SUSTAINABILITY INVESTMENTS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Over recent decades, sustainability investments and corporate social responsibility (CSR) have gained prominence, yet their financial implications for Kenyan commercial banks remain underexplored. This study examined the relationship between four CSR initiatives Education, Health Programs, Economic Empowerment, and Environmental Investments and Return on Equity (ROE). Using an exploratory design and secondary data from annual reports, correlations and regressions were conducted in SPSS at a 95% confidence level. Findings revealed that education-related investments had a strong, statistically significant positive effect on ROE ($r = 0.561$, $p < 0.001$), aligning with evidence that education enhances human capital, community well-being, and brand reputation. Environmental investments also showed significant positive associations with ROE, underscoring their cost-reduction and market-positioning benefits. Conversely, health program investments exhibited a weak, statistically insignificant relationship with ROE, potentially reflecting the long-term nature of healthcare returns. Economic empowerment initiatives similarly showed positive but insignificant effects, suggesting delayed financial impact despite strong social value in Kenya's high-unemployment context. Policy recommendations emphasize prioritizing education to address skills gaps, supported by collaboration between banks, businesses, and educational institutions, as well as tax incentives for CSR. Environmental sustainability should be advanced through regulations and incentives promoting energy efficiency and waste management. While health and economic empowerment programs may not yield immediate financial gains, their broader societal benefits enhanced productivity, poverty reduction, and community stability justify continued investment. This study contributes empirical evidence from a developing-economy perspective, highlighting education and environmental sustainability as strategic levers for both financial performance and societal progress in Kenya's banking sector.

Keywords: Corporate Social Responsibility, Sustainability Investments, Education, Environmental Sustainability, Economic Empowerment, Health Programs, Financial Performance.

INTRODUCTION

Background of the study

Companies around the world are increasingly recognizing the role of environmental, social and governance (ESG) issues and incorporating it within their corporate strategies, making sustainability one of their core priorities. There is great interest in understanding the relationship between sustainability investments and financial performance, especially in the commercial banking context. As key players in the financial services sector, banks are beginning to respond to a shift in the economy toward aligning economic activity with environmental and social responsibility. For example, sustainable banking implements ESG issues into risk analyses, investment decisions, and daily operations (Kirimi et al., 2022). Given Kenya's rapidly changing financial sector, it is now important to understand whether sustainability investments have any impact on commercial banks' financial performance. While the country's advancements in sustainability can be attributed in part to government initiatives, investing in sustainability may not always align with profit maximization. Research is therefore required to assess whether globally synthesized findings on sustainability and performance can be applied in our unique socio-economic context, and how they impact financial stability in our commercial banks given their systemic importance.

Financial outcomes and sustainable practices appear to be positively correlated, according to evidence from other areas. Kenya's environmental and economic problems, however, might have different results. Considering Kenyan banks' growing adoption of sustainability initiatives (Odhiambo & Ngaba, 2019), this study aims to close the knowledge gap by figuring out how these programs affect performance and offering guidance to academics and industry professionals. Sustainability investments benefit firms at both micro and macro levels. Micro benefits include talent attraction, retention, and reputational gains (Ibrahim & Hamid, 2019). Macro benefits involve reducing inequality and improving environmental outcomes. Financially, such initiatives can outweigh initial costs, creating value for shareholders and stakeholders. Globally, financial institutions face pressure to enhance services in underserved communities with sustainability reporting most prevalent among large international banks (Kirimi et al., 2022).

In Europe, Tier 1 banks under ECB supervision recorded improved performance in 2023, partly linked to sustainability initiatives such as emission reduction and promoting diversity. However, some initiatives, while aligning with social responsibility, may not be well understood by all stakeholders. The COVID-19 pandemic has further tested banks' stability, influenced loan performance and predicted credit losses (Gallagher, 2021). Internationally, sustainability investments have been linked to positive corporate and societal outcomes. For example, the Bank of Asia has supported COVID-19 prevention, disaster relief, education, and healthcare. Such actions build customer trust and strengthen relationships (Cornett et al., 2021). Bank investment levels vary depending on financial constraints, with financially stronger banks investing more. In the U.S., trends in green technology, employee engagement, and transparency have supported growth (Park et al., 2021). Similarly, Axis Bank has focused on reducing societal inequalities.
African banks face challenges but have embraced strategies, including sustainability, to improve efficiency (Nyeadi, 2018). A strong banking system supports technological innovation and national economic growth (Mwangi & Wanjira, 2019). In Sub-Saharan Africa, voluntary disclosure of sustainability investment activities correlates with improved performance, as shown in Mozambique and South Africa (Raimi & Isiaka, 2021). In Nigeria, some banks commit portions of net income to sustainability, but gaps remain between stated intentions and actual implementation (Nwagwu, 2020). A proposed legal framework could ensure accountability. Sustainability activities here include donations, sponsorships, health programs, and economic empowerment.

In East Africa, banks partner with governments, communities, and private sectors to support societal development, which in turn boosts reputational capital (Mjomba, 2018). In Kenya, the

banking sector has made significant sustainability investments. Initiatives like Equity Bank's Wings to Fly, KCB's 2jiajiri, and Absa's Ready to Work programs address education, skills development, and employability (Musau, 2015). These programs are integrated into annual reporting and budget allocations, reflecting a commitment to responsible use of resources.
The Wings to Fly program, in partnership with the Mastercard Foundation, has supported over 26,000 scholars, with 10,000 more expected to benefit. Such initiatives prompt an examination of the motivations behind sustainability policies and reporting in Kenyan banks.

Kenyan financial institutions have invested in diverse sustainability areas, including corporate governance, community development, workplace issues, ethics, agriculture, venture capital, environmental protection, innovation, leadership, and education (Chege, 2021). This study seeks to explore the financial implications of these activities, contributing to the broader discussion on sustainable business practices in the Kenyan banking industry. By analyzing the link between sustainability investments and financial performance, the research will provide evidence to guide policy, strategy, and practice. The findings will help banks balance profitability with social and environmental obligations, advancing both corporate and national development objectives.

Sustainable Investments

Sustainability investment has risen in prominence over the last twenty years, as businesses have responded to a change in social expectations of business in relevance to commerce, law, ethics and the public's views (Wanjala, 2011). While it is not a new concept globally, it is gaining more recognition as something that is normal and necessary due to its impact on all areas of business. Sustainability investments are investments made by companies with the intention of advancing the economy, society, and environment at the same time. For the banking sector, sustainability investments are essential because they promote community growth and development in addition to providing companies with their business objectives in terms of broader social and environmental development goals.

Commercial banks in Kenya have increasingly embraced sustainability investment initiatives within their structures. Annual reports show the banks devote substantial resources to education, health, environmental programs and economic empowerment projects (Chege, 2021) and a few banks are even publishing sustainability reports. Health-related projects like employer-funded healthcare and that promote employee engagement, also promote community engagement and health outcomes, provide citizens with an opportunity for better health and a population that is healthier can ultimately sustain continued demand or need for banking products and services.

Similar to this, banks fund employee training, community programs, and scholarships for people who cannot afford formal education (Nwagwu, 2020). Economic empowerment initiatives, like training and development programs for financial literacy, improve staff and customer decision-making. These programs help to reduce poverty, enhance livelihoods, and maintain stable financial systems. Banks' dedication to lessening their environmental impact is further demonstrated by environmental initiatives that range from recycling and the adoption of clean energy to pollution control and the promotion of sustainable products (Mbuthia & Gatauwa, 2022). Together, these sustainability efforts are becoming increasingly integrated into business strategy, transcending public relations to become a part of the banks' long-term operational and reputational structure.

Financial Performance

A company's capacity to turn a profit, control debt, and maintain expansion is reflected in its financial performance. Metrics like efficiency, solvency, liquidity, profitability, and revenue growth are used to assess it (Csorba, 2020). Owners, investors, and regulators are among the stakeholders who use these indicators to help them make decisions about partnerships, investments, and financing. Common measures include return on equity (ROE), return on assets (ROA), cash flow, margins, earnings per share, and revenue growth.

Kenyan commercial banks generally perform well across these measures, though outcomes are shaped by regulatory changes, macroeconomic conditions, bank-specific characteristics, and increasingly, sustainability investments. Research suggests that sustainability initiatives can enhance financial performance by strengthening brand reputation and loyalty, mitigating social and environmental risks, increasing productivity, fostering innovation, improving operational efficiency, and attracting socially conscious investors (Gangi et al., 2018). Evaluations of such programs often consider their alignment with stakeholder values, degree of innovation, transparency, long-term sustainability, employee satisfaction, adherence to global standards, and depth of community engagement (Ng'ang'a, 2018).

Recent industry data indicates upward trends. ROA rose from 2.7% in 2021 to 3.7% in 2022, while ROE reached 22.6% in 2021, reflecting greater returns from asset utilization (Central Bank of Kenya, 2021). Expanding asset bases have reinforced these gains (Mahat, 2021). The World Bank (2019) reports consistent ROE growth, with Kenyan banks climbing from 21.99% in 2018 to 23.10% in 2019 and maintaining positive momentum through 2022. ROE's emphasis on shareholder returns, profitability, and value creation makes it a key competitive benchmark and a driver of investor confidence (Muchiri et al., 2019).

Digital transformation has also been pivotal, enabling banks to expand their customer base and transaction volumes. Studies show that digitization has directly contributed to higher returns on investment (Martin & Muigai, 2019). Many sustainability initiatives now serve both societal needs and competitive positioning, with banks seeking greater visibility and brand differentiation in a crowded market.

Bank-specific characteristics further influence financial outcomes. Larger institutions typically enjoy higher profitability and capital adequacy, while smaller banks often maintain stronger liquidity positions. Foreign-owned banks generally outperform their government-owned counterparts in profitability (Musau, 2015; Muchiri, 2019). Despite these insights, the precise relationship between sustainability investments and financial performance in Kenya remains underexplored, highlighting a need for further empirical research.

Commercial Banks in Kenya

Under the Central Bank of Kenya (CBK) framework, commercial banks are licensed to accept deposits, issue loans, facilitate funds transfers, and offer a range of financial services. The sector comprises both locally and foreign-owned institutions, with the CBK serving as primary regulator. Historically, sustainability investments were treated as peripheral public relations exercises, often managed by marketing departments. Today, most leading banks maintain dedicated sustainability divisions with strategic influence equivalent to finance or marketing functions (Ng'ang'a, 2018). These departments oversee budget allocations, policy formulation, and program execution, ensuring initiatives are aligned with community needs and corporate objectives.

The CBK categorizes banks into three tiers based on market share and capital:
Tier 1: Seven large banks controlling over half of the market share.
Tier 2: Fourteen medium-sized banks holding 41.7% of the market.
Tier 3: Twenty-two small banks with 8.4% market share.
Tier 1 institutions Standard Chartered, Central Bank of Kenya, Central Bank of Africa, Cooperative Bank, Diamond Trust Bank, Barclays Bank of Kenya (Absa), and Equity Bank dominate the sector. The Post Office Savings Bank, though not classified as a commercial bank, maintains a broad national presence. This structure underscores the competitive environment in which sustainability investments now operate. For leading banks, these programs are not merely philanthropic gestures but strategic tools for differentiation, stakeholder engagement, and long-term value creation.

Research Problem

In recent years, sustainability considerations have become integral to business strategies within the global financial sector, with growing emphasis on responsible investment practices. Commercial banks, as key financial intermediaries, now operate at the intersection of profitability and sustainability commitments. In Kenya, financial performance among banks has been uneven, with some institutions recording growth while others face distress (Kirimi et al., 2022). Profitability remains central to market positioning, yet evidence suggests that sustainability investments may influence performance outcomes (Muchiri et al., 2022).
Empirical evidence around this relationship remains uncertain. For example, Mutuku (2005) showed no relationship between sustainability investments and financial performance whereas Muchiri et al (2019) demonstrated that banks involved in profitable corporate social responsibility (CSR) activities outperform their counterparts. In the same vein, Ondieki (2011) and Kipruto (2013) found that banks with the highest sustainability investment scores and operational efficiency positively affected financial performance. Still, contradictions abound as Njagi (2022) revealed negative or insignificant correlations, while Ng'ang'a (2018) cited significant positive effects.

Although Kenya's financial green initiatives are in line with worldwide trends, it is still unknown how these investments will affect the profitability of regional banks. In the face of problems like inequality, climate change, and financial market volatility, the lack of this knowledge makes it difficult for regulators and financial institutions to meet economic and environmental goals. These discrepancies, however, highlight the necessity of looking into the connection between financial performance in Kenya's commercial banking industry and sustainability initiatives that encompass health, environmental, educational, and economic empowerment programs. By filling this knowledge gap, the study hopes to give banks, regulators, and policymakers evidence-based information that will support the ongoing discussion about sustainable banking and help guide the realignment of profitability with social and environmental responsibility.

Research Objectives

This study was guided by the following general objective to examining the relationship between investments in sustainability and the financial performance of Kenyan commercial banks.

Specific Objectives were to.

i. To determine the effect of sustainability investments health programs on the Financial Performance of commercial banks in Kenya.
ii. To examine the effect of sustainability investments Environmental Programs on the Financial Performance of the commercial banks in Kenya.
iii. To establish the effect of sustainability investments educational programs on the Financial Performance of commercial banks in Kenya.
iv. To determine the effect of sustainability investments economic empowerment programs on the Financial Performance of Commercial Banks in Kenya.

Research Hypothesis

H01: Sustainability investments health programs have no statistically significant effect on the Financial Performance of Commercial banks in Kenya.

H02: Sustainability investments environmental Programs have no statistically significant effect on the Financial Performance of Commercial banks in Kenya.

H03: Sustainability investments educational Programs have no statistically significant effect on the Financial Performance of Commercial banks in Kenya.

H04: Sustainability investments economic empowerment programs have no statistically significant effect on the Financial Performance of Commercial banks in Kenya.

Justification of the Study

This study offers valuable insights for commercial banks, policymakers, scholars, and society by clarifying the relationship between sustainability investments and the financial performance of Kenyan commercial banks. It guides banks in designing strategies that meet stakeholder expectations while advancing national sustainable development goals. The findings also inform regulations that foster responsible business practices and regional economic growth. For researchers, the study provides a theoretical and empirical foundation for refining existing models, critiquing prior work, and predicting long-term corporate performance.

Organization of the Paper

This study is organized into five sections, each building upon the preceding to ensure a logical flow. Section one outlines the background, research problem, objectives, scope, limitations, and significance. Section two reviews relevant theories, prior studies, the conceptual framework, and research gaps. Section three details the methodology, including design, sampling, data collection, analysis, and ethical considerations. Section four presents and interprets the findings, while section five offers conclusions, policy implications, and recommendations for future research, providing a comprehensive closure to the study.

LITERATURE REVIEW

Theoretical Literature Review

Stakeholder Theory

Stakeholder theory, articulated first by Freeman (1984), is based on the premise that while for profit organizations cannot ignore their responsibility to develop profits, they cannot ignore their responsibility to the wide variety of stakeholders that share impacts with the enterprise. A stakeholder theory recognizes that organizations have an obligation to more than just shareholders, including responsibility to employees, customers, suppliers, the general community, and the natural environment (Freeman, 2020). A stakeholder theory of the firm encourages organizations to adopt a more holistic perspective that has been embraced by companies trying to develop sustainable enterprises that consider and resonate profitability with a series of social and environmental responsibilities. Yet, critiques (Barney and Harrison, 2020) contend offer that stakeholder theory can overemphasize social and environmental perfection at the expense of profit returns. Stakeholder theory advocates argue that a responsible stakeholder view will allow organizations to create long-term value for the firm and society (Dmytriyev et al., 2021).

In the banking industry, stakeholder theory provides a strong rationale for investing in sustainability in health, education, and preservation of natural environmental resources. Banks can develop elaborate projects that support sustainable initiatives that can enhance community well-being and therefore strengthen relationships with stakeholders while building reputational capital that will enhance potential profits in the long run (Mwendwa, Gatauwa, & Mungai, 2024). Because Banks are not mere philanthropic organizations, rather planned strategic activities that contribute to long-term profitability reinforced by community trust, loyalty, and goodwill. Thus, in essence stakeholder theory tells us that we can create value to owners and society by taking responsible corporate action.

Agency Theory

Agency theory, as formalized by Jensen and Meckling (1976), is based on prior work of Alchian and Demsetz (1972) that studied the contractual relationship between principals (e.g. shareholders) and agents (e.g. managers) . The issue of agency theory is when agents are able to act in their own interest instead of pursuing the objectives of the principals and is worsened through asymmetric information (Payne & Petrenko, 2019). In the case of sustainability investments, there may be disagreement if the managers see the sustainability initiative as a costly distraction and the shareholders see it as a deviation from short-term dividends (Yilmaz, 2022). Yet, studies have shown that sustainability plans can improve financial performance through improvements in brand loyalty, customer acquisition, and company reputation (Yadav, 2021; Abbas et al., 2021). An alignment of managers and shareholders could occur through various means of goals and objectives, performance monitoring, reward systems, and communication (Maliki, 2018). These transformations sustainability objectives away from a lost expense and to a longer-term strategic investment.

While implementing sustainability initiatives in the areas of health, education, and economic empowerment may initially require large financial investments, banks can reap long-term benefits from improved community relations and lower reputational risk (Kipngetich & Gatauwa, 2024). Therefore, the analysis of how governance structures affect the incorporation of sustainability into corporate strategy is informed by agency theory. Banks can lower agency costs and create long-term value for all stakeholders by encouraging managers and shareholders to agree on the worth of such investments.

Triple Bottom Line (TBL) Theory

The Triple Bottom Line (TBL) theory, which was presented by Elkington (1994), calls for organizations to think about their performance in ways that go beyond financial performance and can add social and environmental dimensions into the assessment. The TBL theory is based on three pillars: people (Social impact), planet (Environmental stewardship), and profits (Economic performance). TBL recognizes that organizations must act in ways that are financially sound, socially beneficial, and environmentally sustainable (Gatauwa, Aluoch & Adhing'a, 2024).

Proponents of TBL suggest that addressing the three dimensions simultaneously gives firms the ability to create long term value for themselves and society (Pereira & Martins, 2021). Within the banking context, they are motivated to invest in activities that consider environmentally sustainable investments programs, economic durable financing solutions that support community wellbeing, while also being viable to profit from it (Loviscek, 2020). TBL is an important lens for sustainability investments because it links them from program-based Corporate Social Responsibility (CSR) activities to part of the organizational strategy and performance.

For instance, environmental initiatives can lead to the reduction of operational risks, health initiatives can raise the productivity of the workforce, and economic empowerment programs can lead to the expansion of market potential (Mbuthia & Gatauwa, 2022). When organizations think of the purpose of embedding sustainability into their strategic agenda, they fulfil the TBL expectation while at the same time gaining competitive advantage. The theory stresses that organizations should be responsible for the totality of their impacts, and that combining social, economic, and environmental objectives can help generate sustainable business models.

Integrative Perspective

Stakeholder theory, agency theory, and TBL theory all work together to provide complementary perspectives on how sustainability investments and commercial banks' financial performance are related. TBL theory offers a thorough performance framework that connects profitability with social and environmental responsibility; agency theory sheds light on governance mechanisms that match managerial actions with shareholder objectives; and stakeholder theory emphasizes the moral and strategic necessity of addressing a variety of stakeholder interests.

When taken as a whole, these theories imply that sustainability investments in economic empowerment, environmental initiatives, health care, and education are not only morally right but also advantageous from a strategic standpoint. Agency alignment guarantees effective resource allocation, TBL integration supports balanced value creation, and stakeholder engagement bolsters legitimacy and trust. By effectively putting these ideas into practice, banks can improve their financial results and societal impact, establishing themselves as pioneers in sustainable finance.

Empirical Review

Health Programs and Financial Performance

Investments in health programs represent how far a firm is willing to embrace health and wellbeing for its employees and the wider community. In one of the essentials sectors, banking, these investments may include schemes involving employers providing health care or cash payments for participants in laboring and underserved communities to access healthcare. The healthier the societies are, the more services and products they will demand (Mwendwa, Gatauwa, & Mungai, 2024).

Evidence from Bangladesh indicates that Islamic banks are incorporating health initiatives through their corporate reputation investment. Indeed, (Hossain et al., 2019) found that Islamic banks relied on health investments to comply with the directives of the central bank; to embrace Shariah principles and obtain public trust. This trust becomes the basis for increased goodwill leading to positive reputational capital favorable to financial indicators, such as profits and revenue. Similarly, Nigerian banks have collaborative agreements with hospitals whereby banks provide funds, time, and the bank training of local medical staff as part of community capacity-building processes in healthcare projects that will be of long-term value to communities. These investments not only reduce health inequities but help establish reputational credibility, client loyalty, and stakeholder engagement with banks (Kipngetich & Gatauwa, 2024).

According to Mutisya (2020), sustainability investments in health in Kenya have a positive correlation with financial performance as determined by return on equity (ROE) and return on assets (ROA), but only in banks that have high customer satisfaction ratings. This implies that when health programs are combined with high-quality services, their advantages are increased.

Environmental Programs and Financial Performance

Environmental sustainability initiatives (e.g., clean energy implementation, recycling, pollution prevention and sustainable product innovation) are increasingly being incorporated into banks' business practices to lower their ecological footprint and enhance their long-term sustainability (Mbuthia & Gatauwa, 2022).

Zhou et al. (2021) used panel data on 25 banks in China between 2008 and 2018 and determined that green credit amplifies the positive relationship between sustainability investments and financial performance. More precisely, the study found that environmentally compliant financing increases banks' returns and improves their prospects for sustained competitiveness in the market. Danso et al. (2019) also reported that environmentally sustainable Ghanaian banks perform better than those with lower levels of environmental sustainability. In South Africa, sustainability is at the forefront of banking strategies, with multiple benefits such as improved reputation, decreased operating costs, improved management of risk against loans, and innovativeness (Gatauwa, Aluoch & Adhing'a, 2024).

Despite the above, findings are mixed. For example, Muthee (2018) found no statistical relationship between sustainability initiatives and financial performance across ten Kenyan banks by considering net interest margin (NIM), return on assets (ROA) and return on equity (ROE). On the other hand, Muchiri and Muigai (2019) found a positive relationship across banks in Kirinyaga County and concluded that at least part of their evidence about the positive effect of environmental investments on performance is explained by savings in operational costs and customer loyalty. Similarly, Bătae et al. (2021) find evidence that environmental investments can enhance the reputation of banks and create new business opportunities that eventually lead to better financial performance.

Educational Programs and Financial Performance

Bank executives are increasingly prioritizing investments in educational initiatives to gain a competitive edge, both in relation to their employees and their customers or the communities in which they operate. According to Ramzan et al (2021), when studying ten finance companies in Pakistan's listed banks they discovered that sustainability investment in education and health had the greatest positive effect on financial returns. Investments through education developed human capital, increased the quality-of-service delivery, and built customer trust; ultimately leading to their profits.

Similarly, in Kenya, Mahat (2021) found that commercial banks with higher sustainability investment levels within the philanthropic, legal, ethical, and environmental dimensions were more likely to achieve higher returns-on-equity (ROE) and returns-on-assets (ROA). The work by Ndung'u et al. (2020) among the six Kenyan banks also showed sustainability investments within an environment, health, and education domain had a positive effect on financial performance that was statistically significant and an order of magnitude longer. Nwagwu (2020) particularly highlighted in the West African context, that the benefit of investing in education as a sustainability point, occurs through improvements in reputation, ability to obtain talented humans to work with, and potentially generate innovation capabilities. Collaborative community education programs advance relationships between banks and their communities. The financial, and social performance of the organizations could benefit from this because of the relationships and potential customer loyalty, which in turn supports sustainable banking.

Economic Empowerment Programs and Financial Performance

Lastly, economic empowerment programs that are typically provided through a public-private partnership, as well as philanthropy, or community development projects are an additional aspect of the sustainability investments of the banks (Singh & Misra, 2022). Economic empowerment programs focus on income generation social purposes and entrepreneurship, revenue generation societal benefits and capacity building to improve the socio-economic aspects of the community where the organization operates, in order to improve the locality and to strengthen the market position of the banks.

In Kenya, Wachira (2019) noted that banks that invest frequently socio-economic empowerment measures reported greater profitability than others, some banks were concerned about capacity as they underestimated their capabilities to fund social programs, suggesting the need to recast the investment strategies so that banks could maximize returns on these types of investments.

International studies support this perspective. Bădîrcea et al. (2020) noted the positive sustainability investments of Romanian banks, and European banks with growing knowledge of the benefits to the community (community sustainability), and to their bottom line (commercial sustainability). Chaturvedi et al. (2021) noted that when Indian insurers and banks engage in socio-economic development specific to infrastructure development, and community connected through training and community welfare that they received better financial results than those we do not (competitively better). Finally, Kim et al. (2021) highlighted the benefits of football sponsorship in top European leagues for sponsors were less likely to be recognized, as it was assumed to be philanthropy, or waiver of fees, for the delivery of brand engaging activities.

Synthesis of Empirical Findings

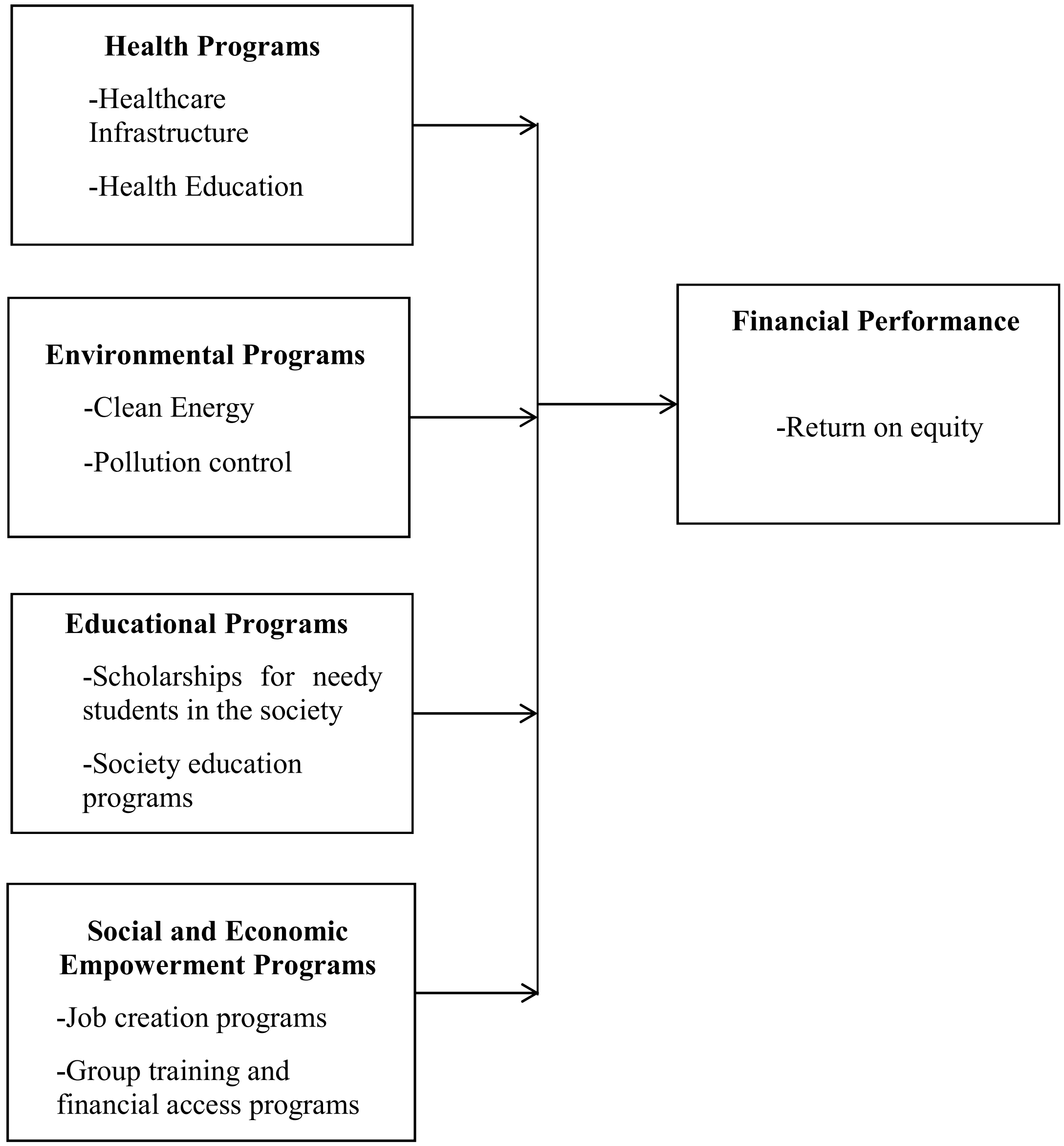
Across contexts, sustainability investments in health, environment, education, and economic empowerment demonstrate varying degrees of impact on banks' financial performance. The evidence suggests that health and education initiatives tend to yield the most consistent positive financial outcomes, particularly when paired with high customer satisfaction and service quality (Mwendwa, Gatauwa, & Mungai, 2024; Kipngetich & Gatauwa, 2024). Environmental programs, while potentially enhancing cost efficiency, innovation, and reputation, show mixed empirical results, with benefits likely contingent on program scope, stakeholder engagement, and integration into core strategy (Mbuthia & Gatauwa, 2022). Economic empowerment programs can strengthen community relations and market positioning, but their profitability depends on alignment with banks' strategic objectives and capacity to sustain long-term investments (Gatauwa, Aluoch & Adhing'a, 2024).

The diversity of findings underscores the importance of context, program design, and implementation quality. In developing economies, where social needs are acute, sustainability investments may serve as both a market differentiation strategy and a pathway to financial resilience. However, the magnitude of impact on financial performance is mediated by factors such as regulatory environment, customer perceptions, and the extent to which sustainability is embedded in institutional culture. Overall, the literature affirms that while sustainability investments are not a guaranteed driver of financial performance, they hold significant potential when strategically executed, contextually tailored, and integrated into long-term business planning.

Conceptual Framework

The relationship between independent and dependent variables is depicted in the conceptual framework. Financial performance is the dependent variable, which captures the overall impact, while educational, sustainability, health, and economic empowerment programs are the independent variables, each of which is measured by indicators as shown on Figure 1.

Figure 1: Conceptual Framework



RESEARCH METHODOLOGY

Research Design

The exploratory research design used in this study is especially well-suited for examining subjects with little to no previous research, vague theoretical frameworks, or intricate relationships between variables. The choice of this design was justified by the complexity of sustainability metrics, the lack of established theoretical models relating sustainability to commercial banks' financial performance, and the fact that both fields are still in their infancy. While investigating the connections between sustainability practices and performance metrics, the study was able to gather qualitative insights into banking operations through exploratory research (Kişi, 2022). Emerging variables could be included as the analysis went on because the design offered a flexible framework for examining patterns and associations without being restricted by strict hypotheses.

Target Population

The entire group of entities from which pertinent data can be gathered to support the goals of the study is known as the target population (Pandey & Pandey, 2021). All commercial banks that are publicly traded on the Nairobi Securities Exchange (NSE) were the focus of this study because these organizations frequently release audited financial and sustainability reports, guaranteeing accurate and comparable data.

Sampling Procedures and Sample Size

A census approach was used because Kenya has a comparatively small number of commercial banks. All ten of the commercial banks that the Central Bank of Kenya (CBK) identified during the study period were able to be included thanks to this method. To ensure thorough sector-wide coverage and remove sampling bias, census sampling was beneficial. The sources of the data were financial statements for the years 2018–2023, sustainability reports, and annual reports that were made available to the public. To provide a longitudinal view of sectoral trends, this timeframe was selected to capture recent advancements in sustainability practices and their effects on financial performance. The utilization of comprehensive population data improved the findings' resilience and made cross-institutional comparisons possible.

Data Collection Procedure

The study only used secondary data, which had the benefits of cost effectiveness, accuracy, and completeness. The CBK's annual reports, the sustainability and annual reports of commercial banks, publications from the Kenya Bankers Association, the Financial Statements Database, and pertinent government documents were among the data sources. This strategy made sure the dataset was trustworthy and complete, including the most pertinent metrics for evaluating the connection between sustainability efforts and financial results during the five-year study period.

Data Analysis

STATA software was used to analyze data. The relationship between sustainability investments and financial performance was examined through descriptive and inferential statistics. The degree of association was evaluated using a covariance correlation coefficient, and the relationship between the variables was quantified using regression analysis at a 95% confidence level. The study was able to make well-supported conclusions thanks to the combination of statistical techniques that offered both a comprehensive overview of data trends and strong inferential insights.

Diagnostic Testing

A number of diagnostic tests were performed, prior to panel regression analysis, to assess validity and reliability:

- **Multicollinearity Test:** Variance Inflation Factor and tolerance value were examined to determine whether independent variables were overly correlated, which could bias regression estimates (Mutungi, 2023).
- **Normality Test**: Shaprio–Wilk tests were used to determine if the residuals were normally distributed, where the null hypothesis of normality was rejected if $p < 0.05$ (Odhowa & Mutsweje, 2023).
- **Autocorrelation Test**: were tested using Durbin–Watson statistics, to ensure that error terms were independent in the respect of time (Ndung'u et al. 2020).
- **Heteroscedasticity Test**: it was necessary to determine if the variance of the error terms were constant across observations, in order not to cause inefficiency of the regression estimates (Mutungi, 2023).
- **Unit Root Test**: This was employed to test for stationarity and find out whether time series data are demonstrating a random walk, therefore moving without a constant mean or variance (Mishra, 2021).
- **Model Specification Test**: a Ramsey RESET test was conducted to test whether the regression model was specified correctly. Significant results indicated that this is not the case and model re-specification is required to maintain the fit and explanatory power of the model (Odhowa & Mutsweje, 2023).

These diagnostic checks were central to ensuring that the methodology in the study was suitably conducted, making for more credible results.

Ethical Considerations

Formal approval from Kenyatta University and a research permit from the National Commission for Science, Technology, and Innovation (NACOSTI) guaranteed ethical compliance. These approvals made it easier to obtain pertinent data and promoted trust among stakeholders. Confidentiality and integrity were upheld throughout, and all information was used exclusively for academic purposes. This adherence to ethical standards demonstrates the study's dedication to responsible research conduct and is in line with institutional guidelines.

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RESULTS AND DISCUSSION

Response Rate

The chosen banks took part in CSR programs that focused on environmental sustainability, economic empowerment, health, and education. 90% of reports had the necessary data, according to the analysis, exceeding the 50% satisfactory, 60% good, and 70% exceptional benchmarks. Despite the small sample size, this high response rate guaranteed solid results, highlighting the study's legitimacy.

Descriptive Analysis

The descriptive statistics present means, standard deviations, and minimum–maximum ranges for these programs: Health, Sustainability, Education, Social and Economic, and Finance as shown on table 1. These descriptive measures enable the researcher to see variability in addition to mean levels. Although financial programs exhibit the highest averages and variability, suggesting a wilder rise of variation, for health and educational programs the means and ranges demonstrate some level of reliability. Examination of ranges highlights these contrasts, with Health Programs spanning -1.386 to 22.28 and Financial Programs ranging from 1.2 to 27.6, underscoring the diverse patterns observed across program types.

Table 1: Descriptive Statistics

Variables	Mean	Standard Deviation	Minimum	Maximum
Health programs	4.738	4.295	-1.386	22.28
Environmental programs	7.789	4.987	-1.609	24.05
Educational Programs	4.007	2.721	0.182	12.40
Social and economic programs	9.261	3.970	2.944	24.87
Financial Programs	15.92	5.275	1.2	27.6

Source: Survey Data (2024)

Diagnostics testing

Multicollinearity Test

The multicollinearity test, using variance inflation factor (VIF) analysis, revealed all four independent variables had VIF values of 1 as shown on Table 2. This, along with the mean VIF, confirmed minimal multicollinearity, satisfying the assumption without necessitating data adjustment.

Table 2: Test for Multicollinearity using the Variance Inflation factor

Variable	VIF	1/VIF
Environmental Inves~t	1.578	.634
Health Program	1.508	.663
Economic Empowerment	1.383	.723
Education	1.258	.795
Mean VIF	1.432	.

Source: Survey Data (2024)

Normality Test

The test is conducted to test whether the data was drawn from a normal distribution as shown on Table 3.

H_o: Data is normally distributed
H_1: Data is not normally distributed

Table 3: Shapiro-Wilk Normality Test

Variable	Decison	W	V	z	Prob>z
ROE	Fail to reject Ho	0.981	0.888	-0.254	0.600
Education	Reject Ho	0.899	4.531	3.211	0.001
HealthProg~m	Reject Ho	0.881	5.411	3.592	0.000
EconomicEm~t	Reject Ho	0.911	4.116	3.014	0.001
Environmen~t	Fail to reject Ho	0.958	1.926	1.396	0.081

Source: Survey Data (2024)

Unit Root test (Augmented Dickey-Fuller)

H_o: δ = 0
H_1: δ < 0

The ADF test assessed ROE, education, health, economic empowerment, and health investment variables at a 0.05 threshold. Table 4 shows all yielded statistics of 0.000 (p = 1.000), indicating non-stationarity. However, given the short series, further stationarity analysis was deemed unnecessary for robust interpretation.

Table 4: Augmented Dickey-Fuller Test

Variable	Test Statistics	P-value	Decision
ROE	0.000	1.000	Fail to reject Ho
Education	0.000	1.000	Fail to reject Ho
Health	0.000	1.000	Fail to reject Ho
Economic Empowerment	0.000	1.000	Fail to reject Ho
Environmental	0.000	1.000	Fail to reject Ho

Source: Survey Data (2024)

Heteroscedasticity Test

This test is conducted to test whether the variance of the error terms is normally distributed as shown on Table 5.

H_0 : Homoscedasticity is present
H_1 : There is heteroscedasticity

Table 5: Test for Heteroscedasticity

chi2(1)	Decision	Prob>chi2	Df
5.66	Fail to reject Ho	0.9744	14

Source: Survey Data (2024)

Autocorrelation Test

Testing for autocorrelation

H_0: No autocorrelation

H_1: There is autocorrelation

Table 6: Test for Autocorrelation

rho_ar	.06979108 (estimated autocorrelation coefficient)

Source: Survey Data (2024)

Hausman Specification Test

The Hausman test evaluates whether individual attributes correlate with regressors under random effects. With a 0.05 cutoff, the observed p-value exceeded this threshold, supporting the null hypothesis and confirming the random-effects specification as the appropriate model choice as shown on Table 7.

Table 7: Hausman Specification test

Hausman (1978) specification test

	Coef.
Chi-square test value	2.734
P-value	.603

Source: Survey Data (2024)

Correlation Analysis

Correlation analysis revealed varying degrees of association among the study variables. Showing on Table 8, ROE exhibited a strong, significant positive correlation with Education ($r = 0.561$, $p < 0.001$) and a moderately strong, significant relationship with Environmental Investments ($r = 0.368$, $p = 0.009$). Economic Empowerment showed a moderate but insignificant association with ROE ($r = 0.269$, $p = 0.061$). Education was strongly and significantly linked to Economic Empowerment ($r = 0.414$, $p = 0.004$) and moderately to Environmental Investments ($r = 0.324$, $p = 0.028$). Health Programs had significant positive correlations with Environmental Investments ($r = 0.518$, $p < 0.001$) and Economic Empowerment ($r = 0.375$, $p = 0.009$), but only weak, insignificant links with Education ($r = 0.195$, $p = 0.190$) and ROE ($r = 0.227$, $p = 0.120$). Economic Empowerment and Environmental Investments showed a moderate, insignificant relationship ($r = 0.267$, $p = 0.064$).

Table 8: Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)
(1) ROE	1.000				
(2) Education	0.561	1.000			
	(0.000)				
(3) Health Program	0.227	0.195	1.000		
	(0.120)	(0.190)			
(4) Economic Empowe~t	0.269	0.414	0.375	1.000	
	(0.061)	(0.004)	(0.009)		
(5) Environmental ~t	0.368	0.324	0.518	0.267	1.000
	(0.009)	(0.028)	(0.000)	(0.064)	

RESEARCH DISCUSSION OF FINDINGS

This study examined the relationship between Return on Equity (ROE) and four corporate social responsibility (CSR) initiatives Education, Health Programs, Economic Empowerment, and Environmental Investments within the Kenyan context. The findings generally align with prior literature while offering nuanced insights relevant to developing economies.

Education and ROE

Education-related CSR investments exhibited a strong, statistically significant positive association with ROE across all models (0.51–0.84). Consistent with Platonova et al. (2018) and Sharma (2019), education enhances long-term financial performance by developing human capital, improving community well-being, and fostering brand reputation. In Kenya, where access to quality education remains limited, such investments not only uplift communities but also produce a more skilled workforce, enhancing productivity and shareholder returns.

Health Programs and ROE

Conversely, health program investments showed an inverse but statistically insignificant relationship with ROE. This contrasts with Jain et al. (2018), who found positive effects in other sectors. The lack of immediate financial gains, especially in rural healthcare initiatives, may explain the muted impact. Given the potential for long-term productivity gains, further longitudinal research is warranted.

Economic Empowerment and ROE

Economic empowerment initiatives such as entrepreneurship training and small-business support displayed positive but statistically insignificant effects on ROE. This mirrors Muthuri and Gilbert (2019), suggesting that such programs may deliver delayed financial returns while contributing to social sustainability. In Kenya's high-unemployment environment, these initiatives remain socially vital, even if their direct short-term financial impact is limited.

Environmental Investments and ROE

Environmental investments were significantly and positively associated with ROE in both fixed-effects (0.325) and pooled OLS (0.352) models. Echoing Lyon et al. (2018), these initiatives can reduce costs, enhance efficiency, and strengthen brand positioning particularly relevant as sustainability gains global importance. Overall, education and environmental investments demonstrate clear, measurable links to ROE in Kenya, while the benefits of health and economic empowerment initiatives may materialize more gradually, reflecting broader challenges in translating certain CSR activities into immediate financial gains in developing economies.

CONCLUSIONS & RECOMMENDATIONS

The study reveals that while health programs implemented by Kenyan commercial banks enhance community well-being, they do not yield immediate financial gains. These projects come with high upfront expenses and long horizons before they yield measurable economic returns. This difference is largely due to the consideration people must make when committing resources to projects which require a longer-term perspective, like development and sustainable projects, that prioritize social impact over short term profit. Economic empowerment programs are the same. Even if they have a lot of community benefit, there are no immediate improvements to the financial performance of banks, and so they suffer the same long-time lags.

Conversely, an investment in environmental sustainability research showed a statistically significant positive relationship to financial performance, most specifically in return on equity (ROE). This is in line with all the global evidence tying environmental corporate social responsibility (CSR) initiatives to improve profitability and efficiency, while also contributing to sustainable development. If banks in Kenya can frame programs as environmental, they can realize benefits both for their financial bottom line, as well as their stewardship obligations.
Sustainability education programs also appear to present banks with financial benefits, and organic improvements to ROE and other financial performance metrics. While unsubstantiated here, I explain potential financial benefits derived from sustainable education programs on the basis that as these alcohol taxes nurture human capital, human capital is a key to economic growth and there are both social and economic positives to human capital. The evidence is compelling from all this work to support that education-based initiatives be a key component of CSR strategies, and that commercial banks in Kenya really focus on making a difference to society in a meaningful way and be assured of meaningful, lasting improvements in their operational efficiency and profitability.
Recommendations

Policy Implications and Contributions to Knowledge

The results affirm the essential role sustainability programs can play in improving the financial performance of commercial banks in Kenya. For this to happen, it is critical for policymakers to value and invest in education as an important investment in human capital. By encouraging collaboration between banks, businesses, and educational institutions, we can decrease the skills gap and create a more competent labor force to meet the needs of industry needs. Embedding corporate social responsibility (CSR) commitments into national development plans with incentives such as tax deductions or subsidies can lock in benefits for both the economy and the private sector from a population that is educated and skilled.

Good environmental sustainability is equally important as a factor of financial performance. For this to happen, policymakers should design regulations that require sustainability to not only be adopted as a collective across each sector (energy efficiency, waste management, emissions, etc.) but also linked with other incentives for use in the green economy. This will reduce operating costs and improve reputations amongst environmentally conscious consumers, as well as prepare Kenyan enterprises to compete in global market spaces that have increasingly become sustainability oriented.

By illustrating the long-term societal effects of sustainability interventions, particularly in the areas of health and economic empowerment, the study contributes to the body of knowledge. Investments in preventive healthcare are justified by the long-term advantages, which include increased worker productivity, health, and absenteeism, even though the short-term financial gains from health-related CSR may be modest. Initiatives for economic empowerment, such as those that promote small businesses and entrepreneurship, can also improve banks' reputations while lowering poverty and bolstering community stability. To increase these results, government support in the form of frameworks and policies is crucial.

Areas for Further Research

The study demonstrates a favorable long-term correlation between financial performance and sustainability investments, particularly in environmental and educational programs. Future studies could examine strategies for optimizing these returns, such as cross-sector collaborations and ideal incentive arrangements. Further research on the indirect financial advantages of health CSR initiatives may also help direct policy changes in favor of preventative measures. Lastly, looking at scalable models for bank-led economic empowerment could help guide tactics that increase national socioeconomic stability and profitability at the same time.

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