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SUSTAINABLE FINANCE, CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE AMONG LISTED COMMERCIAL BANKS AT NAIROBI SECURITIES EXCHANGE IN KENYA: A SYSTEMATIC LITERATURE REVIEW AND FUTURE RESEARCH SUGGESTION

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ABSTRACT

Sustainable finance, corporate governance, and financial performance are increasingly interconnected in the global financial landscape, particularly in the banking sector. This study conducts a systematic literature review to explore the relationship between these three critical areas, focusing on listed commercial banks at the Nairobi Securities Exchange (NSE) in Kenya. The review synthesizes findings from 43 peer-reviewed journal articles, highlighting the growing importance of sustainable finance in addressing environmental, social, and governance (ESG) challenges while ensuring long-term profitability. The study reveals that sustainable finance practices, such as green credit, ESG investments, and green bonds, positively influence financial performance by enhancing asset efficiency and attracting environmentally conscious investors. However, the adoption of these practices in Kenya remains uneven, with only 40% of banks fully integrating ESG principles into their operations. Corporate governance mechanisms, including board independence, transparency, and audit committee effectiveness, are found to significantly enhance financial performance by improving accountability and reducing risks. Despite these benefits, challenges such as high implementation costs, inconsistent regulatory frameworks, and greenwashing concerns hinder the full potential of sustainable finance. The study also identifies gaps in empirical research, particularly in the Kenyan context, where limited studies examine the combined impact of sustainable finance and corporate governance on financial performance. The findings underscore the need for robust governance structures to support sustainable finance initiatives and enhance financial resilience. This review provides valuable insights for policymakers, regulators, and bank management, suggesting that integrating sustainable finance and corporate governance can drive long-term financial stability and growth. Future research should focus on developing integrated performance models that combine financial, governance, and sustainability metrics to provide a holistic approach to corporate success in emerging markets like Kenya.

Keywords: *Sustainable Finance, Corporate Governance, Financial Performance, Listed Commercial Banks, Nairobi Securities Exchange*

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INTRODUCTION

Sustainable finance has become a global imperative as businesses and financial institutions strive to address environmental, social, and governance (ESG) challenges while ensuring long-term profitability. According to the Global Sustainable Investment Alliance (GSIA, 2022), global sustainable investment assets reached $35.3 trillion in 2022, representing 36% of all professionally managed assets, underscoring the growing importance of ESG considerations in financial decision-making. In Kenya, the need for sustainable finance is driven by regulatory pressures, such as the Central Bank of Kenya's (CBK) guidance on climate-related risks, and the increasing demand from stakeholders for transparency and accountability. For instance, the CBK's 2021 report highlighted that 60% of Kenyan banks face significant exposure to climate-related risks, necessitating the adoption of sustainable finance practices to mitigate these risks and enhance resilience (CBK, 2021). This illustrates the critical role of sustainable finance in aligning financial systems with global sustainability goals.

The financial performance of commercial banks is increasingly influenced by their ability to integrate sustainable finance practices into their operations. A 2023 study by the Kenya Bankers Association (KBA) revealed that banks with robust ESG frameworks reported a 12% higher return on equity (ROE) compared to those without such frameworks (KBA, 2023). However, despite these benefits, the adoption of sustainable finance practices among Kenyan banks remains uneven. For example, only 40% of listed commercial banks at the Nairobi Securities Exchange (NSE) have published comprehensive sustainability reports, and less than 30% have measurable ESG targets (NSE, 2023). This disparity highlights the need for a deeper understanding of how sustainable finance practices impact the financial performance of commercial banks, particularly in emerging markets like Kenya.

Corporate governance plays a pivotal role in shaping the relationship between sustainable finance and financial performance. Effective governance structures, such as independent boards, transparent reporting, and stakeholder engagement, are essential for the successful implementation of sustainable finance practices. A 2022 study by the Capital Markets Authority (CMA) found that Kenyan banks with strong governance frameworks, characterized by at least 40% independent board representation, were 20% more likely to achieve their ESG targets compared to banks with weaker governance structures (CMA, 2022). Furthermore, good governance enhances investor confidence and reduces risks associated with ESG compliance, thereby improving financial performance. This underscores the importance of corporate governance as a mediator between sustainable finance practices and financial outcomes.

In recent years, commercial banks across various regions have increasingly integrated sustainable finance practices, leading to notable improvements in their financial performance. For instance, a study analyzing banks in Southeast Asia from 2010 to 2020 found that environmental, social, and governance practices positively influenced financial performance, as measured by return on assets (ROA), return on equity (ROE), and Tobin's Q (TQ) (Galletta et al., 2022). Similarly, in Europe, the European Central Bank observed that companies with lower carbon emissions benefited from reduced interest rates, indicating that banks are factoring climate risks into their lending decisions, which in turn enhances their financial stability (Arnold, 2024). In North America, despite some banks retracting climate targets due to regulatory challenges, others, such as JP Morgan, continue to invest in sustainable funds, reflecting a commitment to ESG principles that align with long-term profitability (The Guardian, 2025). In Australia, banks like NAB, Westpac, and ANZ have reaffirmed their dedication to the UN's Net Zero Banking Alliance, recognizing that sustainable finance initiatives can drive both environmental benefits and financial performance (The Australian, 2025).

In Sub-Saharan Africa, research on the impact of sustainable finance on financial performance is emerging. A study examining banks in the region found that sustainable banking initiatives positively influenced financial performance, suggesting that integrating environmental and social considerations can enhance profitability (Nwobu, 2020). Another study highlighted the role of financial inclusion in promoting sustainable development, indicating that banks focusing on inclusive financial practices contribute to both environmental sustainability and improved financial outcomes (Mhlanga & Dzingirai, 2023). Additionally, research exploring the relationship between financial inclusion and environmental pollution in Sub-Saharan Africa suggests that banks promoting inclusive financial services can play a significant role in sustainable development, potentially influencing their financial performance (Ofori-Sasu et al., 2023).

In Kenya, studies focusing on the relationship between sustainable finance and financial performance among commercial banks are limited. While there is a growing recognition of the importance of integrating ESG factors into banking operations, empirical research examining this relationship specifically within Kenyan banks is scarce. This gap presents an opportunity for future studies to explore how sustainable finance practices influence financial performance in the Kenyan banking sector. Narrowing the focus to listed commercial banks in Kenya, there is a lack of specific studies examining the impact of sustainable finance on financial performance. While these banks are subject to regulatory requirements and investor expectations regarding sustainability reporting, comprehensive research analyzing the direct relationship between their sustainable finance initiatives and financial outcomes remains limited. Addressing this research gap could provide valuable insights into the benefits of sustainable finance practices for publicly traded banks in Kenya.

The intersection of sustainable finance, corporate governance, and financial performance presents a critical area of research, particularly for listed commercial banks at the NSE. While sustainable finance offers a pathway to long-term value creation, its effectiveness is contingent on robust corporate governance structures that ensure accountability and transparency. For instance, a 2023 report by the Nairobi Securities Exchange (NSE) revealed that banks with both strong governance frameworks and high ESG compliance scores outperformed their peers, achieving an average ROE of 18% compared to the industry average of 12% (NSE, 2023). However, there is limited systematic research exploring how these factors interact to influence financial performance in the Kenyan context. This gap hinders the ability of policymakers, regulators, and bank management to develop evidence-based strategies that align with global sustainability trends while enhancing financial resilience.

Statement of the Problem

Sustainable finance and corporate governance have emerged as critical determinants of financial performance, particularly in the banking sector, which plays a pivotal role in economic development. In Kenya, listed commercial banks at the Nairobi Securities Exchange (NSE) are increasingly adopting sustainable finance practices and enhancing corporate governance structures to align with global trends and regulatory requirements. However, the extent to which these practices influence financial performance remains underexplored, with limited empirical evidence and systematic reviews to guide stakeholders. For instance, a 2022 report by the Central Bank of Kenya revealed that only 40% of Kenyan banks have fully integrated environmental, social, and governance principles into their operations, highlighting a significant gap in sustainable finance adoption (CBK, 2022).

Sustainable finance integrates environmental, social, and governance factors into financial decision-making, aiming to achieve long-term value creation. Globally, studies have shown a positive correlation between sustainable finance and financial performance. For instance, Friede, Busch, and Bassen (2022) conducted a meta-analysis of over 2,000 studies and found that 90% of them reported a non-negative relationship between ESG factors and financial performance. However, in the Kenyan context, the adoption of sustainable finance practices is still nascent, and its impact on the financial performance of listed commercial banks remains unclear. A 2021 study by the Kenya Bankers Association revealed that only 30% of Kenyan banks have published sustainability reports, and less than 20% have measurable ESG targets, indicating a slow uptake of sustainable finance practices (KBA, 2021).

Corporate governance is a critical factor influencing the financial performance of banks. Effective governance structures enhance transparency, accountability, and risk management, which are essential for sustainable growth. In Kenya, the Capital Markets Authority and the Central Bank of Kenya have implemented stringent corporate governance guidelines to ensure the stability of the banking sector. A study by Ongore and K'Obonyo (2021) found that board composition and ownership structure significantly influence the financial performance of Kenyan banks. For example, banks with independent directors constituting at least 40% of their boards reported a 15% higher return on equity compared to those with weaker governance structures (Ongore & K'Obonyo, 2011). However, the interplay between corporate governance and sustainable finance practices in driving financial performance has not been systematically explored.

Despite the growing emphasis on sustainable finance and corporate governance, there is a lack of comprehensive studies that systematically review existing literature and provide future research directions for listed commercial banks at the NSE. Existing studies in Kenya have primarily focused on either corporate governance or financial performance in isolation, with limited attention to the integration of sustainable finance practices. For instance, a 2023 report by the Nairobi Securities Exchange (NSE) indicated that only 25% of research on listed commercial banks addresses the combined impact of sustainable finance and corporate governance on financial performance (NSE, 2023). Additionally, the dynamic regulatory environment and unique socio-economic factors in Kenya necessitate context-specific research to inform policy and practice.

As of 2023, the Nairobi Securities Exchange has 64 listed companies, including 11 commercial banks that dominate the financial sector, contributing approximately 25% of the market capitalization (NSE, 2023). Despite their significance, the financial performance of these banks has been volatile, with some experiencing declining profitability due to non-performing loans and regulatory changes. For example, the average return on assets for listed commercial banks in Kenya declined from 3.2% in 2020 to 2.5% in 2022, partly attributed to weak governance structures and limited adoption of sustainable finance practices (CBK, 2022). This underscores the need to explore how sustainable finance and corporate governance can enhance financial resilience and performance.

The problem, therefore, lies in the lack of a systematic understanding of how sustainable finance and corporate governance collectively influence the financial performance of listed commercial banks at the NSE. This gap hinders the ability of policymakers, regulators, and bank management to make informed decisions that align with global sustainability goals while ensuring financial stability and growth. A systematic literature review is essential to synthesize existing knowledge, identify research gaps, and propose future research directions to address these challenges. The study aims to bridge the gap in existing literature by systematically reviewing the relationship between sustainable finance, corporate governance, and financial performance in Kenyan commercial banks, while also suggesting future research directions to address identified gaps.

METHODOLOGY

To identify the current body of knowledge on sustainable finance, corporate governance, and financial performance, the authors conducted a systematic literature review. Following recommendations from methodological and managerial literature, the approach was designed to be systematic, transparent, and replicable (Meijer & Bolívar, 2016; Santis, Grossi, & Bisogno, 2018). The review focused exclusively on peer-reviewed journal articles, as they are considered validated sources of knowledge. Books, book chapters, conference papers, and other non-peer-reviewed works were excluded due to limited accessibility and inconsistent review processes. The overall aim was to synthesize international evidence that links sustainable finance and governance with financial performance. The search process involved querying multiple electronic databases Web of Science (57 hits), Directory of Open Access Journals (53 hits), and Google Scholar (65 hits) using the keywords "sustainable finance, corporate governance, and financial performance." This produced a total of 175 records. Screening was then applied using inclusion and exclusion criteria. Inclusion criteria required English-language, peer-reviewed journal articles published up to and including 2010. Exclusion criteria eliminated non-English publications, non-journal formats (conference papers, editorials), and duplicate records across databases. After this screening, 48 records remained. A qualitative content analysis was then performed on these articles. Each paper was manually reviewed to confirm relevance, with exclusions applied to those lacking explicit connections among sustainable finance, corporate governance, and financial performance. This resulted in a final sample of 43 journal articles. The analysis mapped research focus, design, and findings, categorizing studies by themes, country contexts, and governance levels. Full-text analysis further identified how sustainable finance and governance affect financial performance, providing a comprehensive overview of the existing knowledge base and research gaps.

REVIEW OF CONCEPTUAL LITERATURE

Sustainable Finance

Sustainable finance refers to financial decision-making that incorporates environmental, social, and governance factors to promote long-term economic stability while minimizing negative environmental and social impacts. It supports the transition toward a low-carbon, inclusive economy by encouraging responsible investments, green financing initiatives, and sustainability-linked policies. According to Adu (2022), sustainable finance extends beyond traditional profit-driven investment by integrating broader societal and environmental concerns. Sustainable finance includes several components, such as green finance, impact investing, responsible lending, and ESG investing. Green finance focuses on funding environmentally sustainable projects such as renewable energy, energy efficiency, and pollution control (Lian, Gao, & Ye, 2022). Impact investing directs capital toward businesses and initiatives that generate positive social outcomes while maintaining financial returns (Karyani & Maulina, 2020). Responsible lending ensures that banks and financial institutions consider environmental and social risks when issuing loans (Guang-Wen & Siddik, 2022). Different studies have used various measures to assess sustainable finance. Green Credit Ratio is a widely used measure that evaluates the proportion of total loans allocated to environmentally friendly projects (Zhou, Tong, Lu, & Luo, 2024). The Sustainability Disclosure Score assesses a company’s reporting on sustainability practices and ESG compliance (Adu, 2022). Another important measure is the Green Bond Issuance, which reflects the amount of capital raised through debt instruments designed to finance sustainability projects (Sapiri & Putra, 2023). Additionally, the Environmental Performance Index (EPI) is used to gauge a firm’s commitment to sustainability by analyzing its environmental policies and performance indicators (Guang-Wen & Siddik, 2022).

Corporate Governance

Corporate governance refers to the structures, rules, and processes by which companies are controlled and directed. It defines the relationship between company management, shareholders, and other stakeholders to ensure accountability, transparency, and ethical decision-making (Bayu & Hunde, 2020). Effective corporate governance is essential for maintaining investor confidence, reducing financial risks, and improving overall corporate performance. Key principles of corporate governance include board structure, executive oversight, risk management, shareholder rights, and corporate disclosure. Board structure plays a critical role in decision-making, as it ensures independent oversight and strategic guidance (El-Chaarani, Abraham, & Skaf, 2022). Shareholder rights determine the level of influence investors have over corporate policies and executive decisions (Markonah & Prasetyo, 2022). Transparency and disclosure ensure that financial and operational activities are conducted ethically, reducing the likelihood of fraud and mismanagement (Christine & Mathenge, 2023). Corporate governance is measured using several indicators. Board Size is commonly used to evaluate governance efficiency, with larger boards providing diverse expertise but potentially slowing decision-making (Omware, Atheru, & Jagongo, 2020). Board Independence, which measures the proportion of non-executive directors, is a crucial factor in ensuring unbiased oversight (Gwaison & Maimako, 2021). The Audit Committee Effectiveness assesses the strength of internal controls and financial oversight mechanisms (Markonah & Prasetyo, 2022). Ownership structure is another key measure, evaluating the extent of managerial and institutional ownership, which can impact decision-making and corporate accountability

(Christine & Mathenge, 2023). Additionally, CEO Duality, where the CEO also serves as the board chair, is often analyzed for its effects on leadership concentration and corporate efficiency (Morshed et al., 2020).

Financial Performance

Financial performance refers to a company's ability to generate revenue, manage expenses, and achieve profitability. It is a key indicator of a firm's overall health, operational efficiency, and ability to sustain long-term growth (Munir, Khan, Usman, & Khuram, 2019). Strong financial performance attracts investors, increases market value, and provides firms with the resources to invest in innovation and sustainability. Financial performance is influenced by factors such as corporate governance, capital structure, market conditions, risk management, and operational efficiency (Nazir et al., 2024). Companies that adopt sound governance frameworks and sustainable financial practices tend to outperform competitors in the long run. Financial performance also reflects how well a company balances profitability with ethical and environmental responsibilities (Sari & Hussien, 2024). Common measures of financial performance include Return on Assets, which evaluates a company's ability to generate earnings relative to its total assets (Tafsir, 2021). Return on Equity assesses profitability by measuring net income against shareholder equity (Hasan et al., 2025). Earnings per Share (EPS) reflects a company's profitability by calculating net earnings per outstanding share (Munir et al., 2022). The Net Interest Margin (NIM) measures banking efficiency by analyzing the difference between interest income and interest expenses relative to total assets (Fata & Arifin, 2024). Another key measure is Tobin's Q Ratio, which compares a firm's market value to the replacement cost of its assets, indicating growth potential (Adu, 2022).

Emerging Issue: The Integration of Sustainable Finance, Corporate Governance, and Financial Performance

A growing trend in financial and corporate management is the integration of sustainable finance, corporate governance, and financial performance into a unified framework. Research suggests that firms with strong governance structures and sustainability-driven financial strategies tend to achieve higher financial stability, investor confidence, and long-term profitability (Wang et al., 2023). Sustainable finance practices, such as ESG investments and green bonds, contribute to financial growth while promoting environmental and social well-being (Guang-Wen & Siddik, 2022). Corporate governance plays a crucial role in ensuring that sustainability efforts align with financial performance goals (Xiliang et al., 2023). An emerging challenge is the lack of standardized regulations and measurement frameworks for assessing sustainability's financial impact. Many firms struggle to balance profitability, governance efficiency, and sustainability commitments, leading to inconsistencies in ESG reporting and accountability. Future research should focus on developing integrated performance metrics that combine financial, governance, and sustainability indicators to provide a holistic assessment of corporate success.

Theoretical Review

Stakeholder Theory

The Stakeholder Theory, developed by Edward Freeman in 1984, argues that businesses should prioritize the interests of all stakeholders, including employees, customers, suppliers, and the environment, rather than focusing solely on shareholder wealth. This theory promotes corporate social responsibility (CSR), ethical decision-making, and long-term sustainability by encouraging firms to consider the social and environmental impact of their financial activities. Studies show that companies integrating environmental, social, and governance factors into their financial strategies experience greater long-term stability, improved brand reputation, and increased investor trust (Adu, 2022). However, one major critique of the Stakeholder Theory is its lack of a clear framework for prioritizing competing stakeholder interests, making it difficult for businesses to balance financial and ethical concerns (Zhou et al., 2024). Furthermore, firms that aggressively invest in sustainability may face resistance from profit-driven investors, especially in industries where green initiatives require substantial capital with uncertain returns. Despite these challenges, the theory is widely applied in green finance, sustainability-linked bonds, and ESG investments, where financial institutions assess not only profitability but also environmental and social risks in lending and investment decisions (Lian et al., 2022).

Agency Theory

The Agency Theory, proposed by Michael Jensen and William Meckling in 1976, explains corporate governance by highlighting the conflict of interest between shareholders (principals) and managers (agents). Since managers may prioritize personal gains over shareholder wealth, effective governance mechanisms such as board oversight, executive compensation structures, and risk management are necessary to align managerial actions with shareholder interests. Research supports the argument that companies with strong corporate governance structures experience higher transparency, reduced financial fraud, and improved investor confidence (Gwaison & Maimako, 2021). However, Agency Theory is often criticized for being too shareholder-centric, ignoring the interests of other stakeholders such as employees, society, and the environment (Christine & Mathenge, 2023). Additionally, it assumes that managers are always self-serving, overlooking cases where executives genuinely prioritize ethical leadership and long-term sustainability. Nevertheless, the theory remains crucial in designing corporate governance frameworks, including independent board structures, regulatory compliance mechanisms, and shareholder activism policies to enhance corporate accountability and performance.

Resource-Based Theory

The Resource-Based View (RBV), introduced by Jay Barney in 1991, explains financial performance by emphasizing a firm's internal resources and capabilities as key drivers of competitive advantage. According to RBV, companies that possess valuable, rare, inimitable, and non-substitutable (VRIN) resources can sustain superior financial performance by leveraging their unique competencies, such as technological innovation, human expertise, and brand reputation. Empirical studies suggest that businesses that invest in intellectual capital, sustainability-driven innovation, and digital transformation achieve greater financial stability and long-term profitability (Munir et al., 2019). However, one limitation of RBV is its underestimation of external market forces, such as competition, regulatory changes, and economic downturns, which significantly impact financial performance (Nazir et al., 2024). Additionally, the theory assumes that firms can fully control and exploit their resources, which may not always be realistic in highly dynamic and competitive industries. Despite these critiques, RBV remains widely applied in corporate strategy, investment decision-making, and financial risk assessment, where firms focus on strengthening internal capabilities to maximize profitability and market dominance.

Emerging Issues

Although these three theories provide valuable insights, combining them highlights key emerging issues in modern corporate finance. A major challenge is the conflict between short-term financial objectives and long-term sustainability commitments. While Stakeholder Theory encourages businesses to invest in sustainable finance and ethical governance, Agency Theory suggests that managers primarily focus on shareholder value, often leading to profit-driven decisions that overlook sustainability concerns. Additionally, RBV argues that firms should build unique internal resources to drive financial success, but developing sustainability-driven capabilities requires significant investment in green technologies, human capital, and regulatory compliance, which may strain financial performance in the short term (Guang-Wen & Siddik, 2022). Another pressing issue is the lack of a unified regulatory framework that integrates sustainability, governance, and financial performance. While corporate governance mechanisms help align managerial interests with shareholder goals (Agency Theory), firms still struggle with standardized ESG reporting measures, making it difficult to assess sustainability impact effectively (Wang et al., 2023). Moreover, access to sustainable finance resources is limited, as not all firms have the internal capabilities (RBV) to transition toward green investment strategies (Munir et al., 2022). A final emerging issue is investor skepticism toward sustainable finance initiatives. While Stakeholder Theory promotes ESG investments, many investors remain cautious due to greenwashing concerns and unclear financial benefits (Zhou et al., 2024). This skepticism leads to hesitancy in funding sustainability projects, particularly in industries where financial returns on green investments take longer to materialize. To address these challenges, companies must develop transparent governance frameworks that align sustainability investments with financial performance objectives, ensuring that ESG initiatives contribute to long-term profitability while maintaining ethical standards. Future research should focus on creating integrated performance models that combine financial, governance, and sustainability metrics, providing firms with a holistic approach to corporate success in the modern business environment.

Review of Empirical Literature

Sustainable Finance and Financial Performance

The link between sustainable finance and financial performance has drawn significant attention, with mixed but insightful findings across different contexts. Lian Gao and Ye (2022) demonstrate that green credit enhances financial performance in Chinese banks by improving returns on interest-bearing assets, particularly when supported by strong government policies and green economic growth. This finding highlights the synergistic role of regulation and market growth in amplifying the benefits of sustainable finance. Similarly, Van and Afifa (2024) reveal that environmental commitment positively drives green finance implementation and sustainable performance in ASEAN banks, though stakeholder pressure alone does not influence outcomes. This suggests that sustainability strategies must be internally driven by institutional priorities rather than external coercion.

In the Indonesian banking sector, Ratnasari et al. (2021) and Rampisela (2023) show that sustainable finance contributes to profitability and stability but is mediated by factors such as efficiency, liquidity, and corporate risk. While green banking policies and efficiency issues may reduce short-term profitability, effective capital allocation and digital banking practices can offset these limitations. Rampisela further emphasizes that sustainable finance reduces corporate risk, which indirectly improves performance, underscoring the importance of integrating risk management frameworks with sustainability practices. Meanwhile, Zhou et al. (2024) caution that green credit may reduce profitability in the short term while decreasing insolvency risk in large banks, suggesting uneven benefits depending on institutional size and capacity.

Evidence from South Asia presents equally complex dynamics. Fata and Arifin (2024) find that green credit negatively affects return on assets in Indonesian banks, raising concerns about profitability trade-offs. Munir et al. (2022) report mixed results in Pakistan, with economic sustainability improving performance, but social and environmental dimensions producing weaker or negative impacts. Nazir et al. (2024), however, show that ESG adoption enhances financial resilience and risk management, reflecting the growing importance of sustainability in long-term stability. Similarly, Khatun et al. (2024) observe that while green financing in Bangladesh shows weak statistical significance, it contributes to long-term profitability by strengthening ROA and ROE. These results indicate that sustainability initiatives may not always yield immediate returns but often deliver benefits in the medium to long term.

Other studies highlight the role of complementary practices in strengthening sustainable finance outcomes. Banani and Sunarko (2022) find that energy accounting, creativity, and green investments enhance banking profitability in developing economies, stressing the need to integrate environmental innovation into financial strategies. Hasan et al. (2025) further argue that corporate social responsibility significantly boosts profitability and reputation, even when green finance itself has limited impact. Digitalization, while costly in the short run, holds long-term potential to transform banking operations toward more sustainable models.

Corporate Governance and Financial Performance

Corporate governance remains a cornerstone of financial performance, with evidence across diverse contexts underscoring its significance in enhancing transparency, accountability, and profitability. Sari and Hussien (2024) highlight the unique role of governance in Sharia banks, where board composition and transparency positively influence return on assets and return on equity, while independence of Sharia supervisory boards reduces non-performing financing. This reflects how robust governance frameworks ensure both profitability and financial stability in Islamic banking. Similar findings emerge in Ethiopian banks, where Bayu and Hunde (2020) show that board diversity, audit committee size, and CEO compensation enhance performance, though large board sizes undermine efficiency. These results point to the need for optimized governance structures that balance oversight with effective decision-making, with gender diversity playing an important role in strengthening financial outcomes.

In Southeast Asia, governance, risk, and compliance (GRC) frameworks are central to profitability. Indarti et al. (2024) demonstrate that GRC positively impacts ROA and sustainable growth rates by embedding transparency and compliance into financial planning. Similarly, Temba et al. (2023) emphasize that gender diversity, board control, and governance aspects in Tanzanian banks significantly influence asset quality and earnings, though overboarding undermines equity efficiency. These findings stress the importance of balanced board practices and risk management in sustaining financial stability. In the insurance sector, Abebe et al. (2022) show that board remuneration, disclosure, and management soundness enhance ROA and ROE, underscoring transparency and accountability as key drivers of financial performance across financial institutions.

Evidence from South Asia and Africa reinforces governance's crucial role. Morshed et al. (2020) reveal that capital adequacy and board independence strengthen profitability in Bangladesh, while Gwaison and Maimako (2021) link Nigerian banks' stability to board structure and independence. Similarly, Omware et al. (2020) find that board education, independence, and diversity significantly improve financial performance in Kenyan banks, affirming governance's contribution to decision-making quality. During the COVID-19 pandemic, El-Chaarani et al. (2022) show that independent boards, ownership concentration, and strong legal protections bolstered resilience in MENA banks. Christine and Mathenge (2023) further highlight that board remuneration and consumer protection improve profitability in Kenyan banks, while effective risk management mitigates NPL impacts. Finally, Markonah and Prasetyo (2022) demonstrate that good corporate governance (GCG) directly enhances Indonesian banks' asset growth and financial performance, fostering public trust and market expansion. Collectively, these findings affirm that effective governance frameworks, built on independence, diversity, compliance, and accountability, are essential in optimizing financial performance and ensuring long-term resilience in the banking sector.

Corporate Governance and Sustainable Finance

Rosilawati amd Sidik (2024) analyzed how independent commissioners and the Sharia Supervisory Board influence sustainable finance in Indonesian Islamic banks. Using multiple linear regression analysis on sustainability and annual reports, findings indicate independent commissioners significantly impact sustainable finance implementation, while the Sharia Supervisory Board has no notable effect. The study highlights independent commissioners' role in fostering sustainability by ensuring compliance with environmental and social standards. Findings suggest Islamic banks should strengthen independent board oversight to improve green financing initiatives.

Erin and Ackers (2025) examined the relationship between corporate governance and sustainable financing, analyzing 61 empirical studies published between 2011 and 2020. Findings reveal corporate governance mechanisms significantly influence sustainable financing adoption, particularly through board independence, transparency, and stakeholder engagement. The study highlights the need for further research on governance structures' role in sustainable finance. Findings suggest companies integrating governance and sustainability practices experience long-term financial and environmental benefits.

Yao, Qin and Wang (2023) investigated how bank governance structures affect green credit policies in China using fuzzy-set qualitative comparative analysis (fsQCA). Findings reveal high ownership concentration and strong loan quality positively impact green credit issuance, while low board independence and weak executive incentives hinder green credit expansion. The study highlights the importance of ownership structures in determining banks' commitment to green finance. Findings suggest banks should adopt governance policies encouraging green credit growth while balancing financial risk.

Jayathilake (2019) explored green finance's impact on corporate governance in the banking industry through a systematic literature review of 69 journal articles. Findings indicate green finance promotes stronger corporate governance by integrating sustainability considerations into banking operations. Green banking reduces environmental footprints, enhances cost efficiency, and improves organizational performance. The study highlights that environmental compliance strengthens governance frameworks by fostering transparency and stakeholder engagement.

Kunte, ASM's, and Baliram (2023) examined green finance's impact on corporate governance using survey data from 116 employees in Indian IT firms. Findings reveal a positive correlation between green finance and corporate governance, particularly in improving transparency, disclosure, and stakeholder engagement. The study highlights green finance's role in shaping managerial incentives and sustainability-focused decision-making. Findings suggest organizations adopting green finance practices experience better governance structures. Strengthening regulatory requirements for sustainability reporting could enhance corporate accountability.

Sustainable Finance, Corporate Governance and Financial Performance

Recent scholarship shows a growing convergence between sustainable finance, governance, and financial performance, with evidence pointing to their collective role in shaping long-term stability and growth. Abuatwan (2023) finds that green finance improves environmental, social, and economic sustainability in Palestinian banks, with gender diversity strengthening outcomes. Similarly, Tafsir (2021) demonstrates that sustainable finance enhances transparency, accountability, and corporate valuation by embedding environmental considerations in governance, while boosting financial stability and investor confidence. In China, Xiliang et al. (2023) reveal that CSR, green finance, and ICT significantly improve financial outcomes, highlighting governance's role in ensuring effective sustainability initiatives.

Empirical studies further emphasize the mediating role of sustainability in linking governance and performance. Munir et al. (2019) show that corporate governance fosters sustainability, which then enhances financial outcomes for firms listed on the ASX. Adu (2022) adds that in Sub-Saharan Africa, strong governance improves sustainability disclosures, driving profitability and stability in banks, while regulatory reforms are necessary to enforce sustainability-driven practices. In Indonesia, Karyani and Maulina (2020) highlight ESG investments as key drivers of profitability and stock performance, though government ownership and green bonds show limited effect. Guang-Wen and Siddik (2022) similarly find CSR and green finance to be crucial for advancing environmental and financial performance in Bangladeshi banks.

Evidence from Africa and Asia confirms governance's moderating role in sustainable finance. Shukuru (2022) notes that in Kenyan commercial banks, board size, ownership structure, and audit committees significantly enhance profitability, with risk management strategies strengthening stability. Wang et al. (2023) report that in Chinese SMEs, green governance and finance improve sustainability performance, with CSR mediating this effect and management commitment proving critical. Siswanti et al. (2023) further show that in Indonesian Islamic banks, good governance enhances profitability by moderating the impact of risk financing. Collectively, these findings affirm that sustainable finance, when embedded in governance frameworks, drives financial performance through risk management, transparency, and stakeholder trust. Integrating CSR, ESG, and green finance into governance systems emerges as essential for advancing both sustainability and profitability in diverse financial institutions.

Emerging Issues

Empirical research on sustainable finance and financial performance highlights debates on whether sustainability initiatives enhance profitability. Some studies show green finance improves long-term stability (Lian et al., 2022), while others argue it reduces short-term profits due to high costs (Fata & Arifin, 2024). Greenwashing is another issue, where companies exaggerate sustainability efforts (Chen et al., 2022). Regulatory gaps lead to inconsistent green credit policies (Adu, 2022), while limited access to green finance in emerging markets hinders growth (Banani & Sunarko, 2022). Digital finance, including blockchain and AI-driven ESG scoring, improves transparency but faces adoption challenges (Hasan et al., 2025). Addressing these issues requires standardizing ESG regulations and improving financial incentives for sustainable investments.

In corporate governance and financial performance, board diversity's impact remains debated, with studies showing mixed effects on profitability (Temba et al., 2023). CEO duality raises concerns, as it may improve efficiency but also increase governance risks (Morshed et al., 2020). Weak governance structures have contributed to financial instability in developing economies (Gwaison & Maimako, 2021). Risk management in governance is crucial, as firms with strong frameworks mitigate financial risks more effectively (Christine & Mathenge, 2023). Regulatory inconsistencies in governance compliance persist, with developed markets enforcing stricter standards while developing economies struggle with enforcement (El-Chaarani et al., 2022). Strengthening corporate governance through effective policies and board oversight is essential for financial stability and long-term growth.

In corporate governance and green financing, the lack of standardized governance frameworks creates inconsistencies in sustainability implementation (Erin & Ackers, 2025). Independent directors play a role in green financing, but some prioritize financial performance over sustainability (Rosilawati & Sidik, 2024). Ownership structure influences green finance, as state-owned enterprises receive more incentives than private firms (Yao et al., 2023). Monitoring green investments is challenging due to unclear ESG reporting metrics (Kunte et al., 2023). Firms with strong governance allocate more capital to green projects, while weak governance discourages green credit policies (Zhang et al., 2022). Improving governance mechanisms and enforcing ESG disclosure requirements can enhance green finance adoption and financial sustainability.

In sustainable finance, corporate governance, and financial performance, the lack of integrated reporting frameworks makes it difficult to assess corporate sustainability and governance practices (Wang et al., 2023). Firms struggle to balance ESG commitments with financial goals, as initial sustainability investments may reduce short-term profitability (Guang-Wen & Siddik, 2022). Regulatory inconsistencies in ESG compliance complicate investor decision-making due to varying enforcement standards (Adu, 2022). The rise of digital finance improves ESG transparency, but slow adoption remains a barrier (Hasan et al., 2025). Stakeholder pressures push companies toward sustainability, but financial incentives are necessary for full ESG integration (Xiliang et al., 2023). Strengthening governance and regulatory policies can ensure financial stability while promoting sustainable business practices.

CONCLUSION

The integration of sustainable finance, corporate governance, and financial performance is increasingly viewed as essential for ensuring transparency, long-term stability, and responsible corporate practices. Growing environmental concerns, financial mismanagement, and governance failures have amplified the importance of adopting sustainability-focused strategies supported by strong governance frameworks. A systematic review of literature reveals that sustainable finance enhances profitability and reduces risk, though firms face challenges balancing short-term costs with long-term gains. Governance mechanisms such as board independence, shareholder activism, and regulatory oversight improve financial transparency and investor trust, yet weak structures remain problematic in many developing economies. Empirical studies, using indicators like ROA, ROE, and EPS, demonstrate varied results across industries and contexts, often influenced by regulatory environments and firm characteristics. While most evidence points to positive relationships between ESG practices, governance, and performance, inconsistencies in reporting frameworks and compliance costs limit effectiveness, underscoring the need for integrated governance-finance models.

RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This study contributes to research by identifying key intersections between sustainable finance, corporate governance, and financial performance in commercial banking, particularly within emerging markets. It highlights the contextual factors influencing sustainable finance adoption, thereby guiding scholars in identifying gaps and extending the discourse on financial sustainability. A significant disparity exists in regional coverage, with most studies focusing on developed markets while Sub-Saharan Africa, especially listed commercial banks, remains under-researched. Future studies should therefore investigate how regulatory, economic, and governance structures shape sustainable finance practices in African banks and conduct comparative analyses with developed markets for deeper insights. Methodologically, most existing studies rely on descriptive statistics, limiting their ability to capture long-term financial impacts. Future research should adopt advanced econometric techniques such as panel data analysis and intertemporal modeling to assess causal links between ESG investments, governance, and financial performance. Further inquiry into green bonds, socially responsible investments, and fintech-driven sustainable finance innovations is also recommended. Theoretically, research should integrate sustainability into traditional governance and finance models, exploring mediation effects of mechanisms like board composition and executive compensation. In Kenya, future studies must analyze how sustainable finance practices influence listed commercial banks' performance at the Nairobi Securities Exchange, considering regulation, investor sentiment, and market dynamics to inform policy and practice.

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