Influence of Environmental Corporate Social Responsibility on the Performance of Commercial Banks in Nairobi County, Kenya

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Abstract

Commercial banks in Nairobi County are pivotal to Kenya's economic growth, facilitating credit provision, deposit mobilization, and national development. However, they face challenges such as intense competition from fintech companies, rising regulatory compliance costs, and operational inefficiencies, which threaten profitability, customer retention, and market share. Globally, environmental Corporate Social Responsibility (CSR) initiatives, such as tree planting, recycling, and clean energy promotion, have been recognized as strategic tools for enhancing organizational performance by improving brand reputation and fostering stakeholder trust. This study investigates the influence of these environmental CSR initiatives on the performance of commercial banks in Nairobi County, focusing on non-financial metrics like customer growth rate, retention rate, and market share. Anchored in the Resource-Based View (RBV) Theory, which posits that unique resources provide a sustainable competitive advantage, the study employed a descriptive research design targeting all 41 commercial banks in Nairobi County. Data were collected from 287 respondents, including senior management, CSR managers, and marketing executives, using structured questionnaires. Descriptive statistics (means, standard deviations, frequencies, and percentages) and inferential statistics (Pearson correlation and multiple linear regression) were used for analysis. Findings revealed a significant positive correlation between environmental CSR and bank performance ($r = 0.628$, $p < 0.001$), with environmental CSR contributing a beta coefficient of 0.320 ($p < 0.001$). Clean energy promotion had the most substantial impact, followed by tree planting and recycling initiatives. The study recommends that banks integrate environmental CSR into core strategies, invest in clean energy, enhance recycling infrastructure, and scale up tree planting to improve performance and achieve sustainable competitive advantage. These findings provide actionable insights for bank leaders and policymakers to enhance competitiveness and sustainability in Kenya's banking sector.

Keywords: Environmental Corporate Social Responsibility, Commercial Banks, Nairobi County, Tree Planting, Recycling Initiatives, Clean Energy Promotion, Bank Performance, Resource-Based View Theory

Introduction

Commercial banks in Nairobi County are central to Kenya's economic growth, serving millions of customers and driving national development through credit provision, deposit mobilization, and financial intermediation (Kenya Bankers Association [KBA], 2023). These institutions act as key enablers of trade, investment, and entrepreneurship by channeling savings into productive ventures and ensuring liquidity in the economy. They support both small-scale and large-scale enterprises, facilitate infrastructure financing, and contribute significantly to employment creation and tax

revenue generation. As a financial hub, Nairobi County hosts the headquarters of most commercial banks operating in Kenya, positioning it as the epicenter of the country's banking activities and a critical node in the East African financial ecosystem. However, despite their centrality to economic development, commercial banks face numerous challenges that threaten their competitiveness, profitability, and sustainability.

Over the past decade, the Kenyan banking sector has undergone rapid transformation driven by technological innovation, regulatory reforms, and changing consumer behavior. The emergence of mobile money platforms such as M-Pesa, M-Shwari, and KCB M-Pesa has revolutionized financial inclusion but simultaneously intensified competition for traditional banks (Ndwiga, 2020). These fintech solutions offer low-cost, easily accessible, and user-friendly financial services, eroding the customer base of conventional banking institutions. Moreover, the growing popularity of digital lending platforms has forced banks to rethink their operational models, cost structures, and customer engagement strategies. While technological advancement offers opportunities for efficiency and innovation, it also exposes banks to cybersecurity risks, data privacy challenges, and high investment costs associated with digital transformation.

In addition to technological disruption, the banking sector faces rising regulatory compliance costs. The Central Bank of Kenya (CBK) has implemented stricter prudential guidelines on capital adequacy, liquidity ratios, and anti-money laundering procedures to enhance financial stability and integrity (CBK, 2023). While these regulations are essential for safeguarding the financial system, they impose significant compliance burdens on banks, requiring substantial investment in risk management systems, human resources, and training. The cost of maintaining compliance with evolving regulations often constrains profitability, particularly among small and medium-sized banks that lack economies of scale. Furthermore, macroeconomic volatility, inflationary pressures, and exchange rate fluctuations continue to affect asset quality, non-performing loans, and overall financial performance.

Competition within the banking sector has intensified further due to market liberalization and the entry of foreign-owned financial institutions. As a result, banks are under increasing pressure to innovate and differentiate themselves in order to retain and attract customers. The traditional drivers of performance—such as interest income, branch expansion, and product diversification—are no longer sufficient to guarantee competitive advantage. Customer expectations are evolving

rapidly, with greater emphasis placed on service quality, social responsibility, and ethical conduct. Consequently, commercial banks in Nairobi County have been compelled to explore new strategies that not only enhance performance but also build trust, legitimacy, and long-term stakeholder relationships.

One of the emerging strategic responses to these challenges is the adoption of Corporate Social Responsibility (CSR) as a business tool for performance enhancement and stakeholder engagement. CSR is widely recognized as a voluntary business approach that integrates social, economic, and environmental concerns into corporate operations and stakeholder interactions (Etikan, 2024). It involves going beyond legal obligations to contribute positively to society while simultaneously achieving business objectives. In the modern corporate landscape, CSR has evolved from philanthropic donations and community outreach to a more strategic and integrated approach that aligns with core business functions. For banks, CSR initiatives serve as an avenue to strengthen brand reputation, build stakeholder trust, and differentiate themselves in a competitive market. By engaging in socially and environmentally responsible practices, banks can enhance their legitimacy, attract responsible investors, and foster customer loyalty.

Environmental CSR, in particular, has gained prominence due to growing awareness of climate change, resource depletion, and environmental degradation. Stakeholders—including customers, investors, regulators, and the general public—are increasingly holding corporations accountable for their environmental footprints. Environmental CSR initiatives encompass a wide range of activities such as tree planting, reforestation, energy conservation, waste recycling, water management, and promotion of clean and renewable energy (Gazi et al., 2024). These initiatives not only mitigate environmental harm but also create shared value by reducing operational costs, enhancing corporate image, and appealing to environmentally conscious customers. For example, energy-efficient operations reduce utility expenses, while waste reduction and recycling improve resource utilization and cost savings. Beyond internal operations, environmental CSR can also extend to financing environmentally friendly projects, such as green housing developments or renewable energy ventures, which contribute to sustainable development and expand business opportunities.

In the Kenyan context, environmental sustainability has become a pressing concern due to rapid urbanization, deforestation, pollution, and inefficient waste management. Nairobi County, as the

capital and most industrialized region, bears the brunt of these environmental challenges. The growing population, vehicular emissions, and expansion of commercial activities contribute significantly to environmental degradation. As public awareness of environmental issues rises, consumers increasingly expect corporations, including banks, to demonstrate environmental stewardship. In response, many commercial banks in Nairobi have adopted environmental CSR programs that focus on reforestation, waste management, and clean energy promotion. These efforts align with national and global sustainability agendas, including Kenya's Vision 2030 and the United Nations Sustainable Development Goals (SDGs).

The Central Bank of Kenya (2023) reports that 41 licensed commercial banks operate in the country, categorized into three tiers based on asset size and market share. Tier I banks, including KCB, Equity, and Co-operative Bank, dominate the market with extensive branch networks and significant financial resources. Tier II and III banks, often smaller and locally focused, face greater challenges in maintaining profitability and customer retention. Despite these structural differences, all banks operate under similar market dynamics and regulatory frameworks. The adoption of environmental CSR practices, therefore, has become an important strategic consideration across the sector. Larger banks tend to invest more heavily in environmental initiatives due to resource availability and higher public scrutiny, while smaller banks may adopt selective programs to enhance local community relationships.

However, despite the growing prevalence of environmental CSR, its specific impact on bank performance—particularly on non-financial dimensions such as customer retention, market share, and reputation—remains underexplored (Kori et al., 2020). Most studies on CSR in Kenya have concentrated on the financial impacts, such as profitability and return on assets, leaving a gap in understanding how environmental initiatives influence broader organizational outcomes. Non-financial performance indicators are increasingly recognized as essential determinants of long-term success. Customer satisfaction, loyalty, brand image, and stakeholder trust directly affect a bank's capacity to sustain profitability and competitiveness. Hence, understanding how environmental CSR contributes to these non-financial outcomes is critical for designing effective sustainability strategies.

The integration of environmental CSR into banking operations in Nairobi can be examined through the Resource-Based View (RBV) theory, which provides a theoretical lens for understanding how

internal resources and capabilities create sustainable competitive advantage. According to Madhani (2010), RBV posits that organizations achieve superior performance when they possess valuable, rare, inimitable, and non-substitutable resources. CSR initiatives, particularly environmental programs, can be conceptualized as strategic resources that meet these criteria. When effectively designed and implemented, environmental CSR initiatives become embedded in an organization's culture, values, and stakeholder relationships, making them difficult for competitors to replicate. For example, a bank that establishes long-term partnerships with environmental organizations, invests in renewable energy projects, and builds a strong brand identity around sustainability gains unique positioning that competitors cannot easily imitate.

Environmental CSR enhances organizational capabilities in several ways. First, it strengthens the bank's reputation and brand image, which are intangible assets that contribute to customer attraction and retention. In a highly competitive market such as Nairobi, where customers have numerous banking options, reputation serves as a key differentiator. Customers are more likely to remain loyal to institutions that demonstrate ethical and sustainable behavior. Second, environmental CSR fosters employee engagement and morale. Employees take pride in working for organizations that are committed to societal and environmental well-being, leading to improved productivity and reduced turnover. Third, environmental CSR promotes operational efficiency by encouraging resource optimization and waste minimization. Initiatives such as paperless banking, energy-efficient branches, and water conservation not only benefit the environment but also reduce operational costs.

Moreover, environmental CSR can enhance stakeholder relationships by signaling long-term commitment to sustainable development. Investors and regulators increasingly assess environmental performance as part of their evaluation of organizational risk and stability. Banks that integrate environmental considerations into their strategic planning demonstrate proactive risk management, which can result in favorable regulatory treatment and investor confidence. For example, adherence to green banking principles may attract sustainability-linked financing and partnerships with international development agencies that prioritize environmentally responsible institutions.

Tree planting and reforestation have become particularly symbolic CSR initiatives within Nairobi's banking sector. These activities not only contribute to environmental conservation but

also serve as visible demonstrations of corporate commitment to ecological restoration. Tree planting programs have social and economic co-benefits, including soil conservation, air purification, and community engagement. By partnering with local communities, schools, and county governments, banks foster social inclusion and strengthen their presence at the grassroots level. Such initiatives contribute to positive brand associations and can enhance customer goodwill, which translates into customer loyalty and sustained market presence.

Similarly, recycling initiatives reflect a bank's commitment to responsible waste management and resource efficiency. Many commercial banks in Nairobi have begun implementing paper recycling and waste segregation programs in their branches and offices. By reducing waste and promoting circular economy practices, these banks not only minimize environmental harm but also demonstrate innovation and leadership in sustainability. Recycling initiatives also have educational value, influencing employee and customer behavior toward more sustainable practices. As part of a broader CSR strategy, recycling reinforces the bank's reputation as a socially responsible corporate citizen.

Clean energy promotion represents another crucial dimension of environmental CSR in the banking sector. Banks play a dual role in this regard: as consumers of energy and as financiers of energy-related projects. On the operational side, banks are increasingly investing in solar panels, energy-efficient lighting, and sustainable building designs to reduce carbon emissions. On the financing side, they provide loans and credit facilities for renewable energy ventures such as solar farms, wind projects, and bioenergy plants. By supporting clean energy development, banks not only contribute to national energy transition goals but also open new revenue streams through green financing products. The alignment of clean energy promotion with CSR objectives reinforces the bank's image as a catalyst for sustainable economic transformation.

The linkage between environmental CSR and bank performance in Nairobi can also be understood in terms of stakeholder expectations and institutional legitimacy. According to legitimacy theory, organizations seek to align their operations with societal norms and values to maintain legitimacy and social acceptance. In Kenya, where environmental degradation is increasingly visible, public and governmental expectations for corporate environmental responsibility are high. Banks that fail to engage in meaningful environmental initiatives risk reputational damage, loss of customer trust, and reduced competitiveness. Conversely, those that embrace environmental CSR enhance their

legitimacy, which can lead to customer retention, employee satisfaction, and long-term performance sustainability.

Furthermore, environmental CSR supports innovation and learning within organizations. The process of developing and implementing sustainability initiatives encourages experimentation, knowledge sharing, and collaboration across departments and external stakeholders. This fosters organizational agility and adaptability, qualities essential for navigating the dynamic banking environment in Nairobi. Through partnerships with NGOs, academic institutions, and government agencies, banks gain access to technical expertise and innovative solutions for environmental management. Such collaborations strengthen institutional capacity and enhance the bank's strategic resilience.

However, the effectiveness of environmental CSR in improving bank performance depends on the depth of its integration into corporate strategy. Superficial or ad hoc initiatives—such as one-time tree planting events or symbolic donations—may yield temporary visibility but do not generate lasting impact. For environmental CSR to drive performance, it must be embedded in organizational culture, aligned with business objectives, and supported by measurable targets. Effective communication of CSR achievements through annual reports, websites, and stakeholder forums also enhances transparency and accountability, further strengthening stakeholder trust.

Despite the promising role of environmental CSR, challenges remain. Some banks face resource constraints, limited expertise, or lack of management commitment to sustainability. Others may prioritize short-term financial goals over long-term environmental investments. There is also the risk of "greenwashing," where organizations exaggerate or misrepresent their environmental efforts for reputational gain. To mitigate these challenges, regulatory support, industry guidelines, and stakeholder pressure Body Statement of the Problem
are essential. The Kenya Bankers Association has taken steps to promote sustainable banking through frameworks such as the Sustainable Finance Initiative (SFI), which encourages banks to integrate environmental and social considerations into their lending and investment decisions. Such initiatives are vital in institutionalizing environmental CSR practices and ensuring consistent implementation across the sector.

Commercial banks in Nairobi County face declining profitability, reduced customer loyalty, and weakened competitive positioning due to digital disruption, regulatory pressures, and shifting

consumer expectations (Gutterman, 2023). The rise of fintech and mobile money platforms has eroded market share, while high compliance costs and inefficiencies have reduced profit margins (Ndwiga, 2020). Environmental CSR initiatives, such as tree planting, recycling, and clean energy promotion, are recognized globally as strategic tools for enhancing performance by improving brand reputation and reducing costs (Gazi et al., 2024). However, in Nairobi County, many banks treat CSR as a compliance requirement rather than a strategic driver, limiting its potential (Etikan, 2024). Existing studies focus primarily on financial metrics, neglecting non-financial indicators critical for long-term sustainability (Kori et al., 2020). This study addresses this gap by examining the influence of environmental CSR on bank performance, providing insights for evidence-based strategies.

Objectives

The study was guided by the following objectives:

1. To examine the effect of tree planting and reforestation on the performance of commercial banks in Nairobi County, Kenya.
2. To investigate the effect of recycling initiatives on the performance of commercial banks in Nairobi County, Kenya.
3. To assess the effect of clean energy promotion on the performance of commercial banks in Nairobi County, Kenya.

Theoretical Framework

The study is anchored in the Resource-Based View (RBV) Theory, which posits that organizations gain a sustainable competitive advantage by leveraging valuable, rare, inimitable, and non-substitutable (VRIN) resources (Barney, 1991; Madhani, 2010). Environmental CSR initiatives are strategic resources that enhance brand reputation, attract customers, and reduce costs (Gazi et al., 2024). These initiatives are valuable for improving stakeholder trust, rare due to limited adoption in Nairobi's banking sector, inimitable due to unique community relationships, and non-substitutable as alternative strategies cannot replicate their benefits. The RBV Theory explains how environmental CSR creates intangible assets, such as brand equity, that drive non-financial performance outcomes like customer growth and market share.

Empirical Review

Environmental corporate social responsibility (CSR) has emerged as one of the most critical

aspects of corporate governance and sustainable business practice in the modern financial world. As environmental concerns such as climate change, pollution, and resource depletion continue to dominate global discourse, organizations across all sectors, including banking, are under increasing pressure to adopt environmentally responsible practices. Within the commercial banking sector, environmental CSR initiatives are no longer viewed merely as philanthropic activities or public relations tools; they have become integral to strategic decision-making and financial performance. The relationship between environmental CSR initiatives and bank performance has attracted substantial scholarly attention, particularly in developing economies where environmental regulation and enforcement are still evolving. Scholars have sought to understand whether investments in environmental CSR—such as waste management, energy efficiency, pollution control, sustainable financing, and green lending—translate into tangible improvements in profitability, reputation, and operational efficiency. The empirical evidence, though varied across contexts, generally suggests a positive link between environmental CSR and firm performance, albeit with contextual and methodological differences.

Muchiri and Muigai (2019) provided an important localized African perspective by examining the effect of environmental CSR on the financial performance of financial institutions in Kirinyaga County, Kenya. Their study adopted a causal research design, engaging 171 employees from various financial institutions through stratified and systematic sampling. Data were collected through questionnaires and complemented by secondary sources, with financial performance measured through net profit after tax and analyzed using SPSS. The findings revealed a strong positive correlation between environmental CSR activities and financial performance, implying that financial institutions that integrated environmental sustainability practices into their operations achieved higher profitability. This result supports the argument that environmental sustainability initiatives—such as reducing carbon footprints, conserving energy, and managing waste—can enhance a bank's reputation, attract environmentally conscious clients, and ultimately improve financial outcomes. However, Muchiri and Muigai's (2019) study also presents notable limitations. By focusing on a single county, the research's external validity is limited, constraining its applicability across Kenya's diverse banking landscape. Furthermore, the authors did not provide a detailed categorization of the specific environmental CSR activities under investigation, leading to conceptual ambiguity about what constitutes "environmental CSR" in this context. Without this granularity, it becomes difficult to determine which particular environmental

initiatives drive profitability or whether the observed relationship stems from broader CSR engagement rather than purely environmental efforts.

In a different geographical and economic setting, Van Nguyen et al. (2022) investigated the link between CSR and corporate financial performance in Vietnamese commercial banks. Their study employed a more advanced econometric approach, using a dynamic panel model with two-step system GMM estimators to analyze data from 2012 to 2019. CSR was measured using two approaches: expenditure on CSR activities and disclosure levels in annual reports, while financial performance was assessed through key indicators such as net interest margin, return on assets, and return on equity. The findings indicated that environmental responsibility exerted a significant positive effect on bank performance, with both CSR expenditure and CSR disclosure positively influencing profitability. These findings highlight that transparent communication about environmental CSR initiatives and actual investment in sustainability projects both enhance stakeholder confidence and financial performance. The implication is that environmental CSR is not only about expenditure but also about visibility, accountability, and stakeholder trust. Banks that effectively disclose their environmental efforts may attract more responsible investors, reduce reputational risk, and build long-term relationships with customers and regulators.

However, Van Nguyen et al. (2022) also note several conceptual and methodological gaps. First, the environmental dimension of CSR was broadly defined, failing to distinguish between different types of environmental initiatives such as green financing, energy efficiency programs, waste management, and ecosystem restoration. This broad categorization risks oversimplifying the complex and multi-dimensional nature of environmental CSR. Moreover, the study's context is limited to Vietnam, which has a unique regulatory framework and banking environment that may not be representative of other Southeast Asian or emerging markets. Differences in governance structures, financial maturity, and environmental regulation levels could significantly alter how environmental CSR influences bank performance elsewhere. Despite these limitations, the study contributes to the growing empirical consensus that environmental CSR, when properly integrated into corporate strategy and disclosure practices, has a measurable positive impact on banking performance.

Menicucci and Paolucci (2023) offered an additional dimension to this discussion by examining the influence of environmental, social, and governance (ESG) pillars on the performance of Italian

banks. Using panel data regression analysis of 105 Italian banks from 2016 to 2020, they analyzed how ESG factors collectively and individually affected accounting and market-based performance indicators. Their findings were mixed. Specifically, environmental initiatives focused on emission and waste reduction had a positive and statistically significant effect on financial and operational performance, suggesting that specific environmental actions yield measurable benefits. However, when ESG dimensions were considered collectively, the overall impact on performance was negative. This paradox underscores the complexity of implementing sustainability frameworks in the banking sector. The authors posited that incomplete or inconsistent adoption of sustainability procedures in the Italian banking system might explain this outcome. Some banks may have adopted ESG policies symbolically rather than substantively, resulting in limited benefits or even increased operational costs without corresponding financial returns. The study also highlighted a methodological gap in focusing primarily on emission and waste reduction to represent environmental initiatives, thereby overlooking other critical areas such as clean energy investments, biodiversity protection, and sustainable financing. These omissions suggest that while environmental CSR can positively affect performance, the scope and integration of such initiatives matter significantly.

The insights from Menicucci and Paolucci (2023) align with the broader theoretical framework of stakeholder theory, which posits that organizations that address stakeholder concerns—including environmental sustainability—are likely to gain legitimacy and financial advantages. Environmental CSR can help banks manage stakeholder expectations by demonstrating commitment to social and ecological welfare, which can strengthen customer loyalty, attract investors, and improve regulatory relationships. However, when ESG efforts are superficial or fragmented, stakeholders may perceive them as greenwashing, undermining trust and negating potential financial benefits. This highlights the importance of authenticity, transparency, and comprehensive integration in environmental CSR practices.

Expanding the scope to a multi-country perspective, Shabir et al. (2024) analyzed the relationship between CSR and financial performance among banks across 20 emerging economies between 2005 and 2018. Using panel fixed-effects models, the study examined how institutional quality and regulatory environments moderated this relationship. Among the different CSR dimensions, environmentally friendly activities were found to have the strongest and most consistent positive

effect on financial performance. These results were significant across profitability measures, underscoring that environmental CSR plays a critical role in enhancing bank performance in emerging markets. In contrast, social and governance dimensions did not show significant impacts, possibly due to inconsistent implementation or differing stakeholder expectations across countries. Importantly, the study revealed that institutional quality and the strength of regulatory frameworks significantly moderated the CSR–CSR-CSR-performance link. Banks operating in countries with stronger institutions and better environmental regulations experienced greater financial benefits from CSR investments. This finding emphasizes that the external regulatory and institutional environment plays a vital role in shaping the effectiveness of environmental CSR practices.

Despite its contributions, Shabir et al. (2024) acknowledged several limitations. The study's aggregation of data from multiple countries could obscure important contextual differences, such as variations in environmental challenges, regulatory standards, and cultural attitudes toward sustainability. Furthermore, the categorization of "environmentally friendly activities" was broad and unspecified, making it difficult to pinpoint which specific environmental initiatives were most beneficial. Nonetheless, the study provides valuable evidence that environmental CSR is particularly influential in emerging markets, where sustainable banking practices can serve as both a competitive advantage and a mechanism for aligning with global sustainability standards.

Olayemi (2025) contributed to this body of knowledge by analyzing the impact of CSR on the profitability of deposit money banks in Nigeria during economic crisis periods. Employing an ex-post facto research design, the study utilized secondary data from published financial statements of Nigerian banks between 2013 and 2022. It considered various CSR dimensions, including employee training, community development, donations, and environmental costs, with return on assets as the primary measure of performance. The findings revealed that environmental costs had a positive but statistically insignificant relationship with profitability. Although the direction of the relationship was positive—suggesting that environmental CSR may contribute to improved performance—the lack of statistical significance indicated that the impact was weak or delayed. Olayemi attributed this to the limited prioritization of environmental investments in the Nigerian banking sector, as well as weak regulatory enforcement of environmental standards. Many Nigerian banks may still perceive environmental CSR as a cost center rather than a strategic investment, resulting in minimal allocation of resources to sustainability initiatives. Additionally,

the study's reliance on financial data without considering non-financial performance indicators, such as reputation and customer satisfaction, might have underestimated the true value of environmental CSR.

The findings by Olayemi (2025) highlight the contextual nature of environmental CSR outcomes. In environments where regulatory oversight is weak, stakeholder awareness is low, and short-term profit pressures are high, the financial benefits of environmental CSR may not be immediately apparent. This aligns with the resource-based view (RBV) of the firm, which posits that competitive advantage and superior performance arise from the effective deployment of unique resources and capabilities. Environmental CSR can be such a resource, but only if it is strategically integrated into organizational processes and supported by institutional mechanisms that reward sustainable behavior. In Nigeria, the underdeveloped environmental governance structure and limited market incentives for sustainability could explain the statistically insignificant results. This underscores the importance of institutional and policy support for environmental CSR to translate into measurable financial outcomes.

Beyond these specific studies, the broader literature on environmental CSR and bank performance offers several theoretical and empirical insights. The positive association observed in multiple contexts supports the business case for sustainability, which argues that environmentally responsible behavior can lead to improved financial outcomes through cost reduction, innovation, enhanced reputation, and better risk management. Banks that implement green policies often benefit from energy savings, improved operational efficiency, and lower regulatory risks. Moreover, environmental CSR initiatives can strengthen stakeholder relationships, enhance brand value, and attract environmentally conscious investors and customers. For example, green lending programs—where banks provide preferential loans for environmentally friendly projects—have been shown to enhance financial returns while promoting sustainable development. Similarly, investment in renewable energy projects and participation in carbon offset programs can yield long-term profitability by aligning with global sustainability trends and reducing exposure to environmental liabilities.

The stakeholder theory provides a strong explanatory framework for understanding these dynamics. According to this theory, organizations must consider the interests of all stakeholders—customers, employees, investors, regulators, and the broader community—to achieve long-term

success. Environmental CSR, by addressing ecological concerns that affect society at large, enhances stakeholder trust and loyalty. In the banking sector, where trust is foundational to operations, this is particularly critical. Banks perceived as environmentally responsible are more likely to attract deposits, investment, and favorable regulatory treatment. Additionally, through the signaling theory lens, environmental CSR initiatives communicate to the market that a bank is forward-thinking, well-managed, and aligned with global sustainability goals, thereby improving investor confidence and stock valuation.

Nonetheless, the literature also acknowledges that the relationship between environmental CSR and performance is not universally positive. Some studies report neutral or even negative effects, particularly when CSR initiatives are poorly implemented, inadequately monitored, or disconnected from core business strategy. Environmental CSR requires substantial upfront investment, and the financial benefits may take time to materialize. In some cases, firms may engage in symbolic CSR activities—such as tree planting events or donations to environmental causes—without embedding sustainability into their operations. Such "greenwashing" can lead to reputational damage if stakeholders perceive the efforts as insincere. Furthermore, in developing economies with limited regulatory pressure and low environmental awareness, banks may lack sufficient motivation to invest in environmental CSR beyond compliance requirements.

The methodological diversity across studies also affects the interpretation of findings. Different studies use varying indicators to measure both environmental CSR and financial performance. Some rely on expenditure or disclosure measures, while others assess performance through return on assets, return on equity, or market valuation. This heterogeneity complicates cross-study comparisons and highlights the need for standardized CSR reporting frameworks in the banking sector. The adoption of internationally recognized standards, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) guidelines, could enhance comparability and accuracy in assessing the impact of environmental CSR on bank performance. Moreover, the time horizon of analysis matters significantly. Short-term studies may fail to capture the long-term benefits of sustainability investments, leading to an underestimation of environmental CSR's true value.

Another key theme emerging from the literature is the moderating role of institutional quality, governance, and regulatory frameworks. As Shabir et al. (2024) demonstrated, banks operating in

environments with strong institutions, transparent governance, and robust environmental regulations tend to experience greater financial returns from environmental CSR. Effective regulation ensures that environmental practices are not merely voluntary or symbolic but integrated into core business operations. In contrast, in countries where enforcement is weak and corruption is prevalent, CSR activities may be used as political tools or image-building exercises, offering limited financial or environmental impact. Thus, institutional context is critical in determining the effectiveness and financial relevance of environmental CSR.

Cultural and societal values also influence the CSR–CSR-performance relationship. In societies with high environmental consciousness, consumers and investors are more likely to reward banks that engage in environmentally responsible behavior. For instance, European consumers often favor financial institutions with strong sustainability credentials, while in many African or Asian markets, such awareness is still emerging. Consequently, banks in these regions may not yet experience the full financial benefits of environmental CSR. However, globalization and increasing international pressure for sustainability compliance are gradually shifting this paradigm. International financial institutions and development partners increasingly link access to funding or partnerships to sustainability performance, creating incentives for banks in developing economies to adopt stronger environmental CSR policies.

Recent trends in green finance and sustainable investment have further reinforced the strategic importance of environmental CSR in banking. Many banks are now integrating environmental risk assessment into their credit evaluation processes, ensuring that loans and investments align with environmental sustainability standards. This approach not only mitigates exposure to environmental risks but also opens up new business opportunities in the growing green economy. The concept of “green banking” emphasizes that financial institutions can play a pivotal role in promoting environmental protection by financing eco-friendly projects, supporting renewable energy ventures, and offering sustainability-linked financial products. In this sense, environmental CSR is not limited to internal operations but extends to the bank’s role as a financial intermediary shaping sustainable development trajectories.

Methodology

The study adopted a descriptive research design to explore the relationship between environmental CSR and bank performance. The target population included all 41 commercial banks in Nairobi

County, categorized into three tiers by the CBK (2023). A census approach was used, with 287 respondents (senior management, CSR managers, and marketing executives) selected for their strategic roles. Data were collected using structured questionnaires with a 5-point Likert scale, measuring perceptions of tree planting, recycling, clean energy promotion, and performance metrics (customer growth, retention, and market share). A pilot study with 18 respondents from Kiambu County ensured instrument validity and reliability (Cronbach's alpha > 0.7). Ethical considerations included informed consent, confidentiality, and approvals from NACOSTI and St. Paul's University Ethics Review Committee. Data analysis involved descriptive statistics (means, standard deviations, frequencies, percentages) and inferential statistics (Pearson correlation, multiple linear regression) using SPSS. Qualitative responses were analyzed thematically.

Findings

The descriptive analysis showed a composite mean score of 3.14 for environmental CSR initiatives, with clean energy promotion (mean = 3.17) and cost reduction perceptions (mean = 3.36) rated highest, followed by tree planting (mean = 3.10) and recycling (mean = 3.00). Standard deviations (0.8–1.2) indicated moderate response consistency. Correlation analysis revealed a strong positive relationship between environmental CSR and bank performance ($r = 0.628$, $p < 0.001$). Regression analysis showed environmental CSR explained 41.5% of performance variance (Adjusted $R^2 = 0.415$, $B = 0.509$, $p = 0.013$). In the overall model, environmental CSR had a significant impact ($B = 0.342$, $p = 0.010$), with the model explaining 59.2% of performance variance (Adjusted $R^2 = 0.592$, $F(3,211) = 33.849$, $p = 0.000$). Clean energy promotion had the strongest impact, followed by tree planting and recycling. Qualitative responses highlighted stakeholder trust and brand equity benefits, but noted challenges like limited recycling infrastructure.

Recommendations

Commercial banks in Nairobi County should establish large-scale tree planting and reforestation programs in collaboration with environmental NGOs and community groups, targeting areas vulnerable to deforestation, such as peri-urban zones around Nairobi. These initiatives should be integrated into banks' branding strategies, with public campaigns highlighting their commitment to combating climate change. For instance, banks could sponsor annual "Green Banking Days" to engage customers and employees in tree planting, enhancing brand visibility, and fostering

community goodwill. By leveraging partnerships with organizations like the Green Belt Movement, banks can amplify their impact, strengthen stakeholder trust, and attract environmentally conscious customers, thereby boosting customer growth and retention.

To maximize the impact of recycling initiatives, commercial banks should invest in robust in-house and community-based recycling programs, focusing on reducing operational waste, such as paper and plastic from banking processes. Banks can partner with local recycling firms to establish collection points at branches and ATMs, encouraging customer participation through incentives like loyalty points for recycling contributions. Additionally, banks should launch digital campaigns to raise awareness about recycling benefits, addressing the infrastructure and awareness gaps identified in the study. By embedding recycling into their operational culture and promoting it as a sustainability commitment, banks can enhance brand reputation, reduce costs, and appeal to eco-conscious clients, thereby improving market share.

Commercial banks should prioritize transitioning to renewable energy sources, such as solar panels for branches and ATMs, to reduce energy costs and demonstrate leadership in sustainable banking. Banks can collaborate with renewable energy providers to install solar infrastructure and explore green financing models, such as offering low-interest loans for clean energy projects, to attract environmentally conscious investors. Publicizing these efforts through sustainability reports and partnerships with initiatives like Kenya's Renewable Energy Strategy can enhance brand equity and stakeholder trust. By aligning clean energy promotion with national goals like Vision 2030, banks can achieve cost savings and position themselves as market leaders, driving customer loyalty and competitive advantage.

Environmental Corporate Social Responsibility (CSR) initiatives—particularly those centered on tree planting, recycling, and clean energy promotion—play a pivotal role in shaping the overall performance and sustainability of commercial banks in Nairobi County. The findings of this study underscore the transformative potential of environmental CSR, revealing a strong and statistically significant positive correlation between these initiatives and key non-financial performance indicators such as customer growth, customer retention, and market share. As demonstrated through the Resource-Based View (RBV) theoretical framework, environmental CSR functions not merely as a peripheral philanthropic effort but as a strategic organizational resource that enhances competitive advantage, operational efficiency, and stakeholder loyalty.

The evidence from this study indicates that clean energy promotion exerts the most profound influence on bank performance. This is primarily because clean energy projects align directly with global and national sustainability priorities, including Kenya's Vision 2030 and its commitments under the Paris Climate Agreement. Banks that invest in clean energy—whether through funding renewable energy projects, installing solar systems in branches, or supporting energy-efficient technologies—signal their alignment with environmental sustainability and innovation. Such actions cultivate a positive corporate image among environmentally conscious consumers and investors, thereby enhancing brand equity and customer trust. Moreover, by reducing energy consumption costs through renewable sources, banks achieve internal cost efficiencies that further strengthen profitability and operational sustainability.

Tree planting and reforestation programs, although less impactful than clean energy initiatives, also contribute significantly to institutional performance. These programs represent visible, community-based interventions that strengthen relationships with local communities and governments. In a county like Nairobi—where rapid urbanization, deforestation, and pollution are pressing environmental concerns—banks that engage in large-scale greening programs are perceived as socially responsible institutions committed to ecological restoration and community well-being. This perception strengthens emotional connection and brand loyalty among customers, particularly those who value environmental ethics. Additionally, tree planting projects often serve as effective platforms for employee engagement, corporate volunteering, and public awareness campaigns, thereby fostering a culture of environmental consciousness within the organization.

Recycling initiatives, though often less visible to the public, contribute meaningfully to operational efficiency and cost reduction. Waste segregation, electronic waste management, and paper recycling programs help banks lower administrative costs, reduce environmental risks, and comply with sustainability reporting standards. Furthermore, recycling demonstrates a practical commitment to environmental stewardship, reinforcing the notion that CSR should not be limited to grand gestures but embedded within daily operational practices. This integration of environmental consciousness into everyday business routines enhances internal accountability, employee morale, and the organization's overall sustainability profile.

From a theoretical standpoint, the study's findings affirm the central tenets of the Resource-Based View Theory (RBV). According to RBV, firms gain a sustainable competitive advantage when

they possess unique, valuable, rare, inimitable, and non-substitutable resources. In this context, environmental CSR becomes a strategic intangible asset that differentiates banks from their competitors. By implementing consistent and well-structured CSR initiatives, banks cultivate reputational capital, stakeholder trust, and innovation capacity—resources that cannot be easily replicated by competitors. Environmental CSR, therefore, transcends its traditional philanthropic role and becomes a driver of strategic differentiation, resilience, and long-term growth.

The study also reinforces the argument that in modern banking, financial performance cannot be divorced from social and environmental accountability. Customers increasingly prefer to associate with brands that demonstrate ethical responsibility, transparency, and sustainability. Environmental CSR initiatives thus serve as a bridge between corporate profitability and societal expectations, enabling banks to achieve a "triple bottom line"—economic prosperity, social well-being, and environmental sustainability. In the Nairobi context, where financial institutions operate in a highly competitive and rapidly digitizing market, environmental CSR offers an avenue for differentiation that resonates strongly with both corporate clients and individual consumers who are becoming increasingly eco-conscious.

These findings carry profound implications for bank managers, policymakers, and regulators. For bank executives, the integration of environmental CSR into strategic planning should no longer be viewed as optional but as an essential component of competitive strategy. Investments in clean energy, waste management, and reforestation should be embedded into the bank's operational frameworks, annual budgets, and marketing strategies. By doing so, banks not only contribute to environmental preservation but also attract new customer segments, enhance corporate image, and improve long-term profitability. Bank managers should also develop clear metrics for evaluating the return on investment from CSR activities, both in financial and non-financial terms, to strengthen accountability and continuous improvement.

For policymakers and regulators, the results highlight the need to create enabling environments that incentivize environmental CSR adoption in the financial sector. This can include offering tax incentives or regulatory credits to banks that invest in renewable energy projects or implement certified environmental management systems. The Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA) could play a catalytic role by developing sustainability benchmarks, disclosure standards, and reporting guidelines that encourage transparency in CSR performance.

By institutionalizing these frameworks, policymakers would not only promote sustainable banking practices but also contribute to the realization of Kenya's broader environmental and development goals.

Furthermore, the findings have implications for the relationship between CSR and stakeholder engagement. Environmental CSR initiatives offer powerful avenues for building meaningful partnerships among banks, local communities, non-governmental organizations, and government agencies. For instance, collaborative tree-planting programs or clean energy financing partnerships can foster trust, co-ownership, and collective impact. These partnerships enhance the legitimacy of banks as socially responsible institutions, reinforcing stakeholder confidence and deepening community relationships. In turn, strong stakeholder relationships translate into improved market performance and customer loyalty.

The study also underscores the importance of communication and transparency in CSR implementation. For environmental CSR to generate measurable performance benefits, banks must not only engage in such activities but also communicate their efforts effectively to stakeholders. Regular sustainability reports, digital media campaigns, and customer engagement forums can help showcase environmental achievements and strengthen corporate image. Transparent communication creates awareness, inspires customer pride in associating with the brand, and enhances the institution's visibility in both local and international markets.

In a broader sense, environmental CSR contributes to Kenya's national sustainable development agenda by addressing environmental degradation, climate change, and resource scarcity. As commercial banks channel their financial and human resources toward environmental initiatives, they indirectly support the achievement of Sustainable Development Goals (SDGs), particularly SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), and SDG 15 (Life on Land). This alignment between corporate objectives and national development priorities reflects a paradigm shift in which private sector actors are recognized as key partners in advancing environmental sustainability and resilience.

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