

**Company Characteristics of Early Adopters of Environmental Social  
Governance Disclosures on the Nairobi Securities Exchange**

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**MBA FOR EXECUTIVES**

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**Submitted in partial fulfillment of the requirements for the MBA for Executives at  
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**Strathmore University School of Business**

**Nairobi, Kenya**

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## 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 thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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Kenny Muhia Karanja

28<sup>th</sup> October 2023



### Approval

The dissertation of Kenny Muhia Karanja was reviewed and approved for examination by the following:

**Name of Supervisor:** Geoffrey Injeni

**Faculty Affiliation:** Accounting & Finance



## **DEDICATION**

This dissertation is not just a culmination of academic endeavors, but a testament to the unwavering support that has seen me through this journey. First and foremost, I express my deepest gratitude to my esteemed supervisor, Dr. Geoffrey Injeni. Your guidance, expertise, and encouragement have been instrumental in shaping this work. Your belief in me, even when I doubted myself, has been a source of immense strength.

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This dissertation is a reflection of your collective support, and I dedicate it to you with heartfelt gratitude.

With deepest appreciation,

Kenny Karanja

## ABSTRACT

The ESG concept brings together environmental, social, and governance issues in businesses. The concept of Environmental, Social, and Governance (ESG) reporting is gaining increasing attention in the global business community. ESG disclosures refer to a set of voluntary non-financial disclosures made by companies to provide stakeholders with information on their environmental, social, and governance performance. This research aimed to explore the characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange (NSE) in Kenya. The Central Bank of Kenya in 2021 introduced regulations requiring financial institutions to adopt climate risk guidelines to foster sustainable finance practices in the banking sector. Following this the Nairobi Securities Exchange developed guidelines on ESG disclosures for use by all NSE listed companies at least annually, with mandatory reporting beginning twenty ninth November 2022. Reporting has lagged at fourteen percent of NSE listed firms even five months past the mandatory deadline. The research had three objectives, namely - identify the firm characteristics that make firms early adopters of ESG disclosures, analyze the motivations and incentives behind firms' decisions to adopt ESG reporting practices, and assess the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya. The research provided current practice information and discerned approaches to enhance compliance. The research utilized a mixed-method approach methodology, which combined both quantitative and qualitative data collection and analysis methods. The quantitative research methods involved collecting financial data and analyzing the relationship between ESG reporting and firm characteristics using regression analysis. The qualitative research methods involve questionnaires to key stakeholders to gain insights into the motivations and challenges associated with ESG reporting. The target population for the study was the listed firms in the Nairobi Securities Exchange already adopting ESG disclosures before the November 2022 deadline. The researcher used a pre-designed questionnaire for primary data collection which was administered online through use of google docs because of the high response rates associated with the approach. The researcher also used secondary data derived from published annual reports of the listed companies to complement the primary data. Before the commencement of the data collection, there was a pilot study done by the researcher to test the study tool and validate it. Correlation analysis was used to examine the inter-relationship between the independent and the dependent variable. Regression analysis was used to examine the impact of the independent variables on the dependent variable and to identify the most significant predictors of early adoption of ESG disclosures. The findings of the research provided a better understanding of the drivers of ESG adoption and the challenges that firms encounter in implementing ESG reporting practices in Kenya. The research conclusions contributed to the development of policies and strategies that encourage ESG reporting among firms and improve the overall quality of ESG reporting in Kenya.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Environmental Social Governance (ESG) investing began in the 1960s when jurisdictions began compelling investors to address sustainability in their ventures (World Bank, 2022). The concept of ESG takes a holistic approach to sustainability, contending inclusion of issues beyond environmental conservation (CFA Institute, 2021). The ESG formalization gained traction in 2004. The former United Nations Secretary-General, Kofi Annan, wrote to over 50 CEOs of major financial institutions. Kofi Annan invited the financial entities to participate in a joint initiative under the auspices of the United Nations Global Compact (Kerber & Jessop, 2021). With the support of the International Finance Corporation (IFC) and the Swiss Government, the ESG goal was to find ways to integrate ESG into capital markets.

The ESG concept brings together environment, social, and governance issues in businesses. The three facets of ESG represent separate issues, even though they are interrelated. (Peterdy, 2022) attempts to distinguish the aspects of ESG concerning organizational practices. The author contends that the Environment focus refers to risk management practices that favor environmental sustainability. The business should demonstrate action against greenhouse gas emissions, stewardship over natural resources, and contribution towards resilience against climate risks. The social aspect is attributed to the relationship with the organization's stakeholders, i.e., employees, customers, shareholders, suppliers, and partners, among other stakeholders. Specific metrics measure the relationships, e.g., fairness of wage structures, employee engagement, customer satisfaction, and prompt supplier payments, among other measures. Finally, the Governance aspect refers to the organizational leadership structures. Issues of consideration in governance include stakeholder expectation alignment, internal controls, transparency of operational processes, upholding human rights, and leadership accountability (Kerber & Jessop, 2021).

In recent years, there has been a growing interest in Environmental, Social, and Governance (ESG) reporting and disclosures as investors and other stakeholders become more concerned about sustainability and corporate responsibility. ESG reporting refers to the disclosure of non-financial performance indicators that assess a company's impact on the environment, society, and

governance. ESG reporting has become increasingly important as stakeholders recognize that non-financial factors can have a significant impact on a company's long-term financial performance, reputation, and social license to operate. However, different countries have varying systems of ESG disclosure within organizations, making it difficult for investors to compare companies across different markets (Liu et al., 2022; Tang et al., 2022).

(Singhania & Saini, 2021) note that there are currently over a dozen primary ESG reporting frameworks, each with its own set of measurements, methodology, and scoring system. These reporting frameworks serve as the foundation for establishing key performance indicators (KPIs), monitoring performance, and creating sustainability reports. They provide guidelines and recommendations for the firms to improve their ESG disclosure practices. They also encourage investors to respond to the issues related to ESG disclosure in the market. By following these guidelines and recommendations, firms can not only improve their sustainability practices but also attract more responsible investors who prioritize ESG factors. The growing number of ESG reporting standards is due, in part, to the vast spectrum of enterprises now reporting. Different industries have different ESG components and ramifications, making reporting on other metrics understandable (Bose, 2020).

Early adopters in the context of ESG disclosures refer to companies or organizations that proactively integrate and disclose ESG-related information ahead of regulatory requirements or industry norms (Bose, 2020). These entities recognize the importance of ESG factors in driving long-term sustainability, managing risks, and satisfying stakeholder expectations. While the November 2022 deadline established by the NSE Guidance Manual serves as a pivotal benchmark, it's crucial to acknowledge the broader ecosystem of sustainability reporting and industry-specific expectations. However, the NSE framework wasn't the sole driver. Companies embracing emergent guidance documents like the Global Reporting Initiative Standards or the Sustainability Accounting Standards Board guidelines also demonstrated early adoption tendencies. These frameworks, established before the NSE's formal guidelines, provided standardized reporting approaches and encouraged companies to go beyond basic compliance.

The Global Reporting Initiative (GRI) was established in 1997 as the first global standard for sustainability reporting. It was developed by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme in response to the Exxon

Valdez oil spill. GRI remains the most widely used ESG reporting method after three decades, with over 13,000 organizations in 90 countries using it to report sustainability. The standards have also been translated into multiple languages. Both small firms and large international corporations benefit equally from GRI.

However, the corporate reporting landscape has continued to evolve. Recognizing the fragmented nature of traditional reports, the International Integrated Reporting Framework (IRF) was introduced by the IIRC in 2013. It is considered a significant moment in market-led corporate reporting by (Bose, 2020). The IIRC's goal was to replace the various, fragmented corporate reports of businesses with a unified strategy that would provide investors, lenders, and insurers with a succinct summary of how an organization produces, preserves, or erodes value over time.

While GRI and IRF provide broader frameworks, the Sustainability Accounting Standards Board (SASB) standards, introduced in the late 2010s, offer an industry-specific lens. It is a set of 77 industry standards that businesses may use to identify and report financially significant sustainability information to investors. SASB is distinctive in that it specifies particular sustainability issues and key performance indicators (KPIs) for each industry, such as transportation, utilities, and oil and gas. As a result, it is particularly beneficial to companies that require assistance in identifying financially relevant disclosure subjects for their operations and selecting the appropriate KPIs.

In Kenya, ESG reporting is voluntary and consequently inconsistent. There is no universal reporting standard, and companies choose to report on ESG using a variety of metrics and third-party disclosure frameworks such as the GRI and SASB. In many organizations, ESG guideline adoption is more of a best-practice commitment than a regulatory compliance issue (Butt & Nduba-Banja, 2022). However, some institutions in the country are beginning to compel organizations to comply with the guidelines. The Nairobi Securities Exchange (NSE) issued the ESG Guidance Manual on 29<sup>th</sup> November 2021 in collaboration with the Global Reporting Initiative (GRI). The ESG Manual provides a guide to listed companies to collect, analyse, and publicly disclose ESG details about their business activities. The ESG Manual is divided into various sections that cover the ESG reporting process and they include: The ESG reporting principles, The ESG reporting boundary, Key steps in the ESG reporting process, Publishing the ESG report, ESG reporting requirements from other organisations. The action followed investor

demand for comprehensive ESG disclosures and reporting and to improve & standardize ESG disclosures by entities listed on the NSE. The ESG Guidance Manual also guides listed and non-listed entities on integrating ESG reporting into their businesses. Listed companies had a deadline of 29<sup>th</sup> November 2022 to comply with the sustainability or ESG reporting requirements and standards stated in the ESG Guidance Manual.

The Bloomberg ESG reporting method is one approach to measuring a firm's ESG disclosure, with higher scores indicating more sustainable ESG data disclosure based on each defined criterion (Pyles, 2020). The Bloomberg scale measures different variables for each dimension of ESG, such as greenhouse gas emissions in the environmental aspect and women employees' ratio in the workplace in the social aspect, and political contributions and board tenure in the governance aspect.

Companies operating in sectors like renewable energy, sustainable agriculture, or waste management might inherently prioritize ESG practices due to their core operations. These "green" players could be more likely to be early adopters, showcasing their commitment to sustainability and attracting environmentally and socially conscious investors. Similarly, larger companies with greater resources may have the capacity to invest in robust ESG practices and reporting systems, making them more likely to be early movers. Additionally, pressure from stakeholders like NGOs, investors, and consumers can act as a catalyst for early adoption, pushing companies towards transparency and accountability (Clarkson et al., 2008).

Ownership structure and governance can also play a role. Companies with strong institutional ownership or a board of directors with sustainability expertise might be more inclined to prioritize ESG disclosures (Gamerschlag et al., 2010). The regulatory environment and international exposure can further influence a company's decision to disclose early. The regulatory landscape surrounding ESG disclosures in Kenya, including any mandatory reporting requirements, can provide a clear impetus for disclosure. Finally, companies operating internationally or with foreign investors might be more likely to adopt ESG disclosures to comply with international standards and remain competitive in the global market (Gibassier & Schaltegger, 2015).

The local stock exchange companies have played a vital role in improving the ESG disclosure by the firms. Hong Kong Stock Exchange shifted its ESG disclosure requirements from being "voluntary and recommended" to "explain and comply" in 2017. The Singapore Stock Exchange,

on the other hand, implemented voluntary counseling to encourage their foreign investors to disclose more sustainably. The exchange took the initiative of the United Nations to improve the ESG disclosure practices of the firms. Shareholders can also pressure companies and management to improve their ESG disclosure (Barko et al., 2022).

Organizations where ESG compliance has suddenly become mandatory have to contend with meeting the required standards. There are several aspects of preparedness of ESG to demonstrate alignment to sustainability practices in the companies. Many organizations have many challenges, e.g., data unavailability, governance & institutional capacity, appropriate technology, and reporting objectivity (Deloitte, 2022). Critical matters for ESG preparedness include - stakeholder dialogue, aligning to GRI standards methodology, management of risks & opportunities, internal company coordination & cooperation, and report process automation, among other matters (Gallovic & Vitalosova, 2022).

## **1.2 Statement of the Problem**

While ESG reporting practices have gained significant momentum in developed markets, the adoption of these practices in emerging markets, such as Kenya, has been relatively slow. The Nairobi Securities Exchange is one of the leading securities exchanges in Africa (Sustainable Stock Exchanges, 2019), with 63 listed companies representing various industries. The Nairobi Securities Exchange issued a guideline requiring the listed firms to conform to ESG requirements by 29<sup>th</sup> November 2022. However, as of March 2023, data from the NSE reveals that only 14% of listed companies are doing ESG disclosures i.e., only nine NSE-listed firms have published ESG reports or integrated ESG factors into their business strategy and operations. These companies include Safaricom, East African Breweries, Nation Media Group, Bamburi Cement, KCB Bank Group, Kakuzi, Stanbic Bank, Co-operative Bank and Standard Chartered Bank.

To comply with ESG guidelines, organizations must disclose financial and non-financial performance metrics to an increasingly diverse set of stakeholders. The stakeholders include - among others - investors, regulators, and customers keen to understand the economic, social, and environmental impacts the organization has on society while in pursuit of shareholder value (Nairobi Securities Exchange, 2021).

Low levels of compliance with the listed firms so far reveal that there could be challenges they are facing in attempting to comply with ESG requirements. Resource constraints, regulatory ambiguity, and a lack of standardized reporting frameworks or a global governing body for ESG disclosure presents a significant challenge, as it allows companies to selectively share their ESG information or withdraw from disclosing altogether (Carroll & Shabana, 2010; Serafeim, 2015). These challenges can create barriers to adoption and implementation of ESG reporting practices, particularly in emerging markets where the institutional infrastructure for ESG reporting is less developed.

The study aimed to shed light on the characteristics of early adopters of ESG reporting practices on the Nairobi Securities Exchange, with the ultimate goal of advancing the adoption of sustainable business practices in Kenya and other emerging markets. By identifying the motivations, benefits, and challenges associated with ESG reporting, this study contributed to the broader discussion on how to promote sustainable business practices and enhance corporate accountability. The revelation of challenges the companies are going through to comply with ESG standards was critical for other companies to draw lessons and make their journey smoother. The study outcome was expected to help companies seeking to embrace sustainability to mitigate the challenges they encounter with compliance.

### **1.3 Research Objectives and Questions**

#### **1.3.1 General Objective**

The general study objective was to aim to provide insights into the characteristics of firms that are early adopters of ESG reporting practices on the Nairobi Securities Exchange and offer a better understanding of the potential benefits and challenges of ESG reporting for firms, investors, and other stakeholders in the Kenyan context.

#### **1.3.2 Specific Objectives**

The specific objectives of the study were as follows:

- i. To identify the characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange.

- ii. To analyze the motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya.
- iii. To assess the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.

### **1.3.3 Research Questions**

The study sought answers to the following questions.

- i. Which firm characteristics do early adopters of ESG disclosures on the Nairobi securities exchange exhibit?
- ii. What are the primary motivations and incentives that drive firms to adopt ESG reporting practices in Kenya?
- iii. What are the main challenges and barriers faced by firms in Kenya when adopting and implementing ESG reporting practices?

### **1.4 Scope of the Study**

The study focused on characteristics of firms that are early adopters of Environmental, Social, and Governance disclosures on the Nairobi Securities Exchange. The study also analyzed the motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya, as well as assess the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya. The researcher proposed to collect data in May 2023 as listed companies would have released their annual reports for full year 2022. Data was collected over four weeks to give ample time to respondents who were involved in the release of 2023 quarter one financials. For the secondary data collection, the study focused on the 2021/22 annual reports of the NSE-listed firms to establish the presence of ESG reporting as this is the period within which listed firms were given a deadline by NSE for disclosures.

The study targeted firms that were making ESG disclosures and reporting as they were considered early adopters of sustainability reporting practices. The study respondents included investment analysts, finance managers, CFOs, and investor relations personnel. Such officers are responsible for ensuring the firms comply with the ESG guidelines and document the disclosures. They are also responsible for managing the operations and strategies of the company, including financial reporting and sustainability practices and as such, they are likely to have insights into the decision-

making processes of the company regarding the adoption and implementation of ESG reporting practices.

### **1.5 Significance of the Study**

The results and findings of this research would be relevant to the following:

**i) Organizations seeking ESG compliance.**

Other organizations seeking to comply with ESG guidelines will benefit from the real-life experiences of those that have gone through the process. The lessons learned will form a valuable reference point for organizations that will not need to reinvent the wheel as they figure out how to implement the guidelines and document the disclosures.

**ii) Investors**

Investors seeking opportunities from organizations demonstrating sustainability in their practices will benefit from the study outcome. The findings will reveal the maturity levels of particular sectors in complying with sustainability measures. The higher the sustainability maturity level, the more the organization appeals to the investors.

**iii) Regulatory Bodies**

The regulatory and supervisory institutions will benefit from the study findings by discerning the guidelines that would be applicable in their different sectors. Eventually, ESG compliance will become mandatory across industries. The study holds immense value for both market development and regulatory harmonization. Understanding these pioneers' motivators and challenges can inform the NSE's efforts to create targeted tools, resources, and educational programs that encourage broader adoption. This would not only enhance the exchange's attractiveness to sustainability-conscious investors but also potentially align its requirements with international best practices like GRI and SASB, fostering smoother integration into global sustainable financial markets.

Furthermore, analysing these early adopters' link between ESG practices and financial performance can offer valuable insights for the CBK in assessing potential systemic risks related to environmental and social issues. This knowledge can be instrumental in informing risk management strategies and regulatory frameworks for the financial sector. Additionally, studying their characteristics can guide the CBK in developing targeted policies and incentives to promote

the growth of green finance products and services. Ultimately, this would support the transition to a more sustainable economy, benefiting both the financial sector and the broader Kenyan landscape.

**iv) Educators**

The study will be useful to other researchers and academics because it will show how company characteristics contribute to early adoption of ESG disclosures. Scholars may find it useful because it will serve as a foundation of future research on a variety of ESG topics. Its goal is to provide more information about the link between company characteristics, ESG disclosures and the sustainability of Kenyan publicly traded companies. This can aid the parties involved to come up with superior and alternative policies to deal with any issues or challenges that NSE listed companies face in making disclosures.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The section consists of a literature review that splits into two sections – the Theoretical Review and the Empirical Review. The Theoretical Review is a compilation of theories underpinning the research. The theoretical framework includes those on organizational compliance with sustainability practices and the justification behind organizations embracing them. The objective of the empirical literature review is to identify the characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange, analyze the motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya, and assess the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.

#### **2.2 Theoretical Review**

##### **2.2.1 Stakeholder Theory**

The Stakeholder Theory, initially proposed by Edward Freeman in 1984, highlights that a company is not solely responsible to its shareholders but also has a responsibility towards other interest groups as part of the social system (Freeman, 1984). It suggests that firms have a responsibility to consider the interests of all stakeholders affected by their actions and decisions, including employees, customers, suppliers, and local communities. Freeman (1984) defines stakeholders as any group or individual who can affect or is affected by the achievement of the organization's objectives.

Stakeholder theory has been applied in many different fields, including business ethics, corporate social responsibility, and environmental, social, and governance reporting and disclosures. In 1984, Edward Freeman initially introduced the Stakeholder Theory of organizational management and corporate ethics, which emphasizes the importance of morality and values in management. The concept has been widely used by researchers as a basis for future inquiry and development,

making it a critical consideration in the study of business ethics (Cragg, 2002). Over the years, the theory has gained prominence, with global experts discussing the notion of whether relying solely on shareholders' funds as the primary goal of business sustainability, which is one of the main reasons for ESG disclosures, is debatable. In the context of ESG, stakeholder theory is particularly relevant, as it emphasizes the importance of considering the social and environmental impacts of business activities, in addition to financial performance.

Stakeholder Theory emphasizes that a corporation should consider the perspectives of its customers, employees, suppliers, investors, communities, and other stakeholders while providing value to them (Donaldson & Preston, 1995). It suggests that companies engage in ESG reporting to meet the needs and expectations of their stakeholders. ESG reporting is seen as a way for companies to communicate their non-financial performance to stakeholders and demonstrate their commitment to social responsibility. Many studies have used stakeholder theory as a theoretical framework for analyzing ESG reporting and disclosures. Kolk and Pinkse (2010) used stakeholder theory to examine the motivations and strategies of companies in the oil and gas industry to disclose their carbon emissions. They found that stakeholder pressure was a key driver of disclosure, and that companies that had more extensive stakeholder engagement processes were more likely to disclose their emissions.

Kent and Chan (2003) used stakeholder theory to analyze the content and quality of social and environmental disclosures by companies in Australia. They found that companies with more extensive stakeholder engagement processes tended to provide more detailed and comprehensive disclosures, suggesting that stakeholder theory can be a useful tool for improving the quality and relevance of ESG reporting. Fifka and Drabble (2012) also concluded that firms with higher levels of stakeholder engagement tend to have more comprehensive and credible sustainability reporting practices.

Stakeholder power plays a crucial role in the company's sustainability, and organizations disclose sustainability information to address stakeholder concerns, reduce costs, and gain incentives. Powerful stakeholders like the government may use the company's financial data to redistribute wealth, and therefore, firms must manage relationships with different stakeholder groups by establishing various "social contracts" (Eccles & Krzus, 2018).

The Stakeholder Theory informs the stakeholder attributes variable, and companies prioritize stakeholder groups based on their power over the firm's operations. Sustainability data becomes an essential tool for managing stakeholder relationships, and the goal is to create value for both the firm and stakeholders by balancing their concerns (Cho & Patten, 2007).

Overall, stakeholder theory provided a valuable theoretical framework for understanding the role of stakeholders in ESG reporting and disclosures. By taking a stakeholder perspective, organizations can identify and address the concerns of a wide range of stakeholders and develop strategies to improve their social and environmental performance. As such, stakeholder theory was likely to continue to play an important role in the development of ESG reporting and disclosures in the years to come.

### **2.2.2 Discretionary based disclosure theory**

The Discretionary Based Theory of Disclosure has its roots in the broader Discretionary Based Theory of Corporate Social Responsibility. Discretionary Based Theory can be traced back to Carroll's seminal paper. In this paper, Carroll proposed a three-dimensional model of corporate social responsibility (CSR) that included economic, legal and ethical discretionary responsibilities (Carroll, 1979). The discretionary responsibility component of the model refers to those voluntary actions that are not required by law or social norms but are undertaken by organizations based on their discretion. The Discretionary Based Theory was further developed in the 1990s by (Wood, 1991), who explored the factors that influence an organization's discretionary power and the relationship between CSR and organizational performance. Since its introduction, the Discretionary Based Theory has been widely used in management literature to explain organizational decision-making regarding CSR activities. It has also been subject to further development and refinement, with researchers exploring the relationship between CSR and stakeholder theory, institutional theory, and other related fields.

Verrecchia (2001) categorizes disclosure-based theory as a subset of Game Theory, where entities weigh the costs and benefits of disclosure. If the advantages of voluntary disclosure outweigh the costs, managers may selectively disclose information that benefits their entity while withholding information that disadvantages it. Sethi et al., (2017) explain that this theory examines the circumstances in which firms voluntarily reveal information due to strategic interactions with external agents such as investors and competitors. Thus, this theory helps determine when

managers and/or businesses choose to disclose information, and features associated with the company may explain voluntary disclosure.

Villiers and Van Staden (2006) investigated whether less environmental disclosure can have a legitimizing effect, finding that organizations in Africa with weaker environmental performance actually disclose less about their environmental impact. Kolk (2003) analyzed trends in sustainability reporting by the Fortune Global 250, finding that companies in certain industries were more likely to engage in ESG reporting. This is relevant to your dissertation, as it suggests that certain industries may be more likely to adopt ESG disclosure practices.

According to Hyvönen (2007), management should use sustainability disclosure as a tool to lower the cost of information access, and companies must disclose information about their organizational practices and internal sustainability disclosure measures. This would create a culture that helps achieve desired sustainability disclosure standards, control environmental hazards, and create a pleasant working environment.

However, opposing viewpoints within an organization may lead to an increase in monitoring and agency costs, as Lee (2017) explains that organization management may be motivated by a desire to maintain their jobs, which are based on performance. Engaging in sustainability activities may erode performance ratings and exacerbate conflicts among parties. Ullmann (1985) examined the relationships among social performance, social disclosure, and economic performance of US firms, finding that there was no consistent relationship between these factors. This is relevant to the research, as it suggests that the relationship between ESG disclosure and organizational performance may not be straightforward. Jain et al., (2016) suggest that ESG disclosures could be used as a management quality evaluation tool, which is in line with agency theory. Maniora (2017) notes that the amount of information disclosed in reports is at management's discretion, and they may use it to assuage shareholders' concerns and demonstrate optimal action.

Therefore, different stakeholders have different needs in terms of the quality of sustainability disclosure adopted by corporations, and management should use all available means to disseminate required information to each group (Hummel & Schlick, 2016). This would save resources that would otherwise be used to respond to external pressure, and the theory is applicable to this study due to the diversity of these stakeholders.

### **2.2.3 Legitimacy Theory**

Legitimacy theory, which originated in organizational sociology, explains how organizations strive to justify their existence in society by conforming to socially accepted norms, values, and beliefs (Suchman, 1995). Organizations are motivated to maintain legitimacy with their stakeholders by aligning their actions and operations with the expectations and values of the society in which they operate (Dowling & Pfeffer, 1975). According to this theory, companies disclose social responsibility information to portray a socially responsible image and legitimize their actions to their stakeholder groups. The theory is based on the concept of a social contract between business and society, emphasizing the influence of cultural boundaries on corporate social and environmental disclosures, which allow companies to be recognized by the community and avoid penalties (Donaldson & Dunfee, 1994). Organizations report social perceptions of their operations in accordance with public expectations, and violations of social and moral values may lead to severe punishment from society.

The theory contends that companies cannot ignore their external environment and do not just choose to focus on the aspects that benefit them. Organizations have to demonstrate empathy and care for society. The legitimacy theory provides strong arguments that ESG disclosure and performance can help mitigate firm-specific (idiosyncratic) risks. However, the relationship is repeatedly challenged by conceptual arguments, such as ‘the transparency fallacy’ or ‘impression management, and mixed empirical evidence (Reber, Gold, and Gold, 2021).

Organizations do not exist in isolation but need continued relationships with society. For example, organizations obtain human resources and materials from the community and provide their products and services to society. ESG is about sustainability in the environment in which organizations operate. Complying with ESG guidelines means an organization has demonstrable relationships with its internal and external community and always acts in its best interests. Legitimacy theory suggests that the organization has to fulfill societal expectations, not merely the owner/investor requirements, as in shareholder theories such as agency theory. As per legitimacy theory, when the business meets the expectations, the organization can continue its operations and ensure its survival. Issues of the environment are sustenance for the future generation. Social is about relationships with people, and governance is about integrity and accountability (Deegan, 2009).

To achieve their strategic objectives, corporate organizations must evaluate the measures taken by individual institutions, as suggested by (Neely et al., 2005). Traditional corporate strategy has focused on externally based strategies to increase sales and mitigate competition (Gray, 2001). However, the need for sustainability disclosure has arisen as corporations seek to minimize information asymmetry levels (Martínez-Ferrero et al., 2016). Organizations with unique resources may venture into non-traditional business needs and areas. There are both financial and non-financial resources available, and the latter can help organizations position themselves as platforms for reducing information costs (Higginson et al., 2006).

The legitimacy theory has been applied in various studies related to corporate social responsibility (CSR) and sustainability reporting. In the context of ESG disclosures, the theory posits that companies disclose information about their environmental, social, and governance (ESG) practices to maintain legitimacy with their stakeholders (Deegan, 2002). Several studies have used legitimacy theory to examine the determinants and outcomes of ESG disclosures. For example, Haniffa and Cooke (2005) investigated the extent of CSR reporting among large companies in the UK and found that firms with higher levels of legitimacy were more likely to disclose CSR information. Additionally, Carmo and Miguéis (2022) examined the factors that influence the voluntary sustainability disclosures of companies in non-listed companies and found that legitimacy was an important factor driving these disclosures. Hummel and Schlick (2016) posit that organizations embracing sustainability voluntarily choose high-quality sustainability disclosure to signal their superior performance to the market. There is an implication that mandatory sustainability practice, based on legitimacy theory, may result in poor sustainability performance. Some organizations may prefer low-quality sustainability disclosure to disguise their true performance and to protect their legitimacy.

In the context of the Nairobi Securities Exchange (NSE), the legitimacy theory can provide insights into the characteristics of early adopters of ESG disclosures. The theory suggests that companies with higher levels of legitimacy would be more likely to disclose ESG information voluntarily. Therefore, early adopters of ESG disclosures on the NSE may be companies that have a strong desire to maintain their legitimacy with stakeholders. Moreover, understanding the characteristics of early adopters of ESG disclosures on the NSE can help to inform policy decisions and encourage more widespread adoption of ESG disclosures among listed companies. This study can also

contribute to the broader literature on the determinants and outcomes of ESG disclosures in emerging markets, which is still underdeveloped (Lavin & Montecinos-Pearce, 2021).

In conclusion, the legitimacy theory provided a valuable framework for understanding the motivations behind ESG disclosures and the characteristics of early adopters on the NSE. The theory has been applied in various studies, highlighting its relevance in the context of corporate social responsibility and sustainability reporting. Therefore, this study can build on the existing literature by applying the legitimacy theory to examine the characteristics of early adopters of ESG disclosures on the NSE.

## **2.3 Empirical Review**

### **2.3.1 Review of ESG Company Disclosures**

The depth of ESG disclosures in companies depends on the implementation maturity per country. Norway, Sweden, Denmark, Finland, United Kingdom, Belgium, and France, have high ESG scores and are in the category of countries with well-developed ESG Frameworks. Germany, Italy, the USA, Australia, Switzerland, Canada, Japan, Brazil, and South Africa have medium to high ESG scores and fall under the rapidly improving ESG framework. Singapore, India, China, Philippines, Malaysia, and Argentina are countries with ESG frameworks at the developing stage. Russia, Indonesia, Thailand, Nigeria, and Vietnam are countries with early-stage frameworks due to low ESG scores (Singhania & Saini, 2021).

Organizations seek to demonstrate sustainability as a regulatory requirement or adopt the practice out of their free will. Whichever the motivation, the companies must ensure their products/services, processes, and systems adhere to specific principles. The companies document adherence through disclosures of how they have implemented sustainable practices. The implementation framework for organizations varies depending on the guidelines their sector provides, the type of organization, and the voluntary/compliance mechanism, among other factors (Bergquist, 2017).

(Crisostomo et al., 2017) surveyed companies to assess the degree of adherence to the Global Reporting Initiative (GRI) by organizations globally. The study used quantitative methodology to analyze compliance from 1999 to 2013. The results reveal that there is an increasing adherence to GRI. In addition, the quality of reports improvement indicates enhanced recognition of GRI as

relevant to CSR disclosure. The publication of integrated reports by organizations has increased rapidly. The increase of organizations adhering to GRI from OECD countries and continents with more advanced economies signals that the institutional and legal environment may contribute to CSR reporting and its quality. The high adherence of business organizations may indicate that organizations perceive GRI as contributing to value creation, legitimacy, and reputational concerns. However, further research is necessary to discern a clear correlation.

(Argento et al., 2019) undertook a study targeting Swedish firms to assess their sustainability disclosures. The research sought to interrogate the depth of the implementation and the proportion of firms complying with the sustainability guidelines by using a mix of quantitative and qualitative methodology. The research reveals that 100 percent of state-owned enterprises (SOEs) disclose less sustainability information than partially owned ones. Large SOEs disclose more sustainability information than small SOEs. However, there are weak indications that having a public policy assignment (PPA) negatively influences environmental sustainability disclosures. Having a majority of female directors on the board decreases the total sustainability information disclosed. In addition, the statistical analyses show that having state representatives on the board and being profitable may positively affect the disclosures. Further research is necessary to establish a link between the clarity of stipulated guidelines and in-depth disclosure of sustainability practices by companies.

Studies focusing on disclosures by organizations in Africa are hard to come by. A rare research project by Wachira et al., (2020) focuses on assessing the adoption of international sustainability and integrated reporting guidelines within a mandatory reporting framework in South Africa. The researchers use a mix of quantitative and qualitative methodologies to analyze the uptake of particular practices within a regulatory compliance requirement. The findings reveal a statistically significant positive association between the adoption of the GRI guidelines and the level of transparency of non-financial disclosures and environmental sensitiveness. The application of the IR framework is also associated with a transparency score of a firm. However, the study targets a small segment of organizations, requiring higher representation to attribute findings to organizations across several sectors.

### **2.3.2 Characteristics of early adopters of ESG disclosures**

Previous studies have shown that certain firm characteristics influence the adoption of ESG disclosures. Industry sector, size, financial performance, and corporate governance practices are some of the factors that have been identified to affect ESG reporting.

Most studies agree that industries with high environmental or social impact are more likely to adopt ESG disclosures due to stakeholder scrutiny and potential reputational risks (Brouwer et al., 2013; Clarkson et al., 2008; Luo & Bhattacharya, 2009). These industries include utilities, oil and gas, and mining, which have a greater impact on the environment and are therefore subject to more scrutiny from stakeholders. Conversely, industries such as healthcare and consumer goods have been found to be less likely to disclose ESG information, as they may have less direct impact on the environment and society (Clarkson et al., 2008). However, a study by Wachira (2017) adds a contrasting perspective, highlighting that firms in the financial sector are more likely to adopt ESG disclosures than firms in other sectors. The authors attribute this to the fact that financial firms are more exposed to reputational risk and have a more significant impact on society and the environment than firms in other sectors. (Russo & Fouts, 1997) found that firms in industries with high environmental or social impact, such as mining or oil and gas, are more likely to adopt ESG reporting practices. This suggests that while industries with direct environmental impact are early adopters, those with broader societal influence might also be driven by reputational considerations. Further research could explore nuanced differences within each industry and how specific practices influence disclosure decisions across various sectors.

Size may also affect an organization's ability and willingness to disclose environmental and social performance data. The size of the firm has been found to be positively related to early adoption of ESG disclosures (Brouwer et al., 2013; Luo & Bhattacharya, 2009). Larger organizations tend to report more extensively, possibly due to greater public pressure and investor scrutiny (Fortanier et al., 2011; Gallo & Jones-Christensen, 2011). Larger organizations may also be better equipped to deal with negative information and its associated costs, while smaller companies may face higher costs in complying with voluntary standards. Larger firms may have more resources to invest in ESG reporting and have a greater motivation to maintain a positive image with stakeholders (Brammer et al., 2012). Large firms have greater resources to devote to ESG reporting and are more likely to have dedicated sustainability teams. They may also be subject to greater pressure

from stakeholders to disclose ESG information, such as institutional investors and regulatory bodies (Clarkson et al., 2008). There seems to be consensus that larger firms tend to be early adopters, possibly due to public pressure, investor scrutiny, and greater resource availability. However, Hahn & Kühnen (2013) present contrasting evidence finding inconclusive links between firm size and disclosure adoption. This suggests that size might not be a universal driver, and other factors like industry norms or specific resource constraints might play a more significant role for some firms. Examining resource allocation and cost implications for smaller firms compared to larger ones could provide further insights into this complex relationship.

Firms with better financial performance have been found to be more likely to disclose ESG information (Brouwer et al., 2013). This may be due to the fact that such firms are better equipped to invest in ESG initiatives and have more resources to devote to ESG reporting. Additionally, firms with strong financial performance may be more attractive to socially responsible investors who place a premium on ESG performance (Clarkson et al., 2008). Financially successful firms may also see ESG reporting as a way to differentiate themselves from competitors and appeal to socially responsible investors (Cheng et al., 2014).

Regarding ownership structure, there's consensus that public companies are more likely to report due to regulatory requirements and shareholder expectations (Clarkson et al., 2008). Additionally, B2C companies have been found to engage in reporting more than B2B companies, which exhibit lower levels of disclosure (Haddock-Fraser & Fraser, 2008). However, Gamerschlag et al. (2010) presents a contrasting view suggesting concentrations of share ownership (>20%) have been found to reduce sustainability reporting compared to organizations with dispersed ownership, possibly due to information asymmetry. This necessitates further research on the nuances of ownership structures and their impact across different industries and company types.

### **2.3.3 Challenges and Barriers faced by firms in adopting ESG reporting.**

Despite the growing interest in ESG reporting over the years, many firms face significant challenges and barriers in adopting and implementing ESG reporting practices. This empirical literature review aims to provide a comprehensive and detailed overview of the challenges and barriers faced by firms in adopting and implementing ESG reporting practices.

One of the major challenges faced by firms in adopting and implementing ESG reporting practices is the lack of standardization in reporting frameworks. Currently, there are several reporting frameworks available, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD). However, these frameworks have different reporting requirements, which make it difficult for firms to choose the appropriate framework to follow (Ioannou & Serafeim, 2019).

Another challenge faced by firms in adopting and implementing ESG reporting practices is the limited resources available for reporting. ESG reporting requires significant resources, including time, expertise, and financial resources. Small and medium-sized firms often lack the resources to undertake ESG reporting, which makes it difficult for them to compete with larger firms in the market (Lundgren et al., 2019). This contrasts with studies like Delmas & Montes-Sancho (2011), where the challenge lies not just in resource availability but also in a lack of understanding and awareness of the benefits of ESG reporting. Some firms may not see the value in reporting ESG information, while others may not understand how to report this information effectively.

Lack of incentives for firms to report ESG information is another barrier to adoption and implementation. Although there is growing interest in ESG reporting among stakeholders, many firms do not see a clear business case for reporting ESG information. Without clear incentives, firms may not prioritize ESG reporting over other business activities (Kasim, 2019). This contrasts with Becker-Olsen et al. (2006), who emphasize resistance to change as a key issue to adopting and implementing ESG reporting practices. Some firms may be resistant to changing their current reporting practices, particularly if they have been successful in the past. Additionally, some firms may be resistant to disclosing information that may be perceived as negative, such as environmental or social issues.

ESG reporting can be complex and time-consuming, requiring firms to collect, analyze, and report a large amount of data. This complexity can be a barrier to adoption and implementation, particularly for smaller firms with limited resources (Lundgren et al., 2019).

In conclusion, firms face several challenges and barriers in adopting and implementing ESG reporting practices. These challenges include the lack of standardization in reporting frameworks, limited resources, lack of understanding and awareness, lack of incentives, resistance to change, and complexity. Addressing these challenges will be essential in promoting the adoption and

implementation of ESG reporting practices and promoting greater sustainability and social responsibility in the business community.

#### **2.3.4 Motivation and incentives of ESG disclosures**

Several empirical studies have explored the motivations and incentives driving firms to adopt ESG reporting. One key motivator is the desire to improve reputation and stakeholder perception, particularly among investors and customers (Dyck et al., 2019). Such improved perception can lead to increased loyalty, higher sales, and better access to capital (Brammer et al., 2016). This aligns with Buysse and Verbeke (2003) who argue that important stakeholders for any organization include employees, customers, and suppliers who can pressure managers to adopt more responsible environmental behaviours, including voluntary adoption of ESG standards. However, Kock et al. (2012) add nuance, suggesting the influence of stakeholders is directly related to their ability to impose their environmental preferences, which in turn affects the likelihood of ESG standard adoption. This highlights the need to explore stakeholder dynamics within specific contexts.

Another motivation for ESG reporting is the need to comply with regulatory requirements (Clarkson et al., 2008). This aligns with Delphine and Schaltegger (2015), who note that firms that operate in industries with higher levels of regulation, such as the oil and gas industry, have been found to be more likely to adopt ESG reporting. However, Aragón-Correa et al. (2020), suggests organizations respond to both government and stakeholder pressures, implying compliance might not be the sole driver. Further research could disentangle these influences across different industries and regulatory landscapes.

Internal factors can also drive ESG reporting. Firms with strong corporate social responsibility (CSR) cultures and values are more likely to adopt ESG reporting (Bhattacharya et al., 2013). Such firms may see ESG reporting as a way to communicate their values and commitment to stakeholders. This aligns with Marcus and Fremeth (2009) who emphasize the influence of ethical beliefs within management. If there are influential managers within an organization who believe that adopting ESG standards is ethically the right thing to do, then adoption is more likely to occur. In contrast, Khaire and Wadhvani (2010) highlight that seeking legitimacy is also an important driver of voluntary standard adoption as organizations strive to create a new collective identity and

meaning. This calls for research exploring the interplay between internal values, external pressures, and industry dynamics in shaping motivations.

Another motivation for firms to adopt ESG reporting practices is access to capital. A study by Ongore and Kusa (2013) found that firms that adopt ESG reporting practices are more likely to attract investment from socially responsible investors. Firms with strong ESG performance may see reporting as a way to differentiate themselves from competitors and gain a competitive advantage (R. Eccles & Serafeim, 2013). However, Haveman (1993) notes that contagion-like mechanisms and copying phenomena can also drive adoption, as companies may adopt standards because others are doing it. This raises questions about the motivations behind adoption. Further research could explore the long-term implications of different adoption drivers on a firm's sustainability journey.

Different regions may take different views of the same environmental or social issue, and the culture of a region is likely to have a direct effect on the level of interest local organizations have in adopting voluntary standards (York et al., 2017). Governments and regulators also play a significant role in the adoption of voluntary environmental regulation by organizations (Delmas & Montes-Sancho, 2011). Voluntary agreements and proactive cooperative policies have emerged as alternative models to handle environmental and social issues without direct government involvement (Aggeri, 1999; Fiorino, 2001). For instance, many EU-based organizations started to implement voluntary energy efficiency standards within their countries from 1991 (Cornelis, 2019). Depending on the industry, policy instruments could have very different impacts on the costs and incentives to companies (Stavins, 2004). The drive to adopt voluntary environmental initiatives may be stronger in more heavily regulated industries, such as investment funds, in anticipation of more stringent regulatory standards in the future (Carlos & Lewis, 2018). The threat of future regulation can also motivate the creation and development of voluntary standards (Christmann & Taylor, 2006; King & Lenox, 2000).

While some studies indicate that voluntary adoption programs help to reinforce compliance with ESG standards (Cordano & Frieze, 2000), others suggest that they can crowd out government regulation (Esbenshade, 2012). Therefore, the impact of government on the adoption of voluntary standards still needs to be better understood, as many voluntary standards have been created with

little or no government oversight. More research is needed to understand the optimal balance between these approaches for effective ESG adoption and impact.

## 2.4 Research Gap

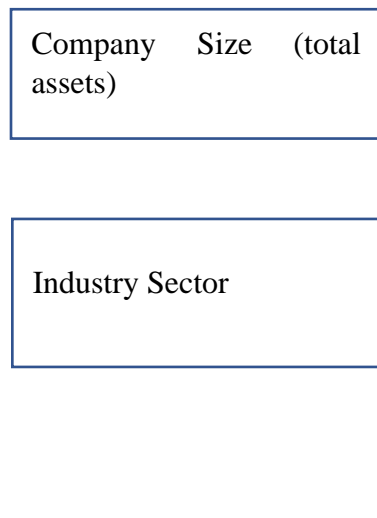
Existing literature on ESG disclosures and reporting has mainly focused on developed markets, such as Europe and North America, and there is limited research on emerging markets, including Kenya. Therefore, one of the significant research gaps for a study on the firm characteristics of early adopters of ESG disclosures and reporting on the Nairobi Securities Exchange was the limited research on the determinants of ESG reporting in the Kenyan context.

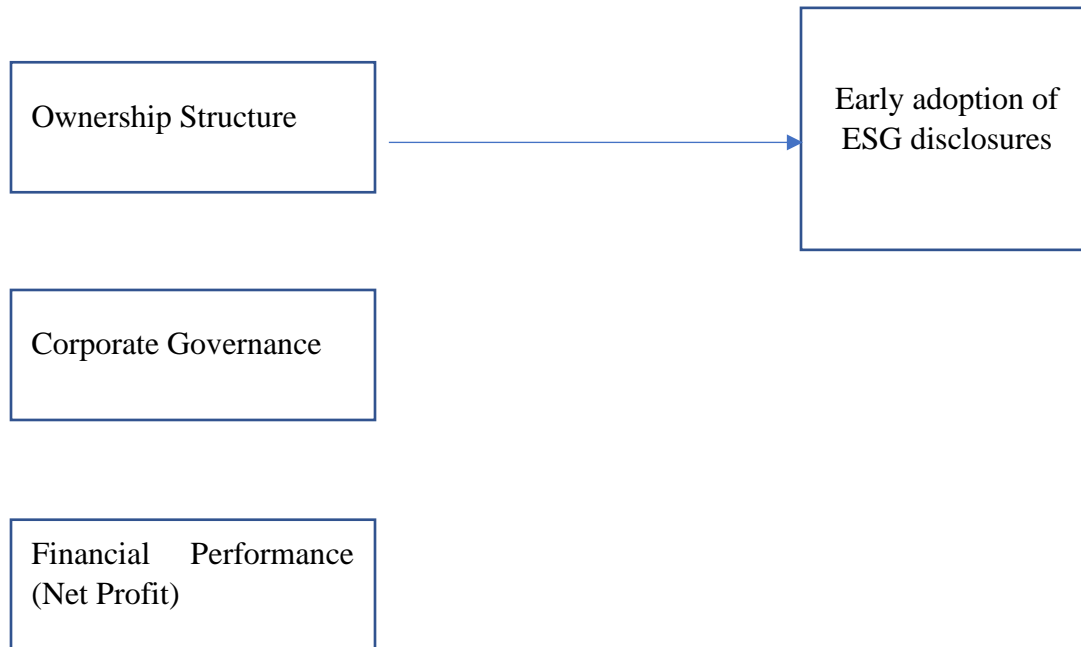
Several studies have investigated the determinants of ESG reporting in developed markets, and the results show that various factors influence firms' decisions to report on ESG factors. These factors include firm size, financial performance, industry sector, ownership structure, and corporate governance, among others. However, these factors may not necessarily apply to emerging markets such as Kenya, where firms face different institutional contexts, regulatory frameworks, and stakeholder pressures.

Moreover, existing literature on ESG reporting in Kenya has mainly focused on the level of adoption of ESG reporting rather than the determinants of early adoption. Therefore, a study on the firm characteristics of early adopters of ESG disclosures and reporting on the NSE would fill this research gap by investigating the determinants of ESG reporting in the Kenyan context, including the role of regulatory frameworks, stakeholder pressures, and internal firm characteristics such as size, ownership structure, industry sector and corporate governance.

## 2.5 Conceptual Framework

The conceptual framework of the study is as presented in the figure below.





**Independent Variables**

**Dependent Variable**

<b>Independent Variable</b>	<b>Measurement</b>	<b>Supporting theory</b>	<b>Supporting Empirical Studies</b>
Company size	Measured by total assets. Total assets are the sum of all the assets a company owns, including current assets, long-term assets, tangible and intangible assets, and other assets.	Larger companies tend to have more resources and capabilities to engage in ESG reporting and disclosure compared to smaller firms.	(Eccles & Serafeim, 2013) (Porter & van der Linde, 1995)
Industry Sector	Industry sector was used as provided by the Nairobi Securities Exchange.	Different industries may face different sustainability challenges and may be at different stages in adopting ESG reporting practices. Certain	(Hawn & Ioannou, 2016)

		industries such as extractive and energy companies are more likely to engage in ESG reporting due to the nature of their operations and the associated social and environmental risks.	
Ownership Structure	Measured by percentage of shares held by institutional investors, percentage of shares held by insiders and percentage of shares held by the government.		(Gomez-Mejia et al., 2001)
Corporate Governance	Measured by looking at board independence. Proportion of independent directors on the company's board, who are not affiliated with the company's management or major shareholders and thus can provide impartial oversight	Corporate governance structures can influence ESG disclosure, with stronger governance practices being associated with higher levels of sustainability reporting	(Aguilera et al., 2006)
Financial Performance	Measured using Net Profit and ROA. Net Profit is the amount of money a company makes after all expenses have been paid. ROA, or return on assets, measures a company's profitability in relation to	Companies that perform well financially tend to engage in higher levels of ESG reporting. Net Profit is widely accepted as an economic performance indicator as it shows how effectively a company is using its resources to generate income.	(Gentry & Shen, 2010) (Beattie et al., 2004) (Huber & Hirsch, 2017)

	the assets it uses. It is calculated by dividing the net profit by the total assets.	ROA is generally regarded as a positive indication of a firm's performance.	
<b>Dependent Variable</b>	<b>Measurement</b>	<b>Supporting Theory</b>	<b>Supporting Empirical Studies</b>
Early adoption of ESG disclosures.	Time to adoption: Firms that made ESG disclosures before the NSE set deadline of 29 <sup>th</sup> November 2022. Bloomberg provided ESG score which reflects a company's performance across environmental, social, and governance dimensions.	ESG disclosures can also be influenced by prior adoption, with early adopters of ESG reporting likely to continue reporting and potentially encouraging others to follow	(Eccles & Serafeim, 2013)

**Dependent Variable:**

Early adoption of ESG Disclosures: This variable measures companies or organizations that proactively integrate and disclose ESG-related information ahead of regulatory requirements or industry norms. It measures the extent to which firms have adopted ESG reporting practices, such as publishing ESG reports or integrating ESG factors into their business strategy and operations. The ESG disclosure are as provided by Bloomberg ESG score and can be influenced by prior adoption, with early adopters of ESG reporting likely to continue reporting and potentially encouraging others to follow (Eccles & Serafeim, 2013).

**Independent Variables:**

Company Size: Large companies may have more resources to invest in sustainability initiatives and may be better positioned to adopt ESG reporting practices and be subject to greater scrutiny from stakeholders, which could motivate them to adopt ESG disclosures (Eccles & Serafeim,

2013). Company size was measured using total assets. The study by (Porter & van der Linde, 1995) used total assets to measure firm size in their examination of the relationship between environmental regulation and competitiveness.

**Industry Sector:** The industry in which the firm operates, such as manufacturing, banking, or telecommunications may influence its ESG disclosure practices (Hawn & Ioannou, 2016). It may be useful to consider how different industries on the Nairobi Securities Exchange are approaching ESG reporting. Industry sector was used as provided by the Nairobi Securities Exchange.

**Ownership Structure:** It was measured by percentage of shares held by institutional investors, percentage of shares held by insiders and percentage of shares held by the government. The study by Gomez-Mejia et al., (2001) used percentage of shares held by insiders to measure ownership structure in their examination of the relationship between CEO compensation and firm performance

**Corporate Governance:** Strong corporate governance practices may be a key driver of ESG reporting adoption (Aguilera et al., 2006). It may promote transparency and accountability, which may make a company more likely to adopt ESG disclosures. Corporate governance is a broader aspect which encompasses a wide range of governance related aspects and is focussed on internal structures and processes related to decision-making and oversight, as opposed to governance factors relevant to sustainability and societal impacts addressed by the "G" in ESG (Aguilera et al., 2006). Examining the relationship between corporate governance practices and ESG reporting adoption may provide insights into the factors driving early adoption. Corporate governance was measured by looking at board independence.

**Financial Performance:** Firms that are performing well financially may be more likely to prioritize ESG reporting as a means of improving their reputation and appealing to socially responsible investors (Beattie et al., 2004). Financial performance was measured using Net Profit.

Net profit, often referred to simply as "profit" or "bottom line," is a key financial metric that represents the amount of money a company has left after deducting all its expenses from its total revenue during a specific period, typically a fiscal quarter or year. It is a measure of a company's profitability and indicates how efficiently the business is operating (Huber & Hirsch, 2017; Alareeni & Hamdan, 2020).

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter focuses on the study's data collection methods and processes. The following topics are thoroughly discussed: research design, target population, sampling technique and sample size, instrumentation, ethical issues, data collection methods, and data analysis procedures.

#### 3.2 Research Philosophy

This research employed a pragmatism research philosophy as an anchor for the study. This philosophy emphasizes the practical application of knowledge and the use of multiple methods to gain a comprehensive understanding of complex phenomena. It aligns well with the mixed methods research design, allowing the researcher to leverage both quantitative and qualitative data to answer your research questions (Johnson & Onwuegbuzie, 2004).

Pragmatism seeks knowledge that is useful and can be applied to solve real-world problems. In this case, understanding the characteristics of early ESG adopters can inform best practices for companies and regulators, ultimately contributing to more sustainable business practices on the NSE. It also acknowledges that there are different ways of knowing and understanding the world. This aligns well with the mixed methods approach, which incorporates both quantitative and qualitative perspectives (Creswell & Clark, 2024).

Pragmatism emphasizes the importance of understanding the specific context in which research is conducted. This is crucial in this study, as the Kenyan business landscape and regulatory environment might influence companies' decisions regarding ESG disclosures. Pragmatism also enabled the researcher to acknowledge their own biases and limitations and strive to be transparent about their research process. This reflexivity strengthened the credibility and trustworthiness of the findings.

In a study that explored how corporations respond to climate change pressures, (Hahn et al., 2015) adopt a pragmatist lens to understand the diverse motivations, challenges, and strategies employed

by companies, highlighting the contextual factors influencing their responses. In another study investigating the complexities of stakeholder engagement in corporate sustainability, utilizing a mixed methods approach with surveys and interviews targeting various stakeholders (Omran & Ramdhony, 2015) employ a pragmatist perspective to analyse the different perspectives, interests, and power dynamics shaping stakeholder engagement, offering practical recommendations for companies to navigate these tensions effectively.

By adopting a pragmatism research philosophy, it ensured the study provides valuable and actionable insights into the characteristics of early ESG adopters on the NSE, contributing to more sustainable business practices in the Kenyan market.

### **3.3 Research Design**

A mixed-method research design was used in this study. Mixed methods research is defined as research in which the investigator collects and analyzes data, integrates the findings, and draws inferences using both qualitative and quantitative approaches or methods in a single study or program of inquiry (Fetters & Freshwater, 2015). The mixed-method design allowed for the collection of both quantitative and qualitative data to answer the research questions effectively. A descriptive correlational design makes it possible for a researcher to describe the variables and the relationships that occur naturally between and among them. In this case, the researcher needs to define & measure relationships between firm characteristics and early adoption of ESG disclosures. Descriptive design in studies is applicable in describing various aspects of a phenomenon. In its popular format, descriptive research describes the characteristics or behavior of a sample population. An essential attribute of a descriptive study is that while descriptive studies can employ many variables, only one variable is required to conduct descriptive research (Omair, 2015).

Descriptive statistics helped develop a better understanding of the data collection in the research investigation and simplify large amounts of data sensibly. The descriptive survey approach utilized quantitative and qualitative methods to collect and analyze data that respond to the study objectives. The quantitative approach is statistical and relies on numbers and counts to collect and analyze data. The qualitative methodology relies on verbatim explanations of a phenomenon to collect and analyze the data. Both quantitative and qualitative approaches were applicable in the study to provide insights.

### 3.4 Population and Sampling

The sampling technique was purposive and census, where the early adopters of ESG disclosures on the Nairobi Securities Exchange were selected as the sample for this study. Firms that are making ESG disclosures and reporting were considered early adopters of sustainability reporting practices. By disclosing information on their social, environmental, and governance impacts, these firms are demonstrating their commitment to sustainable development and responsible business practices. They are also providing stakeholders with information on their sustainability performance, which can be used to assess their long-term viability and value. As of March 2023, data from the NSE reveals that only 14% of listed companies were doing ESG disclosures by the November deadline i.e., only nine NSE-listed firms had published ESG reports or integrated ESG factors into their business strategy and operations. These companies include Safaricom, East African Breweries, Nation Media Group, Bamburi Cement, KCB Bank Group, Kakuzi, Stanbic Bank, Co-operative Bank and Standard Chartered Bank. Studying these early adopters of ESG reporting practices provided insights into the characteristics of firms that are more likely to adopt these practices. This information was used to identify the drivers of ESG reporting practices adoption and to develop strategies to promote the adoption of these practices among other firms.

**Table 3.1: Target Population**

<b>Category</b>	<b>Population</b>
Safaricom	1
East African Breweries	1
Nation Media Group	1
Bamburi Cement	1
KCB Group	1
Kakuzi	1
Stanbic Bank PLC	1
Co-operative Bank	1
Standard Chartered	1
<b>Total</b>	<b>9</b>

Executive Managers - Stakeholder Relations & Sustainability, ESG Managers, Head of Strategy and investor relations and Heads of sustainability are responsible for managing the operations and

strategies of the company, including reporting and sustainability practices. As such, they are likely to have insights into the decision-making processes of the company regarding the adoption and implementation of ESG reporting practices. They can provide valuable information on the motivations and incentives behind firms' decision to adopt ESG reporting practices, as well as the challenges and barriers faced in implementing these practices.

Census sampling, also known as complete enumeration, is a method of data collection that involves collecting information from every individual or unit in a given population or dataset, rather than selecting a sample from that population. When dealing with relatively small populations, it is more feasible to collect data from the entire population. In such cases, it doesn't significantly increase the time and cost compared to selecting a sample. Additionally, when the population is highly homogeneous and relatively small, a census is more practical because the diversity of the population is limited, reducing the burden of data collection. Therefore, since the population was below 200, the entire target population was used as the sample size.

**Table 3.2: Sample Size**

<b>Category</b>	<b>Population</b>
Safaricom	1
East African Breweries	1
Nation Media Group	1
Bamburi Cement	1
KCB Group	1
Kakuzi	1
Stanbic Bank PLC	1
Co-operative Bank	1
Standard Chartered	1
<b>Total</b>	<b>9</b>

### **3.5 Data Collection Methods**

Both primary and secondary data sources were used.

Primary data was collected through surveys. Surveys were distributed to the early adopters of ESG disclosures on the Nairobi Securities Exchange. The surveys were designed to collect data on the characteristics of firms that are early adopters of ESG disclosures, the motivations and incentives behind firms' decision to adopt ESG reporting practices, and the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.

The researcher used a pre-designed questionnaire for primary data collection. The researcher preferred using questionnaire data collection methodology because of the high response rates associated with the approach. The questionnaires were administered online through use of google docs. Questionnaires are widely used in social science research because they are a quick and easy way to collect data (Brannen, 2017; Orodho, 2012) was praised for his application's ability to collect data with minimal effort. Based on previous research and current indexes, the environmental, social, and governance disclosures were chosen and integrated for this study. The questionnaire had closed and open-ended questions to elicit quantitative and qualitative data appended to this proposal for reference.

Before the commencement of the data collection, there was a pilot study done by the researcher. Piloting is critical for testing the study tool and validating it. Pilot studies check the validity and dependability of the study tool. Such aspects are necessary to confirm that the study tools are responsive to the research objectives. In case of any gaps, the researcher revises the questionnaire before commencing primary data collection. The data collection phase relied on a purposive approach to identify the survey respondents.

Secondary data was obtained from company annual reports and sustainability reports and other relevant documents of the selected firms. The secondary data was used to supplement and validate the primary data. The secondary data was collected using document review. Data about ESG disclosure was obtained from annual reports, sustainability reports, and public records made available to the website and documents with historical and statistical information on board governance.

Document review is used as a method of accessing data and information. It is the review by the researcher of written materials (Russel & Gregory, 2003). These can include personal and non-personal documents such as archives, annual reports, guidelines, policy documents, diaries or letters. It is used as a sole, or complimentary source of data to answer a research question. In this

research it will be used to answer first question on level of disclosures being made. Document analysis can include both quantitative and qualitative components (Bowen, 2009).

### **3.6 Data Analysis**

The data collected was analyzed using quantitative and qualitative data analysis techniques.

The quantitative data collected through document review was analyzed using statistical techniques i.e., descriptive statistics, correlation analysis, and regression analysis. Descriptive statistics were used to describe the characteristics of firms that are early adopters of ESG disclosures. Correlation analysis was used to examine the relationship between the independent variables i.e., firm size, industry sector, organizational structure and financial performance and the dependent variable being early adoption of ESG disclosures. Correlation coefficients Pearson's were calculated, and the statistical significance of the correlations was tested. Regression analysis was used to examine the impact of the independent variables on the dependent variable and to identify the most significant predictors of early adoption of ESG disclosures. The independent variables were entered into a regression model, and the model's goodness-of-fit was assessed using R-squared and adjusted R-squared. The statistical significance of the regression coefficients was tested, and the direction and magnitude of the relationships between the independent variables and the dependent variable was examined. The analysis enabled the identification of the characteristics of early adopters of ESG disclosures on the Nairobi Securities Exchange.

The qualitative data collected through surveys was analyzed using thematic analysis and content analysis. Thematic analysis involved the identification of themes and patterns in the data. The survey responses were checked for completeness and consistency. Missing data was imputed, and any inconsistencies or errors were corrected. Content analysis involved the identification and analysis of the content of the company reports and other relevant sources. The content was analyzed to identify the extent and quality of ESG disclosures and to identify the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.

In quantitative data, there was coding of responses and input into the analysis software. The researcher opted to use SPSS analysis software. Data cleanup is essential for identifying any inconsistencies in readiness for analysis. Cross-tabulation analysis was used to examine the

relationship between two or more categorical variables. The frequencies and percentages of each category was calculated and presented in a contingency table.

Data visualization techniques such as charts, graphs, and tables will be used to present the survey results visually. This helped to communicate the findings of the study effectively.

The analysis enabled the identification of the motivations and incentives behind firms' decision to adopt ESG reporting practices and the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.

The results of the quantitative and qualitative data analyses were integrated to provide a comprehensive understanding of the characteristics of early adopters of ESG disclosures, the motivations and incentives behind firms' decision to adopt ESG reporting practices, and the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya. The integrated analysis was used to develop recommendations for promoting the adoption and implementation of ESG reporting practices in Kenya.

The regression model was described as follows:

$$\text{Early Adopters of ESG Disclosures} = \beta_0 + \beta_1 \text{Financial Performance} + \beta_2 \text{Firm Size} + \beta_3 \text{Industry Sector} + \beta_4 \text{Ownership Structure} + \beta_5 \text{Corporate Governance} + \varepsilon$$

Where:

Early Adopters of ESG Disclosures is the dependent variable, which measures the level of adoption and implementation of ESG reporting practices among firms on the Nairobi Securities Exchange.

Financial Performance is the first independent variable, which measures the financial performance of firms on the Nairobi Securities Exchange.

Firm Size is the second independent variable, which measures the size of firms on the Nairobi Securities Exchange.

Industry Sector is the third independent variable, which measures the industry sector in which firms on the Nairobi Securities Exchange operate.

Ownership Structure is the fourth independent variable, which measures the ownership structure of firms on the Nairobi Securities Exchange.

Corporate Governance is the fifth independent variable, which measures the corporate governance practices of firms on the Nairobi Securities Exchange.

$\beta_0$  is the intercept, which represents the value of Early Adopters of ESG Disclosures when all the independent variables are equal to zero.

$\beta_1$ - $\beta_5$  are the coefficients, which represent the change in Early Adopters of ESG Disclosures for a one-unit increase in each independent variable, holding all other variables constant.

$\varepsilon$  is the error term, which represents the random variation in Early Adopters of ESG Disclosures that is not explained by the independent variables.

### **3.7 Research Quality**

The research quality control procedures include guidelines to ensure the integrity, quality, and reliability of findings and the research process. The researcher authenticated all survey respondents before issuing questionnaires to them and conducted checks to establish their status as listed entities in the NSE. All collected survey data was 100 percent checked for the validity of responses. Any inconsistencies found were eliminated from the raw data before entry to SPSS.

#### **3.7.1 Validity of data collection instruments**

The researcher checked the validity of the data collection instruments through the pilot study. Such checks confirm that the study tool measures the variables it intended to measure.

#### **3.7.2 Reliability of data collection instruments**

The researcher checked the reliability of study instruments during the pilot study. In addition, there was a consistency check for the delivery of results after repeated trials. The researcher opted to use Cronbach alpha-coefficient to test the reliability of the findings. Cronbach alpha is a statistic commonly used by researchers to demonstrate that tests and scales constructed or adapted for research projects are fit for purpose. The acceptable range for reliability is above 0.70, although 0.80 or greater is preferred. A successful data collection instrument should generate data that allows the researcher to make meaningful inferences from the scores and measure the intended content (Zikmund, 2015).

### **3.8 Ethical Issues in Research**

The research adhered to high levels of integrity in respondent identification and data analysis. It also adhered to ethical principles, such as informed consent, confidentiality, and anonymity. Informed consent was obtained from all participants, and they were assured of confidentiality and anonymity. Ethical Issues considered included protecting respondent's privacy, discretion and anonymity as well as assuming that there is no lack of informed permission (Bryman & Bell, 2007). The researcher identified the rightful respondents of the study. Each respondent consented to participate in the study. The researcher revealed the study objective to respondents and assured them of the confidentiality of all responses they provided. The researcher managed all response data in compliance with ethical practices of storage and destruction of information.

There were few ethical issues concerning secondary data since data was publicly available from annual reports on company websites. Non-financial reports, such as integrated sustainability reports and ESG report were also made available on company websites.

The researcher sought ethical approval from Strathmore University Institutional Ethics Review Committee. In addition, the researcher notified all study participants that they were free to contact Strathmore Business School for further information. The information pertained to the researcher, the purpose of the research, or to make a complaint concerning any matter.

## CHAPTER FOUR

### DATA ANALYSIS

#### 4.1 Introduction

This chapter contains the findings of this study on the company characteristics of early adopters of environmental social governance disclosures on the Nairobi Securities Exchange. The results of the study were presented in line with the objectives of the study. The relevant descriptive statistics for each objective are given, followed by the specific inferential statistics. The data is presented using frequency distribution tables. Correlation analysis and regression analysis were used in statistical testing. Finally, a discussion of the findings was given in view of the reviewed related literature and theoretical linkages between the relevant variables.

#### 4.2 Response Rate

In this study, 9 questionnaires were administered to ESG managers, Sustainability managers and investor relations out of which 9 questionnaires were filled and returned. This yielded response rates shown in Table 4.1.

**Table 4.1 Response Rate**

<b>Response Rate</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	9	100.0
Not Responded	0	0
<b>Total</b>	<b>9</b>	<b>100.0</b>

**Source: Field Data (2023)**

Table 4.1 shows that the Executive Managers - Stakeholder Relations & Sustainability, ESG Managers, and Heads of sustainability registered a response rate of 100%.

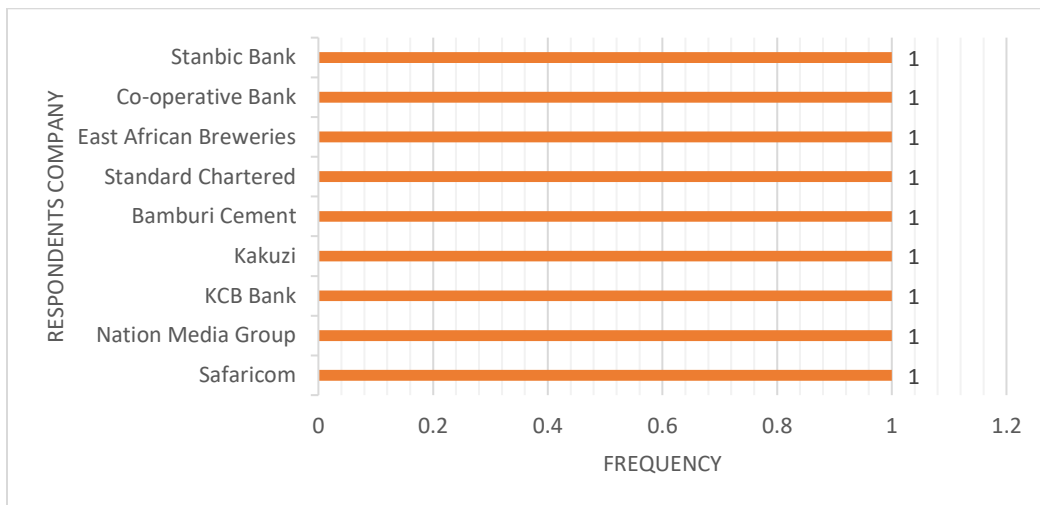
### 4.3 Respondents' Industry of Operation

This section shows the respondents' industry of operation.

#### 4.3.1 Respondents Company's Name

Respondents indicated that the East African Breweries PLC, Standard Chartered Bank, Bamburi Cement, Kakuzi, KCB Bank, Nation Media Group, Stanbic Bank PLC, Co-operative Bank and Safaricom Plc were the names of their companies. This implies that the early adopters of ESG were reached in the study hence the findings could be relied upon.

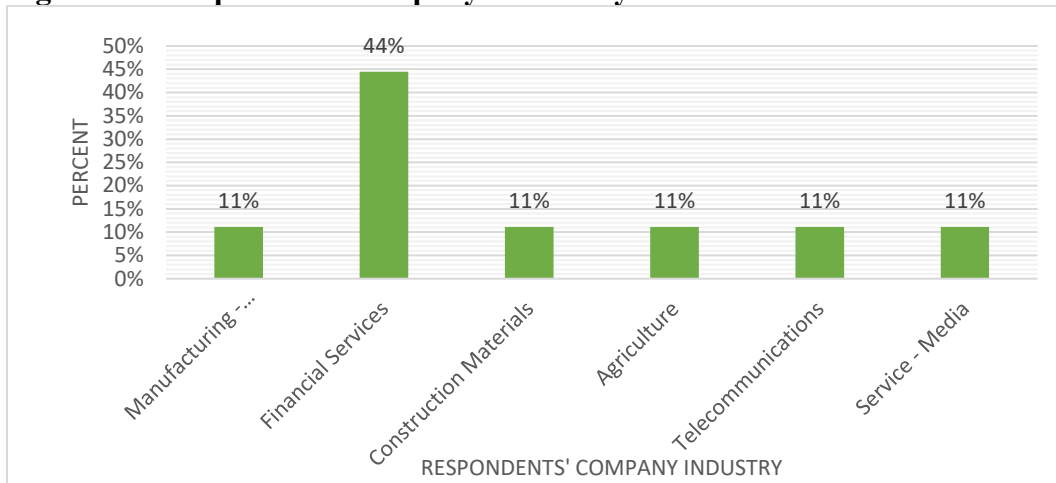
**Figure 4.1: Respondents Company's Name**



#### 4.3.2 Respondents Company's Industry

As per Figure 4.2, 44.4% of the respondents' companies were in the financial industry, 11.1% were in the manufacturing of Beverages Company, another 11.1% were in the Agriculture/Agribusiness, another 11.1% were in the telecommunications industry, another 11.1% were in the media service industry and the remaining 11.1% were in the construction materials industry. Accordingly, the findings would be rich as they are drawn from different industries thus giving a cross-sectional perspective.

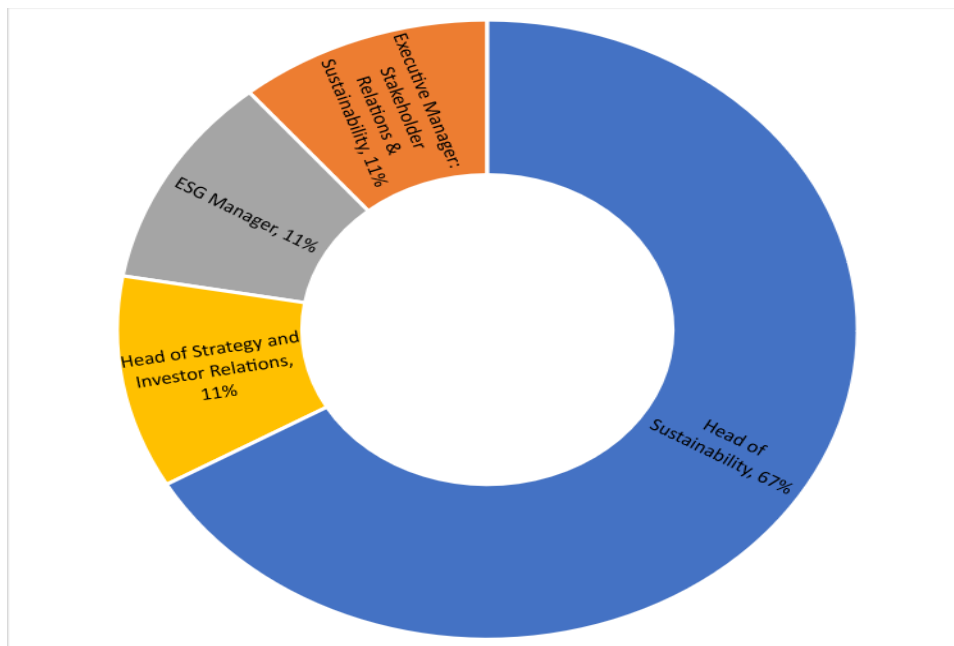
**Figure 4.2: Respondents Company's Industry**



### 4.3.3 Respondents Position in the Company

Figure 4.3 shows that 66.7% of the respondents were heads of sustainability, 11.1% were Executive Managers - Stakeholder Relations & Sustainability, another 11.1% were ESG Managers and the remaining 11.1% were heads of Strategy and Investor Relations. This implies that the findings could be relied upon since the respondents were well versed with the issue under investigation.

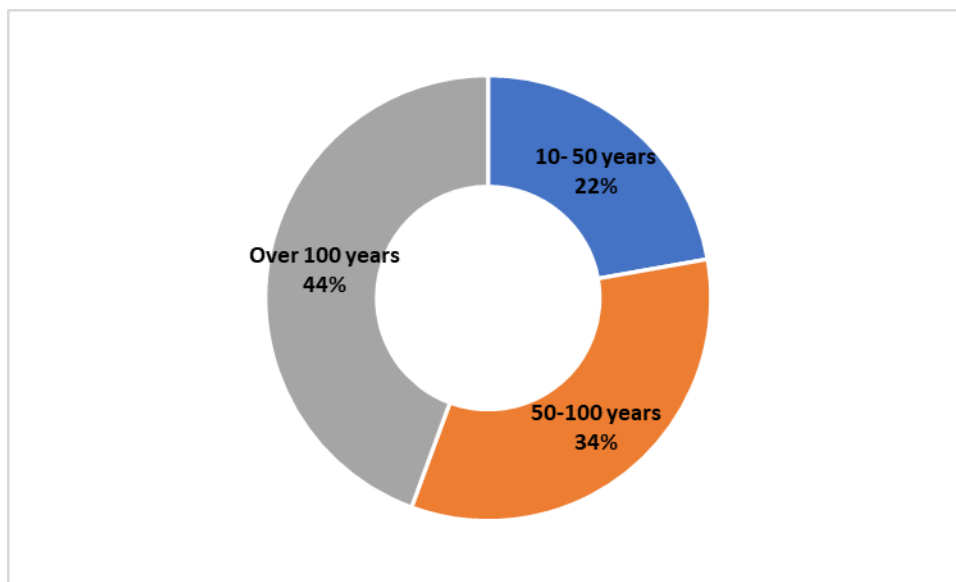
**Figure 4.3: Respondents Position in the Company**



#### 4.3.4 Period Company has been in Operation.

According to Figure 4.4, 44.4% of the respondents indicated that their companies had been in existence for over 100 years, 33.3% indicated that their companies had been in existence for a period between 50 and 100 years whereas 22.2% indicated that their companies had been in existence for a period between 10 and 50 years. Again, the findings would be reliable since the organizations have been operation for a significant period, hence vast experience in operational matters, emerging trends and best practices.

**Figure 4.4: Period Respondents' Company has been in Operation.**



#### 4.4 The characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange

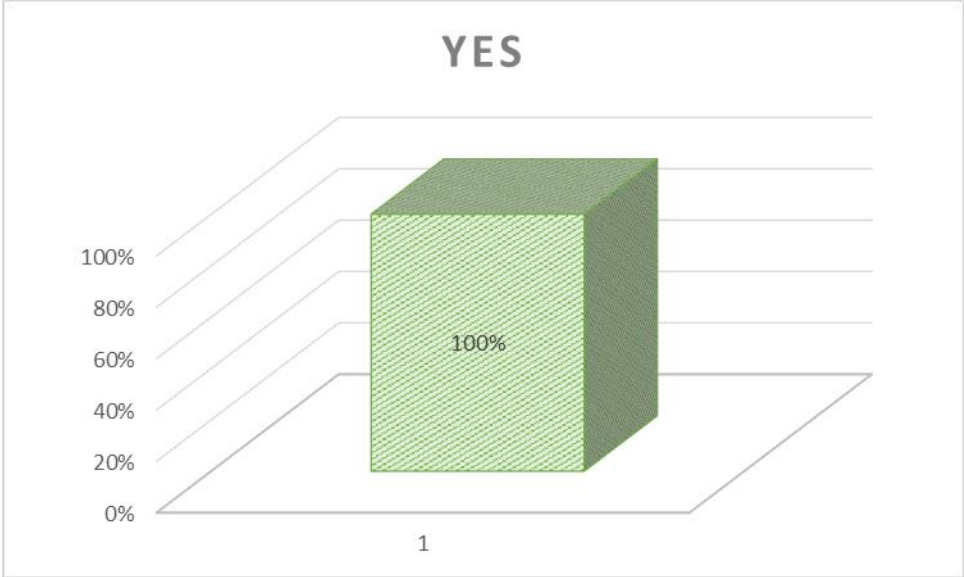
The first objective of the study was to identify the characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange. This section shows responses on early adoption of ESG disclosures.

##### 4.4.1 Respondents' Awareness of Guidelines for ESG Disclosures

The study sought to find out whether respondents were aware of the guidelines for ESG disclosures. Accordingly, all the respondents (100%) indicated that they were aware of the

guidelines for ESG disclosures. This implies that the respondents were familiar with the topic under investigation hence their responses could be relied upon.

**Figure 4.5: Respondents’ Awareness of Guidelines for ESG Disclosures**



**4.4.2 Respondents Organization Adoption of ESG Reporting Practices on the Nairobi Securities Exchange.**

On whether the companies had adopted ESG reporting practices on the Nairobi Securities Exchange, 100% of the respondents indicated that their companies had adopted ESG reporting practices on the Nairobi Securities Exchange. The respondents added that the East African Breweries PLC, Standard Chartered Bank, Bamburi Cement, Nation Media Group and Stanbic Bank PLC adopted ESG reporting practices on the Nairobi Securities Exchange in 2022. On the other hand, Safaricom, KCB Bank, Kakuzi PLC and Co-operative Bank adopted ESG reporting practices on the Nairobi Securities Exchange in 2012, 2014, 2019 and 2021 respectively.

**Table 4.3: Respondents Organization Adoption of ESG Reporting Practices on the Nairobi Securities Exchange**

	Yes	No	Year of Adoption
East African Breweries PLC	11.1%	-	2022
Standard Chartered Bank	11.1%	-	2022

Bamburi Cement	11.1%	-	2022
Kakuzi	11.1%	-	2019
KCB Bank	11.1%	-	2014
Nation Media Group	11.1%	-	2022
Stanbic Bank PLC	11.1%	-	2022
Co-operative Bank	11.1%	-	2021
Safaricom Plc	11.1%	-	2012
<b>Total</b>	<b>100%</b>		

#### **4.4.3 Reporting Media in which Respondents ESG disclosures is Published.**

Table 4.5 shows that 88.9% of the respondents indicated that the reporting media that the ESG disclosures was published in as part of the annual report; 66.7% indicated that the reporting media for their ESG was as part of stand-alone sustainability report and 44.4% indicated that the reporting media for their ESG disclosures was published in on the company website. The findings show that many of the companies include ESG information in their annual reports, which are widely distributed to shareholders and stakeholders, thus offering a comprehensive overview of the company's financial and non-financial performance. Furthermore, some of the companies also prefer to publish separate sustainability reports dedicated to ESG information since the reports provide in-depth details on environmental initiatives, social responsibility, and governance practices. Similarly, some of the companies frequently maintain dedicated ESG sections on their websites since it is a central hub for stakeholders to access ESG reports, data, and updates.

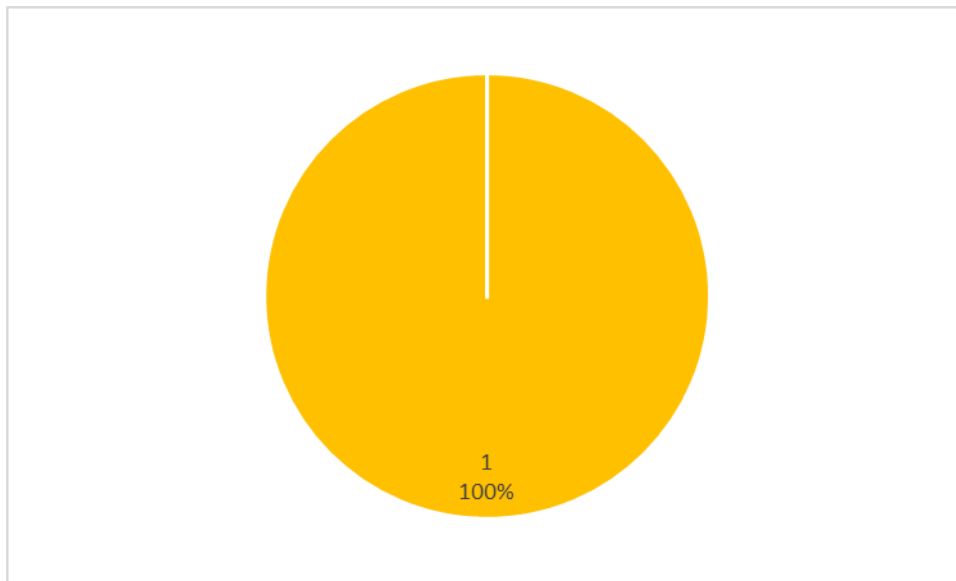
**Table 4.4: Reporting Media in which Respondents ESG disclosures is Published.**

	Yes	
	Frequency	Percentage
As part of the Annual Report	8	88.9
As part of Stand-alone Sustainability Report	6	66.7
On the Company Website	4	44.4

#### 4.4.4 Respondents Perception of the Future Value of ESG Disclosure

The respondents were asked for their views about the value of ESG in the next three years. According to Figure 4.6 below, all the respondents (100%) indicated that in the next three years, their perception of the value of ESG disclosure would be much more important to the firm's value. The findings imply that, in the future, ESG disclosure is likely to become a standard practice, akin to financial reporting. Companies that are proactive in their ESG efforts and transparent in their disclosures will be better positioned to navigate the challenges and opportunities presented by a changing global landscape. Additionally, stakeholders, including investors and consumers, will continue to demand greater accountability and transparency, reinforcing the importance of ESG disclosure.

**Figure 4.6: Value of Environmental Social and Governance Disclosure**



#### 4.4.5 ESG Disclosure Guidelines

The study sought the respondents' level of agreement with statements regarding the ESG disclosure guidelines as relates to their firm. An average score of 3.84 shows that respondents agreed with statements regarding the ESG disclosure guidelines as related to their firm. Specifically, the respondents strongly agreed that complying with ESG guidelines led to value creation in the business (M= 4.55, SD =0.527). They also strongly agreed that the guidelines were easy to follow and were not complex to implement in the organization (M= 4.22, SD =0.971). It was easy to adjust processes of the organizations to meet the ESG compliance standards (M= 3.66,

SD =1.322). It was easy to adjust products/services and people and reporting structure of the organizations to meet the ESG compliance standards (M= 3.55, SD =1.130). Lastly, the ESG compliance standards were well-known organization wide and teams have no problem meeting the required standards; it was easy to adjust people and reporting structure of the organizations to meet the ESG compliance standards (M= 3.55, SD =1.130).

The findings imply that compliance with ESG disclosure guidelines was a value addition element to their organizations. The disclosures were easy to follow and implement, and their organizations could easily adjust their processes, products/service, people and reporting structure of the organizations to meet the ESG compliance standards.

**Table 4.5: ESG Disclosure Guidelines**

	<b>Mean</b>	<b>Std. Deviation</b>
Complying with ESG guidelines will lead to value creation in the business	4.55	.527
The guidelines were easy to follow and were not complex to implement in the organization	4.22	.971
It was easy to adjust processes of the organizations to meet the ESG compliance standards	3.66	1.322
It was easy to adjust products/services provided by the organizations to meet the ESG compliance standards	3.55	1.236
It was easy to adjust people and reporting structure of the organizations to meet the ESG compliance standards	3.55	1.130
The ESG compliance standards are well-known organization wide and teams have no problem meeting the required standards	3.55	1.130
<b>Average</b>	<b>3.84</b>	<b>1.052</b>

#### **4.4.6 Respondent’s Perception of the Completeness of their Company’s Disclosures in ESG**

Respondents were asked for their overall comment regarding the completeness of the company’s disclosures in ESG. Accordingly, some of the respondents indicated that they had a great start as per their 2022 sustainability report. Other respondents indicated that they were starting the journey towards the completeness of the company’s disclosures in ESG. Still other respondents indicated

that they were satisfied with their ESG reporting as they are keen to ensure that their report is accurate, transparent and complete and looked forward to opportunities for further enhancement by the GRI standards.

Furthermore, some respondents were of the view that, the completeness of the company's disclosure in ESG means several value adding benefits such as prudent risk management, care for the environment, reduced operating costs, brand equity and customer loyalty, investor confidence, social license to operate, improvement of both asset management and performance, adaptability to changing and emerging business space/landscape.

For some respondents, their ESG disclosures align to the GRI framework as required by NSE and sustainability, however, since ESG disclosures are evolving fast and new benchmarks are coming up their reporting and disclosures remain a journey of continuous improvement as they benchmark with the best in practice both at a global level. Lastly, a section of the respondents revealed that they include a 4-year analysis of their progress and share both their successes and setbacks as well as their future focus.

#### **4.5 The motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya.**

The second objective of the study was to find out the motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya. This section shows responses on Incentives and Motives of ESG Disclosures.

##### **4.5.1 ESG Reporting Practices**

The study investigated what motivated the respondents' company to adopt ESG reporting practices. Accordingly, respondents advanced various reasons including the belief that it was the right thing to do in addition to sharing their experiences and best practices locally, regionally and globally. For others, it was part of their sustainability policy and commitment in 2020 while for others it was part of their company's vision to be a force for good in their communities. Another reason was that it was a leading practice and most recent compliance to the law. Nevertheless, other respondents noted that their motivation was from a cost-efficiency standpoint, in terms of managing and substantially reducing operational resources and expenses such as raw-material, water, energy and waste, thus improving operating profits by as much as 60%. Further findings

were that the respondents’ companies were motivated to be transparent on the progress they were making towards the sustainability goals the company set forth. Consequently, for such companies, what gets measured gets done and through the annual sustainability report they are able to do an honest assessment of their progress towards their targets. Moreover, another section of the respondents revealed that they appreciated the fact that running a sustainable business was not an option since businesses ultimately suffer if the environment and society suffers. Therefore, for such companies, their motivation was the need to focus on all the 3 Ps (profit, people and planet) for sustainable development to be achieved. Therefore, the companies were motivated by the fact that there was a positive relationship between sustainability investing, financial performance, compliance and transparency in business.

#### **4.5.2 Incentives for Adopting ESG Reporting Practices**

The study also sought to establish whether the respondents’ companies received any incentives for adopting ESG reporting practices. As tabulated below, 77.8% of the respondents indicated that they did not receive any incentives for adopting ESG reporting practices whereas 22.2% indicated that they had received incentives for adopting ESG reporting practices. Those that had indicated that they received incentives for adopting ESG reporting practices stated that their incentives were compliance with their ESG policy on governance and accountability. Additionally, for other companies, their incentive was past recognition as a Global Compact LEAD company both in 2018 and 2021. They had also received various awards linked to their ESG profile such as the UNEP Environment Sustainability Award, GSMA Global Mobile Award on contribution to the SDGs.

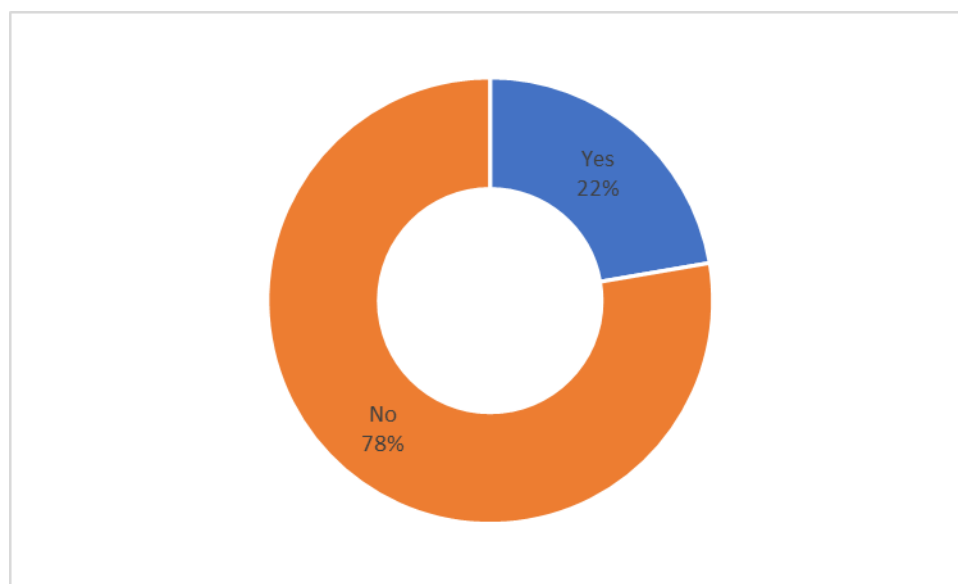
**Table 4.6: Incentives for Adopting ESG Reporting Practices**

	<b>Frequency</b>	<b>Percentage</b>
Yes	2	22.2
No	7	77.8
<b>Total</b>	<b>9</b>	<b>100.0</b>

### 4.5.3 Pressures from Stakeholders to Adopt ESG

The respondents were also asked whether their company faced any pressures from stakeholders to adopt ESG reporting practices. Figure 4.7 illustrates that 77.8% of the respondents indicated that they did not face any pressure from stakeholders to adopt ESG reporting practices while 22.2% indicated that they faced pressure from stakeholders to adopt ESG reporting practices. Those who indicated that they faced pressure from stakeholders explained that; they faced pressure related to Central bank of Kenya TCFD reporting as well as NSE ESG reporting. Others explained that their impact investors have specific disclosures they are keen on seeing in their reporting, with some being keen on environmental disclosures such as CDP or workforce disclosures such as pay gaps. Some respondents also explained that, largely the greatest interest had been from their investors in addition to the fact that they run an asset management business whose customers had in the recent past been demanding for ESG investment products.

**Figure 4.7: Pressures from Stakeholders to Adopt ESG**



### 4.5.4 Sustainability on Firm's Long-term Success

Asked how important sustainability was to their firm's long-term success, respondents indicated that: it was the reason they have been in existence for 100 years, and they projected to use it as an anchor to continue existing for another 100 years. In the same vein, the respondents explained that they were guided by a Strong and SMART Sustainability Strategy called Society 2030: Spirit of Progress, which is further divided into three distinct pillars. The strategy aims to promote positive

drinking, champion inclusion and diversity, and pioneer sustainability across East Africa. Further findings were that sustainability is critical to the success of the company since it was a critical component of their strategy. Additionally, the respondents stated that ESG had evolved from being a force to only protect against downside risk to one that also drives excess performance thus it was an imperative for their company to remain future fit and successful. Moreover, respondents observed that implementing some of the sustainability initiatives ensured that they were on boarding clients that were not going to have any credit or reputational risks whilst operating while monitoring their resources hence safeguarding their company's long-term success. and sustainability was an integral part of one of the company's long-term success and informed their business strategic direction. Lastly, the respondents noted that sustainability was an integral part of their long-term success and together with the SDGs framework, it informs their business strategic direction. Accordingly, they had integrated sustainability in the way they design their products and services, and it also informs their partnerships as they accelerate their business to new growth areas.

#### **4.5.5 Effect of Adoption of ESG Reporting Practices on Respondents' Organizations' Relationship with Stakeholders**

Respondents indicated that adoption of ESG reporting practices affected their relationship with stakeholders such as customers, investors, and employees in numerous ways. To begin with, it enhanced their relationship (improved relevance and trust) with their stakeholders as they were impressed with the progress, they were making with their Sustainability Strategy, underpinned by good governance. Secondly, the adoption of ESG reporting practices had helped buoy the confidence and trust of the companies' key stakeholders, since the disclosures project the company to be transparent with them. Besides, the ESG issues substantively influence the assessments and decisions of the stakeholders. Therefore, the companies' adoption of ESG reporting practices had positively impacted their relationship with various stakeholders as it showcases their transparency and strengthens their trustworthiness in how they conduct their business and meet stakeholder expectations in a transparent and responsible manner. Another explanation was that ESG reporting improved and enhanced the companies' engagement with their stakeholders with a focus on understanding their expectations from the business and areas for improvement. To this effect, the companies update on their engagement with these stakeholders in their annual sustainable business

report, when carrying out materiality assessment, customized annual forums, feedback channels, and annual surveys.

#### **4.5.6 How Respondents' Company has Leveraged its ESG to Gain Competitive Advantage**

The study probed the respondents on how their firm has leveraged its ESG reporting practices to gain a competitive advantage in the market. Accordingly, the respondents noted that they continue to create awareness of their end-to-end sustainability approach to running their business at various local, regional and international platforms. They gave an example that, in the past financial year, they were top-of-mind on matters sustainability and were requested to participate and share their experiences in various forums on sustainability. As a result, such participation and exposure has further enhanced their reputation, which is an invaluable asset to their organization. Some respondents noted that their firm has leveraged its ESG reporting practices to gain a competitive advantage in the market by embracing sustainable finance, competitive pricing, being trendsetters in the ESG space and initiating ESG practices which are easily adopted by the rest of the market. Moreover, the respondents revealed that ESG reporting had profiled their company as a responsible business and one that puts purpose before profit thus contributing to its increased market share. However, some respondents indicated that their primary concern was to lay the right foundation and create the right environment to operate sustainably rather than competing with others.

#### **4.5.7 Benefits Respondents' Organizations have derived from Adopting ESG Reporting Practices**

When probed on what benefits their firm has seen from adopting ESG reporting practices, respondents indicated that; there had been more staff engagement based on an internal survey done, they had gained support and credibility across various stakeholders. There was also growth in revenue, profits and share value; operational cost reduction; adopting global best practice standards in ESG; gaining strategic partnerships; positive reputation and brand image. Therefore, ESG reporting practices had resulted in improved financial performance, attracting more investors, business partners, customers and lenders; enhanced reputation, striking a balance between purpose and profit.

#### 4.5.8 Establishment of Cross-Functional ESG Council in Respondents Organization

The respondents were asked whether they had established a cross-functional ESG council or working group to drive strategic attention to ESG for the business. As per Table 4.8 below, 55.6% of the respondents indicated that they had already established a cross-functional ESG council or working group to drive strategic attention to ESG for the business. 22.2% indicated that they were in the process of establishing and the remaining 22.2% indicated that they had not established but were making plans to establish the cross-functional ESG council or working group to drive strategic attention. Cross-functional Environmental, Social, and Governance (ESG) council or working group meetings serve several important purposes in organizations, such as strategy development, performance monitoring, risk management, stakeholder engagement, knowledge sharing, decision-making, reporting and disclosure, and materiality assessment. Their frequency can vary depending on the organization's needs and objectives.

**Table 4.7: Cross-Functional ESG Council**

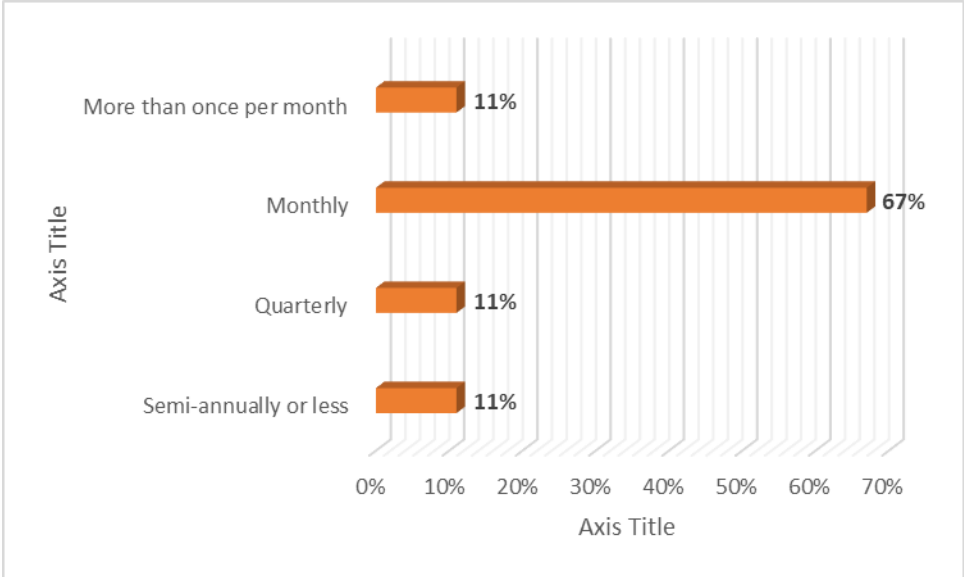
	Frequency	Percentage
No, and we have no plans to	-	-
No, but we are making plans to	2	22.2
Yes, we are in the process of establishing	2	22.2
Yes, this is already established	5	55.6
<b>Total</b>	<b>9</b>	<b>100</b>

#### 4.5.9 Cross-Functional ESG Council or Working Group Scheduled Meeting in Respondents Organization

The respondents were probed on how often the cross-functional ESG council or working group is within their company scheduled to meet regarding ESG. Based to the findings in Figure 4.8, 66.7% of the respondents indicated that the cross-functional ESG council or working group within their company scheduled to meet regarding ESG monthly. 11.1% indicated that cross-functional ESG council or working group within their company scheduled to meet regarding ESG semi-annually or less. Another 11.1% indicated that cross-functional ESG council or working group within their company scheduled to meet regarding ESG quarterly and the remaining 11.1% indicated that cross-functional ESG council or working group within their company scheduled to meet regarding ESG more than once per month.

The frequency of ESG council or working group meetings can vary depending on factors like the organization's size, industry, ESG maturity, and the complexity of ESG initiatives. Monthly meetings allow for regular updates and quick responses to emerging issues. Quarterly meetings are common and offer a balance between regularity and workload. They align with quarterly reporting cycles for many organizations. Smaller or less complex organizations may opt for semi-annual or annual ESG meetings to discuss longer-term goals and performance. In response to specific events or emerging ESG issues, organizations may convene ad hoc meetings when needed. Some organizations use a combination of these frequencies. For example, they may have quarterly meetings with ad hoc meetings for urgent matters.

**Figure 4.8: Cross-Functional ESG Council or Working Group Scheduled Meeting in Respondents Organization**



**4.5.10 Management Responsibility for ESG Disclosure in Respondent’s Organization**

The study also intended to establish who in the company had the management responsibility for ESG disclosure. From the findings presented in Table 4.9 below, 44.4% of the respondents indicated that the chief sustainability officer was responsible for ESG disclosure, 22.2% indicated that the executive leadership team and the chief strategy officer was responsible for ESG disclosure each. Additionally, 11.1% indicated that the investor relations was responsible for ESG disclosure. This implies that, regardless of the frequency, it's crucial to ensure that ESG discussions are

integrated into the organization's overall decision-making processes and that actions resulting from these meetings are followed through.

**Table 4.8: Management Responsible for ESG Disclosure**

	Frequency	Percentage
Chief sustainability officer	4	44.4
Chief financial officer	0	-
Executive leadership team	2	22.2
Chief strategy officer	2	22.2
Marketing/public relations	0	-
Investor relations	1	11.1
<b>Total</b>	<b>9</b>	<b>100</b>

#### 4.5.11 Primary Responsibility for oversight of ESG Reside at the Board Level

Table 4.10 shows that 66.7% of the respondents indicated that primary responsibility for oversight of ESG reside at the full board level, 22.2% indicated that primary responsibility for oversight of ESG reside at the ESG sustainability committee level and 11.1% indicated that primary responsibility for oversight of ESG reside at the nominating and governance committee. This indicates that there are defined departments/roles within the organization that are primarily responsible for oversight of ESG in the respondents' organizations.

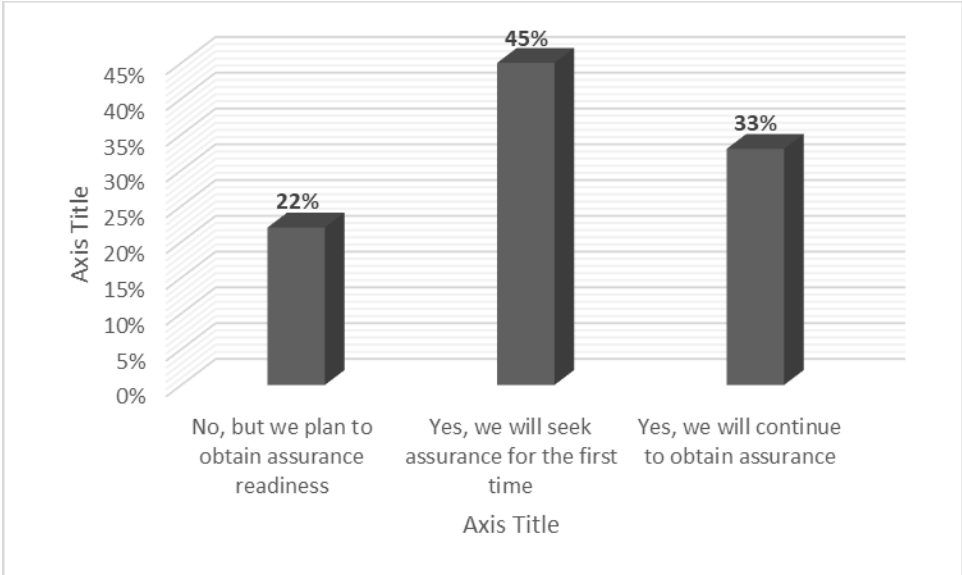
**Table 4.9: Primary Responsibility for oversight of ESG Reside at the Board Level**

	Frequency	Percentage
ESG Sustainability Committee	2	22.2
Compensation Committee	-	-
Nominating and governance committee	1	11.1
Full Board	6	66.7
Audit Committee	-	-
<b>Total</b>	<b>9</b>	<b>100</b>

**4.5.12 Plans to Obtain External Assurance over ESG Disclosures for the Next Reporting Cycle.**

The respondents were asked whether their organization plans to obtain external assurance over ESG disclosures for the next reporting cycle. Findings in Figure 4.9 show that 44.4% of the respondents indicated that they sought assurance for the first time on obtaining external assurance over ESG disclosures for the next reporting cycle, 33.3% indicated that they continued to obtain assurance over ESG disclosures for the next reporting cycle and 22.2% indicated that they did not plan to obtain assurance readiness over ESG disclosures for the next reporting cycle.

**Figure 4.9: Plans to Obtain External Assurance over ESG Disclosures for the Next Reporting Cycle**



**4.5.13 Respondents’ Organization Active Preparation for Increased ESG Regulatory**

The study sought to determine whether their organization was taking steps to actively prepare for potential increased ESG regulatory or other disclosure requirements. Findings in Table 4.11 illustrate that 77.8% of the respondents indicated that the companies were preparing extensively now to actively prepare for potential increased ESG regulatory or other disclosure requirements. On the other hand, 22.2% indicated that their companies were preparing in a limited fashion to actively prepare for potential increased ESG regulatory or other disclosure requirements. The findings show that taking proactive steps to prepare for increased ESG regulatory or other disclosure requirements is an essential strategy for organizations seeking to thrive in a world where

ESG considerations play an increasingly critical role in business and investment decisions. It offers numerous advantages, from compliance and risk mitigation to reputation enhancement and long-term value creation.

**Table 4.10 Increased ESG Regulatory**

	<b>Frequency</b>	<b>Percentage</b>
Yes, we are preparing extensively now	7	77.8
Yes, we are preparing in a limited fashion	2	22.2
<b>Total</b>	<b>9</b>	<b>100.0</b>

#### **4.5.14 Creation of New Internal Roles or Responsibilities to Prepare for Potential Increased ESG Regulatory or Other Disclosure Requirements**

On whether respondents had created any new internal roles or responsibilities in recent months to prepare for potential increased ESG regulatory or other disclosure requirements; 88.9% of the respondents indicated that they had whereas 11.1% indicated that they had not. The findings depict that as organizations prepare for potential increased ESG regulatory or other disclosure requirements, they may need to create new internal roles or assign specific responsibilities to existing teams. The specific roles and responsibilities will depend on the organization's size, industry, and ESG goals. However, it's crucial for organizations to align these roles with their overall business strategy and designate individuals or teams to champion ESG initiatives at the highest levels of the organization. Creating and assigning these roles helps ensure that ESG efforts are coordinated, efficient, and effectively integrated into the organization's operations.

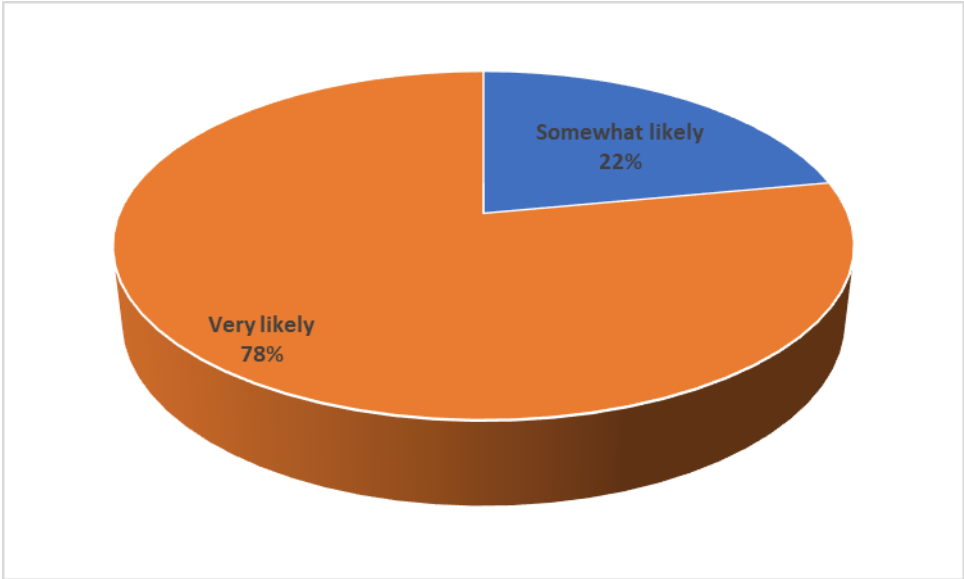
**Table 4.11 New Internal Roles or Responsibilities**

	<b>Frequency</b>	<b>Percentage</b>
Yes	8	88.9
No	1	11.1
<b>Total</b>	<b>9</b>	<b>100.0</b>

**4.5.15 Likelihood of Respondents’ Company to Invest in New Technology or Tools to Enable More Timely Data and High-Quality Disclosure in the Next 12 Months**

The study sought to determine how likely respondents/ company to invest in new technology or tools to enable more timely data and high-quality disclosure in the next 12 months. As per the findings in Figure 4.10, 77.8% of the respondents indicated that they were very likely while 22.2% indicated that they were somewhat likely to invest in new technology or tools to enable more timely data and high-quality disclosure in the next 12 months. This shows that the likelihood of a company investing in new technology or tools to enable more timely data and high-quality disclosure in the next 12 months aims to improve efficiency, accuracy, and transparency in reporting.

**Figure 4.10: Likelihood of Respondents’ Company to Invest in New Technology or Tools to Enable More Timely Data and High-Quality Disclosure in the Next 12 Months.**



**4.5.16 Respondents Company Capacity in Meeting Requirements of ESG**

The respondents were asked to rate the extent to which their firm has capacity in meeting the requirements of ESG. According to the findings in Table 4.16, 44.4% of the respondents indicated that the firm had capacity in meeting the requirements of ESG to a large and moderate extent respectively while 11.1% indicated that the firm had slight capacity in meeting the requirements

of ESG. This means that the respondents were confident that their companies had the capacity to meet the requirements of ESG.

**Table 4.12 Requirements of ESG**

	<b>Frequency</b>	<b>Percentage</b>
To a large extent	4	44.4
Moderate	4	44.4
Slightly	1	11.1
<b>Total</b>	<b>9</b>	<b>100</b>

#### **4.5.17 Respondents' Companies' Capacity in Complying with ESG**

The study went on to enquire about the extent to which the respondents agree statements regarding the firm capacity in complying with ESG. The responses were measured using a likert scale where 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is strongly agree. As per the findings presented in Table 4.16 below, the average score was 4.08 and this indicated that respondents agreed to a great extent that their company had the capacity to comply with ESG. Regarding the specific statements, respondents agreed to a great extent that; they had adequate technical capacity on governance issues (M= 4.33, SD = 1.000); they felt confident to undertake the ESG reporting (M = 4.22; SD = 0.971); there was adequate knowledge sharing in their sector to enhance their capacity for compliance (M = 4.22, SD =1.000); they had adequate technical capacity on social issues (M = 4.11; SD = 1.054). They further agreed that they had capacity in using technology to enhance compliance (M = 3.88; SD = 1.054); and they had adequate technical capacity on environment issues (M = 3.77; SD = 1.092).

**Table 4.13 Respondents' Companies' Capacity in Complying with ESG**

	<b>Mean</b>	<b>Std. Deviation</b>
We have adequate technical capacity on Environment issues	3.77	1.092
We have capacity in using technology to enhance compliance	3.88	1.054
We have adequate technical capacity on social issues	4.11	1.054
We feel confident to undertake the ESG reporting as required	4.22	.971

There is adequate knowledge sharing in our sector to enhance our capacity for compliance	4.22	1.092
We have adequate technical capacity on Governance issues	4.33	1.000
<b>Average</b>	<b>4.08</b>	<b>1.043</b>

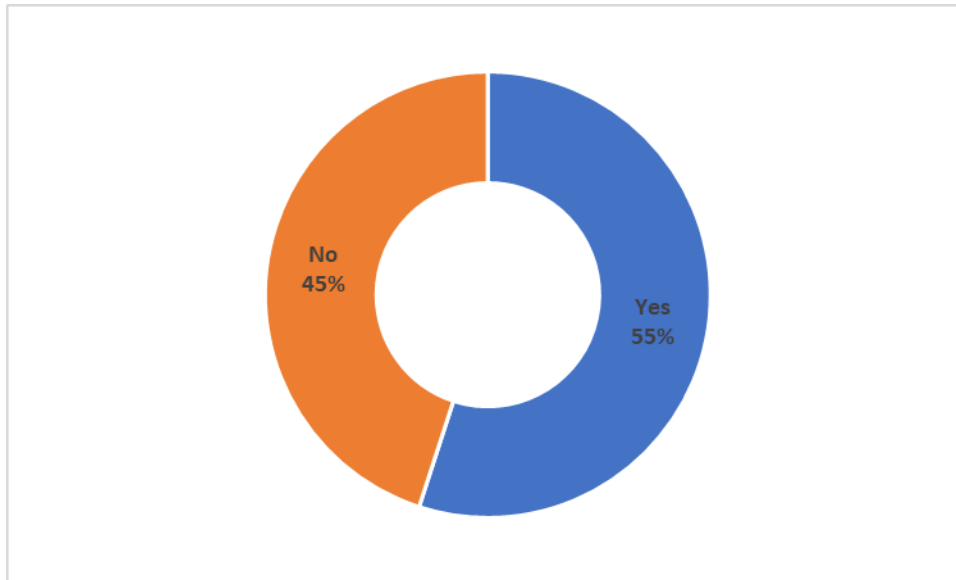
#### **4.6 The challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.**

The third objective of the study was to establish the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya. Accordingly, this section shows the findings.

##### **4.6.1 Challenges in Adopting and Implementing ESG Reporting Practices**

Respondents were probed on whether their company faced any challenges in adopting and implementing ESG reporting practices. Figure 4.11 shows that 55.6% of the respondents indicated that the company faced challenges in adopting and implementing ESG reporting practices. The challenges faced which included inadequate skills and awareness; a rapidly evolving reporting space to also include international guidelines such as GRI. They also encountered on boarding technology challenge, the lack of one size fits all /standardised reporting frameworks, lack of data, and inadequate regulation. The respondents however noted that, in light of the aforementioned challenges; with more training, including at renowned international institutions covered by the organization, and covering the organization's leadership team, and working with strategic partners, more skills and knowledge on reporting has been gained. Additionally, businesses are now required to do multiple ESG disclosures dependent on the stakeholders' requirements of them.

**Figure 4.11: Challenges in Adopting and Implementing ESG Reporting Practices**



#### **4.6.2 Barriers that Prevented Respondents Companies' from Adopting or Implementing ESG Reporting Practices**

The study also sought to find out whether there were any barriers that prevented respondents' companies from adopting or implementing ESG reporting practices. From the findings, 88.9% of the respondents indicated that they had not faced any barriers that prevented their companies from adopting or implementing ESG reporting practices while 11.1% agreed that they had. The findings imply that the companies hardly encountered barriers to ESG adoption.

**Table 4.14 Barriers that Prevent Adopting or Implementing ESG Reporting Practices**

	<b>Frequency</b>	<b>Percentage</b>
Yes	1	11.1
No	8	88.9
<b>Total</b>	<b>9</b>	<b>100</b>

#### **4.6.3 Difficulties in Obtaining Accurate and Reliable ESG Data**

Further enquiries focused on whether respondents had faced difficulties in obtaining accurate and reliable ESG data for reporting purposes. Table 4.20 shows that 55.6% of the respondents indicated that they encountered difficulties in obtaining accurate and reliable while 44.4% had not.

Respondents who indicated that they had encountered challenges explained that the challenges included scattered data, data maintenance format, and data accessibility. More challenges mentioned included the ESG data sits with different business units across the company hence there was a challenge on having a system for ESG data even though plans were underway to resolve the issue. Another challenge was that the company had previously not kept data about carbon emissions, waste or even natural resources consumption, however, they had begun building templates to keep this data going forward.

**Table 4.15 Difficulties in Obtaining Accurate and Reliable ESG Data**

	<b>Frequency</b>	<b>Percentage</b>
Yes	5	55.6
No	4	44.4
<b>Total</b>	<b>9</b>	<b>100</b>

#### **4.6.4 Internal Resistance to ESG Reporting Practices in Respondent’s Organizations**

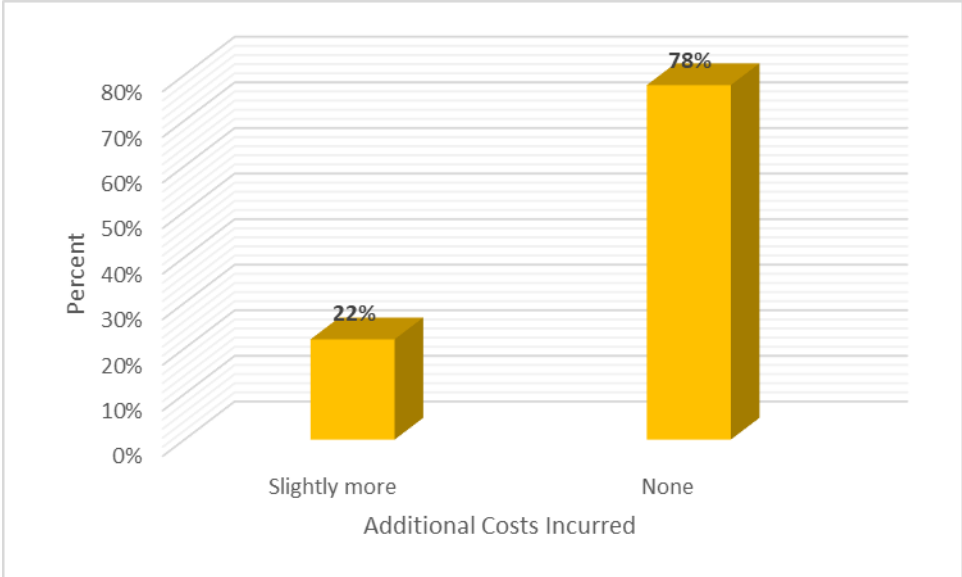
The study investigated how their firm had firm addressed any internal resistance to ESG reporting practices from employees or management. Respondents indicated that they had implemented mitigation strategies such as: learning, training and capacity building; external consulting and stakeholder engagement; progressively embedding the practices. Other respondents noted that from the beginning, they have always integrated the sustainability agenda into the business strategy and have incorporated the same into the organizational performance objectives, both at company and individual employee levels. Moreover, the respondents’ firms ensured that the ESG agenda is driven by the company as a whole with the sustainability team and ESG committee being the overall custodians of the agenda and continuous engagement while deliberately identifying opportunities available.

#### **4.6.5 Additional Cost Incurred by Respondents Firms in Adopting and Implementing ESG Reporting Practices**

Upon being probed on how much additional cost has their firm incurred in adopting and implementing ESG reporting practices, majority (77.8%) had encountered no additional cost,

while some (22.2%) encountered slightly more costs. The respondents who indicated that the companies incurred additional costs in adopting and implementing ESG reporting practices mentioned costs such as: hiring and working with experts, training all key internal stakeholders starting from the management level and the actual costs of putting together the report end-to end.

**Figure 4.12: Additional Cost Incurred by Respondents Firms in Adopting and Implementing ESG Reporting Practices**



**4.6.6 Role of Regulators and Policymakers in Facilitating or Hindering the Adoption of ESG Reporting Practices**

The respondents were surveyed on their opinion on the role of regulators and policymakers in facilitating or hindering the adoption of ESG reporting practices. Consequently, the study established that indicated that regulators and policymakers formulated supportive policies that shape the direction and provide guidance leading to more organizations adopting ESG reporting. Regulators and policy makers also offer training and capacity building; both NSE and CMA had been on the forefront encouraging the adoption of ESG reporting practices. They also ensure that companies were accountable and had a positive impact to the environment and society. Furthermore, regulators and policymakers develop standardized frameworks relevant to the region of operation and aligned to global best practices to guide the businesses. Besides, they can also recognize and reward early adopters of ESG reporting so as to incentivize others to adopt ESG reporting. Therefore, regulators and policymakers are enablers and facilitators of ESG reporting

by creating more awareness on what it is and the benefits that businesses can get from ESG reporting.

#### **4.6.7 Ways to Improve ESG Reporting Practices in Respondents Organizations**

The respondents were asked their opinion on how their firms can improve their ESG reporting practices in the future. They recommended that their firms should continuously watch how the reporting space is unfolding both from local and international perspectives. Another recommendation was the incorporation of various guidelines such as the GRI that complement the NSE guidelines. More recommendations were that their firms should; embrace technology; remaining agile and championing; benchmark with peers globally and locally; identifying ESG gaps and addressing them; continued compliance to upcoming reporting requirements and adoption of recommended reporting requirements. The respondents also recommended that their firms should include more disclosures relevant to their industry, and that are material to their stakeholders in addition, to aligning their initiatives and disclosures to a clear strategy.

#### **4.6.8 Challenges of ESG Disclosure in Respondents' Firms**

Finally, the respondents were asked to indicate the extent to which they agree with statements regarding the challenges of ESG disclosure in their firm. Table 4.22 shows that respondents agreed to a great extent ( $M = 4.08$ ,  $SD = 1.043$ ) with statements regarding the challenges of ESG disclosure in their firm. Specifically, they had the right quality of staff to prepare for the compliance measures ( $M = 4.33$ ,  $SD = 1.000$ ); they had an adequate allocated budget to help them upgrade to the required standards ( $M = 4.00$ ;  $SD = 1.118$ ). They also agreed that they had challenges but they were unlikely to lead to non-compliance with ESG guidelines ( $M = 3.77$ ;  $SD = 1.201$ ); they had enough number of staff to prepare adequately with the compliance measures ( $M = 3.77$ ,  $SD = 1.301$ ); they had enough time to prepare and meet the deadline ( $M = 3.66$ ,  $SD = 1.322$ ) and the whole organization had a good understanding of the requirements of meeting the ESG guidelines ( $M = 3.66$ ;  $SD = 0.707$ ).

**Table 4.16: Challenges of ESG Disclosure**

	<b>Mean</b>	<b>Std. Deviation</b>
--	-------------	---------------------------

We have the right quality of staff to prepare for the compliance measures	4.33	1.000
We have adequate allocated budget to help us upgrade to the required standards	4.00	1.118
We have enough number of staff to prepare adequately with the compliance measures	3.77	1.301
We have challenges but they are unlikely to lead to non-compliance with ESG guidelines	3.77	1.201
We have enough time to prepare and meet the deadline	3.66	1.322
The whole organization have a good understanding of the requirements of meeting the ESG guidelines	3.66	.707
<b>Average</b>	<b>4.08</b>	<b>1.043</b>

## 4.7 Inferential Analysis

### 4.7.1 Correlation Analysis

Correlation analysis was used to examine the inter-relationship between the independent variables i.e., firm size, industry sector, organizational structure and financial performance and the dependent variable being early adoption of ESG disclosures. Correlation coefficients Pearson's were calculated, and the statistical significance of the correlations was tested.

**Table 4.17: Correlation Results**

#### Correlations

		Financial Industry Performance	Ownership structure	Corporate governance	Firm size	ESG score
<b>Industry</b>	<b>Pearson Correlation</b>	1				
	<b>Sig. (2-tailed)</b>					
	<b>N</b>	9				
<b>Financial Performance</b>	<b>Pearson Correlation</b>	.257	1			
	<b>Sig. (2-tailed)</b>	.504				
	<b>N</b>	9	9			

<b>Ownership structure</b>	<b>Pearson</b>	.125	.094	1			
	<b>Correlation</b>						
	<b>Sig. (2-tailed)</b>	.748	.811				
	<b>N</b>	9	9	9			
<b>Corporate governance</b>	<b>Pearson</b>	-.322	.055	.332	1		
	<b>Correlation</b>						
	<b>Sig. (2-tailed)</b>	.398	.887	.383			
	<b>N</b>	9	9	9	9		
<b>Firm size</b>	<b>Pearson</b>	-.250	.261	.188	.717*	1	
	<b>Correlation</b>						
	<b>Sig. (2-tailed)</b>	.516	.498	.628	.030		
	<b>N</b>	9	9	9	9	9	
<b>ESG score</b>	<b>Pearson</b>	.232	-.163	-.222	.558	.507	1
	<b>Correlation</b>						
	<b>Sig. (2-tailed)</b>	.548	.675	.567	.118	.163	
	<b>N</b>	9	9	9	9	9	9

\*. Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.18 indicate that, industry sector had a positive and insignificant relationship with ESG score as represented by  $r$  of 0.232 and sig. of 0.548. Financial performance was found to have a negative and insignificant relationship with ESG reporting practices ( $r = -0.163$  and  $p$  value = 0.675). Ownership structure was negatively and insignificantly related to ESG reporting practices ( $r = -0.222$  and  $p$  value = 0.567). Furthermore, corporate governance was positively and insignificantly related to ESG reporting practices ( $r = 0.558$  and  $p$  value = 0.118). Lastly, firm size had a positive and insignificant relationship with ESG reporting practices ( $r = 0.509$  and  $p$  value = 0.163).

#### 4.7.2 Regression Analysis

Regression analysis was used to examine the impact of the independent variables on the dependent variable and to identify the most significant predictors of early adoption of ESG disclosures. The independent variables were entered into a regression model, and the model's goodness-of-fit was assessed using R-squared and adjusted R-squared. The statistical significance of the regression coefficients was tested, and the direction and magnitude of the relationships between the independent variables and the dependent variable was examined. The analysis enabled the

identification of the characteristics of early adopters of ESG disclosures on the Nairobi Securities Exchange.

**Table 4.18: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998 <sup>a</sup>	.995	.987	.51873

a Predictors: (Constant), Financial Performance, Firm Size, Industry Sector, Ownership Structure, Corporate Governance

The table 4.19 shows that the characteristics of early adopters of ESG disclosures had a significant linear relationship with ESG reporting practices ( $r = 0.998$ ). The r-squared value of 0.995 further indicates that the characteristics of early adopters accounted for 99.5% of the variance in the ESG reporting practices.

**Table 4.19: Anova**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	163.494	5	32.699	121.521	.001 <sup>b</sup>
	Residual	.807	3	.269		
	Total	164.301	8			

a Dependent Variable: ESG score

b Predictors: (Constant), Financial Performance, Firm Size, Industry Sector, Ownership Structure, Corporate Governance

Analysis of variance is used to determine the significance of the model developed. In this study, the significance of the model was tested at 5% level of significance. From the findings in Table 4.25, the significance of the model was 0.001 which is less than the selected level of significance 0.05. This, therefore, suggests that the model was significant. The findings further show that the F-calculated value (121.521) was greater than the F-critical value ( $F_{5,3} = 9.013$ ). (Note: F-critical value is obtained from the F-distribution tables); this suggests that the variables, financial performance, firm size, industry sector, ownership structure, corporate governance can be used to predict ESG reporting practices.

**Table 4.20: Coefficients**

Model	Unstandardized	Standardized	t	Sig.
		Coefficients		

		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	45.719	1.372		33.316	.000
	Industry/Sector	2.322	.142	.759	16.351	.000
	Firm Performance	-.739	.075	-.447	-9.909	.002
	Ownership Structure	-.208	.016	-.595	-13.360	.001
	Corporate Governance	.191	.016	.743	11.649	.001
	Firm Size	.044	.007	.393	6.347	.008

a Dependent Variable: ESG Score

From the findings, the model constant was 45.719 with a t-value of 33.316 which was significant at  $p > .05$  level of significance. This demonstrates that the autonomous Y (value of the dependent variable with all other factors held constant) ESG reporting practices is a constant of 45.719 units.

Findings from the table indicated that parameter ( $\beta$ ) for Industry/Sector was 2.322 with a t-value of 16.351 which was significant at  $p > .05$  level of significance. This implies that a unit increase in industry/sector would result in a 2.322 increase in ESG reporting practices. The researcher concluded that Industry/Sector significantly and positively influences ESG reporting practices.

Further, the parameter estimate ( $\beta$ ) for firm performance was -0.739 with a t-value of -9.909 which was significant at  $p > .05$  level of significance. This suggests that a unit increase in firm performance would result in a 0.739 decrease in ESG reporting practices. Therefore, firm performance negatively and significantly influences ESG reporting practices.

Additionally, the parameter estimate ( $\beta$ ) for ownership structure was -0.208 with a t-value of -13.360 which was significant at  $p > .05$  level of significance. This suggests that a unit increase in ownership structure would result in a 0.208 decrease in ESG reporting practices. Therefore, ownership structure negatively and significantly influences ESG reporting practices.

Moreover, the parameter estimate ( $\beta$ ) for corporate governance was 0.191 with a t-value of 11.469 which was significant at  $p > .05$  level of significance. This infers that a unit increase in corporate governance would result in a 0.191 increase in ESG reporting practices. Therefore, corporate governance positively and significantly influences ESG reporting practices.

Lastly, the firm size was 0.044 with a t-value of 6.347 which was significant at  $p > .05$  level of significance. This suggests that a unit increase in firm size would result in a 0.044 increase in ESG reporting practices. Therefore, firm size positively and significantly influences ESG reporting practices.

All independent variables (Industry/Sector, Firm Performance, Ownership Structure, Corporate Governance, and Firm Size) have statistically significant coefficients. This means that, when considered together in the model, they collectively contribute to explaining the variation in ESG Scores. The regression model as a whole is statistically significant, indicating that the combined effect of all independent variables provides meaningful insights into the variation in ESG Scores.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The general study objective was to aim to provide insights into the characteristics of firms that are early adopters of ESG reporting practices on the Nairobi Securities Exchange and offer a better understanding of the potential benefits and challenges of ESG reporting for firms, investors, and other stakeholders in the Kenyan context. The specific objectives of the study were to: identify the characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange. To analyze the motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya and to then assess the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya 9 questionnaires were administered to ESG managers, Sustainability managers and investor relations out of which 9 questionnaires were filled and returned.

#### 5.2 Summary

Respondents were drawn from East African Breweries PLC, Standard Chartered Bank, Bamburi Cement, Kakuzi, KCB Bank, Nation Media Group, Safaricom Plc, Co-operative Bank and Stanbic Bank PLC were the names of their companies. The companies were in the financial, manufacturing of beverages, construction materials, agriculture/agribusiness, telecommunications and the media service industries. Additionally, responses were drawn from the heads of sustainability, executive managers - stakeholder relations & sustainability, ESG Managers and heads of strategy and investor relations. The organizations have been operation for a significant period, hence vast experience in operational matters, emerging trends and best practices.

##### **5.2.1 The characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange.**

All the sampled companies were aware of the guidelines for ESG disclosures. the East African Breweries PLC, Standard Chartered Bank, Bamburi Cement, Nation Media Group and Stanbic Bank PLC adopted ESG reporting practices on the Nairobi Securities Exchange in 2022. On the other hand, Safaricom PLC, KCB Group, Kakuzi PLC and Co-operative Bank adopted ESG

reporting practices on the Nairobi Securities Exchange in 2012, 2014, 2019 and 2021 respectively. Many of the companies include ESG information in their annual reports, which are widely distributed to shareholders and stakeholders, thus offering a comprehensive overview of the company's financial and non-financial performance. Furthermore, some of the companies also prefer to publish separate sustainability reports dedicated to ESG information since the reports provide in-depth details on environmental initiatives, social responsibility, and governance practices. Similarly, some of the companies frequently maintain dedicated ESG sections on their websites since it is a central hub for stakeholders to access ESG reports, data, and updates.

Further findings were that, in the future, ESG disclosure is likely to become a standard practice, akin to financial reporting. Companies that are proactive in their ESG efforts and transparent in their disclosures will be better positioned to navigate the challenges and opportunities presented by a changing global landscape. Additionally, stakeholders, including investors and consumers, will continue to demand greater accountability and transparency, reinforcing the importance of ESG disclosure.

Moreover, respondents agreed with statements regarding the ESG disclosure guidelines as related to their firm. Specifically, and in order of ranking, the respondents strongly agreed that complying with ESG guidelines led to value creation in the business. The guidelines were easy to follow and were not complex to implement in the organization, it was easy to adjust processes of the organizations to meet the ESG compliance standards as well as products/services and people and reporting structure of the organizations to meet the ESG compliance standards. Lastly, the ESG compliance standards were well-known organization wide and teams have no problem meeting the required standards; and it was easy to adjust people and reporting structure of the organizations to meet the ESG compliance standards.

Regarding the completeness of the company's disclosures in ESG, some of the companies had a great start as per their 2022 sustainability report, while others were starting the journey towards the completeness of the company's disclosures in ESG. Still others were satisfied with their ESG reporting as they are keen to ensure that their report is accurate, transparent and complete and looked forward to opportunities for further enhancement by the GRI standards. Furthermore, for some companies, the completeness of the company's disclosure in ESG means several value adding benefits such as: prudent risk management, care for the environment, reduced operating costs,

brand equity and customer loyalty, investor confidence, social license to operate, improvement of both asset management and performance, adaptability to changing and emerging business space/landscape. The study also established that their ESG disclosures align to the GRI framework as required by NSE and sustainability, however, since ESG disclosures are evolving fast and new benchmarks are coming up their reporting and disclosures remain a journey of continuous improvement as they benchmark with the best in practice both at a global level. Lastly, some companies include a 4-year analysis on their progress and share both their successes and setbacks as well as their future focus.

### **5.2.2 The motivations and incentives behind firms' decision to adopt ESG reporting practices in Kenya.**

There were various reasons as to why the early adopters adopted, including the belief that it was the right thing to do in addition to sharing their experiences and best practices locally, regionally and globally. For others, it was part of their sustainability policy and commitment in 2020 while for others it was part of their company's vision to be a force for good in their communities. An in line with a study by Clarkson et al., (2008), another reason was that it was a leading practice and most recent compliance to the law. Nevertheless, other companies' motivation was from a cost-efficiency standpoint, in terms of managing and substantially reducing operational resources and expenses such as raw-material, water, energy and waste, thus improving operating profits by as much as 60%.

Similar to a study by Bhattacharya et al., (2013) that concluded that Internal factors can also drive ESG reporting, findings were that some companies were motivated to be transparent on the progress they were making towards the sustainability goals the company set forth. Consequently, for such companies, what gets measured gets done and through the annual sustainability report they are able to do an honest assessment of their progress towards their targets. Moreover, another section of companies appreciated the fact that running a sustainable business was not an option since businesses ultimately suffer if the environment and society suffers. Therefore, for such companies, their motivation was the need to focus on all the 3 Ps (profit, people and planet) for sustainable development to be achieved. Therefore, the companies were motivated by the fact that there was a positive relationship between sustainability investing, financial performance, compliance and transparency in business.

The study established that majority of the companies did not receive any incentives for adopting ESG reporting practices. The few that had received incentives for adopting ESG reporting practices explained the incentives to be compliance with their ESG policy on governance and accountability. Additionally, for other companies, their incentive was past recognition as a Global Compact LEAD company both in 2018 and 2021. They had also received various awards linked to their ESG profile such as the UNEP Environment Sustainability Award, GSMA Global Mobile Award on contribution to the SDGs.

In contrast to study by Buysse and Verbeke (2003) who argued that important stakeholders for any organization can pressure managers to adopt more responsible environmental behaviours, this study determined that majority of the companies did not face any pressure from stakeholders to adopt ESG reporting practices while a minority did. The pressure faced by some companies included pressure related to Central bank of Kenya TCFD reporting as well as NSE ESG reporting. Others explained that their impact investors have specific disclosures they are keen on seeing in their reporting, with some being keen on environmental disclosures such as CDP or workforce disclosures such as pay gaps. Another form of pressure was informed of great interest from their investors in addition to the fact that they run an asset management business whose customers had in the recent past been demanding for ESG investment products.

Sustainability was found to be important to the firm's long-term success in various ways including it was the reason they have been in existence for 100 years, and they projected to use it as an anchor to continue existing for another 100 years. In the same vein, some companies were guided by a Strong and SMART Sustainability Strategy called Society 2030: Spirit of Progress, which is further divided into three distinct pillars. The strategy aims to promote positive drinking, champion inclusion and diversity, and pioneer sustainability across East Africa. Further findings were that sustainability is critical to the success of the company since it was a critical component of their strategy. Additionally, the respondents stated that ESG had evolved from being a force to only protect against downside risk to one that also drives excess performance thus it was an imperative for their company to remain future fit and successful. Moreover, respondents observed that implementing some of the sustainability initiatives ensured that they were on boarding clients that were not going to have any credit or reputational risks whilst operating while monitoring their resources hence safeguarding their company's long-term success. Lastly, sustainability was found

to be an integral part of their long-term success and together with the SDGs framework, it informs their business strategic direction. Accordingly, they had integrated sustainability in the way they design their products and services, and it also informs their partnerships as they accelerate their business to new growth areas.

Adoption of ESG reporting practices affected the companies' relationship with stakeholders such as customers, investors, and employees in numerous ways. To begin with, it enhanced their relationship (improved relevance and trust) with their stakeholders as they were impressed with the progress, they were making with their Sustainability Strategy, underpinned by good governance. Secondly, the adoption of ESG reporting practices had helped buoy the confidence and trust of the companies' key stakeholders, since the disclosures project the company to be transparent with them. Besides, the ESG issues substantively influence the assessments and decisions of the stakeholders. Therefore, the companies' adoption of ESG reporting practices had positively impacted their relationship with various stakeholders as it showcases their transparency and strengthens their trustworthiness in how they conduct their business and meet stakeholder expectations in a transparent and responsible manner. Another explanation was that ESG reporting improved and enhanced the companies' engagement with their stakeholders with a focus on understanding their expectations from the business and areas for improvement. To this effect, the companies update on their engagement with these stakeholders in their annual sustainable business report, when carrying out materiality assessment, customized annual forums, feedback channels, and annual surveys. This was in alignment with study by Dyck et al., (2019) that concluded that one key motivator is the desire to improve reputation and stakeholder perception, particularly among investors and customers.

The companies' leverage their ESG reporting practices to gain a competitive advantage in the market by; continuously creating awareness of their end-to-end sustainability approach to running their business at various local, regional and international platforms. For instance, in the past financial year, they were top-of-mind on matters sustainability and were requested to participate and share their experiences in various forums on sustainability. As a result, such participation and exposure has further enhanced their reputation, which is an invaluable asset to their organization. Some firms have leveraged their ESG reporting practices to gain a competitive advantage in the market by embracing sustainable finance, competitive pricing, being trendsetters in the ESG space

and initiating ESG practices which are easily adopted by the rest of the market. Moreover, for some companies' ESG reporting had profiled their company as a responsible business and one that puts purpose before profit thus contributing to its increased market share. However, some companies' primary concern was to lay the right foundation and create the right environment to operate sustainably rather than competing with others while other respondents noted that they expect to release their first sustainability report in 2024. This was in unison with a study by Eccles and Serafeim (2013) that highlighted that firms with strong ESG performance may see reporting as a way to differentiate themselves from competitors and gain a competitive advantage.

The benefits that the firms had seen from adopting ESG reporting practices, respondents indicated that; there had been more staff engagement based on an internal survey done, they had gained support and credibility across various stakeholders. There was also growth in revenue, profits and share value; operational cost reduction; adopting global best practice standards in ESG; gaining strategic partnerships; positive reputation and brand image. Therefore, ESG reporting practices had resulted in improved financial performance, attracting more investors, business partners, customers and lenders; enhanced reputation, striking a balance between purpose and profit.

Majority of the companies had established a cross-functional ESG council or working group to drive strategic attention to ESG for the business. However, a few of the companies were in the process of establishing a cross-functional ESG while a few others were making plans to establish the cross-functional ESG council or working group to drive strategic attention. Additionally, different cross functional ESG council or working group were scheduled varyingly to meet regarding ESG. Some cross-functional ESG council or working group within the companies scheduled to meet regarding ESG monthly, others, semi-annually or less, still others met quarterly, and others met once per month.

Similar to a study by Marcus and Fremeth (2009) which stated that if there are influential managers within an organization who believe that adopting ESG standards is ethically the right thing to do, then adoption is more likely to occur. Findings of this study were that, for most of the companies the chief sustainability officer, for a few others, the executive leadership team, the chief strategy officer and the investor relations officer were responsible for ESG disclosure. On the other hand, for majority of the companies, the primary responsibility for oversight of ESG resided at the full board level, while this responsibility resided at the ESG sustainability committee level and the

nominating and governance committee. The study also determined that most of the companies' plan to obtain external assurance over ESG disclosures for the next reporting cycle, a few continued to obtain assurance over ESG disclosures for the next reporting cycle while a few others did not plan to obtain assurance readiness over ESG disclosures for the next reporting cycle.

The study also determined that majority of the companies were preparing extensively now to actively prepare for potential increased ESG regulatory or other disclosure requirements while only a few were preparing in a limited fashion to actively prepare for potential increased ESG regulatory or other disclosure requirements. Moreover, majority of the companies had created new internal roles or responsibilities in recent months to prepare for potential increased ESG regulatory or other disclosure requirements. Majority of the companies were also very likely to invest in new technology or tools to enable more timely data and high-quality disclosure in the next 12 months.

Most of the firms also had capacity in meeting the requirements of ESG to a large extent. Specifically, and in order of ranking, the companies had adequate technical capacity on governance issues, they were confident to undertake the ESG reporting in addition to having adequate knowledge sharing in their sector to enhance their capacity for compliance. The companies also had adequate technical capacity on social issues, they had capacity in using technology to enhance compliance and they had adequate technical capacity on environment issues.

### **5.2.3 The challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya.**

The third objective of the study was to establish the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya. The study established that, majority of the companies' faced challenges in adopting and implementing ESG reporting practices. The challenges faced included inadequate skills and awareness; a rapidly evolving reporting space to also include international guidelines such as GRI. They also encountered on boarding technology challenge, the lack of one size fits all /standardised reporting frameworks, lack of data, and inadequate regulation. However, in light of the aforementioned challenges, with more training, including at renowned international institutions covered by the organization, and covering the organization's leadership team, and working with strategic partners, more skills and knowledge on

reporting has been gained. Additionally, businesses are now required to do multiple ESG disclosures dependent on the stakeholders' requirements of them.

The study also found out that majority of the companies did not face barriers that prevented them from adopting or implementing ESG reporting practices. However, majority of the companies faced difficulties in obtaining accurate and reliable ESG data for reporting purposes. The challenges included scattered data, data maintenance format, and data accessibility. More challenges mentioned included the ESG data sits with different business units across the company hence there was a challenge on having a system for ESG data even though plans were underway to resolve the issue. This was consistent with a study by Lundgren et al., (2019) that stated that ESG reporting can be complex and time-consuming, requiring firms to collect, analyze, and report a large amount of data. Another challenge was that the company had previously not kept data about carbon emissions, waste or even natural resources consumption, however, they had begun building templates to keep this data going forward.

In contrast to a study by Becker-Olsen et al. (2006), who emphasized resistance to change as a key issue to adopting and implementing ESG reporting practices, this study determined that, the companies had implemented various measures to address any internal resistance to ESG reporting practices from employees or management such as: learning, training and capacity building; external consulting and stakeholder engagement; progressively embedding the practices. Other companies' have always integrated the sustainability agenda into the business strategy and have incorporated the same into the organizational performance objectives, both at company and individual employee levels. Moreover, the firms ensured that the ESG agenda is driven by the company as a whole with the sustainability team and ESG committee being the overall custodians of the agenda and continuous engagement while deliberately identifying opportunities available.

The study further found out that, majority of the companies had not incurred additional cost in adopting and implementing ESG reporting practices. The companies that incurred additional costs in adopting and implementing ESG reporting practices mentioned costs such as: hiring and working with experts, training all key internal stakeholders starting from the management level and the actual costs of putting together the report end-to end. This was in line with the study by Lundgren et al., (2019) that concluded that ESG reporting requires significant resources, including time, expertise, and financial resources.

The respondents were surveyed on their opinion on the role of regulators and policymakers in facilitating or hindering the adoption of ESG reporting practices. Consequently, the study established that regulators and policymakers formulated supportive policies that shape the direction and provide guidance leading to more organizations adopting ESG reporting. Regulators and policy makers also offer training and capacity building; both NSE and CMA had been on the forefront encouraging the adoption of ESG reporting practices. They also ensure that companies were accountable and had a positive impact to the environment and society. Furthermore, regulators and policymakers develop standardized frameworks relevant to the region of operation and aligned to global best practices to guide the businesses. This is in support of study by Ioannou and Serafeim (2019) that emphasized that one of the major challenges faced by firms in adopting and implementing ESG reporting practices is the lack of standardization in reporting frameworks.

Regulators and policymakers can also recognize and reward early adopters of ESG reporting so as to incentivize others to adopt ESG reporting. Therefore, regulators and policymakers are enablers and facilitators of ESG reporting by creating more awareness on what it is and the benefits that businesses can get from ESG reporting.

Regarding how the firms can improve their ESG reporting practices in the future, the study established that firms should continuously watch on how the reporting space is unfolding both from local and international perspectives. Another recommendation was the incorporation of various guidelines such as the GRI that complement the NSE guidelines. More recommendations were that their firms should; embrace technology; remaining agile and championing; benchmark with peers globally and locally; identifying ESG gaps and addressing them; continued compliance to upcoming reporting requirements and adoption of recommended reporting requirements. The respondents also recommended that their firms should include more disclosures relevant to their industry, and that are material to their stakeholders in addition, to aligning their initiatives and disclosures to a clear strategy.

Finally, the study determined that the companies experienced challenges of ESG disclosure in their firm. The specific challenges experienced include having the right quality of staff to prepare for the compliance measures, having adequate allocated budget to help them upgrade to the required standards, having enough number of staff to prepare adequately with the compliance measures.

They also had enough time to prepare and meet the deadline and the whole organization had a good understanding of the requirements of meeting the ESG guidelines.

### **5.3 Conclusion**

The characteristics of early adopters of ESG disclosures had a significant linear relationship with ESG reporting practices ( $r= 0.998$ ). Specifically, they account for 99.5% of the variance in the ESG reporting practices. The significance of the model was 0.001 which is less than the selected level of significance 0.05. This, therefore, suggests that the model was significant. The findings further show that the F-calculated value (121.521) was greater than the F-critical value ( $F_{5,3}=9.013$ ). Besides, the autonomous Y (value of the dependent variable with all other factors held constant) ESG reporting practices is a constant of 45.719 units.

On Corporate governance, the positive coefficient suggests that there is a statistically significant positive relationship between Corporate Governance and ESG Scores. An increase in Corporate Governance by one unit is associated with an increase in ESG Score by approximately 0.191 units. This means that companies with strong corporate governance practices tend to have higher ESG Scores. The standardized coefficient (Beta) of 0.743 indicates that Corporate Governance is a robust predictor of ESG Scores. In practical terms, this indicates that good governance practices positively influence a company's ESG performance. The correlation between Corporate Governance and ESG Score is not statistically significant as represented by ( $r = 0.558$  and  $p$  value = 0.118), indicating a moderately strong relationship. These findings suggest that corporate governance has a favorable impact on ESG reporting practices, in the context of this study. Thus, strong governance structures play an important role in determining the extent of reporting. Companies with strong governance practices tend to have higher ESG Scores.

The research correlational results unveiled a positive relationship between firm size and ESG reporting practices, albeit one that does not reach a level of statistical significance ( $r = 0.509$  and  $p$  value = 0.163) indicating a moderately strong relationship. However, the positive regression coefficient suggests that there is a statistically significant positive relationship between Firm Size and ESG Scores. An increase in Firm Size by one unit is associated with an increase in ESG Score by approximately 0.044 units. This implies that larger companies tend to have higher ESG Scores, and that firm Size is a meaningful predictor of ESG Scores, although to a lesser extent than the other variables. In practical terms, this suggests that larger companies may have more resources

and capacity to implement ESG initiatives. These findings underscore the evolving landscape of corporate responsibility and transparency. It implies that companies, regardless of their size, recognize the significance of ESG factors in today's business environment. ESG reporting is increasingly perceived as a vital instrument for engaging stakeholders and showcasing a commitment to sustainable and responsible business practices.

On the industry sector, the positive coefficient suggests that there is a statistically significant positive relationship between Industry/Sector and ESG Scores. This suggests that for every one-unit increase in the Industry/Sector variable, the ESG Score is expected to increase by approximately 2.322 units. This means that different industry sectors tend to have different inherent levels of ESG disclosures. In practical terms, this means that the type of industry or sector a company operates in has a substantial influence on its ESG performance. Certain industries may face more substantial ESG challenges or have unique characteristics that affect their ESG performance. Therefore, companies operating in sectors with inherently lower ESG scores may need to implement targeted strategies and practices to address their specific challenges and improve their sustainability and responsibility performance. Among the variables considered, Industry sector is the strongest influence. Industry sector stands out as a significant driver of ESG Disclosures.

According to findings of the relationship between ownership structure and ESG reporting, the negative coefficient suggests that there is a statistically significant negative relationship between Ownership Structure and ESG Scores. An increase in ownership structure by one unit is associated with a decrease in ESG Score by approximately 0.208 units. This implies that companies with more concentrated or specific ownership structures tend to have lower ESG Scores. In practical terms, this means that the way a company's ownership is structured can have a substantial impact on its ESG performance. However, the correlation between Ownership Structure and ESG Score is not statistically significant as represented by ( $r = -0.222$  and  $p \text{ value} = 0.567$ ) indicating that while there is a relationship, it may not be very strong.

On firm financial performance, the negative coefficient suggests that there is a statistically significant negative relationship between Firm Performance and ESG Scores. It suggests that as Firm Performance increases by one unit, the ESG Score is expected to decrease by approximately 0.739 units. This means that firms with lower performance may have higher ESG Scores. In

practical terms, this implies that a company's overall financial and operational performance is associated with its ESG disclosures. However, the correlation between Firm Performance and ESG Score is not statistically significant as represented by ( $r = -0.163$  and  $p \text{ value} = 0.675$ ), indicating that while there is a relationship, it may not be very strong. Therefore, organizations may choose to engage in sustainability reporting practices not solely driven by their financial performance but influenced by a broader set of factors. Corporate leaders understand the importance of transparency and responsibility, irrespective of their current financial situation.

Industry, Financial Performance, and Ownership Structure have Weak Influence. While these variables show some correlation with ESG Scores, the relationships are weak. This suggests that their individual impact on ESG Scores is less substantial within this particular model.

## **5.4 Recommendations**

Based on the findings and conclusions a study on the company characteristics of early adopters of Environmental, Social, and Governance (ESG) disclosures on the Nairobi Securities Exchange the researcher makes the following recommendations for policymakers, practitioners, theorists, and academics.

### **5.4.1 Recommendations for Regulators**

Based on the study's finding that firm size has a positive and statistically significant relationship with ESG (Environmental, Social, and Governance) reporting practices, the study recommends the development of policies that promote standardized ESG reporting frameworks and guidance for all companies, irrespective of their size. This would ensure that even smaller firms can effectively engage in ESG reporting and align with industry best practices. The study also recommends the implementation of incentives, such as tax benefits or reduced regulatory burdens, to encourage firms, especially the smaller ones to adopt ESG reporting, thus promoting more widespread transparency and sustainability practices.

The study makes recommendations for the finding that industry sector has a positive and significant relationship with ESG scores as follows: development of sector specific ESG policies and guidelines to address the unique challenges and opportunities within different industries. The study also recommends enhancement of regulatory oversight of ESG reporting and scoring to

ensure that companies are accurately reporting their ESG performance. This can help address potential inconsistencies and inaccuracies in ESG scores.

The study makes the following recommendations for findings that ownership structure is negatively and significantly related to ESG reporting practices: develop policies that encourage diversity in ownership structures, including a mix of institutional and individual shareholders since different ownership types can have a positive impact on ESG reporting. Government agencies and regulators should create incentives for long-term ownership, such as tax benefits or reduced trading fees, to encourage institutional investors to hold shares for extended periods. Long-term investors may be more likely to advocate for ESG reporting.

The study proposes the following recommendations for findings that financial performance has a negative and statistically significant relationship with ESG reporting practices: policymakers should consider strengthening regulatory mandates related to ESG reporting, ensuring that companies provide more comprehensive and standardized disclosures to improve transparency and comparability. Regulations can emphasize the importance of materiality assessments to prioritize and report on the most relevant ESG factors, making ESG reporting more meaningful and focused. Policymakers can also promote the adoption of recognized ESG reporting frameworks (e.g., GRI, SASB, TCFD) to provide companies with guidance on comprehensive reporting.

Overall, the study recommends that regulators play a critical role in fostering a supportive and enabling environment for ESG adoption. The researcher proposes implementation of phased and proportionate regulations, tailored to company size, industry sector, and existing reporting capabilities which allows for a smoother transition without overburdening smaller companies or those new to ESG reporting. The researcher also encourages the development of comprehensive guidance documents and support programs for companies transitioning to ESG reporting. Further the researcher recommends collaboration with relevant stakeholders, including universities, professional associations, and NGOs to offer training and capacity-building programs for companies and regulators alike. This would allow for the development of comprehensive training programs that address the specific needs of the Kenyan market. Finally, the researcher encourages the establishment of platforms or mechanisms for constructive dialogue between companies, investors, and other stakeholders on ESG issues. This ensures all voices are heard and their concerns are addressed in policy and regulatory development.

### **5.4.2 Recommendations for Practitioners**

These results of a positive relationship between firm size and ESG reporting practices have practical implications for both large and small organizations. They encourage businesses of all sizes to consider the merits of ESG reporting to align their operations with broader societal and environmental goals. Larger organizations can leverage their scale and resources to become leaders in ESG reporting. They have the capacity to implement comprehensive sustainability programs, invest in green technologies, and engage in initiatives that have a positive societal impact. While firm size may play a role in this decision, it is not the sole determinant of ESG reporting practices. This highlights the need for a holistic approach to corporate sustainability that transcends company size and considers the unique challenges and opportunities faced by different organizations in their journey toward transparency and responsibility.

The study makes recommendations for the finding that industry sector has a positive and significant relationship with ESG scores as follows: Companies should conduct rigorous materiality assessments to identify and prioritize ESG factors that are most relevant to the specific industry sector to help focus ESG efforts on the most significant issues. They should also develop a culture of continuous improvement in ESG practices, recognizing that industries with historically lower ESG scores can make progress through systematic efforts and innovation.

The study makes the following recommendations for findings that ownership structure is negatively and significantly related to ESG reporting practices: Companies should actively engage with both institutional and individual shareholders on ESG topics. This engagement can include regular ESG updates, town hall meetings, and feedback mechanisms to gather insights and expectations. Companies should also consider including diverse ownership structures to represent the interests of different shareholders. A diverse shareholding can provide balanced perspectives on ESG reporting through different shareholder goals and interests.

The finding that there is a positive and significant relationship between corporate governance and ESG reporting practice provides valuable insights for organizations and stakeholders. It encourages companies to consider a multifaceted approach to ESG reporting that takes into account governance practices alongside other factors that may drive sustainability disclosure. It emphasizes the importance of comprehensive corporate governance in promoting transparency, accountability, and sustainability in today's business landscape.

The study proposes the following recommendations for findings that financial performance has a negative yet statistically significant relationship with ESG reporting practices: Companies should consider integrating ESG factors into their overall business strategy, irrespective of financial performance. Embedding ESG considerations into strategic planning can lead to more meaningful reporting. Companies should benchmark ESG performance against industry peers and adopt best practices in reporting. Companies can learn from leaders in ESG reporting and incorporate these practices into their own reporting.

Overall, the researcher recommends the creation of industry-specific or company-size-specific guidelines adapted to the Kenyan context. This can aid clarity and comparability in reporting. The researcher also recommends investing in employee training and awareness programs on ESG issues to equip companies with the skills and knowledge to effectively implement ESG guidelines. Further the researcher recommends exploring technological solutions to streamline data collection, analysis, and reporting processes, improving efficiency and accuracy. And lastly the researcher recommends open communication and dialogue with stakeholders which is essential for building trust and ensuring ESG initiatives meet their expectations. This can be achieved by fostering regular interactions, publishing comprehensive sustainability reports, and actively soliciting feedback through online platforms. Transparency is key, and companies must address stakeholder concerns openly while incorporating their valuable insights into their ESG journeys.

#### **5.4.3 Recommendations for Theory**

The study recommends the development of theories that explore the motivations behind ESG reporting in smaller firms, even in the absence of a significant statistical relationship with firm size. Similarly, theories can delve into the barriers and challenges that smaller firms face when engaging in ESG reporting by exploring the complexities of resource constraints, lack of expertise, and unique industry dynamics that affect reporting decisions.

The study makes recommendations for the finding that industry sector has a positive and significant relationship with ESG scores as follows: Theorize how ESG metrics may evolve and adapt to different industry sectors, recognizing that ESG performance may be measured differently depending on the sector.

The study makes the following recommendations for findings that ownership structure is negatively and significantly related to ESG reporting practices: development of theories that explore the intricate dynamics between ownership structure and ESG reporting. Investigate the mechanisms through which different ownership types influence ESG disclosures. It also recommends exploring theories that incorporate the influence of various stakeholders, including shareholders, in shaping ESG reporting practices. Investigate how stakeholders' expectations and preferences impact reporting.

For the finding that corporate governance is positively and significantly related to ESG, the study recommends the development of theories that explore the complex dynamics of integrating ESG considerations into corporate governance. Investigate how various governance mechanisms interact with ESG factors. It also recommends the investigation of theories related to the strategic use of ESG governance as a competitive advantage, exploring how companies leverage ESG practices to enhance their reputation and market position.

The study proposes the following recommendations for findings that financial performance has a negative and statistically significant relationship with ESG reporting practices: scholars should develop theories that explore the motivations behind ESG reporting in companies with a negative and statistically significant relationship with financial performance to investigate the diverse factors that drive reporting, including reputation management and stakeholder expectations. Scholars should also investigate theories that emphasize the long-term benefits of ESG reporting, including risk mitigation and the creation of intangible assets like reputation and trust.

## **5.5 Recommendations for Further Research**

The finding that firm size has a positive and statistically significant relationship with ESG (Environmental, Social, and Governance) reporting practices suggests that there is more to explore in the intersection of company size and sustainability reporting. Future researchers can investigate the specific mechanisms through which firm size may influence the adoption and implementation of ESG reporting practices. For example, consider factors like resource availability, organizational capabilities, and stakeholder pressures.

For the finding that corporate governance is positively and significantly related to ESG, the study recommends that future researchers should conduct cross-country studies to examine how the

relationship between corporate governance and ESG reporting varies across different regulatory environments, cultural contexts, and governance models. They could also research on the effectiveness of various ESG reporting frameworks and mechanisms in improving corporate governance integration.

The study makes recommendations for the finding that industry sector has a positive and significant relationship with ESG scores as follows: future researchers can conduct longitudinal studies to track changes in ESG scores within specific industry sectors over time to investigate whether ESG performance within sectors is improving or declining. Future researchers can also research the impact of sector specific ESG policies and regulations on ESG performance within those sectors to assess the effectiveness of policies aimed at improving ESG scores.

The study makes the following recommendations for findings that ownership structure is negatively and significantly related to ESG reporting practices: conduct longitudinal studies to assess how the relationship between ownership structure and ESG reporting evolves over time to investigate whether the significance of this relationship changes as companies progress in their ESG journey. Explore whether the negative relationship between ownership structure and ESG reporting practices varies within specific industry sectors, recognizing that certain sectors may have unique ESG dynamics.

The study proposes the following recommendations for findings that financial performance has a negative and statistically significant relationship with ESG reporting practices: future researchers should conduct longitudinal studies to examine how the relationship between financial performance and ESG reporting evolves over time to establish whether the significance changes as companies progress in their sustainability journey. Future researchers can also research the impact of various ESG reporting frameworks on the relationship between financial performance and ESG reporting practices, considering whether certain frameworks are more effective than others. Future researchers could also break down financial performance into its components (e.g., profitability, liquidity, solvency) and investigate how each aspect relates to ESG reporting. This can provide a more nuanced understanding of the relationship.

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## Appendix 1: Questionnaire

Kenny Muhia Karanja,  
Strathmore University Business School,  
Admin No. 141988  
0728408577

Kenny.karanja@strathmore.edu

Dear Sir/Madam,

REF: REQUEST TO PARTICIPATE IN RESEARCH QUESTIONNAIRE ON “Company Characteristics of Early Adopters of Environmental Social Governance Disclosures on the Nairobi Securities Exchange”

The purpose of this research is to explore the characteristics of firms that are early adopters of Environmental Social and Governance (ESG) disclosures on the Nairobi Securities Exchange (NSE) in Kenya. The Nairobi Securities Exchange developed guidelines on ESG disclosures for use by all NSE listed companies at least annually, with mandatory reporting supposed to have begun 29<sup>th</sup> November 2022. Because your company is listed on the relevant Securities Exchanges, it has been chosen for this study — Annual reports are required by law in the country.

Please assign this questionnaire to members of your employees from finance department and investor relations who make decisions directly related to ESG operations in your firm. Your participation is greatly appreciated and will contribute significantly to the development of ESG practice in Kenya.

Yours Sincerely,

Kenny Muhia Karanja,

## **Information sheet for questionnaire participations**

1. Title of the Research:

Company Characteristics of Early Adopters of Environmental Social Governance Disclosures on the Nairobi Securities Exchange

2. Researcher's name and contact information:

Kenny Muhia Karanja,

P.O Box 59857 - 00200

Nairobi, Kenya

0728408577

Kenny.karanja@strathmore.edu

3. Supervisor's name and contact information:

Prof. Geoffrey Injieni,

Strathmore Business School,

Ole Sangale Rd. Madaraka Estate

P.O Box 59857-00200

ginjieni@strathmore.edu

4. Research Goal: The research goal for this dissertation is to examine the characteristics of firms that are early adopters of ESG disclosures on the Nairobi Securities Exchange, and to gain a deeper understanding of the motivations and incentives behind their decision to adopt ESG reporting practices. Additionally, this study aims to assess the challenges and barriers faced by firms in adopting and implementing ESG reporting practices in Kenya. The ultimate aim of this research is to contribute to the academic and practical understanding of ESG reporting practices in emerging markets, particularly in Kenya, and to provide insights and recommendations to stakeholders interested in promoting sustainable business practices.

5. The purpose of the questionnaire is to collect data from firms that have adopted ESG reporting practices on the Nairobi Securities Exchange in order to achieve the research goals of the study. The questionnaire will help to identify the characteristics of firms that are early adopters of ESG disclosures, analyze their motivations and incentives, and assess the challenges and barriers they faced in adopting and implementing these practices. The data collected from the questionnaire will be used to provide insights and recommendations for stakeholders interested in promoting sustainable business practices in Kenya, and to contribute to the academic and practical understanding of ESG reporting practices in emerging markets.
6. Estimated time to finish the survey; around 20 minutes.
7. Confidentiality: The researcher and study supervisors will keep all data/information you supply secret, and no identifying information will be utilized in any later reports or publications. Participants' and organizations' real names will not be used in study reports or publications.
8. Consent: It is assumed that completing the survey questionnaire constitutes your consent to participate in the research.
9. Your right to opt out of the questions: If you are unsure or uncomfortable with any particular question or questions, you have the option to opt out.
10. How will the information gathered from participants be used? The researcher and his supervisor will have exclusive access to all research materials. When the study is finished, all surveys will be destroyed. You are entitled to receive the findings at the conclusion of the study, and the findings may be published in scholarly journals.

## **SECTION I: DEMOGRAPHIC INFORMATION**

1. What is the name of your company?

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2. What industry does your company belong to?

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3. What is your position in the company?

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4. How long has your company been in operation?

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## **SECTION II: EARLY ADOPTION OF ESG DISCLOSURES**

5. Are you aware of the guidelines for ESG disclosures?

Yes

No

6. Has your company adopted ESG reporting practices on the Nairobi Securities Exchange?  
(Yes/No)

Yes

No

7. If yes, when did your company adopt ESG reporting practices?

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8. In which reporting media is the Environmental, Social and Governance disclosures published? (Please check boxes for all that apply)

- As part of the Annual Report
- As part of Stand-alone Sustainability Report
- On the Company Website

9. Thinking about the future, in the next three years, what is your perception of the value of Environmental Social and Governance disclosure? (Please fill-in one box)

- No more important to the firm's value
- Marginally more important to the firm's value
- More important to the firm's value
- Much more important to the firm's value
- Unable to determine

10. On a scale of 1 to 5 where 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is strongly agree. To what extent do you agree with the following statements regarding the ESG disclosure guidelines as relates to your firm?

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The guidelines were easy to follow and were not be complex to implement in the organization	1	2	3	4	5
It was easy to adjust products/services provided by the organizations to meet the ESG compliance standards	1	2	3	4	5
It was easy to adjust processes of the organizations to meet the ESG compliance standards	1	2	3	4	5

It was easy to adjust people and reporting structure of the organizations to meet the ESG compliance standards	1	2	3	4	5
The ESG compliance standards are well-known organization wide and teams have no problem meeting the required standards	1	2	3	4	5
Complying with ESG guidelines will lead to value creation in the business					

11. What is your overall comment regarding the completeness of the company’s disclosures in ESG?

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**SECTION II: INCENTIVES AND MOTIVES OF ESG DISCLOSURES**

12. What motivated your company to adopt ESG reporting practices?

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13. Did your company receive any incentives for adopting ESG reporting practices?

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14. If yes, what were the incentives?

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15. Did your company face any pressures from stakeholders to adopt ESG reporting practices?

Yes

No

16. If yes, who were the stakeholders and what kind of pressure did they exert?

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17. How important is sustainability to your firm's long-term success?

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18. How does your firm's adoption of ESG reporting practices affect your relationship with stakeholders such as customers, investors, and employees?

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19. How has your firm leveraged its ESG reporting practices to gain a competitive advantage in the market?

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20. What benefits has your firm seen from adopting ESG reporting practices? Please specify any improvements in financial performance, reputation, or stakeholder engagement.

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21. Have you established a cross-functional ESG council or working group to drive strategic attention to ESG for the business?

- No, and we have no plans to
- No, but we are making plans to
- Yes, we are in the process of establishing
- Yes, this is already established

22. How often is the cross-functional ESG council or working group within your company scheduled to meet regarding ESG?

- Semi-annually or less
- Quarterly
- Monthly
- More than once per month

23. Who in your company has management responsibility for ESG disclosure?

- Chief sustainability officer
- Chief financial officer
- Executive leadership team
- Chief strategy officer
- Marketing/public relations
- Investor relations

24. Where does primary responsibility for oversight of ESG reside at the board level?

- ESG Sustainability Committee
- Compensation Committee
- Nominating and governance committee
- Full Board
- Audit Committee

25. Do you plan to obtain external assurance over ESG disclosures for the next reporting cycle?

- No, but we plan to obtain assurance readiness
- Yes, we will seek assurance for the first time
- Yes, we will continue to obtain assurance

26. Is your organization taking steps to actively prepare for potential increased ESG regulatory or other disclosure requirements?

- Yes, we are preparing extensively now
- Yes, we are preparing in a limited fashion
- No, we are taking a wait-and-see approach
- No, we are already prepared

27. Have you created any new internal roles or responsibilities in recent months to prepare for potential increased ESG regulatory or other disclosure requirements?

Yes

No

28. How likely is your company to invest in new technology or tools to enable more timely data and high-quality disclosure in the next 12 months?

Not very likely

Somewhat likely

Very likely

29. To what extent would you say the firm has capacity in meeting the requirements of ESG?

To a large extent ----- 1

Moderate ----- 2

Slightly ----- 3

No capacity at all ----- 4

30. On a scale of 1 to 5 where 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is strongly agree. To what extent do you agree with the following statements regarding the firm capacity in complying with ESG?

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
We have adequate technical capacity on Environment issues	1	2	3	4	5
We have adequate technical capacity on Social issues	1	2	3	4	5
We have adequate technical capacity on Governance issues	1	2	3	4	5
We have capacity in using technology to enhance compliance	1	2	3	4	5
We feel confident to undertake the ESG reporting as required	1	2	3	4	5

There is adequate knowledge sharing in our sector to enhance our capacity for compliance	1	2	3	4	5
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**SECTION III: ESG DISCLOSURE CHALLENGES**

31. Did your company face any challenges in adopting and implementing ESG reporting practices?

Yes

No

32. If yes, what were the challenges?

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33. Were there any barriers that prevented your company from adopting or implementing ESG reporting practices?

Yes

No

34. If yes, what were the barriers?

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35. How did your company overcome these challenges and barriers?

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36. Have you encountered any difficulties in obtaining accurate and reliable ESG data for reporting purposes? If yes, please specify.

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37. How has your firm addressed any internal resistance to ESG reporting practices from employees or management?

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38. How much additional cost has your firm incurred in adopting and implementing ESG reporting practices?

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39. In your opinion, what role do regulators and policymakers play in facilitating or hindering the adoption of ESG reporting practices?

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40. How do you think your firm can improve its ESG reporting practices in the future?

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41. On a scale of 1 to 5 where 1 is strongly disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is strongly agree. To what extent do you agree with the following statements regarding the challenges of ESG disclosure in your firm?

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
We have enough time to prepare and meet the deadline	1	2	3	4	5
We have enough number of staff to prepare adequately with the compliance measures	1	2	3	4	5
We have the right quality of staff to prepare for the compliance measures	1	2	3	4	5
We have adequate allocated budget to help us upgrade to the required standards	1	2	3	4	5
The whole organization have a good understanding of the requirements of meeting the ESG guidelines	1	2	3	4	5
We have challenges but they are unlikely to lead to non-compliance with ESG guidelines	1	2	3	4	5
	1	2	3	4	5

## Appendix 2: Nacosti Research Permit

 <b>REPUBLIC OF KENYA</b>	 <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
<b>Ref No: 194188</b>	<b>Date of Issue: 30/June/2023</b>
<b>RESEARCH LICENSE</b>	
	
<b>This is to Certify that Mr.. Kenny Muhia Karanja 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: Company Characteristics of Early Adopters of Environmental Social Governance Disclosures on the Nairobi Securities Exchange for the period ending : 30/June/2024.</b>	
<b>License No: NACOSTI/P/23/27273</b>	
<b>194188</b> <b>Applicant Identification Number</b>	 <b>Director General</b> <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
<b>Verification QR Code</b>	
	
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<b>See overleaf for conditions</b>	

## Appendix 3: Ethical Approval Letter



16<sup>th</sup> June 2023

Mr Karanja Kenny,  
kenny.karanja@strathmore.edu

Dear Mr Karanja,

**RE: Company Characteristics of Early Adopters of Environmental Social Governance Disclosures on the Nairobi Securities Exchange**

This is to inform you that SU-ISERC has reviewed and approved your above SU-masters research proposal. Your application reference number is SU-ISERC1784/23. The approval period is from 16<sup>th</sup> June 2023 to 15<sup>th</sup> June 2024.

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,

for: Mr Ambrose Rachier,  
Chairperson; SU-ISERC

END