firms had more visibility and credibility in signaling ESG commitments to stakeholders. However, some studies caution that sustainability adoption in larger firms can be resource-intensive and bureaucratic, potentially diluting its immediate financial impact (Jyoti & Khanna, 2021).

Sustainability and Firm Size in African Contexts

Within Africa, evidence points to the importance of firm size in determining sustainability outcomes, though challenges persist. In Nigeria, Okoye et al. (2020) found that governance structures and sustainability practices significantly influenced bank profitability, with larger banks showing stronger effects due to better resources and compliance mechanisms. In South Africa, Van der Walt (2021) demonstrated that sustainability adoption improved reputational and financial performance, particularly among larger firms with advanced reporting systems. However, Mukonza and Managa (2022) observed that smaller firms struggled to institutionalize sustainability due to limited expertise and weak data systems, resulting in inconsistent performance benefits. These findings suggest that while firm size enables scalability and integration of sustainability, resource gaps and institutional weaknesses continue to constrain outcomes across African contexts.

Sustainability and Firm Size in the Kenyan Context

Kenya’s banking sector provides growing evidence of the link between sustainability and performance, but findings remain uneven across firm sizes. Mbuthia and Gatauwa (2022) established that ESG practices significantly influenced firm performance among listed companies but noted that larger firms reported stronger and more consistent effects. Omware et al. (2020) confirmed that sustainability adoption in listed commercial banks improved profitability, though smaller banks faced challenges in sustaining long-term initiatives. Njoroge and Waweru (2023) observed that while large banks with international affiliations had institutionalized sustainability reporting, smaller indigenous banks approached it mainly as a compliance requirement, limiting reputational and financial benefits. Weak enforcement of ESG disclosure frameworks further compounds these disparities, with smaller firms often underreporting or selectively disclosing sustainability practices (Onyango, 2023).

Knowledge Gaps

The reviewed literature underscores that while sustainability is globally acknowledged as a driver of firm performance, its outcomes are not uniform across firms of different sizes. Specifically, a conceptual gap exists, as most studies analyze sustainability and performance in isolation without adequately examining the moderating role of firm size. A methodological gap persists, as few studies in Africa and Kenya apply moderated regression or conditional process models to capture these dynamics. Finally, a contextual gap exists in Kenya’s commercial banking sector, where significant variation in size, ownership, and resource endowments shapes how sustainability is operationalized and translated into performance outcomes. Addressing these gaps is therefore essential for clarifying the mechanisms through which firm size influences the sustainability–performance relationship and for guiding banks toward size-sensitive sustainability strategies.

METHODOLOGY

This section outlines the methodological approach adopted to investigate the moderating role of firm size in the relationship between sustainability and performance in 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 quantitative and qualitative approaches, the methodology provided a comprehensive framework for capturing the complex dynamics of sustainability, firm size, and organizational performance.

Research Philosophy

The study was anchored on pragmatism, which emphasizes the use of multiple approaches to understand complex organizational phenomena (Creswell & Plano Clark, 2021). Pragmatism was considered appropriate

because the sustainability–performance relationship involves both quantifiable outcomes and subjective organizational experiences shaped by firm size. This philosophy justified the adoption of a mixed-methods approach, enabling the study to combine quantitative rigor with qualitative insights (Saunders et al., 2019).

Research Design

The research employed a descriptive and explanatory design. The descriptive component documented current sustainability practices across banks of different sizes, while the explanatory component analyzed causal and moderating relationships between sustainability, firm size, and performance outcomes. This design allowed for both contextual understanding and statistical testing, thereby strengthening the validity of findings (Bryman, 2020).

Target Population

The target population comprised senior managers, sustainability officers, and departmental heads from all 39 commercial banks operating in Kenya as per Central Bank of Kenya (2023) records. Specifically, this included managers responsible for corporate sustainability, finance, strategy, operations, and risk management. These respondents were deemed most relevant because of their direct involvement in decision-making, policy implementation, and sustainability reporting.

Sampling Procedure and Sample Size

The study adopted a stratified random sampling technique, with each stratum defined by bank size (large, medium, and small, based on total assets and market share as classified by CBK). From the target population of approximately 430 senior officials, a sample of 200 respondents was selected, consistent with sampling recommendations for populations above 400 (Kothari, 2021). This approach enhanced representativeness and minimized sampling bias across bank categories.

Data Collection Instruments

Data were collected through structured questionnaires, semi-structured interviews, and document review:

- **Questionnaires** consisted mainly of closed-ended questions and captured quantitative data on sustainability adoption, firm size metrics, and performance indicators.
- **Interviews** were conducted with senior managers to gather qualitative insights on leadership, institutional capacity, and challenges in integrating sustainability into strategy.
- **Document reviews** covered annual reports, sustainability disclosures, and CBK banking supervision reports, providing secondary validation of practices.

The instruments were pre-tested with 15 managers outside the sample banks to ensure clarity, validity, and reliability, as recommended by Mugenda & Mugenda (2019).

Table 1: Operationalization of variables

Variable	Measurement Approach
Sustainability Practices	Composite index from 12 ESG indicators (green lending, board diversity, CSR programs)
Firm Performance	Financial (ROA, ROE) and non-financial (customer satisfaction, reputation) metrics
Firm Size	CBK classification (small, medium, large) based on total assets and employee count

Data Analysis

Quantitative data were analyzed using SPSS and hierarchical regression analysis. Descriptive statistics (frequencies, means, and percentages) summarized sustainability practices and firm characteristics. Moderated

regression analysis tested the interaction effect of firm size on the sustainability–performance relationship. The regression model was specified as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

- **Y** = Firm performance outcomes (financial and non-financial)
- **X₁** = Sustainability practices (environmental, social, and governance indicators)
- **X₂** = Firm size (measured by total assets, number of employees, and market share)
- **X₁*X₂** = Interaction term capturing the moderating effect of firm size
- **β₀** = Constant, **β₁...β₃** = Coefficients, **ε** = Error term

Qualitative data from interviews and documents were analyzed thematically, with transcripts coded into categories such as leadership support, resource allocation, reporting practices, and competitive advantage (Nowell et al., 2017).

Table 1: Measurement of Variables

Validity, Reliability, and Ethical Considerations

Several measures ensured validity and reliability. Triangulation was achieved by cross-verifying questionnaire responses with interview findings and document reviews (Fetters, 2020). Reliability was ensured through standardized instruments and inter-coder checks during qualitative analysis.

Ethical considerations were strictly observed. Permission was obtained from the Central Bank of Kenya and relevant bank authorities, and informed consent was sought from all respondents. Confidentiality, anonymity, and voluntary participation were guaranteed. Data were stored securely and used strictly for academic purposes, in line with ethical research guidelines (Resnik, 2020).

FINDINGS

Quantitative Findings

Table 2: Frequency of Sustainability Practices Across Firm Sizes

Firm Size	High Adoption (%)	Moderate Adoption (%)	Low Adoption (%)
Large Banks	74.8	19.6	5.6
Medium Banks	61.2	28.4	10.4
Small Banks	47.5	31.7	20.8

The results show that large banks have institutionalized sustainability practices more effectively compared to medium and small banks. Larger institutions reported structured frameworks such as ESG reporting units and integration of sustainability into corporate strategy. In contrast, small banks were more likely to adopt sustainability selectively, often focusing on compliance-driven initiatives rather than strategic alignment.

Table 2: Regression Results – Moderating Role of Firm Size on the Sustainability–Performance Relationship

Variable	Coefficient (β)	Std Error	T value	Sig. (p)
Sustainability (X ₁)	0.364	0.069	5.28	0.000
Firm Size (X ₃)	0.287	0.062	4.63	0.000
Sustainability × Firm Size (X ₁ *X ₃)	0.198	0.057	3.47	0.001
Constant (β ₀)	0.142	0.051	2.78	0.006

Model Summary: R² = 0.692, Adjusted R² = 0.683, F(3,196) = 97.41, p < 0.001

The regression analysis indicates that sustainability practices ($\beta = 0.364$, $p < 0.001$) positively and significantly influence firm performance. Firm size independently contributes to performance ($\beta = 0.287$, $p < 0.001$), while the interaction term ($\beta = 0.198$, $p = 0.001$) confirms that firm size significantly moderates the sustainability–performance relationship. The high R^2 value suggests that 69.2 percent of the variation in performance is explained by sustainability, firm size, and their interaction effect.

While the statistical significance of the interaction term ($\beta = 0.198$, $p = 0.001$) confirms that firm size moderates the sustainability–performance relationship, the effect size indicates a moderate practical impact. This suggests that the influence of sustainability on performance becomes more pronounced in larger firms, where structural capacity allows for deeper integration of ESG practices. The moderation effect is therefore practically meaningful, indicating that firm size plays a significant but not exclusive role in shaping the strength of the sustainability–performance linkage.

Qualitative Findings

The qualitative data from interviews provided additional depth to the statistical findings by uncovering organizational perspectives on sustainability adoption. Three major themes emerged:

Leadership Commitment

Several respondents emphasized that executive leadership played a pivotal role in institutionalizing sustainability. Banks where top management championed ESG initiatives had dedicated sustainability units, integrated sustainability in corporate strategy, and aligned it with performance monitoring. In contrast, banks with weak leadership engagement often approached sustainability in an ad hoc or compliance-driven manner, limiting its strategic impact.

Resource Constraints

Respondents from small and medium-sized banks cited inadequate human and financial resources as key barriers to fully integrating sustainability practices. Limited budgets, lack of specialized ESG staff, and dependence on external consultants hindered the depth and continuity of sustainability programs. This contrasted with large banks, which reported sufficient resources to invest in long-term sustainability infrastructure and reporting systems.

Reporting and Institutional Capacity

A recurring concern was the lack of standardized reporting mechanisms and weak enforcement from regulatory bodies. While larger banks often aligned their disclosures with international standards such as GRI or SASB, smaller banks noted confusion about expectations and the absence of technical guidance. This inconsistency affected the credibility and comparability of sustainability reports across the sector.

Strategic Alignment vs Compliance Focus

Many interviewees noted that some banks implemented sustainability as a branding tool or regulatory obligation rather than as a strategic driver. In institutions where sustainability was embedded into business models, ESG practices contributed to better stakeholder engagement, reputational gains, and innovation. However, in banks that lacked strategic alignment, sustainability remained peripheral to core operations.

DISCUSSION OF FINDINGS

The study findings confirm that sustainability practices play a critical role in enhancing firm performance, and this relationship is significantly moderated by firm size. Large banks with formalized sustainability frameworks were able to leverage their resources, reputational capital, and stakeholder networks to translate ESG adoption into tangible financial and non-financial gains. For example, larger banks demonstrated better alignment of sustainability initiatives with long-term profitability and risk management, while smaller banks often adopted sustainability practices selectively, with limited performance outcomes.

Regression analysis reinforces the importance of firm size as a moderator, showing that the interaction between sustainability and firm size significantly strengthens performance outcomes. These results are consistent with Busch and Friede (2018) and Singh and Misra (2021), who noted that larger institutions achieve greater returns on sustainability investments due to economies of scale, stronger disclosure frameworks, and broader stakeholder influence.

Qualitative findings provided additional depth by highlighting challenges such as high implementation costs, inadequate technical expertise, and weak reporting systems in smaller banks. Respondents reported that while sustainability frameworks were increasingly recognized as strategic tools, their integration into decision-making was often undermined by resource constraints and compliance-oriented approaches. This weakened the link between sustainability practices and performance outcomes, echoing findings by Njoroge and Waweru (2023).

Leadership commitment and institutional capacity emerged as important enablers. Banks where executives championed sustainability allocated more resources to ESG initiatives, established specialized units, and ensured compliance with international reporting standards. Conversely, banks with weak leadership or limited oversight tended to prioritize short-term profitability over long-term sustainability goals.

Stakeholder engagement also played a mediating role. Larger banks that actively engaged regulators, investors, and communities in sustainability reporting built stronger reputational capital and legitimacy, which translated into improved customer loyalty and financial stability. However, in smaller banks, engagement was often limited or symbolic, reducing the strategic value of sustainability practices.

CONCLUSION AND RECOMMENDATIONS

This study set out to examine the moderating role of firm size in the relationship between sustainability and performance in commercial banks in Kenya. The findings confirm that sustainability is not a peripheral activity but a central element of strategic management that directly influences competitiveness, profitability, and long-term resilience. Firm size amplifies these effects, with larger banks better positioned to embed sustainability in corporate governance and translate it into performance outcomes (Nguyen et al., 2023; Le, 2023). In contrast, smaller banks that adopt sustainability in a compliance-driven manner report limited and inconsistent benefits (Onyango, 2023).

The evidence further demonstrates that sustainability promotes systematic and evidence-based decision-making. Where sustainability practices were comprehensive, banks achieved stronger alignment between ESG initiatives and financial outcomes, improved risk management, and higher stakeholder trust (Mbuthia & Gatawa, 2022; Okoye et al., 2020). However, the success of sustainability strategies was mediated by firm size, leadership commitment, and institutional capacity. Larger institutions benefited from stronger governance structures and reputational advantages, while smaller banks struggled with resource gaps and weak institutionalization of ESG practices (Mukonza & Managa, 2022).

The study also established that regulatory frameworks and oversight play a decisive role. Banks operating under strong compliance systems, particularly those aligned with the Central Bank of Kenya's ESG reporting guidelines, were more likely to integrate sustainability into strategy and performance monitoring. Where enforcement was weak, sustainability remained peripheral, undermining its contribution to performance (Njoroge & Waweru, 2023; Transparency International, 2022).

Despite its promise, sustainability adoption in Kenya's banking sector faces challenges including resource limitations, weak reporting systems, and inadequate institutionalization in smaller banks. Many institutions lack staff trained in sustainability measurement and reporting, while others view ESG initiatives primarily as reputational tools rather than as strategic investments.

From these findings, several recommendations are put forward. Banks should establish dedicated sustainability units, adequately staffed with trained professionals, to ensure accountability and long-term integration. Continuous investment in capacity building is essential, with smaller banks encouraged to partner with larger

institutions, universities, and research bodies to develop technical skills and reduce resource gaps. Regulatory bodies, particularly the Central Bank of Kenya, should develop standardized sustainability reporting frameworks and enforce compliance to ensure consistency and comparability across banks. In addition, banks should deepen stakeholder engagement, using digital tools and transparent reporting platforms to build legitimacy and customer trust. Finally, smaller banks should adopt scalable and resource-conscious sustainability strategies, focusing on niche areas such as community engagement, green financing, and operational efficiency to maximize impact relative to their size (World Bank, 2023; Keter & Akinyi, 2024).

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