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EFFECT OF ORGANIZATIONAL FACTORS ON ESG DISCLOSURE PRACTICES AMONG LISTED KENYAN FIRMS: MODERATING ROLE OF MANUFACTURING AND SERVICE SECTORS

LEAH KARIMI

MDF/82194/22

A RESEARCH DISSERTATION SUBMITTED TO THE STRATHMORE BUSINESS SCHOOL IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN DEVELOPMENT FINANCE OF STRATHMORE UNIVERSITY

JUNE 2026

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

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Leah Njeri Karimi

Approval

The dissertation of Leah Njeri Karimi was approved by the following:

Dr Muli Maingi

Strathmore University Business School.

Dr. Ceaser Mwangi

Executive Dean

Strathmore University Business School.

Prof. Bernard Shibwabo

Director, Office of Graduate Studies

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OPERATIONAL DEFINITION OF TERMS

Board characteristics	According to Githaiga and Kosgei, (2023), board characteristics refer to the structural and demographic composition of a company's board of directors with factors such as board size, composition, diversity, independence, experience, and expertise.
Environmental, Social, and Governance	According to Tsang, Frost, & Cao, (2023), Environmental, Social, and Governance disclosure entails sharing information about a company's environmental impact, social responsibilities, and governance frameworks with stakeholders, fostering transparency and accountability.
Firm characteristics	Firm characteristics refer to the intrinsic features and structural attributes of an organization that influence its operations, strategies, and performance (Nyabaga & Wepukhulu, 2020).
Organization factors	Organizational factors possess a crucial role in determining the scope, depth, and quality of ESG disclosure practices (Helfaya, Morris, & Aboud, 2023).
Ownership structure	Ownership structure refers to the distribution of equity ownership in a company (Al Amosh & Khatib, 2022).
Sector affiliation	Sector affiliation refers to the industry or sector within which a firm operates (Tleubayev, Bobojonov, Gagalyuk, & Glauben, 2022).

LIST OF ABBREVIATIONS

ASEA	African Securities Exchanges Association
CMA	Capital Markets Authority
CSMAR	China Stock Market & Accounting Research Database,
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Disclosures
ESG	Environmental Social and Governance
GRI	Global Reporting Initiative
KCB	Kenya Commercial Bank
NSE	Nairobi Securities Exchange
PRISMA	Preferred Reporting Items for Systematic Reviews and Meta-Analyses
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-Related Financial Disclosures

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ABSTRACT

Businesses are under growing pressure to provide ESG disclosures to quench the demands of investors, regulators, and key stakeholders who demand transparency and accountability. However, the level and quality of ESG disclosures among listed firms in Kenya remain inconsistent and largely underwhelming. This research therefore aimed to explore the influence of organizational factors on ESG disclosure practices among listed firms in Kenya. The study specifically investigated the impact of resource factors, board characteristics, and ownership structure on ESG disclosure practices. Further, it examined the moderating role of sector affiliation was reviewed in the study. The study was guided by Institutional Theory and Stakeholder Theory. A positivist research philosophy was utilized to underpin the study. Further, a descriptive research design was applied to guide the study with population drawn from all the firms listed at the Nairobi Securities Exchange as of December 2024. The research utilized secondary data obtained from the annual audited financial statements of listed companies spanning the years 2010 to 2024. Data was gathered through document analysis. The correlation analysis between firm characteristics and the adoption of ESG disclosures within the firms showed a weak positive and significant association between firm size and the ESG disclosure. The findings on board characteristics indicated there was weak positive association between presence of female board members, outside directors, and moderate positive relation between presence of male board members and adoption of ESG disclosures. Findings indicated that ownership structure and sector affiliation had a moderately positive association with adoption of ESG disclosures within the listed firms. The regression results indicate that organizational factors play a significant role in shaping ESG disclosure adoption among listed firms in Kenya. Firm age emerged as a positive determinant of ESG disclosure practices, while firm size also showed a positive and statistically significant effect. Regarding board characteristics; board female and outside directors indicated a statistically significant positive effect on ESG disclosure adoption while board composition had an insignificant effect. Further, ownership structure exhibited a negative and statistically significant effect on ESG disclosure practices. The findings further revealed that there existed a positive and statistically insignificant moderating effect of sector affiliation on the relationship between organization factors and adoption of ESG disclosures among listed firms in Kenya. The study therefore recommends that regulators, in this case the Capital Markets Authority and the Nairobi Securities Exchange should design targeted ESG capacity-building programs for younger listed firms. The study also recommends that boards of listed firms should invest in ESG training for directors. Firms should also benchmark ESG disclosures against peers within the same sector rather than across unrelated industries to improve relevance and comparability. Future research could adopt alternative methodological approaches, including qualitative case studies or mixed-methods designs.

Key words: *ESG disclosures, listed firms in Kenya, resource factors, board characteristics, ownership structure*

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In recent times, environmental, social, and governance issues are viewed as a cornerstone for evaluating corporate responsibility and sustainability (United Nations Development Programme, 2024). Environmental, Social, and Governance (ESG) disclosure has emerged as a critical corporate practice globally, reflecting a shift from profit-only reporting to sustainability and stakeholder-focused accountability. Organizations are increasingly expected to disclose non-financial information that affects the environment, society, and governance systems (Chung, Bayne, & Birt, 2024). ESG disclosure allows firms to communicate their sustainability practices, risk management strategies, and ethical standards to stakeholders including investors, regulators, employees, and the general public (Nairobi Securities Exchange, 2021).

Globally, ESG disclosure has transformed from a voluntary practice into a mainstream corporate necessity, driven by stringent regulations, investor pressure, and heightened public awareness (United Nations Development Programme, 2024). According to the Global Reporting Initiative (GRI, 2023), over 78% of the world's largest 250 companies produce ESG or sustainability reports, up from 35% in 2005. Similarly, Bloomberg (2022) reported that over $41 trillion in assets under management were ESG-integrated, reflecting strong investor preference for firms with sustainable and transparent operations. Additionally, the Non-Financial Reporting Directive was put into effect by the European Union to enhance the calibre and comparability of ESG data that big businesses provide. The United States Securities and Exchange Commission has increased its attention to risk disclosure connected to ESG, reflecting growing market demand for transparency. Across Asia, major economies like Japan and China have introduced ESG frameworks to align corporate operations with global sustainability trends (Tsang, Frost, & Cao, 2023). These efforts around the world bring out the importance of corporate accountability in addressing societal challenges.

In Africa, ESG reporting is however not yet established and is still evolving, driven largely by external influences such as international investors, global regulatory pressures, and the increasing prominence of multinational corporations on the continent (Asongu & Odhiambo, 2021). According to a 2021 report by the African Securities Exchanges Association (ASEA), only 33% of listed firms across African exchanges had published any form of ESG report. However, despite significant strides, ESG adoption varies widely across countries due to

disparities in economic development, governance structures, and institutional capacities. South Africa stands as a continental leader in ESG disclosure, thanks to the King IV Report on Corporate Governance, which mandates integrated reporting (Linnenluecke, 2022). Other African nations, including Nigeria and Ghana, have introduced regulatory guidelines to encourage corporate sustainability reporting. These efforts notwithstanding, gaps persist in the consistency and quality of ESG reporting across the continent.

In Kenya, the government's commitment to sustainability is reflected in its adoption of the SDGs and various climate action initiatives. The Nairobi Securities Exchange (NSE) has played a pivotal role in promoting ESG practices, launching a set of ESG guidelines for listed firms in 2021 to encourage responsible business practices (Nairobi Securities Exchange, 2021). A 2022 report by the Institute of Certified Public Accountants of Kenya showed that only 28% of listed companies provided standalone or integrated ESG disclosures. Subsequent evidence shows a gradual improvement in disclosure practices. By 2023, approximately 29 of the 61 firms listed on the NSE had incorporated ESG disclosures into their annual or integrated reports, representing about 46% adoption (NSE, 2024). Nevertheless, the extent and quality of ESG disclosure among Kenyan firms remain inconsistent, as these reports often lacked standardization, comparability, and completeness, with many firms only disclosing generic environmental or community initiatives (Asongu & Odhiambo, 2021). Githaiga, and Kosgei, (2023) further notes that while firms like Safaricom, KCB, and KenGen are recognized as ESG leaders, a majority of firms especially in industrial and agricultural sectors lag behind. This uneven adoption poses serious implications for transparency, investor confidence, and sustainable development.

Despite the growing policy interest in ESG, local research on the drivers of ESG disclosure among listed firms in Kenya is still limited. Most available studies focus on corporate governance, financial performance, or sustainability awareness, but few systematically investigate how organizational characteristics affect ESG disclosure. Even fewer studies have explored how these relationships vary across different sectors, which is critical given that ESG risks and stakeholder pressures differ significantly between sectors (Helfaya, Morris, & Aboud, 2023. This research therefore aimed to bridge these empirical gaps and explore the effect of organization factors on the ESG disclosure practices of listed firms in Kenya.

1.1.1 ESG disclosure practices

According to Tsang, Frost, & Cao, (2023), Environmental, Social, and Governance disclosure entails sharing information about a company's environmental impact, social responsibilities, and governance frameworks with stakeholders, fostering transparency and accountability. Meanwhile, ESG disclosure practices involve the systematic reporting and communication of a company's sustainability initiatives, performance metrics, and ethical goals (Shaikh, 2022). These disclosures provide stakeholders with detailed information about the approach a business takes to addressing environmental, social, and governance challenges. ESG disclosures are often published as part of annual reports, standalone sustainability reports, or integrated into regulatory filings.

As global interest in sustainability grows, firms that adopt and improve their ESG disclosure practices position themselves favourably in the eyes of stakeholders, gaining competitive advantages in an increasingly responsible and interconnected market. Asongu and Odhiambo, (2021) posit that many jurisdictions have made ESG reporting mandatory, making it an essential practice for firms to comply with legal and regulatory standards. Firms adopt well-known frameworks such the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Global Reporting Initiative (GRI). Bhimavarapu, Rastogi, Gupte, Pinto, and Shingade, (2022) note that ESG disclosures enhance corporate transparency by providing measurable data that can be evaluated by stakeholders, ensuring accountability for a company's sustainability initiatives. Shaikh, (2022) further posits that companies can manage reputational, operational, and regulatory risks effectively, by disclosing ESG information and measures to mitigate these risks.

The company's influence on the environment is measured by environmental factors, which include waste management, biodiversity preservation, energy efficiency, and carbon emissions (Shaikh, 2022). The firm's relationship with its customers, workers, and communities are the focus of social, which employs indicators including diversity and inclusion, customer satisfaction, community involvement, and labour practices. Finally, Governance relates to a firm's internal controls and decision-making processes with metrics including board diversity, executive remuneration, ethical conduct, and anti-corruption practices (Linnenluecke, 2022).

1.1.2 Organizational Factors affecting ESG Disclosure Practices

Organizational factors possess a crucial role in determining the scope, depth, and quality of ESG disclosure practices (Helfaya, Morris, & Aboud, 2023). These factors influence a firm's decision-making, operational efficiency, and capacity to adopt sustainable practices. Research by Chung, Bayne, and Birt (2024) suggests that ESG disclosure is largely influenced by firm characteristics, board characteristics, and ownership structure. Similarly, findings by Helfaya, Morris, and Aboud (2023) indicate that board characteristics and ownership structure positively affect ESG disclosure. In contrast, Khamisu, Paluri, and Sonwaney (2024) argue that firm characteristics are the primary drivers of ESG disclosure. Borrowing from these studies, this study examined firm characteristics, board characteristics, and ownership structure as the key organizational factors affecting ESG disclosure practices.

Firm characteristics refer to the intrinsic features and structural attributes of an organization that influence its operations, strategies, and performance (Nyabaga & Wepukhulu, 2020). These characteristics can include the firm's size, age, profitability, market presence, location, industry affiliation, and organizational resources (Mwebia, 2017). According to Masila, Nyamute, Okiro, and Irungu, (2024), firm characteristics significantly affect an organization's decision-making processes, including ESG disclosure practices. For instance, larger firms characteristically have greater resources, allowing them to partake in robust ESG frameworks while older firms tend to have more established structures and resources, providing them with stability to implement and maintain comprehensive ESG reporting practices.

According to Githaiga and Kosgei, (2023), board characteristics refer to the structural and demographic composition of a company's board of directors with factors such as board size, composition, diversity, independence, experience, and expertise. These characteristics shape the strategic oversight and decision-making processes within the organization. The board of directors plays a critical role in driving ESG disclosure practices by setting policies, ensuring compliance, and maintaining accountability to stakeholders (Abang'a & Tauringana, 2024). Githaiga and Kosgei, (2023) further note that a well-structured and diverse board promotes accountability, governance, and transparency, directly influencing the firm's approach to ESG disclosures.

Ownership structure refers to the distribution of equity ownership in a company (Al Amosh & Khatib, 2022). According to Nuhu and Alam, (2024), it can also be defined as the power

dynamics within the organization and influences the firm's accountability to stakeholders. which includes categories under institutional ownership, insider ownership, foreign ownership, and public ownership. Ownership structure shapes corporate priorities, including the emphasis on ESG practices, as different owners have varied interests, levels of influence, and accountability expectations. For instance, firms with significant foreign ownership often align with international ESG standards to meet the expectations of global investors and comply with foreign regulations. Government-owned entities on the other hand may face stricter disclosure requirements, especially in sectors impacting the environment and social well-being (Nuhu & Alam, 2024).

Sector affiliation refers to the industry or sector within which a firm operates (Tleubayev, Bobojonov, Gagalyuk, & Glauben, 2022). Sector affiliation may involve the specific regulatory, materiality, and stakeholder demands unique to that sector. Sector affiliation in the study defines the external environment in which firms operate and shapes ESG reporting priorities. There are six sectors in the NSE including agriculture, banking, energy, telecommunications, insurance, and manufacturing (NSE, 2024). Various sectors such as the energy sector face stricter regulatory scrutiny, influencing their level of ESG reporting. Sectors with higher environmental or social materiality have a higher tendency to disclose extensive ESG information to address stakeholder concerns (Mio, Fasan, & Costantini, 2020). In this study, sector affiliation acted as a moderating variable in ESG disclosure practices.

1.1.3 Listed Firms in Kenya

Kenyan listed firms are publicly traded companies that adhere to the stringent governance and regulatory guidelines mandated by the Nairobi Securities Exchange (NSE). The NSE functions as the nation's main securities trading hub, facilitating the buying and selling of equities, bonds, derivatives, and other financial instruments (NSE, 2024). In Kenya, there are currently 61 public listed companies registered by the NSE (NSE, 2024). These firms are from various sectors including agriculture, banking, energy, telecommunications, insurance, and manufacturing.

ESG disclosure practices among listed firms in Kenya are becoming increasingly important as stakeholders demand greater transparency in sustainability-related activities. To aid listed companies implement ESG guidelines, the Nairobi Securities Exchange (NSE) is working closely with them. At present, ESG reporting is still optional for Kenyan publicly listed firms,

with 29 firms having embraced the practice to date (Capital Markets Authority, 2023). The unique dynamics of Kenya's listed firms make them an ideal setting for investigating ESG disclosure practices. The insights into the organizational factors that bring about the challenges and opportunities in aligning with ESG reporting standards among the listed firms in Kenya are essential. This study reviewed the ESG among the manufacturing allied and service sector firms. The selection was informed by the understanding that ESG disclosure is not only influenced by regulatory requirements but also by the nature of a firm's activities, visibility, and interaction with different stakeholder groups.

The manufacturing sector presents a particularly important context for ESG investigation because manufacturing activities are closely associated with environmental and social sustainability concerns, including energy consumption, carbon emissions, waste generation, resource utilization, occupational health and safety, and compliance with environmental regulations. Similarly, service sector firms provide an important setting for examining ESG disclosure because, despite generally having lower direct environmental impacts compared to manufacturing firms, they are increasingly exposed to governance, social, and operational sustainability expectations. The two sectors were therefore selected because they provide a meaningful representation of different ESG dimensions: manufacturing firms are typically associated with stronger environmental materiality pressures, while service firms experience greater emphasis on social and governance-related sustainability concerns. Examining these sectors provides an opportunity to understand whether organizational factors influence ESG disclosure practices under different operational contexts.

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1.2 Statement of the Problem

The disclosure of Environmental, Social, and Governance (ESG) information is now a globally recognized standard for evaluating corporate sustainability, ethical conduct, and governance efficiency (Buallay, 2019). Businesses are under growing pressure to provide ESG disclosures to quench the demands of investors, regulators, and key stakeholders who demand transparency and accountability (United Nations Development Programme, 2024). In Kenya, this trend has been further accelerated by initiatives such as the Nairobi Securities Exchange (NSE) ESG Disclosure Guidelines, which were introduced to standardize reporting practices and align listed firms with global sustainability standards (Asongu & Odhiambo, 2021). Despite these developments, the level and quality of ESG disclosures among listed firms in Kenya remain inconsistent and largely underdeveloped (NSE, 2024). While some

organizations demonstrate robust reporting practices aligned with international frameworks, others fail to meet even the most basic disclosure standards. According to the Capital Markets Authority, (2023) only 29 companies out the 61 listed companies having adopted ESG reporting so far. This disparity raises concerns about the organizational factors influencing ESG disclosures which the study sought to investigate.

Existing literature has identified several organizational factors that influence ESG disclosure practices. Studies conducted in developed and emerging economies have found that firm characteristics, board characteristics, and ownership structures play an important role in shaping ESG disclosure behavior. For instance, Helfaya, Morris, and Aboud (2023) reported that board characteristics and ownership structure significantly influence ESG disclosures in Europe, while Chung, Bayne, and Birt (2024) found firm characteristics, board characteristics, and ownership structure to be significant determinants of ESG disclosure in Hong Kong. Similarly, Corvino, Doni, and Bianchi Martini (2020) established significant relationships between firm characteristics, board characteristics, and ESG disclosure practices in South Africa. However, findings from these studies may not be directly applicable to Kenya due to differences in regulatory environments, institutional development, ownership structures, and corporate governance practices.

Although Kenyan studies have increasingly examined ESG-related issues, important gaps remain. Kimilu (2021) focused on the relationship between ESG disclosures and firm value among firms listed on the Nairobi Securities Exchange, while Kemei (2019) examined determinants of social and environmental responsibility disclosures and established that financial factors, governance characteristics, and ownership characteristics influence disclosure practices. While these studies provide valuable insights, they primarily focus on the consequences of ESG disclosures or on broader corporate responsibility disclosures rather than examining ESG disclosure practices. Furthermore, they do not comprehensively investigate the combined influence of organization factors within the evolving ESG reporting environment in Kenya. In addition, little evidence exists regarding whether sector affiliation influences the relationship between organizational factors and ESG disclosure practices among listed firms bringing about a knowledge gap. The present study therefore sought to address this gap by investigating the influence of organizational factors on ESG disclosure practices among listed firms in Kenya and examining the moderating role of sector affiliation.

1.3 Objectives of the Study

The main aim of this research was to investigate the effect of organizational factors on ESG disclosure practices among listed Kenyan Firms: Moderating role of manufacturing and service sectors.

1.3.1 Specific Objectives

i. To determine the influence of firm characteristics on ESG disclosure practice among listed firms in Kenya.
ii. To establish effect of board characteristics on ESG disclosure practice among listed firms in Kenya.
iii. To establish the moderating effect of sector affiliation on the relationship between organization factors and ESG disclosure practice among listed firms in Kenya.

1.4 Research Questions

The study sought to answer the following questions:

i. What is the effect of firm characteristics on the ESG disclosure practice among listed firms in Kenya?
ii. How do the board characteristics influence ESG disclosure practice among listed firms in Kenya?
iii. What is the moderating effect of sector affiliation on the relationship between organization factors and ESG disclosure practice among listed firms in Kenya?

1.5 Scope of the study

This research's scope is to explore the influence of organizational factors on ESG disclosure practices among listed firms in Kenya. The study specifically investigated the impact of resource factors, board characteristics, and ownership structure on ESG disclosure practices. Further, it examined the moderating role of sector affiliation in the relationship between organizational factors and ESG disclosure practices. The study was guided by Institutional Theory and Stakeholder Theory, which offer insights into how institutional pressures and stakeholder demands shape corporate disclosure practices. Geographically, the research focused on Manufacturing Allied and Service firms listed on the Nairobi Securities Exchange (NSE) in Kenya. According to the Association of Nairobi Securities Exchange (2024), there are 21 listed firms in the two sectors Kenya.

1.6 Significance of the study

The study was beneficial to policymakers, various stakeholders and other scholars. The findings from the study enable regulators such as the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) to move beyond generic ESG reporting requirements and develop targeted interventions. The findings support the introduction of board-level ESG competency requirements, enhanced gender diversity initiatives, and governance reforms aimed at improving the effectiveness of independent directors in sustainability oversight. Furthermore, since sector affiliation was found to have no significant influence on ESG disclosure practices, policymakers may prioritize firm-level governance reforms and standardized ESG disclosure requirements across all sectors rather than developing extensive sector-specific reporting regulations.

The study will also offer practical recommendations for corporate managers and boards on improving ESG disclosures which they can adopt to enhance their transparency, attract investors, and build a strong reputation. The findings will also guide organizations in allocating resources effectively toward ESG initiatives, improving their ability to meet stakeholder expectations and comply with reporting requirements. For investors, the study will provide critical knowledge about the relationship between organizational factors and ESG reporting enabling them to make informed decisions about investing in firms with robust ESG practices.

By offering actual data on ESG disclosure practices in the context of developing nations, the study will further bridge an existing research gap. It was used as a guide for further research projects that look at ESG reporting in other areas.

1.7 Chapter Summary

The first chapter of this research discussed the background of the research on organization factors affecting the ESG disclosure practices of listed firms in Kenya. The chapter then presents the statement of the problem justifying why the research. The objectives of the study as well as the research questions are then clearly outlined. The chapter then shows the scope of the study and finalized with the significance of the study to the various stakeholders.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The second chapter of the study focused on the review of the general literature that underpinned the variables. The main areas covered in the chapter include the theoretical and empirical review of previous literature. Further a summary of study gaps and conceptual depiction of variable relationship was introduced.

2.2 Theoretical Framework

The study adopted the institutional theory and stakeholder theory as the anchors. This multi-dimensional perspective is necessary to mitigate the shortcomings of each theory and thus strengthen the theoretical foundation and offers a more comprehensive understanding of the diverse influences on ESG disclosure practices.

2.2.1 Institutional Theory

DiMaggio and Powell (1983) made significant contributions to the theory by introducing the idea of institutional isomorphism, which explains how organizations often become similar as a result of outside influences (Amenta & Ramsey, 2010). According to institutional theory, the external environment shapes organizational behaviours, structures, and practices, particularly by social, cultural, legal, and regulatory norms (Drori, 2019). The idea holds that organizations function within a framework of formal and informal rules, norms, and expectations that shape their behaviours and practices (Peters, 2022). In order to become legitimate, stable, and competitive, businesses are compelled by these institutional forces to adhere to social, commercial, and legal norms.

However, according to Drori, (2019), the theory tends to underplay the role of strategic agency and innovation, assuming that all firms conform rather than lead or resist. The theory also assumes that institutional pressures lead to similar responses across all firms, yet in practice, responses vary widely depending on internal capacities, leadership, and stakeholder dynamics. The theory has been mostly applied in previous studies focusing on developed countries where regulatory environments are more mature, enforcement mechanisms are stronger, and ESG norms are deeply embedded in market expectations. Kenya however is a different context which presents several unique challenges. First there is weak enforcement of ESG disclosure guidelines despite the existence of frameworks by NSE and CMA. There is

also a lack of standardization, where many listed firms disclose only selected or vague ESG indicators. Additionally, resource constraints make it difficult for smaller or less mature firms to institutionalize ESG reporting fully. The theory has therefore not fully explained why, despite increasing global and local institutional pressures, many Kenyan listed firms still lag in ESG disclosure. This contextual gap points to the need to examine how firm-specific organizational factors interact with institutional pressures differently in Kenya compared to where the theory originated and has been originally applied.

Institutional theory explains why firms disclose Environmental, Social, and Governance (ESG) information. Firms in Kenya face regulatory requirements, such as the disclosure guidelines set by the Capital Markets Authority (CMA) and Nairobi Securities Exchange (NSE). Adoption of ESG practices may also be influenced by compliance with environmental laws or sustainability regulations like the green economy strategy. Additionally, firms imitate successful peers to gain competitive advantage or avoid market obsolescence. For instance, Safaricom and KenGen's leading ESG practices set benchmarks that other firms may mimic (Capital Markets Authority, 2023). The theory aligns with examining how organizational factors respond to institutional pressures.

2.2.2 Stakeholder Theory

According to Edward Freeman's 1984 stakeholder theory, companies have a wider group of stakeholders to answer to than only shareholders (Freeman, Phillips, & Sisodia, 2020). Any individual or group that affects or is affected by an organization's objectives is considered a stakeholder (Garvare & Johansson, 2020). This theory therefore emphasizes that companies must manage relationships and cater to the needs of diverse stakeholders to maintain sustainability and legitimacy. Businesses should identify and prioritize key stakeholders such as investors, employees, customers, suppliers, communities, regulatory bodies, and the environment while ensuring fair and balanced benefits for all (Garvare & Johansson, 2020).

The theory has however been criticized that it does not clearly define how to balance competing stakeholder interests, especially when their demands conflict e.g., maximizing shareholder wealth vs. environmental sustainability (Freeman, Phillips, & Sisodia, 2020). It also assumes that firms are motivated by ethical concerns, while in reality, some engage in stakeholder management or ESG reporting purely for public relations (Freeman, Phillips, & Sisodia, 2020). Translating stakeholder interests into concrete managerial actions and policies is often vague or impractical, especially in resource-constrained environments.

The theory has also been applied previously in developed markets where stakeholder demands are more organized and vocal, ESG reporting is often mandated or strongly incentivized by regulators, and data transparency is higher and there's a high level of public scrutiny, making it risky for firms to ignore stakeholder expectations. Kenya however has contrasting conditions as many stakeholders, especially local communities and consumers, lack mechanisms or platforms to voice sustainability concerns. ESG literacy among stakeholders is relatively low, so pressure on firms is less consistent or coordinated. In addition, some stakeholder groups including employees and local communities are underrepresented in governance discussions, reducing their influence on ESG strategies. This therefore creates a need for context-specific investigations into the various factors that influence ESG disclosure in the Kenyan context.

Stakeholder theory provides a lens for examining why firms prioritize ESG disclosure in different ways. Investors and shareholders demand transparency in governance and sustainability efforts to reduce investment risks (Tanui, 2022). Additionally, customers and local communities push for social and environmental accountability, particularly in industries with a significant environmental impact. Firms are also compelled to disclose ESG practices to maintain public trust, community goodwill, and operational continuity. ESG disclosures enable firms to communicate how they are managing environmental, social, and governance issues that impact communities, employees, and the environment. Furthermore, proactively sharing ESG performance enhances trust among stakeholders thereby encouraging stakeholder engagement and creating partnerships that drive sustainable development (Tanui, 2022). The theory anchored the independent variables. For instance, ownership structure and board characteristics affect how firms engage with and address stakeholders' expectations.

2.2.3 Theoretical Integration

The study adopts both institutional theory and stakeholder theory because the two theories provide complementary explanations of ESG disclosure practices. Institutional Theory posits that organizations adopt particular practices in response to coercive, normative, and mimetic pressures from their operating environment. In the context of ESG disclosure, listed firms may disclose sustainability information to comply with regulatory expectations, conform to industry norms, enhance legitimacy, and align with emerging global reporting standards. However, the theory does not adequately explain which actors generate these pressures or why some pressures become more influential than others.

Stakeholder theory on the other hand complements this limitation by identifying the stakeholders whose interests firms seek to satisfy. These stakeholders include investors, regulators, customers, employees, communities, lenders, environmental groups, and other parties that can influence organizational success. ESG disclosures therefore become a mechanism through which firms communicate their environmental, social, and governance performance to stakeholders and demonstrate accountability. Stakeholder Theory explains why organizational characteristics such as board diversity, ownership structure, and governance arrangements may influence the extent of ESG disclosure, since these characteristics shape how firms perceive and respond to stakeholder demands.

The integration of the two theories provides a more comprehensive explanation of ESG disclosure practices than either theory alone. The combined application of the two theories is particularly relevant in the Kenyan context, where ESG reporting is evolving under increasing regulatory attention and growing stakeholder awareness. Institutional theory helps explain the influence of emerging sustainability reporting frameworks and governance expectations, whereas stakeholder theory explains variations in disclosure practices arising from differences in firm characteristics, board attributes, and ownership structures. Together, the theories provide a robust framework for understanding how organizational factors influence ESG disclosure practices among listed firms in Kenya.

2.3 Empirical Review

2.3.1 Firm characteristics and ESG disclosure practices

Schiehll and Kolahgar (2021) explored how financial resources influence corporate sustainability reporting in the United States. By analysing 150,000 electronic documents from S&P/TSX Composite Index firms (1999–2014) using automated content analysis, they discovered a strong positive relationship. Companies with more financial resources produced more frequent and higher-quality sustainability reports. The study also highlighted that financial strength facilitates better ESG reporting systems and improves stock price informativeness. However, this study focused on U.S. firms, while the current research examines Kenyan companies.

Meanwhile, Wang, Peng, Tang, and Wu (2022) investigated the influence of technological advancements on ESG disclosures among firms in emerging economies. Their study gathered financial and corporate governance data from A-share firms in Shanghai and Shenzhen (2010–2020) using the CSMAR database and China Securities ESG Rating System. Results

showed that fintech advancements significantly boosted corporate ESG performance. The study further indicated that fintechs mainly enhance the ESG performance by reducing corporate financing constraints. However, the study notes that technology adoption in emerging markets may lag due to cost constraints. The study was however conducted in China and therefore may lack the regional insights from African economies.

Dal Mas (2019) explored how capital management influences ESG sustainability by analysing discussions from online professionals. Using text mining on 1,651 posts from a major sustainability platform, the study identified key themes and conducted correlation analysis. Findings indicated a strong connection between capital management and ESG sustainability, showcasing the crucial roles of human, relational, and structural capital in promoting ESG initiatives. The study however employed a thematic approach while the current study employed a qualitative approach.

In their 2020 study, Drempetic, Klein, and Zwergel explored how firm size affects ESG reporting. By examining the link between firm size, an organization's capacity to provide ESG data, and the availability of ESG information in relation to sustainability performance—adopting Thomson Reuters ASSET4 ESG ratings—the researchers found that bigger firms were significantly likelier to engage in detailed ESG reporting compared to much smaller firms, with companies possessing greater financial and technological resources disclosing more ESG information. However, the study also questioned whether the methodology used to measure ESG scores inherently favours larger firms with more resources thus critiquing the methodology used. The present research sought to address the gap by utilizing primary data.

Masila, Nyamute, Okiro, and Irungu (2024) looked into how the characteristics of various firms influenced the performance of Kenyan publicly traded companies and corporate sustainability reporting. Secondary data from corporate accounts and public financial reports submitted to the Capital Markets Authority as of December 31, 2020, were used in the study. The study evaluated corporate sustainability reporting using the GRI framework, which helped measure sustainability reporting scores and develop a sustainability index. The results revealed that larger firms were much likelier to report sustainability practices, while older firms showed a decline in sustainability reporting.

2.3.2 Board characteristics and ESG disclosure practices

Research examining the effects of board features on CSR disclosure in Spanish and Brazilian corporations was conducted by Formigoni, Segura, and Gallego-Álvarez (2021). Their

research specifically analysed firms listed on BM&FBOVESPA in Brazil and the Madrid Stock Exchange in Spain. The findings noted that the board's profile influences the CSR disclosure policies of both Spanish and Brazilian businesses. The CSR disclosure policies of firms in both Brazil and Spain were positively influenced by board size. The study found that, in Spanish firms, a higher percentage of independent directors had a positive effect on CSR disclosure. Conversely, Brazilian companies with a higher percentage of female directors exhibited stronger CSR disclosure policies.

On the other hand, in Bangladesh's banking industry, Rouf and Hossan (2021) looked into the connection between board composition, size, and CSR disclosure. Using content analysis, the study examined financial data from 30 banks that are listed on the Dhaka Stock Exchange. The findings presented mixed reading indicating a significant positive association between the percentage of female and independent directors and CSR disclosure, whereas board size had no significant effect. However, this study was specific to Bangladesh's banking sector, whereas Kenyan listed firms are the basis of the current research.

Similarly, Nwude and Nwude (2021) analysed the impact of board characteristics on CSR disclosure in Nigeria's banking industry. Employing multiple regression analysis, their research scoured for and examined information from 11 listed national commercial banks audited financial statements, all subject to the Nigerian Central Bank's regulations and disclosure requirements, covering the time from 2007 to 2018. The findings showed that board size, board composition, and board independence significantly influenced CSR disclosure. Specifically, larger boards, a lower proportion of directors from outside the banking sector, and a larger percentage of female directors were linked to increased CSR disclosure. However, this study focused exclusively on Nigeria's listed commercial banks, while the ongoing research considered all publicly listed firms in Kenya.

In their 2022 study, Christopher, King'ori, and Chalu investigated how board characteristics influence CSRD (Corporate Sustainability Disclosures) in Sub-Saharan Africa. A panel dataset of 165 businesses from 12 countries in the area of focus, spanning the years 2015 to 2019, was presented as the basis for the research. The study's findings indicate that while board diversity, including gender and committee composition, significantly improves CSD, board size has a negative association with corporate sustainability disclosures. The research also revealed that board compensation and CEO authority significantly and negatively affect corporate sustainability disclosures, whereas board independence, diversity, and the

frequency of board meetings had no notable influence. In a 2024 study conducted in Kenya, Abang'a and Tauringana explored how board characteristics influence corporate social responsibility disclosure (CSRD) among the country's state-owned organizations. The study results showed that while board meetings, board skill, board size, and board independence did not significantly affect CSRD, board gender diversity, board chair age, and board subcommittees did.

2.3.3 Ownership structure and ESG disclosure practices

The association between ownership structure and ESG performance disclosure in Jordanian industrial enterprises was examined by Al Amosh and Khatib (2022). Using content analysis, the study analysed annual reports from a final sample of 51 Jordanian industrial companies spanning a time frame from 2012 to 2019. The results showed a strong correlation between the level of ESG disclosure and ownership structure. Specifically, the study highlighted the role of state and foreign ownership in enhancing ESG transparency. This suggests that companies with greater government or foreign investor involvement tend to adopt more comprehensive ESG disclosure practices. However, given the study's focus on Jordan's industrial sector, its findings may not be directly generalizable to Kenya's publicly listed firms. Although the study was centred on Jordan, the present research explored a similar framework within the Kenyan context.

Doshi, Jain, Sharma, Mukherjee, and Kumar, (2024) sought to find out whether ESG disclosure was influenced by ownership among organizations in India. Removing businesses in the banking and financial services industry, a panel data regression study was carried out on 500 publicly traded companies between 2015 and 2020. The findings showed that government ownership significantly and favourably affected the companies' ESG rankings, while privately held companies showed no discernible association. The study found that the public owned firms demanded better ESG disclosures due to the need for transparency. The study was based on the National Stock Exchange in India while the current study focused on the Nairobi Securities Exchange in Kenya.

The association between ownership structure and sustainability reporting in energy companies in the BRICS countries was examined by Nuhu and Alam (2024). 1,260 firm-year data from 2010 to 2019. The results showed that ownership by foreigners, management, and block holders all positively and statistically significantly impacted sustainability reporting. However, institutional ownership negatively impacted sustainability reporting. These results

suggest that while concentrated ownership structures may enhance ESG disclosure, institutional investors might prioritize short-term financial returns over long-term sustainability commitments. Nevertheless, the study focused on energy firms in BRICS nations, whereas the current research examines publicly listed firms in Kenya, which may have different regulatory and market dynamics.

Tanui (2022) investigated how corporate sustainability disclosure and ownership structure interacted across Kenyan listed companies. This research employed a quantitative method guided by a causal design from unbalanced panel data of 56 listed firms in 2021. The study, which was informed by the stakeholder, triple bottom line, and legitimacy theories, discovered that management ownership significantly weakened corporate sustainability disclosure. In the meanwhile, sustainability disclosure was positively but marginally impacted by institutional and foreign ownership. The research concluded that sustainability disclosure holds greater importance for institutional and foreign investors compared to managerial investors. This existing research was however guided by the causal design while the current study was guided by the descriptive research design.

2.3.4 Moderating Effect of Sector affiliation on ESG disclosure practices

In their 2021 study, Matakanye, van der Poll, and Muchara explored whether different industries prioritize environmental, social, and governance (ESG) sustainability performance differently in response to stakeholder pressures. Data from 75 organizations across six industries was taken from the CSR Hub database, a rating service that specializes in evaluating businesses' ESG performance. The results revealed that among the sectors analysed, there was no indication of ESG sustainability performance variations between industries based on overall industry ratings. According to the findings, a company's ESG rating is not significantly influenced by its industry. The study was however conceptualized on environmental, social and governance sustainability performance while the current study is focused on ESG reporting.

In their 2024 study, Khamisu, Paluri, and Sonwaney explored the reasons for environmental, social, and governance (ESG) disclosures in environmentally sensitive industries, focusing on a developing economy. Using a systematic empirical approach guided by the PRISMA protocol, the study identified that organizations are motivated to disclose ESG information mainly due to regulatory demands and stakeholder pressures. Heavily regulated sectors, such as energy and mining, reported higher levels of ESG disclosures due to strict compliance

requirements. The study noted that regulation shapes the depth and frequency of ESG reporting within sectors, concluding that those with more stringent regulations exhibit better ESG reporting practices. The study was however only focused on the environmentally sensitive industries while the present research focused on all the industries.

Mio, Fasan, and Costantini, (2020) investigated the connection between sector materiality and sustainability reporting practices in Italy. The research was conducted in Generali, a big, listed company in Italy. A comparative study of environmental disclosures in various sectors with high material impacts versus low impact. Findings revealed a positive relationship between sector materiality and sustainability reporting practices. High-materiality sectors disclosed more comprehensive environmental data, driven by greater stakeholder scrutiny. Their research was however siloed to one major company in Italy while the current study looked into listed firms in Kenya within different industries.

Haavisto (2024) sought to understand whether industry matters in the relationship between ESG and corporate financial performance of firms in Europe. Between 2012 and 2022, more than 800 publicly traded firms operating in EU nations provided qualitative data, which was then analysed using panel regression. The legitimacy theory and the stakeholder theory provided further direction for the investigation. Results from the analysis showed that ESG asymmetrically affected corporate financial performance across different industries. Highly sensitive industries including the financial and energy sectors had higher disclosure levels, influenced by local regulatory frameworks and global reporting benchmarks. There was a less significant relationship between ESG and corporate financial performance in non-sensitive industries.

2.4 Summary of the Literature and Research Gaps

The empirical literature revealed that various studies have covered the subject matter. However, there were differences in the methodological, conceptual and contextual approaches that were utilized and what is adopted in the current research. This limited the generalizability of the findings in the current study scope hence the need for the exploration. From the various studies reviewed the following gaps were summarized as indicated in Table 2.1 below.

Table 2.1 Summary of Research Gaps

Author	Title	Findings	Gap in Study

Schiehll and Kolahgar, (2021)	The effect of financial resources on corporate sustainability reporting in the United States.	The study found that financial resources had a positive and significant effect on corporate sustainability reporting.	The study was however conducted in United States of America creating a contextual gap
Matakanye, van der Poll, and Muchara, (2021)	Whether different industries respond differently to stakeholders' pressures when prioritizing environmental, social and governance sustainability performance.	The results revealed that among the sectors analysed, there was no indication of ESG sustainability performance variations between industries	The study was however conceptualized on environmental, social and governance sustainability performance creating a conceptual gap
Al Amosh and Khatib, (2022)	The relationship between ownership structure and environmental, social and governance performance disclosure among industrial companies in Jordan	Findings revealed that there was a significant relationship between ownership structure and environmental, social and governance performance disclosure	The study was focused on the Jordanian context creating a contextual gap
Nwude and Nwude, (2021)	The influence of board characteristics on corporate social	Findings showed that board size, board composition	The study was however focused only on listed commercial banks in

	responsibility disclosure in the Nigerian banking industry.	and the independence of the board affected the CSR disclosure.	Nigeria creating a contextual gap
Tanui, (2022)	The interaction between ownership structure and corporate sustainability disclosure among listed firms in Kenya.	The study found that there was a negative but significant effect of managerial ownership on corporate sustainability disclosure.	The study was however guided by the causal design creating a methodological gap
Abang'a and Tauringana, (2024)	The impact of board characteristics on corporate social responsibility disclosure among state owned firms.	The analysis revealed that board gender diversity, board chair age and board subcommittees had significant negative effects on CSRD.	The study was however based on state owned firms creating a contextual gap

Source: Researcher (2024)

2.5 Conceptual Framework

The conceptual framework provides a depiction of the interaction between the various variables adopted in the study. The following framework showed the relationship between organization factors, sector affiliation and ESG disclosures.

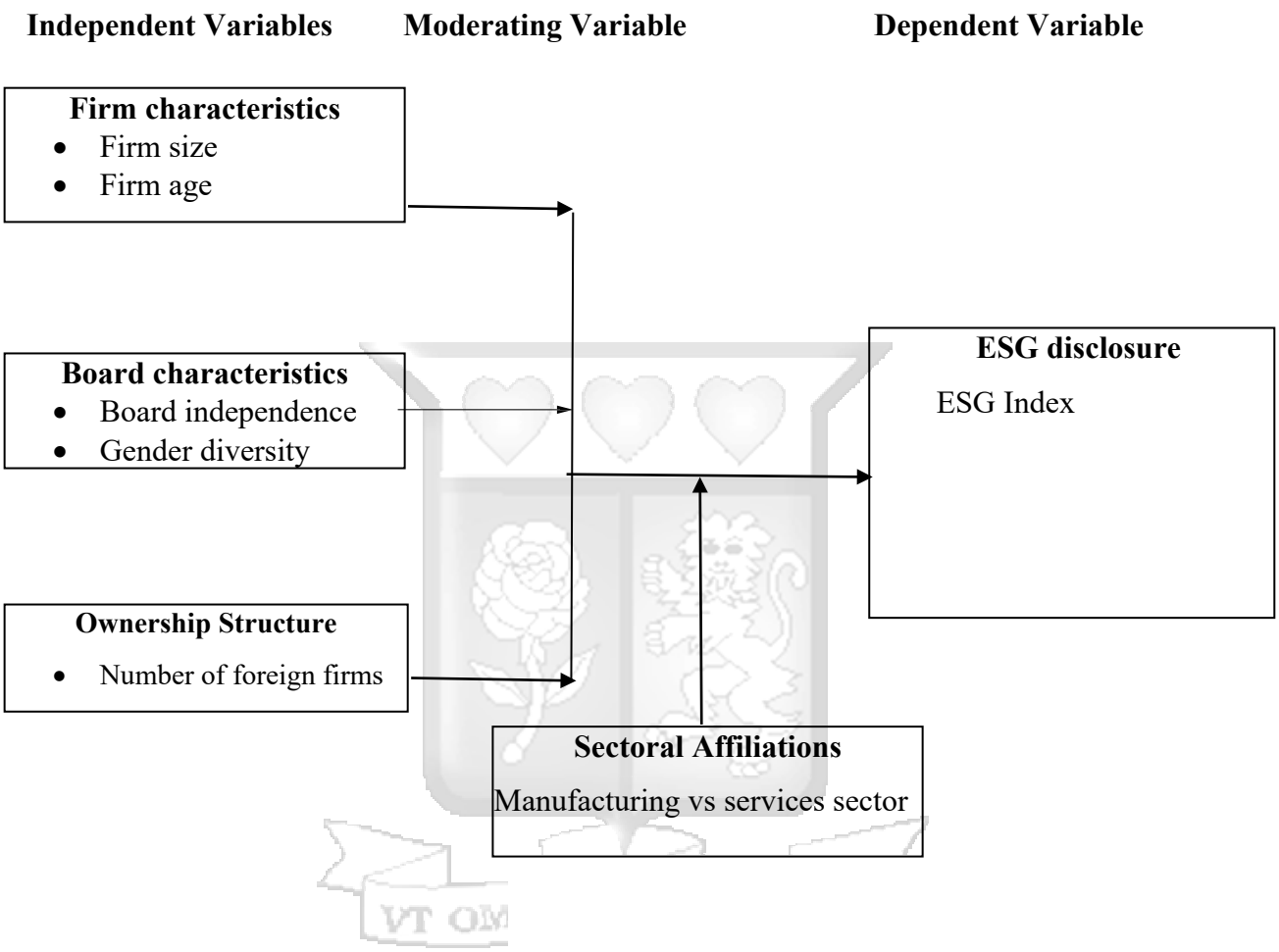


Figure 2.1 Conceptual Framework

Source: Researcher (2026)

Control variables were not included because the study primarily seeks to examine the effect of organizational factors on ESG disclosure practices and the moderating role of manufacturing and service sectors. The selected organizational factors are the key explanatory variables identified in the theoretical and empirical literature. Further, the use of panel data estimation controls for unobserved firm-specific effects, minimizing omitted variable bias. Excluding additional control variables therefore maintains model parsimony while ensuring consistency with the study objectives and theoretical framework.

Table 2.2 Operationalization of Variables

Variable	Variable Type	Indicator	Measurement	Data Analysis Technique	Supporting Literature
Firm Size	Independent	Firm size	Natural logarithm of total assets: Firm size = ln (Total Assets)	Descriptive statistics; PANEL regression	Nyamute, Okiro, & Irungu (2024)
Firm Age	Independent	Firm age	Number of years	Descriptive statistics; PANEL regression	Nyamute, Okiro, & Irungu (2024)
Board Independence	Independent	Independent directors	Ratio of independent directors to total board size: Independent Directors/Total Board Size	Descriptive statistics; PANEL regression	Githaiga & Kosgei (2023)
Gender Diversity	Independent	Female representation	Ratio of female directors to total board size: Female Directors/Total Board Size	Descriptive statistics; PANEL regression	Githaiga & Kosgei (2023)
Ownership Structure	Independent	Ownership categories	Percentage of foreign owned firms	Descriptive statistics; PANEL regression with dummy variables	Nuhu & Alam (2024)
Sectoral Affiliation	Moderator	Industry classification	Dummy variable: Manufacturing sector =1; Services sector =0	Moderated regression analysis	Mio, Fasan, & Costantini (2020)
ESG Disclosure	Dependent	ESG disclosure practices	ESG disclosure index calculated as: Number of ESG items disclosed/Total ESG items expected	Descriptive statistics; PANEL regression	Shaikh (2022)

Source: Researcher (2026)

2.6 Chapter Summary

This chapter reviewed relevant literature on the relationship between organizational factors and ESG disclosure practices among listed firms in Kenya. Theoretical foundations guiding the study were explored, with emphasis on institutional theory and stakeholder theory.

Empirical literature from global, regional, and local contexts was reviewed, revealing mixed findings on the influence of organizational factors on ESG disclosure practices. The review identified key gaps which were explored. A conceptual framework was then discussed which conceptualized ESG disclosure practices as the dependent variable and organizational factors firm characteristics, board characteristics, and ownership structure as key determinants of ESG disclosure, while sector affiliation was examined as a moderating variable.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter provides a detailed description of the various methodological processes that was utilized in seeking to solve the phenomena. Key areas covered are the philosophy used, overarching design, population, approaches to data collection and the analytical approach that was applied.

3.2 Research Philosophy

Selecting the right research philosophy is key to the study as it aids in the utilization of the right techniques that can support the solving of the research question (Bryman, 2016). The research philosophy encompasses the development of knowledge and determination of the nature of the knowledge (Adams, Khan, & Raeside, 2014). It can also be viewed as the various assumptions that are adopted in regard to what is the correct knowledge in research thus it encompasses the main principles that guides how to study a natural science (Stockemer, Stockemer, & Glaeser, 2019). This study was grounded on a positivist philosophy that advocates for the application of select methods of natural science to examine a social reality through interpretation of the data with no interference by the research. The philosophy relies on quantifiable observations through statistical analysis to establish the link between variables hence it was an ideal fit for this study.

3.3 Research Design

The research design is the scientific plan or structured examination that allows for the arrangement of necessary conditions that aid in data collection and analysis in a manner that supports solving the research problem (Adams, Khan, & Raeside, 2014). As such the design should be viewed as the main plan that guides how the objectives of the study was met (Walliman, 2021). This study adopted a descriptive correlational research data as it involves quantitative data that was used to explain a particular situation (Acharyya & Bhattacharya, 2019). Further, the design is ideal when conducting quantifiable observations to explain the nature of relation between research variables. Further, it's viable when collecting a lot of data since it's a cost-effective process in conducting the study. This was adopted in examining the effect of organization factors on the ESG disclosure practices of listed firms in Kenya.

3.4 Target Population

The study population refers to the complete set of elements that are relevant to a particular field of inquiry and from which conclusions are drawn (Bryman, 2016). In empirical research, a clearly defined population is essential for ensuring the validity and generalizability of findings, as it delineates the boundaries within which inferences are made. For the present study, the population comprised all firms listed on the Nairobi Securities Exchange as of December 2024 under the Manufacturing, Allied and Services Sector. The exchange provides a structured and regulated environment, making listed firms a suitable population for financial and economic analysis due to the availability of standardized, audited, and publicly disclosed information. Specifically, the population consisted of all 21 firms listed at the Nairobi Securities Exchange, which constituted the unit of analysis for the study.

3.5 Sampling Design

The sampling design outlines the procedure used to select a subset of elements from the target population for detailed analysis. In this study, a purposive sampling technique was adopted to identify firms that are most relevant to the research objectives. Purposive sampling is appropriate where the researcher intentionally selects units based on specific characteristics that align with the study's focus. From the population of firms listed on the Nairobi Securities Exchange, a total of 21 firms were selected based on their sectoral classification and the availability of consistent and comparable data. Specifically, the sample comprised 10 firms from the services sector and 11 firms from the manufacturing and allied sector. These sectors were deliberately chosen to facilitate a comparative analysis of disclosure practices across different industry contexts. The study sought to establish whether sectoral affiliation has a significant influence on the disclosure practices of listed firms, given that operational characteristics, regulatory pressures, and stakeholder expectations may vary across sectors. As such, the selected sample provides a meaningful basis for examining sector-driven variations in corporate disclosure behavior within the Nairobi Securities Exchange.

3.6 Data Collection

The research utilized secondary data obtained from the annual audited financial statements of listed companies spanning the years 2010 to 2024. Data was gathered through document analysis, employing an extraction matrix detailed in Appendix I, which has been developed to

correspond with the operationalization of the study variables. The financial statements were accessed from the databases of the NSE and CMA.

The validity of the research tool was upheld through revision of the operationalized variables with the supervisor to ensure the appropriate constructs are captured in the research tool to ensure there is adequacy and completeness in the measurements applied. This was important in confirming the tool can help in answering the research question sufficiently. The research developed an extraction sheet that was reviewed by the supervisor for completeness before proceeding to keying data from the audited financial statements. The study further ensured the approved research proposal is submitted to the SU-IERC before proceeding with the data collection. The research obtained necessary licence from the NACOSTI. The research data was extracted from the financial statements for the stated period to ensure that relevant information is obtained to aid in solving the research query.

3.7 Data Analysis and Presentation

The research data was keyed into Microsoft excel before exporting to Stata 19 for subsequent analysis. The study adopted both descriptive and inferential analysis approach. The first step involved summarizing the data using description to obtain the mean, maximum, minimum, deviation and standard error of the variables under review over the time. Secondly correlation analysis was conducted to determine the direction of the relation between the research variables. The third step involved testing for linear regression assumptions; autocorrelation tests, collinearity tests, heteroscedasticity, normality and unit root tests. The study applied the Hausman specification test to determine the appropriate model to apply between a fixed/random effects panel regression. Lastly panel regression analysis was conducted to determine the magnitude of relation between the variables. The below set of models were utilized;

Model 1:

$$ESG_{it} = \alpha + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 BF_{it} + \beta_4 BM_{it} + \beta_5 OD_{it} + \beta_6 OS_{it}$$

$$+ \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{Equation 3.1}$$

Where ESG denotes Number of ESG disclosure practices adopted of listed firms *i* at time *t*

i denotes the observation (Listed Firms) i= 1--------21

t is the time period t= 2010--------2024

FS_{it} denotes firm size; FA_{it} denotes firm age; BF_{it} denotes board female; BM_{it} denotes board male, OD_{it} outside directors; OS_{it} denotes ownership structure;

β- β_8 is coefficients; ε is the error term

Model 2: Moderated Model

$$\mathbf{ESG_{it} = \alpha + (\alpha + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 BC_{it} + \beta_4 BI_{it} + \beta_5 BD_{it} + \beta_6 GO_{it} + \beta_7 PO_{it} + \beta_8 FO_{it} + \varepsilon_{it}) +}$$

$$\mathbf{\beta_1 FS_{it} * SA_{it} + \beta_2 FA_{it} * SA_{it\ it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots Equation\ 3.2}$$

FS_{it}* **SA** $_{it}$ denotes interaction of firm size and sector affiliation; FA_{it}* **SA** $_{it}$ denotes interaction firm age and sector affiliation; BF_{it}* **SA** $_{it}$ denotes interaction board female composition and sector affiliation; BM_{it}* **SA** $_{it}$ denotes interaction board male and sector affiliation; OD_{it}* **SA** $_{it}$ denotes interaction outside directors and sector affiliation; OS_{it} * **SA** $_{it}$ denotes interaction ownership structure and sector affiliation.

3.8 Ethical Considerations

The survey made sure that all the research data that is extracted is securely stored and will only be used for the stated aims of the research. Further, all necessary approvals were obtained from the SU-IERC and NACOSTI before commencing the second phase of the project process. The research ensured that all the quoted material is properly referenced and the plagiarism score is obtained as required by the institution.

3.9 Chapter Summary

The third chapter of the research demonstrated the methodological approach that was adopted in conducting the investigation. The chapter covered the philosophical underpinning of the study; the ideal research design and population being examined. Further, the chapter described the research tools that were adopted, the data analysis procedures and ethical concerns that were followed.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

The fourth chapter of the project presents the findings drawn from the analysis of the extracted research data. The main areas covered in the chapter included a summary of the observations using descriptive analysis, the various regression assumption tests, correlation tests and regression analysis.

4.2 Summary Statistics

The research focused on extracting data from 21 listed Manufacturing and Allied, Construction firms between the period 2010 to 2024 with the audited financial statements of the firms being utilized as the source of the research data. The final maximum observations obtained were 275/315 for the predictor variables and the calculated ESG disclosure index for the listed manufacturing firms in the period. A summary of the observations was presented using various descriptive statistics measures and is presented in Table 4.1 below;

Table 4.1 Summary of Data Observation

Variable	Mean	Maximum	Minimum	Std. Dev	Obs
Firm size	9.9215	11.9057	7.3392	.74013	272
Firm age log	32.6269	70	0	20.0715	268
Female Board	.2815	.5714	0	.1067	275
Independent Dir	.6730	3	0	.1525	275
Foreign Ownership	.24	1	0	.4278	275
Manufacturing	1	1	0	0	126
Services	1	1	0	0	149
ESG index	.5268	1	0	.2673	275

Source: Research Data (2026)

The descriptive statistics indicate that firm age recorded slightly fewer observations (268) compared to other variables (275). This variation arises from the operationalization of firm age, which was computed based on the year of listing on the NSE. In certain cases, financial and corporate information was available for periods prior to the firms' official listing on the

NSE, particularly where firms operated privately before going public. Furthermore, instances where firm age appeared as zero years were associated with firms newly listed during the study period, where the listing year coincided with the observation year. These values were retained as they accurately reflect the firms' initial year of public listing rather than representing data errors.

The analysis revealed the mean firm size was 9.9215 with a range of Maximum (11.9057) and Minimum (7.3392) indicating a positive growth in the asset base of the listed companies. The findings showed that on average the firms were 32.62 years in age with the youngest firm having traded in the market for atleast a year with the oldest. The results indicated that the average ratio of female board representation was .2815 showing that less than thirds of the board members were female within the listed manufacturing and service sector firms.

Findings revealed a ratio of independent directors to total board size was on average (.6730) which is above 50% showing that there is objective and improvement in governance quality among the listed firms in Kenya. The highest number of independent directors within the surveyed firms was three. The analysis showed the ratio of foreign ownership within the sector stood at .24 – n (5) (foreign owned firms against listed manufacturing and service sector firms). The review of the ESG index revealed a mean of .5268 showing that within the study period atleast.5268 of the firms reported atleast one of the metrics utilized in the computation of the ESG index as shown in Table 2.2.

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4.3 Diagnostic Tests

The study performed various diagnostic checks prior to undertaking the panel regression (random effects model). The tests conducted are presented in this section.

4.3.1 Unit Root Test

The research data was checked for stationarity using the Levin, Lin & Chu test to check the unit root test of the variables at a 5% significance level. The findings are presented in Table 4.2 below

Table 4.2 Unit Root Results

Variable	Method	Statistic	Prob.**	Decision
Firm size	Levin, Lin & Chu t*	-8.27526	0.0000	Reject H_0; Stationary

Firm age	Levin, Lin & Chu t*	-4.84664	0.0000	Reject H_0; Stationary
Board female	Levin, Lin & Chu t*	-2.27532	0.0085	Reject H_0; Stationary
Outside directors	Levin, Lin & Chu t*	-4.56161	0.0000	Reject H_0; Stationary
Ownership structure	Levin, Lin & Chu t*	-2.37801	0.0003	Reject H_0; Stationary
ESG Index	Levin, Lin & Chu t*	-3.75732	0.0024	Reject H_0; Stationary

Source: Research Data (2026)

The results of the stationarity tests indicated that performing the test in the first difference the null hypotheses of that the variables had a unit root was rejected since the intercepts in level I (0) all had a probability value of less than .05 which was significant at 5% level of significance.

4.3.2 Heteroscedasticity Test

The research performed the heteroscedasticity check which is vital panel analysis as it examines the statistical of whether the variance of the residuals do not vary. The findings are shown below.

Table 4.3 Heteroscedasticity Results

Panel Period Heteroskedasticity LR Test

Specification: ESG Index C Firm Age Firm Size Female Representation Foreign Ownership Independent Directors

Null hypothesis: Residuals are homoscedastic

	Value	df	Probability
Likelihood ratio	27.64339	20	0.1181

LR test summary:

	Value	df
Restricted LogL	14.11329	259
Unrestricted LogL	27.93499	259

Source: Research Data (2026)

The research used the Heteroskedasticity LR Test test for random effects showed Prob > chi2 value = 0.1141 which is greater than .05 indicating there was no statistically significant

heteroscedasticity. Thus a panel regression model was adopted as the variance of the errors in the model were constant.

4.3.3 Normality Test

The study further checked whether the observations being applied in the study follow a normal distribution and the assumption was checked using the Skewness and Kurtosis values. The findings showed Skewness were within the range of -2 and +2 with Kurtosis values below 4 showing there no extreme outliers within the dataset as shown in Table 4.4 below. From the dataset there was marginal variation in female representation on the Kurtosis values which was minima for quantitative analysis.

Table 4.4 Normality Test

	ESG Index	Firm age	Firm size	Female representation	Foreign ownership	Independent directors
Skewness	-0.039663	0.055193	0.208878	-0.765033	1.217562	-2.481705
Kurtosis	2.341225	1.721315	2.935425	4.305628	2.482456	1.78058
Observations	275	268	272	275	275	275

Source: Research Data (2026)

4.3.4 Multicollinearity Test

Multicollinearity test was conducted to confirm if the independent variables were highly linearly associated with each other. The research adopted both Variance Inflation Factor and Tolerance Values and findings are shown in Table 4.5 below.

Table 4.5 Multicollinearity Results

Variable	VIF	1/VIF	Decision
Firm size	1.57	0.6368	No collinearity problem
Firm age	1.56	0.641	No collinearity problem
Female representation	1.11	0.8975	No collinearity problem
Independent directors	1.75	0.5716	No collinearity problem
Foreign ownership	1.39	0.7211	No collinearity problem
Mean VIF	**1.48**		

Source: Research Data (2026)

Overall, the findings revealed that all the predictors selected had VIF values that were less than 10 indicating no collinearity issues. Further, the tolerance values were above 0.1 confirming the same.

4.3.5 Autocorrelation Test

The research further conducted the Woolridge test to review if there was any serial correlation violation within the applied regression model. The findings are shown in Table 4.6 below.

Table 4.6 Autocorrelation Results

Wooldridge test for autocorrelation in panel data

H0: no first-order autocorrelation

F (1, 18) = 121.425

Prob > F = 0.0615

Source: Research Data (2026)

The findings of the analysis showed that the Wooldridge test yielded a Prob > F = .0615 which was greater than .05 showing there was no first order serial correlation thus can conclude no significant autocorrelation is present.

4.4 Correlation Analysis

Correlation test was conducted to determine the nature of the relation between the variables and the statistical significance of the interaction. The study applied Pearson correlation and summary of the test is shown in Table 4.5 below;

Table 4.7 Correlation Results

	ESG	Firm size	Firm age	Independent directors	Female representation	Foreign ownership
ESG Index	1.000					
Firm size	0.2391* 0.0001	1.000				
Firm age	0.2161*	0.1846*	1.000			

	0.0004	0.0026				
Independent directors	0.1592* 0.0082	-0.2569* 0.0000	0.5002* 0.0000	1.000		
Female representation	0.2316* 0.0001	-0.1937* 0.0013	-0.0646 0.2924	0.1848* 0.0021	1.000	
Foreign ownership	0.3198* 0.0000	-0.3820* 0.0000	0.1909* 0.0017	0.2068* 0.0006	0.1438* 0.0170	1.000

Source: Research Data (2026)

The analysis of the relation between firm characteristics and the adoption of ESG disclosures showed a weak positive and significant association between firm size (r = 0.2391*, sig = .0001) firm age (r = 0.2161*, sig = .0004) and the ESG disclosure. The findings showed that presence of independent directors on the board had a weak positive relationship with ESG disclosures (r = 0.1592*, sig = .0082); further female representation within the board had a positive relation (r = 0.2316*, sig = .0001) with adoption of ESG disclosures. Findings indicated that foreign ownership structure had a positive relation with ESG disclosures (r = 0.3198*, sig = .0000<.05).

4.5 Panel Regression Analysis

The research adopted Hausman specification test to determine the model to be adopted in examining the effects of the independent variables on the ESG disclosures adoption.

Table 4.8 Hausman Specification Results

Test of H0: Difference in coefficients not systematic			Selected Model
Model 1	**chi2(6)** = (b-B)'[(V_b-V_B) ^ (-1)] (b-B) = 259.74	**Prob > chi2** = 0.0000	Fixed Effects
Model 2 With Moderator	**chi2(7)** = (b-B)'[(V_b-V_B)^(-1)](b-B) = 104.57	**Prob > chi2** = 0.0000	Fixed Effects

Source: Research Data (2026)

The results above showed that in the two models estimated the Prob > chi2 = 0.0000 which was less than 0.05 thus the fixed effects model was preferred in the analysis and the panel regression results are shown in the sections below.

4.5.1 Effect of Organization Factors on Adoption of ESG Disclosures

The first panel regression model estimated store to estimate the magnitude of effect of the organization factors on the adoption of ESG disclosures within the listed Manufacturing, Allied and Services sector and results are as presented below.

Table 4.9 Regression between Organization Factors and Adoption of ESG Disclosures

Variable	Coefficient	Std. Error	t	P>|t|
Firm size	.0671	.0396	1.69	0.092
Firm age	.0414	.0019	21.69	0.000
Independent directors	-1.2533	.1823	-6.87	0.000
Female representation	1.9429	.3015	6.44	0.000
Foreign ownership	-.0595	0.0643	-0.93	0.355
_cons	-1.1536	.3662	-3.15	0.002
Weighted Statistics				
R-sq:		Number of obs = 265		
within = 0.6920		Number of groups = 21		
between = 0.0592		F (5, 240) = 107.84		
overall = 0.0840		Prob > F = 0.0000		
F test that all u_i =0: F (19, 240) = 38.27		Prob > F = 0.0000		

Source: Research Data (2026)

The above findings revealed that overall, the R-squared = .0840 which indicated that selected organization factors positively explained .084 of the variances in the adoption of ESG disclosures within the listed manufacturing, allied and services sector firms in Kenya. The findings further revealed an f-statistic = 107.84 and Prob (F-statistic) = .0000 < .05 showing that there existed a positive and statistically significant relationship between organization factors and adoption of ESG disclosures among listed firms Manufacturing, Allied and Services sector firms in Kenya. This minimal nexus can be reflected by the low uptake of ESG disclosures within the country with the lack of mandatory regulatory framework.

Based on the above results the first model specified is as shown below;

$$\mathbf{ESG}_{it} = -1.1536 + .0671FS_{it} + .04138FA_{it} + -1.2533ID_{it} + 1.9429FR_{it} + -.0595FO_{it} + .3662_{it}$$

To establish the effect of firm characteristics on ESG disclosure practice among listed firms in Kenya.

The regression coefficients revealed that firm size had a positive and insignificant effect (β_1 = .0671; P>|t| = 0.092>.05) showing that changes in firm size would not significantly improve the ESG disclosures of the listed firm. The analysis revealed that the firm age had a positive and significant effect (β_2 = .0413; P>|t| = 0.000) and adoption of ESG disclosure practices showing that as firm age there will be an improvement in their ESG disclosures.

To establish the effect of board characteristics on ESG disclosure practice among listed firms in Kenya.

Results revealed there was a negative and significant effect of presence of independent directors on adoption of ESG disclosure practices (β_3 = -1.2533; P>|t| = 0.000). This result can be explained within the local context and the study period covered most ESG disclosures among listed firms have been viewed as unnecessary expense hence with their fiduciary role of maximising shareholder value; the directors may have limited the incurring of the costs of ESG reporting as measurable benefits are not immediate. Furthermore, with limited regulatory requirement for ESG disclosures independent directors may focus more on financial outcome over sustainability goals.

The analysis showed that presence of female board directors had a positive and significant effect on the adoption of ESG disclosure practices (β_4 = 1.9429; P>|t| = 0.000).

To determine the effect of ownership structure on ESG disclosure practice among listed firms in Kenya.

The regression further indicated that the foreign ownership structure had a negative and insignificant effect on adoption of ESG disclosure practices (β_5 = -.0595; P>|t| = 0.355>.05).

4.5.2 Effect of Organization Factors and Sector Affiliation on Adoption of ESG Disclosures

The second panel regression model estimated to estimate the magnitude of effect of the organization factors on the adoption of ESG disclosures within the listed Manufacturing, Allied and Services sector firms in Kenya.

Table 4.10 Moderated Regression of Sectoral Affiliation on relationship between Organization Factors and Adoption of ESG Disclosures

Variable	Coefficient	Std. Error	t	P>|t|
Firm size	.1571	.0595	2.64	.009
Firm age	.0345	.0026	13.18	.000
Independent directors	-1.1998	.1916	-6.26	.000
Female representation	-.1027	.06311	-1.63	.105
FSSA	-.1756	.0781	-2.25	.025
FASA	.0142	.0036	3.83	.000
_cons	-1.2618	.3569	-3.53	.000
Weighted Statistics				
R-sq:		Number of obs =	269	
within = .7144		Number of groups =	21	
between = .0364		F (6,243) =	85.05	
overall = 0.0623		Prob > F =	0.0000	

Source: Research Data (2026)

The above regression indicated that the moderating effect of sector affiliation on the relationship between organization factors and ESG disclosure yielded a r-squared = .0623 with Prob>F-value = .0000 revealing that there was a drop in the overall coefficient of determination with interaction terms included in the model. This revealed that despite the moderating effect being positive it did not yield an improvement on the ESG disclosures within the firm. This can be attributed to the sector affiliation variable being time-invariable thus being dropped in the fixed effects model adopted in the study. However, only two interaction terms between sector affiliation (firm size and firm age) were retained because they vary within firms over time and are therefore estimable under the fixed effects framework. The other three interaction terms were removed by the system due to collinearity issues hence the final moderated model applied is as shown below;

$$\mathbf{ESG_{it} = -1.2618 + (.1571FS_{it} + .0345FA_{it} + -1.1998ID_{it} + 1.8005FR_{it} + -.1027FO_{it} +) + -.1756FS_{it} * SA_{it} + .0142FA_{it} * SA_{it} + .3569 \quad \text{Equation 3.2}}$$

The analysis revealed that firm size and sector affiliation term had a negative and significant effect on ESG disclosures within the firms ((β_6 = -.1756; P>|t| = 0.025). The findings further

confirmed that holding other factors constant firm age and sector affiliation have a positive and significant effect on the ESG disclosures as noted by β_7 = .0142; P>|t| = 0.000). These results signified that changes the affiliation and age of the firm would lead to an improvement in the adoption of ESG disclosures of the firms.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The fifth chapter of the research presented the discussion of the findings obtained in line with the theoretical and empirical evidence. Further a summarize of the main study findings was shown as well as conclusions and recommendations derived from the analysis conducted.

5.2 Summary

The purpose of this study was to explore the influence of organizational factors on ESG disclosure practices among listed firms in Kenya. The study specifically investigated the impact of resource factors, board characteristics, and ownership structure on ESG disclosure practices. Further, it examined the moderating role of sector affiliation in the relationship between organizational factors and ESG disclosure practices. The study was guided by Institutional Theory and Stakeholder Theory. A quantitative methodology was used in the analysis to determine the interaction between the study variables. The research utilized secondary data obtained from the annual audited financial statements of listed companies spanning the years 2010 to 2024. Data was gathered through document analysis. Descriptive and inferential analysis were used to quantitatively examine the gathered data.

Correlation analysis between firm characteristics and the adoption of ESG disclosures within the firms showed a weak positive and significant association between firm size and the ESG disclosure. The findings on board characteristics indicated there was weak positive association between presence of female board members, outside directors, and moderate positive relation between presence of male board members and adoption of ESG disclosures. Findings indicated that ownership structure and sector affiliation had a moderately positive association with adoption of ESG disclosures within the listed firms.

The regression results indicate that organizational factors play a significant role in shaping ESG disclosure adoption among listed firms in Kenya. Firm age emerged as a positive determinant of ESG disclosure practices, while firm size also showed a positive but statistically insignificant effect. Regarding board characteristics; board female representation indicated a statistically significant positive effect on ESG disclosure adoption while board

independent directors had a negative and significant effect. Further, ownership structure exhibited a negative and statistically insignificant effect on ESG disclosure practices. The findings further revealed that there existed a positive and statistically significant moderating effect of sector affiliation on the relationship between organization factors and adoption of ESG disclosures among listed firms in Kenya.

5.3 Discussion of Findings

The discussion of the study findings focused on the implications of the analysis to theory as well as review of the results in line with the objectives.

5.3.1 Firm Characteristics and ESG Disclosure Practice

The study first examined the effect of firm characteristics on ESG disclosure practice among listed firms in Kenya. Firm size showed a positive and statistically insignificant effect on ESG disclosure adoption. In contrast, Firm age has a positive and highly significant influence on ESG disclosure adoption. The findings were partially aligned with the institutional theory which posits that firms adopt certain practices to gain legitimacy and conform to established norms, rules, and expectations within their institutional environment. Older firms are more deeply embedded within regulatory, professional, and social institutions and therefore face stronger pressure to comply with accepted norms such as ESG disclosure. This explains why firm age positively influenced ESG disclosure adoption. The findings were also supported by the stakeholder theory which argues that firms respond to the expectations of stakeholders who can affect or are affected by firm activities. Older firms tend to have a broader and more established stakeholder base and to maintain long-term relationships with these stakeholders, older firms are more likely to adopt ESG disclosure practices as a signal of accountability and responsibility.

The insignificant effect of firm size contrasts with findings from several studies such as Schiehll and Kolahgar (2021) who found a strong positive relationship between financial resources and sustainability reporting among U.S. firms. Their analysis showed that firms with greater financial capacity produced more frequent and higher quality ESG disclosures due to superior reporting systems and data infrastructure. While their findings emphasize the role of financial strength, the divergence from the current study can be explained by contextual differences since U.S. firms operate in a highly regulated and investor driven environment where firm size attracts intense scrutiny and stakeholder pressure. In contrast, Kenyan listed firms face weaker enforcement of ESG reporting requirements, meaning that

larger size alone does not compel firms to adopt ESG disclosures unless accompanied by strong institutional and governance incentives.

Similarly, Drempetic, Klein, and Zwergel (2020) reported that larger firms were significantly more likely to engage in detailed ESG reporting due to their superior financial and technological capacity. However, their study also raised concerns that ESG measurement frameworks may favour larger firms by capturing disclosure quantity rather than disclosure commitment. The current study's use of firm adoption data rather than secondary ESG scores helps mitigate this bias and may explain why firm size does not emerge as a significant determinant in the Kenyan setting. This finding suggests that, unlike in developed markets, ESG disclosure in Kenya is not automatically driven by resource availability.

In contrast, the positive and significant influence of firm age aligns partially with the broader ESG literature. Older firms are likely to have accumulated institutional experience, reputational capital, and established governance structures that facilitate ESG disclosure. This finding is consistent with Dal Mas (2019), who highlighted the importance of structural and relational capital in advancing ESG initiatives. This study reinforces the notion that accumulated organizational capital over time strengthens sustainability. The present study extends this argument empirically by demonstrating that firm age significantly increases the likelihood of ESG disclosure adoption among Kenyan listed firms.

However, the findings differ from those of Masila et al. (2024), who reported that while larger Kenyan firms were more likely to engage in sustainability reporting, older firms showed a decline in sustainability disclosures. This contradiction may stem from methodological differences as Masila et al. (2024) relied on secondary sustainability scores derived from GRI-based indices at a single point in time, whereas the current study uses panel data over 15 years and a probabilistic adoption model that captures disclosure behaviour over time. This brings about a possibility that older firms in Kenya may disclose less frequently but remain more consistent adopters of ESG practices due to institutional legitimacy concerns, a factor that index-based approaches may fail to capture.

Furthermore, Wang et al. (2022) found that technological advancement, particularly fintech development, significantly enhanced ESG performance by reducing financing constraints among Chinese firms. While this supports the resource-based argument for ESG disclosure, the authors also acknowledge that technology adoption in emerging markets may lag due to cost constraints. This resonates with the Kenyan context, where many firms may lack the

technological infrastructure needed for sophisticated ESG reporting. Consequently, firm age becomes more relevant than firm size in explaining ESG disclosure adoption due to the continuous organizational learning and adaptation.

5.3.2 Board Characteristics and ESG Disclosure Practice

Secondly, the research set to bring out the effect of board characteristics on ESG disclosure practice among listed firms in Kenya. Results revealed that the proportion of female board members and board male representation has a strong positive and statistically significant effect on ESG disclosure adoption. Outside directors on the other hand showed a negative and statistically significant effect on ESG disclosure adoption.

The strong positive effect of gender diversity in board representation aligns with the institutional theory, as ESG disclosure adoption appears driven by those who control institutional conformity within firms, in line with the theory that recognizes that dominant actors within organizations shape compliance with institutional norms. This outcome also aligns with stakeholder theory which focuses on power and influence in responding to stakeholder demands and thus influential board members respond to stakeholder expectations when they perceive strategic value.

Institutional theory also further predicts that independent directors strengthen compliance and transparency and thus the negative effect of outside directors contradicts this expectation and therefore does not align with the theory. Stakeholder theory predicts that independent directors represent broader stakeholder interests and therefore the negative effect suggests that outside directors may prioritize cost control or shareholder returns over stakeholder accountability thus contrasting the theory.

The study showed that presence of female directors was associated with improved ESG adoption which is in line with results by Formigoni, Segura, and Gallego-Álvarez (2021) who found that firms in Brazil with a higher proportion of female directors exhibited stronger CSR disclosure policies. Similarly, Rouf and Hossan (2021), in the context of Bangladesh's banking sector, reported a significant positive relationship between female board representation and CSR disclosure. These studies suggest that women directors often bring greater sensitivity to social and environmental issues. However, the absence of a similar effect in the current study may be explained by the Kenyan context, where female directors are often underrepresented and may lack sufficient influence in board decisions. In such cases, gender diversity exists in form but not in practice, limiting its impact on ESG

disclosure outcomes. While this result contrasts with studies emphasizing the role of gender diversity, it highlights that ESG disclosure adoption in Kenya is influenced more by those who hold decision-making authority than by board diversity alone.

The negative effect of outside directors on ESG disclosure adoption contradicts evidence from studies conducted in other areas such as Formigoni et al. (2021) who found that independent directors positively influenced CSR disclosure in Spanish firms, and Nwude and Nwude (2021) who reported that board independence significantly improved CSR disclosure in Nigerian banks. These findings suggest that independent directors enhance transparency and accountability. However, the Kenyan results indicate a different reality. Independent directors in Kenyan listed firms may focus primarily on financial oversight and regulatory compliance rather than sustainability reporting. In some cases, independence may be largely symbolic, with limited involvement in strategic ESG decisions.

The findings also diverge from Christopher, King'ori, and Chalu (2022), who reported that board diversity significantly improves corporate sustainability disclosures in Sub-Saharan Africa, while board independence had no significant influence. While their study covered multiple countries, the current study focuses specifically on Kenya, allowing for deeper insight into national governance practices. Differences in legal systems, regulatory enforcement, and board effectiveness across countries may explain the varying results.

Closer home, the findings were partially corroborated by Abang'a and Tauringana (2024) who found that board independence did not significantly affect CSR disclosure among state-owned organizations in Kenya. However, they reported that board gender diversity significantly influenced disclosure, a result not observed in the present study. This difference may arise from the nature of ownership since state-owned entities are subject to stronger public scrutiny and political oversight, which may enhance the influence of diverse boards. In contrast, privately owned listed firms may face weaker accountability pressures.

5.3.3 Ownership Structure and ESG Disclosure Practice

Thirdly, the effect of ownership structure on ESG disclosure practice among listed firms in Kenya was sought. Research findings showed that ownership structure negatively and insignificantly affects ESG disclosure adoption. The finding is partially aligned with the institutional theory which suggests that firms with dispersed ownership face stronger pressure to adopt legitimacy enhancing practices such as ESG disclosure. The finding is also supported by the stakeholder theory which emphasizes that ownership concentration limits

accountability to external stakeholders. The negative and insignificant effect of ownership structure on ESG disclosure aligns strongly with the theory as reduced stakeholder pressure leads to lower ESG disclosure adoption.

The results of the current study contrast with findings by Al Amosh and Khatib (2022) who, in their study of Jordanian industrial firms, found that ownership structure had a positive relationship with ESG disclosure, particularly where firms had significant state or foreign ownership. Their findings suggest that government involvement and foreign investors increase pressure for transparency and adherence to global ESG standards. The divergence from the Kenyan findings may be explained by differences in institutional environments. Jordan has stronger regulatory guidance on sustainability reporting, and foreign investors may exert greater influence on disclosure practices compared to the Kenyan market.

Similarly, Doshi et al. (2024) found that government ownership positively and significantly influenced ESG disclosure among listed firms in India. Publicly owned firms were more likely to disclose ESG information due to higher transparency requirements and public accountability. In contrast, the negative effect observed in the current study suggests that ownership structures among Kenyan listed firms may not be aligned with transparency goals. Many Kenyan firms are privately dominated, controlled by family or management, which may reduce incentives to disclose ESG information, especially where such disclosure is perceived to increase scrutiny or compliance costs.

The findings also differ partly from Nuhu and Alam (2024), who reported that foreign, managerial, and block ownership positively influenced sustainability reporting among energy firms in BRICS countries, while institutional ownership had a negative effect. Although their results indicate that concentrated ownership can sometimes enhance ESG disclosure, the negative effect of institutional ownership supports the current study's findings to some extent. In Kenya, institutional investors may similarly prioritize short-term financial performance over long-term sustainability reporting, which could weaken incentives for ESG disclosure adoption.

In Kenya, the findings of this study are partially consistent with Tanui (2022) who reported that management ownership significantly weakened corporate sustainability disclosure among Kenyan listed firms, while institutional and foreign ownership had only a marginal positive effect. This supports the current finding that ownership structures dominated by insiders tend to discourage ESG disclosure. Managerial owners may perceive ESG reporting

as costly, risky, or unnecessary, particularly in an environment where ESG reporting is largely voluntary and enforcement remains weak.

5.3.4 Sector Affiliation and Adoption of ESG Disclosure Practices

The study also set to establish the moderating effect of sector affiliation on the relationship between organization factors and adoption of ESG disclosures among listed firms in Kenya. Findings revealed that there existed a positive and statistically significant moderating effect of sector affiliation on the relationship between organization factors and adoption of ESG disclosures among listed firms in Kenya. While sector affiliation did not exhibit a statistically significant direct effect on ESG disclosure practices, the interaction terms reveal that sectoral context conditions how organizational characteristics translate into disclosure outcomes. This finding reinforces the argument that ESG disclosure is not uniformly driven by industry membership alone, but rather by how sector-specific institutional pressures interact with firm-level governance and ownership structures.

The findings partially align with Matakanye, van der Poll, and Muchara (2021), who reported no significant differences in overall ESG sustainability performance across industries. Similarly, the current study finds that sector affiliation, when considered independently, does not significantly influence ESG disclosure adoption. However, while Matakanye et al. (2021) focused on ESG performance outcomes, the present study emphasizes ESG disclosure practices, which are shaped by other factors rather than operational sustainability alone. This distinction explains why sector affiliation may not directly drive disclosure but becomes influential when interacting with internal organizational factors. Thus, the current study extends the author's work by demonstrating that sector relevance in ESG is conditional rather than absolute.

The results strongly resonate with Khamisu, Paluri, and Sonwaney (2024), who found that ESG disclosures are significantly shaped by regulatory demands and stakeholder pressures, particularly in environmentally sensitive industries. Although the current study encompasses all industries rather than focusing solely on environmentally sensitive sectors, the significant moderation of ownership structure by sector affiliation supports their conclusion that regulation and stakeholder scrutiny vary across industries and influence ESG reporting depth. In Kenya, sectors such as energy, financial services, and manufacturing face stronger regulatory oversight and stakeholder expectations, which amplifies or constrains the influence of dominant owners on disclosure decisions. However, unlike Khamisu et al.

(2024), who confined their analysis to high-risk industries, this study demonstrates that sectoral regulatory intensity moderates' governance–ESG relationships even in less sensitive sectors, thereby broadening the applicability of their findings.

Consistent with Mio, Fasan, and Costantini (2020), the current study finds evidence that sector materiality influences ESG disclosure behavior, particularly through governance mechanisms. Mio, Fasan, and Costantini (2020) reported that firms in high-materiality sectors disclosed more comprehensive environmental information due to heightened stakeholder scrutiny. Similarly, the present study shows that the positive effect of female board representation on ESG disclosure is weakened in certain sectors, suggesting that entrenched sector norms and materiality concerns can limit the influence of progressive governance structures. However, while the study was limited to a single large firm in Italy, the current research extends this argument across multiple listed firms in a developing market, offering broader empirical generalizability and contextual relevance.

The study's findings also complement Haavisto (2024), who demonstrated that ESG effects vary asymmetrically across industries in Europe, with highly sensitive sectors exhibiting stronger ESG-related outcomes due to regulatory and legitimacy pressures. Similarly, the Kenyan evidence shows that sector affiliation significantly moderates the relationship between ownership structure and ESG disclosure, indicating that industry specific institutional environments shape how firms respond to ESG expectations. However, unlike Haavisto (2024), who focused on the link between ESG and financial performance, the present study concentrates on ESG disclosure as a governance outcome, thereby filling an important gap in the literature by explaining how sector context influences transparency rather than performance.

5.4 Conclusions

The results support the conclusion that firm characteristics significantly influence the adoption of ESG disclosure practices among listed firms in Kenya, even though the effects are not uniform across all characteristics. Firm age was found have a positive determinant of ESG disclosure adoption, indicating that older firms are more likely to disclose ESG practices. This suggests that firms with longer histories may have developed institutional maturity, reputational concerns, and reporting capabilities that encourage sustainability disclosure. Conversely, firm size does not have a statistically significant effect on ESG

disclosure adoption. This implies that being large in terms of assets or operations does not automatically translate into greater ESG transparency within the Kenyan context.

The study further concludes that board characteristics play a critical role in shaping ESG disclosure practices. The findings show that female representation on boards has a strong positive and statistically significant effect on ESG disclosure practices. Firms with higher female board participation are more likely to adopt ESG disclosures. This highlights the importance of gender diversity in enhancing ethical governance, stakeholder responsiveness, and transparency in sustainability reporting. Furthermore, the study finds that outside directors negatively and significantly affect the ESG disclosure practices adoption, contradicting traditional corporate governance expectations. This suggests that board independence in Kenya may be largely symbolic, with independent directors focusing more on financial oversight and regulatory compliance rather than sustainability and stakeholder accountability.

Thirdly, the study concludes that ownership structure has an insignificant negative effect on ESG disclosure adoption among listed firms in Kenya. This suggests that firms with diverse or fragmented ownership structures are less likely to adopt ESG disclosures, possibly due to conflicting interests among shareholders and weaker alignment on long-term sustainability goals. This shows that dominant owners may prioritize financial performance and control over transparency, limiting incentives to disclose non-financial information. Concentrated ownership reduces pressure from minority shareholders and other stakeholders, thereby weakening accountability mechanisms that typically promote ESG disclosure.

This study lastly concludes that sector affiliation plays a significant moderating role in shaping ESG disclosure practices among listed firms in Kenya, even though it does not exert a strong direct effect on ESG disclosure adoption. The findings demonstrate that sector affiliation functions as an institutional conditioning factor, influencing how organizational characteristics translate into ESG disclosure outcomes rather than independently determining disclosure behavior. The study therefore affirms that ESG disclosure practices in Kenya are not uniform across sectors and cannot be fully explained by organizational factors alone. Instead, sector affiliation acts as a boundary condition that determines the relevance and effectiveness of firm characteristics, board attributes, and ownership structures in driving ESG transparency. The findings imply that sector-specific ESG disclosure guidelines and enforcement mechanisms are likely to be more effective than a one-size-fits-all approach.

5.5 Recommendations

5.5.1 Policy Recommendation

The study recommends that regulators, in this case the Capital Markets Authority and the Nairobi Securities Exchange should design targeted ESG capacity-building programs for younger listed firms. These programs may include mentorship from older firms, and phased disclosure requirements to encourage them to accelerate institutional learning and adapt to the ESG guidelines. However, ESG disclosure policies should not assume that larger firms automatically possess better disclosure capacity. Instead, ESG guidelines should be encouraging firms at different stages of growth to adopt sustainability reporting proportionate to their operational maturity. The study also suggests that listed firms should be encouraged to embed ESG disclosure into long-term strategic planning rather than treating it as a compliance exercise. This can be achieved through periodic ESG performance reviews.

5.5.2 Practical Recommendations

Given that firm age positively influences ESG disclosure, the study recommends that mature listed firms should formalize ESG reporting through dedicated sustainability committees, standardized ESG policies, and annual ESG reporting calendars. Younger firms should adopt ESG disclosure early by benchmarking against older firms and using integrated reporting frameworks to accelerate legitimacy and investor confidence. Furthermore, Regulators should introduce scaled ESG reporting frameworks, where requirements vary based on firm size. Large listed firms should decentralize ESG reporting responsibilities to business units to improve responsiveness and disclosure depth. Smaller firms should exploit their operational flexibility to adopt agile ESG disclosure practices and digital reporting tools.

The second objective showed that board characteristics had an influence on ESG reporting. The study therefore recommends that boards of listed firms should invest in ESG training for directors, particularly focusing on sustainability governance, integrated reporting, and the importance of stakeholder and their engagement. This will ensure that board members possess the technical competence to drive ESG disclosure. Additionally, firms should move beyond symbolic board diversity and ensure meaningful participation of female directors in sustainability committees and disclosure decisions. Regulators may consider requiring disclosure of the roles and committee memberships of board members to assess actual influence. Furthermore, the negative influence of outside directors suggests a need to reassess independence criteria. Firms should thus appoint independent directors with demonstrated

ESG expertise rather than relying solely on formal independence. Additionally, ESG oversight responsibilities should be explicitly included in independent directors' mandates.

Ownership structure demonstrated an insignificant negative effect on ESG disclosure adoption. Regulators should therefore strengthen ownership disclosure requirements, especially in firms with concentrated ownership, to enhance accountability to minority shareholders and other stakeholders. The study also suggests that firms with dominant shareholders should be encouraged to adopt ESG disclosures as a tool for building credibility and attracting long-term investment. Finally, the study recommends introduction of corporate governance reforms which should strengthen minority shareholder participation in sustainability decisions, including voting on ESG policies and reporting frameworks at annual general meetings.

Since sector affiliation significantly moderates ESG disclosure relationships, the study suggests that regulators should develop industry-specific ESG disclosure templates. High-impact sectors should have more stringent and detailed ESG disclosure requirements compared to low-impact sectors. Regulators should also prioritize monitoring ESG disclosures in sectors with high environmental and social risk exposure. The study further recommends that firms should focus ESG disclosures on sector-specific material issues rather than generic ESG reporting. Firms should also benchmark ESG disclosures against peers within the same sector rather than across unrelated industries to improve relevance and comparability. Civil society, regulators, and investors should engage firms differently depending on sector risk profiles.

5.6 Limitations of the Study

Despite providing important insights into the organizational determinants of ESG disclosure practices among listed firms in Kenya, this study was subject to several limitations. First, the study relied on secondary data extracted from annual reports and publicly available disclosures of listed firms. This limits the analysis to what firms voluntarily or mandatorily disclose. As a result, firms with poor ESG practices but sophisticated reporting structures may appear more compliant than they are in reality, potentially leading to disclosure bias. Second, ESG disclosure practices were measured using a binary adoption index, which captures whether ESG disclosures exist but does not fully account for the depth, quality, credibility, or assurance of the disclosed information. Consequently, the study may not distinguish between symbolic ESG disclosure and substantive sustainability reporting. Third,

the study focused exclusively on listed firms at the Nairobi Securities Exchange. While listed firms are subject to higher disclosure requirements, the findings may not be generalizable to unlisted firms, state-owned enterprises, or small and medium-sized enterprises in Kenya, which operate under different regulatory and governance environments.

5.7 Areas for Further Studies

Even though this study provides important findings into the organizational factors influencing ESG disclosure practices among listed firms in Kenya, several areas remain open for further investigation. First, future studies could extend the scope of firm and board characteristics by incorporating additional variables. This would provide a more comprehensive understanding of how internal firm and board dynamics influence ESG disclosure decisions. Second, future research may examine the moderating or mediating roles of regulatory factors. As ESG disclosure in Kenya is largely voluntary, studying how changes in regulation or policy reforms affect disclosure practices over time would offer valuable insights. Future research could also adopt alternative methodological approaches, including qualitative case studies or mixed-methods designs. Interviews with board members, regulators, and investors could help explain why certain governance mechanisms, such as outside directors or female board representation, do not significantly enhance ESG disclosure in the Kenyan context.

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APPENDICES

Appendix I: Research Data Extraction Sheet

Variable	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Firm characteristics															
Board characteristics															
Ownership structure															
Sector affiliation															
ESG disclosure															

Variable	Indicator	Recommended Measurement
Firm Size	Firm size	Natural logarithm of total assets: Firm size = ln(Total Assets)
Firm Age	Firm age	Natural logarithm of number of years since firm listing: ln(Years since listing)
Board Size	Board composition	Total number of directors on the board
Board Independence	Independent directors	Ratio of independent directors to total board size: Independent Directors/Total Board Size
Gender Diversity	Female representation	Ratio of female directors to total board size: Female Directors/Total Board Size
Ownership Structure	Ownership categories	Dummy variables representing ownership type: Government ownership (1=yes, 0=no); Foreign ownership (1=yes, 0=no); Mixed ownership (1=yes, 0=no); Public ownership used as reference category

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Variable	Indicator	Recommended Measurement
Sectoral Affiliation	Industry classification	Dummy variable: Manufacturing sector =1; Services sector =0
ESG Disclosure (Weighted)	ESG disclosure practices	ESG disclosure index calculated as: Number of ESG items disclosed/Total ESG items expected

Appendix II: Ethical Review Permit

Strathmore UNIVERSITY

23rd September 2025

Ms Karimi Leah,
leah.karimi@strathmore.edu

Dear Ms Karimi,

RE: Effect of Organization Factors on ESG Disclosure Practices of Listed Firms in Kenya: The Moderating Effect of Sectoral Affiliation

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC3022/25.** The approval period is from **23rd September 2025 to 22nd September 2026.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC

Ole Sangale Rd, Madaraka Estate. PO Box 59857-00200, Nairobi, Kenya. Tel +254 (0)703 034000
Email admissions@strathmore.edu www.strathmore.edu

Appendix III: NACOSTI Licence

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **336612**

Date of Issue: **08/October/2025**

RESEARCH LICENSE



This is to Certify that Ms.. Leah Njeri Karimi of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Effect of Organization Factors on ESG Disclosure Practices of Listed Firms in Kenya: The Moderating Effect of Sectoral Affiliation for the period ending : 08/October/2026.

License No: **NACOSTI/P/25/4180347**

336612

Applicant Identification Number

Ag. Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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See overleaf for conditions

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was the established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to.
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
    i. Endanger national security
    ii. Adversely affect the lives of Kenyans
    iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
    iv. Result in exploitation of intellectual property rights of communities in Kenya
    v. Adversely affect the environment
    vi. Adversely affect the rights of communities
    vii. Endanger public safety and national cohesion
    viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. Neither the license nor any rights thereunder are transferable.
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and
Innovation(NACOSTI),
Off Waiyaki Way, Upper Kabete,
P. O. Box 30623 - 00100 Nairobi, KENYA
Telephone: 020 4007000, 0713788787, 0735404245
E-mail: dg@nacosti.go.ke
Website: www.nacosti.go.ke