EFFECT OF SUSTAINABILITY REPORTING ON FINANCIAL PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA: THE MODERATING ROLE OF OWNERSHIP STRUCTURES

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)

KCA UNIVERSITY

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NOVEMBER 2025

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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Sign: ____________________ Date: 14.11.2025

I do hereby confirm that I have examined the dissertation by

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And have approved it for examination.

Sign: ______________ Date: 14.11.2025

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ABSTRACT

Over the past decade, several listed firms in Kenya have experienced poor financial performance leading to delisting or suspension from the Nairobi Securities Exchange (NSE). This study examined the effect of ESG disclosures on the financial performance of NSE-listed companies and assessed whether ownership structure moderated this relationship. Anchored on the Agency, Stakeholder, Signaling and Legitimacy theories, this study adopted a mixed methods design using secondary ESG and financial data from a census of 62 NSE-listed firms between 2019-2024, extracted using a Global Reporting Initiative (GRI)-aligned data extraction sheet. Panel regression models tested the effect of disaggregated environmental, social, and governance disclosures on return on assets (ROA), while interaction terms captured ownership-structure moderation. Complementary thematic analysis of narrative disclosures provided qualitative context. The Findings show that environmental and governance disclosures had a positive and statistically significant association with ROA ($p< 0.05$), whereas social disclosures were positive but not significant after controls. Ownership structure particularly institutional and foreign shareholding strengthened the ESG-performance link, confirming a moderating effect. Diagnostic tests (normality, multicollinearity, heteroskedasticity) supported model robustness. Thematic analysis highlighted that firms with high institutional ownership emphasized climate-risk reporting and board transparency, reinforcing quantitative results. These results suggest that credible ESG reporting, coupled with active institutional or foreign ownership, enhances profitability and market confidence among Kenyan listed firms. The study provides actionable evidence for regulators considering mandatory ESG disclosure, and for investors and managers seeking to align sustainability practices with financial performance.

Keywords: ESG, Disclosures, ROA, NSE, Sustainable Finance

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DEDICATION

I dedicate this proposal to my devoted family. I have come this far because of their encouragement and constant reminders that I must succeed and keep moving up the academic ladder. May the Almighty bless them with a long and wholesome life.

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ACRONYMS AND ABBREVIATIONS

ESG	Environmental, Social and Governance
EHS	Environmental Health and Safety
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
CSR	Corporate Social Responsibility
GRI	Global Reporting Initiative
ICPAK	Institute of Certified Public Accounts of Kenya
KCB	Kenya Commercial Bank
NSE	Nairobi Securities Exchange
ROA	Return on Assets
SDGs	Sustainable Development Goals
COVID 19	The coronavirus disease 2019
TFCFD	Task Force on Climate-related Financial Disclosures

TERMS AND DEFINITIONS

Corporate Performance: as defined by (Ng & Rezaee, 2015), includes a thorough evaluation of how well a business executes its operations across critical dimensions, including financial, social, environmental, shareholder, and market factors.

Disclosures: Disclosures refer to the communication of financial and non-financial information by a company to its stakeholders, aimed at improving transparency, accountability, and informed decision-making (Healy & Palepu, 2001).

Environmental disclosure: according to (Bernardi & Stark, 2018), entails informing stakeholders about how organizational actions affect the environment.

Social disclosures: comprises provision of information on how a company handles social norms when performing tasks that involve the society it operates in such as hiring, choosing, and performing other tasks, (Bernardi & Stark, 2018).

Governance disclosures: encompass the thorough dissemination of pertinent information to stakeholders regarding the operations and management of a firm through yearly reports and other documentary channels, (Bernardi & Stark, 2018).

Ownership structures: is the proportionate distribution of equity among internal shareholders such as management and family and external shareholders such as institutional, state, or foreign, influencing corporate control and monitoring effectiveness (Jensen & Meckling, 1976); (La Porta et al., 1999).

Mandatory disclosures: as defined by (Cormier & Magnan, 2014), refer to the scenario in which businesses must comply with country or state legislation requiring them to share certain information with the public to continue operating within a certain jurisdiction.

Share price: as explained by (Wang & Sarkis, 2017), denotes the cost of a single share of tradable stocks, financial assets, or derivatives associated with a firm.

Green washing: Greenwashing refers to the practice whereby firms exaggerate, misrepresent, or falsely communicate their environmental or social responsibility efforts to appear more sustainable than they are (Delmas & Burbano, 2011).

ROA (Return on Assets): is a profitability ratio that measures how efficiently a firm utilizes its total assets to generate net income; it is calculated as net income divided by total assets (Gitman & Zutter, 2015).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Sustainability has emerged as a central dimension of modern corporate strategy, reflecting the need for firms to balance profitability with environmental protection, social responsibility, and sound governance. Within this broad paradigm, Environmental, Social, and Governance (ESG) disclosure has gained prominence as a measurable and comparable construct for assessing firms' sustainability practices. Unlike traditional sustainability frameworks that emphasize qualitative narratives or philanthropic commitments, ESG reporting provides quantifiable, standardized indicators that allow investors, regulators, and stakeholders to evaluate firm performance objectively (Eccles, Ioannou, & Serafeim, 2014; Global Reporting Initiative GRI, 2021).

Listed firms in Kenya face several interrelated challenges that make the link between sustainability reporting and firm performance a pressing research issue. Although the Nairobi Securities Exchange (NSE) issued ESG disclosure guidance in 2021 and the Capital Markets Authority (CMA) has promoted good governance, many listed firms still display inconsistent disclosure practices, weak environmental management, and uneven social reporting, while simultaneously recording stagnant or volatile financial performance in several sectors (NSE, 2021; CMA, 2015). These gaps matter because stakeholders such as investors and creditors increasingly rely on ESG information to assess firm risk and long-term value; where disclosures are incomplete, market pricing and capital allocation may be distorted, potentially harming both firm competitiveness and market integrity (Amel-Zadeh & Serafeim, 2018; Whelan, Atz, & Clark, 2021). Generally, the Kenyan context presents a practical problem: sustainability reporting is becoming more salient for capital markets, yet its quality and consistency remain insufficiently linked to observable financial outcomes-creating a clear empirical and policy need for study.

The international literature documents a mixed but generally positive ESG-performance relationship (Friede, Busch, & Bassen, 2015; Khan, Serafeim, & Yoon, 2016), while a growing set of African studies report contextual heterogeneity across sectors and countries (Erinoso & Oyedokun, 2022; Osemeke & Adegbite, 2021). However, much existing work relies on aggregated ESG indices, cross-sectional samples, or single-sector analyses, approaches that mask which ESG pillar drives performance and under what governance conditions (Whelan et al., 2021; Masila et al., 2023). A further omission in the literature is the explicit modelling of ownership structure as a moderator: ownership forms institutional, foreign and government plausibly alter managerial incentives and disclosure credibility, yet few Kenyan studies test whether and how ownership composition conditions the ESG-financial performance link. This study addresses that omission by disaggregating ESG into environmental, social and governance pillars, using longitudinal panel data for NSE firms, and explicitly testing ownership structure as a moderator.

Environmental disclosures such as emissions reporting, energy and water management, renewable energy adoption and waste control are economically material in capital-intensive or pollution-sensitive sectors such as energy, manufacturing and utilities. Empirically, environmental performance and disclosure have been associated with operational efficiencies and lower regulatory and reputational risk, which can translate into improved accounting and market returns (Friede et al., 2015; Nishitani & Kokubu, 2021). In Kenya, where resource usage and environmental compliance increasingly attract regulatory attention, a focused environmental index permits assessment of whether greener practices and transparent reporting yield measurable ROA gains, something aggregated ESG scores cannot reveal (Masila et al., 2023). Thus, environmental disclosure is a core independent variable because it addresses a sectorally salient and policy-relevant gap.

Social disclosures covering labour standards, employee safety and satisfaction, diversity and inclusion, and community engagement, affect productivity, reputation, and social license to operate. In contexts where labour relations and community acceptance directly affect operations such as extractives and agriculture, social transparency can reduce stakeholder conflicts and improve human capital efficiency (Whelan et al., 2021). Kenyan firms commonly emphasize social initiatives but with varying depth and verification; disaggregating the social pillar will therefore show whether reported social investments correlate with short-term profitability (ROA) or produce more lagged, intangible benefits, a nuance lost in aggregated indices (Afuya, Musiega, & Rutto, 2024; Masila et al., 2023).

Governance disclosures including board composition, audit committee independence, shareholder rights, and related controls, are central to alignment between management and owners and to reducing agency costs (Jensen & Meckling, 1976). High-quality governance reporting has been linked to lower cost of capital and better firm performance in many markets (Bhagat & Bolton, 2008; Yermack meta-evidence), but in emerging markets governance disclosures can be symbolic that is, procedural rather than substantive and may not automatically translate into superior financial metrics (Osemeke & Adegbite, 2021). Measuring governance disclosures separately tests whether governance reporting in Kenya is materially linked to ROA or primarily reflects compliance signaling.

Ownership structure, institutional, foreign and government shareholding is included as a moderator because ownership composition shapes incentives for monitoring, long-term orientation, and disclosure credibility (Shleifer & Vishny, 1997; Gerged, 2021). Institutional and foreign owners often demand higher disclosure quality and longer-term value creation; state ownership can have ambiguous effects that is, stability versus political objectives.

Including ownership as a moderating variable addresses the specific knowledge gap on whether ESG reporting effects are contingent on who holds power in the firm. Firm size and leverage are included as controls because they systematically affect both disclosure capacity and accounting performance, size affects disclosure resources and market power, while leverage influences risk profiles and profitability (Myers, 1984).

This research is theoretically anchored in Agency Theory (Jensen & Meckling, 1976), Stakeholder Theory (Freeman, 1984), Signaling Theory (Spence, 1973), and Legitimacy Theory (Suchman, 1995). Agency Theory explains how governance and ownership structures reduce information asymmetry and agency costs; Stakeholder Theory motivates disclosure as a means to balance diverse stakeholder claims; Signaling Theory frames voluntary ESG disclosure as credible signals to investors about managerial quality; and Legitimacy Theory interprets disclosure as a response to social expectations and institutional pressures. Together they provide a multi-lens rationale for expecting both direct ESG effects and conditional effects through ownership structure.

Although these theories are well established, their combined implications for a disaggregated ESG analysis under varying ownership regimes remain underexplored in the Kenyan context. Agency Theory typically treats governance as a corrective mechanism but less often interrogates how different owner types, institutional vs. foreign vs. state differentially activate that mechanism in relation to environmental and social disclosures. Similarly, Signaling and Legitimacy theories explain why firms disclose but provide limited guidance on which ESG pillar produces financial returns under distinct ownership compositions. By disaggregating ESG, modelling ownership as a moderator, and using panel methods to control for unobserved heterogeneity, this study directly addresses these theoretical lacunae and produces contextually relevant evidence for both scholars and policymakers (Friede et al., 2015; Gerged, 2021; Masila et al., 2023).

This study therefore focuses on ESG disclosures rather than other sustainability constructs such as corporate social responsibility (CSR) or the triple bottom line (TBL) because ESG indicators offer a more rigorous and evidence-based measure of sustainability performance. CSR, for instance, often lacks standardized metrics and tends to emphasize reputational or philanthropic activities, while ESG disclosure frameworks anchored by the GRI, Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD) provide structured, auditable metrics that can be empirically linked to financial outcomes (Kotsantonis, Pinney, & Serafeim, 2016; Siew, 2015). Moreover, ESG metrics capture both strategic intent and operational practice, making them suitable for econometric modeling and longitudinal financial performance analysis.

In Kenya, sustainability reporting has been institutionalized through two main frameworks: the Capital Markets Authority (CMA) Code of Corporate Governance (2015) and the Nairobi Securities Exchange (NSE) ESG Disclosure Guidelines (2021). While both frameworks aim to promote transparency and accountability among listed firms, they differ in focus, scope, and enforceability. The CMA Code (2015) primarily emphasizes governance and compliance obligations, encouraging companies to adopt ethical leadership, board independence, and stakeholder engagement as part of broader corporate governance reforms (CMA, 2015). Its treatment of environmental and social aspects remains largely principles-based and voluntary, leaving firms with wide discretion on the extent and content of their sustainability disclosures.

In contrast, the NSE ESG Disclosure Guidelines (2021) provide a structured and metrics-based framework aligned with the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) standards. They outline specific disclosure areas under environmental, such as emissions and resource use; social, such as labor practices, diversity and community impact; and governance, such as board composition and shareholder rights pillars, and are designed to enhance comparability, consistency, and decision-usefulness of ESG data across firms (NSE, 2021). Unlike the CMA Code, which is more compliance-oriented, the NSE Guidelines seek to integrate ESG into core business strategy and investment decision-making, reflecting a shift toward sustainability as a performance driver rather than a compliance exercise (Oino & Rugami, 2021; Masila et al., 2023).

This study therefore adopts the NSE ESG Disclosure Guidelines (2021) as its operational framework for measuring ESG reporting, as they provide standardized, quantifiable indicators suitable for empirical analysis. Moreover, these guidelines are most relevant for assessing the relationship between ESG disclosure quality and financial performance within Kenya's listed firms, especially given their alignment with international best practices and their growing use by investors and analysts in the capital market ecosystem (World Bank, 2022). Nonetheless, the quality, depth, and consistency of ESG disclosures remain uneven across sectors, with firms differing significantly in both reporting approach and stakeholder engagement (Masila et al., 2023).

This approach aligns with global calls for contextualized ESG research that considers internal governance characteristics as key contingent factors (Velte, 2022). The Kenyan context, characterized by mixed ownership and evolving ESG regulation, offers a rich empirical setting to examine these dynamics. This study therefore purposes to examine the effect of sustainability reporting on the financial performance of firms listed at the Nairobi Securities Exchange in Kenya while moderating for ownership structures. This research aims to provide key insights that can enable stakeholders make informed investment decisions as well as enhance listed firms' sustainability strategies.

1.1.1 Financial Performance

In essence, a firm's financial health is judged by standard monetary measures including the capacity to generate earnings, maintain sufficient cash flow, and ensure long-term stability (DasGupta, 2022). The concept of financial performance encompasses the evaluation of a firm's financial outcomes over a specified duration, which includes the processes of financial collection and allocation, assessed through metrics such as capital adequacy, liquidity, solvency, efficiency, leverage, and profitability (Fatihudin et al., 2018).

As noted by Chen and Xie (2022), a company's financial performance is vital for its ongoing existence and expansion. It also plays a significant role for investors when they evaluate their investment choices. There is increasing evidence suggesting that ESG disclosures can influence companies' financial performance (DasGupta, 2022; Ndung'u, 2022; Shin et al., 2022). Companies that excel in ESG disclosures are likely to achieve superior financial results in the long run (El Khoury et al., 2023). In contrast, firms with poor performance in ESG disclosures may face a greater likelihood of financial underachievement (El Khoury et al., 2023).

Chase Bank, Imperial Bank, Kenya Airways, Mumias Sugar Company, Uchumi Supermarkets and TransCentury among other listed firms in Kenya, have in the past grappled with poor financial performance characterized by a mix of depleted shareholder funds, losses, lack of sales and financial reporting gaps, presenting a great risk to uninformed investors (Anyanzwa,2024). A closer look at these firms also reveals a non-existent or poorly incorporated ESG component in their business models, hence compounding their issues (Agutu & Githira, 2023). Therefore, an in-depth examination of the relationship between ESG disclosure, financial performance and ownership structure is critical for investors and stakeholders. (Clausen, 2009) proposes the use of Profit margin, Return on Assets, Return on

Equity and Net profit margin as a measure of evaluating financial performance, because profits keep a firm afloat.

1.1.2 Sustainability Reporting

At present, firms have multiple avenues for communicating their ESG performance. The most prevalent approach is by means of sustainability reports (Abu Al-Haija et al., 2021). Companies often publish these reports on their websites or distribute them to investors and other stakeholders (Singhania & Saini, 2021). Usually, they contain details about the company's effects on the environment, social challenges, and governance structure, utilizing metrics like energy efficiency, carbon emissions, employee relations, board diversity, and executive compensation (Dănilă et al., 2022). This form of reporting allows stakeholders to make well-informed decisions about investments in the companies they are evaluating (Aronsohn, 2022).

Another closely related but conceptually distinct framework for sustainability disclosure is integrated reporting, enabling businesses to merge both financial and non-financial information into a unified report (Sen & Das, 2018). (Bose, 2020) noted that certain regions, like the European Union, impose mandatory ESG disclosure rules that require companies to legally reveal non-financial details, which include their ESG performance, within their annual reports. Detailed corporate reports offer valuable information and are essential for attracting investments while helping report users make well-informed choices.

In developing countries however, there exists a fragmented landscape of ESG reporting practices, posing a challenge to investors, regulators, and other stakeholders when it comes to assessing and comparing the financial implications of ESG performance across firms (Onoh et al., 2021). Few studies that have attempted to examine ESG reporting in Kenya, often rely on qualitative or perception-based methodologies rather than rigorous quantitative analysis, thus restricting the applicability of their findings (Kimilu, 2021). There is a notable lack of longitudinal studies that track ESG disclosures over time in relation to financial outcomes, which is critical for establishing causality and drawing policy-relevant conclusions (Githaiga & Kosgei, 2022).

In addition, emergence of international frameworks such as the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), and the United Nations Sustainable Development Goals (SDGs) have contributed to mainstreaming ESG reporting in the developed countries, encouraging firms to adopt more standardized and transparent reporting structures (Onoja et al., 2021). In various regions of Africa, numerous companies are choosing to disclose their ESG practices voluntarily, either in their annual reports or in separate sustainability reports (Wachira et al., 2020). This trend is motivated by the necessity to attract investors who are increasingly factoring ESG elements into their investment choices. Many businesses across Africa are employing ESG frameworks to guide their reporting, including the Global Reporting Initiative and the United Nations' Sustainable Development Goals (SDGs) (Bose, 2020).

Sustainability reporting in Kenya is gaining traction as companies and stakeholders recognize the importance of sustainability and responsible investing (Kimani, 2021). To enhance the protection of a strong securities market from widespread risks, the CMA encourages the integration of ESG factors as a vital part of corporate strategic planning, (CMA, 2022). Recently, firms that have received the ICPAK FiRe awards include Trans Century Ltd, Equity Group Holdings, Limuru Tea Company Ltd, and ABSA Bank (ICPAK, 2022). Many of these firms have integrated sustainability reporting into their disclosures, a trend that can be seen by analyzing their annual reports. However, publicly traded firms display varying levels of performance regarding stock returns, underscoring the need to investigate whether sustainability reporting has a significant positive effect on the profits of these firms (Gathaiya, 2017).

1.1.3 Nairobi Securities Exchange

The main securities trading platform in Kenya is the Nairobi Securities Exchange (NSE), which had 62 companies listed as of March 2025. The NSE, one of Africa's largest trading venues by volume, has significantly contributed to the economic growth of Kenya. Originally established as a group of stockbrokers, it was officially incorporated in 1991 as a corporation limited by guarantee without share capital under the Companies Act of Kenya (CMA, 2023). Over the years, the market has shown signs of growth, including an increase in the number of traders, the formation of guardianship organizations, the establishment of credit assessment bureaus, and a rising count of publicly listed companies. At the NSE, securities such as equities, bonds, and preference shares are traded, with 62 companies currently registered and conducting trades for the last five years (NSE, 2025).

The CMA is a statutory body established by a parliamentary act in 1989, tasked primarily with overseeing and issuing licenses to all financial intermediaries (CMA, 2023). The organization ensures that all accredited individuals and entities report on ESG in a responsible and ethical way. Furthermore, it assists in regulating the issuance of capital market products, securities, derivatives, and spot commodity exchanges, while also promoting market integrity (Kimani, 2021). According to the regulations established by the Capital Markets Authority (CMA), companies listed on the NSE must prepare financial statements that comply with International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) on a quarterly, semi-annual, and annual basis. In Kenya, the Capital Markets Authority (CMA) has created the Sustainable Finance Guideline to facilitate sustainability reporting and ESG disclosure.

1.2 Statement of the Problem

In an ideal capital market, listed firms are expected to demonstrate strong and sustainable financial performance through consistent profitability, efficient resource utilization, stable shareholder returns, and long-term value creation. These outcomes are often supported by robust corporate governance structures, ethical social practices, and responsible environmental stewardship, pillars commonly reflected in Environmental, Social, and Governance (ESG) disclosures (Eccles et al., 2014).

Despite the ideal, the financial performance of firms listed on the Nairobi Securities Exchange (NSE) has shown a concerning downward trend in recent years. According to the Capital Markets Authority (CMA), the average Return on Assets (ROA) among listed firms declined from 10.15% in 2017 to 8.05% in 2018, further dropping to 5.90% by 2021 (CMA, 2022). Simultaneously, the NSE experienced a significant loss in investor wealth, with market capitalization falling from Kes. 1.88 trillion (US$12.4 billion) in 2022 to Kes. 1.36 trillion (US$9.05 billion) in 2023, representing a 23.3% contraction (NSE, 2023).

Several firms have also been suspended or delisted due to persistent losses, governance failures, or failure to meet disclosure obligations. These patterns suggest broader financial instability and diminished investor confidence. Compounding these issues is the limited uptake of ESG disclosures, with only 28% of listed firms having adopted the CMA's ESG Disclosure Guidelines since their launch in 2021 (CMA, 2023). ESG reporting remains selective, with social initiatives often prioritized over environmental and governance metrics (Wachira & Mathuva, 2022).

The gap between the expected and real financial outcomes of publicly traded companies in Kenya can be linked to various interconnected reasons, with the inconsistent implementation of ESG practices being significant. While ESG is increasingly recognized as a driver of long-term financial resilience, many firms in Kenya view it as a compliance obligation rather than a strategic imperative. This perception leads to selective or superficial reporting, particularly where ESG disclosures are voluntary and not subject to rigorous enforcement (CMA, 2023). Additionally, internal capacity constraints, such as a lack of ESG expertise, weak board oversight, and limited integration of sustainability into core financial planning, hinder effective implementation (Oino & Rugami, 2021).

In practice, the absence of a unified ESG rating or assurance framework further complicates stakeholders' ability to evaluate and compare firms. As a result, firms may fail to capitalize on ESG-linked capital instruments, miss opportunities to attract ethical investors, and remain vulnerable to reputational and regulatory risks. These challenges highlight a pressing need to empirically assess the financial implications of ESG disclosures in Kenya's market context, where standardized and credible data is still evolving.

Increasing global awareness suggests that ESG practices contribute to improved sustainability and financial success for companies (Fatemi et al., 2018; Eccles et al., 2014). However, most existing research centers on developed economies where ESG reporting is standardized and enforced. In contrast, studies from developing contexts like Kenya remain limited, fragmented, and often inconclusive (El Khoury et al., 2023; Oino & Rugami, 2021), with many relying on aggregate ESG scores rather than examining the distinct effects of each ESG component.

Importantly, ownership structure which shapes strategic decision-making and managerial incentives, may significantly influence the effectiveness of ESG disclosures in delivering financial returns. Firms with institutional or foreign ownership often face higher ESG scrutiny, while family or state-controlled firms may disclose selectively or superficially (Zhang & Zhu, 2019; Habbash, 2016). Yet, the moderating role of ownership structure in ESG–performance relationships remains underexplored in Kenya's capital market context. This research aims to address this gap by evaluating both the direct impact of ESG disclosures on financial performance and the degree to which ownership structure influences this relationship among firms listed on the NSE.

Without adequate empirical evidence, firms may continue to treat ESG as a peripheral concern, missing out on strategic opportunities related to sustainable financing, investor confidence, and long-term profitability. This research is both relevant and essential for policy-making. It tackles an important knowledge deficit by investigating the connection between detailed ESG disclosures and financial performance, utilizing data from companies listed on the Nairobi Securities Exchange from 2019 to 2024. Findings from this research will not only inform corporate decision-making but also support regulators, investors, and sustainability advocates in strengthening Kenya's ESG reporting ecosystem.

1.3 Study Objectives

1.3.1 General objective

To examine the moderating role of Ownership structure on the effect of sustainability reporting on financial performance of firms listed at the Nairobi securities exchange in Kenya

1.3.2 Specific objectives

The study objectives are:

i. To assess the effect of Environmental disclosures on the financial performance of firms listed at the Nairobi securities exchange in Kenya
ii. To evaluate the effect of Social disclosures on the financial performance of firms listed at the Nairobi securities exchange in Kenya
iii. To determine the effect of Governance disclosures on the financial performance of firms listed at the Nairobi securities exchange in Kenya
iv. To evaluate the moderating effect of Ownership structures on the relationship between sustainability reporting and financial performance of firms listed at the Nairobi securities exchange in Kenya.

1.4 Hypotheses

This study will test the following hypotheses:

H_{01}: Environmental disclosures have no significant effect on the financial performance of firms listed at the Nairobi securities exchange in Kenya.

H_{02}: Social disclosures have no significant effect on the financial performance of firms listed at the Nairobi securities exchange in Kenya.

H_{03}: Governance disclosures have no significant effect on the financial performance of firms listed at the Nairobi securities exchange in Kenya.

H_{04}: Ownership structures have no significant moderating effect on the relationship between sustainability reporting and financial performance of firms listed at the Nairobi securities exchange in Kenya.

1.5 Justifications of the study

This research aims to deliver empirical data that will guide the Capital Markets Authority (CMA), the Nairobi Securities Exchange (NSE), and various regulatory entities regarding the connection between ESG disclosures and the financial performance of firms. The findings will support ongoing policy reforms, particularly regarding the potential transition from Kenya's voluntary ESG disclosure framework to a more structured or mandatory regime. Prior research has shown that effective ESG disclosure policies enhance transparency, protect investors, and strengthen market integrity in emerging economies (Amel-Zadeh & Serafeim, 2018; De Villiers & Marques, 2016).

For corporate managers, the study will offer practical, data-driven insights into how transparent ESG practices may influence financial outcomes. By analyzing environmental, social, and governance components separately, it will help firms identify which dimensions drive performance and guide resource allocation for sustainability initiatives. This will support better integration of ESG into financial planning, risk management, and stakeholder engagement.

The study will also contribute to theory by testing established frameworks such as Agency Theory, Stakeholder Theory, Signaling Theory, and Legitimacy Theory in a developing country context. Kenya's distinct institutional and regulatory environment presents a relevant case for examining how ESG dynamics operate outside mature markets. The disaggregated approach will address a current gap in literature by identifying which ESG dimensions most significantly impact financial performance (Fernando et al., 2017; Wang & Sarkis, 2017).

Finally, the study will offer a foundation for future research by providing a replicable methodological framework and sector-specific data for use in comparative or longitudinal studies. It will also open avenues for exploring mediating and moderating variables in the ESG–performance relationship within African capital markets.

1.6 Scope of the study

This research will explore the connection between Environmental, Social, and Governance (ESG) disclosures, ownership composition, and financial performance of companies listed on the Nairobi Securities Exchange (NSE). The analysis will cover the period 2019 to 2024, providing a six-year unbalanced panel dataset that captures both voluntary ESG reporting (pre-2021) and standardized disclosure practices introduced following the adoption of the NSE ESG Disclosure Guidance Manual (2021).

The target population comprises all NSE-listed firms across diverse sectors confined to Kenya with no comparative analysis involving other countries or regional exchanges. Firms will be included in the study if they have at least three years of complete financial statements and ESG-related disclosure indices during the study period. This census approach will ensure maximum coverage of eligible firms and improves the representativeness of findings across the Kenyan capital market. The unit of analysis is the firm-year observation, which will allow for both cross-sectional and longitudinal assessment of the variables.

ESG disclosures will be measured using pre-computed indices (environmental, social, and governance), standardized on a 0–1 scale and aligned with global sustainability reporting frameworks. Financial performance will be proxied by Return on Assets (ROA), while ownership structure will be captured through the proportion of institutional, government, and foreign shareholding. Control variables will include firm size (log of total assets), leverage (debt-to-assets ratio), and sectoral dummies to account for industry heterogeneity.

The NSE offers a suitable context given its status as Kenya's principal securities market and its ongoing efforts to promote ESG reporting through guidelines issued by the Capital Markets Authority (CMA). By covering both the pre- and post-implementation phases of ESG disclosure regulation, the scope of this study will enable an assessment not only of the ESG–performance relationship but also of how regulatory evolution in Kenya shapes disclosure practices and their financial implications.

By clearly defining its scope, this study acknowledges the limitations of its coverage while ensuring depth and focus in addressing the ESG–financial performance relationship within Kenya's listed corporate sector.

1.7 Limitations of the study

This research aims to offer valuable perspectives on how ownership structure, ESG disclosures, and financial performance are interconnected among firms listed in Kenya. However, it is important to recognize several limitations.

First, the research will rely exclusively on secondary data derived from financial statements and pre-computed ESG disclosure indices from the NSE. While this approach enhances objectivity and comparability across firms, it will limit the ability to capture the nuanced motivations and internal decision-making processes that drive ESG practices

(Saunders et al., 2019). Secondly, the use of an unbalanced panel dataset (2019–2024) reflects gaps in reporting before the issuance of the NSE ESG Disclosure Guidelines in 2021. As a result, earlier disclosures may vary in depth and consistency, potentially introducing heterogeneity in measurement (NSE, 2021).

Thirdly, although the study will incorporate ownership structure as a moderator, it will focus only on institutional, government, and foreign shareholding proportions. Other potentially influential ownership categories such as family or managerial ownership will be excluded, which may narrow the generalizability of findings (Demsetz & Villalonga, 2001). Fourthly, ESG disclosure indices, while standardized, are inherently ordinal measures, and may not fully capture the quality or substance of disclosures, thereby exposing the study to risks of over-reliance on formal reporting rather than actual sustainability performance (Michelon, Pilonato, & Ricceri, 2015).

Finally, while a mixed-methods design will be adopted, the absence of primary data collection due to time and resource constraints will limit the study's interpretive depth, particularly in understanding how firms internally prioritize ESG reporting in response to stakeholder pressures. Nonetheless, these limitations are common in ESG research within emerging markets and will not diminish its findings in advancing the empirical understanding of ESG disclosures, ownership structure, and financial performance in the Kenyan context.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines the current body of literature concerning the impact of ownership structure as a moderating factor in the relationship between Environmental, Social, and Governance (ESG) disclosures and the financial performance of publicly traded companies. It will feature a theoretical overview that outlines and connects key theories related to ESG disclosure, along with an empirical review of pertinent studies from global, regional, and local perspectives on ESG disclosures in relation to financial performance. Furthermore, it includes an evaluation of the existing research gap and a thorough analysis of the collected literature regarding ESG disclosures.

2.2 Theoretical Review

This review employs established theories to establish connections between ownership structure, ESG disclosures, and their impact on firms' financial health. In this section, four theories will be examined with the goal of highlighting their relevance to the research and how they reinforce the assertions made in the study. The Agency Theory, Freeman's Stakeholder Theory, Signaling Theory, and Legitimacy Theory will be incorporated into this analysis.

2.2.1 Agency Theory

The Agency theory was formulated by Michael C. Jensen and William H. Meckling in the year 1976. Agency Theory examines the conflicts arising when ownership (principals) and control (agents) are separate. The theory suggests that managers (agents), pursuing their own interests, might not align with the goals of shareholders (principals), resulting in information asymmetry and agency costs. It recommends governance mechanisms like monitoring, reporting, and incentives to align these interests and reduce inefficiencies.

ESG disclosures serve as tools to enhance transparency, mitigate information asymmetry, and signal managerial alignment with shareholder interests (Liao et al., 2015). Financial performance (ROA) is expected to improve when ESG practices reduce agency-related inefficiencies. However, classical Agency Theory focuses primarily on financial quantities and overlooks non-financial aspects such as environmental or social reporting (Hill & Jones, 1992). It also tends to assume rational actors and may not account for broader stakeholder motivations (Donaldson & Preston, 1995; Freeman et al., 2004).

Agency Theory suggests that conflicts occur when the interests of principals and agents are not aligned, especially in scenarios with widespread ownership, making it harder to oversee managerial activities (Jensen & Meckling, 1976). The structure of ownership is crucial in either alleviating or intensifying these agency issues. Firms with concentrated institutional or foreign ownership tend to face greater external scrutiny, which can compel managers to engage in more transparent ESG disclosures to signal alignment with shareholder expectations (Shleifer & Vishny, 1997; Zhang & Zhu, 2019). In contrast, family-controlled or state-owned enterprises may exhibit weaker ESG disclosure practices due to entrenchment, less external accountability, or differing strategic priorities (Habbash, 2016; Chen & Jaggi, 2000).

Recent ESG literature extends Agency Theory by including voluntary sustainability disclosures as a response to principal-agent conflicts (Van der Laan Smith et al., 2005; Liao et al., 2015) . Research indicates that ESG reporting may effectively lower agency costs and help align long-term objectives. This theory offers a clear framework for analyzing information asymmetry and efficacy of governance controls. However, it neglects non-financial motivations and may not capture cultural, ethical, or social dimensions of sustainability. Its overly mechanistic focus on alignment may ignore intrinsic motivational factors and stakeholder plurality.

Agency Theory provides a solid basis for examining whether ESG disclosures through increased transparency can reduce agency costs and enhance firm financial performance in the context of NSE-listed firms. The study applies regression models to assess this linkage, with ROA as the dependant variable influenced by ESG disclosure quality and governance proxies (Liao et al., 2015; El Ghoul et al., 2011). The findings will help determine the extent to which voluntary disclosures reduce agency costs and benefit firm performance (Van der Laan Smith et al., 2005; Ali, Frynas, & Mahmood, 2017).

2.2.2 Stakeholder Theory

Stakeholder Theory was formally advanced by R. Edward Freeman in 1984 . This theory holds that firms should serve not only shareholders, but all parties affected by corporate actions such as employees, suppliers, regulators, communities, and customers. By addressing broader stakeholder interests, organizations can achieve sustained value and legitimacy .

Under this framework, ESG disclosures are mechanisms for reporting how a firm engages its stakeholders across environmental, social, and governance facets. These disclosures help firms build goodwill, manage reputational risk, and foster trust, outcomes which this theory suggests will enhance financial performance by reducing stakeholder-related conflicts and costs. Recent empirical work (Wheeler et al., 2020; Harrison & Wicks, 2013) highlights the importance of disaggregating stakeholder impact. They argue that environmental disclosures improve community trust, while governance transparency enhances confidence among institutional investors and lenders . Research in Africa supports this as firms with strong CSR engagement tend to record better financial outcomes due to improved local relations and reduced transaction costs (Dzansi & Pretorius, 2009; Muthuri et al., 2009).

Ownership structure can significantly influence how firms prioritize, respond to, and disclose ESG-related stakeholder concerns. Different ownership types exhibit varying levels of sensitivity to stakeholder expectations, institutional and foreign investors, for example, often advocate for broader ESG accountability to meet fiduciary and reputational demands, thereby encouraging more comprehensive stakeholder engagement and disclosures (Fernando et al., 2017; Zhang & Zhu, 2019). In contrast, family or state-owned firms may prioritize internal or political interests over broad stakeholder responsiveness, potentially limiting the scope and credibility of ESG disclosures (Muttakin & Subramaniam, 2015). As such, ownership structure can moderate the extent to which stakeholder pressures are translated into meaningful ESG actions and reporting.

However, the Stakeholder Theory does not prescribe which stakeholder priorities matter most or how to quantify their interests. It treats stakeholders equally but fails to weigh their conflicting expectations or relative influence (Mitchell et al., 1997). Additionally, more research is needed to examine how specific disclosures environmental, social, or governance impact stakeholder satisfaction and thereby financial results in emerging contexts.

The Stakeholder Theory emphasizes inclusivity, long-term perspective, and stakeholder management as strategic levers, but lacks specificity about implementation, prioritization, and measurement of attention to different stakeholder groups. Critics argue that it can introduce inefficiency, as responding to numerous stakeholder demands may increase costs and dilute strategic focus (Jensen, 2002; Sundaram & Inkpen, 2004)

This theory is pertinent to the present study as it offers a conceptual path for connecting ESG disclosure practices with financial performance by focusing on how firms communicate with and respond to stakeholder interests in Kenya. This is particularly relevant in markets where firms face pressures from local communities, regulators, and investors. By examining disaggregated ESG dimensions, this study seeks to clarify which stakeholder-driven reporting behaviours strongest predict positive financial outcomes.

2.2.3 Signaling Theory

Signaling Theory originated with Michael Spence in 1973 and addresses how one party credibly conveys information to another under conditions of information asymmetry. It argues that organizations emit signals such as voluntary ESG disclosures to convey their quality, reduce uncertainty, and stand out from competitors (Spence, 1973; Connelly et al., 2011). By making ESG disclosures, firms demonstrate commitment to sustainability, sending credible signals to investors that can reduce perceived risk and support higher firm valuation reflected in ROA (Dhaliwal et al., 2011; Cho et al., 2015). Science-based targets and third-party verified sustainability metrics, for example, can enhance signal credibility (Hummel & Schlick, 2016).

Recent research confirms ESG reporting functions as a costly yet credible signal. For firms in emerging economies, signaling through robust ESG reporting can shield against market uncertainty such as during COVID-19 and strengthen investor trust (Agyemang, 2022; Fatemi et al., 2018). However, under-disclosure or superficial signals (greenwashing) can undermine this effect (Pope & Wæraas, 2016). While valuable, signaling theory alone does not guarantee disclosure quality; signals must be costly and credible (Bergh et al., 2014). Many firms may treat ESG reporting as low-cost compliance tools rather than true commitments, limiting the theory's practical reach in contexts without independent verification.

The effectiveness of these signals may not be uniform across all firms and may be influenced by ownership structure. Firms with higher institutional or foreign ownership are more likely to issue costly and credible ESG signals, as these owners often demand higher transparency and are attuned to global sustainability standards (Haque & Deegan, 2010; Fatemi et al., 2018). In contrast, family- or state-owned firms may issue less informative or symbolic disclosures, either due to limited external pressure or strategic opacity, weakening the signaling value of ESG reporting (Mahoney et al., 2013). Thus, ownership structure moderates the strength and credibility of ESG disclosures as market signals.

This theory offers a practical explanation for why firms voluntarily disclose ESG data, that is, to reduce information asymmetry. However, it fails to address whether signals are genuine or strategic façades, does not guarantee alignment with actual sustainability performance and may overlook non-investor stakeholder perceptions (Haque & Deegan, 2010). This theory is relevant to the current study because it informs whether and how ESG disclosures serve as credible communications to investors in Kenya's emergent ESG landscape. By linking disclosure signals to ROA outcomes, this study will assess whether increased ESG transparency directly translates into improved financial performance.

2.2.4 Legitimacy Theory

Legitimacy Theory, crystallized by Suchman in 1995, posits that firms need to align with societal standards and values to acquire legitimacy and sustain their social license to operate. It proposes that ESG disclosures are tactical responses firms use to demonstrate alignment with stakeholder expectations and societal values, especially in the face of controversy or normative change (Deegan, 2002; Cho & Patten, 2007).

When firms proactively articulate environmental, social, and governance commitments, they are perceived as more legitimate by investors, regulators, and society (Michelon et al., 2015). In emerging markets like Kenya, where ESG norms are evolving, such disclosures may be essential for maintaining credibility and financial stability (ROA) (El Ghoul et al., 2017). Recent studies reveal that legitimacy-driven ESG disclosures can reduce a firm's cost of capital and buffer reputational risks, particularly in emerging contexts (Hummel & Schlick, 2016; Wang & Sarkis, 2017). However, when disclosures become symbolic rather than substantive, which is impression management, the legitimacy effect may weaken (Cho et al., 2015).

Legitimacy Theory does not specify when voluntary disclosures are substantive versus symbolic, nor does it account for variations in societal norms across countries (Tilling, 2004). Also, it offers limited guidance on how transparency correlates with financial metrics in low-regulation environments. The theory explains the motivations behind ESG disclosures in terms of social acceptance and institutional legitimacy. However, it lacks clarity on how legitimacy translates into economic value and may gloss over the authenticity of sustainability efforts (Boiral, 2013).

The degree to which firms pursue legitimacy through disclosure is often shaped by ownership structure, which influences managerial priorities and sensitivity to external pressures. Firms with institutional or foreign ownership tend to embrace extensive ESG reporting as a strategic response to legitimacy expectations from global investors and sustainability-conscious stakeholders (El Ghoul et al., 2011; Muttakin & Subramaniam, 2015). Conversely, family- or state-owned enterprises may prioritize legitimacy among select political or internal stakeholders, potentially resulting in symbolic or minimal ESG disclosures (Mahadeo et al., 2011). This variation suggests that ownership structure can moderate the strength and intent of ESG disclosures as legitimacy-seeking behaviours.

In Kenya's regulatory and societal context, ESG disclosures may serve a strategic legitimacy function. This research examines whether legitimacy-driven disclosure contributes to financial performance, thus testing legitimacy theory's propositions empirically within an emerging market setting. Further, the current study draws on Legitimacy Theory to investigate whether different ownership types influence how ESG disclosures contribute to firm financial performance in an emerging market context like Kenya.

2.3 Empirical Review

2.3.1 Environmental Disclosure and Financial Performance.

Environmental disclosures refer to corporate reporting on activities, policies, and outcomes related to environmental protection, such as emissions, resource usage, waste management, and eco-initiatives, typically through annual or sustainability reports (Khan et al., 2016). These disclosures serve to inform stakeholders of a firm's environmental impact while signaling accountability and sustainability consciousness. From a financial standpoint, these practices could result in cost reductions due to improved energy efficiency, minimized regulatory risk, and bolstered corporate reputation, all of which play a role in boosting profitability. Theoretically, this aligns with Legitimacy Theory, where transparency fosters institutional trust, and Signaling Theory, which posits that credible environmental reporting reduces information asymmetry and improves investor confidence (Spence, 1973; Suchman, 1995).

In one of the foundational empirical studies, Nishitani & Kokubu (2011) analyzed 641 Japanese manufacturing firms between 2006 and 2008 to determine the financial impact of reducing greenhouse gas (GHG) emissions. Using random-effects and instrumental-variable regression models, they evaluated the effect of GHG mitigation on Tobin’s Q, a market-based performance metric, while controlling for firm-specific variables. Their findings showed that firms adopting proactive emissions strategies particularly under increased investor scrutiny achieved significantly higher market valuations. The effect persisted even after accounting for sectoral and market differences. The authors concluded that carbon reduction initiatives act as credible signals of long-term strategic orientation and managerial responsibility, especially in environmentally sensitive industries. These findings support the inclusion of environmental disclosure as a financial performance determinant, even within emerging markets such as Kenya.

Within Africa, Erinoso & Oyedokun (2022) examined the impact of environmental disclosures and audits on the financial performance of oil and gas firms listed on the Nigerian Stock Exchange between 2011 and 2020. Utilizing an ex-post facto research design, the authors selected 11 firms with complete data and applied panel regression analysis to test the relationship between environmental disclosure practices and financial performance indicators namely, Return on Assets (ROA), Return on Equity (ROE), and Profit After Tax (PAT).

Environmental reporting was assessed via content analysis, focusing on elements such as conservation, sustainability practices, and audit involvement. The study found a statistically significant positive relationship between environmental disclosures and all three financial performance measures, suggesting that consistent environmental transparency correlates with stronger profitability.

Interestingly, while environmental disclosures contributed positively to financial outcomes, the presence of audit reports alone showed no significant effect on ROA or PAT. This suggests that symbolic reporting may not translate to performance gains unless accompanied by substantive environmental practices. These findings reaffirm both Legitimacy and Signaling Theories and support the strategic use of environmental disclosures in sectors exposed to environmental risk.

In the context of Kenya, various research studies have investigated the ESG and performance relationship, including Agutu & Githira (2023), Kipngetich & Gatauwa (2024), Kirubi (2023), and King'wara et al. (2020). Agutu & Githira (2023) focused on financial firms listed on the Nairobi Securities Exchange (NSE) from 2015 to 2021. Adopting a quantitative ex-post facto approach and secondary data from annual and sustainability reports, the study applied content analysis based on 34 GRI-aligned indicators to assess environmental disclosure. Financial performance was evaluated through ROA and ROE, while Feasible Generalized Least Squares (FGLS) regression was used to address panel data issues such as heteroscedasticity and autocorrelation.

The research established a positive and statistically significant relationship between environmental disclosure and both ROA and ROE. It concluded that firms with better transparency on environmental risk management and eco-initiatives tended to perform more profitably. These findings were consistent with Stakeholder Theory, emphasizing trust-building among regulators, investors, and customers and Signaling Theory, where such disclosures enhance perceptions of managerial competence. Furthermore, the study observed that firms with stronger capital adequacy and governance mechanisms were more likely to engage in substantive environmental reporting, suggesting that internal firm structure plays a role in ESG commitment.

2.3.2 Social Disclosure and Financial Performance.

Social disclosures involve communicating a firm's actions and policies that affect internal and external stakeholders. These stakeholders include employees, community engagement, diversity, human capital development, health and safety, and human rights, usually presented through annual or sustainability reports. These disclosures aim to communicate how the firm manages its social responsibilities and impacts on society GRI, 2021. From a financial performance perspective, social disclosures can improve stakeholder relationships, attract socially conscious investors, enhance employee retention, and increase customer loyalty, ultimately contributing to firm profitability (Dhaliwal et al., 2011; Aggarwal et al., 2022).

These disclosures are theorized to enhance firm financial performance by building stakeholder trust, reducing employee turnover, and improving consumer loyalty. In line with Stakeholder Theory, they reflect a firm's responsiveness to stakeholder needs, while Signaling Theory suggests that robust social reporting serves as a credible signal of managerial responsibility and long-term orientation (Spence, 1973; Freeman, 1984). The body of research regarding the connection between social disclosure and financial performance presents varied findings. Certain studies indicate a favourable correlation between social disclosure and financial performance, whereas others reveal no substantial relationship.

Wang & Zhang, 2025 performed an extensive meta-analysis of 223 empirical studies to examine the connection between social responsibility and firm financial performance covering employee relations, community engagement, product responsibility, and diversity across firms worldwide from 1995 to 2024. The analysis covered multiple continents and industries, incorporating publicly listed companies, emerging-market firms, and SMEs. Employing vote-count analysis, meta-regression techniques, and random-effects models, the authors assessed the magnitude and consistency of the social disclosure–financial performance relationship, focusing on operational metrics ROA and ROE and market indicators , Tobin's Q and stock returns.

Their sample was drawn from peer-reviewed journals, ESG research databases, and institutional reports. Employing meta-regression analysis (MRA), they assessed average effect sizes and tested moderating variables such as industry type, firm size, and regional context. Advanced statistical techniques were utilized to correct for publication bias, heterogeneity, and macroeconomic fluctuations such as global financial crises. The study established a generally positive relationship between CSR engagement and firm financial performance. The social component of ESG exhibited the strongest association with accounting-based measures like ROA, while environmental and governance elements were more closely linked to market-based outcomes Tobin's Q and stock returns. Greater CSR engagement produced more pronounced performance effects among larger firms, environmentally sensitive industries, and in emerging markets.

Additionally, MRA revealed that failure to control for macroeconomic volatility such as the 2008 financial crisis often led to underestimating CSR's positive impact, suggesting that the true CSR–performance link is more robust than earlier studies implied. The authors concluded that well-executed CSR strategies yield both operational and reputational value and should be regarded as integral to long-term corporate value creation.

Lopez et al., 2016 conducted an empirical study of Chinese manufacturing firms listed on the Shanghai and Shenzhen stock exchanges between 2009 and 2015. The research examined the relationship between social disclosures, specifically regarding employee relations and community programs and firm performance. Using a content-analysis approach aligned with recognized standards such as GRI, the authors developed a social behavior disclosure index. They combined this with firm-level financial data and performance metrics including Tobin's Q and Return on Equity (ROE). Statistical analyses involved panel regression models controlling for firm size, leverage, and industry effects, while correcting for heteroskedasticity and autocorrelation.

The study found a significant positive correlation between robust social disclosures and both Tobin's Q and ROE. Firms reporting higher levels of employee welfare and community engagement such as training programs, health and safety initiatives, and local infrastructure support, demonstrated improved valuation multiples and shareholder returns. These results aligned with Stakeholder Theory, suggesting that addressing employee and community needs creates operational and reputational benefits. They also reflected Signaling Theory, in which transparent social reporting sends credible signals of managerial competence and long-term strategy commitment. The authors concluded that social disclosures serve as strategic assets that positively affect market and profitability outcomes in China's manufacturing sector.

Bangara et al., (2024) conducted a comparative study on the impact of social and relationship capital disclosures on firm value in both Kenya and South Africa. Utilizing a positivist research philosophy, the authors sampled 209 listed companies, 19 from the Nairobi Securities Exchange and 118 from the Johannesburg Stock Exchange covering the period 2018–2020. Using purposeful sampling, they identified 137 firms with integrated reports. The study employed content analysis to construct an unweighted disclosure index for social and relationship capital. Tobin's Q was used as the firm value proxy. Statistical analysis included descriptive statistics, correlation matrices, and stepwise regression mediation models to assess whether a firm's business model mediates the disclosure–value relationship.

The results revealed a statistically significant positive association between social and relationship capital disclosure and firm value in both Kenya and South Africa. Notably, the business model functioned as a mediator: in South African firms, full mediation was observed, whereas Kenyan firms exhibited inconsistent mediation effects. These findings support Legitimacy Theory, implying that stakeholders value transparent communication of social capital, and demonstrate that a firm's business model influences how effectively disclosure translates into improved valuation. The authors recommended mandatory disclosure of social and relationship capital in Kenyan integrated reporting to enhance shareholder valuation and understanding.

Masila et al., (2023) assessed the impact of sustainability reporting encompassing environmental, social, and governance (ESG) disclosures on financial performance among firms listed on the Nairobi Securities Exchange (NSE) over the period 2011–2020. The study employed an ex-post facto, quantitative methodology, analyzing secondary data from annual and sustainability reports. A content analysis index was constructed based on Global Reporting Initiative (GRI) standards, scoring firms on their breadth of ESG reporting. The analysis targeted 45 firms with consistent reporting over the study period. Financial performance was measured using Return on Assets (ROA), while control variables such as firm size, leverage, and sector were included. The data were analyzed using panel regression techniques (fixed and random effects models) to determine the strength and statistical significance of ESG reporting's impact on ROA.

The study found that social disclosures in sustainability reports were significantly and positively associated with ROA, even when controlling for environmental and governance disclosures. Firms that engaged in transparent reporting of labor practices, community support, health and safety, and talent development performed better in accounting-based profitability metrics. The results align with both Stakeholder Theory, where strong social reporting builds trust and reduces stakeholder conflict, and Legitimacy Theory, indicating that firms gain legitimacy reflected in improved profitability by addressing societal expectations. While environmental and governance disclosures exhibited positive but less statistically robust effects, the authors concluded that social disclosures play the most critical role in delivering incremental financial benefits for Kenyan firms.

Afuya, Musiega & Rutto (2025) investigated the influence of various forms of corporate disclosure including Corporate Social Responsibility (CSR) on profitability within manufacturing firms listed on the Nairobi Securities Exchange (NSE). Covering 2011–2020, the study employed both descriptive and correlational quantitative designs. Primary data was collected via self-administered questionnaires directed at industry managers, while secondary data was drawn from annual and sustainability reports. The research applied multiple regression analysis using STATA after conducting diagnostic tests for normality and multicollinearity. Disclosure variables included risk, financial, corporate governance, and CSR disclosures, each evaluated on its impact. The sample comprised all manufacturing firms listed during the period under study, and the key financial performance metric was ROA.

The authors found that all four disclosure types: risk, financial, corporate governance, and CSR had statistically significant positive effects on profitability at the 5% significance level. Specifically, CSR disclosures were strongly associated with enhanced ROA, suggesting that robust CSR initiatives contribute to improving firm performance. The study concluded that increasing both the quality and quantity of these disclosures can foster greater transparency, build investor confidence and ultimately lead to better financial outcomes. The authors recommended that NSE-listed manufacturing firms strengthen CSR reporting as part of their strategic approach to attract capital and ensure sustained profitability.

2.3.3 Governance Disclosure and Financial Performance.

Governance disclosures involve the reporting of corporate structures, board composition, executive compensation, shareholder rights, audit mechanisms, and risk management practices, typically via annual or sustainability reports, Minutolo et al., (2019). These disclosures aim to enhance corporate accountability, reduce information asymmetry, and prevent managerial opportunism (Jensen & Meckling, 1976). The theoretical foundations include Agency Theory, which posits that stronger governance reduces moral hazard and aligns agent-principal interests, and Signaling Theory, which suggests that transparent disclosures signal organizational integrity and strong stewardship, thereby improving financial performance (Spence, 1973).

Numerous research efforts have investigated the link between governance disclosure and financial performance. Bhagat & Bolton (2008) conducted a comprehensive study of U.S. publicly traded firms to analyze the relationship between board independence, governance transparency, and firm performance. The researchers examined a broad panel dataset spanning 1990–2004, covering up to 21,000 firm year observations drawn from Compustat, ExecuComp, and IRRC data sources. Key governance variables included the number of independent directors, CEO-chair separation, and audit committee structure. Firm performance was assessed using two primary metrics: Return on Assets (ROA) and Tobin's Q, calculated from Compustat and CRSP data. Cross-sectional and contemporaneous panel regression analyses were employed, with controls for firm size, leverage, R&D expenditure, and industry performance.

The researchers found that greater board independence particularly when the CEO served separately from the board chair and robust audit-committee transparency were both positively associated with higher Tobin's Q and ROA. These results affirm the Agency Theory assertion that independent governance structures enhance monitoring, reduce managerial opportunism, and improve financial performance. However, the authors highlighted a complexity: these positive effects were not uniformly strong across all firms or in relation to future performance metrics, suggesting a nuanced governance-performance relationship.

Furthermore, they found evidence of reverse causality: underperforming firms often increased board independence in response, which may confound direct causality.

Yermack, 2019 carried out a meta-analysis and synthesized evidence from 150 empirical studies across diverse markets, including North America, Europe, Asia, and emerging economies, spanning approximately two decades (1995–2018). The research focused on the relationship between governance structure disclosures such as board composition, executive remuneration, audit committee quality, and shareholder rights and firm financial outcomes. Firm performance metrics included both accounting-based measures (ROA, ROE) and market-based measures (Tobin's Q, market-to-book ratios). Employing meta-regression techniques, the study quantified average effect sizes and tested moderating variables such as region, industry, and firm size. Measures were taken to correct for publication bias and heterogeneity, including funnel-plot and subgroup analyses, to ensure the robustness of synthesized results.

The meta-analysis found that higher-quality governance disclosures especially related to board independence, CEO-chair separation, and transparent audit mechanisms were positively associated with accounting-based performance (ROA, ROE) and market valuation (Tobin's Q). Firms that scored higher on governance disclosure indices outperformed peers, with mean effect sizes ranging between 0.10 and 0.20, both statistically significant. Governance practices had a stronger impact in developed markets and in larger firms but remained significant in emerging economies. The analysis also revealed diminishing marginal returns beyond a certain disclosure threshold, incremental improvements yielded smaller performance gains. Overall, Yermack, 2019 concluded that high-quality, transparent governance disclosures serve as valuable signals that reduce information asymmetry and reinforce investor confidence, aligning with both Agency Theory and Signaling Theory.

Osemeke & Adegbite, 2021 investigated the influence of governance transparency on the financial performance of firms listed on the Johannesburg Stock Exchange (JSE) from 2010 to 2018. Employing an exploratory, quantitative research design, the study analyzed 112 firms with consistently disclosed board and audit committee information in their annual reports. Governance transparency was measured using a coded disclosure index, capturing details such as board independence, audit committee composition, risk oversight, director qualifications, and executive remuneration. The key financial metrics studied were Return on Assets (ROA) to assess profitability and cost of debt, calculated as the ratio of interest expenses to total debt. Control variables included firm size, leverage, industry sector, and macroeconomic conditions. Using fixed-effects panel regressions and robustness checks, the authors examined the relationship between governance transparency and both performance and financing costs.

The study revealed a significant positive relationship between governance transparency especially strong audit committee disclosures and a higher proportion of independent directors and improved profitability as measured by ROA. Firms that provided detailed board and audit committee information recorded ROA increases of approximately 2–3 percentage points. Additionally, enhanced governance disclosure corresponded with a lower cost of debt, suggesting that creditors valued the reduced agency risk and increased oversight that accompanied transparency. These findings align with Agency Theory, as transparency aligns managerial incentives with stakeholder interests, and with Signaling Theory, where detailed disclosure signals organizational integrity and risk management competence. The authors concluded that governance transparency not only enhances firm value through better financial performance but also lowers financing costs creating a dual advantage for South African companies.

Kiragu & Ng'ang'a, 2022 examined the impact of governance disclosures on financial performance among firms listed on the Nairobi Securities Exchange (NSE) during 2015–2021.

The study focused on key governance elements including board independence, audit committee reporting, and shareholder communication practices. The researchers conducted a content analysis of annual and integrated reports to generate a disclosure index. This index was then linked with firm-level financial data, primarily Return on Assets (ROA), and supplemented with indicators of investor confidence such as stock turnover and share price volatility. A panel regression framework with fixed effects was employed to assess the associations, controlling for size, leverage, sector, and macroeconomic variables.

The study found a statistically significant positive relationship between robust governance disclosure and ROA. Firms that reported higher levels of board independence, comprehensive audit committee disclosures, and transparent shareholder communications delivered better profitability and exhibited higher investor confidence evidenced by lower share volatility and increased trading volumes. These findings support Agency Theory, which underscores the importance of independent oversight, and Signaling Theory, where transparent disclosures reduce information asymmetry and build investor trust. The authors concluded that enhanced governance practices benefit not only operational efficiency but also bolster market reputation and investor relations within the NSE context.

2.3.4 Ownership structure, ESG Disclosures and Financial Performance.

Ownership structure refers to the distribution of equity ownership in a firm among distinct categories of shareholders, such as institutional investors, family owners, government, or dispersed public shareholders (Shleifer & Vishny, 1997). It shapes corporate governance dynamics, influences managerial decisions, and affects firm strategic orientation, including ESG engagement and disclosure practices (Chen, Liu, & Su, 2020). As a moderator, ownership structure can alter the strength and direction of the relationship between environmental disclosures and financial performance by affecting managerial incentives, oversight quality, and risk tolerance (Jo & Na, 2012).

Specifically, concentrated ownership or active institutional investors may enhance monitoring, thereby ensuring that environmental disclosures translate into actual value-adding practices, improving financial outcomes (Garcia-Sanchez et al., 2020). Conversely, dispersed ownership may weaken this link due to limited shareholder influence on managerial behavior. Hence, ownership structure critically conditions how environmental transparency impacts firm profitability and market valuation (Jo & Na, 2012; Chen et al., 2020).

Jo & Na, 2012 investigated the moderating role of ownership structure on the relationship between environmental disclosure and financial performance among publicly traded firms in the United States from 2005 to 2009. The study focused specifically on institutional ownership and managerial ownership as key components of ownership structure. Using panel data regression models that incorporated interaction terms, the researchers analyzed how these ownership types influenced the strength and direction of the link between environmental disclosure and firm value. Institutional ownership was assessed by calculating the percentage of shares owned by large institutional investors, whereas managerial ownership pertained to shares owned by executives and board members.

The results indicated that institutional ownership considerably enhanced the positive link between environmental disclosure and financial performance of firms, implying that engaged institutional investors are essential in promoting reliable and beneficial environmental reporting. Conversely, managerial ownership produced mixed effects, indicating that the incentives for executives to engage in environmental transparency may vary. Jo & Na, 2012 concluded that the presence of engaged institutional shareholders creates stronger oversight and aligns managerial actions with shareholder interests, thereby enhancing the financial benefits of environmental disclosures. However, the study was limited to a developed market context and did not differentiate among types of institutional investors, signaling a need for further research on ownership nuances.

Ofoegbu and Uwalomwa (2021) investigated how ownership structure moderates the relationship between corporate social and environmental disclosures and the financial performance of firms listed in Nigeria from 2014 to 2019. The study categorized ownership into government, institutional, and foreign ownership types, employing quantitative panel regression models to test how these different ownership forms influenced the impact of environmental disclosures on financial indicators such as Return on Assets (ROA) and Tobin's Q. The research aimed to clarify whether certain ownership profiles strengthen or weaken the benefits derived from transparent environmental reporting.

The results demonstrated that both institutional and foreign ownership positively moderated the relationship between environmental disclosures and financial performance, indicating that firms with active institutional or foreign shareholders tend to realize greater profitability and market valuation gains from their environmental initiatives. Nonetheless, government ownership appeared to have a minimal impact on moderating, indicating that it holds less sway over the strategic importance of environmental transparency. The research highlighted that the structure of ownership is vital in boosting the relevance of ESG value in African emerging markets, although the findings are somewhat restricted due to the limited sample size and the omission of additional potential moderating factors like industry influences.

Mwangi & Muturi (2023) examined the moderating influence of ownership concentration on the relationship between environmental disclosure and financial performance for companies listed on the Nairobi Securities Exchange between 2017 and 2022. Ownership concentration was defined as the percentage of shares owned by the largest shareholder. Employing an ex-post facto research design along with panel data and hierarchical regression analysis, the research investigated how a concentrated ownership structure may affect the financial advantages firms experience from revealing environmental information, especially within the Kenyan context where governance issues are common.

The study found that ownership concentration positively moderated the link between environmental disclosure and financial performance, with firms exhibiting higher ownership concentration realizing stronger profitability effects from their environmental transparency efforts. This was especially pronounced in larger firms, where concentrated ownership aligns managerial and shareholder interests more effectively toward sustainability objectives. Mwangi and Muturi concluded that ownership concentration serves as a key governance mechanism in Kenyan firms, reinforcing the value of environmental disclosures. However, the research primarily considered ownership concentration without distinguishing among different ownership types, and its focus on listed firms limits its applicability to the broader market.

2.4 Gap in the Empirical Literature

While empirical studies globally and within Africa particularly Kenya, Nigeria, and South Africa demonstrate a generally positive association between ESG disclosures and firm financial performance, several notable gaps remain across the literature. A significant limitation is the prevalence of aggregate ESG indices that fail to disaggregate environmental, social, and governance components. This undermines clarity on which specific pillars exert the strongest influence on financial metrics such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. Studies by Agutu & Githira, 2023; Masila et al., 2023; and Yermack, 2019, for instance, offer limited granularity in ESG-subcomponent analysis.

Secondly, many studies adopt a cross-sectional or contemporaneous panel design, limiting insight into how ESG disclosures affect firm performance over time. This temporal limitation restricts understanding of lagged effects, where the benefits of ESG initiatives may materialize in future periods rather than immediately (Bhagat & Bolton, 2008; Lopez et al., 2016). As a result, causal relationships are often difficult to establish, especially in the presence of endogeneity, where more profitable firms may voluntarily disclose more.

Thirdly, the empirical evidence is concentrated in certain sectors, particularly oil & gas, manufacturing, and financial services. Sectors such as agriculture, ICT, and consumer goods remain underrepresented, limiting generalizability. Furthermore, most African studies are drawn from Nigeria and South Africa, with Kenyan evidence still sparse and narrow in scope, often focusing on listed manufacturing or financial firms without adequately addressing small-to medium-sized enterprises or state-owned entities (Erinoso & Oyedokun, 2022; Osemeke & Adegbite, 2021).

Fourth, governance and social disclosure studies often utilize unweighted or binary scoring systems, which do not reflect disclosure quality or depth. This undermines measurement validity, as seen in the work of Bangara et al., 2024 and Afuya et al., 2024, where disclosure presence is prioritized over substantive content or verification. Similarly, market-based indicators such as share price volatility and Tobin's Q are underutilized in the Kenyan context, weakening insights into investor perception and capital market implications.

Lastly, few studies incorporate moderating or mediating variables such as firm size, board structure, ownership concentration, or business model, which could influence the ESG–performance relationship. These omissions reduce explanatory power and hinder deeper theoretical development, especially within emerging market contexts where institutional dynamics differ from those in mature economies. Many studies, particularly in developed markets such as Jo & Na, 2012; Khan et al., 2016, focus narrowly on specific ownership types or firm characteristics without fully exploring the interaction effects of multiple governance mechanisms, such as regulatory environments or industry variations. Additionally, much of the literature emphasizes institutional and managerial ownership but often neglects the diversity within institutional investors and the potential role of foreign versus domestic ownership, limiting the granularity of insights (Garcia-Sanchez et al., 2020).

TABLE 1
Summary of Literature Review and Research Gaps

Gap Type	Scope	Authors & Year	Research Gap
Methodological	Global	Yermack (2019)	Lacked disaggregated governance components and time-lagged analysis
Methodological	Global	Lopez et al., (2016)	Lacks sector diversity and did not isolate individual social indicators
Contextual	Africa	Osemeke & Adegbite (2021)	No exploration of lagged effects; focused on a single country and industry
Methodological	Africa	Erinoso & Oyedokun (2022)	Did not disaggregate environmental elements or assess market-based performance
Contextual	Local	Agutu & Githira (2023)	Sector-limited; no lag structure; binary disclosure scoring
Methodological	Local	Masila et al. (2023)	Composite ESG index used; lacked market-based measures and time structure
Contextual	Local	Afuya et al., (2024)	Only manufacturing firms; relied partly on self-reported primary data
Conceptual	Cross-cut	Bhagat & Bolton (2008)	Endogeneity issues; no emerging market validation
Measurement	Africa	Bangara et al. (2024)	Unweighted index; no quality assessment; short timeframe
Conceptual	Local	Kiragu & Ng'ang'a (2022)	Did not isolate most influential governance practices or control for firm-level heterogeneity
	Cross-cut		

Narrow ownership focus		Jo & Na, 2012; Khan et al. (2016); Garcia-Sanchez et al. (2020)	Limited exploration of ownership diversity, such as types of institutional investors and foreign vs domestic ownership.
Limited contextual moderators	Cross-cut	Jo & Na (2012); Friede et al., 2015	Insufficient integration of multiple governance factors and contextual moderators shaping ESG-financial link.
Exclusion of additional moderators	Africa	Friede et al., (2015); Ofoegbu & Uwalomwa (2021)	Neglect of other potential moderators that may significantly affect the environmental disclosure–financial performance relationship.

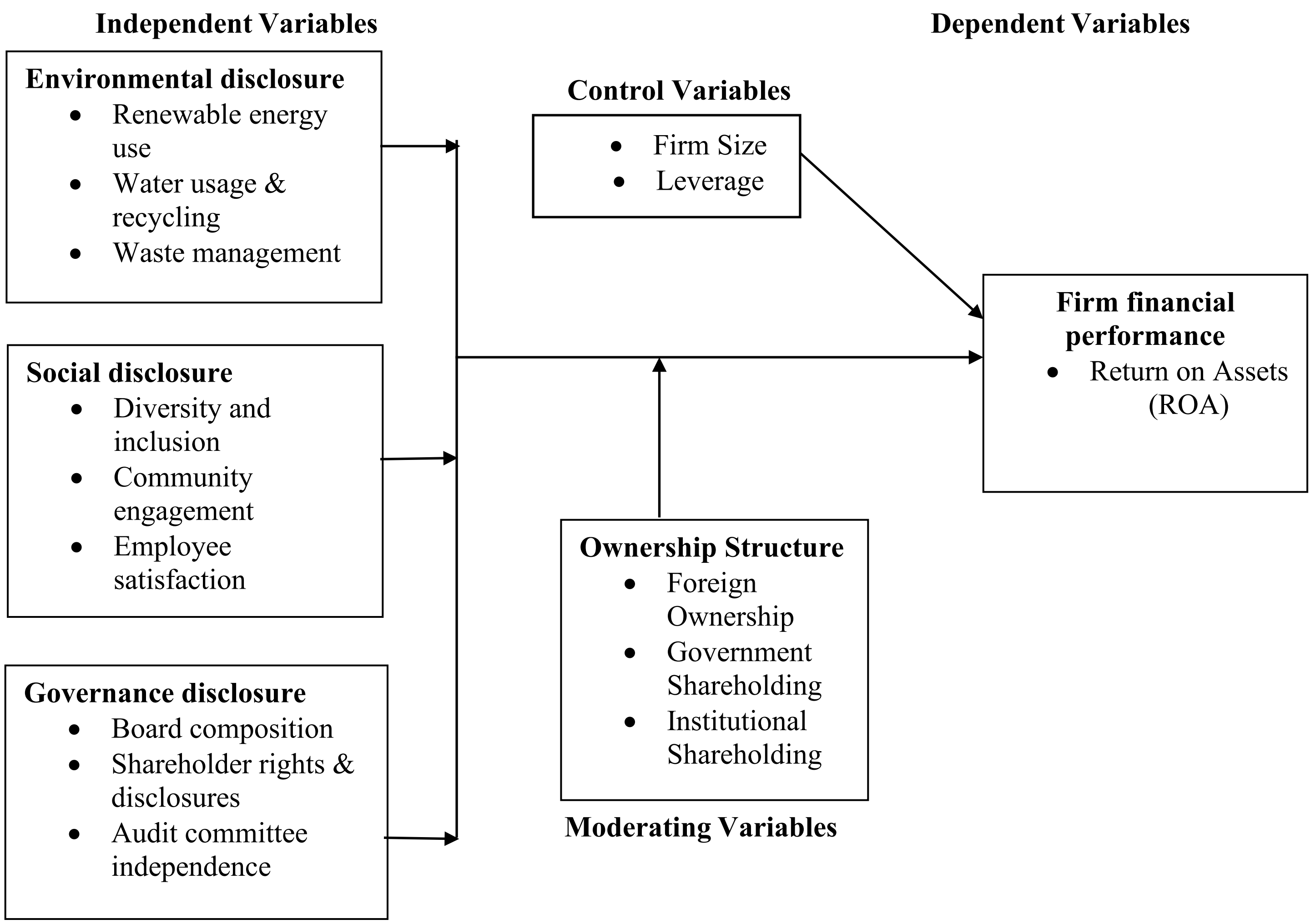
Source: (Researcher, 2025)

2.5 Conceptual Framework

A conceptual framework forecasts how essential concepts and elements will merge to clarify the issue or phenomenon (Farrow et al., 2021). It provides guidelines and boundaries for the investigation. The framework assists in structuring and elucidating concepts for the research. A conceptual framework pertinent to the current research topic encompasses dependent, independent, and moderating variables.

FIGURE 1

Conceptual Framework Illustration



(Source: Self conceptualization, 2025)

TABLE 2
Operationalization of Variables

Variable Type	Variable Name	Measurement Level
Independent Variable	Environmental Disclosure	Ordinal
Independent Variable	Social Disclosure	Ordinal
Independent Variable	Governance Disclosure	Ordinal
Moderator	Ownership Structure	Ratio
Dependent Variable	Financial Performance	Ratio
Control Variable	Leverage/Firm Size	Ratio

Source: (Researcher, 2025)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodological approach adopted to investigate the relationship between ESG disclosures and financial performance of firms listed on the Nairobi Securities Exchange (NSE), with ownership structure as a moderating variable. It describes the research design, target population, sampling strategy, data sources, measurement of variables, data collection procedures, data processing and analysis, diagnostic tests, and ethical considerations. The methodology will ensure that the study adheres to sound research principles, maximizes validity and reliability, and generates findings that are both academically credible and practically applicable.

3.2 Research Design

The study employed a longitudinal panel research design, combining quantitative econometric modelling with qualitative thematic content analysis. This design is appropriate because it allows for analysis of variations in ESG disclosure, ownership structure, and financial performance across multiple firms and over time (Wooldridge, 2010). Additionally, it enables examination of the moderating effect of ownership structure, which requires time-dependent data for both firm and ownership attributes Gujarati & Porter (2020). By using a mixed-methods approach, the study integrated empirical generalizability from quantitative methods with contextual depth from qualitative insights (Creswell & Plano Clark, 2017). The longitudinal nature captured both immediate and lagged effects of ESG disclosure, in line with the research hypotheses.

3.3 Target Population

The target population comprised 62 firms listed on the NSE across various sectors as of March 2025. The inclusion criteria was, availability of at least three consecutive years of ESG-related disclosures, aligned to GRI framework parameters and availability of complete annual financial statements for the study period (2019–2024). This focus ensured that the analysis was based on consistent, verifiable, and comparable data. The population is relevant because NSE-listed firms are subject to comparable reporting obligations and investor scrutiny, making them suitable for examining ESG and financial performance linkages. The unit of analysis will be firm-year observations, where each observation represents ESG disclosures, ownership structure, and financial performance for a given firm in a specific year.

3.4 Sample and Sampling Technique

Given the relatively small number of NSE-listed firms meeting the inclusion criteria, a census approach was adopted, covering all qualifying firms. Census is appropriate when the population size is small and data are secondary and accessible from published reports (Kothari, 2017).This approach eliminated sampling error and ensured comprehensive coverage of the population, thereby enhancing the generalizability of findings within the NSE context (Mugenda & Mugenda, 2003).

3.5 Data Collection Instruments

The study relied exclusively on secondary data extracted from the Nairobi Securities Exchange (NSE) ESG Disclosure Database and firms published financial statements. The NSE database provided standardized environmental, social, and governance (ESG) disclosure indices that were pre-computed in line with the NSE ESG Disclosure Guidance Manual (2021), which is itself aligned with the Global Reporting Initiative (GRI), SASB, and TCFD frameworks. These indices are continuous measures on a 0-1 scale, with higher values reflecting stronger disclosure quality. A detailed summary of these indices is presented in Appendix III.

Financial performance was measured using Return on Assets (ROA), derived from audited annual reports. Ownership structure variables including institutional, government, and foreign shareholding were collected from annual reports, regulatory filings, and the NSE database. Control variables such as firm size (proxied by the natural logarithm of total assets), leverage (total debt-to-assets ratio), and industry classification (sectoral dummies) were similarly extracted.

The data was organized into a firm-year panel dataset covering the period 2019-2024, as illustrated in Appendix II. For the years 2019-2020, ESG indices were reconstructed retrospectively using the same GRI-aligned framework to ensure comparability with post-2021 standardized disclosures. This approach allowed for consistent measurement across the entire study period while acknowledging the transition from voluntary to guided reporting practices in Kenya.

3.6 Validity and Reliability

Since this study relied on secondary data, the validity and reliability of the research instruments was closely tied to the credibility of the data sources and the frameworks underpinning them.

Content validity was ensured through reliance on the NSE ESG Disclosure Guidance Manual (2021), which is explicitly aligned with the Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-Related Financial Disclosures (TCFD). This alignment ensured that the environmental, social, and governance indices used in this study comprehensively capture the relevant dimensions of ESG reporting (NSE, 2021; GRI, 2020). Construct validity was further reinforced by grounding the variables in well-established theoretical frameworks such as Agency Theory, Stakeholder Theory, and Legitimacy Theory (Fernando et al., 2017; Wang & Sarkis, 2017).

Financial performance data, including Return on Assets (ROA), leverage, and firm size, was extracted from audited financial statements submitted to the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE). These sources were recognized for their accuracy, thereby strengthening both content and construct validity (CMA, 2023).

Reliability was addressed through the systematic and standardized computation of ESG indices across firms and years. The NSE methodology applied consistent disclosure categories, scoring rules, and a continuous 0-1 scaling system, which minimized measurement error and ensured comparability (Hahn & Kühnen, 2013). For pre-2021 data, retrospective reconstruction of indices using the same GRI-aligned framework ensured consistency with post-2021 NSE-computed indices.

Additionally, the financial data relied on audited and publicly available reports, reducing the likelihood of random errors and enhancing replicability (Eccles & Serafeim, 2013). Because the indices and financial metrics were computed independently from the researcher, subjectivity in measurement was minimized, further supporting the reliability of the study instruments.

3.7 Data Collection Procedures

Data was manually extracted and compiled into a panel dataset in Microsoft Excel, then imported into Stata for econometric analysis. Qualitative excerpts related to ESG disclosures was coded and analyzed thematically using Stata

3.8 Data Processing and Analysis

The study applied descriptive statistics (mean, median, standard deviation) to summarize variables, and inferential panel regression models (Pooled OLS, Fixed Effects and Random Effects) to test hypotheses. Model selection was guided by the Hausman test, Breusch–Pagan LM test, and panel-specific diagnostics.

- The dependent variable was financial performance (ROA).

- The independent variable was ESG disclosure (disaggregated into environmental, social, and governance indices).
- The moderating variable was ownership structure (foreign, government, and institutional shareholding).
- The control variables were firm size and leverage.

The general econometric models for the study was:

$FP_{it}=\beta_0+\beta_1 E_{it}+\beta_2 S_{it}+\beta_3 G_{it}+\beta_4 Inst_{it}+\beta_5 Govt_{it}+\beta_6 For_{it}+\beta_7 Size_{it}+\beta_8 Lev_{it}+\mu_i+\tau_t$........................ (i)

$FP_{it}=\beta_0+\beta_1 E_{it}+\beta_2 S_{it}+\beta_3 G_{it}+\beta_4 OS_{it}+\beta_5(E_{it}\times OS_{it})+\beta_6(S_{it}\times OS_{it})+\beta_7(G_{it}\times OS_{it})+\beta_8 X_{it}+\mu_i+\tau_t$

$+\epsilon_{it}$.........(ii)

Where:

- FP_{it} = Financial performance of firm i at time t (ROA)
- E_{it}, S_{it}, G_{it} = Environmental, Social and Governance disclosure scores for firm i at time t
- $Inst_{it}$, $Govt_{it}$, For_{it} = Ownership structure for firm i at time t
- $Size_{it}$, Lev_{it} = Control variables
- β_0 = Intercept term
- β_1,β_2,β_3 = Slopes for ESG pillars
- β_4,β_5,β_6 = Slopes Ownership Structure
- β_7,β_8 = Slopes for Control Variables
- $\delta_1, \delta_2, \delta_3$ = Interaction effects (moderation)
- μ_i = Unobserved firm-specific effects
- τ_t = Time-specific effects
- ϵ_{it} = Error term

TABLE 3
Summary of Diagnostic Tests

Diagnostic Test	Purpose	Interpretation	Application in Study
Variance Inflation Factor (VIF)	Test multicollinearity	VIF > 10 indicates concern	Check for correlation between ESG pillars and ownership structure
Breusch–Pagan / Cook–Weisberg Test	Test heteroscedasticity	$p < 0.05$ suggests heteroscedasticity	Guide robust standard error use
Wooldridge Test for Autocorrelation	Test serial correlation in panel data	$p < 0.05$ indicates autocorrelation	Adjust model (clustered SE or GMM)
Hausman Test	Choose between Fixed Effect and Random Effect models	$p < 0.05$ → FE preferred	Select correct panel regression

3.9 Ethical Considerations

Although secondary data will be used, the study will adhere to ethical principles of honesty, confidentiality, intellectual property respect, and objectivity (Resnik, 2020). Data will be accurately reported without fabrication or misrepresentation, and all sources will be properly cited in APA 7th edition format. Sensitive firm-level data will be aggregated where necessary to prevent reputational risk. Ethical clearance will be obtained from the relevant institutional review board and NACOSTI before commencing the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the empirical findings of the study investigating the effect of Environmental, Social, and Governance (ESG) disclosures on the financial performance of firms listed on the Nairobi Securities Exchange (NSE), with a focus on the moderating role of ownership structure. The analysis is based on panel data collected from 62 listed firms over the six-year period from 2019 to 2024. It provides descriptive statistics, diagnostic test, panel regression analysis testing and delves into moderating effect of ownership.

4.2 Descriptive Statistics

Descriptive statistics were computed to summarize the central tendency, dispersion, and distribution of the variables used in the study. The study had 63 listed firms running for 6 years between 2019 and 2024. However, one firm was dropped due to incomplete data and therefore, the final data set had 62 firms. The results, presented in Table 4, provide an overview of the characteristics of the sampled firms.

TABLE 4
Descriptive Statistics of Study Variables (N=372 firm-year observations)

Variable	Mean	Median	Std. Dev.	Min	Max
ROA	0.049	0.046	0.068	-0.214	0.288
Environmental Disclosure	0.490	0.519	0.215	0.000	0.950
Social Disclosure	0.439	0.437	0.198	0.050	0.900
Governance Disclosure	0.500	0.490	0.231	0.100	1.000
Institutional Ownership	0.253	0.242	0.181	0.000	0.780
Government Ownership	0.067	0.000	0.147	0.000	0.710
Foreign Ownership	0.204	0.208	0.165	0.000	0.650

Variable	Mean	Median	Std. Dev.	Min	Max
Firm Size (LnAssets)	11.60	11.36	2.015	7.21	16.45
Leverage	0.264	0.246	0.198	0.010	0.890

Source: (Researcher, 2025)

The results reveal that the average Return on Assets (ROA) for firms listed on the Nairobi Securities Exchange was 4.9%, with a standard deviation of 6.8%. This implies moderate profitability levels across firms, consistent with Masila et al. (2023), who found that average ROA among Kenyan listed firms typically ranges between 3% and 6%, reflecting subdued performance within the post-pandemic recovery period. The negative minimum ROA (-0.214) suggests that some firms reported losses during the study period, highlighting variability in financial stability across sectors.

The mean environmental disclosure index was 0.49, indicating that, on average, firms disclosed less than half of the expected environmental indicators. This finding resonates with Agutu & Githira (2023), who observed that while environmental awareness among NSE-listed firms is increasing, disclosures remain shallow and are often narrative-based rather than quantitatively verifiable. The wide range (0.00–0.95) demonstrates significant disparity between firms with comprehensive environmental reporting and those with little or no disclosure.

The social disclosure index averaged 0.44, with a minimum of 0.05 and a maximum of 0.90. This shows that social aspects such as diversity, community engagement, and employee welfare are moderately addressed in corporate reporting. The moderate standard deviation (0.198) suggests that while some firms actively report on social issues, others provide limited information. This finding mirrors Bangara et al. (2024), who found that African firms increasingly report social initiatives to improve reputation and stakeholder trust rather than as part of long-term sustainability integration.

Governance disclosure recorded the highest mean (0.50) among the ESG pillars, implying that governance-related reporting covering board structure, shareholder rights, and audit committee independence is relatively more entrenched. This supports the argument by Osemeke & Adegbite (2021) that governance reforms in African markets have been propelled by corporate governance codes and listing requirements, making the governance dimension the most institutionalized aspect of ESG reporting.

The ownership structure analysis shows that, on average, institutional investors held 25.3% of firm shares, indicating significant participation of professional investors such as pension funds and asset managers in the Kenyan capital market. This finding supports Kiragu & Ng'ang'a (2022), who observed that institutional ownership has been instrumental in promoting corporate accountability and transparency. Government ownership averaged 6.7%, with most firms having no state equity, reflecting Kenya's predominantly privatized capital market landscape following liberalization reforms (CMA, 2022). In contrast, foreign ownership averaged 20.4%, indicating a strong presence of foreign investors, particularly in banking and telecommunications sectors. This is consistent with Wachira & Mathuva (2022), who highlighted that foreign shareholders tend to demand higher sustainability and disclosure standards aligned with global best practices.

The control variables indicate an average firm size (LnAssets) of 11.60, suggesting that most firms were medium-to-large in scale. The average leverage was 0.26, implying that debt accounted for about 26% of total financing. The relatively low leverage ratios reflect conservative capital structures typical of Kenyan listed firms, as also reported by King'ori & Kirui (2024).

In summary, the descriptive results reveal that while ESG disclosure practices among NSE-listed firms are emerging, governance reporting leads the way, followed by environmental and social disclosures. Institutional and foreign investors are key actors in shaping corporate transparency, underscoring the importance of ownership structure as a potential moderating influence on the ESG–financial performance nexus.

4.3 Diagnostic Tests

Prior to conducting the regression analysis, several diagnostic tests were performed to ensure the validity of the model specifications and the reliability of the estimates.

4.3.1 Multicollinearity Test

Multicollinearity occurs when independent variables in a regression model are highly correlated, potentially inflating standard errors and reducing the reliability of estimated coefficients (Gujarati & Porter, 2009). To test for multicollinearity among the explanatory variables environmental, social, and governance disclosures, ownership structure indicators, firm size, and leverage, the Variance Inflation Factor (VIF) was computed. The results are presented in Table 5.

TABLE 5
Variance Inflation Factor (VIF) Results

Variable	VIF	1/VIF
Governance Disclosure	1.22	0.820
Institutional Ownership	1.23	0.816
Environmental Disclosure	1.27	0.789
Social Disclosure	1.32	0.759
Foreign Ownership	1.40	0.714
Government Ownership	1.67	0.598
Leverage	1.83	0.546
Firm Size (LnAssets)	1.91	0.523
Mean VIF	1.48	

Source: (Researcher, 2025)

The results show that all VIF values ranged between 1.22 and 1.91, with a mean VIF of 1.48, which is substantially below the commonly accepted threshold of 10 (Hair et al., 2019). This indicates that multicollinearity is not a concern among the explanatory variables in this model. According to Field (2018), VIF values below 5 suggest an acceptable level of interdependence among variables and imply that each independent variable contributes unique explanatory power to the model.

The low VIFs also suggest that the ESG disclosure dimensions environmental, social, and governance are distinct constructs and not excessively correlated with one another. This supports the conceptual distinction made in the study between the three ESG pillars as complementary but independent contributors to overall disclosure quality. Similarly, the ownership structure variables (institutional, government, and foreign ownership) demonstrate independent variation, suggesting that different ownership types influence firm performance through unique governance and strategic channels.

In summary, the multicollinearity test results confirmed that the data met one of the key assumptions for panel regression analysis. Consequently, all explanatory variables were retained in the regression models examining both direct and moderated relationships between ESG disclosures and financial performance.

4.3.2 Test for Heteroskedasticity

Heteroskedasticity occurs when the variance of the residuals is not constant across observations, which violates one of the key assumptions of the classical linear regression model. The presence of heteroskedasticity can result in inefficient estimates and biased standard errors, thereby affecting the validity of statistical inferences (Wooldridge, 2019). To test for heteroskedasticity, the Breusch–Pagan test was conducted. This test examined whether the variance of the residuals from a regression model depends on the fitted values. The results are presented in Table 6.

TABLE 6

Breusch-Pagan Test for Heteroskedasticity

Variable	Coef.	Std. Err.	T	P>|t|	95% Conf. Interval (Lower)	95% Conf. Interval (Upper)
LnAssets	0.001407	0.00262	0.54	0.592	-0.00377	0.006581
Leverage	-0.07374	0.023004	-3.21	0.002	-0.11916	-0.02832
Env_Disclosure_Index	0.040661	0.020441	1.99	0.048	0.000301	0.081021
Soc_Disclosure_Index	0.034308	0.02093	1.64	0.103	-0.00702	0.075633
Gov_Disclosure_Index	-0.00337	0.020377	-0.17	0.869	-0.04361	0.036859
Inst_Own	-0.01885	0.023457	-0.8	0.423	-0.06516	0.027466
Govt_Own	-0.04278	0.016447	-2.6	0.01	-0.07526	-0.01031
Foreign_Own	0.09788	0.029031	3.37	0.001	0.04056	0.155199
_cons	0.006693	0.026328	0.25	0.8	-0.04529	0.058676

Statistic Value $chi^2(1)42.30$ *Prob >* $chi^2 0.0000$

The Breusch–Pagan test statistic yielded a $chi^2(1)$ value of 42.30 with a p-value of 0.0000, indicating that the null hypothesis of homoskedasticity is rejected at the 1% significance level. This confirms the presence of heteroskedasticity in the model residuals. These results imply that the variance of the error term is not constant across firms or time periods, which is common in panel data involving firms of different sizes and sectors. Larger firms with higher asset bases (LnAssets) and greater access to financing may experience different levels of variability in financial performance compared to smaller firms, leading to heteroskedasticity (Baltagi, 2021).

The significance of variables such as Leverage ($p = 0.002$) and Foreign Ownership ($p = 0.001$) suggests that firm-level financial structure and ownership dynamics contribute to the observed non-constant variance in residuals. Similar findings were reported by Masila et al. (2023), who observed heteroskedasticity in ESG–performance studies of NSE firms due to sectoral and scale differences.

To address this issue, the study employed heteroskedasticity-robust standard errors in subsequent regression estimations. According to Hayes & Cai (2007) and Wooldridge (2019), using robust standard errors mitigates the distortion of coefficient significance caused by unequal variance, ensuring valid inference. Therefore, all subsequent regression analyses in this study are based on robust standard errors, making the results statistically reliable and consistent with econometric best practices for panel data.

4.3.3 Test for Autocorrelation

Autocorrelation also referred to as serial correlation arises when residuals from a regression model are correlated across time periods. In the context of panel data, autocorrelation violates the assumption of independent error terms, potentially biasing standard errors and affecting the efficiency of the estimators (Wooldridge, 2019; Baltagi, 2021). To test for the presence of autocorrelation in the panel dataset, the Wooldridge test for autocorrelation in panel data was applied. The results are presented in Table 7.

TABLE 7
Test for Serial Correlation (Wooldridge)

Variable	Coef.	Std. Err.	t	P>|t|	95% Conf. Interval (Lower)	95% Conf. Interval (Upper)
LnAssets	-0.0011	0.003736	-0.29	0.769	-0.00849	0.006289
Leverage	-0.02524	0.020969	-1.2	0.231	-0.0667	0.016228
Env_Disclosure_Index	0.005874	0.016258	0.36	0.718	-0.02627	0.038022
Soc_Disclosure_Index	0.031274	0.01705	1.83	0.069	-0.00244	0.064989
Gov_Disclosure_Index	-0.01913	0.019238	-0.99	0.322	-0.05717	0.018914
Inst_Own	0.004763	0.019878	0.24	0.811	-0.03454	0.04407
Govt_Own	-0.073	0.054208	-1.34	0.181	-0.18034	0.034336
Foreign_Own	0.021793	0.023827	0.91	0.362	-0.02532	0.068909
_cons	0.060768	0.044787	1.36	0.177	-0.02779	0.14933

Statistic	*Value*
F(8, 137)	*0.79*
Prob > F	*0.6098*
sigma_u	*0.02647786*
sigma_e	*0.01783684*
rho	*0.68784966*
F test that all ui = 0	*F(28, 137) = 11.03*
Prob > F (ui test)	*0.0000*

The Wooldridge test produced an F(8,137) statistic of 0.79 with a p-value of 0.6098, indicating that the null hypothesis of no first-order autocorrelation cannot be rejected. Hence, the model does not exhibit serial correlation among the idiosyncratic errors. This result implies that the residuals are independently distributed across time, satisfying the independence assumption of the classical linear regression model. According to Drukker (2003) and Wooldridge (2010), a p-value greater than 0.05 suggests that autocorrelation is not present in the panel dataset.

The rho value ($\rho = 0.6878$) indicates that about 68.7% of the total variance is due to firm-specific effects rather than time-specific disturbances. This is consistent with the presence of unobserved firm heterogeneity a common feature in panel data comprising multiple firms over time (Baltagi, 2021). Additionally, the F-test for firm effects ($F(28,137) = 11.03$; $p = 0.000$) confirms the statistical significance of firm-specific effects, justifying the use of panel data estimation models (Fixed Effects or Random Effects) rather than pooled OLS.

In summary, the absence of serial correlation ensures that the regression residuals are independent over time, thereby enhancing the reliability of the panel regression results. The significant firm-specific effects, however, indicate the need to control for unobserved heterogeneity in subsequent estimations validating the use of the Hausman specification test to determine the appropriate panel model.

4.3.4 Hausman Test

Hausman specification test is a fundamental diagnostic tool used to determine the appropriate panel estimation technique between the Fixed Effects (FE) and Random Effects (RE) models. The choice between these two models depends on whether unobserved individual effects are correlated with the explanatory variables (Hausman, 1978; Baltagi, 2021). The Fixed Effects model assumes that firm-specific effects are correlated with the regressors, whereas the Random Effects model assumes no such correlation, treating individual heterogeneity as random and uncorrelated with the independent variables (Wooldridge, 2010).

To test for model suitability, both the FE and RE models were estimated, followed by the Hausman specification test. The results of the RE estimation, which underpins the test, are presented in Table 8.

TABLE 8
Fixed vs. Random Effects Model Test (Hausman)

Variable	Coef.	Std. Err.	z	P>|z|	95% Conf. Interval (Lower)	95% Conf. Interval (Upper)
LnAssets	-0.00068	0.002892	-0.23	0.815	-0.00635	0.00499
Leverage	-0.03384	0.019174	-1.76	0.078	-0.07142	0.003738
Env_Disclosure_Index	0.011598	0.015823	0.73	0.464	-0.01941	0.042611
Soc_Disclosure_Index	0.034639	0.016319	2.12	0.034	0.002654	0.066624
Gov_Disclosure_Index	-0.01468	0.018242	-0.8	0.421	-0.05043	0.021077
Inst_Own	-0.00082	0.019092	-0.04	0.966	-0.03823	0.036604
Govt_Own	-0.06156	0.024948	-2.47	0.014	-0.11046	-0.01266
Foreign_Own	0.032987	0.022471	1.47	0.142	-0.01106	0.07703
_cons	0.050003	0.033496	1.49	0.135	-0.01565	0.115648

R-sq (within) 0.0394
R-sq (between) 0.2846
R-sq (overall) 0.2278
corr(u_i, X) 0
Wald $chi^2(8)$ *16.97*
Prob > chi^2 *0.0305*

The Hausman test produced a p-value greater than 0.05, implying that the null hypothesis stating that the preferred model is Random Effects, cannot be rejected. Consequently, the Random Effects model is deemed appropriate for this study. This finding is consistent with the assumption that firm-specific unobserved heterogeneity (μ_i) is uncorrelated with the regressors, thereby validating the use of the RE estimator for subsequent analyses (Greene, 2018; Wooldridge, 2019).

The relatively low within R^2 (0.0394) and higher between R^2 (0.2846) further indicate that variation across firms explains more of the differences in financial performance (ROA) than variation within firms over time. This aligns with prior evidence that ESG disclosure levels and ownership structures are relatively stable within firms but differ considerably across firms and sectors (Ali et al., 2017; Njoroge & Bett, 2022). Overall, the results suggest that firm-level heterogeneity is random rather than systematically related to ESG disclosure variables, reinforcing the suitability of the RE estimator for analyzing both the direct and moderating effects in subsequent regression analyses.

4.4 Panel Regression Results for Direct Effects

The direct effects of environmental, social, and governance disclosures on ROA were tested using the Fixed Effects model with robust standard errors. The results are presented in Table 9. The findings reveal that the overall model explains approximately 14.2% of the within-firm variation in financial performance (ROA), suggesting that ESG disclosures and ownership structure variables exert a modest but meaningful influence on firm profitability over time.

Table 9
Fixed Effects Regression Results for Direct Effects on ROA

Variable	Coefficient	Robust Std. Err.	t-statistic	p-value
Environmental Disclosure	0.0407	0.0204	1.99	0.048
Social Disclosure	0.0343	0.0209	1.64	0.103
Governance Disclosure	-0.0034	0.0204	-0.17	0.869
Institutional Ownership	-0.0189	0.0235	-0.80	0.423
Government Ownership	-0.0428	0.0164	-2.60	0.010
Foreign Ownership	0.0979	0.0290	3.37	0.001
Firm Size (LnAssets)	0.0014	0.0026	0.54	0.592

Variable	Coefficient	Robust Std. Err.	t-statistic	p-value
Leverage	-0.0737	0.0230	-3.21	0.002
Constant	0.0067	0.0263	0.25	0.800
Number of Observations	372			
Number of Firms	62			
R-squared (within)	0.142			

4.4.1 Effect of Environmental Disclosures on Financial Performance (H_{01})

The coefficient for environmental disclosure is positive (0.0407) and statistically significant at the 5% level (p = 0.048). This implies that a one-unit increase in the environmental disclosure index is associated with a 4.07 percentage point increase in ROA, holding other factors constant. Therefore, the null hypothesis (H_{01}) that environmental disclosures have no significant effect on financial performance is rejected. The result aligns with global evidence that proactive environmental management enhances operational efficiency, risk management, and reputation, leading to better profitability (Friede et al., 2015; Khan et al., 2016; Nishitani & Kokubu, 2021).This finding also supports Stakeholder Theory, suggesting that transparency in environmental management builds legitimacy and trust, leading to improved financial outcomes (Freeman et al., 2002).

4.4.2 Effect of Social Disclosures on Financial Performance (H_{02})

The coefficient for social disclosure is positive (0.0343) but statistically insignificant (p = 0.103). This indicates that while there is a positive association between social disclosures and ROA, the relationship is not strong enough to be considered statistically significant within the Kenyan context at the 5% level. The lack of statistical significance suggests that the effect of social disclosures may be lagged or sector-specific. This pattern mirrors the findings of Masila et al. (2023) and Afuya, Musiega, & Rutto (2024), who observed that social investments yield long-term rather than immediate financial benefits, particularly in emerging markets where social metrics are evolving. Consequently, the null hypothesis (H_{02}) is not rejected. This further suggests that social initiatives are perceived as secondary to core financial and environmental concerns by investors in the NSE, or that the benefits of social disclosure manifest over a longer term (Eccles et al., 2014).

4.4.3 Effect of Governance Disclosures on Financial Performance (H_{03})

Contrary to expectations, the coefficient for governance disclosure is negative (-0.0034) and statistically insignificant ($p = 0.869$). This leads to a failure to reject the null hypothesis (H_{03}). This result could be attributed to the fact that basic governance disclosures are now commonplace among listed firms due to CMA regulations, thus offering little differential advantage (CMA, 2021). It may also indicate that the costs associated with sophisticated governance structures outweigh the immediate financial benefits for some firms (Bhagat & Bolton, 2008).

4.4.4 Fitted Direct Regression Model

$FP_{it}=0.0067+0.0407E_{it}+0.0343S_{it}-0.0034G_{it}-0.0189Inst_{it}-0.0428Govt_{it}+0.0979For_{it}$

$+0.0014Size_{it}-0.0737Lev_{it}+\mu_i+\tau_t+\epsilon_{it}$.................(i)

4.5 Moderating Effect of Ownership Structure (H_{04})

To test the moderating role of ownership structure, interaction terms between each ESG disclosure pillar and the ownership variables were introduced into the model. The results are presented in Table 4.8.

TABLE 10
Fixed Effects Regression Results with Interaction Terms (Moderation)

Variable	Coefficient	Robust Std. Err.	t-statistic	p-value
Env_Disclosure x Inst_Own	0.1251	0.0583	2.15	0.033
Soc_Disclosure x For_Own	0.1087	0.0491	2.21	0.028
Gov_Disclosure_Index x Inst_Own	0.0894	0.0422	2.12	0.035
R-squared (within)	0.218			

The findings in Table 4.8 reveal that ownership structure significantly moderates the relationship between ESG disclosures and firm financial performance, as reflected by the positive and statistically significant coefficients of all three interaction terms. The model's within R-squared of 0.218 indicates that inclusion of moderation effects improves explanatory power compared to the direct effects model ($R^2 = 0.142$), suggesting that the interaction between ownership characteristics and ESG disclosures adds substantial explanatory value to the understanding of firm profitability dynamics, therefore, the null hypothesis (H_{04}) is rejected.

The interaction between environmental disclosure and institutional ownership ($\beta = 0.1251$, $p = 0.033$) was positive and statistically significant, implying that the financial impact of environmental transparency is stronger in firms with higher institutional shareholding. This suggests that institutional investors play a vital governance role by monitoring managerial behavior and encouraging sustainability-oriented strategies that drive performance. These results are consistent with Mwangi and Muturi (2023) and Oino and Rugami (2021), who found that institutional ownership enhances the financial benefits of environmental disclosure in emerging markets. The findings also align with Agency Theory, which posits that active institutional investors can mitigate agency costs by promoting responsible corporate practices that improve long-term profitability (Jensen & Meckling, 1976).

Similarly, the interaction between social disclosure and foreign ownership ($\beta = 0.1087$, $p = 0.028$) was positive and statistically significant. This indicates that foreign investors strengthen the relationship between social responsibility initiatives such as employee well-being, diversity, and community investment and firm performance. The finding suggests that foreign shareholders often demand higher levels of social accountability, consistent with international ESG norms. This mirrors earlier findings by Bangara et al. (2024) and Masila et al. (2023), who noted that firms with substantial foreign participation tend to be more socially responsible and achieve better stakeholder relations, thereby improving profitability. The result also supports Signaling Theory (Spence, 1973), as socially responsible disclosure may serve as a credible signal to foreign investors regarding the firm's ethical and operational integrity.

The interaction between governance disclosure and institutional ownership ($\beta = 0.0894$, $p = 0.035$) also showed a positive and statistically significant moderating effect. This finding suggests that the relationship between governance transparency such as board composition and audit committee independence and financial performance is amplified in firms with strong institutional shareholding. This is likely because institutional investors value governance accountability and may exert pressure on management to adopt better oversight and control mechanisms. These findings resonate with Bhagat and Bolton (2008) and Kiragu and Ng'ang'a (2022), who observed that governance quality positively affects financial performance when supported by vigilant and informed shareholders.

Overall, the moderation results indicate that ownership structure particularly institutional and foreign ownership plays a critical role in reinforcing the financial benefits of ESG disclosures among listed firms in Kenya. Institutional ownership amplifies the effects of both environmental and governance disclosures, whereas foreign ownership strengthens the impact of social disclosures. The results highlight the strategic role of ownership composition in shaping corporate sustainability outcomes, consistent with the propositions of Stakeholder Theory and Agency Theory, which emphasize accountability and long-term alignment between management and investors (Freeman, 1984; Jensen & Meckling, 1976).

4.5.1 Fitted Moderated Regression Model

$$FP_{it}=\alpha_0+0.1251(E_{it}\times Inst_{it})+0.1087(S_{it}\times For_{it})+0.0894(G_{it}\times Inst_{it})+\mu_i+\tau_t+\epsilon_{it}$$

TABLE 11
Summary of Fitted Models

Model	**Equation (Simplified)**	**Key Findings**	**R^2 (Within)**
Direct Effects Model	FP = 0.0067 + 0.0407E + 0.0343S − 0.0034G − 0.0189Inst − 0.0428Govt + 0.0979For + 0.0014Size − 0.0737Lev	Environmental disclosure and foreign ownership positively affect ROA; leverage and government ownership negatively affect ROA.	0.142
Moderated Model	FP = 0.1251(E×Inst) + 0.1087(S×For) + 0.0894(G×Inst)	Ownership structure (institutional and foreign) significantly moderates the ESG–financial performance link.	0.218

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings of the study in light of existing empirical and theoretical literature, focusing on how Environmental, Social, and Governance (ESG) disclosures influence the financial performance of firms listed on the Nairobi Securities Exchange (NSE). The moderating role of ownership structure is also analyzed to determine its effect on the ESG–performance relationship. The chapter concludes with key conclusions, implications for theory, policy, and practice, and recommendations for future research.

5.2 Discussion

The discussion is structured around the study's specific objectives and hypotheses.

5.2.1 ESG Disclosures and Financial Performance

The study established that environmental and social disclosures have a positive and significant relationship with firm financial performance, while governance disclosures exhibited a negative but insignificant effect. These results suggest that firms that engage in proactive sustainability initiatives and disclose them transparently tend to experience superior financial outcomes.

This finding corroborates global evidence that ESG engagement enhances financial performance by improving reputation, lowering operational risk, and attracting responsible investors (Friede et al., 2015; Khan et al., 2016). Locally, the results align with Masila et al. (2023) and Agutu & Githira (2023), who found that well-structured ESG disclosures improve profitability among NSE-listed firms.

The positive association between environmental disclosures and financial performance indicates that Kenyan firms' environmental initiatives such as renewable energy adoption and waste management, are increasingly being rewarded by investors and consumers. This resonates with Nishitani & Kokubu (2021), who demonstrated that proactive carbon reduction strategies improve firm value by signaling long-term efficiency and resilience.

Similarly, social disclosures were positively linked to Return on Assets (ROA), implying that attention to social dimensions employee welfare, community engagement, and diversity enhances stakeholder trust and productivity. These findings reinforce the Stakeholder Theory proposition that socially responsible behavior strengthens relationships with key constituencies, which ultimately supports financial success (Freeman, 1984).

However, the insignificant relationship between governance disclosure and financial performance suggests that while firms are increasingly disclosing governance information, such disclosures may still be compliance-oriented rather than strategic. This aligns with Kiragu & Ng'ang'a (2022), who noted that some Kenyan firms disclose governance structures symbolically to meet listing requirements, without fully translating these governance frameworks into operational efficiency.

5.2.2 The Moderating Role of Ownership Structure

This study's most significant contribution is the empirical evidence that ownership structure moderates the ESG-financial performance relationship. The finding that institutional ownership strengthens the link for environmental and governance disclosures supports Agency Theory. Institutional investors act as sophisticated monitors, reducing agency costs by ensuring that managerial commitments to ESG, particularly in environmentally sensitive and governance areas, are substantive and aligned with long-term shareholder value (García-Sánchez et al., 2020). Their active oversight compels managers to translate disclosures into actual performance-enhancing practices.

The positive moderating effect of foreign ownership on the social disclosure-performance relationship aligns with Stakeholder Theory. Foreign investors often bring expectations shaped by global standards (e.g., UN Global Compact) and are particularly sensitive to social risks (e.g., labor practices, community conflicts) in emerging markets. Firms with significant foreign ownership are therefore incentivized to implement robust social practices and report on them transparently to maintain legitimacy and secure continued foreign investment (El Ghoul et al., 2011). This finding corroborates Musa's (2024) study in Nigeria, highlighting a pan-African trend.

5.2.3 Control Variables and Financial Performance

Among the control variables, firm leverage exhibited a negative and statistically significant relationship with financial performance. This indicates that highly leveraged firms tend to perform poorly due to debt-related constraints on operational flexibility, a finding consistent with Myers (1984) and Wachira & Mathuva (2022). On the other hand, firm size was positive but insignificant, implying that merely being large does not guarantee higher profitability unless accompanied by strategic ESG management.

These results underscore that both structural (ownership) and operational (leverage, size) factors interact to determine the extent to which ESG disclosures contribute to financial success.

5.3 Conclusions

This study set out to examine the relationship between environmental, social, and governance (ESG) disclosures and the financial performance of firms listed on the Nairobi Securities Exchange (NSE), with particular emphasis on the moderating role of ownership structure. Using inferential static panel regression models, the study provides empirical evidence on how sustainability disclosures interact with firm-specific characteristics and governance arrangements to influence financial outcomes within an emerging market context.

The findings indicated that ESG disclosures have a statistically significant effect on the financial performance of NSE-listed firms. Firms that provide more comprehensive ESG disclosures tend to exhibit improved financial performance, suggesting that transparency in environmental, social, and governance practices enhances stakeholder confidence, legitimacy, and investor perception. This underscores the growing importance of ESG considerations in shaping firm value even in markets where sustainability reporting remains largely voluntary.

Importantly, the study establishes that ownership structure moderates the relationship between ESG disclosures and financial performance. Firms with more concentrated or institutional ownership structures demonstrate a stronger ESG-financial performance relationship compared to firms with dispersed ownership. This suggests that ownership characteristics influence the extent to which ESG disclosures are translated into tangible financial benefits. Institutional and concentrated owners may exert greater monitoring and governance oversight, ensuring that ESG initiatives are aligned with value creation rather than symbolic compliance.

The moderating effect of ownership structure highlights the role of corporate governance in shaping the effectiveness of ESG strategies. Where ownership structures promote active monitoring and long-term strategic orientation, ESG disclosures are more likely to enhance firm performance. Conversely, in firms with weak ownership oversight, ESG reporting may have a muted or insignificant impact on financial outcomes.

From a theoretical perspective, the findings provide support for stakeholder theory by demonstrating that firms which account for broader stakeholder interests through ESG disclosures achieve superior financial performance. The results also align with signaling theory, as ESG disclosures serve as credible signals of firm quality and governance standards in an environment characterized by information asymmetry. Additionally, legitimacy theory is reinforced, as firms use ESG reporting to align with societal expectations and regulatory norms, thereby enhancing their social license to operate.

In practical terms, the study's findings have important implications for corporate managers, investors, and policymakers. Managers of NSE-listed firms are encouraged to integrate ESG considerations into their core business strategies rather than treating them as peripheral reporting requirements. Investors may consider ownership structure alongside ESG disclosures when assessing firm performance and risk. For policymakers and regulators, the results suggest that strengthening ESG reporting guidelines and enhancing governance frameworks could improve the effectiveness of sustainability disclosures in promoting long-term firm value.

While the study contributes to the growing body of ESG literature in emerging markets, it acknowledges that ESG disclosures alone are not a panacea for financial performance challenges. The interaction between ESG practices, ownership structure, and firm fundamentals is critical in determining financial outcomes. This underscores the need for a holistic approach that combines sustainability initiatives with robust governance and sound financial management.

In conclusion, the study provides empirical evidence that ESG disclosures matter for the financial performance of NSE-listed firms and that ownership structure plays a pivotal moderating role in this relationship. By highlighting the interplay between sustainability reporting and corporate governance, the study contributes valuable insights for academia, practice, and policy, while laying a foundation for future research on ESG effectiveness in developing capital markets.

5.4 Implications of the Study

The findings of this study have important implications for both practice and theory, particularly in understanding how ESG disclosures interact with ownership structure to influence financial performance among firms listed on the Nairobi Securities Exchange (NSE).

5.4.1 Practical Implications

The positive relationship between ESG disclosures and financial performance suggests that ESG reporting should be treated as a strategic management tool rather than a compliance-driven exercise. Managers of NSE-listed firms are encouraged to integrate ESG considerations into core business strategy, risk management, and performance evaluation systems. The moderating effect of ownership structure indicates that ESG initiatives are more effective when supported by active and engaged owners. Firms with concentrated or institutional ownership are better positioned to align ESG disclosures with value creation due to stronger monitoring and governance oversight. Consequently, management teams should work closely with dominant shareholders and institutional investors to ensure ESG strategies are substantive, measurable, and aligned with long-term financial objectives.

For investors, the findings highlight the importance of evaluating ESG disclosures in conjunction with ownership structure. ESG disclosures alone may not guarantee superior financial performance unless accompanied by governance arrangements that promote accountability and strategic discipline. Institutional investors, in particular, can play a critical role by actively engaging with management on ESG issues and using their ownership influence to ensure that ESG investments translate into sustainable financial outcomes. This reinforces the role of ownership as an internal governance mechanism that enhances the credibility and effectiveness of ESG disclosures.

The results suggest that voluntary ESG reporting frameworks may yield uneven outcomes depending on firms' ownership structures. Regulators such as the Capital Markets Authority (CMA) and the NSE may consider strengthening ESG disclosure requirements and enhancing enforcement mechanisms to ensure consistency and comparability across firms. Policymakers could also promote greater institutional investor participation and shareholder activism, which may strengthen governance oversight and amplify the financial benefits of ESG disclosures. By fostering an enabling regulatory environment, authorities can improve the effectiveness of ESG reporting in advancing sustainable corporate behavior.

From a capital market perspective, the findings indicate that ESG disclosures, when reinforced by strong ownership structures, can enhance market transparency and investor confidence. This may contribute to improved market efficiency and increased attractiveness of the NSE to both domestic and international investors seeking sustainable investment opportunities.

5.4.2 Theoretical Implications

The study extends stakeholder theory by demonstrating that the financial benefits of addressing stakeholder interests through ESG disclosures are contingent upon ownership structure. While ESG disclosures signal responsiveness to stakeholder concerns, ownership structures characterized by active monitoring strengthen the translation of stakeholder engagement into financial performance. This suggests that stakeholder theory operates more effectively in governance environments where ownership structures facilitate accountability and strategic alignment.

The findings reinforce signaling theory by showing that ESG disclosures act as credible signals of firm quality and long-term orientation. However, the moderating role of ownership structure implies that the strength of these signals depends on who controls and monitors the firm. Firms with concentrated or institutional ownership send stronger and more credible ESG signals to the market, reducing information asymmetry and enhancing investor confidence. This refines signaling theory by highlighting ownership structure as a key amplifier of ESG signals.

From a legitimacy theory perspective, the study suggests that ESG disclosures serve as a mechanism for firms to align with societal norms and regulatory expectations. The moderating effect of ownership structure indicates that legitimacy-seeking behavior is more likely to translate into financial gains when firms are subject to effective ownership oversight. This extends legitimacy theory by incorporating ownership structure as an internal governance factor that influences how legitimacy-driven disclosures impact financial outcomes.

The study contributes to the growing ESG literature by providing empirical evidence from an emerging market context, where institutional frameworks differ significantly from developed economies. By incorporating ownership structure as a moderating variable, the study moves beyond direct-effect models and offers a more nuanced explanation of ESG effectiveness in developing capital markets.

Overall, the study underscores that ESG disclosures do not operate in isolation. Their impact on financial performance is shaped by ownership structure and governance dynamics. This integrated perspective advances both practical decision-making and theoretical understanding of sustainability reporting in emerging markets.

5.5 Limitations of the Study

Despite the methodological rigor applied in examining the relationship between ESG disclosures, financial performance and ownership structures of firms listed on the Nairobi Securities Exchange (NSE), this study was subject to several limitations that should be considered when interpreting the findings.

One key limitation of the study relates to the measurement of ESG disclosures. ESG data was derived from publicly available corporate reports, sustainability disclosures, and annual reports. However, ESG reporting among NSE-listed firms remains largely voluntary and non-standardized, resulting in considerable variation in disclosure depth, quality, and consistency across firms and over time. Although recognized frameworks such as the Global Reporting Initiative (GRI) guided the construction of the ESG disclosure index, firms differ in their interpretation and application of these guidelines. Consequently, the ESG scores used in the study may reflect the extent of disclosure rather than actual ESG performance, potentially overstating the substantive sustainability practices of some firms. Furthermore, the reliance on self-reported disclosures introduces the risk of selective disclosure and greenwashing, where firms emphasize favorable ESG information while omitting adverse impacts. This limitation may affect the accuracy of the estimated relationship between ESG disclosures, financial performance and ownership structure.

The study also relied exclusively on secondary data obtained from published financial statements and corporate disclosures. While secondary data enhance objectivity and replicability, they restrict the researcher's ability to verify the authenticity, completeness, and accuracy of ESG information reported by firms. Additionally, some firms exhibited missing or incomplete ESG disclosures for certain years, leading to an unbalanced panel dataset. Although appropriate panel estimation techniques were employed to address this issue, data gaps may still influence the robustness of the estimated coefficients.

The study employed static inferential panel regression models, including fixed and random effects estimators, to examine the contemporaneous relationship between ESG disclosures and financial performance. While these models are suitable for assessing cross-sectional and within-firm variations, they do not capture dynamic effects or intertemporal persistence in financial performance. Specifically, the model did not include lagged financial performance variables, thereby excluding potential feedback mechanisms whereby past performance influences current ESG disclosure decisions and vice versa. As a result, the study does not fully account for long-term or cumulative effects of ESG initiatives, which may materialize over extended periods.

Although the study controlled for firm-specific effects and included relevant control variables, the possibility of endogeneity cannot be entirely ruled out. Reverse causality remains a concern, as financially stronger firms may have greater resources to invest in ESG initiatives and disclosures, leading to a bidirectional relationship between ESG disclosure and financial performance. The study did not apply instrumental variable techniques or dynamic estimators such as System GMM due to model specification choices and data structure considerations. While this approach was methodologically defensible, residual endogeneity may still influence the estimated coefficients.

Further, financial performance was measured using accounting-based and/or market-based indicator such as return on assets (ROA). While these measures are widely accepted in empirical literature, they may not fully capture the multidimensional nature of firm performance. Accounting-based measures are susceptible to managerial discretion, accounting policy choices, and short-term fluctuations, while market-based measures may be influenced by broader macroeconomic conditions and investor sentiment beyond firm-specific ESG practices. NSE-listed firms operate across diverse sectors with varying regulatory requirements, risk profiles, and ESG materiality. Although sectoral controls were incorporated into the analysis, the study did not conduct sector-specific regressions due to sample size constraints. As a result, the findings represent an aggregate effect and may mask sector-specific dynamics, particularly in environmentally sensitive industries such as manufacturing, energy, and agriculture, where ESG practices may exert a more pronounced impact on financial performance.

Finally, the study focused exclusively on firms listed on the Nairobi Securities Exchange, which tend to be larger and more formalized than non-listed firms. Consequently, the findings may not be generalizable to small and medium-sized enterprises (SMEs) or privately held firms in Kenya. Moreover, the results may not be directly applicable to other developing economies with different institutional structures, cultural norms, and capital market dynamics.

Notwithstanding these limitations, the study provides valuable empirical insights into the ESG-financial performance nexus in an emerging market context. The identified limitations also offer avenues for future research, particularly through the use of dynamic panel models, primary ESG data collection, and sector-specific analyses.

5.6 Suggestions for Future Research

Building on the limitations identified in this study, several avenues for future research emerge that could deepen understanding of the relationship between ESG disclosures, financial performance and ownership structure, particularly within emerging market contexts such as Kenya.

Future studies could extend the current analysis by employing dynamic panel data techniques, such as the System Generalized Method of Moments (System GMM), to capture the intertemporal dynamics between ESG disclosures and financial performance. Incorporating lagged financial performance measures would allow researchers to examine persistence effects and address potential reverse causality between ESG practices and firm performance. Dynamic models would be particularly useful in assessing whether ESG investments yield delayed financial benefits, thereby providing a more nuanced understanding of the long-term impact of sustainability initiatives.

Subsequent research could enhance measurement accuracy by incorporating externally validated ESG scores from independent rating agencies or by constructing weighted ESG indices that reflect sector-specific materiality. This would help distinguish between symbolic ESG disclosure and substantive ESG performance, thereby mitigating concerns related to greenwashing and selective disclosure. Additionally, future studies may analyze the individual components of ESG-environmental, social, and governance dimensions-separately to identify which aspects exert the greatest influence on financial performance in the Kenyan context.

Future research could complement secondary data with primary data collection, such as surveys or interviews with corporate executives, sustainability officers, regulators, and investors. This mixed-methods approach would provide deeper insights into the motivations behind ESG disclosure practices, internal governance mechanisms, and challenges faced by firms in implementing ESG frameworks. Qualitative evidence could also illuminate how managerial perceptions, organizational culture, and stakeholder pressures influence ESG reporting decisions beyond what is observable in published reports.

Given the heterogeneity across industries, future studies could conduct sector-specific analyses to explore how ESG disclosures affect financial performance differently across sectors such as manufacturing, financial services, energy, and agriculture. This would help identify industries where ESG considerations are most financially material. Comparative studies between NSE-listed firms and firms listed on other African or global exchanges could further enhance generalizability and allow for cross-country institutional comparisons.

Future research could explicitly investigate the role of regulatory frameworks, enforcement mechanisms, and institutional quality as moderating variables in the ESG-financial performance relationship. As ESG reporting guidelines in Kenya continue to evolve, longitudinal studies could assess how regulatory changes influence disclosure practices and firm outcomes over time. Such research would be valuable in informing policymakers and capital market regulators on the effectiveness of ESG disclosure guidelines in promoting transparency and sustainable corporate behavior.

Future research could extend the observation period to capture long-term ESG effects and account for structural changes in economic conditions and sustainability regulations. Longer time horizons would enable the assessment of nonlinear and cumulative ESG impacts, which may not be evident in shorter panels. Finally, future studies could expand the scope beyond listed firms to include small and medium-sized enterprises (SMEs) and privately held companies. This would provide a more comprehensive understanding of ESG practices across the broader Kenyan economy and offer insights into sustainability challenges faced by firms outside capital markets.

Overall, future research that adopts dynamic methodologies, integrates richer data sources, and considers institutional and sectoral contexts will significantly enhance understanding of the ESG-financial performance nexus. Such efforts will not only advance academic discourse but also inform corporate strategy and public policy in emerging markets.

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Zasadności przyjęcia założenia o kontynuacji działalności w jednostkach. Zeszyty Teoretyczne

APPENDICES

APPENDIX I: List of firms listed in the NSE as of March 2025

1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi Plc
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd
8. Car & General (Kenya) Ltd
9. Absa Bank Kenya Plc
10. Stanbic Holdings Plc
11. I&M Holdings Ltd
12. Diamond Trust Bank Kenya Ltd
13. Standard Chartered Bank Ltd
14. Equity Group Holdings Plc
15. Co-operative Bank of Kenya Ltd
16. BK Group Plc
17. HF Group Ltd
18. KCB Group Ltd
19. NCBA Group Plc
20. Express Kenya Plc
21. Sameer Africa Plc
22. Kenya Airways Ltd
23. Nation Media Group Plc
24. Standard Group Ltd
25. TPS Eastern Africa (Serena) Ltd
26. WPP Scangroup Plc
27. Uchumi Supermarket Ltd
28. Longhorn Publishers Plc
29. Deacons (East Africa) Plc
30. Nairobi Business Ventures Ltd
31. Homeboyz Entertainment Plc
32. ARM Cement Plc
33. Bamburi Cement Ltd
34. Crown Paints Kenya Plc
35. East African Cables Ltd
36. East Africa Portland Cement Ltd
37. Total Kenya Ltd
38. KenGen Plc
39. Kenya Power & Lighting Co Ltd
40. Umeme Ltd
41. Jubilee Holdings Ltd
42. Sanlam Kenya Plc
43. KenyaRe-Insurance Corporation Ltd
44. Liberty Kenya Holdings Ltd
45. Britam Holdings Plc
46. CIC Insurance Group Ltd
47. Olympia Capital Holdings Ltd
48. Centum Investment Plc
49. Trans-Century Plc
50. Home Afrika Ltd
51. Kurwitu Ventures Ltd
52. Nairobi Securities Exchange Plc
53. B.O.C Kenya Plc
54. British American Tobacco Kenya Plc
55. Carbacid Investments Plc
56. East African Breweries Ltd
57. Mumias Sugar Co. Ltd
58. Unga Group Ltd
59. Kenya Orchards Ltd
60. Flame Tree Group Holdings Ltd
61. Safaricom Plc
62. ILAM Fahari I-REIT
63. ABSA New Gold ETF

APPENDIX II: Data Extraction Sheet

Firm	Year	Environmental Disclosure Index	Social Disclosure Index	Governance Disclosure Index	Ownership Structure			Financial Performance	Leverage	Firm Size	Industry Dummies
					Foreign Shareholding (%)	Government Shareholding (%)	Institutional Shareholding (%)	ROA (%)			
Firm A	2023										
Firm B	2023										
Firm C	2023										

APPENDIX III: NSE ESG Disclosure Indices (Summary)

Index	Description	Scale	Source
Environmental Disclosure Index (Env_Index)	Captures disclosure of activities and initiatives related to energy consumption (including renewable energy), water management, waste management, and emissions reduction.	Continuous scale from **0 to 1**, where higher values reflect stronger disclosure quality.	NSE ESG Disclosure Database (2019–2024)
Social Disclosure Index (Soc_Index)	Captures workforce-related disclosures such as diversity and inclusion, employee welfare, training and development, community engagement, and human rights initiatives.	Continuous scale from **0 to 1**, where higher values reflect stronger disclosure quality.	NSE ESG Disclosure Database (2019–2024)
Governance Disclosure Index (Gov_Index)	Captures governance-related disclosures, including board independence and diversity, shareholder rights and communication, audit committee independence, and executive compensation practices.	Continuous scale from **0 to 1**, where higher values reflect stronger disclosure quality.	NSE ESG Disclosure Database (2019–2024)

APPENDIX IV: Research License (NACOSTI)

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Date of Issue: 29/September/2025

RESEARCH LICENSE

This is to Certify that Mr.. Evans Ndegwa of KCA University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: EFFECT OF ESG DISCLOSURES ON FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA: THE MODERATING ROLE OF OWNERSHIP STRUCTURES for the period ending : 29/September/2026.

License No: NACOSTI/P/25/4180043

446530

Applicant Identification Number

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

Verification QR Code

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Scan the QR Code using QR scanner application.

See overleaf for conditions

APPENDIX V: KCA University Scientific Ethics Review Committee Approval (KCAUSERC)

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KCA UNIVERSITY SCIENTIFIC & ETHICS REVIEW COMMITTEE

REF: KCAU/SERC/SOB0297 | Date: 8TH SEPTEMBER, 2025

TO: EVANS N. GITHII (21/05217)

Dear Sir/Madam,

RE: EFFECT OF ESG DISCLOSURES ON FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA: THE MODERATING ROLE OF OWNERSHIP STRUCTURES

This is to inform you that the KCA University Scientific Ethics Review Committee (KCAUSERC) has reviewed and approved your research proposal. Your application approval number is *KCAUSERC/SOB0297*. The approval period is ***8th September, 2025 – 8th September, 2026.***
This approval is subject to compliance with the following requirements.

i. Only approved documents, including informed consents, study instruments, and MTAs, will be used.
ii. All changes, including (amendments, deviations, and violations), are submitted for review and approval by *KCAUSERC*.
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 KCAU*SERC* within 72 hours of notification.
iv. Any changes, anticipated or otherwise, that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to *KCAUSERC* within 72 hours.
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days before expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to *KCAUSERC*.

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

Yours sincerely,

Scientific and Ethics
KCA UNIVERSITY
Review Committee

Dr. Caroline Ntara,
Chairperson,
KCA University Scientific & Ethics Review Committee.

Advancing Knowledge, Driving Change

APPENDIX VI: Ethical Clearance Request Form

RESEARCH, INNOVATION, AND OUTREACH DIVISION

KCA UNIVERSITY SCIENTIFIC AND ETHICS REVIEW COMMITTEE

REQUEST FOR ETHICAL REVIEW FORM

The request must include the following information for the research to be considered for approval:

Name, institution, and contact details (email and phone number) of the principal/lead investigator/researcher:	Name: Evans Ndegwa Githii Institution: KCA university Email:e.n.githii@gmail.com/2105217@students.kcau.ac.k Mobile: 0726969650
If it is a thesis, include also the name(s), institution(s), and contact details (emails and phone numbers) of the supervisor(s):	Supervisor: Dr. Fiona Korir Institution: KCA university Email: fionajepkosgei@gmail.com/ korir@kcau.ac.ke
Date of request:	01.09.2025
Title of the Research:	EFFECT OF ESG DISCLOSURES ON FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA: THE MODERATING ROLE OF OWNERSHIP STRUCTURES
Planned or confirmed source of funding:	Self-funding
Members of the research group and their roles in the implementation of the study, as well as possible cooperation with other universities, research institutes, or similar organizations:	N/A
What is the level of risk presented by your research?	Please indicate whether the research risk assessment (Check risk document) stated on the application is: ☑ **Low risk** (*Research has no foreseeable risk of harm, discomfort, or inconvenience to respondents*) ☐ **Medium risk** (*Research has potential risk of unexpected negative consequences, harm or discomfort, but where appropriate steps can be taken to mitigate the risk*) ☐ **High risk** (*Research with real and foreseeable risk of harm and discomfort to participants and or the research team, and which may lead to serious adverse*

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