

SUSTAINABLE FINANCING PRACTICES AND FIRM VALUE OF LISTED BANKS AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 2nd June 2026

Published: 12th June 2026

Full Length Research

Available Online at: https://iajournals.org/articles/iajef_v5_i3_452_469.pdf

Citation: Nalyanya, B. L., Makori, D., Gitagia, F. (2026). Sustainable financing practices and firm value of listed banks at the Nairobi Securities Exchange, Kenya. *International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366*, 5(3), 452-469.

ABSTRACT

This study examined the effect of sustainable financing practices on the firm value of commercial banks listed at the Nairobi Securities Exchange amid persistent fluctuations in market capitalization and Tobin's Q between 2017 and 2024. The study focused on green financing, sustainable debt financing, socially responsible investment practices, and ethical lending practices, while assessing the moderating role of regulatory compliance. Guided by Stakeholder Theory, Signaling Theory, Agency Theory, and the Efficient Market Hypothesis, the study adopted a cross-sectional census design targeting all eleven listed commercial banks in Kenya and collected both primary and secondary data. Using Ordinary Least Squares regression analysis in Stata 18, the findings established that green financing, ethical lending, and sustainable debt

financing practices positively and significantly influenced firm value, whereas socially responsible investment practices showed a modest negative effect. Regulatory compliance was found to strengthen the relationship between sustainable financing practices and firm value. The study concludes that sustainable and ethical financing strategies enhance shareholder value and market performance when supported by strong compliance frameworks, and recommends deeper adoption of green and ethical financing initiatives alongside strategic restructuring of socially responsible investment portfolios.

Key words: Sustainable Financing Practices, Sustainable Debt Financing, Firm Value, Green Financing, Ethical Lending, Regulatory Compliance.

INTRODUCTION

Sustainable financing practices have increasingly emerged as important determinants of firm value in the banking sector due to their role in improving risk management, enhancing investor confidence, and promoting long-term financial sustainability. Globally, banks have adopted green financing, ethical lending, socially responsible investments, and sustainable debt financing to align their operations with environmental, social, and governance (ESG) standards (KPMG, 2022; World Bank, 2021). Developed economies in Europe and Asia have particularly demonstrated that sustainable financing enhances market valuation, financial resilience, and stakeholder trust through improved transparency and stronger governance structures (European Banking Authority, 2021; European Commission, 2023; Asian Development Bank, 2021). Similar trends have also been observed in African countries such as South Africa and Nigeria, where sustainable finance initiatives have contributed to improved financial performance and competitiveness of banking institutions (African Development Bank, 2022; UNEP Finance Initiative, 2023).

In Kenya, sustainable financing practices have gained increasing attention among commercial banks listed at the Nairobi Securities Exchange as institutions seek to align with global sustainability trends and attract ESG-oriented investors. Kenyan banks have increasingly adopted green lending, ethical credit assessment, socially responsible investments, and sustainable debt instruments to improve firm value and strengthen long-term market positioning (East African Development Bank, 2022; KBA, 2022). Despite these efforts, inconsistencies in ESG implementation, limited investor awareness, and weak reporting standards have continued to constrain the full realization of sustainable financing benefits (Kenyan Institute of Finance, 2023; Mwangi & Kamau, 2024). Between 2017 and 2024, listed commercial banks experienced fluctuations in market capitalization and Tobin's Q ratios, indicating persistent volatility and inefficiencies in market valuation despite growing sustainability initiatives (Bloomberg, 2024; CBK, 2024).

The study further emphasized the importance of regulatory compliance in strengthening the relationship between sustainable financing practices and firm value. Regulatory compliance was conceptualized as adherence to prudential guidelines, ESG disclosure requirements, governance standards, and risk management regulations under frameworks such as Basel III and the oversight of the Central Bank of Kenya (Basel Committee, 2023; CBK, 2022). The study noted that differences in compliance levels across banks significantly influenced transparency, investor confidence, and the effectiveness of sustainable financing strategies (OECD, 2022; Kenya Bankers Association, 2022). The findings highlighted that sustainable financing practices, when supported by strong regulatory compliance frameworks, enhance financial stability, improve market confidence, and contribute positively to the long-term firm value and competitiveness of listed commercial banks in Kenya (World Bank, 2022; OECD, 2023).

Statement of the Problem

Commercial banks play a critical role in economic stability through financial intermediation, business financing, and infrastructure development, with the Kenyan banking sector contributing significantly to national economic growth (IMF, 2023; Statista, 2021). In recent years, listed commercial banks have increasingly adopted sustainable financing practices such as green financing and ESG-oriented investments to enhance investor confidence and improve firm value (World Bank, 2022). Despite these efforts, fluctuations in market capitalization and Tobin's Q between 2017 and 2024 revealed persistent instability in firm value, highlighting weaknesses in traditional financing models and the need for more sustainable financial strategies.

The study observed that market capitalization among listed commercial banks peaked at Ksh 60 billion in 2019 before declining to Ksh 55 billion in 2021 and Ksh 50 billion in 2022, with only a modest recovery recorded in 2024. Similarly, Tobin's Q fluctuated between 0.8 and 1.1, indicating inefficiencies in market valuation and concerns regarding the sustainability of shareholder returns.

These trends suggested increasing investor uncertainty and emphasized the importance of sustainable financing practices in stabilizing firm value, improving financial resilience, and restoring market confidence within the Kenyan banking sector.

Existing literature has generally established a positive relationship between sustainable financing and firm value through enhanced risk management and investor trust (European Banking Authority, 2021). However, previous studies largely focused on isolated sustainability factors and paid limited attention to the moderating role of regulatory compliance, methodological integration, and sector-specific analysis within emerging economies. This study addressed these conceptual, contextual, methodological, and geographical gaps by integrating qualitative and quantitative approaches to examine the influence of sustainable financing practices and regulatory compliance on the firm value of banks listed at the Nairobi Securities Exchange, thereby providing evidence relevant to Kenya and other emerging economies with similar financial and regulatory environments.

Objectives of the Study

The study was guided by the following objectives:

Overall objective

The overall objective of this study was to determine the effect of Sustainable Financing Practices on the Firm Value of Listed Banks at the NSE, Kenya.

Specific Objectives

- i. To assess the effect of green financing practices on the firm value of listed banks at the NSE, Kenya.
- ii. To examine the effect of ethical lending practices on the firm value of listed banks at the NSE, Kenya.
- iii. To analyze the effect of socially responsible investment on the firm value of listed banks at the NSE, Kenya.
- iv. To evaluate the effect of sustainable debt financing practices on the firm value of listed banks at the NSE, Kenya.
- v. To determine the moderating effect of Regulatory compliance on the connection between Sustainable Financing Practices and Firm Value of Listed Banks at the NSE, Kenya.

Theoretical Review

The study was guided by the following theories:

Stakeholder Theory

R. Edward Freeman developed Stakeholder Theory in 1984 to challenge the traditional shareholder-centered approach to corporate governance by emphasizing that firms should create

value for a broad range of stakeholders, including employees, customers, suppliers, communities, and the environment. The theory argues that long-term organizational success depends on balancing economic, social, and environmental interests rather than focusing solely on shareholder wealth maximization (Greenwood & Mir, 2019). In the context of sustainable financing, the theory explains why banks adopt practices such as green financing, ethical lending, socially responsible investments, and sustainable debt financing to address stakeholder expectations and enhance long-term firm value. Sustainable financing practices improve investor confidence, strengthen reputation, reduce environmental and social risks, and support financial resilience, thereby contributing positively to the value of banks listed at the Nairobi Securities Exchange (European Commission, 2023; Crilly, 2019).

Signaling Theory

Michael Spence introduced Signaling Theory in 1973 to explain how organizations communicate credible information to external stakeholders under conditions of information asymmetry. The theory suggests that firms use observable actions and strategic decisions to signal their quality, intentions, and long-term sustainability to investors and other market participants (Spence, 1973). In sustainable financing, practices such as green financing, ethical lending, and sustainable debt financing act as signals that banks are committed to responsible governance, environmental sustainability, and effective risk management. These signals help reduce uncertainty, attract ESG-oriented investors, and enhance investor trust, thereby improving firm value and market competitiveness (Ganda, 2021; Cash, 2024). The theory is therefore relevant in explaining how sustainable financing practices influence investor perceptions and strengthen the market valuation of banks listed at the Nairobi Securities Exchange through improved transparency and sustainability commitment.

Agency Theory

Michael C. Jensen and William Meckling developed Agency Theory in 1976 to explain conflicts of interest between shareholders (principals) and managers (agents) arising from the separation of ownership and control in modern corporations. The theory emphasizes that managers may pursue personal interests at the expense of shareholder wealth, thereby creating agency costs and information asymmetry (Jensen & Meckling, 1976). Sustainable financing practices such as green financing, ethical lending, and socially responsible investments help reduce these conflicts by promoting transparency, accountability, and long-term value creation. Through ESG disclosures and responsible investment decisions, banks improve governance structures, minimize opportunistic managerial behavior, and align managerial decisions with shareholder interests (Kariuki & Mutua, 2021; Ngugi et al., 2023). Agency Theory therefore provides a strong foundation for explaining how sustainable financing practices contribute to improved corporate governance, reduced agency costs, and enhanced firm value among banks listed at the Nairobi Securities Exchange.

Empirical Literature Review

This section is a review of the empirical results of the past researches investigating the connection between sustainable financing practices and the firm value. The review addresses the international viewpoints and Kenyan environment discussing the impact of green financing in adding value to the firm in different parts of the world, such as Europe, Asia, and Kenya.

Green Financing and Firm Value

Previous empirical studies have established that green financing positively influences firm value through improved risk management, enhanced reputation, and increased investor confidence. Studies conducted in Europe, Asia, and the United States revealed that firms investing in environmentally sustainable projects experienced improved market performance and long-term financial stability (Dai & Xue, 2022; Duan, Yang, & Xiong, 2023; Al-Issa et al., 2022). In Kenya, studies by Omondi and Wanjiru (2023) and the East African Development Bank (2022) similarly indicated that green financing strengthened stakeholder relationships and expanded market capitalization among banks. However, previous studies presented conceptual, contextual, and methodological gaps, including focus on single financing practices, lack of regulatory moderation analysis, and inconsistent firm value measures. The current study addressed these gaps by examining multiple sustainable financing practices and incorporating regulatory compliance while measuring firm value using Tobin's Q among banks listed at the Nairobi Securities Exchange.

Ethical Lending Practices and Firm Value

Empirical literature demonstrates that ethical lending practices contribute positively to firm value by reducing reputational risks, strengthening investor confidence, and promoting sustainable financial performance. International studies conducted across Europe, Asia, and global financial markets established that ethical lending improved stakeholder trust and enhanced market valuation through responsible lending and ESG compliance (Siwei & Chalermkiat, 2023; Kong, Akbar, & Poulouva, 2023). Kenyan studies further showed that ethical lending minimized regulatory penalties and improved the competitive positioning of banks (Mwangi & Kamau, 2024; Omondi & Wanjiru, 2023). Nevertheless, many studies overlooked the moderating role of regulatory compliance and relied heavily on qualitative approaches, limiting analytical rigor and generalizability. The present study addressed these conceptual and methodological gaps by integrating quantitative and qualitative methods while examining how regulatory compliance moderates the relationship between ethical lending and firm value among listed commercial banks in Kenya.

Socially Responsible Investment and Firm Value

Empirical research has shown that collection premium efficiency is a key factor for the liquidity stability and continuity of insurance companies. Kiptoo (2021) found that better risk governance and liquidity discipline make insurers more resilient, while Murigu (2019) noted that insurer operational stability is compromised by poor cash conversion of premiums in Kenya. Olayungbo and Akinyemi (2020) also concluded that the build-up of receivables negatively affects the

liquidity flexibility and operational resilience of Nigerian insurers, whereas Bischof, Laux, and Leuz (2021) reported that liquidity-sensitive changes in balance sheet structures affect operational continuity under increased liabilities. Eling and Schmit (2020) further established that disciplined liquidity governance supports the stability of underwriting operations during periods of market stress. Similarly, Muiruri and Gitagia (2026) found that effective investment management strategies significantly enhance net investment returns of umbrella retirement benefit schemes in Kenya, demonstrating that efficient financial resource management and timely cash flow optimization are critical for sustaining institutional financial capacity. Most of the existing studies, however, focused on financial performance and general organizational stability rather than underwriting capacity as a direct measure of sustainable underwriting performance. Furthermore, many studies did not operationalize premium collection management using receivables pressure indicators linked to underwriting continuity. The present study addresses these gaps by measuring premium collection management using premiums received as a percentage of gross written premiums and examining its influence on the underwriting capacity of licensed insurance companies in Kenya using panel data covering the period 2019–2024.

Sustainable Debt Financing Practices and Firm Value

Empirical findings indicate that sustainable debt financing practices, including green and social bonds, positively affect firm value by attracting ESG-focused investors, improving reputational capital, and supporting sustainable development projects. Studies conducted internationally and within Kenya established that sustainable debt instruments enhanced access to capital, strengthened financial sustainability, and improved long-term market valuation (Alsayegh, Abdul Rahman, & Homayoun, 2022; Alofaysan, Jarboui, & Binsuwadan, 2024). Kenyan evidence also showed that sustainable debt financing aligned banks with national development priorities such as affordable housing, healthcare, and environmental protection while improving investor confidence (Mwangi & Otieno, 2024; East African Development Bank, 2022). Nonetheless, previous studies did not adequately examine different bond categories, long-term performance implications, and regulatory challenges. The present study addressed these gaps by analyzing various sustainable debt instruments and assessing the moderating role of regulatory compliance on firm value among NSE-listed banks.

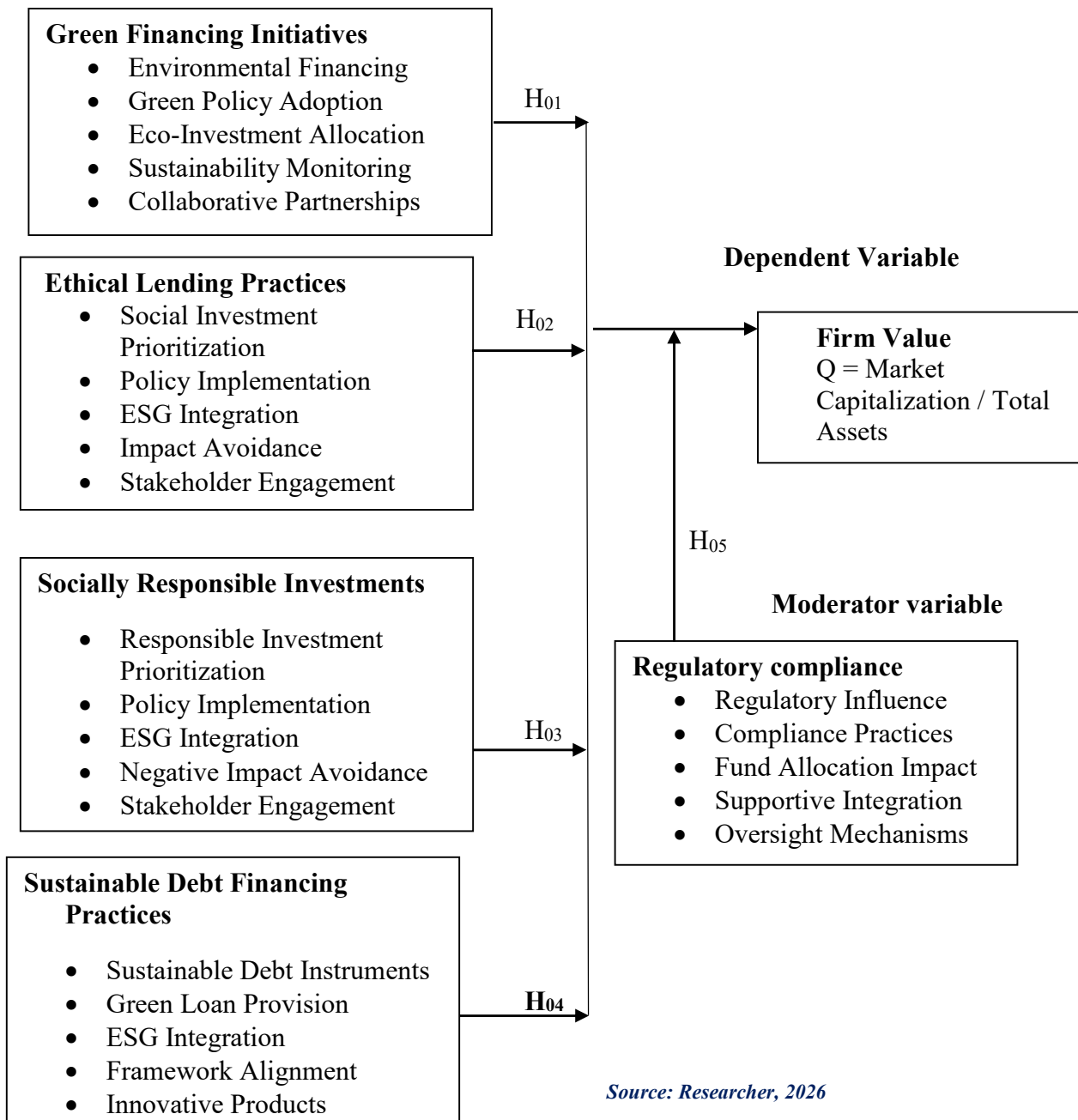
Sustainable Financing Practices, Regulatory Compliance, and Firm Value

Empirical studies have increasingly recognized regulatory compliance as an important factor influencing the relationship between sustainable financing practices and firm value. Research conducted in China, Europe, the United States, and Kenya established that strong regulatory frameworks enhance investor confidence, strengthen sustainability disclosure, and improve the effectiveness of sustainable financing practices in increasing firm value (Duan, Yang, & Xiong, 2023; Kong, Akbar, & Poulouva, 2023; Al-Issa, Qawasmeh, & Hamdan, 2022). Kenyan studies further revealed that regulatory compliance contributes significantly to overall bank performance, although most studies failed to explicitly test its moderating effect using robust statistical

approaches (Gachie & Mwangi, 2024; Mwangi & Kamau, 2024). The present study addressed these conceptual, methodological, and contextual gaps by incorporating regulatory compliance as a moderating variable and applying regression interaction analysis to evaluate its influence on the relationship between sustainable financing practices and firm value among listed commercial banks in Kenya.

Conceptual framework

Figure 2.1 presents the conceptual framework illustrating the relationship between sustainable financing practices, regulatory compliance, and firm value among banks listed at the Nairobi Securities Exchange.



Source: Researcher, 2026

RESEARCH METHODOLOGY

The study adopted a descriptive cross-sectional research design guided by the positivist research philosophy, which emphasizes objective measurement, empirical observation, and statistical analysis in examining relationships among variables (Babbie, 2020; Creswell & Creswell, 2020). The design was considered appropriate for investigating the relationship between sustainable financing practices, regulatory compliance, and firm value among banks listed at the Nairobi Securities Exchange. The study operationalized firm value using Tobin's Q, while sustainable financing practices were measured through green financing, ethical lending, socially responsible investments, and sustainable debt financing. Moderation analysis was conducted to assess the influence of regulatory compliance on the relationship between sustainable financing practices and firm value using regression interaction models.

The target population comprised all the 11 commercial banks listed at the Nairobi Securities Exchange because of their strategic role in Kenya's financial system and their accessibility to reliable market-based financial information. The study adopted a census approach to include the entire population of listed banks, thereby eliminating sampling bias and enhancing the external validity of the findings. The unit of analysis was the individual listed bank, while the units of observation included senior officers directly involved in sustainability, finance, risk management, treasury, and compliance functions. A total of 55 respondents, approximately five officers from each bank, participated in the study to provide comprehensive institutional perspectives on sustainable financing practices and regulatory compliance.

Data collection involved both primary and secondary methods to enhance methodological triangulation and improve reliability of findings. Primary data were collected using structured questionnaires administered to senior officers within the listed banks, while secondary data were obtained from annual reports, audited financial statements, and market records to support the computation of Tobin's Q and analysis of firm value. Reliability of the instruments was tested using Cronbach's Alpha through a pilot study, while validity was confirmed through content, criterion, construct, and face validity procedures. Quantitative data were analyzed using SPSS version 24 through descriptive statistics and multiple regression analysis, with diagnostic tests conducted to assess normality, multicollinearity, heteroscedasticity, and residual independence before hypothesis testing.

RESEARCH FINDINGS AND DISCUSSION

Reliability and Validity Results

The study established the reliability and validity of the research instruments before conducting the main analysis. Pilot testing involving two listed commercial banks confirmed that all study variables achieved Cronbach's Alpha coefficients above the recommended threshold of 0.70, with an overall reliability coefficient of 0.884, indicating strong internal consistency of the questionnaire items. Construct validity was further confirmed through the Kaiser-Meyer-Olkin statistic of 0.823 and a significant Bartlett's Test of Sphericity, demonstrating that the instruments were suitable for factor analysis and effective in measuring sustainable financing practices, regulatory compliance, and firm value. The study also attained an 84 percent response rate, which was considered adequate for statistical analysis and generalization of findings.

Table 4.1: Reliability and Validity Results

Measure	Result
Overall Cronbach's Alpha	0.884
KMO Statistic	0.823
Bartlett's Test Significance	0.000
Response Rate	84%

Source: Research Data (2026)

The findings indicate that the research instruments achieved a Cronbach's Alpha coefficient above the recommended threshold of 0.70, confirming strong internal consistency and reliability of the questionnaire items. The KMO statistic of 0.823 and the significant Bartlett's Test result demonstrated that the data was suitable for factor analysis and that the instruments adequately measured the study constructs. Additionally, the response rate of 84 percent was considered sufficient for statistical analysis and generalization of the study findings.

Descriptive and Diagnostic Results

Descriptive findings showed that ethical lending and regulatory compliance were the most institutionalized sustainability practices among banks listed at the Nairobi Securities Exchange, Kenya, while socially responsible investment practices recorded relatively lower adoption levels. Firm value, measured using Tobin's Q, indicated moderate market valuation among the sampled banks. Diagnostic tests confirmed that the assumptions underlying regression analysis were largely satisfied. The Shapiro-Wilk test established that residuals were normally distributed, Variance Inflation Factor results showed absence of multicollinearity, and the runs test confirmed residual independence. Although the Breusch-Pagan test detected heteroscedasticity, the study corrected this using robust standard errors, thereby ensuring validity and reliability of inferential results.

Table 4.2: Descriptive Statistics for Sustainable Financing Practices and Firm Value

Variable	Mean	Std. Dev
Green Financing	3.47	0.58
Ethical Lending	4.01	0.49
Socially Responsible Investment	3.36	0.53
Sustainable Debt Financing	3.67	0.47
Regulatory Compliance	3.81	0.32
Firm Value (Tobin's Q)	1.30	0.42

Source: Research Data (2026)

The findings indicate that ethical lending practices recorded the highest mean score, suggesting that most listed commercial banks had strongly institutionalized ethical lending systems. Regulatory compliance and sustainable debt financing practices also recorded relatively high mean scores, reflecting increased emphasis on sustainability and governance within the banking sector. Socially responsible investment practices registered comparatively lower adoption levels. The results further showed moderate firm value among the sampled banks as reflected by the Tobin's Q mean score, while the relatively low standard deviation values suggested limited variation in responses across the sampled institutions.

Diagnostic Test Results

The study conducted diagnostic tests to confirm compliance with regression assumptions. Results confirmed normality, absence of multicollinearity, and residual independence. Heteroscedasticity was detected but corrected using robust standard errors to ensure reliability of statistical inference.

Table 4.3: Diagnostic Test Results

Diagnostic Test	Result	Interpretation
Shapiro-Wilk Test	p = 0.087	Residuals normally distributed
VIF Range	1.577 – 2.493	No multicollinearity
Breusch-Pagan Test	p = 0.003	Heteroscedasticity present
Runs Test	p = 0.218	Residual independence confirmed

Source: Research Data (2026)

The findings indicate that the residuals were normally distributed since the Shapiro-Wilk test produced a p-value greater than 0.05. The Variance Inflation Factor values were below the recommended threshold of 10, confirming the absence of multicollinearity among the independent

variables. Although the Breusch-Pagan test detected the presence of heteroscedasticity, the study corrected this problem using robust standard errors to ensure reliable statistical inference. In addition, the runs test confirmed residual independence, indicating that the regression assumptions were largely satisfied.

Correlation and Regression Results

Correlation analysis established that green financing, ethical lending, and sustainable debt financing had positive and statistically significant relationships with firm value, while socially responsible investment showed a weak but significant negative relationship. Regression analysis further confirmed that green financing, ethical lending, and sustainable debt financing significantly and positively influenced firm value among listed commercial banks in Kenya. Conversely, socially responsible investment exhibited a statistically significant negative effect on firm value.

Table 4.4: Correlation Results between Sustainable Financing Practices and Firm Value

Variable	Correlation with Firm Value
Green Financing	0.641**
Ethical Lending	0.687**
Socially Responsible Investment	-0.214*
Sustainable Debt Financing	0.703**

Source: Research Data (2026)

The findings revealed that green financing, ethical lending, and sustainable debt financing had positive and statistically significant relationships with firm value, indicating that increased adoption of these sustainability practices was associated with improved market valuation among listed commercial banks. Sustainable debt financing recorded the strongest positive correlation with firm value, followed by ethical lending and green financing practices. Conversely, socially responsible investment exhibited a weak but statistically significant negative relationship with firm value, suggesting that increased socially responsible investment activities were associated with a slight decline in short-term market valuation during the study period.

Regression Results without Moderation

The regression model demonstrated strong explanatory power, with sustainable financing practices accounting for a substantial proportion of variations in firm value, indicating the importance of sustainability-oriented financial strategies in enhancing market valuation and investor confidence.

Table 4.5: Regression Results without Moderation

Variable	Coefficient	p-value
Green Financing	0.0094	0.013
Ethical Lending	0.0057	0.028

Socially Responsible Investment	-0.0042	0.039
Sustainable Debt Financing	0.0071	0.005
R ²	0.761	
F-statistic	51.489	0.000

Source: Research Data (2026)

The findings revealed that green financing, ethical lending, and sustainable debt financing had positive and statistically significant effects on firm value among listed commercial banks in Kenya, while socially responsible investment had a negative but significant effect. The regression model demonstrated strong explanatory power, with sustainable financing practices accounting for 76.1 percent of the variation in firm value. In addition, the significant F-statistic confirmed that the overall regression model was statistically significant and reliable for inference.

Moderation Test Results

The moderation analysis established that regulatory compliance significantly strengthened the relationship between sustainable financing practices and firm value. Findings indicated that banks with stronger regulatory compliance frameworks experienced greater positive effects of sustainable financing practices on firm value.

Table 4.6: Moderation Regression Results

Variable	Coefficient	p-value
Composite Sustainable Financing	0.0118	0.011
Regulatory Compliance	0.0069	0.247
CSF × RC Interaction	0.0547	0.000
R ²	0.845	
F-statistic	38.421	0.000

Source: Research Data (2026)

The findings established that composite sustainable financing had a positive and statistically significant effect on firm value. Although regulatory compliance alone was not statistically significant, the interaction term between composite sustainable financing and regulatory compliance was positive and highly significant, indicating that regulatory compliance strengthened the relationship between sustainable financing practices and firm value. The model

further demonstrated strong explanatory power, with 84.5 percent of the variation in firm value explained by the moderated regression model, while the significant F-statistic confirmed the overall suitability of the model for statistical inference.

Hypothesis Testing Summary

Hypothesis testing confirmed that green financing, ethical lending, and sustainable debt financing positively affected firm value, socially responsible investment negatively affected firm value, and regulatory compliance significantly moderated the relationship between sustainable financing practices and firm value.

Table 4.7: Hypothesis Testing Results

Hypothesis	Decision
H01: Green Financing → Firm Value	Rejected
H02: Ethical Lending → Firm Value	Rejected
H03: Socially Responsible Investment → Firm Value	Rejected
H04: Sustainable Debt Financing → Firm Value	Rejected
H05: Regulatory Compliance Moderation	Rejected

Source: Research Data (2026)

The findings revealed that all the null hypotheses were rejected since the corresponding variables produced statistically significant results at the 5 percent significance level. This implies that green financing, ethical lending, socially responsible investment, and sustainable debt financing significantly influenced firm value among listed commercial banks in Kenya. The results further confirmed that regulatory compliance significantly moderated the relationship between sustainable financing practices and firm value.

CONCLUSIONS AND RECOMMENDATION

Conclusions

Regarding the first objective, the study established that green financing practices had a positive and statistically significant effect on the firm value of commercial banks listed at the Nairobi Securities Exchange. Banks that actively finance environmentally sustainable projects improve investor confidence, strengthen institutional reputation, and enhance long-term market valuation. Green financing therefore remains an important strategic tool for improving the financial sustainability and competitiveness of commercial banks in Kenya.

In relation to the second objective, the study established that ethical lending practices had a positive and statistically significant effect on firm value. Commercial banks that uphold fairness, transparency, and socially responsible lending practices enhance stakeholder trust and improve investor perception in the financial market. Ethical lending therefore contributes significantly to improved market-based valuation and institutional credibility among listed commercial banks in Kenya.

Concerning the third objective, the findings revealed that socially responsible investment had a negative and statistically significant effect on firm value during the study period. Although socially responsible investments support sustainability and social welfare objectives, their implementation may generate short-term financial pressures and delayed market returns that reduce immediate firm valuation. This implies that socially responsible investments require balanced implementation strategies to ensure long-term financial and social benefits.

Regarding the fourth objective, the study established that sustainable debt financing practices had a positive and statistically significant effect on firm value. The use of sustainability-linked debt instruments such as green bonds and social bonds strengthens investor confidence, broadens financing opportunities, and improves the market perception of commercial banks. Sustainable debt financing therefore enhances both capital market attractiveness and long-term financial stability of banks.

Finally, regarding the fifth objective, the study established that regulatory compliance had a positive and statistically significant moderating effect on the relationship between sustainable financing practices and firm value. Strong compliance environments strengthen the effectiveness of sustainability initiatives by improving governance, accountability, transparency, and institutional confidence. Regulatory compliance therefore plays a critical role in enhancing the contribution of sustainable financing practices to firm value among listed commercial banks in Kenya.

Policy Implications and Recommendations of the Study

Regarding the first objective, the positive effect of green financing practices on firm value supports the recommendation that commercial banks should strengthen environmentally sustainable financing initiatives and integrate green financing into their long-term strategic operations. Regulators such as the Central Bank of Kenya and the Capital Markets Authority should formulate supportive policies and incentives that encourage green lending, renewable energy financing, and environmentally responsible investments. Enhanced green financing adoption would improve investor confidence, institutional resilience, and sustainable growth within the banking sector.

In relation to the second objective, the positive effect of ethical lending practices suggests that commercial banks should strengthen internal ethical screening mechanisms, transparent lending procedures, and socially responsible credit evaluation systems. Senior management and boards of

directors should ensure lending decisions align with ethical and sustainability standards in order to maintain public trust and institutional credibility. Regulatory authorities should also strengthen oversight of lending practices to preserve financial sector confidence and stability.

Concerning the third objective, the negative effect of socially responsible investment reinforces the recommendation that commercial banks should adopt gradual and well-evaluated implementation strategies for socially responsible investment projects. Financial institutions should undertake detailed cost-benefit analysis before committing substantial resources to sustainability-related social investments in order to minimize short-term financial strain. Industry associations such as the Kenya Bankers Association should also develop best-practice guidelines that help banks balance social responsibility objectives with shareholder value maximization.

Regarding the fourth objective, the positive effect of sustainable debt financing practices supports the recommendation that commercial banks should increase the use of sustainability-linked debt instruments such as green bonds and social bonds to diversify funding sources and strengthen market competitiveness. The Capital Markets Authority and the Nairobi Securities Exchange should continue improving regulatory and operational frameworks governing sustainability-linked securities to deepen Kenya's sustainable capital market environment.

Finally, regarding the fifth objective, the positive moderating effect of regulatory compliance supports the recommendation that commercial banks should strengthen internal compliance systems and maintain strict adherence to evolving financial regulations and sustainability reporting standards. Policymakers and regulators should also establish balanced compliance frameworks that promote sustainable financial innovation while safeguarding market stability and investor protection. Improved compliance environments would enhance the effectiveness of sustainable financing practices and strengthen long-term firm value within the banking sector.

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