EFFECT OF SUSTAINABILITY DISCLOSURE ON FINANCIAL PERFORMANCE OF SEMI AUTONOMOUS GOVERNMENT AGENCIES IN KENYA

BY

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MASTER OF BUSINESS ADMINISTRATION (CORPORATE MANAGEMENT)

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DECLARATION AND APPROVAL

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 authors duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

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ABSTRACT

Sustainability disclosure is crucial for modern businesses and government agencies to improve their environmental and social responsibilities. However, most public entities globally have poor financial performance, attributed to ESG practices and financial performance. This study aimed to examine the effect of environmental, social, and governance sustainability disclosure on semi-autonomous Kenyan government agencies. The research was anchored around the goal setting, and used a descriptive survey research methodology. The population size was 20 selected SAGAs under different sectors in Kenya. A census was adopted where all the firms will be considered in the study. While primary data was collected using a structured questionnaire that were subjected to the top management staff of the firms. A pilot test was conducted to test the reliability and validity of the instruments. The data was then used for analysis using both descriptive and inferential statistics. Descriptively, the results showed that, majority of the respondents, agreed with most of the statements defining the effect of environmental, social and governance sustainability disclosure on financial performance of SAGAs in Kenya. Inferential analysis sought to determine whether the relationship that exists between the variables were statistically significant or not. The test was done at a 95% confidence level. The results revealed that environmental sustainability disclosure had a weak positive but statistically significant effect on the financial performance of SAGAs. In regard to social sustainability disclosure, the results showed a weak positive and significant relationship, with the financial performance of the SAGAs. The results further established a weak positive and significant correlation between governance sustainability disclosure and financial performance of SAGAs. Lastly, the results showed that the combined effect of ESG was statistically significant to financial performance of SAGAs. Based on these findings the study concludes that ESG disclosure has had an effect on the performance of SAGAs in Kenya, there for firms that look forward to enhancing their performance need to effectively consider disclosing their commitment to ensuring that they take care of the environment, the social needs and governance issues of the firm.

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DEDICATION

This research is dedicated to the esteemed individual, , as well as our children, namely Throughout my academic pursuits, they have consistently exhibited a commendable level of support, offering invaluable assistance and unwavering encouragement. I also dedicate this proposal to my family members for their moral and financial support.

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ABBREVIATIONS AND ACRYONMS

CBK	Central Bank of Kenya
CG	Corporate Governance
CMA	Capital Market Authority
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Governance
SEC	Securities and Exchange Commission
SAGA	Semi-Autonomous Government Agencies

OPERATIONAL DEFINITION OF KEY TERMS

Commercial and service firms refer to firms that are listed on the stock market that carry out various commercial activities or provide commercial services to different stakeholders (Desir, 2022).

Environmental Reporting refers to the reporting of information relating to the management and monitoring of how an organization's activities affect the well-being of the environment (Mukhtar, Shad, Lai, and Waqas, 2023).

Governance Reporting refers to the reporting of an organization's progress on particular compliance efforts (Ding, ,2022).

Semi-Autonomous government agencies refer to government agencies created by parliamentary legislation to deliver or carry out oversight or operational functions on behalf of the government (KPMG ,2017).

Social Reporting - refers to the disclosure of the effect of an organization's actions on the society within which it operates (Linnenluecke, 2022).

Sustainability Reporting refers to disclosure and communication of environmental, social, and governance (ESG) goals and the company's progress towards meeting these goals (Rabaya, & Saleh ,2022).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations are becoming more cognizant of the various social and environmental consequences of their activities, and this has made it necessary for the firms to be more accountable and transparent in their disclosures (Karwowski, & Raulinajtys-Grzybek, 2021). Further, Rabaya, & Saleh, (2022) noted that companies are realizing that reporting that goes beyond the financial outlook and provide an account of the progress made towards building a sustainable economy have positive influences on consumer purchase decisions. More so, with the mounting pressure from stakeholders and government regulators, organizations have increasingly been developing and implementing policies and procedures that are centered on achieving sustainability.

According to Chithambo, et al., (2020) internationally, stakeholders have expectation on compliance with sustainability disclosure. Thus, there is a renewed effort to report on corporate sustainability activities on the environment as well as society in a sustainability report either voluntarily or as part of a mandated requirement depending on the jurisdictions. Filipiak and Dylewski, (2020) indicated that sustainability activities are the building blocks for trinity balance on environmental, social and ecological gains in a firm. This has led to most organizations integrating sustainability and governance information in their financial disclosures to provide meaningful information to their stakeholders.

Mukhtar, Shad, Lai, and Waqas, (2023) noted that the growing need to adopt sustainable practice has become a dominant force among stakeholders, consequently there is skewed demand for investment in firms that promotes sustainability. Though, KPMG (2017), reported that only 28% of companies worldwide are cognizant of risks associated with climate changes, implying that there is still a long road ahead. This may indicate their lack of willingness to voluntarily adopt sustainability practices.

Mukhtar, Shad, Lai, and Waqas, (2023) noted that various frameworks guiding companies towards sustainability disclosure have been formulated such as the Global Reporting Initiative (GRI), Dow Jones Sustainability Index (DJSI), Carbon Disclosure Project (CDP), Global Initiative for Sustainability Ratings (GISR), and the International Integrated Reporting Council (IIRC) among others. Rajesh and Rajendran, (2020) argues that GRI is the most popular among them, since it avails clear ways for evaluation of corporate entity participation in economic, social and environmental activities. Thus, there is need for understanding on how they contribute towards financial performance.

1.1.1 The concept of ESG

Environmental, Social, and Governance (ESG) is a standard used to evaluate enterprises and investments, focusing on their environmental, social, and governance performance rather than just financial performance. The ESG framework is designed to assess the sustainability of businesses (Linnenluecke, 2022). According to source 5 in the reference list (Yating Shen), ESG performance has increasingly gained attention from governments, regulators, and investors in recent years. The international ESG concept and evaluation system primarily consists of three aspects: international organizations and exchanges' regulations on ESG disclosure and reporting, corporate ESG ratings issued by rating agencies, and ESG investment guidance provided by investment institutions (Wang Kai, Zhang Zhiwei, 2022).

Fiandrino et al., (2019) ESG is a crucial index used by stakeholders to evaluate a company's corporate social responsibility performance and assess risks and opportunities. It helps identify future risks, provides a competitive advantage, and helps maintain long-term business ventures. Investing in ESG can improve a firm's reputation, foster positive stakeholder relationships, and increase profits. ESG scores are determined objectively by third-party agencies, research firms, and analysis firms, based on environmental, social, and corporate governance topics.

1.1.2 Sustainability Disclosure

Globally, Yuan Yehu, Xiong Xiaohan (2021) notes that China's economic transformation has highlighted the importance of innovation and sustainable development for future enterprise development. Climate and energy issues are becoming global concerns, with the Paris Agreement and China's "double carbon" and "low carbon" goals highlighting environmental concerns. The international community values energy conservation, emission reduction, and sustainable development. Enterprise performance can reflect these abilities, and understanding the relationship between corporate performance and ESG disclosure can help enterprises improve short-term and long-term performance.

According to Desir, (2022) adoption of sustainability reporting as guided by the GRI guidelines tend to disclose social, environmental and governance information, which provides a comprehensive picture of these issues and of their interconnections to the organization's financial outcomes. Gull, Hussain, Khan, and Saeed, (2023) conducted a study in the United States, indicate that the adoption of sustainable reporting focusing on social, environmental and governance issues increased investors' confidence through decreased information costs.

Regionally, Turzo, Marzi, Favino, and Terzani, (2022). study showed that with increasing concern over environmental issues, more companies have focused on implementing sustainability reporting as a measure to address the emerging global issue. Daugaard, and Ding, (2022) revealed that sustainability reporting has been critical to the attractiveness and legitimacy of financial institutions. Similarly, Turzo, Marzi, Favino, and Terzani, (2022) found out that as much as sustainability reporting has not been conclusively examined within developing economies, it is essential to the financial performance of institutions in Turkey.

Studies from Middle East and North African Countries by Zamil, et al., (2023) concluded that disclosures on the sustainability of the firm improves transparency, reduces information asymmetry, and stimulates growth within the organization. In Nigeria, Erin, Adegboye and Bamigboye, (2022) established that adequate sustainability disclosure was significantly related to better firm value. Similar findings were reported in the study by Erin, and Adegboye, (2022), which found that regulation-driven sustainability reporting increases disclosure quantity, quality, as well as a corporate value within Nigerian companies. Further, in Ghana, Erin, and Adegboye, (2022) showed that inclusion of environmental and social reporting was associated with improved financial performance of the quoted firms.

A study by King'wara (2020) on disclosures within listed firms in Nairobi Securities Exchange revealed environmental dimension in companies' disclosures contributed positively to the return on assets of the firm. Further, higher corporate governance index for quoted firms in Kenya were significantly associated with improved financial outcomes among the firms. However, while these researchers find positive effects, findings from Kanali (2020) showed a significant negative impact of CG adoption on listed firms' financial performance. The researcher was of the opinion that board sizes should be kept small and any increases have to be accompanied by the new members' expertise, diversity or experience. The concept of corporate sustainability, emerges from the notion that businesses are part of the environment and that they have a strong influence on each other. Since businesses rely on the environment for primary resources, supplies and sales, it is in their interest to conserve the environment in which they operated (Brin, Nehme, and Polančič, 2020). According to Wang, Ghadimi, Lim and Tseng (2019), firms in developing economies still lag in the adoption of sustainability practices. Guidelines from the Moggi, (2023) identify three dimensions of sustainability; environmental, social and governance.

1.1.2 Environmental Sustainability

Environmental have gained unprecedented prominence in the global business landscape (Cloutier, 2020). Regulatory bodies, such as the European Union and the U.S. Securities and Exchange Commission, are enforcing stricter ESG reporting requirements (Cloutier, 2020). This regulatory push, coupled with increased investor interest, particularly among millennials, has elevated ESG to a critical consideration for businesses across sectors, including real estate (CRE, 2021). Environmental sustainability reporting communicates environmental performance (Siew, 2015). According to Aysenur (2016), environmental sustainability reporting is the communication of the ability of an organization to maintain the environment when meeting its goals and objectives. Lisi (2015) asserts that firms have to offer solutions to existing environmental problems and respect the concerns of environmentalists. For the purpose of this study the indicators of environmental disclosure were considered as Biodiversity, Climate change and Ecosystem services.

Krivačić and Janković (2017) define environmental reports as holistic and logical statements depicting an organization's environmental efforts through its policies, objectives, programs and outcomes. Environmental sustainability demonstrates the efficiency of an organization's operations and the degree to which they execute sustainable environmental practices. Moreover, Brinkmann (2020) reports that organizations carry out environmentally sustainable practices such as creating environmental awareness programs, tree planting, developing environmental policies, instituting waste and water management practices and working with stakeholders in protecting and conserving the environment. Firms exploring environmental sustainability seek to manage finite resources to ensure that they can sustain long-term operations, and they prepare corporate governance reports to monitor policies, practices, and decisions of the organization. This study sought to incorporate other indicators that have not been considered such as Air and water pollution, Energy efficiency, Hazardous materials management and Resource depletion. These indicators will be adopted by this study in order to fill the gaps in the environmental sustainability disclosure and financial performance of the SAGAs in Kenya.

1.1.3 Social Sustainability

The social sustainability dimension assesses how a firm manages social systems such as employee skills and abilities, inter-organizational relationships, human rights, labour practices, and social values. Social responsibility refers to the ability of a firm to be accountable for its impact on society and the environment (Schönborn, et al., 2019). Firms adopt socially sustainable practices to promote human safety, welfare, and wellness (Mani, Gunasekaran, & Delgado, 2018). Firms can also institute worker wellness, enhanced working environment health, and disaster preparedness awareness creation, fair pay, overtime, humane treatment, adhering to minimum wage requirements and assurance on freedom of associations (Eizenberg & Jabareen, 2017). According to Boyer, Peterson, Arora and Caldwell (2016), it is important for firms to contribute to community development through anchorage and participation in community aspects, like local sports, social responsibilities and in the provision of infrastructural facilities since this builds effective and lasting relationships with stakeholders, leading to profitability in the long term.

Social performance, refers to the diverse social factors such diversity, employee's development, health and safety, equal opportunities for advancement and support for philanthropic initiatives. In the realm of business management, it is encapsulated by corporate citizenship and corporate social responsibility (CSR). The success of CSR is intricately linked to the business models that not only minimize long-term adverse ecological impacts but also align with the social expectations of communities and stakeholders (Mukhtar et al., 2023). For the purpose of this study social sustainability disclosure will be conceptualized on the basis of the following indicators; Customer satisfaction, Diversity and equal opportunities, Employee retention and turnover, Employee compliance, Government regulations compliance, Community rights and relations, Occupation, health and safety, and Product safety and liability.

1.1.4 Corporate Governance

A corporate governance report refers to the principles that guide an organization's behaviour; stakeholders expect their organizations to behave with transparency, fairness, accountability, and responsibility (Rouf & Akhtaruddin, 2019). Governance reporting ensures enhance pursuance of goals which are perpetual (Habib & Jiang, 2015). Sustainability reporting is an important communication tool for demonstrating transparency and effective governance and is specifically addressed to stakeholders (Sethi et al., 2017). Stakeholders' pressures and information demands have changed significantly in recent years and companies are increasingly expected to respond to these demands (Osemeke et al., 2016).

The need to provide transparency to stakeholders is a driver of enhanced reporting quality (Odriozola and Baraibar-Diez, 2017). The concept of sustainability reporting is about meeting stakeholders' sustainability information needs relating to the economic, environmental and social (EES) impacts of companies' business operations (Mion and Adaui, 2020). Meanwhile, the sustainability concerns of the companies' stakeholders can be addressed through companies' sustainability performance and the credible disclosure of sustainability information via sustainability reports.

Environmental, social, and governance reporting assures stakeholders that the firm is taking action to leave a positive impact on its operating environment. Recently, stakeholders have increased their demand for firms to behave responsibly. Governments, investors, employees, and non-governmental organizations are all expecting firms to have concrete data on these efforts, and according to Igbodo, Uwague, and Aigbadon (2018), the legitimacy theory can be used to adequately explain why firms pursue developmental agendas.

Corporate governance- board of directors (executive and non-executive)- protect the interests of shareholders and attempt to satisfy the expectations of other stakeholders by taking charge of major decisions and actions of organizations, including reporting (Hamad et al., 2020). Therefore, researchers have studied how the characteristics and functions of boards shape the level of sustainability reporting (Anazonwu et al., 2018). The literature is replete with CG and sustainability reporting issues focusing on board characteristics such as size, independence, diversity, and member nationality (Aliyu, 2019). Given the highlighted indicators this study seeks to address social sustainability disclosure based on the following indicators; Accounting Standards, Anti-competitive behaviour, Audit committee structure, Board composition, Bribery and corruption, Business ethics, Risk management and compliance, Executive remuneration and Whistleblowing schemes and how they affect the financial performance of SAGAs.

1.1.5 Financial Performance

This is the indicator which measures the level at which organizations achieve their business goals. (Muiruri & Wepukhulu, 2018). Thus, financial performance would accord a parametric approach for examination of organization odds of achieving desired goals and objectives. Firms are meant to achieve financial and non-financial objectives but the survival is anchored on probability of attaining financial goals (Ahmad & Zabri, 2016). In profit making entities financial goals can be easily examined through use of profitability ratio (Babalola, 2013). But in non-profit making entities the concern is mainly ability to generate surplus revenue (Wasiuzzaman, 2015).

Use of financial ratio in examination of firm performance aids management in understanding of measures that may be applied to respond to customer demands and enhance financial soundness of their respective firms (Dewi et al, 2023). Commonly used ratios include return on assets, return on equity and return on net interest margin (Kopecká, 2018). Although, these ratios many avails clarity on performance of a firm they may be more appropriate in profit making entities unlike government entities that aims at achieving social economic benefit.

Therefore, currently financial performance will be examined as the percentage change in surplus (revenue minus costs). In regard to the financial performance of the SAGAs it is clear that SAGAs are in profit making organizations and hence they are considered not to make a profit, however, they present their income statement and show either a surplus or a deficit which is the difference between the incomes and the expenses. This study therefore will consider using the change in the return on Assets and the surplus in measuring financial performance of the SAGAs.

1.1.6 Semi-Autonomous Government Agencies

Government Agencies including Semi-Autonomous government agencies are government agencies created by parliamentary legislation to deliver or carry out oversight or operational functions on behalf of the government. They are grouped into either business-oriented SAGAs or social service entities with no commercial orientation. While commercial semi-autonomous agencies are GBEs formed to carry out business with a profit motive, non-commercial semi-autonomous government agencies have no profit-making motive but focus on service delivery (Treasury& Planning, 2022).

These state agencies are mainly financed through government budgeting process (Government of Kenya, 2017). Changes in government financing have necessitated commercial and non-commercial government entities to development prudent financial management practices that would optimize their returns (International Monetary Fund 2018). Hence, the changes in operational framework which is characterized by development of performance contracts aimed at enhancing service delivery and resources mobilization (Center for Economic Governance, 2018). Therefore, the current empirical enquiry seeks to understand whether SAGAs have incorporated integrated financial reporting and if so, what is their contribution to the financial performance.

1.2 Statement of the Problem

Kenya's government agencies, including Non-commercial Semi-Autonomous Government Agencies, face fluctuating economic performance due to fluctuating government policies on macro and micro-economic indicators. Financial distress among these public firms exposes them to negative investor confidence, potentially leading to decreased investment. Studies such as Chen, Song, and Gao, (2023), Zaman, Jain, Samara, & Jamali, (2022) and Huy, & Phuc, (2020) suggest that poor financial performance can be addressed effectively by firms incorporating sustainability disclosure in their financial reporting. This trend has been observed among most Kenyan firms and hence it affects their performance and sustainability. Sustainability reporting is believed to enhance a firm's social acceptance, resulting in improved stakeholder engagement, customer satisfaction, loyalty, brand image, and employee morale. Mandatory sustainability reporting improves firm value, and universities adopting sustainability practices are more attractive institutions of higher learning. Sustainability reporting also significantly impacts organizational change management and reduces firm risks by stabilizing returns and reducing systematic risk.

In the commercial sector, Buallay (2019) carried out a study that ESG disclosure improves performance. The study noted that, the social reporting negatively impacts the various financial indicators of ROA, ROE, and Tobin's Q. Governance reporting on its own has a negative effect on ROA and ROE but a positive effect on market performance. ESG disclosure has a long-term positive impact in India. Besides, governance disclosure improves other performance indicators such as market performance. In aviation, Karaman, Kilic and Uyar (2018) conducted a study on social sustainability reporting and the role it plays, in enhancing financial performance of the firms. Environmental disclosure shows a negative effect on financial performance in government agencies, including non-commercial semi-autonomous government agencies in Kenya. However, a lot of documented studies have focused on commercial firms that are fully autonomous and they are profit earning. This presents both conceptual and contextual gaps in the literature. Conceptually this study seeks to fill the gap that exists based on the conceptual relationship between the three key factors (ESG) that have been considered in previous studies which re different from the current study. The current study conceptualizes the ESG by considering eight indicators for each of these factors in order to fill the gaps in the previous studies.

The existing mixed results in adoption of sustainability reporting in the previous empirical evidence shows glaring gaps in the relationship between ESG and the performance of firms (Gold & Taib, 2020). There are also geographical gaps in the literature which this study sought to fill, as most studies have been conducted outside the current study areas, particularly the SAGAs. Carrying out this study will therefore add valuable knowledge to the current knowledge and hence fill in the gaps that exists. There has not been any document studies in Kenya, on the sustainability practices particularly among the Semi-Autonomous Government Agencies. There is therefore no clear evidence of the implementation of these sustainability practices and in some cases, reporting is late and inconclusive. Hence, this study would be providing answers to the question; what is the effect of sustainability disclosure on financial performance of Government Agencies including Semi-Autonomous Government Agencies in Kenya.

1.3 General Objective

The main objective of the study was to establish the effect of sustainability disclosure on financial performance of Government Agencies including Semi-Autonomous Government Agencies in Kenya.

1.3.1 Specific Objectives

i. To determine the effect of environmental sustainability disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya.

ii. To determine the effect of social sustainability disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya.

iii. To establish the effect of governance sustainability disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya.

1.4 Research Hypothesis

Ho_1: Environmental sustainability disclosure has no statistically significant effect on the financial performance of Semi-Autonomous Government Agencies in Kenya.

Ho_2: Social sustainability disclosure has no statistically significant effect on the financial performance of Semi-Autonomous Government Agencies in Kenya.

Ho_3: Corporate governance sustainability disclosure has no statistically significant effect on the financial performance of Semi-Autonomous Government Agencies in Kenya.

1.5 Significance of the Study

Documentation of the current empirical enquiry was beneficial to the following:

The Kenyan government could benefit from the findings of this study. The study investigated the sustainable reporting index for SAGAS, and through its findings, the government will understand the extent of ESG reporting. This is essential in guiding policy development in the sustainability field and help in the determination of the most suitable incentives to encourage and promote sustainability reporting.

The findings of this study could be of immense help to different organizational heads in public firms including county governments, National and stakeholders by enabling them to better understand how sustainability reporting affects performance of the firms. Private players are inherently interested in promoting sustainable development as this is directly related to their long-term operational integrity. By understanding the effect of sustainability reporting, corporate business managers are better placed to identify the incremental needs that have to be made to positively influence firm returns.

Moreover, the findings may avail trinity policy benefits where entities would demonstrate their levels of competitiveness in pursuance of social economic activities that does not directly benefit them. Secondly, there could be clarity on the extent of integrated financial reporting and disclosure on level of compliance with occupational health and safety standards. Moreover, investor confidence could boost since policy gaps on ESG would be easily identified and bridged.

Research shows that there is increased adoption of sustainability disclosure by various companies around the world, with little empirical evidence on its impact on the economy. Further, accelerated empirical attention is on profit making entities. This study could be contributed by providing empirical evidence and could also form a basis for citation on sustainability reporting. The study also identifyed gaps that need to be explored by future researchers.

1.6 Scope of the Study

This study's contextual scope was examining the effect of sustainability reporting disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya. The geographical scope of the study was limited to reviewing Semi-Autonomous Government Agencies in Kenya. The study used both primary and secondary data to obtain relevant observations to determine the interaction between the variables. The time scope for the study focused on the period June to November 2024 with on levels of sustainability reporting disclosure on aspects of environmental, social and governance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews relevant literature by various scholars on sustainability reporting and its effect on financial performance and, in particular, its relevance for semi-autonomous government agencies firms in Kenya. The chapter is organized into three sections as per research objectives. The study reviewed the gaps identified that informed the current research.

2.1 Theoretical Literature Review

The study was guided by agency theory, stakeholder's theory, legitimacy theory and signaling hypothesis.

2.1.1 Agency Theory

Agency theory was proposed by Jensen and Meckling (1976). The theory allude that management of an organization is delegated to agents by principals and they should execute management responsibilities on their behalf. The primary is to optimize shareholders value, minimize conflicts and eradicate odds of not remaining as a going concern. Due to delegation of duties, there are higher chances of emergence of conflicts since each party has its own unique needs. This escalates the level of information asymmetry and ultimately trigger monitoring and agency conflicts.

Although, corporate entities are meant to pursue the needs of investors in the public sector there are expected societal roles that may escalate operational costs though not directly impacting the core mandate. Currently, there is a call for participation in activities aimed at environmental conservation, departure from use of fossil fuels and consideration of non-renewable sources of energy. Therefore, there is need for examination on environmental disclosure of semi-autonomous government agencies and their effect on financial performance.

2.1.2 Legitimacy Theory

Legitimacy theory was developed by Deegan (2000). The theory proposes that operational framework of an organization is not void of expected normal and societal expectations. Therefore, all entities operational framework ought to lie within organization boundaries. Through, this theory there are contractual arrangement which are social in nature between society and corporate entities. Through, these interlinkages there are expectation if not met by a party to the contract there are higher chances of conflict. Oyewumi et al., (2018) noted that organizational operational procedures will be acceptable to the society if they are responding to their unique demand and needs. Thus, the rights of the public should be not inferior to investors needs and failure to meet societal expectation would elicit mixed reactions.

Fundamentally, the premise of the theory is that organizations can signal their legitimacy (Oyewumi et al., 2018) using the legitimacy device- annual report (Uwuigbe, 2018). The theory attempts to explain a firm's effort to bridge any perceived legitimacy gap in a bid to avoid situations that could threaten its survival or attract sanctions of any kind. According to this theory, business operations are based on express and implied social contracts (Uwuigbe, 2018) which determine the growth and survival of a business.

The theory is in support of social disclosures that are disclosed by semi-autonomous organizations in Kenya and their value contribution on financial performance. There is need for discussion on activities that public entities participate in, while responding to human capital needs and societal expectations in response to the social needs.

2.1.3 Stakeholder Theory

Stakeholders' theory was developed in 1984 by Freeman. Theoretical proposition alludes that there are normative and ethical approaches to management.The theory sees an organization as accountable to more than the shareholders of a company. The theory argues that firms are expected to serve the interests of various stakeholders who are affected or can affect a firm's performance. Its morally acceptable that there is need for consideration of input from heterogeneous stakeholders through fair treatment. Further, whether stakeholders input increases organization value there is need for management inclusive approach and consideration of anticipated benefits by all.

In a corporate entity there is a collection of different stakeholders who include board of management, owners, capital providers, employees and their families, communities within their locality and government entities. Therefore, there is need for consideration of the input and need of these stakeholders whenever faced with decision making need. Deegan (2000) purports that efficiency of an organization is pegged on the ease of information access among all these stakeholders. For instance, employees ought to be provide with overall security while the community deserves no pollution while the government anticipate to collect desired revenue within stipulated timelines.

The theory is deemed okay for the study since there is need for compliance with corporate governance acceptable practices and disclosure of this information would enable semi-autonomous organizations to deter increased cost of information and ultimately enhance financial performance.

2.2 Empirical Literature Review

This section discusses the various concepts that have been discussed by other scholars in different countries. It helps to bring out the gaps that will be filled by this study.

2.2.1 Environmental Sustainability Disclosure on Financial Performance

Empirical attention on environmental disclosure has grown (Andania & Yadnya, 2020). Though, there not conclusive. Petitjean (2019) found that most companies had adopted policies to guide climate change, emission reduction, energy efficiency, and environmental quality management. Nguyen, (2020) noted that although companies using independent audits on their green practices grew by 50%, ESG scores of large US companies showed that they did not influence financial performance. However, having independent audits on green policies reduced the firms' financial performance. All else equal, companies that reported increased adoption of green building strategies and energy efficiency were more valued at the stock market. Environmental reporting resulted in higher financial outcomes than social and governance reporting. The study was limited to environmental sustainability, the current study seeks to assess the relationship between the ESG factors and the financial performance. This seeks to fill the conceptual, contextual and the geographical gaps in the literature.

Among 500 fortune firms, Zamil and Hassan (2019) explored causality of environmental disclosure on performance. The researcher collected data reported between 2013 and 2017. Descriptive statistics, correlation, and regression analysis were applied on the resulting data. It was determined that although the application of greenhouse gas emissions and water consumption sustainability practices improved returns, reporting waste management practices was associated with reduced returns. However, environmental reporting was positively related to financial performance, concluding that environmental reporting improves customer trust, reduces the risk of damaged reputation, and creates long-term shareholder value. This study explored industry setters where customer valuation is a sustainable source of competitive advantage.

Yang, Wen and Li (2020) conducted a study on the effect of environmental information disclosure on the value of listed manufacturers in China, noting increased public concern over environmental problems. The study collected panel data reported between 2006 and 2016. Firm value relied on levels of environmental disclosures. This effect is more impactful in private businesses than state-owned firms and differs based on regional regulations.

The study by Aifuwa (2020) study used a systematic content analysis approach and sourced data reported between 2014 and 2019. Even though sustainability disclosures were low, most firms reported their sustainability initiatives based on the GRI framework. Findings suggested that the evidence was inconclusive and varied from one industry to another. However, a large number of works submitted a positive relationship.

In Pakistan, Ullah, et al., (2020) explored the sustainability practices by adopting data from 146 construction firms and applied partial least square structural equation modelling. Ex post facto analysis and confirmatory factor analysis results revealed that sustainability practices had been implemented, although in a perfunctory manner. Firms mostly implemented the minimum legal requirements to avoid the costs associated with fines hence had an insignificant impact. To enhance sustainability there was call for balance on environmental, social and governance aspects.

Azman and Salleh (2020) investigated Malaysian manufacturers to examine the link between E-Waste reporting and financial performance of the listed firms. An empirical research design was adopted and regression analysis applied on financial statement data and CSR publications. The findings showed no significant effect of e-waste reporting on financial performance measured by both ROA and ROE. However, e-waste reporting increased expenditure in accounting costs, although the cost was not significant.

Akther (2017) carried out research into the relationship between corporate environmental reporting and profitability of listed firms in Bangladesh and analyzed the current practices of environmental information disclosure in the annual reports of the firms. The measures of financial performance utilized were Return on Asset (ROA) and Earnings Per Share (EPS). The research carried out content analysis on annual statements to identify the main environmental practices and developed an environmental reporting index. Bivariate correlation was calculated to determine the relationship between the Environmental Reporting Index (ERI) and profitability. The analysis determined that only a few of the companies adhered to strict adherence to the ERI and that there is a significant association between the level of environmental reporting an organization’s return on asset and earning per share.

Al-Waeli, Ismail, and Khalid (2020) researched the impact of environmental cost on the financial performance of Iraqi industrial organizations. The study used time-series data collected from 25 reports published between 2014 and 2018 from oil companies listed in the Iraqi Stock Exchange (ISX). The analysis involved multiple regression and correlation techniques. The results indicate that image and relationship costs, together with environmental costs, have no significant impact on financial performance. However, potential hidden costs such as environmental and resource accounting costs have a significant negative impact on the firms’ financial performance. Better financial outcomes were achieved by businesses that were able to set up effective environmental costing systems and match corporate environmental practices with long-term plans.

In their 2017 study, Ezeagba, John-Akamelu, and Umeoduagu examined the impact of environmental accounting disclosure on the financial performance of beverage companies. Data recorded between 2006 and 2015 was gathered for the study. Multiple regression analysis and Pearson's correlation were used to examine these data. According to analysis, environmental accounting disclosures and a company's return on equity are significantly correlated. Certain companies' net profit margin and return on shareholders' capital are adversely affected by environmental accounting disclosures.

Ezeagba, John-Akamelu, and Umeoduagu (2017) investigated the beverage industry to examine the influence of environmental accounting disclosure on the firms’ financial performance. The study collected data reported between 2006 and 2015. These data were analyzed using Pearson’s correlation and multiple regressions. Analysis revealed that there is a significant relationship between environmental accounting disclosures firms’ return on equity. Environmental accounting disclosures negatively impact return on shareholders capital employed and the net profit margin of selected companies.

2.2.2 Social Sustainability Disclosure on Financial Performance

Xie, Nozawa, Yagi, Fujii and Managi (2019) applied data envelopment analysis for efficiency examination while exploring how its affected by ESG. Social disclosures was linked to corporate social responsibilities such as information disclosures and green building policy, policy equality and directorship independence. Data were analyzed using ordinary least square regressions, with findings suggesting that ESG moderates corporate transparency and has a positive association with corporate efficiency. Reporting of social inclusion information was determined to have a significant impact on organizational efficiency which resulted in increased income. However, positive findings were only for low and middle disclosure. A high disclosure level was associated with negative corporate efficiency as some of the information disclosed can have information that may reduce investor attraction. Further, high disclosure level was associated with increased accounting costs, especially among firms with high environmental effects. This study focused on only one element of the ESG, and hence the results were limited to the social disclosure.

Sroufe and Gopalakrishna-Remani (2019) focused on a sample of Fortune 500 firms to examine whether CSR is a precursor of performance. The study examined these relationships using structural equation modelling (SEM) which revealed that management of sustainability practices improves social sustainability performance, improves employee retention rate and productivity, and increases profits. However, sustainability reputation did not have a significant effect on profitability meaning that the extent to which a firm adopts CSR practices does not affect profits.

Fijałkowska, Zyznarska-Dworczak and Garsztka (2018) researched on the relationship between social responsibility and profitability of banks in the Central and Eastern Europe region. The researchers analyzed annual publications and CSR reports using panel regressions and Data Envelopment Analysis (DEA) approach. Results determined that banks do not accurately reflect CSR engagements, but this has no significant impact on their financial outcomes. The study also determined that higher financial efficient firms have higher CSR scores.

Kim, and Park (2023) investigated the effect of auditor independence on CSR performance and financial outcomes of large U.S. companies. The study collected CSR performance score from Thomson Reuters publications and sampled 5,040 firms. Analysis involved ordinary least square (OLS) regressions. From the analysis, it was ascertained that auditor independence has a positive effect on CSR performance and financial performance. The study showed that reporting assurance is higher when investors reflect information in CSR reports and a higher degree of external auditor independence increases investor attraction.

Rodríguez-Fernández, et al., (2019) carried out their research on travel and leisure companies to examine whether environmental, social, governance, and controversy (ESGC) indicators have any impact on the firms' financial performance. The study collected data from the 2017 Thomson Reuters ESG database. Applying parametric and non-parametric statistical tests, the analysis determined that performance and ESG have significant link. The analysis showed that social sustainability controversies can ruin the image and reputation of an organization leading to significant negative income, and that proper community and employee investment can be utilized to damage controversies that may taint the image of an organization.

López-Toro, et al., (2021) focused on the pharmaceutical industry listed in the Nasdaq US Smart Pharmaceuticals Index. These companies were global chain stores, and the data was extracted from the Thomson Reuters database. SEM modelling using partial least squares was applied on the data with the findings revealing that ESG indicators positively contribute to performance. Recommendations were for increased investment in ESG practices and pay attention to controversies to boost firm visibility.

In India, Oware and Mallikarjunappa (2021) board diversity and CSR was explored. The study collected data from 80 firms' audited reports published between 2010 and 2019. The analysis determined that financial performance (ROA, PBL and FL) improves with a higher degree of gender diversity. However, the association is negative when firms have low leverage due to negative perception about women decision makers. However, CSR expenditure mediates the negative association between financial leverage and gender diversity. This shows that gender diversity has an insignificant impact as long as firms invest in other socially sustainable practices.

Nigeria's Umar and Yahaya (2023) researched on sustainability reporting and its effect on the financial performance of 26 listed consumer goods firms. The study adopted a correlational research design and collected secondary data reported in annual reports published between 2009 and 2018. Multiple regression analysed were applied on the data and diagnostic checks and post estimation tests were employed. The analysis revealed that social reporting and environmental reporting improve financial outcomes, while human resource sustainability reporting was associated with reduced financial performance. Thus, reporting on labor practices, human rights and community building initiatives, and relationship with communities, accompanied with disclosure of the firm's impact on the environment is encouraged.

In Ghana, KaoDui, Muyun, and Mandella (2019) the study sought to determine the extent to which ESG accounting had been incorporated into the firms' corporate strategy. Data were collected from annual reports from the firms' published corporate annual statements. Content analysis and regression analyses were applied to the data. Regression results show that firms with higher CSR scores are more profitable and expanded faster. Social and environmental accounting and reporting increased financial outcomes showing that it would be profitable to include community concerns, employee concerns, and customer concerns into firms' strategic plans to realize higher profits and attract investors.

In Kenya, King'wara (2020), disclosure information was collected from annual reports published between 2007 and 2015. These were analyzed using quantitative content analysis. Cross-sectional and longitudinal data from corporate annual reports of listed firms over the years 2007-2016 was also collected. Panel data regressions were used in data analysis revealing that CSR disclosure has an insignificant impact on the firms' financial performance. However, the environmental dimension of CSRD improved ROA suggesting that reporting on efforts to improve the environment, employees, and community has minimal impact on firm returns.

2.2.3 Corporate Governance Disclosure on Financial Performance

The global recession resulting from the financial crisis exposed multiple companies to the risk of managers who lack ethical values and its consequences on firms' financial performance. Firms which became bankrupt blamed their financial distress on managers who commit fraud to serve their own interests (Bhatt & Bhatt, 2017). Regulatory policies have since been formulated to protect companies and their stakeholders from unethical managers. Hence, the initiation of governance mechanisms for managing rights and responsibilities of different parties in an organization (Fatemi, Glaum, & Kaiser, 2018).

In India, Goel (2018) compared data reported between the period before and after implementation of corporate governance practices. There was notable difference on financial performance as per listing sector. The analysis revealed an increase in CG implementation in Indian companies after the introduction of governance reforms and that CG has different effects on different parameters of financial performance. The study, however reported that governance reporting as a concept of CG has an insignificant effect on the firm's financial outcomes, hence governance practices are not significant predictors of performance. This study was based on the top 100 profitable firms which enjoy significant capacity to engage in and report about their social goals.

Uyar, et al., (2020) researched on the hospitality and tourism sectors in their examination into the effect of CSR performance on financial outcomes. CG practices such as sustainability committee composition, board, diversity, independence and diligence were the study's main focus. Data between 2011 and 2018 were sourced from the Thomson Reuters Eikon database. After application of panel data analysis and robustness tests, findings determined that information sharing on the roles of the CSR committee, inclusion of female directors and non-executive directors to the board of governors and guaranteeing transparency in reporting improve firms' financial outcomes. Female led companies improved all CSR dimensions, ethical directors strengthened social and governance aspects while independent boards boosted the governance pillar of CSR.

Mangantar, (2019) assessed he impact of sustainability and executive compensation on bank performance before and after the 2007-2009 financial crisis, using 2286 observations from 127 banks in Europe and the USA. Results show a positive impact of executive compensation on sustainability and performance dimensions, with mixed results for sustainability factors. ESG score partially mediates the effect of compensation on performance, with mixed findings for individual pillars. The environmental pillar is the lowest impacting pillar. The findings can help change compensation setups in the banking sector and have implications for bank practitioners, decision-makers, regulators, auditors, professional firms, and policymakers.

Khanifah, et al., (2020) sourced data from 10 Islamic banks. Data on disclosure was provided by Islamic finance development indicator (IFDI) ratings. The study used secondary data, and content analysis was then applied to this data. Analysis revealed that the banks complied with about 72.4% of the attributes identified in the IFID scale. Thus, religious based financial institutions had higher odds of corporate governance compliance though there is no uniformity of governance criterion as linked to other banking sectors.

In Nigeria, Olayiwola (2018) adopted an exploratory design was carried out on ten listed firms selected using purposive sampling. Data were sourced from annual reports published between 2010 to 2016 and analyzed using panel data regressions. The analysis determined that board size negatively affects profit margins, board composition improves profit margins but audit committee had no effect. Jointly, having smaller boards, higher representation of non-executive members and reviewing committee composition result in improved financial performance.

In Ghana, Owiredu and Kwakye (2020) determined that there is a significant positive effect of CG elements on performance outcomes. Board size and foreign ownership aspects improved ROA and ROE. However, board independence and institutional ownership had insignificant effects on performance. Generally, the study asserts that strengthening corporate governance practice is key to increasing profitability.

Herbert and Agwor (2021) investigated Nigerian banks to examine how Corporate Governance Disclosure (CGD)impact their financial performance. Content analysis was used to develop a disclosure checklist from 78 annual reports of 13 Nigerian semi-autonomous government agencies from 2011 to 2016. The study divided CGD into four factors which then a model fitted. The results of the hypothesized relationships showed that reporting on board of directors and developing a whistleblowing policy improves the banks' financial performance but reporting on risk framework analysis had no role in performance. The study recommended strategic governance reporting to ensure sustainable operations for the banks. Though this study is informative of the relationship between CG and financial performance but it presents geographical gaps and contextual gaps in the sense that it considers commercial banks to a great extent. conducting a study that will particularly focus on the semi-autonomous government agencies will help present knew knowledge to fill the existing gaps.

Mumo (2022) focused on ESG reporting and its influence on stock returns of listed firms in Kenya. The study used trading volume as a control variable and a descriptive design was employed Descriptive, correlation as well as regression analysis were undertaken revealing that out of the three reporting practices, only environmental reporting has positive influences on listed firms' stock returns. Social as well as governance reporting had positive impacts but these impacts had no influence on the firms' stock returns. Conclusions were that prioritizing environmental reports would increase trading volumes and enhance returns of adopting firms. This study presented both contextual and conceptual gaps which indicates the need for further studies to fill the gaps. The current study will therefore help in adding knowledge to fill the gaps.

2.4 Summary and Gaps in Literature

From the foregoing theoretical and empirical review there are emerging gaps that supports the current study that will draw data from semi-autonomous government agencies. Majority of existing empirical evidence is skewed towards profit making entities though there is need for customized study in public entities owing to pursuance of differing objectives. Though, some studies gathered panel data, there presented methodological gaps owing to their reliance on pooled least squares model in absence of required diagnostic tests. Moreover, some limited their analysis to descriptive statistics an issue that deterred them from drawing statistically supported conclusions.

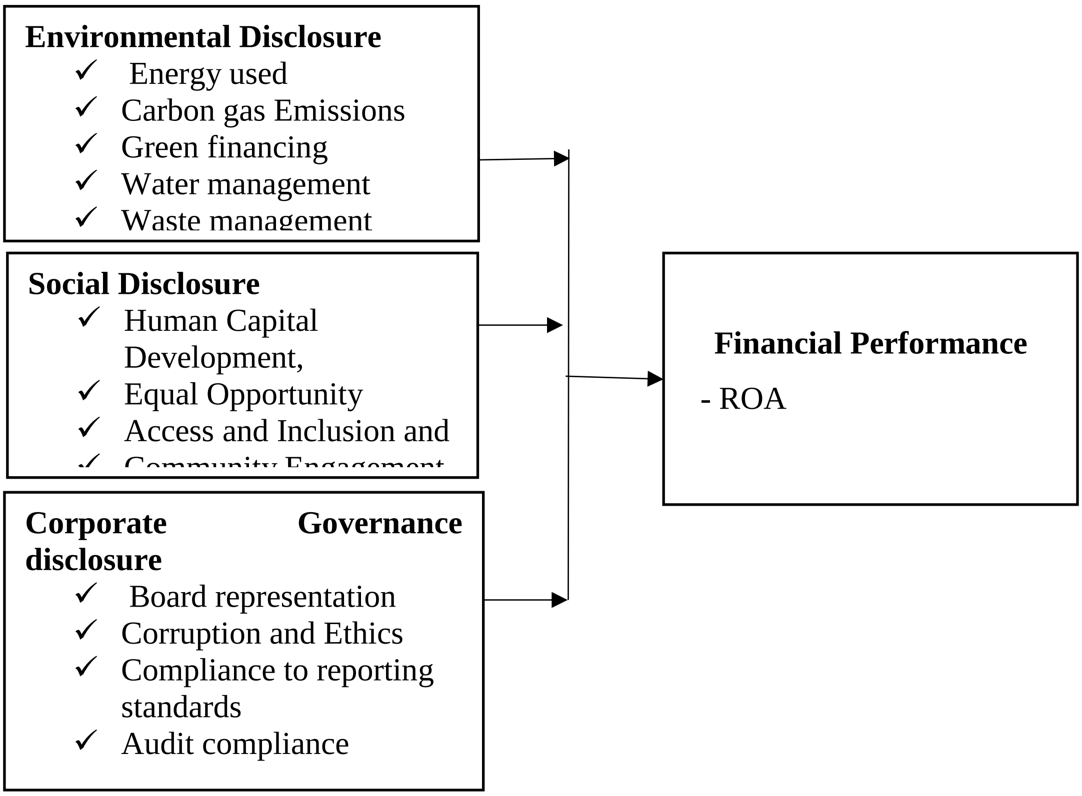
Prior research has tried to determine how ESG performance affects FP, but it has only looked at one of the ESG dimensions—that is, ENV, SOC, and GOV (Adegbite et al., 2019). For a thorough evaluation of ESG practices, it might not be suitable to concentrate on just one aspect while ignoring others. A small number of ESG studies have looked at all of the ESG sub-dimensions and how they affect FP using a variety of indicators linked to accounting measurements, ignoring market-based metrics (Ahmad et al., 2021). Despite being a new topic in the business sector, developing economies pay little attention to ESG. Therefore, current empirical research is necessary to better understand the distinctiveness of ESG practices in the public sector in developing economies. In addition, there is limitations in regard to availability of data in developing economies more so due to lack of universally acceptable measures of ESG in public sector. Therefore, the current customized ESG framework would aid in examination of its versatility in non-profit making entities.

2.5 Conceptual Framework

A conceptual framework is the precursor of analytical framework to be adopted in a specific study. Currently, it is assumed that financial performance of semi-autonomous state organizations in Kenya is contingent to ESG. The relationship between the independent variables which are economic sustainability disclosure, social sustainability disclosure and corporate governance disclosure and the dependent variable which is the percentage change in surplus and return on assets. The conceptualized link is as shown in Figure 1.

FIGURE 1

Conceptual Framework



2.6 Operationalization of Variables

The following was the operational description of the study variables adopted in the study. In Table 2.1 environmental disclosure was operationalized as description on energy used, emission management, response to climate changes and waste management procedure, social disclosure elucidated human capital management procedures and levels of community engagement and governance disclosure was anchored on governance criterion in place. Financial performance was operationalized as percentage change in the surplus.

TABLE 1

Operationalization of Variables

Variables	Operational Indicators	Measurement Scale	Type of Scale Analysis Tools
Environmental disclosure	✓ Water pollution ✓ Co_2 Emissions ✓ Natural resource depletion ✓ Waste management ✓ Air pollution	Secondary data (financial statement)	**Descriptive analysis:** Mean, standard deviation, **Inferential analysis:** regression analysis, correlation analysis F-Test
Social disclosure	✓ Human Capital Development, ✓ Equal Opportunity ✓ Access and Inclusion and ✓ Community Engagement	Secondary data (financial statement)	**Descriptive analysis:** Mean, standard deviation, **Inferential analysis:** regression analysis, correlation analysis F-Test
Corporate governance disclosure	✓ Board representation ✓ Corruption and Ethics ✓ Compliance to reporting standards ✓ Audit compliance	Secondary data (financial statement)	**Descriptive analysis:** Mean, standard deviation, **Inferential analysis:** regression analysis, correlation analysis F-Test
Financial performance	✓ Percentage changes in surplus	Secondary data (financial statement)	Descriptive analysis: Mean, standard deviation,

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter availed a detailed guide on strategies to be adopted for achievement of study objectives. From it chosen research, target population as well data analysis and procession criterion were explained.

3.2 Research Design

Research design is the criterion that guide on how research questions will be attended to. In this empirical enquiry the study adopted a descriptive research design. Creswell and Creswell (2020) assert that through descriptive research design and cross-sectional research design. The study adapted these two designs in order to ensure that all questions on how, what, when and who in respect to issues and examination. The design was fit since the study aims at elucidating environmental, social and governance reporting and how they affect performance of semi-autonomous state-owned enterprises in Kenya.

3.3 Target Population

A list of individuals or elements that has unique attributes under consideration is knows as target population (Gravetter & Forzano, 2012). From the collection, it would be clear for explanation on the inclusion and exclusion procedures that should be applied. Those included in the list must have satisfied inclusion and exclusion procedure. In this study, target population would constitute the top management employees in the finance department who averages 6 in the 20 semi-autonomous entities included in appendix IV. This gave a total population of 120 respondents from the 20 SAGAs.

3.4 Sample and Sampling Techniques

Because the number of employees was not large, the researcher used all the 120 staff from the finance department. Kothari (2019) asserts that for social study's sample size should be sufficiently big to minimize sampling errors, which have an impact on the correctness of the results. The study used purposive sampling method where the 6 employees at the management level in the finance department were used. Choo, Garro, and Ranney (2022) noted that purposive sampling allows researchers to select participants with specific knowledge or experiences, which can lead to more in-depth data and insights. Campbell, Greenwood, Prior, (2020) noted that researchers can adjust their sampling strategy as they learn more about their subject, which is especially useful in exploratory studies. This targeted approach ensures that the data collected is rich and directly pertinent to the study's objectives, leading to more meaningful and focused findings. Instead, the objective in purposive sampling is to target a specific subset of people to more deeply understand the unique or diverse variations in a culture or context.

3.4 Research Instrument

The research gathered information using a set of standardized questions statements based on the indicators of the three independent variables and the dependent variable. According to Chaudhry (2015) questionnaire was preferred as they give in-depth answers, make people think critically, and are easy to analyze later. They ask both specific and open-ended questions to learn people's thoughts and experiences on a particular topic. They are also appropriate in providing responses that are consistent, and also, they are simple to design. Because they're consistent and adaptable, questionnaires free up the researcher's time to focus on what the research is trying to find out (Chaudhry, 2015).

However, the main challenge of questionnaires is that they only work for people who can read and write, and the lack of face-to-face interaction can lead to low response rates and unreliable data. Handwriting can be difficult to read while some respondents might not provide entries might be incomplete. There's also a risk of people giving false or misleading information. Open-ended questions can be influenced by personal opinions and biases, and may not provide clear guidance for action. To gauge the participants' opinions on the ESG disclosure, the researcher developed a questionnaire with a 5-point scale was used to measure their opinions on various statements. The five Likert scale constituted; number 1-5; strongly disagree to strongly agree. Decorte et al, (2019) noted that a Likert scale is a straightforward rating system used in surveys to gauge people's opinions. It uses a single scale to measure how strongly people agree or disagree with something. This makes it easy for both the researcher designing the survey and the people answering it. Plus, the answer choices can be assigned numbers, which allows researchers to analyze the data and understand people's views in more detail (Appendix I).

3.5 Pilot Study

Prior to carrying out the main study, researcher employed pilot study to ensure that the instrument and research strategy was effective. The trial was used to see whether any adjustments to their overall plan and research methods was necessary. According to Kothari (2009), the pilot study should have a small sample size, about 1–10% of the whole study size. In this instance, a pilot study utilizing a small sample of 12 respondents. They were not incorporated into the primary study itself, but their answers were useful in evaluating the questionnaire’s validity and reliability used in that investigation.

3.5.1 Validity

According to Drost (2011) validity refers to how well a tool reflects the actual quality or characteristic it's supposed to be measuring. To ensure the questionnaire meets this standard, the researchers used content validity. This method verifies if the questions comprehensively cover all the important areas relevant to the study's goals.

How closely a test matches the subject matter it is intended to assess is known as content validity. It guarantees that the test items accurately reflect the subject under investigation (Orodho, 2015). The formula by Amin et al. (2015) was applied to evaluate the content validity. The supervisor of the researcher was involved in determining whether the questionnaire's questions are appropriate for analysis. The author explains how they meticulously created the questionnaires, making sure the questions are understandable, well-written, and straightforward, in order to further support the test's validity. This guarantees face validity, which is the degree to which the test gives the impression of measuring what it should.

Amin (2005) Coefficient Validity Index formula was employed in determining the validity of the research instruments as shown;

$$\text{Coefficient Validity Index (CVI)} = \frac{27}{32}$$

$$= 0.\ 84$$

According to Amin (2005), a research instrument is considered to be valid and therefore suitable for use in the analysis if the CVI is 0.6 and above. Therefore, for this study the validity index is 0.84 hence the questionnaire is considered valid.

3.5.2 Reliability Test

In research, reliable measurements mean getting the same results when you use the same method over and over again (Orodho, 2005). To check this, the researcher used a technique called Cronbach's alpha, which gives a score of between 0 and 0.99. A score of 0.7 or above is considered good for an instrument to be used for analysis. The results are presented in Table 2.

TABLE 2

Reliability Statistics

Objectives	**Cronbach's Alpha**	**N of Items**
Overall reliability	.899	31
Environmental disclosure	.743	8
Social disclosure	.814	8
Corporate governance disclosure	864	8
Financial performance	.933	7

From the results the it is noted that all the tests done for the overall objective and for all other objectives had a Cronbach alpha reliability index of more than 0.7 meaning the instrument was reliable.

3.5 Data Collection Procedure

The process of data collection commenced with seeking authorization and approval from KCA university board of post graduate studies where an introduction letter was issued. The letter was relied on while seeking for research license from National Commission for Science Technology and Innovation (NACOSTI). Unique coding was applied to maintain confidentiality of respective respondents and organizations. The respondents were assured of their anonymity and that the data they provided was only to be used for the purpose of the study. The respondents were therefore asked not to reveal any identity on the questionnaire.

3.6 Data Processing and Analysis

Upon successful collection of data, it was cleaned and collated for analysis that included estimation of ESG scores. Kothari (2015) argues that the primary purpose of processing data is to research questions. In this empirical examination, data was analyzed using descriptive and inferential statistics with the aid of both SPSS version 16 and Microsoft excel software. Zikmund (2003) supports adoption of alternative statistical criterions whereby descriptive statistics describes the data set under examination while the later guides in testing study hypothesis. For inferential statistics; product moment correlation will depict strength of ESG on performance while multiple regression demonstrated positive or inverse effect of ESG (Geraghty, 2014). To be able to model the results the indicators were transformed using SPSS so that they gave the average of the indicators. these averages were then used to determine the correlation and the regression analysis. The model of the study will be:

$$Y_{it} = \beta_{0it} + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

Where; Y = Financial Performance; X_1 = environmental disclosure, X_2 = social disclosure X_3 = corporate governance disclosure s, $\beta 0$= Constant Term; $\beta 1$, $\beta 2$, $\beta 3$ = Beta coefficients; ε = Error Term.

3.7 Diagnostics Tests

Since the data was panel, the following diagnostic tests was relied on; normality, heteroskedasticity, multicollinearity, serial correlation and Hausman test.

3.7.1 Normality

Regression analysis is anchored on the assumption that error terms are normally distributed. Tharenou, Donohne and Cooper (2007) argue that normality of error term can be evaluated graphically or statistically. Graphical methods include steam and leaf plots, QQ plots, PP plots and histogram while statistical tests are based on assumption that error term has normal distribution against an alternative of not (Woodridge, 2012). Jarque Berra test was used and if its p value exceeds 0.05 then the error was normal thus no need for data transformation or deletion of outliers.

3.7.2 Linearity

Linearity assumption alludes that both predictor and response have linear relationship (Leech et al., 2011). It is mostly evaluated graphically; thus, scatter plot matrix was applied to elucidate the linearity between ESG and financial performance. Its non-compliance was alleviated through data transformation and deletion of outliers.

3.7.3 Heteroskedasticity

Indicates that there is consistency in variation of error term in the fitted model (Leech et al., 2018). Non-compliance of this assumption was examined using modified wald groupwise test and if its p value exceeds 0.05 then no need to fit model with robust standard errors and vice versa.

3.7.4 Multicollinearity

Further, regression models assume that selected independent variables are not correlated (Wooldridge, 2012). It was evaluated using correlation matrix, variance inflation factors and tolerance limits. If respective ESG have correlation coefficient exceeding 0.7 then there was multicollinearity while variance inflation factors below 5 depicts its absence. To manage the situation, the sample size may be increased or highly related attributes excluded from the study.

3.8 Ethical Considerations

Since the study was based on past empirical evidence, all sources of literature was acknowledged and cited appropriately. To enhance confidentiality of semi-autonomous organizations the study used unique codes for each organization. To aid in consolidation and gathering of data relevant research authorization and permit was applied for from NACOSTI. In addition, an introduction was sought from KCA university board of post graduate studies. Upon completion of the study all data was destroyed.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

The chapter presents and interprets results in order provide appropriate answers to the research questions of the study. The chapter is presented in three sections, the demographic variables, the descriptive analysis indicating the summary of the responses based on the mean, the standard deviation, percentages and the frequency for all the objectives and the inferential analysis where correlation and regression analysis was done to assess the strength of the relationship.

4.1. Response rate

The study distributed a total of 120 questionnaires. A total of 93 questionnaires were collected back for analysis. This represented a response rate of 77.5 % which is acceptable for analysis. According to Babbie (2015), a response rate of 70 % and above is acceptable for use in further analysis for a descriptive study. The 27 questionnaires that were not used in the analysis were from the respondents who were not present during the time when the questionnaires were being collected or they were returned but incomplete.

The results of the validity test according to Amin (2005) shows that Coefficient Validity Index formula was employed in determining the validity of the research instruments as shown;

$$\text{Coefficient Validity Index (CVI)} = \frac{27}{32}$$

$$= 0.84$$

According to Amin (2005), a research instrument is considered to be valid and therefore suitable for use in the analysis if the CVI is 0.6 and above. Therefore, for this study the validity index is 0.84 hence the questionnaire is considered valid

The results are presented in Table 3.

TABLE 3

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From the results the it is noted that all the tests done for the overall objective and for all other objectives had a Cronbach alpha reliability index of more than 0.7 meaning the instrument was reliable.

4.2 Presentation of Findings on the Study

The predictor variables of ESG on financial performance of the SAGAs in Kenya were investigated where the level of opinion given by the various respondents as far as agreement and disagreement on the aforementioned conceptual viewpoint were collected. To respond to this, the researcher provided the following 1-5 Likert scales, where; 1= strongly Disagree ,2= disagree ,3 = Neither agree nor disagree, 4= Agree and 5= strongly Agree. For the purpose of presentation, the responses were reduced to three where strongly agree and agree was presented as level of agreement while strongly disagree and disagree was presented as level of disagreement. Similarly, the mean and standard deviation were also computed and present.

4.2.1 Effect of Environmental Sustainability Disclosure on the Financial Performance of Semi-Autonomous Government Agencies in Kenya.

The first objective of the study was to assess the effect of environmental sustainability disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya. the respondents were asked to indicate their level of importance on the various issues provided that defined environmental reporting. Using a 5 scale Likert. The results are presented in table 4.

TABLE 4

Response on the effect of Environmental Sustainability Disclosure

Indicators of Environment al disclosure	D	NS	A	Mean	Std. Deviation
Air and water pollution	12(12.9%	11(11.8%	70(75.2%	4.09	1.049
Biodiversity	12(12.9%	16(17.2%	65(69.6%	3.90	1.012
Climate change	16(17.2%	7(7.5%	70(75.3%	3.92	1.055
Ecosystem services	15(16.1%	11(11.8%	67(72.1%	4.11	1.098
Energy efficiency	15(16.1%	18(19.4%	60(64.5%	4.09	1.239
Hazardous materials management	28(20.4%	8(8.6%	57(61.3%	3.99	1.202
Resource depletion	17(18.3%	12(12.9%	64(68.8%	3.90	0.979
Waste management Compliance	10(10.8%	18(19.4%	65(69.9%	3.88	0.954

Results presented on table 4 shows that majority of the respondents 70(75.2%) agreed with the statement that the firms have an effective policy on air and water pollution as compared to only 12 (12.9%) who disagreed. This implies that as part of environmental sustainability air and water pollution measured are taken to be very important. The study also found that most of the respondents 65(69.9%) agreed that biodiversity is very important in the performance of the firms, only 12(12.9%) of the respondents disagreed. This implies that through bio diversity the firms are able to conserve the environment and hence improve their performance.

The results also show that most of the respondents 70(75.2%) indicated that their respective firms take Climate change very seriously and they are very keen on their activities that can cause problem to the climate, only 16(17.2%) did not agree with the statement. This indicated that firms that seeks to improve their performance must embrace climatic change. The results also show that most respondents 66(71.0%) agreed that they considered Ecosystem services very important and this has influenced their level of performance. Only 12(12.9%) of the respondents disagreed. This implies that for SAGAs to improve their performance, environmental sustainability reporting is very important. In terms of energy efficiency, the results show that most respondents 66(71.0%) agreed that the performance of the firm is affected by its ability to use energy efficiently. Only 20(21.5%) disagreed with the statement. This implies that energy efficiency has an influence on the financial performance of SAGAs. The results also established that majority of the respondents 66(71.0%) agreed that Hazardous materials management influences the performance of the firm. Only 20(21.5%) of the firms disagreed with the statement. This implies that effective management of hazardous materials has an effect on performance of the firms. Regarding resource depletion majority of the respondents 74(79.6%) agreed with the statement while only 12(13.0%) disagreed. And lastly, most respondent's 65(69.9%) agreed that waste management Compliance is an important environmental sustainability reporting requirement while 10(10.8%) disagreed with the statement. the overall mean results clearly indicate that descriptively the respondents feel that environmental sustainability disclosure affects the financial performance of SAGAs operating in Kenya.

4.2.2 Effect of Social Sustainability Disclosure on the Financial Performance of Semi-Autonomous Government Agencies in Kenya.

The second objective of the study sought to assess the effect of social sustainability disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya. the respondents were asked to indicate their level of importance on the various issues provided that defined environmental reporting. Using a 5 scale Likert. The results are presented in table 5.

TABLE 5

Social Sustainability Disclosure on the Financial Performance

Indicators of Social disclosure	D	NS	A	Mean	Std. Deviation
Customer satisfaction	18(14.0 %	12(12.9%	63(67.8%	3.92	1.296
Diversity and equal opportunities	13(14.0 %	15(16.1%	65(69.9%	4.01	1.229
Employee retention and turnover	13(14.0 %	11(11.8%	69(74.2%	3.87	1.125
Employee compliance	19(20.5 %	6(6.5%	68(73.1%	3.83	1.221
Government regulations compliance	16(17.2 %	15(16.1%	62(66.7%	4.02	1.179
Community rights and relations	4(4.3%	19(20.4%	70(75.3%	3.90	0.753
Occupation, health and safety	2(2.2%	20(21.5%	71(76.4%	4.05	0.785
Product safety and liability	2(2.2%	14(15.1%	77(82.8%	4.08	0.711
Average				**3.96**	

The results of the study showed that most of the respondents 63(67.8%) agreed that Customer satisfaction was an important aspect of social sustainability disclosure while

18(14.0%) disagreed with the statement. The study also noted that most of the respondents 65(69.9%) agreed with the statement that diversity and equal opportunities is an important aspect of social sustainability reporting, only 13(14.0%) of the respondents disagreed with the statement. This implies that diversity and equal opportunity by the SAGAs influence the performance of the organization.

In regard to whether employee retention and turnover affects the performance of SAGAs, the results show that most respondents 69(74.2%) agreed while 13(14.0%) disagreed with the statement. It was also noted that most of the employees 68(73.1%) agreed that employee compliance influences the performance of SAGAs while 19(20.5%) disagreed with the statement. The results further show that most of the respondents 62(66.7%) agreed that compliance to government regulations by the SAGAs has an influence on the performance of the SAGAs. Only 16(17.2%) disagreed with the statement. Similarly, majority of the respondents 70(75.3%) agreed with the statement that community rights and relations have an effect on the performance of SAGAs. Only 4(4.3%) disagreed with the statement. This implies that SAGAs that adhere to government regulations on social disclosure and ensure that community rights and relations are effectively taken into consideration.

On whether occupation, health and safety disclosure have an effect of finical performance of SAGAs. The results show that most 77(82.8%) respondents social sustainability disclosure on the financial performance of the SAGAS. of the; respondents only 2(2.2%) disagreed with the statement. Lastly, most of the respondents 71(76.4%) agreed with the statement that product safety and liability are very critical social factors that influence the financial performance of SAGAs in Kenya. This implies that most of the respondents agreed that disclosure of social sustainability has an effect on the financial performance of the SAGAs. The overall mean (*M*= 3.96) show based on the opinion of the respondents they felt that social sustainability disclosure affects the financial performance of SAGA in Kenya.

4.2.3 Effect of Governance Sustainability Disclosure on the financial performance of Semi-Autonomous Government Agencies in Kenya.

The final element of ESG is governance (G). Disclosing governance information enables stakeholders and potential investors to seek out information relevant to their decision-making needs, such as ownership structure and board makeup (Rossi et al., 2021). The governance aspects analyze issues about procedures and systems to ensure that board members and management act in the best interests of their stakeholders. Being the third objective of the study, it sought to assess how governance disclosure affects financial performance of SAGAs in Kenya. The respondents were also expected to give their views and opinion in regard to the various statements that defined governance among the SAGAs in Kenya. The results are presented in table 6.

TABLE 6

Governance Sustainability Disclosure on the Financial Performance

Indicators of Governance	**D**	**NS**	**A**	**Mean**	**Std. Deviation**
Accounting Standards	12(12.9%	11(11.8%	70(75.2%	4.09	1.049
Anti-competitive behaviour	12(12.9%	16(17.2%	65(69.9%	3.90	1.012
Audit committee structure	16(17.2%	7(7.5%	70(75.2%	3.92	1.055
Board composition	12(12.9%	15(16.1%	66(71.0%	4.11	1.098
Bribery and corruption	20(21.5%	7(7.5%	66(70.9%	4.09	1.239
Business ethics	20(21.5%	7(7.5%	66(71.0%	3.99	1.202
Risk management and compliance	12(13.0%	7(7.5%	74(79.6%	3.90	0.979
Executive remuneration	10(10.8%	18(19.4%	65(69.9%	3.88	0.954
Whistleblowing schemes	12(12.9%	11(11.8%	70(75.2%	3.41	1.337
Average				**3.92**	

The results show that most of the respondents were in agreement with all the measures that were considered for this study in terms of governance disclosure. It is shown that 70(75.2%) of the respondents agreed that SAGAs follow accounting Standards in their disclosure reports, 65(69.9%) agreed that the firms practice anti-competitive behaviour in their disclosure while 70(75.2%) again indicated that audit committee structure practice was also an important disclosure factor for the SAGAs when considering governance sustainability.

The results further shows that most of the respondents 66(71.0%) agreed that SAGAs have appropriate board composition that is a sign of good governance, similarly, 66(70.9%) agreed that the firms are keen on ensuring that there is no bribery and corruption in order to improve their performance. Business ethics was also rated highly with 66(71.0%) of the respondents agreeing that it is an important consideration in governance disclosure by the SAGAs.

The results also show that most of the respondents 74(79.6%) noted that risk management and compliance is an important element in the disclosure of governance. Also 65(69.9%) and 70(75.2%) indicated that executive remuneration and whistleblowing schemes are important elements governance disclosure by firms in Kenya. Based on the results it is noted that governance sustainability disclosure has an effect on the financial performance of SAGAs in Kenya. The overall mean results (M=3.92) indicates that majority of the respondents agreed that governance sustainability disclosure has a effect on the financial performance of SAGAs in Kenya.

4.2.4 Descriptive Statistics on the Measures of Financial Performance

The study further collected the views and opinions of the respondents on various measures that define financial performance of SAGAs in Kenya. The respondents' views on whether they disagree or agreed with the statement, the results are presented on table 7.

TABLE 7

Response on Financial Performance

Measures of financial Performance	**D**	**NS**	**A**	**Mean**	**Std. Deviation**
ESG reporting has enhanced the value of the firm's value	33 (35.5%)	9 (9.7%	51 (54.9%	3.83	1.157
Effective evaluation of ESG measures has improved the surplus of the firm	17 (18.3%)	8 (8.6%	68 (73.2%	3.80	1.230
ESG reporting has enhanced our firm value through improved assets.	20 (211.6%)	3 (3.2%	70 (75.3%	3.71	1.157
Disclosure of ESG practices has minimized the costs	22 (23.7%)	13 (14.0%	58 (62.4%	3.92	0.969
ESG disclosures has improved the firms external rating hence improvement in firm performance	14 (15.1%)	5 (5.4%	74 (79.5%	3.38	1.351
Disclosure of ESG practices has improved stakeholder confidence hence improving return on assets	32 (34.5%)	0	61 (65.3%	3.87	1.034
ESG disclosures has improved investments and this has enhanced our firm performance.	11 (11.9%	17 (18.3%	65 (69.9%	3.62	1.114
Average				**3.73**	

The results show that most of the respondents 51(54.9% agreed that ESG reporting has enhanced the value of the firm's value while 33(35.5%) disagreed. It was also noted that most of the respondents 68(73.2%) agreed while 17(18.3%) disagreed with the statement that effective evaluation of ESG measures has improved the surplus of the firm. On whether ESG reporting has enhanced our firm value through improved assets., the study established that most of the respondents 70(75.3%) agreed while 20(211.6%) disagreed with the statement. it is also shown that 58(62.4%) of the respondents agreed that Disclosure of ESG practices has minimized the costs while only 22(23.7%) disagreed with the statement. The study also established that majority of the 74(79.5%) of the firms ESG disclosures has improved the firms external rating hence improvement in firm performance. Only 14(15.1%) of the respondents disagreed with the statement. The results also show that most of the respondents 61(65.3%) agreed with the statement that disclosure of ESG practices has improved stakeholder confidence hence improving return on assets. Lastly, the study established that most of the respondents 65(69.9%) agreed that ESG disclosures has improved investments and this has enhanced our firm performance. This shows that ESG disclosure has had an effect on the performance of the SAGAs in Kenya. The overall mean results show that majority of the respondents had the opinion that there is a link between sustainability disclosure and financial performance of SAGAs in Kenya.

4.3 Inferential analysis

The study sought to establish the relationship between the variables. to achieve this the correlation analysis and regression analysis were computed and presented. The test results were tested at a 5% significance level where by, if the P value was < 0.05 then the results were said to be statistically significant.

4.3.1 Correlation Analysis

The study also sought to establish the correlation between the three variables ESG and the financial performance of the SAGAs. The Pearson correlation (r) was computed to establish whether the correlation was positive or negative and the responses were presented on table 8.

TABLE 8

Correlations Analysis Between ESG Sustainability Disclosure and the Performance of SAGAs

Variables		**Environmental**	**social**	**Governance**	**Performance**
Environmental	Pearson Correlation	1	.163	.355**	.253*
	Sig. (2-tailed)		.120	.000	.015
Social	Pearson Correlation	.163	1	.142	.345**
	Sig. (2-tailed)	.020		.174	.001
Governance	Pearson Correlation	.355**	.142	1	.358**
	Sig. (2-tailed)	.000	.174		.000
Performance	Pearson Correlation	.253*	.345**	.358**	1
	Sig. (2-tailed)	.015	.001	.000	

The study's correlation data showed that there is a statistically significant relationship between environmental disclosure and performance of SAGAs ($r = 0.253$, $\rho < 0.05$). This implies that performance of firms that disclose their environmental information is likely to improve as they attract stakeholders who are concerned about environmental protection and are willing to support the SAGA in this initiative.

This is practically possible because, following the work of Rabiu et al. (Citation2022), the ESG disclosure requirement could have led to an additional increase in general expenses, reducing the financial performance in the short run. These findings correspond with previous studies (El Khoury et al., 2021 and Jibril et al., 2022), indicating that ESG had a detrimental effect on firm corporate performance. These findings indicate that company profitability would be improved when the costs of Environmental sustainability disclosure are reduced.

Consequently, the less disclosure of Environmental sustainability the higher the chance of improving financial performance. the weak correlation between the environmental sustainability disclosure is a clear indication that there are many other factors that have to be put in place to boost the overall performance of the firm in the midst of environmental disclosure.

Based on these results the study rejects the null hypothesis that there is no statistically significant relationship between the environmental disclosure and financial performance of SAGAs in Kenya, hence the alternative hypothesis that environmental sustainability disclosure has a statistically significant relationship with financial performance of SAGAs is accepted for this study. Theoretically, stakeholder theory which advocates that firms that prioritizing environmental concerns are more likely to experience improved performance as they aim to enhance overall firm efficiency. The results contradict with the findings of Saygili et al., (2022) whose findings were inconsistent with the current study findings depicting a negative relationship between environmental disclosure and financial performance .

The study also sought to the establish the correlation between the social sustainability disclosure and performance of SAGAs. The study's correlation data showed that there is a statistically significant relationship between social disclosure and performance of SAGAs ($r = 0.345$, $\rho < 0.05$). This implies that performance of firms that disclose their social information is likely to improve as they attract stakeholders who are concerned about social sustainability disclosure and are willing to support the SAGAs in this initiative. This supports the findings of Mardini, (2022) and Saygili et al., (2022) who established a relationship between social sustainability disclosure and financial performance of firms. They noted that firms that engage in social wellbeing of the employees, the customers and other stakeholders are likely to improve their performance. The analysis supports the findings of other scholars who noted that performance of a firm can be influenced by social sustainability controversies which can either ruin the image and reputation of the organization leading to significant negative income, and that proper community and employee investment can be used to enhance or taint the image of an organization leading to poor performance. Nonetheless, some other scholarly research has shown that social transparency is inversely associated to a firm's profitability. For example, research by Bătae et al. (2021) found that investors in some firms do not consider social involvement as an important aspect that would eventually improve financial performance. This finding is consistent with Duque-Grisales and Aguilera-Caracuel's (2021) and Menicucci and Paolucci's (2022).

According to stakeholder theory, social activities improve a company's financial success since it tries to deliver advantages to the parties involved in the network (Freeman, 1994). Further the results support the Legitimacy theory which notes that firms that take keen interest in meeting the needs of the society are more likely to improve their overall performance than firm that ignore the plight of the society. The hull hypothesis that there is no statistical significance between social sustainability disclosure and financial performance of SAGAs is rejected and the alternative hypothesis selected to support the study findings.

The results show that, there was a weak positive and significant correlation ($r = .358^a$; $p < 0.05$) between governance sustainability disclosure and the performance of the SAGAs. This implies that firms that are concerned about the disclosure of governance matters at the firm and influence it has on the financial performance in terms of the net assets and the surplus. The results show that governance disclosure, positively affects financial performance of SAGAs in Kenya.

These results support the findings of Atan (2017) who also found that ESG disclosure has a meaningful association with financial performance. This suggests that firms that report

ESG have the same market value as those who do not disclose it. Another study that supports this one is that of Haryono and Iskandar (2015), who found that other factors, not ESG disclosure, contribute to firms' performance. This suggests that companies demonstrating elevated governance standards can accomplish better profitability levels. This result is supported by previous studies (Ahmad et al., 2021; Maji & Lohia, 2022;). This suggests that the higher the GOV, the lower the financial performance of the selected firms. This result is supported by some earlier studies (Bahadori et al., 2021). The results however, contravenes findings from other previous study that have shown a negative link between governance disclosure and corporate financial performance. For example, Abdi et al. (2022) revealed governance disclosures that considerably reduced the airline industry's financial performance. It implies that better financial success may not necessarily result from an organization's investment in developing board and corporate social responsibility policies for airlines. Similarly, governance disclosure also had a detrimental impact on business performance from certain industries. According to stakeholder theory, strong governance improves financial performance by increasing openness and accountability, therefore pleasing the firm's stakeholders, especially shareholders.

Hence, this study rejects the hypothesis that; *there is no significant relationship between Governance Sustainability Disclosure and the Financial Performance of SAGAs in Kenya*. Therefore, the alternative hypothesis if a statistically significant relationship is supported.

4.3.2 Regression Analysis

Multiple regression analysis was used to determine how the three elements of ESG affect the financial performance of the SAGAs. The analysis was used to describe the relationship between the combined effect of the ESG and the financial performance of the SAGAs. The data from the indicators of each element were transformed on SPSS into an average response which was then used to compute the regression. The results are presented in table 9.

TABLE 9
Model summary of the Relationship Between Environmental, social and Governance Sustainability Disclosure Among the SAGAs.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.468[a]	.219	.193	.899	2.003

The results presented show that there is a weak positive but statistically significant relationship (R= 0.465; $P < 0.05$) between the three independent variables; environmental, social, governance disclosure and financial performance of the SAGAs. The results show that as the firms improves the disclosure of environment, social and governance, the financial performance is also improved. This positive response, which has a positive impact on the firm’s performance, arises because the firm has given a signal to stakeholders. This research is in line with previous research such as Andes et al. (2020), Ferreira and Fernandes (2017) which provides empirical evidence that a ESG can make a positive contribution to firs financial performance. Therefore, the current research could be said to have novelty based on previous research on the relationship between ESG disclosure and financial performance. These stakeholders become more appreciative of the organization when they see initiatives to boost productivity, contentment, employee involvement, and customer loyalty. Furthermore, ESG disclosure improves social image and can lead to a competitive advantage (Kotler & Lee, 2008). In fact, by engaging enterprises in ESG operations, market reputation may be obtained (Masliza et al., 2023).

The R^2 also shows that the relationship is significant as a unit change in the ESG disclosure improves financial performance by 21.7%. this therefore implies that firms that disclose their concern for environmental sustainability, social sustainability and governance sustainability are likely to show better performance.

These findings are consistent with the supplied stakeholder and the legitimacy theory, which are based on corporate resources and societal expectations from a company (Fahad & Busru, 2020; Sabatini & Sudana, 2019). The results also demonstrated that organizations with a high ESG score always have a strategy that aligns with their financial performance. Thus, stakeholders are willing to commit their environmental and social duty to the firm demonstrate that ESG disclosure has a favorable link with resources that contribute to a financial performance. When stakeholders learn that the firm has aspects of ESG they will respond positively. This favorable response, which has a beneficial influence on the firm's value, results from the corporation sending a signal to stakeholders.

On whether the model is statistically significant and can be used as a best fit in the prediction of future relationships between ESG and financial performance of SAGAs, the analysis of variance was computed and presented. this model was also important in assisting the researcher test the null hypothesis. The results are presented in table 10.

TABLE 10

Analysis of Variance Between ESG Disclosure and Firms' Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.165	3	6.722	8.325	.000[b]
	Residual	71.862	89	.807		
	Total	92.027	92			

The results revealed that the model is a suitable predictor of the relationship between ESG disclosure and financial performance of the SAGAs. This is shown by the F statistic = 8.325 and the $p < 0.05$. The critical F value if given as 3.92 and since this is lower than the calculated F value of 12,44, then the null hypothesis that, *there is no significant relationship between ESG disclosure and Firms Financial performance among the SAGAs,* is rejected and the alternative hypothesis is accepted.

The researcher also sought to establish how each variable contributes to the overall model of the study. To do this the researcher computed the regression coefficient for the combined effect of environmental, social and governance disclosure. The results are presented in table 11.

TABLE 11

Regression Coefficient for ESG and Financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.503	.719		.699	.486		
	Environmental	-.117	.216	-.074	-.539	.591	.460	2.172
	Social	.438	.136	.306	3.212	.002	.964	1.037
	Governance	.479	.178	.369	2.695	.008	.468	2.137

The results show that governance sustainability disclosure with a beta value of 0.479 has a statistically significant effect on the financial performance of the SAGAs in Kenya. The results indicates that a unit change in social sustainability disclosure results in a 43.8% improvement in the financial performance of the SAGAs. While environmental sustainability disclosure has -11.7% improvement in financial performance of SAGAs. Indicating that social sustainability disclosure is expected to lead to an improvement on financial performance of the SAGAs in terms of improved surplus and net assets of the firms. The improvement is noted to be statistically significant hence, does not occur by chance, given that the *t* statistic (3.212) was higher than the expected threshold of +2. Therefore, performance of SAGAs is expected to improve with an improvement in the social disclosure by the firms.

The results show that governance sustainability disclosure with a beta value of 0.369 has a statistically significant effect on the performance of the SAGAs in Kenya. The results indicates that a unit change in governance sustainability disclosure results in a standardized beta value of 36.9 % improvement in the financial performance of the SAGAs. Indicating that governance sustainability disclosure is expected to lead to an improvement on financial performance of the SAGAs in terms of improved surplus and net assets of the firms. The improvement is noted to be statistically significant hence, does not occur by chance, given that the *t* statistic (2.695) was higher than the expected threshold of +2. Therefore, performance of SAGAs is expected to improve with an improvement in the governance disclosure by the firms.

The results indicate that the four indicators are critical in enhancing the level of productivity among the teaching staff in public universities. The findings of this study agree with the findings of Jalloh, & Ming, (2020) who indicated that there is a strong statistical relationship between the three factors; Environmental, social and governance. The variables have a significant statistical contribution to the level of financial performance. This finding further shows that SAGAs that disclose Environmental factors have not been able to improve their performance The absence of an influence from Environmental disclosure on firm performance is explained by the possibility that stakeholders could not have immediately given a positive response or signal to the disclosure to warranty an improvement in performance.

Likewise, Servaes and Tamayo (2013) revealed that ESG disclosure does not directly affect the financial performance of firms. It is insufficient to solely focus on environmental, social and governance aspects; it is also essential to take into consideration other factors that intervene the relationship. In addition, the results of this research on environmental disclosure are different from those produced by Dkhili (2023), who noted that environmental disclosure has a negative impact on financial performance.

The regression model or function is presented below.

$Y= 0.503-0.117X_1+ 0.438X2 + 0.479X_3$

Y= Financial performance

X_1= Environmental sustainability disclosure

X_2= Social sustainability disclosure

X_3 = Governance sustainability disclosure

The findings imply that the SAGAs could be incurring very high expenditures related to environmental disclosures. As a result, these costs lower the firm's predicted performance. Consequently, financial performance is reduced. On the contrary, social disclosure and Governance disclosure has been noted to have a favorable and considerable impact on the financial performance of the SAGAs. This might practically demonstrate that effective social responsibility and governance improves organizations' overall performance.

4.4 Regression Assumptions Test

This section was presented to check whether the regression assumptions of normality Linearity, Multi-Collinearity, and Independence of the Error term was tested.

4.4.1 Normality of the Variables

The study sought to test whether the data was normally distributed around the mean or not. For this study the normality was tested using Skewness as proposed by Leech, Baumgartner, Larsen-Price, & Rutledge, (2011). As rule of thumb, the value of Skewness should be between ± 3 (Leech, et. al. 2011). The results are presented in table 12.

TABLE 12

Normality of the variables

Variables	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Environmental	93	3.6290	.70865	-.802	.250	.704	.495
social	93	3.96	.700	-.903	.250	-.018	.495
Governance	93	3.99	.771	-.589	.250	-.762	.495
Financial Performance	93	3.70	1.000	-.197	.250	-1.032	.495
Valid N (listwise)	93						

The results show that for all the indicators the skewness was within the expected range of ± 3: This implies that the data was normally distributed since the standard deviation was less than 3. Hence the assumption of normality was met in the study.

4.4.2 Linearity and Multi-Collinearity and independence of error term

For linearity, independence of error term and multi-collinearity the results were presented in Table 13.

TABLE 13

Test Statistics for Linearity, Multi-Collinearity and Independence of Error Term

Model	Pearson correlation	Collinearity Statistics		Durbin Watson Test
		Tolerance	VIF	
Environmental disclosure	0.253	.460	2.172	1.881
Social Disclosure	0.345	.980	1.021	1.842
Governance Disclosure	0.358	.980	1.021	1.881
ESG	0.465			2.008

The results show that all the coefficient values of Pearson product moment correlation for testing the correlation. Since all values were less than 1, then the study indicates that the assumption of linearity among the variables was met.

The study tested for multi collinearity among the predictor variables, variance-inflation factor (VIF) and tolerance were applied. Tolerance values of less than 1 and VIF values of less than 5 indicates that there is no multi-collinearity among the predictor variables (Ott and Longnecker, 2001). The results of the study therefore indicates that there is no multi-collinearity in the study variables since all the tolerance values were less than 1 and the VIF values are less than 5.

The Durbin Watson Test was used to determine the independence of errors. Durbin Watson Test value statistics ranges from 0 to 4 (Hair et al, 2010). For this study the values were all within the expected thresh hold of 0 to 4. This indicates that there was independence of error terms in the data.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS.

5.1 Introduction.

The goals, methods, findings, ideas for additional research, and recommendations are outlined in this section. Additionally, the study is designed with the sequential research aims in mind.

5.2 Summary of Findings

The study aimed to analyze the impact of Environmental, Social, and Governance (ESG) on financial performance within Semi-Autonomous Government Agencies (SAGAs) in Kenya. It decomposed ESG into its pillars and examined the relationship between financial performance and ESG. The findings revealed that ESG compliance is common among SAGAs, with most reporting compliance on their annual financial results. The study used descriptive and inferential statistics to analyze data and found a strong association between ESG disclosure, social sustainability disclosure, and governance sustainability disclosure. This contributes to our understanding of ESG elements and their impact on financial performance.

The study found that SAGAs are actively disclosing their environmental, social, and governance sustainability, which is positively correlated with their financial performance. The majority of respondents believe that their adoption of environmental sustainability issues contributes to their financial performance. The correlation and regression analysis also revealed that the disclosure of environmental sustainability significantly improves the financial performance of the firms. This supports the findings of Radhouane et al. (2020) further explain that the regression model assign negative value to environmental disclosure by firms.

The study also noted social disclosure was an important element of reporting in the financial statements. This disclosure also has a very significant correlation with financial performance and the disclosure effectively improved the financial performance of the SAGAs in terms of return on assets and surplus reported on the financial statements.

Lastly the study has established that that financial performance of SAGAs could be influenced by the level of disclosure of governance issues in the SAGAs. The results clearly show that the financial performance of SAGAs was statistically correlated with the level of disclosure of governance sustainability. Using the main components of the ESG score (that is , environmental disclosure, social disclosure and governance disclosure) separately in the regression analysis, this study finds that the associations between environmental, social and governance disclosures and firm performance were consistent with the main results, but, the interaction between environmental disclosure was not statistically significant and also it was negative

The findings of the present study have several policy and practitioner implications. For example, managers may engage in ESG to enhance their firms' financial performance, which believed to help SAGAs to rationalize their decisions around the financial performance. Likewise, the results reiterate the crucial need to integrate more social, environmental and economic regulations to promote sustainability in the Kenya among the SAGAs. The study also offers a systematic view for policymakers in the Kenya as well as future researchers.

The study further highlights the importance of ESG disclosure for company management, highlighting its potential to enhance competitive advantage, particularly in non-financial companies. It emphasizes the need for optimal ESG disclosure, as this can boost the company's value and attract regulatory bodies and stakeholders. The research also suggests that regulators, including the government and financial services authority, should focus on increasing ESG disclosure by companies, particularly non-financial ones. Stakeholders like investors, creditors, and the public can provide valuable insights into economic decisions related to ESG disclosure, competitive advantage, and company value, thereby improving the appropriateness of practitioners' decisions and actions.

This study contributes to the development of literature on the link between ESG disclosure and firm value. Aside from that, this study reinforces stakeholder theory, which claims that ESG disclosure may be used to gain a competitive advantage, particularly in financial and sustainability disciplines. By providing ESG aspects, a firm creates valuable resources, putting it ahead of companies who do not disclose ESG elements. Furthermore, this study supports legitimacy theory, which claims that ESG disclosure may improve societal confidence and, as a result, increase the value of the business.

As much as the results have indicated that ESG disclosure affects financial performance of firms , the study reinforces Jensen and Meckling's postulation of agency theory, arguing that ESG has no financial value because the corporation spends money on non-productive activities. As a result, in the long run, enterprises with strong environmental and social disclosure are more likely to have greater access to trade finance and be well-known in their host community. This would increase opportunities for compliant enterprises, resulting in increased investment and performance. This will surely boost enterprises' financial performance while also benefiting firms that have not completely cooperated.

5.3 Conclusion

The conclusions of this study are drawn from the outcome of the data analyzed as reported in the findings. We therefore make conclusions for each objective of the study as follows;

The study sought to assess whether environmental sustainability disclosure statistically affected the financial performance of Semi-Autonomous Government Agencies in Kenya. The results showed that the null hypothesis was rejected and this gave rise to acceptance of the alternate hypothesis that indicated that there is a significant influence of environmental sustainability disclosure on financial performance of Semi-Autonomous Government Agencies in Kenya. Therefore, the study concluded that environmental sustainability disclosure is an important element that impacts on the financial performance of the SAGAs in Kenya.

The null hypothesis on the aspects of social sustainability disclosure which is the second hypothesis states that “There is no significant influence of social sustainability disclosure on financial performance of Semi-Autonomous Government Agencies in Kenya” was rejected. This again resulted to acceptance of the alternate hypothesis that indicates that disclosure of social sustainability statistically affects financial performance of Semi-Autonomous Government Agencies in Kenya. Therefore, the study concludes that social sustainability disclosure plays an important role in enhancing the cohesion among the employees and other stakeholders improve their commitment and hence participation in the operations of the firm hence improved performance.

In regard to the third objective that sought to establish whether governance disclosure among the SAGAs influenced financial performance of Semi-Autonomous Government Agencies in Kenya. The null hypothesis that there was no significant effect between governance disclosure and the financial performance of the SAGAs was rejected and this meant acceptance of the alternate hypothesis that there is a significant influence of financial performance of Semi-Autonomous Government Agencies in Kenya. This study concludes that governance sustainability disclosure influences the financial performance of SAGAs in Kenya. Additionally, since the effect of governance sustainability disclosure on performance of SAGAs is positive and significant then the SAGAs could adopt the ESG disclosure for improved financial performance.

It is also concluded that the findings of this study would be extremely relevant to the government, investors and firm’s management. For instance, firms may improve their disclosure of ESG along with integrating their ESG information within their financial reports in order to enhance their financial performance, which may help investors to understand and make their investment decision easily. Additionally, the findings recommend policymakers to develop more effective enforcement mechanisms for list firms to be mandatorily engaged in integrating their ESG information within their financial reports.

5.4 Recommendations to the Study

Arising from the inquiry results and conclusions, several recommendations geared towards Policy formulations were suggested.

This study recommend that environmental sustainability disclosure enhances the financial performance of SAGAs and therefore should be adopted by all government Agencies since in the study, disclosure of environmental sustainability is supposed to help keep the Agencies on track.

Secondly, SAGAs need to embrace effective and efficient social sustainability disclosure to guarantee that operations in the Agencies are done in line with ensuring social integrity. This study determined that SAGAs which have embraced social disclosure, have improved and enhancement their financial performance.

Thirdly, the SAGAs need to undertake thorough analysis of governance sustainability disclosure. This could enable SAGAs expand their operations and have a good structure in place thus leading to improvement in financial performance.

5.5 Suggested Areas for Further Research

This investigation was meant to find out how the concept of ESG disclosure affects financial performance of SAGAs of Kenya. The study suggests that further research be conducted to expand the scope in terms of the SAGAs involved in order to clearly make a statement on the influence that ESG disclosure has on the performance of the SAGA. Future research should also be done to explore the impact of ESG disclosure on firm value across all types of companies, including both financial and non-financial ones, and consider other attributes like suppliers, investors, financiers, to better understand the differences between financial and non-financial companies and to understand their unique characteristics.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Effect of sustainability disclosure on financial performance of semi-autonomous government agencies in Kenya

1.Does your company disclose on Environmental, Social and Governance activities?

□ Yes □ No

2. If Yes, in which reporting media is the Environmental, Social and Governance disclosures published? (Please check boxes for all that apply)

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

3.Using a scale of 1-5, please indicate your agreement/ disagreement level with the statements in the tables in regard to ***Effect of sustainability disclosure on financial performance of semi-autonomous government agencies in Kenya***. The rating scale indicates agreement levels as follows: 1-Strongly Agree (SA), 2 – Agree (A), 3- Neither sure (NS), 4 – Disagree (D), 5 – Strongly Disagree (SD).

Rate the level of agreement on the following environmental issues to consider in firm's Environmental disclosure	**SD**	**D**	**NA**	**A**	**SA**
Air and water pollution					
Biodiversity					
Climate change					
Ecosystem services					
Energy efficiency					
Hazardous materials management					
Resource depletion					
Waste management Compliance					

Rate the level of agreement on the following Social items to consider in firm's Social disclosure					
Customer satisfaction					
Diversity and equal opportunities					
Employee retention and turnover					
Employee compliance					
Government regulations compliance					
Community rights and relations					
Occupation, health and safety					
Product safety and liability					
Rate the level of agreement on the following corporate governance items to consider in firm's Corporate Governance disclosure					
Accounting Standards					
Anti-competitive behaviour					
Audit committee structure					
Board composition					
Bribery and corruption					
Business ethics					
Risk management and compliance					
Executive remuneration					
Whistleblowing schemes					
Performance of the firm					
ESG reporting has enhanced the value of the firm's value					

Effective evaluation of ESG measures has improved the surplus of the firm					
ESG reporting has enhanced our firm value through improved assets.					
Disclosure of ESG practices has minimized the costs					
ESG disclosures has improved the firms external rating hence improvement in firm performance					
Disclosure of ESG practices has improved stakeholder confidence hence improving return on assets					
ESG disclosures has improved investments and this has enhanced our firm performance.					

APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Isaak Parmut

KCA University

Nairobi

Dear Respondent,

RE: Request to Collect Data for Research

My name is Isaak Parmut, a Master's student from the KCA University. I am undertaking my school project entitled *Effect of sustainability disclosures on financial performance of SAGAs in Kenya. I* would like your help with this research. By filling out the attached questionnaire, you'll be contributing valuable data to this study. Your privacy is important, so all your answers will be kept confidential and used only for this research. The questionnaire itself won't ask for any personal information like your name or address.

Thank you.

Kind Regards

Isaak Parmut

APPENDIX II: INTRODUCTION LETTER FROM THE INSTITUTION

APPENDIX III: NACOSTI PERMIT

APPENDIX IV: SEMI-AUTONOMOUS GOVERNMENT AGENCIES

	FIRMS
1	Kenya Rural Roads Authority
2	Kenya Roads Board
3	Road Maintenance Levy Fund
4	National Government Constituencies Development Fund
5	The Kenya Power and Lighting Company; Plc
6	Communication Authority of Kenya - Universal Service Fund
7	Kenya National Highway Authority
8	Kenya Electricity Generating Company Plc
9	Kenya Pipeline Co. Ltd
10	Communications Authority of Kenya
11	Kenya Urban Roads Authority
12	Kenya Ports Authority
13	Kenya Institute Of Curriculum Development (KICD)
14	Roads Annuity Fund
15	Kenya Wildlife Services
16	Kenya Electricity Transmission Company Limited
17	Constingencies Fund Account
18	Kenya Airports Authority
19	KeNHA Levy Fund
20	