

Board-Level Perspectives on Climate Risk Governance: A Phenomenological Study of Kenya's Banking Institutions

Gershon M. Mwakazi

Africa International University-Kenya

Email: gershonmjomba@gmail.com,

Cite: Mwakazi, G.M. (2026). Board-Level Perspectives on Climate Risk Governance: A Phenomenological Study of Kenya's Banking Institutions. *The University Journal*, 8(2), 40-53.

Abstract

Climate change is increasingly recognized as a systemic financial risk, prompting financial institutions globally to incorporate climate-related considerations into their governance and risk management frameworks. For corporate boards, lived experiences in navigating climate-risk governance, particularly in developing economies, remain underexplored. This paper explores the lived experiences of corporate boards of Kenya's banking institutions with regard to climate-related risk management. The study was conducted between June and November 2025 and adopted an exploratory qualitative approach grounded in interpretive phenomenology. Data were collected from corporate board members, senior executives, and senior managers purposively sampled from 19 selected banking institutions in Kenya through semi-structured interviews. The results of this study demonstrate that, for corporate boards, climate risk management is an emerging governance priority that has led to risk re-identification, portfolio diversification, loan restructuring, enhanced due diligence processes, and human capacity development. These approaches are informed by contextual lived experiences. Challenges include: data availability constraints, gaps in technical expertise, and increased regulatory demands. The study identified strategic leadership as a key enabler, driving the extent to which banking institutions' boards integrate and prioritize climate risks in their governance processes. Recommendations include mainstreaming climate-risk governance processes across all Kenyan banking institutions; corporate boards implementing regulatory guidelines on climate change with fidelity. Other recommendations include governance boards setting the tone at the top by making strategic commitments; being agile to adapt to an ever-changing context; and adopting context-sensitive climate risk management practices.

Keywords: *Climate-related risks, Governance, Enterprise risk management, Board cognition*

Introduction

Climate change has emerged as one of the most consequential global risks confronting economic systems, financial institutions, and corporate governance structures. International organizations such as the World Bank, the International Monetary Fund, and the Financial Stability Board have warned that climate change poses significant threats to financial stability due to physical, transition, and legal risks affecting investment portfolios, asset valuations, and credit markets (Financial Stability Board, 2022; World Bank, 2023). Physical risks arise from the increasing frequency and severity of extreme weather events such as floods, droughts, storms, and heatwaves that damage infrastructure, disrupt supply chains, and affect economic productivity (IPCC, 2022). For financial institutions, these risks can lead to declining asset values, increased loan defaults, and exposure to vulnerable sectors such as agriculture, real

estate, and energy (Zhao & Li, 2024). Transition and legal risks, on the other hand, emerge from the global shift towards low-carbon economies, including regulatory reforms, technological changes, market shifts, and reputational pressures associated with environmental sustainability (Ginglinger, 2020). Climate risk Governance can be described as a governance effort that encompasses a multi-level system of official and non-official regulations and actor networks, aimed at mitigating and adapting to environmental change, especially within the framework of sustainable development (Biermann et al., 2010). These risks may alter the profitability of carbon-intensive investments, increase compliance costs, and generate legal or reputational liabilities for financial institutions.

The growing recognition of these risks has spurred global regulatory and governance responses to strengthen climate-risk oversight within financial institutions. International frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD) have emphasized the importance of integrating climate considerations into organizational governance, strategy, risk management, and performance metrics (Task Force on Climate-Related Financial Disclosures, 2017). Similarly, regulatory authorities in several jurisdictions have introduced supervisory expectations that require financial institutions to incorporate climate-related risks into their risk management systems. For instance, the Prudential Regulation Authority of the Bank of England issues supervisory guidelines requiring banks to embed climate risks within governance frameworks, risk assessment processes, and strategic planning (Bank of England, 2019). Comparable regulatory initiatives have also emerged in jurisdictions such as the United States, Japan, and Mauritius, reflecting a global shift toward institutionalizing climate-risk governance within financial systems (Sakhel, 2017; Odunaiya et al., 2024).

Despite these regulatory advancements, the effectiveness of climate-risk governance ultimately depends on the interpretive and strategic roles played by corporate boards. Corporate boards occupy central positions in shaping organizational responses to emerging risks by providing oversight, defining risk appetite, allocating resources, and guiding long-term strategic direction (Ellili, 2025). From a governance perspective, boards are expected to ensure that climate risks are adequately identified, assessed, and integrated into enterprise risk management frameworks (Nyika, 2021). However, the complexity and uncertainty associated with climate change introduce significant cognitive and interpretive challenges for board members who must navigate involving regulatory expectations, incomplete data, and competing organizational priorities.

Literature Review

Theoretical Framework

This study was anchored on Environmental Management Theory and Stewardship Theory, which together provide a complementary lens for understanding how corporate boards interpret and enact climate-related risk management practices within financial institutions. Environmental Management Theory posits that organizations respond to environmental risk and regulatory pressures by integrating sustainability considerations into their strategic, operational, and risk management systems to enhance long-term resilience and performance (Hart, 1995; Aragon-Correa & Sharma, 2003). Within the context of climate-risk governance, this perspective explains how financial institutions adopt a structured framework, such as risk assessment models and disclosure mechanisms, to manage physical and transitional risks. However, while Environmental Management Theory emphasizes institutional adaptation and capability development, Stewardship Theory shifts attention to the motivations and behaviors of corporate leaders. Stewardship Theory assumes that corporate boards and executives act as stewards whose decisions are guided not solely by self-interest but by a commitment to

organizational longevity, collective value, and ethical responsibility (Davis et al., 1997). In the context of climate motivation in shaping strategic leadership, resource allocation, and governance practices that prioritize sustainability alongside financial performance. The integration of these two theories is particularly relevant to this study, as it allows for an interpretive understanding of both the structural (frameworks, policies, and regulatory alignment) and experiential (lived interpretations, sense-making, and leadership commitment) dimensions of climate-risk governance. This explains how corporate boards in Kenya's banking institutions navigate the complex interplay between environmental uncertainty, fiduciary responsibility, and long-term governance performance.

Empirical Review

The phenomenological perspective suggests that decision-making within such uncertain contexts is deeply influenced by the lived experiences, perception, and sense-making processes of organizational actors. According to Weick's sense-making framework, organizational leaders interpret ambiguous environments through socially constructed meanings that shape strategic responses and organizational practices (Weick, 1995; Soeiro, 2021). In the context of climate governance, corporate boards must interpret evolving environmental signals, regulatory pressures, and stakeholder expectations while balancing fiduciary responsibilities related to financial performance and long-term sustainability. These interpretive processes influence how boards understand climate risks, prioritize mitigation strategies, and integrate environmental considerations into corporate governance structures.

The fiduciary responsibilities of corporate boards further complicate climate-related risk governance. Agency theory highlights the inherent tensions between principals (shareholders) and agents (corporate managers and boards) arising from goal conflicts, information asymmetry, and accountability pressures (Ross, 1973; Mitnick, 1975). In addressing climate-related risks, corporate boards must reconcile short-term financial performance expectations with long-term sustainability considerations and regulatory compliance requirements. These tensions often place boards in complex decision-making situations involving investment trade-offs, reputational risks, and strategic uncertainty. Globally, corporate boards have increasingly begun incorporating climate oversight into their governance mandates. However, this development remains relatively recent, with many organizations integrating climate-related governance responsibilities only within the last decade (Paine & Suraj, 2024). While large financial institutions in developed economies have made notable progress in adopting climate-related risk governance frameworks, implementation challenges remain particularly pronounced in emerging economies where institutional capacities, climate data availability, and technical expertise may be limited (Zhao & Li, 2024)

In Africa, climate change represents particularly significant economic and social challenges due to the continent's high vulnerability to environmental shocks and its reliance on climate-sensitive sectors such as agriculture and natural resources. The African Union's Climate Change and Resilient Development Strategy (2022-2023), emphasizes the need for stronger institutional responses to climate risks, including the integration of environmental consideration into financial systems and corporate governance (African Union, 2022). Financial institutions, therefore, play a critical role in facilitating climate resilience by directing capital flows toward sustainable investments and managing exposures to climate-related financial risks. Kenya represents a particularly relevant context for examining climate-risk governance in financial institutions. The country is highly vulnerable to climate variability, including recurrent droughts, floods, and extreme weather events that affect economic sectors and financial stability. Recent climate events in the Horn of Africa have demonstrated the severe socioeconomic consequences of climate variability, with millions of people requiring

humanitarian assistance due to prolonged droughts, severe floods, and environmental shocks (UN OCHA, 2023). These developments highlight the urgency of strengthening climate-risk governance within Kenya's financial sector.

However, despite the emergence of these regulatory frameworks, the extent to which corporate boards in Kenyan financial institutions experience, interpret, and operationalize climate-risk management practices remains insufficiently understood. Existing studies on climate governance largely focus on regulatory frameworks, disclosure standards, or quantitative risk assessment, with limited attention given to the lived experiences and interpretive processes of corporate board members who ultimately shape governance decisions. Understanding these experiential dimensions is particularly important because board members' perceptions, cognitive interpretations, and strategic judgments influence how climate-risk management practices are implemented within organizations. The study, therefore, sought to explore the experiences and practices of corporate boards in managing climate-related risks and how these experiences influence corporate governance performance in Kenyan financial institutions. By adopting a phenomenological perspective, the study provides a deeper insight into how board members interpret climate-related risk governance challenges, navigate regulatory expectations, and translate risk management frameworks into organizational practices within the Kenyan banking sector.

Methodology

The study adopted a qualitative research approach grounded in interpretive phenomenology to explore the lived experiences and perceptions of corporate boards in relation to climate-related risk management practices and their implications for corporate governance performance in Kenyan financial institutions. Interpretive phenomenology was considered appropriate as it enables deep exploration of how individuals make sense of complex and evolving phenomena, particularly within institutional and governance contexts. The approach facilitated an understanding not only of what boards do regarding climate-risk governance but also how they experience, interpret, and enact these practices within their organizational realities.

Interpretive phenomenology examined how boards perceive and interpret climate-related risks in their governance practices and how these perceptions and interpretations impact corporate governance performance. This is also informed by how they make sense of guidelines and policies issued by the regulators and adapt to the ever-changing operating context brought about by climate change uncertainties.

The study was conducted among purposively selected licensed banking institutions in Kenya, operating under regulatory oversight. The banking sector was selected due to its increasing exposure to climate-related risk and the growing emphasis on sustainability and risk governance frameworks within the financial sector. The target population comprised individuals occupying strategic governance roles, including board members, senior management executives, and risk and compliance officers. The pilot study was conducted with two financial institutions not included in the final sample to test the clarity and effectiveness of the interview guide.

A purposive sampling technique was employed to identify information-rich participants capable of providing in-depth insights into the phenomenon under investigation. 19 participants were selected after providing voluntary consent. The sample comprised 11 commercial banks and eight microfinance banks. Of the 11 commercial banks, four were large, four were medium, and three were small. Of the microfinance banks, three were large, three were medium, and two were small. Sample size was determined based on the principle of data saturation, where data collection continued until no new information emerged. Data were collected through in-

depth, semi-structured interviews, which allowed probing of participants' experiences while maintaining alignment with the study objectives. Data were analyzed using an interpretive phenomenological analysis (IPA) framework, which emphasizes interpretive engagement with participants' narratives to uncover meaning structures and experiential patterns. The coding was done using NVivo 12 software for systematic analysis. The analyzed data is as presented in the following section.

Results

The data were subjected to interpretive phenomenological analysis. From the analysis, various themes emerged as captured in the subsequent sections.

Experiencing Climate Risk as a Diverse but Structuring Governance Reality

Participants experienced climate-related risks not as abstract or isolated, but as deeply embedded, multidimensional disruptions shaping institutional stability and governance practice. Climate risk emerged as a lived, systemic phenomenon, simultaneously affecting borrower livelihoods, credit systems, and institutional resilience

Physical Risks as Immediate and Material Disruptions

Boards described physical climate risk, particularly drought and floods, as direct, tangible, and institutionally destabilizing.

The biggest is prolonged drought and also floods. This is from our experience because we are microfinance. So, being a microfinance institution, it means the bulk of our customers are in the rural areas... So, if there is prolonged drought, we are in trouble. (LMFB01)

Here, climate risk is not perceived as external but as co-experienced with clients, reflecting a shared vulnerability between financial institutions and the ecological systems within which their borrowers operate. Similarly, drought was experienced as a slow but compounding disruption:

Chronic risks, like prolonged droughts, gradually reduce productivity in agriculture and weaken entire value chains... these exposures directly affect our credit risk performance, higher NPLs, reduced cashflows, and restructured facilities. (LMFB03)

In contrast, floods were described as sudden and destructive shocks:

So, when water rises, and you realize these people shift their houses, have no tenants, they won't be able to repay their loans. (LMFB02)

Acute risks include extreme rainfall, floods, and storms. These events damage collateral, disrupt business operations, and increase default probabilities among borrowers, especially SMEs and farmers. (SCB03)

These accounts reveal that boards experience climate-related risk across dual temporalities as both gradual erosion (chronic) and sudden disruption (acute), requiring different modes of governance attention.

Localized risks further reinforced the proximity and immediacy of climate threats:

In Meru and Morang'a, they get landslides... They carry those houses, and it is sometimes bad. (SMFB01)

Of late, there have been rising lake levels, Lake Baringo... yes. (LCB02)

Such narratives demonstrate that climate risk is experienced as spatially grounded and context-specific, rather than generalized or hypothetical.

Liability and Reputational Risks: Governing Within Institutional Constraints

Beyond physical risk, participants described liability and reputational risks as shaping their governance experiences, often creating tensions between regulatory compliance and operational realities.

So, in terms of liability... we have been given an injunction, we cannot sell... even if I've been given a court injunction, this cannot cushion me from reporting this loan as a loss. (MMFB03)

This illustrates a lived paradox, where boards are required to adhere to regulatory classifications despite contextual constraints imposed by legal processes.

Reputational awareness also emerged strongly

... We are actually cognizant of these risks on our reputation and we should be able to mitigate them. (LCB03)

Here, climate-risk governance is experienced as a financial management but as public accountability, where institutional legitimacy is at stake.

Transitional Risks as Disruptions to Established Business Models

Participant described transitional risk as structural and systemic disruption, arising from regulatory changes, ESG expectations, and shifts toward a low-carbon economy.

Compliance cost means you have to resource an ESG unit, we have to review our systems to capture a particular data set, which initially we were not capturing. (LCB03)

We've seen clients in transport, manufacturing, and real estate face compliance costs that strain their repayment capacity... in some cases, we have to reassess our portfolio limits. (SCB03)

These experiences reflect climate risk as a transformative force, compelling boards to re-evaluate portfolios, adjust risk pricing, and reconsider the long-term viability of the sector. Transitional risk was experienced as adaptive pressure within a shifting institutional environment.

Climate-related Risk and Lived Reality of Non-Performing Loans (NPLs)

One of the most immediate and emotionally resonant impacts of climate risk was the increase in non-performing loans, experienced as both financial loss and moral tensions

When climate changes affect borrowers... we have given them a loan, but their repayment is pegged on something that they do that's dependent on the environment... floods have happened and they're not able to do that anymore. (MMFB01)

The floods come and sweep their farms clear... I lose both the capital and the expected profit. (SCB02)

Strategies and Practices to Mitigate Climate- Related Risks

This theme demonstrates how boards and management are actively reconfiguring government and risk-management systems in response to climate pressures. From the sentiments, several subthemes emerged, including identification, evaluation, and measurement; portfolio diversification; insurance; and loan restructuring.

Identification, Evaluation, and Measurement

Participants described climate-risk identification as an evolving, experience-driven process grounded in contextual engagement, iterative learning, and adaptive assessment practices. Rather than relying solely on abstract models, corporate boards narrated a shift toward a situated understanding of borrower environments, where physical observation and relational knowledge became critical in interpreting climate exposure. One participant illustrated how field-based engagements informed risk interpretations:

We do field visits... we see how they are doing their product or their services... maybe on the piece of land... is it agriculture... subsistence farming... or a mixture... Out of that, we analyze... and then we give the feedback... (MMFB02)

This lived experience reflects a phenomenological orientation to risk, where meaning is constructed through direct interaction with environmental and socio-economic realities rather than through detached analytics alone.

At a more institutionalized level, boards described embedding climate considerations into formal credit processes, signaling a transition from informal awareness to structured governance practice:

We've integrated climate risk screening into credit assessment... For larger loans, there's a mandatory climate risk assessment... We look at physical risks like flood exposure, drought vulnerability, and transition risks like policy changes... (LCB02)

The reliance on external data and tools also emerged as a defining feature of this experience

We rely on Kenya Meteorological Department (KMD) reports... (MCB04)

We have invested in a GIS mapping tool... we can see which properties... are in flood-prone areas... (LCB02)

Taken together, these narratives reveal that boards experience climate-risk identification not as a fixed function, but as a developing capability shaped by uncertainty, institutional learning, and external dependencies.

Portfolio Diversification, Insurance, and Loan Restructuring

Corporate boards described diversification as a deliberate and strategic response to climate uncertainty, reflecting an awareness of systematic vulnerability associated with sectoral concentration. One participant articulated this as a conscious effort to mitigate exposure:

...trying to diversify your portfolio... you do not face a situation where 50% of your portfolio is in one basket... in the eventuality of climate risk... you will live adversely..." (MMFB03)

This illustrates how the boards interpret diversification as financial prudence, and a protective mechanism against climate-induced systemic shocks. In addition, participants described the

adoption of risk transfer mechanisms, particularly through insurance partnerships, which were experienced as both necessary and costly

We... have Risk Transfer Mechanisms... we partner with insurance providers to offer bundled credit-insurance products... (SCB01)

...insurance of our high-risk portfolios... Agriculture, real estate, transport... it comes at a significantly high cost, but it covers us... (SCB02)

These accounts reveal a tension between risk mitigation and financial cost, highlighting the trade-offs embedded in climate-related risk governance. When climate-related risks materialized, boards described adopting flexible and relational approaches to loan restructuring, emphasizing responsiveness to client realities.

You can give the customers some rescheduling... delay it to a point when the customer is able to pay... through negotiations on a case-by-case... (MMFB03)

At the strategic level, climate considerations were increasingly shaping core financial decisions:

Climate-related risks are now influencing how we price credit... how we structure our portfolios... and allocate capital (LCB04)

These experiences collectively suggest that boards are reconfiguring financial practices to accommodate uncertainty, embedding flexibility and adaptability into institutional responses.

Risk Analysis and Due Diligence Practices

Participants described an intensification of due diligence process, reflecting a heightened consciousness of environmental and social exposure. This was experienced as an expansion of governance boundaries, where traditional financial assessment is now intertwined with climate considerations. One participant explained:

We have environmental social due diligence... that helps us with screening each risk... and developing environmental social action plans... We also have an exclusion list... (LCB03)

This demonstrates how boards are institutionalizing normative boundaries around acceptable risk, signaling a shift toward responsible lending practices. Enhanced collateral evaluations also emerged as a key adaptation:

All property valuations now include climate risk assessments... we require flood insurance for mortgages in high-risk areas... adjusted loan-to-value ratios... (SCB01)

Participants further highlighted stricter requirements for corporate climates:

...clients above KES 100 million must provide transition plans and climate risk assessments... we've declined approximately 12% of applications... (SCB01).

These lived experiences reveal that climate risk governance is increasingly material in decision-making, with tangible implications for credit approval and portfolio composition. At the same time, boards acknowledged the cost implications of these enhanced practices, both

for institutions and clients, suggesting that climate governance introduces a new economic burden alongside risk mitigation benefits.

Scenario Analysis and Stress Testing

Scenario analysis and stress testing were experienced as emerging but not yet fully matured tools, reflecting both aspiration and development limitations within institutions. Participants described these tools as important for strategic foresight:

We do conduct scenario analysis and stress testing to help inform our strategy (LCB03)

Other participants elaborated on their practical applications:

...we've begun modelling the potential impact of climate-related shocks... droughts or floods... while the models are still being refined, they help us understand sectoral vulnerabilities... (LCB04)

These narratives highlight that boards experience these tools as learning mechanisms rather than definitive predictive systems, supporting gradual refinement of risk appetite and capital allocation. From a phenomenological perspective, this reflects a forward-looking orientation, where uncertainty is engaged through simulations and anticipation rather than certainty.

Training and Capacity Building

Participants consistently framed training as a critical enabler of effective climate-risk governance, extending beyond internal staff to include clients and external stakeholders. One participant emphasized client-focused capacity building:

...we need an expert to tell them which are drought-resistant goats... crops... If you train our clients like that, they will be able to pay back the loans... (MMFB02)

This reflects a relational understanding of risk, where institutional resilience is intertwined with client resilience. Internally, structured training programs were also highlighted.

Our risk officers, credit analysts... undergo regular training... we collaborate with... FSD Kenya, IFC, and UNEP FI... the aim is to make climate risk part of mainstream decision-making... (LCB04)

These accounts suggest that boards perceived capacity building as a transformative process, shifting climate risk from a peripheral compliance issue to a core organizational competency.

Although most of the financial institutions indicated strong frameworks for climate-related risk management, a few indicated that climate-related risk management has not been fronted as a primary subject of focus. Some of the participants reported:

Okay. So, for my institution, climate risk is not at the forefront um when it comes to decision-making processes. We have not yet factored any climate-related risks. (MMFB01)

...And so far, I don't think in terms of maybe say the environmental risk bit of it. I don't think we have started anything of the sort on our side... (SMFB01).

Discussions of Results

The findings of this study illuminate how corporate boards in Kenya's banking institutions experience climate-related risk management not merely as a technical function, but as an evolving governance practice shaped by contextual realities, institutional constraints, and strategic interpretation. In doing so, the study both converges with and extends existing literature on climate-risk governance.

First, the findings demonstrate that corporate boards are increasingly embedding climate-risk identification, evaluation, and measurement within existing risk management systems. This aligns with global scholarly work showing that financial institutions are increasingly integrating climate considerations into enterprise risk management frameworks (Task Force on Climate-Related Financial Disclosures, 2017; Network for Greening the Financial Systems, 2021). Similar to studies by Simon Dikau and Ulrich Volz, boards in this study described the gradual incorporation of climate screening into credit assessment and risk analysis processes (Dikau & Volz, 2021). However, a key divergence emerges: while global studies often assume advanced analytical infrastructure, participants in this study revealed a hybrid approach combining experiential knowledge with emerging analytical tools. This suggests that, in developing contexts, climate-risk governance is not purely data-driven but phenomenologically grounded in lived engagement with clients and environments.

Second, the study's findings on portfolio diversification, insurance, and loan restructuring strongly converge with established risk management literature, which identifies diversification and risk transfer as core strategies for managing uncertainty (Damodaran, 2013). Similarly, empirical studies, Campiglio et al. (2018), highlight the role of financial instruments in mitigating climate exposure. However, this study extends prior work by revealing the lived tensions associated with these strategies, particularly the trade-off between risk mitigation and increased operational costs. Participants' accounts of expensive insurance premiums and case-by-case loan restructuring illustrate that these strategies are not neutral technical tools but are experienced as negotiated responses within constrained financial and relational environments.

Third, the integration of environmental and social due diligence observed in this study aligns with literature emphasizing the growing importance of ESG integrations in banking (Weber, 2017; Amel-Zadeh & Serafeim, 2018). The use of exclusion lists, enhanced collateral assessment, and climate-related lending conditions reflects a shift toward responsible and sustainability-oriented banking practices. From the perspective of environmental management theory, these practices can be interpreted as efforts to internalize institutional behavior with ecological constraints (Hart, 1995). However, unlike much of the literature, which portrays ESG integration as a structured and standardized process, participants in this study described it as incremental, uneven, and resource-intensive, revealing the practical challenges of operationalizing environmental governance in emerging economies.

Fourth, the use of scenario analysis and stress testing demonstrates convergence with global regulatory expectations, particularly those advanced by the NGFS (2021), which advocate for forward-looking risk assessment tools. Participants' experience of these tools as "still being refined" highlights a divergence from mature financial systems, where such models are more fully developed. In the Kenyan context, scenario analysis appears to function less as a predictive mechanism and more as a sense-making device, enabling boards to engage with uncertainty rather than resolve it through precise determination.

The finding extends Weick's sensemaking framework by illustrating how sensemaking operates under conditions of limited analytical infrastructure. While Weick conceptualizes sensemaking as a process through which actors interpret ambiguous environments, the present study suggests that in resource-constrained settings, sensemaking may partially substitute for formal analytical capacity. Rather than relying on robust predictive models, boards use scenario analysis as an interpretive scaffold to construct plausible futures, guide strategic conversation, and support iterative decision-making. This positions sensemaking not merely as a response to ambiguity, but as a central governance mechanism in contexts where technical precision is constrained.

Fifth, the findings on training and capacity building resonate with prior studies that emphasize the importance of organizational learning in climate-risk governance (Bolton et al., 2020). The collaboration with development partners such as the United Nations Environment Program (UNEP FI) and the International Finance Corporation (IFC) reflects broader global patterns of knowledge transfer and capacity enhancement. However, this study uniquely highlights the extensions of training to clients, suggesting a relational and systemic approach to risk management. From an Environmental Management Theory perspective, this reflects an expansion of the organizational boundary, in which resilience is co-produced among interconnected actors within socio-ecological systems.

Finally, the central role of leadership observed in this study strongly aligns with Stewardship Theory, which posits that organizational leaders act as stewards whose decisions are guided by long-term value creation and the collective interest (Davis et al., 1997). Participants' emphasis on leadership commitments in driving resource allocation, policy implementation, and institutional prioritizing supports this view. Unlike the agency-based perspective that assumes opportunistic behavior, the findings suggest that boards are increasingly adopting a stewardship orientation, recognizing climate risk as a shared and long-term responsibility. However, the study also reveals that stewardship is not uniformly realized, as leadership commitment varies across institutions, influencing the depth of climate-risk integration.

While the majority of the institutions demonstrated progressive integration of climate-risk governance frameworks, a small number of the participants provided contrasting accounts, indicating limited or nascent engagement with climate-related risk. In these cases, climate risk has not yet been prioritized within strategic decision-making or embedded into institutional policies. The contrasting perspectives highlight uneven adoption of climate governance practices across the sector and suggest that for some institutions, climate-risk management remains peripheral rather than institutionalized. This divergence underscores the role of organizational readiness, capacity, and strategic prioritization in shaping the pace and depth of climate governance implementation.

Across the themes, participants' experiences collectively point to a deeper process of institutional transformations, where climate-risk governance is reshaping how banking institutions perceive risk responsibility and performance. The practices described, ranging from field assessment to scenario modeling, indicate that boards are reconstructing governance systems to better align with environmental realities. This transformation is experienced as a linear progression and an iterative and adaptive journey, characterized by learning-by-doing, reliance on external expertise, and gradual embedding of new norms. In phenomenological terms, climate-risk governance emerges as an institutional shift where meaning, practice, and structure co-evolve in response to climate uncertainty.

Taken together, the findings contribute to the literature by demonstrating that climate-related risk governance in Kenya's banking institutions is not a linear adoption of global frameworks, but a contextually embedded, interpretive process. Corporate boards experience climate-risk management as a continuous negotiation between global expectations and local realities, shaped by resource constraints, institutional learning, and leadership agency. This highlights the importance of moving beyond universalistic models toward a more context-sensitive understanding of climate governance, particularly in developing economies.

Conclusion

This study reveals that climate-related risk management within Kenya's banking institutions is experienced by corporate boards as a progressive, interpretive, and contextually grounded governance transformation rather than a fully institutionalized or technically complete system. Boards are increasingly embedding climate considerations into risk identification, credit assessment, portfolio structuring, and strategic decision-making. However, these practices are not uniform; they are shaped by resource-constrained, evolving technical capacity and reliance on external data and expertise. Climate-risk governance is thus experienced as an adaptive and iterative process, characterized by continuous learning, negotiations, and adjustments. Importantly, strategic leadership emerges as a critical mediating force, determining whether climate-risk practices remain compliance-driven or evolve into substantive governance mechanisms. The findings underscore that effective climate-related risk governance is not solely a function of frameworks and tools, but of institutional sense-making, leadership stewardship, and systemic alignment with environmental realities.

Recommendations

Regulators, particularly the Central Bank of Kenya, should deepen the climate-related risks governance framework by providing context-sensitive guidelines that account for institutional diversity in capacity and resources. There is also a need to strengthen national climate data infrastructure to enable financial institutions to access reliable, localized data for risk assessment and scenario analysis.

Financial institutions should establish integrated, cross-functional climate-risk governance structures, such as dedicated climate-risk committees that report directly to the board. Boards should also prioritize embedding climate-related risk into core decision-making processes, including credit appraisal, portfolio management, and capital allocation, while strengthening internal systems for monitoring and evaluations.

There is a need to move beyond general training towards targeted capacity development and cognitive diversification at the board level, incorporating expertise in climate science, environmental risk, and sustainability alongside traditional financial competencies. Continuous professional development programs should also be strengthened to enhance technical and analytical capabilities.

Future research should explore the governance-performance nexus, particularly whether strengthened climate-risk governance translates into measurable reductions in non-performing loans and financial vulnerability. Longitudinal studies are also recommended to examine how governance practices evolve over time and the ethical implications of climate-related lending decisions, especially in high-carbon yet economically critical sectors.

References

- African Union. (2022). *Africa climate change and resilient development strategy and action plan (2022–2032)*. African Union Commission.
- Amel-Zadeh, A., & Serafeim, G. (2018). Why and how investors use ESG information. *Financial Analysts Journal*, 74(3), 87–103.
- Aragón-Correa, J. A., & Sharma, S. (2003). A contingent resource-based view of proactive corporate environmental strategy. *Academy of Management Review*, 28(1), 71–88. <https://doi.org/10.5465/amr.2003.8925233>
- Bank of England. (2019). *Supervisory statement SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change*.
- Biermann, F., Zelli, F., Pattberg, P., & van Asselt, H. (2010). *The architecture of global climate governance*. Cambridge University Press.
- Bolton, P., Després, M., Pereira da Silva, L. A., Samama, F., & Svartzman, R. (2020). The green swan: Central banking and financial stability in the age of climate change. *Bank for International Settlements*.
- Campiglio, E., Dafermos, Y., Monnin, P., Ryan-Collins, J., Schotten, G., & Tanaka, M. (2018). Climate change challenges for central banks and financial regulators. *Nature Climate Change*, 8(6), 462–468.
- Central Bank of Kenya. (2021). *Guidance on climate-related risk management*.
- Damodaran, A. (2013). Equity risk premiums (ERP): Determinants, estimation and implications—The 2012 edition. In *Managing and measuring risk: Emerging global standards and regulations after the financial crisis* (pp. 343-455).
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22(1), 20–47. <https://doi.org/10.5465/amr.1997.9707180258>
- Dikau, S., & Volz, U. (2021). Central bank mandates, sustainability objectives and the promotion of green finance. *Ecological Economics*, 184, 107022
- Ellili, N. O. D. (2025). Institutional ownership, corporate governance and climate change risk management: evidence from the Middle East and North Africa. *Corporate Governance: The International Journal of Business in Society*.
- Financial Stability Board. (2022). *Supervisory and regulatory approaches to climate-related risks*.
- Ginglinger, E. (2020). Climate risk and financial markets. *Journal of Corporate Finance*.
- Hart, S. L. (1995). A natural-resource-based view of the firm. *Academy of Management Review*, 20(4), 986–1014. <https://doi.org/10.5465/amr.1995.9512280033>
- IPCC. (2022). *Sixth assessment report: Climate change 2022 – Impacts, adaptation and vulnerability*.
- Mitnick, B. M. (1975). The theory of agency: The policing “paradox” and regulatory behaviour. *Public Choice*, 24(1), 27–42. <https://doi.org/10.1007/BF01718413>
- Network for Greening the Financial System (NGFS). (2021). *Guide for climate scenario analysis for central banks and supervisors*.
- Nyika, J. M. (2021). The relationship between climate change and financial stability. In *Handbook of Research on Climate Change and the Sustainable Financial Sector* (pp. 118-133). IGI Global.
- Odunaiya, O. G., Okoye, C. C., Nwankwo, E. E., & Falaiye, T. (2024). Climate risk assessment in insurance: A USA and Africa Review. *International Journal of Science and Research Archive*, 11(1), 2072-2081.
- Paine, L., & Suraj, S. (2024). Corporate board oversight of climate change. *Harvard Business Review*.

- Ross, S. A. (1973). The economic theory of agency: The principal's problem. *The American Economic Review*, 63(2), 134–139.
- Sakhel, A. (2017). Corporate climate risk management: are European companies prepared? *Journal of Cleaner Production*, 165, 103-118.
- Sharma, S., & Aragón-Correa, J. A. (2005). *Corporate environmental strategy and competitive advantage*. Edward Elgar Publishing.
- Soeiro, J. (2021). Sensemaking in ambiguous and uncertain environments. *Management Research Review*.
- Task Force on Climate-related Financial Disclosures (TCFD). (2017). *Final report: Recommendations of the Task Force on Climate-related Financial Disclosures*.
- United Nations Environment Programme Finance Initiative (UNEP FI), et al. (2021). *Climate risk landscape: Mapping climate-related financial risk assessment methodologies*. Geneva: UNEP FI. <https://www.unepfi.org/publications/climate-riskslandscape-2021>
- Weber, O. (2017). Corporate sustainability and financial performance of Chinese banks. *Sustainability Accounting, Management and Policy Journal*, 8(3), 358–385.
- Weick, K. (1995). *Sensemaking in organizations*. Sage Publications.
- World Bank. (2023). *Climate change and financial sector risk*.
- Zhao, X., & Li, X. (2024). The role of green finance in mitigating climate change risks: a quantitative analysis of sustainable investments. *Environmental Science and Pollution Research*, 31(5), 7569-7585.