Corporate Governance, Corporate Social Responsibility and Performance of Commercial Banks in Kenya

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Abstract

Corporate governance plays a vital role in influencing firm performance through transparency and disclosure, board structure and effectiveness, shareholder rights and protections, and audit and risk oversight. Effective governance remains a persistent challenge, particularly in environments with diverse stakeholders, managerial complexity, and agency conflicts. This study aimed to assess the association among corporate governance, CSR and performance of commercial banks in Kenya. Precisely, the study sought to establish the mediating role of corporate social responsibility in the association between corporate governance and performance of commercial banks in Kenya. This study was anchored in stewardship and stakeholder theories and the Balanced Scorecard. The study adopted a positivist philosophy with an explanatory research design and a deductive approach. A census survey was conducted targeting all 38 licensed commercial banks in Kenya, focusing on chief executive officers who are familiar with governance practices and performance metrics. Data was collected through structured questionnaires, being the primary data, while sources from audited financial reports of 2024 were secondary data. The findings provided robust empirical support for stewardship theory, stakeholder theory, and the balanced scorecard framework, affirming that both financial and non-financial metrics are shaped by governance quality and socially responsible conduct. The study concluded that the results are consistent with the balance score card framework, the third objective aligns with stewardship theory, while CSR affirmed the study and also reinforced the strategic utility of the balance score card framework. The study recommended that a proposal be developed to inform and guide regulatory bodies in strengthening the governance framework for commercial banks in Kenya, and to develop training and certification programs for board members, aligning with stewardship theory. The study contributed theoretically by extending corporate governance theories within a banking context; empirically by applying a full census SEM approach; methodologically by integrating both financial and non – financial metrics; and practically by offering actionable insights for corporate governance reform.

Keywords: Corporate Governance, Transparency and Disclosure, Shareholder Rights and Protection, Board Structure Effectiveness, Corporate Social Responsibility, Performance of Commercial Banks

Introduction

Commercial banks are pivotal to Kenya's economy, serving as the primary conduits for mobilizing savings, extending credit, and facilitating payments (Mohamed, 2020). Over the last decade, the sector has experienced significant transformations: technological innovations such as mobile banking, regulatory reforms following global and domestic financial shocks, and heightened societal expectations of corporate conduct. corporate governance, together with corporate social responsibility, has become a key driver in strengthening bank stability and supporting sustainable value generation over time (Sakuntala et al., 2025).

Corporate governance refers to the frameworks and mechanisms through which banks are managed and overseen, ensuring that the needs of shareholders, regulators, clients, and all other stakeholders are appropriately aligned (Ahmad et al., 2024). CSR represents the social contract through which banks engage with communities, mitigate externalities, and secure legitimacy. In Kenya, the Central Bank (CBK) has strengthened governance frameworks through prudential guidelines and codes of conduct, while banks increasingly publish sustainability reports highlighting social and environmental initiatives. Corporate governance has emerged as a cornerstone of sustainable financial success, especially in segments such as banking, where confidence, responsibility, and transparency are critical amid the challenging business environment.

The nexus between corporate governance and performance is equally intricate and vital, and is widely recognised as an essential aspect influencing performance, where strategic decision-making is enhanced by emphasising the role of the board and risk oversight, which are fundamental to sound decisions (Affes & Jarboui, 2023). Corporate governance likewise heightens transparency and accountability, thereby building trust among stakeholders, especially with a well-defined process and control, along with monitoring assessments and audits, thereby improving operational efficiency (Sigo, 2020). Besides, corporate governance enhances stakeholder confidence and engagement, which boosts trust and reputation, which in turn improves job satisfaction and job commitment among employees, thereby reducing labour turnover and enhancing market reputation and firm performance. Overall, corporate governance promotes ethical behaviour and integrity as risks of scandals and financial misconduct are reduced, leading to better firm performance in commercial banks (Ngatia & Mandere, 2024).

Regionally, African banks have grappled with persistent performance challenges, driven largely by structural inefficiencies, macroeconomic volatility, and governance shortcomings (Abor et al., 2022). Countries such as Tanzania, Uganda, and the Democratic Republic of Congo have experienced regulatory interventions following severe declines in bank performance, as seen in the cases of Twiga Bancorp, Crane Bank, and the Business and Industry Advisory Committee, respectively (McKinsey, 2022). In Kenya, bank performance has seen mixed outcomes, characterized by growth in regional influence on one hand and systemic failures on the other. The country has developed one of the most vibrant banking sectors in East Africa, yet performance setbacks have been pronounced, especially among mid-tier and small banks (Gwaison & Maimako, 2021). Over the past two decades, the Central Bank of Kenya has overseen the closure of 17 banks due to financial distress, including Chase Bank, Trust Bank, and Dubai Bank, citing reasons such as capital inadequacy, liquidity shortfalls, and governance lapses (Ambani, 2023). These failures have significantly affected depositor confidence, altered market dynamics, and led to consolidation through mergers and acquisitions. More importantly, they accentuate the significance of strengthening corporate governance, enhancing board oversight, and ensuring strict regulatory compliance to safeguard bank performance (Mais & Indah, 2023). The shift in customer satisfaction behaviour towards financially stable institutions further reflects the market's sensitivity to performance signals and reaffirms the need for performance-centred reforms in Kenya’s commercial banking sector.

The linkage between corporate governance and corporate social responsibility can synergistically enhance firm performance by building a strong reputation and trust among all stakeholders, attracting and retaining employees and appealing to investors who view well-governed and socially responsible firms as lower risk and more sustainable (Attarit et al., 2024). The nexus between corporate governance, corporate social responsibility and firm performance is multifaceted and interconnected. Each of these elements influences the others in various ways, creating a dynamic system that can initiate a firm's success (Sakuntala et al., 2025). Strong corporate governance and corporate social responsibility can synergistically enhance firm performance by building a strong reputation and trust among all stakeholders, attracting and retaining employees and appealing to investors who view well-governed and socially responsible firms as lower risk and more sustainable (Attarit et al., 2024). This can lead to accessing more capital and lowering capital costs. Additionally, integrating* corporate governance and corporate social responsibility practices can lead to operational efficiencies and drive innovation, further boosting firm performance (Hunjra et al., 2020).

Studies on corporate governance generally support a positive association with firm performance. Independent and diverse boards improve oversight, reduce agency conflicts, and enhance decision quality. In banking, board expertise in finance and risk management is critical to controlling credit exposure and maintaining capital adequacy. However, excessively large boards may dilute accountability and impair agility.

Problem Statement

The performance of commercial banks in Kenya is crucial for the overall economic stability and growth of the country. However, despite their importance, commercial banks in Kenya have struggled with a decline in performance, both financial and non-financial and partly because of governance failures, in terms of shareholder rights and protection, transparency and disclosure, audit and risk oversight, board structure effectiveness and the overall firm performance. Recent banking scandals, such as the Greensill Capital collapse (Dodd, 2024), Wirecard scandal (Teichmann et al., 2023), Danske Bank money laundering case (Kara, 2019), Deutsche Bank's "Cum-Ex" fraud (Collier, 2020) and Wells Fargo's fake accounts scandal (Ragothaman et al., 2022), highlight severe corporate governance and CSR failures. These issues included poor audit and risk oversight, lack of transparency and disclosure, and shareholder rights and protection, leading to reputational damage, regulatory fines, and financial losses.

In Kenya, factors contributing to this decline in bank performance include poor leadership, ineffective governance practices, inadequate audit and risk oversight, embezzlement, board structure effectiveness and stringent government regulations. Such issues have often resulted in bank failures, especially in performance, as evidenced by the failure of banks like Imperial Bank, Dubai Bank, and Chase Bank (CBK, 2016). This underscores the urgent need for actual corporate governance practices to ensure the stability and performance of Kenyan banks. While corporate governance is widely acknowledged as a critical factor of bank performance globally, there remains considerable debate in the literature regarding the exact association between corporate governance, CSR and performance (Rusda & Asmedi, 2024).

While Kenyan banks have adopted governance codes and CSR practices, the link between these mechanisms and bank performance remains underexplored. First, the effectiveness of board independence, audit committees, and transparency and disclosure quality in shaping performance is not consistently established. Second, CSR in many banks remains peripheral, focused on philanthropic projects rather than addressing material issues such as ethical, legal and economic. Third, the interaction between governance and CSR, whether governance enhances CSR and whether CSR mediates the governance performance relationship, has received limited empirical scrutiny. These gaps necessitate a comprehensive analysis of CG, CSR, and performance in Kenya's banking sector.

Literature Review

Several theories underpin the discussion of corporate governance, corporate social responsibility and performance of commercial banks. This study focused on Stewardship theory, which emphasises that leaders are responsible stewards who prioritise long-term organisational and societal well-being over self-interest. In Kenyan commercial banks, stewardship theory supports corporate governance structures where boards empower executives, trusting them to maximize firm value through accountability and transparency. It emphasizes strong leadership, ethical decision-making, and internal controls rather than excessive monitoring. Stakeholder theory (Freeman, 1984) argues that businesses have responsibilities to a broad set of stakeholders beyond shareholders, including customers, employees, communities, and their environs. The Balance Scorecard provides a practical measurement framework linking corporate governance and CSR to both financial and non-financial performance.

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Elsewhere, a study conducted by Idrus (2024) on corporate governance and CSR on firm performance within Indonesia's manufacturing sector, several gaps remain that warrant further investigation. For example, sectoral limitation where focus was on the manufacturing sector, limiting the generalizability of its findings to other industries, such as the banking sector, which operates under different regulatory frameworks and market dynamics. Geographical Scope, which restricts the applicability of the results to other emerging economies, such as Kenya, where cultural, economic, and regulatory environments differ. The sample size was small, indicating that 14 companies may not adequately capture the diversity and variability within the manufacturing sector, potentially limiting the robustness of the conclusions. Measurement variables were specific metrics for corporate governance (e.g., audit committees, managerial ownership) and CSR (ESG criteria), which may not encompass other relevant factors like transparency and disclosure, board structure effectiveness, shareholder rights and protection, as well as risk oversight, which could provide a more comprehensive understanding of these constructs. Performance metrics utilised ROA, innovation, and customer satisfaction, excluding other pertinent financial metrics such as ROE and internal business processes, which are crucial for a holistic assessment of performance. Addressing these gaps, this study explored the impact of corporate governance and CSR on both financial and non-financial performance metrics within Kenya's commercial banking sector. This provided a new perspective on these relationships in a different context, considering alternative measurement variables and a broader sample, enhancing the generalizability and robustness of the findings.

Examining the effects of corporate governance and corporate social responsibility on firm performance in Ghana's manufacturing sector by Ledi and Xemalordzo (2023), where the study adopted a quantitative research design, gathering data from a purposively selected sample of 328 senior executives drawn from various manufacturing companies. Corporate governance was assessed through board characteristics, firm ownership structures, and board monitoring, while CSR was measured using environmental, social, and governance (ESG) criteria. Non-financial metrics, including customer satisfaction, learning and growth, employee satisfaction, and productivity evaluated firm performance. Several gaps remained, warranting further investigation on the sectoral context, where a gap in understanding how corporate governance and CSR dynamics operate within the banking industry, particularly in emerging economies like Kenya.

A study conducted by Nguyen (2024) examining the association between corporate governance, CSR and bank performance in Vietnam, employing both qualitative methods (interviews and expert surveys) and quantitative analysis (PLS, SEM using SmartPLS4). While this study provides valuable insights into the Vietnamese banking sector, it does not explicitly investigate the mediating variable of CSR between corporate governance and firm performance. The study aimed to address this gap by focusing on commercial banks in Kenya, examining CSR's mediating role between corporate governance measured through transparency and disclosure, board structure effectiveness, shareholder rights and protection as well as audit and risk oversight while firm performance assessed using both financial (ROE) and non - financial metrics, including customer satisfaction, learning and growth, and internal business processes. This approach seeks to offer a nuanced understanding of these dynamics within the Kenyan banking sector, thereby contributing to the existing literature by identifying the mediating role of CSR in a different geographic and cultural context.

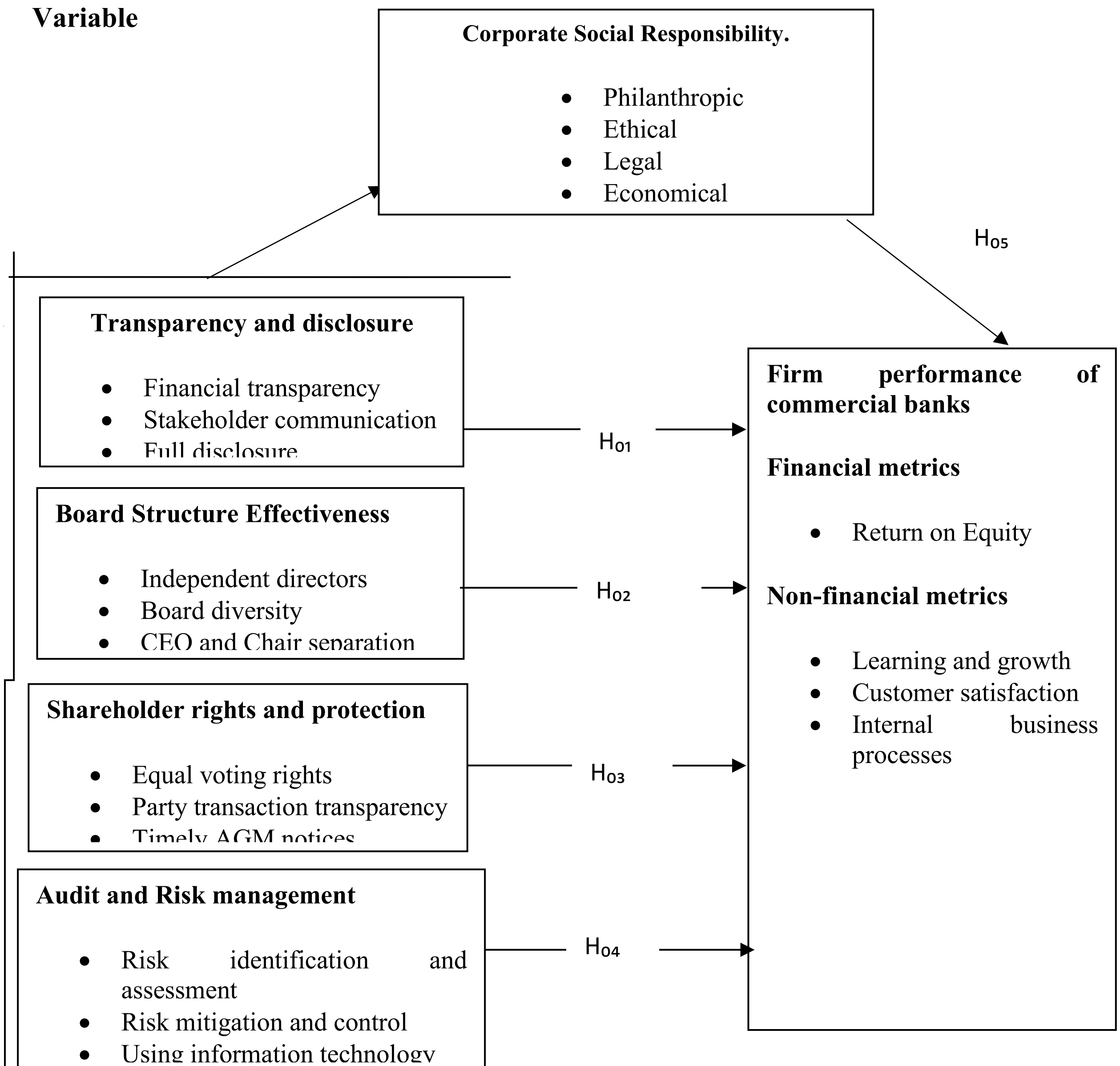
An empirical study conducted by Quddus and Meilani (2024) examining corporate governance on CSR disclosure among Indonesian banks utilised purposive sampling. Corporate governance variables included institutional ownership, independent board commissioners, female directors, audit committees, and board meeting frequency, while CSR was assessed based on environmental issues. The study presents a research gap, as it focuses on a limited sample within the Indonesian banking sector and primarily considers environmental aspects of CSR. In contrast, this study aimed to investigate the relationships among corporate governance, CSR, and firm performance within Kenyan commercial banks. This study employed a comprehensive set of corporate governance variables like transparency and disclosure, board structure effectiveness, shareholder rights and protection as well as audit and risk oversight while CSR was assessed using philanthropic, legal, and economic dimensions. Firm performance was evaluated using both financial (ROE) and non-financial metrics, including customer satisfaction, learning and growth, and internal business processes. By adopting a broader scope and different contextual focus, this approach seeks to provide new intuitions into the interplay between corporate governance, CSR and firm performance in the Kenyan banking sector.

Investigating CSR mediates on the link between corporate governance and firm performance in UK, Maali et al., (2021), employed structural equation modelling using data drawn from a sample of 300 firms. Corporate governance was assessed through board independence, board diversity, and CEO duality, while CSR was measured using ESG criteria. Firm performance was evaluated using non-financial metrics such as customer satisfaction, innovation, and employee satisfaction. The study provides valuable insights focusing on non-financial performance metrics and does not consider financial indicators, such as ROE. Additionally, the study was within the UK setting, which may limit the applicability of its results to other regions. The research gaps of this study examined the mediating effect of CSR using philanthropic, ethical, legal and economic measures, while corporate governance was measured by transparency and disclosure, board structure effectiveness, shareholder rights and protection, as well as audit and risk oversight. The performance in Kenyan commercial banks incorporated both financial (ROE) and non-financial metrics (customer satisfaction, learning and growth, internal business processes). This approach aims to offer a more complete and consider these dynamics in a different geographical and sectoral context, different corporate governance variables, CSR proxies and firm performance metrics.

Although Suryana et al. (2023), offer valuable on how corporate governance, CSR, and firm performance relate within Indonesian banks, the study still reveals notable research gaps. It relied exclusively on secondary data and assessed firm performance using only financial metrics (ROE), which limits the depth and scope of performance evaluation. Additionally, the study focused on a narrow set of governance variables, potentially overlooking other critical aspects such as transparency, audit oversight, and shareholder protection. In contrast, the current study addressed these gaps by incorporating both primary and secondary data sources, adopting a broader set of governance variables tailored to the Kenyan banking context, and evaluating firm performance using a balanced mix of financial and non-financial indicators.

Conceptual Framework

Independent variable **Mediating Variable** **Dependent Variable**



Source: Researcher (2025)

Methodology

This study employed positivist philosophy as it supports objective reality measurement, enabling hypothesis testing and generalisation. An explanatory research design was utilised as it allows testing of causal links and mediation effects within a realistic time frame and resource constraints. A census survey was used for this study as it systematically gathers information from all elements within a population, providing a comprehensive and detailed analysis. Primary data was collected from CEOs who are conversant with corporate governance, CSR and performance of commercial banks, where questionnaires were used as tools for collecting the data. Secondary data was collected from the annual audited financial reports of the 38 licensed commercial banks in Kenya in the year 2024. Governance indicators were derived from annual reports, board disclosures, and CMA filings. CSR data was collected from sustainability reports, with a focus on materiality, scope, and outcomes. Bank performance was measured using financial metrics (ROE), non-financial metrics (learning and growth, internal business process and customer satisfaction), and proxies were available.

The analytical approach was based on a cross-sectional design with bank and year fixed effects. Mediation analysis was done using Structural Equation Model, testing whether CSR transmits the effect of corporate governance to the performance of commercial banks in Kenya. Reliability was ensured through dual coding of governance and CSR variables, while validity was addressed by triangulating multiple data sources.

Table 1: Diagnostic Tests

Diagnostic Tests

Diagnostic test	Purpose	Test used	Threshold	Corrective measures if violated
Linearity tests	Assess whether the relationship between independent and dependent in a statistical model is linear	Graphical (scatter and residual plots) and statistical	P > 0.05 (No significant non – linearity.	For scatter and residual plots check for outliers and consider removing

		(Ramsey Regression Equation Specification Error Test)	P < 0.05 (Non-linearity detected	them or transforming them. For statistical apply logarithms, square root or polynomial
Normality Test	Assess whether data follows a normal distribution	Skewness–Kurtosis test for normality)	p > 0.05 indicates normal distribution	Apply data transformation methods (e.g., log, reciprocal, Box–Cox, Yeo–Johnson); use non-parametric tests if necessary
Homoscedasticity test	Tests whether the residuals in a linear regression model exhibit constant variance across the range of the dependent variable	Breusch – pagan test	P value > 0.05 Accept H_0 Homoscedasticity is not violated	Use robust standard errors or apply weighted least squares or use generalised least squares
Multicollinearity test	Determines if there is a significant correlation among the independent variables within a regression model	Variance Inflation Factor	VIF < 5 No significant multicollinearity (Accept) VIF > 10 High multicollinearity (corrective action needed)	Remove redundant variables, combine the variables and transform them.

Source: Research Data (2025)

Findings

Mediation Analysis: Examining the Indirect Effect of Corporate Governance on Firm Performance through Corporate Social Responsibility

This part presents the mediation analysis aimed at evaluating the indirect effect of corporate governance on firm performance through corporate social responsibility as the mediating variable. Mediation analysis is a critical statistical approach used to explore how or through what mechanism an independent variable exerts its influence on a dependent variable. Corporate social responsibility was theorized to serve as a behavioural and strategic conduit through which corporate governance practices affect firm performance, based on the assumptions of stakeholder and legitimacy theories. The analysis was conducted using the bootstrapping method in Smart PLS, which is appropriate for assessing indirect effects in complex structural equation models. The interpretation focuses on the significance and strength of the indirect paths (corporate governance → CSR → firm performance), as well as the nature of the mediation (partial or full), based on both statistical significance and comparisons of direct and indirect effects. This mediation pathway is vital for understanding whether good governance enhances firm performance directly or whether its effects are realized primarily through responsible corporate behaviour. The findings are depicted in the table below.

Table 2:
Mediation Analysis of the Effect of Corporate Governance on Firm Performance via Corporate Social Responsibility

Step	Path	Notation	β	t	p	Interpretation
1	CG → FP	C	0.884	15.992	0.000	Total effect of CG on FP
2	CG → CSR	A	0.830	11.443	0.000	Effect of CG on the mediator CSR
3	CSR → FP (controlling for CG)	B	0.759	8.225	0.000	Effect of CSR on FP
4	CG → FP (controlling for CSR)	c′	-18.910	2.303	0.021	Direct effect of CG on FP when CSR is included
5	CG → CSR → FP	Ab	0.630	6.437	0.000	Indirect effect via CSR (product of a × b)

Source: Research Data (2025)

The mediation analysis sought to examine whether there is a mediation of corporate social responsibility on the relationship between corporate governance and firm performance of commercial banks in Kenya. The analysis followed the causal steps strategy proposed by Baron and Kenny (1986) and was supplemented with the product-of-coefficients approach to assess the statistical significance of the indirect effect (ab path).

The synthesis of existing literature and sector evidence suggested several key findings. First, corporate governance structures such as board independence, risk committee effectiveness, and CEO chair separation were positively associated with improved financial and non-financial performance of commercial banks. This implies that well-governed banks are more stable, efficient and trusted by stakeholders. These mechanisms reduce agency conflicts and improve risk oversight. Second, corporate governance significantly affects CSR initiatives because better governance structures are more likely to engage in meaningful CSR initiatives, meaning that ethical leadership, transparency and disclosure encourage investment in philanthropic, ethical, legal and economic programs. Third, CSR positively influences bank performance because community outreach and inclusive financial services have contributed positively to both the financial and non-financial performance of commercial banks. CSR was found to strengthen customer satisfaction, stakeholder trust, and return on equity of banks, thereby boosting performance. CSR partially mediates the corporate governance and performance linkage, meaning that corporate governance leads to better performance either directly or indirectly through CSR.

CSR literature emphasizes its role in enhancing reputation, customer loyalty, and employee engagement. In banks, CSR initiatives range from financial literacy programs and SME support to environmental lending policies. Empirical evidence indicates that strategically material CSR contributes to profitability and risk mitigation, but symbolic or philanthropic CSR has a limited performance impact. An emerging stream highlights the complementarity of governance and CSR. Governance mechanisms influence CSR scope and authenticity, while CSR provides a platform for governance to engage stakeholders and enhance legitimacy. Several studies in emerging markets report partial mediation, where CSR translates governance into performance outcomes. Kenyan evidence aligns with these global patterns but reveals unique dynamics. Banks engaged in financial inclusion, digital safety, and community development tend to attract customer loyalty and deposit growth. Governance reforms have improved transparency, though their depth and consistency vary. The challenge remains to ensure that governance translates into strategically material CSR, which in turn enhances performance.

As obtained in the table above, the results of the first step indicate that corporate governance has a strong and significant total effect (path c) on firm performance ($\beta = 0.884$, $t = 15.992$, $p < 0.05$). This confirms the existence of a direct association between corporate governance and firm performance prior to the inclusion of the mediator, corporate social responsibility. In the second step, the influence of corporate governance on corporate social responsibility (represented by path a) was also found to be positive and significant ($\beta = 0.830$, $t = 11.443$, $p < 0.05$), indicating that corporate governance significantly influences the adoption and integration of corporate social responsibility within commercial banks.

In the third step, when controlling for corporate governance, the influence of corporate social responsibility on firm performance (denoted by pathway b) remained positive and significant ($\beta = 0.759$, $t = 8.225$, $p < 0.05$), supporting the condition that the mediator has an influence on the dependent variable. The fourth step revealed that the direct influence of corporate governance on firm performance, after controlling for corporate social responsibility (c′ path), became negative and significant ($\beta = -18.910$, $t = 2.303$, $p < 0.05$). Although significant, the reversal of the sign from positive (c path) to negative (c′ path) suggests a suppression effect, a specific type of mediation in which the mediator reveals a masked or hidden relationship.

To further assess mediation, the indirect effect (ab path) was tested using the product-of-coefficients approach, in which the product of the a and b paths ($\beta = 0.630$, $t = 6.437$, $p < 0.05$) was significant. This confirms the presence of a significant mediating effect of corporate social responsibility in the corporate governance-firm performance relationship.

Taken together, the findings satisfy the conditions outlined by Baron and Kenny (1986) for establishing mediation. The significance of both the indirect effect (ab) and the remaining direct effect (c′), albeit negative, provides evidence of partial mediation. The significant indirect path indicates partial mediation of corporate social responsibility in the linkage between corporate governance and firm performance, but the direct effect of corporate governance on firm performance does not vanish when corporate social responsibility is accounted for, thus ruling out full mediation.

Findings on Corporate Governance, Corporate Social Responsibility and Firm Performance

This study assessed how corporate social responsibility mediates the relationship between corporate governance and firm performance among commercial banks in Kenya. The corresponding null hypothesis (H_{05}) posited that corporate social responsibility has no statistically significant mediating effect on the relationship between corporate governance and firm performance. Grounding in the SEM framework, the findings revealed that corporate social responsibility partially mediated the linkage between corporate governance and firm performance (indirect effect $ab = 0.630$, $p < 0.05$). This statistically significant mediation pathway provides sufficient empirical evidence to reject H_{05} and confirms that corporate social responsibility serves as a meaningful transmission mechanism through which governance practices influence firm performance.

These findings are theoretically anchored in stakeholder theory, which posits that organizations operate within a broader social and institutional environment where responsiveness to stakeholder concerns and adherence to social norms can shape firm legitimacy and sustainability. The current study provides empirical support for these propositions within the Kenyan banking sector by demonstrating that corporate social responsibility not only reflects ethical and legal obligations but also enhances the performance outcomes of governance structures through both financial (e.g., ROE) and non-financial (e.g., customer satisfaction, learning and growth) metrics.

The results extend the work of Ledi and Xemalordzo (2023), who examined the synergistic effects of corporate governance and corporate social responsibility on firm performance in Ghana's manufacturing sector. While their study emphasized the relevance of ESG dimensions and non-financial performance indicators, it did not explore corporate social responsibility as a mediating mechanism. In addition, their study was geographically and sectorally constrained. In contrast, the current research, situated in Kenya's commercial banking sector, offers a novel perspective by incorporating both financial and non-financial performance metrics and deploying SEM to capture the intervening dynamics of corporate social responsibility within the corporate governance and firm performance nexus.

Similarly, the findings align with Maali et al. (2021), who utilized SEM to investigate corporate social responsibility's role in enhancing non-financial outcomes in UK firms. However, the absence of financial indicators such as ROE in their study limited the comprehensiveness of their performance evaluation. The current study addresses this limitation by including both objective (ROE) and subjective (e.g., internal business processes) measures, thus enabling a more holistic appraisal of firm performance. In addition, while the reviewed study was constrained to the UK context, the present research enhances contextual relevance for Kenya by focusing on governance practices within its evolving financial landscape.

The findings also complement Akhter and Hassan (2024), who examined CSR as the mediating role in the BRICS economies using GMM estimation techniques. While their cross-country design offered broader insights, it introduced heterogeneity due to regulatory and cultural differences across jurisdictions. The current study eliminates this limitation by focusing exclusively on Kenyan commercial banks and employing SEM to rigorously test the mediating role of corporate social responsibility within a uniform regulatory and institutional environment. In addition, alternative governance dimensions, such as transparency and disclosure, audit and risk oversight, and shareholder rights protection, were incorporated, enriching the structural complexity of the corporate governance construct.

In contrast, studies such as Nguyen (2024) and Quddus and Meilani (2024), though valuable in their respective banking contexts in Vietnam and Indonesia, did not explicitly model corporate social responsibility as a mediating variable. These studies either focused on corporate social responsibility disclosures or ESG compliance in isolation or examined bivariate relationships without investigating the intricate mechanisms through which corporate governance influences firm performance via corporate social responsibility. The current study addresses this gap through a robust mediation model, confirming that corporate social responsibility is a significant conduit through which effective governance translates into superior firm outcomes.

Moreover, studies conducted by Idrus (2024) and Suryana et al. (2023), although supportive of a positive relationship between corporate governance, corporate social responsibility, and firm performance, were limited by sample size, sectoral focus (primarily manufacturing), and reliance on either secondary data or traditional regression approaches. These methodological constraints reduce explanatory power in capturing latent interdependencies. In contrast, this study integrates primary and secondary data sources, applies a census-based sampling frame, and uses SEM, offering improved estimation precision and conceptual clarity in evaluating mediation.

This study's comprehensive conceptualization of corporate social responsibility, encompassing philanthropic, legal, and economic responsibilities, offers a more holistic lens than prior studies that have been narrowly focused on environmental or disclosure elements. The demonstration of corporate social responsibility's partial mediation underscores the reality that while corporate governance directly affects firm performance, its full potential is unlocked when aligned with corporate social responsibility values and practices. In practical terms, this implies that boards that not only adhere to governance principles but also prioritize social responsibility can amplify their performance outcomes, financially and operationally.

As a result, this study makes a substantial theoretical and empirical contribution by validating corporate social responsibility as a mediating variable in the relationship between corporate governance and firm performance within the Kenyan banking sector. The findings affirm that corporate social responsibility is not merely a compliance obligation or reputational tool but a strategic enabler that bridges governance practices and firm outcomes. In leveraging SEM with a mediation model, incorporating diverse performance metrics, and contextualizing the study in a developing financial market, the research offers novel insights with high generalizability and practical relevance.

Consequently, the null hypothesis H_0 was not supported. The results demonstrate that corporate social responsibility partially mediates the linkage between corporate governance and firm performance. This implies that corporate governance affects firm performance both directly, as well as indirectly through CSR-related practices and initiatives.

Discussions

The findings reinforce theoretical predictions from stewardship, stakeholder perspectives and balance score card. Stewardship explains the role of independent boards and audit committees in reducing managerial opportunism, highlighting how empowered managers integrate CSR authentically into strategy. Stewardship and stakeholder theories underscore how CSR secures trust and compliance, lowering reputational and regulatory risk. Balance score card

The Kenyan context provides additional insights. Regulatory reforms have established a strong framework, but performance differences stem from the quality of execution. Banks that integrate CSR into core strategies such as designing inclusive products, embedding ESG in credit assessments, and prioritizing digital security achieve superior outcomes. Conversely, symbolic CSR and box-ticking governance deliver limited benefits.

Summary

The objective was to examine how corporate social responsibility mediates on the link between corporate governance and firm performance. The mediation analysis revealed that corporate social responsibility partially mediates on the link between corporate governance and firm performance, supported by a significant indirect effect (ab) pathway, thereby rejecting of the null hypothesis (H_{05}). This suggests that while corporate governance directly influences performance, part of its impact is channeled through corporate social responsibility initiatives. The partial mediation implies that governance structures influence the extent and quality of corporate social responsibility engagement, which in turn affects organizational outcomes. These findings resonate with stakeholder theory, emphasizing the strategic value of corporate social responsibility in enhancing firm reputation, stakeholder engagement, and social capital, all of which are positively associated with superior performance outcomes. The integration of corporate social responsibility into the governance-performance nexus affirms the importance of embedding socially responsible practices within corporate strategies, especially in regulated sectors such as banking.

Conclusion

Specifically, while corporate governance mechanisms do contribute to performance outcomes, their full potential often remains obscured unless strategically filtered through CSR. This finding fundamentally reframes the discourse by suggesting that corporate governance, in isolation, may impose coordination and compliance costs that do not automatically translate into performance gains. It is only when governance systems are integrated with authentic, stakeholder-driven CSR initiatives that the latent value of these mechanisms is activated and transformed into sustainable performance benefits. In essence, CSR is not an ancillary obligation but a strategic conduit that converts governance structures from procedural formalities into dynamic platforms for innovation, trust-building, and long-term value creation. This conclusion elevates CSR as a core driver within the governance-performance nexus, positioning it as the mechanism through which firms achieve legitimacy, stakeholder alignment, and resilience in complex, high-stakes environments like Kenya's commercial banking sector. Therefore, the presence of a suppression effect is not merely a statistical curiosity; it is a powerful, empirical confirmation that CSR unlocks the hidden potential of corporate governance, serving as the catalyst through which governance costs are converted into multidimensional organisational value.

Corporate governance and corporate social responsibility are mutually reinforcing drivers of bank performance in Kenya. Governance improves oversight and decision quality, while CSR builds legitimacy, stakeholder trust, and resilience. Together, they produce superior financial and risk-adjusted outcomes, especially in competitive and digitally mature environments. The study contributes to the literature by highlighting CSR as a mediating mechanism and by situating these dynamics in the context of an emerging economy with robust regulatory structures.

Recommendations

Policy recommendations

- Inform and guide regulatory bodies, e.g. CBK. SASRA and CMA in strengthening the governance frameworks for commercial banks
- Enforcement mechanisms should be tightened to ensure compliance, including regular audits and penalties for non-disclosure or misreporting.
- CBK and CMA can develop training and certification programs for board members to ensure continuous governance capacity, aligning with stewardship theory by promoting directors as effective stewards of institutional interests.
- Regulatory bodies require periodic external quality assurance reviews of internal audit functions, introduce whistleblower protection regulations, and mandate integrated risk management systems to safeguard institutional assets and promote regulatory compliance.
- Policy makers should incorporate CSR obligations within broader governance compliance, checklist, CBK, CMA and SASRA should consider developing a CSR code of practice.

Management Practice Recommendations

- Management teams should implement integrated reporting practices that provide a balanced view of firm performance, strategic direction, risk exposures and CSR outcomes.
- Establish clear mandates for board sub-committees, strengthening board structure in order to improve organizational responsiveness and innovation in line with stewardship theory.
- Establish a culture that values shareholder inclusivity, which reinforces the legitimacy of the firm's leadership and strategic decisions.
- Risk management should move beyond regulatory checklists to become a strategic function that identifies emerging risks, e.g., cybersecurity threats, market volatility and ESG–related liabilities.
- Bank managers should develop structured CSR programs aligned to their institution's vision and performance goals, especially in environmental sustainability, community development and financial inclusion.

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