

**EFFECTS OF SUSTAINABILITY REPORTING ON THE FINANCIAL
PERFORMANCE OF MANUFACTURING FIRMS IN KENYA**

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)

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COMMERCE (FINANCE AND ACCOUNTING) IN THE SCHOOL OF BUSINESS
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OCTOBER, 2025

DECLARATION

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

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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.

Signed:..... Date: 23rd October 2025.....

Prof. Edward Owino PhD.

ABSTRACT

The last decade has seen sustainability reporting gain momentum across the globe. The number of stakeholders consuming financial and non-financial information about companies' activities has risen. This study examined the effect of sustainable reporting on the financial performance of manufacturing firms in Kenya. The general objective of the study was to examine the effect of sustainable reporting on the financial performance of manufacturing firms in Kenya. This study had four specific objectives: to assess the role of environmental disclosures, social disclosures, governance disclosures and economic sustainability disclosures on financial performance of manufacturing firms in Kenya. This study adopted correlational research design. The population of this study were all manufacturing firms in Kenya that are member firms of Kenya Association of Manufacturers. The sample comprised of 310 manufacturing firms. Primary data was collected by use of a structured questionnaire. Both descriptive and inferential statistics were used in data analysis. The results of the study should that sustainability reporting had significant role on financial performance of manufacturing companies in Kenya ($R^2= 0.423$, $p<0.05$). Further, the study found out that there was a significant positive effect of environmental disclosure on financial performance ($\beta=0.136$, $p<0.05$). Similarly, social disclosures had positive significant effect on financial performance ($\beta=0.110$, $p<0.05$). Also, similar outcome was found for the effect of governance disclosures on financial performance ($\beta=0.193$, $p<0.05$) and economic sustainability disclosure on financial performance of manufacturing firms in Kenya rejected ($\beta=0.261$, $p<0.05$). This implied that all components of sustainability reporting had positive effect on financial performance of manufacturing firms. The study recommended that manufacturing firms should adopt sustainability reporting in full as this would improve financial performance. Equally, it was recommended that policy makers such as Capital Markets Authority to come up with sustainability reporting framework that would work for local companies in Kenya.

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ACRONYMS AND ABBREVIATIONS

CIS-	Collective Investment Schemes
CMA-	Capital Markets Authority
ESG-	Environmental, Social and Governance
GDP-	Gross Domestic Product
ICPAK-	Institute of Certified Public Accounts of Kenya
ICPAK-	Institute of Certified Public Accountants
KAM-	Kenya Association of Manufacturers
NSE-	Nairobi Securities Exchange
OLS-	Ordinary Least Squares
SPSS-	Statistical Package for Social Sciences
VIF-	Variance Inflation Factors

OPERATIONAL DEFINITION OF TERMS

Economic sustainability disclosures- this is sharing of information in relation to a company's economic performance (Orazalin & Mahmood, 2018).

Environmental disclosures- is sharing of information in relation to a company's environmental impact (Lin, 2023)

Financial performance- refers to the output of a firm's operations put in financial metrics. It therefore entails quantification of outcome in a way that it shows how financial objectives, investment goals are achieved by enhancing firm revenues (Basset, Ding, & Metawa, 2020)

Governance disclosures- this is sharing of information in relation to a company's structure and activities (Almeyda & Asep, 2019).

Manufacturing firms- these are firms engaging in conversion of raw materials to other products (Kenya Association of Manufacturers, 2024).

Social disclosures- is sharing of information in relation to a company's social impact (Minutolo, Werner, & Stakeley, 2019).

Sustainability reporting- is where organisations report on their activities in respect to environmental, social and governance practices (Kasbun & Boon, 2016).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Manufacturing companies in Kenya make significant contribution to growth of the economy in several ways. Foremost, these companies are key drivers of industrialization, provide employment opportunities and save the country from excessive imports (Kenya Association of Manufacturers, 2024). It therefore follows that; a financially stable manufacturing sector is crucial. With the advent of dynamics in resource use, pollution, climate change and global warming, it has become crucial for companies to report on other qualitative matters, other than how well they are achieving their profit objectives (Almeyda & Asep, 2019; Fadel, 2021).

As firms struggle to achieve good financial performance, the need to do it suitably is imminent. For instance, the UN Climate Change Conference (COP21) promulgated the Paris Agreement whose beacons are to ensure economic and social transformation through adherence to sustainable production that is cognizant of climate change and global warming. Therefore, nations, at wider scale and firms are more concerned with their activities' effect on the environment, more profoundly than ever before. In practice, this is what has been commonly referred to as sustainability reporting as it encompasses further disclosures such as environmental, social and governance disclosures, over and above the financial metrics (Amel-Zadech & Serafeim, 2018; Dzugwahi & Ola, 2024).

Globally, mandatory sustainability reporting for public interest entities such as listed companies, is set to begin in the year 2027, although first phase commenced in the year 2024. However, the roadmap towards this deadline is flimsy for most countries (Lehenchuk, Iryna, & Olena, 2023). Even though, there has been an increasing need for firms to report how they are undertaking activities to achieve their goals, those of the society and governance practices. These dynamics have brought about sustainability reporting, as it entails publishing information about other aspects other than financial information (Dzugwahi & Ola, 2024).

Sustainability reporting aims at providing further information other than financial metrics. According to Bually *et al.*, (2020) the overarching issue in sustainability reporting is to provide information in regard to Environmental, Social and Governance (ESG) aspects. It seeks to integrate these dimensions in the annual reports for companies simply because this portrays the organization's dedication towards environmental conservation, protection of societies and observance of robust governance practices. According to Institute of Certified Public Accountants of Kenya (ICPAK, 2025), sustainability reporting in Kenya is yet to take the desired trajectory ahead of the mandatory disclosure deadlines. Therefore, this may pose a challenge to firms due to lack of capacity. At the same time, Lehenchuk, et al., (2023) note that the role of sustainability reporting on firm performance is controversial as policy makers and industry managers are yet to agree on the link between the two issues. In developing economies, ESG reporting is yet to take place due to inefficient regulatory framework. This makes it difficult for companies to adhere to global standards on sustainability reporting.

1.1.1 Sustainability Reporting

Simply, sustainability reporting is where organizations report on their activities in respect to environmental, social and governance practices. Therefore, it is a process of ensuring that firms use resources fairly, protect the environment and do not act in disregard to human rights. In essence, the basic role of sustainability reporting is to improve corporate social responsibility by organizations in a more advanced and organized manner (Kasbun & Boon, 2016). Most companies around the world are more concerned about sustainability in performance, more now than never for a number of reasons. First, there has been sporadic catastrophic events such as hurricanes, droughts and flooding and this has been attributed to climate change which is in turn due to unsustainable activities (Fadel, 2021). Secondly, people are more aware of their rights and demand friendly and safer goods from firms. Lastly, organizations' management is expected to be at the forefront of promoting sustainability in activities.

There are three main disclosures that are embedded in sustainability reporting; environmental, social and governance reporting (Dzugwahi & Ola, 2024). First, environmental reporting which entails information on how firm's activities have affected the natural environment. This includes how activities are undertaken with environmental concern and how environmental conservation is done. Second, social reporting entails reporting on how companies observe societal expectations, create value and report on any social missteps that might have occurred (Al-Sheer, 2020). Lastly, governance reporting which entails reporting on corporate governance practices. Essentially, sustainability reporting which is interchangeably reported as ESG reporting seeks to enhance credibility and accountability of organizations.

It goes over and above the financial metrics that are contained in financial statements but has other information that communicate to other stakeholders on matters relating to ESG (Buaily, Fadel, Saudagaran, & Al-Ajmi, 2020).

1.1.2 Financial Performance

Financial performance refers to the output of a firm's operations put in financial metrics. It therefore represents the outcome of activities and is expressed in financial measures. It therefore entails quantification of outcome in a way that it shows how financial objectives, investment goals are achieved by enhancing firm revenues (Basset, Ding, & Metawa, 2020). Moreover, financial performance itemizes outcomes in monetary terms as it shows the value of money created by entities over a period of time. By understanding and establishing the financial performance of an entity, a firm's financial wealth and stability can be deduced and this is useful in making policy and practice guidelines that lead to firm growth.

In addition, financial performance looks into how revenue is earned in line with expenses that are incurred. Therefore, it is a composite measure of efficiency in resource use as it relates revenue and expenses. At the same time, financial performance considers financial viability of firms as it is a measure of sustainability. According to Kaydos (2020) financial performance does not only entail establishment of revenue but looks into the bottom line for organization in which principles and procedures are evaluated in respect to how they improve the overall health of firms. As such, over and above measuring financial returns, financial performance considers the existing business strategy and governance structures and reports on whether these are in tandem with the financial objectives of entities (Nguyen, Mohammed, Ntim, & Wu, 2021).

There are a number of reasons that organization's financial performance is important. First, it is a platform for measuring results of operations for a period of time and therefore offers robust feedback on whether resources are utilized in efficient manner. Second, financial performance provides information on whether entities are receiving value for money from their employees and lastly, it is a sound framework for evaluating strategic objectives (Micheli & Manzoni, 2020). Equally, measuring financial performance is important as it shows whether companies are making profits or not.

Financial performance is the central measure of stability of firms (Gift, Okoye, & Ndubuisi, 2021). Moreover, it shows whether companies' growth is in line with its goals, vision and mission. Profit oriented companies consider financial performance is an important metric to shareholders as it shows how well their investments are doing. There are various measures of financial performance such as revenue growth, net income margin, return on assets and return on capital employed. In this study, financial performance was measured in terms of net income margin. Net income margin is the residual of revenue over expenditure and costs incurred in generation of income. It is a sound financial performance measure as it communicates efficiency in resource usage (Delen, Kuzey, & Uyar, 2013).

1.1.3 Manufacturing Firms in Kenya

The manufacturing sector in Kenya is an important economic segment for a number of reasons. First, the sector is second largest sector after agriculture. In the year 2023, the manufacturing sector contributed 17.2 percent of Gross Domestic Product (GDP), second highest after agriculture which accounted for 21.3 percent of GDP (Kenya Association of Manufacturers, 2024). Therefore, the sector contributes to economic growth.

Second, the sector is a key player in poverty eradication through creation of jobs. The sector also is an important link in value chain improvements considering that it entails processing of raw materials into higher value finished goods. Lastly, the sector enables Kenya to exploit her vast natural resources which would otherwise be idle as people suffer in abject poverty. The sector has contributed to industrialization goals. Even though the sector is essential, there are various challenges that bedevil it. For instance, competition of cheaper imports has led to poor performance of some manufacturing firms in Kenya. In addition, the sector is significantly affected by issues to do with global warming and climate change. It is therefore plausible to interrogate this sector in a diverse manner so that policies can be formulated to enhance sustainability of the sector.

1.2 Statement of the Problem

The last decade has seen sustainability reporting gain momentum across the globe. The number of stakeholders consuming financial and non-financial information about companies' activities has risen. According to Buallay, et al., (2020) firms are nowadays required to include sustainability reports over and above the usual financial statements. Nevertheless, sustainability reporting's effect on financial performance of firms still remains controversial.

Domanović (2022) notes that there is no direct link between ESG disclosures and financial performance of firms in Serbia. This contradicts the findings of Zhang, (2025) who reported that there is direct and significant relationship between ESG and financial performance of firms in China. Further, Amel-Zadech and Serafeim (2018) argue that sustainability reporting highlights organizations' achievement in taking care of the environment, social needs and soundness of governance.

Therefore, firms that are cognizant of sustainability reporting tend to have good reputation but it has not been established whether this leads to good financial returns. In addition, ESG reporting adds more work to reporting costs and as it covers more dimensions in contrast to traditional financial reporting (Qiu, Shaukat, & Tharyan, 2016). This infers that the causal association between sustainability reporting and firm performance need to be examined.

Companies in Kenya has not fully embraced sustainability reporting even after standards have been implemented on sustainability reporting. For instance, IFRS S1 and S2 requires entities to disclose all information that is material to sustainability (CMA, 2025). For instance, IFRS 1 requires firms to report all risks that can put the prospects of companies in jeopardy and opportunities that are present in the market. IFRS S2 is based on climate related disclosures where companies need to disclose climate related information. Nevertheless, most companies in Kenya, even those listed and regulated by Capital Markets Authority are yet to fully implement sustainability since issuance of the standards on June 2023 (CMA, 2025).

A number of studies have looked into role of sustainability reporting on firm performance but not much have been done in Kenya and more so among manufacturing firms. And of the available researchers, some have differing results. For example, Shaban and Barakat (2023) delved into role of sustainability reporting on firm returns in Jordan. The study's results implied that there was a strong positive effect of ESG reporting on bank's performance. However, this study was not done in Kenya and was done among commercial banks. Dzugwahi and Ola (2024) looked into sustainability reporting in Nigeria. Their study focused on non-financial firms and results evidenced that economic disclosures and social disclosures had positive effect on firm performance.

In Kenya, Kingwara, et al., (2020) delved into linking environmental disclosure and firm performance of firms in Kenya. The study used a panel data from listed firms at the Nairobi Securities Exchange (NSE). The results showed that environmental sustainability had positive and significant effect on return on assets while it did not affect return on equity and firm value. Overall results could not establish whether environmental disclosure improved or worsened financial performance. This left the question on whether ESG disclosures affect financial performance unanswered. In another study, Ngatia (2014) sought to link ESG and financial performance of firms at the NSE. Results of multiple regression analysis showed that economic, environment and social disclosures had positive and significant effect on firm performance. The research did was not done among manufacturing firms and still did not explore all firms at it focused on listed firms whose adoption of ESG disclosures is mandatory from the year 2027. In bridging the gaps, the study purposed to examine the effect of sustainable reporting on financial performance of manufacturing companies in Kenya.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of the study was to examine the effect of sustainability reporting on the financial performance of manufacturing firms in Kenya.

1.3.2 Specific Objectives

This study had four specific objectives:

- i. To examine the effect of environmental disclosures on financial performance of manufacturing companies in Kenya

- ii. To determine the effect of social disclosures on financial performance of manufacturing companies in Kenya
- iii. To determine the effect of governance disclosures on financial performance of manufacturing companies in Kenya
- iv. To analyze the effect of economic sustainability disclosures on financial performance of manufacturing companies in Kenya

1.4 Research Questions

This study sought to provide answers to the following research questions;

- i. What is the effect of environmental disclosures on financial performance of manufacturing companies in Kenya?
- ii. What is the effect of social disclosures on financial performance of manufacturing companies in Kenya?
- iii. How do governance disclosures affect financial performance of manufacturing companies in Kenya?
- iv. What is the effect of economic sustainability disclosures on financial performance of manufacturing companies in Kenya?

1.5 Significance of the Study

The study is significant in a number of ways. The results of the study are valuable to management of manufacturing firms in Kenya since they can obtain information on how sustainability reporting can influence firm performance.

Moreover, the results can be used by policymakers such as Capital Markets Authority (CMA), Institute of Certified Public Accountants (ICPAK) to offer guidelines on how to operationalize sustainability reporting stipulations. Lastly, the study's findings are essential to other scholars as it contains empirical evidence on role of sustainability reporting on financial performance in developing countries.

1.6 Scope of the Study

The study aims at interrogating the effect of sustainable reporting on financial performance of manufacturing companies in Kenya. The study was done in Kenya and examined four sustainability disclosures: environmental, social, governance and economic sustainability. Primary data was sourced from a sample of manufacturing firms in Kenya. The study was undertaken from October 2024 to October 2025.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The concern of this chapter is to offer a wide review of relevant literature in relation to the study. This literature review objects to characterize the existing knowledge in the field of sustainable reporting and financial performance and further demonstrate the need for this study. It is arranged into six sub-sections; theoretical review, empirical review, knowledge gap, conceptual framework, research hypotheses and operationalization of variables.

2.2 Theoretical Review

The need for undertaking a theoretical review is to relate research to existing theories which aids in integrating key concepts of a given study. Additionally, theoretical review opens up a new frontier in regard to information about concepts of a study or variables thus providing room for examination of research questions. Considering the variables of the study, this study is pegged on three theories.

2.2.1 Stewardship Theory

Stewardship theory's main proposition is that people by default or condition desire to work for other parties in a way that their own interests are second. The theory was formed by Davis, et al., (1997) who argued that people look at ways in which they can discharge their duties in the best way possible, not to enrich themselves but to collectively contribute to the welfare of organizations. The theory also posits that people seek to accomplish tasks that are for the common good of entities, society or countries. For instance, in an organization, managers have an intrinsic desire and are accountable to work in the most prudent way so as to meet the needs of the organization and those who relate with it (Keay, 2017).

According to Kojo (2024) stewardship theory advocates for trust-based leadership in organizations where those in managerial positions can be trusted to fulfil the needs and expectations of other parties that have interests in the organization. In other words, it echoes the concern in the principal-agent theory where managers are considered to hold those positions on behalf of other parties. In this sense, managerial behavior should be prudential and robust so that goals that are sought are for all parties (Abels, 2024). Again, it advocates for sound governance practices where due care is taken by those in leadership positions. Thus, managers should be stewards in that they need to protect and preserve resources of organizations to achieve collective goals. In absence of this stewardship mentality, managers may be motivated to seek personal interests rather than those of the organization (Jasir, et al., 2023).

Stewardship theory has been adopted in the study as it clearly relates to the main independent variable: sustainable reporting. The theory advocates for managers not to seek self-interest but perform their duties in full respect to organization's needs. In addition, the theory advocates for sound governance practices where organization's utilities rank higher than individual goals. On the other hand, sustainable reporting aims are showing what organizations are doing in regard to environmental conservations, societal contributions and governance. Where managers adopt stewardship role, in light of the stewardship theory, they likely commit to better the welfare of the environment, societal and governance of entities. In this sense, understanding the theory provides optimal knowledge on mechanisms that can be used to promote firm wellness.

2.2.2 Stakeholder Theory

As per the stakeholder theory, organizations undertake their business activities while interacting with other parties that are impacted by the activities or have inalienable interests in those organizations. The theory was proposed by Freeman (1984) who noticed that no organization operates in isolation in that organizations have internal and external stakeholders. In this theory, a stakeholder is considered as a party that has a specific or general claim or interest in organizations. For instance, a manufacturing company has various stakeholders such as suppliers, government and customers that form its external stakeholders while the employees and owners form the internal stakeholders. Therefore, organizations must undertake operations in the soundest ways while addressing morals and societal needs without forgetting the expectations of shareholders and interests of employees (Dmytriyev, et al., 2021).

According to Waheed and Zhang (2022) stakeholder theory integrates the needs of various parties that may be affected by the operations of organizations. For instance, organizations that obtain raw materials from the physical environment, must undertake to clear the debris and restore the land to status that reduces dereliction. Whilst the prime goal for entities is to sustain themselves, grow and attain stability, it is crucial that they do so in full recognition that they have a duty of care to the environment and the societal. The commercial ends of an organization should not be put in priority regardless of how the activities affect the environment and the local communities (Zhu & Jianguo, 2022).

Stakeholder theory is key theory that anchors this study in two ways. First, following the advent of climate change and global warming, the issue of conservation has taken center stage around the globe. For instance, IFRS Foundation (2024) has issued the International Financial Reporting Standards Board has promulgated IFRS 1 general requirements for disclosure of Sustainability-related financial information and IFRS 2 climate related disclosures. The standards mandate companies and organizations to report of environmental, social and governance standings (Pwc, 2024).

In essence, therefore sustainability reporting has a direct nexus to stakeholder theory as it requires organizations to appreciate that their activities are of interest and also affect internal and external stakeholders. Second, the stakeholder theory offers a sound perspective to understand that organizations are not far off islands. This is because, activities of organizations directly affect the welfare of the societal, economic utilities of resources, the environment and so on. Therefore, it is imperative that the goals of the organization be framed in a way that the interests of other stakeholders are not jeopardized. The study examined the role of sustainability reporting on financial performance of firms in Kenya.

2.2.3 Legitimacy Theory

The legitimacy theory construes that organizations have an implicit social contract to align their activities as per the societal morals and values. This theory owes its origin from the work of Dowling and Pfeffer (1975) who opined that for entities to gain legitimacy, they must undertake their operations within the precepts of societal norms. This is profound because, organizations interact with social communities and is valuable for organizations structure their activities so as to protect societal welfare in places where they operate. This is since societies expect something from organizations (Adriana & Popa, 2023).

In additions, organizations source for economic resources from the environment which then means that the firms need to appreciate communities. In absence of community legitimacy, an organization may struggle to gain acceptance by societal members. Notably, Silva (2021) argues that the societal offers economic resources such as raw materials and labour and therefore it is only fair that organizations give something back. Thus, profits should not undermine the social contract that is implicit. Companies must continually adjust their operations to suit the social expectations to gain legitimacy (Crossley, et al., 2021; Elalfy, et al., 2020).

The legitimacy theory has been used in this theory as it characterizes the implicit social contract that exist between organizations and the society. The society provides economic resources such as labour and expects organizations to consider its plight in respect to values, norms and beliefs as a way of thanking them. The current study examined the role of social disclosures on firm performance. These social disclosures are information in different perspectives whose overarching aim is to show how entities have considered and protected the societies. Again, organizations should behave as prudent members in safeguarding the welfare of social communities in their places of operations.

2.3 Empirical Review

2.3.1 Environmental Disclosures and Financial Performance

In the modern day business environment, environmental issue continues to be critical problems for many firms. Considerign that companies source for resources from the environment and convert the same to finished products while at the same discharging wasters into the environment, it has become pertinent for firms to report the impact of their interactions with the environment.

In recent times, disclosing environmental information has become an important aspect of corporate disclosures. A study done by Lin (2023) studied environmental disclosure on firm sustainability in Bangladesh. The study sourced data from seventy-five publicly listed entities where the specific aims were to determine whether environmental disclosure, information technology and governance on firm sustainability. Results from GMM analysed evidenced that environmental disclosure had positive significant effect on firm sustainability. Moreover, the study found out that corporate governance mediated the relationship between the explanatory factors and firm sustainability.

In another study, by Wang, et al., (2020) the focus was on linking environmental disclosures and firm performance among Chinese companies. Specifically, the study sought to determine the effect of environmental disclosure on firm returns and further evaluate mediating role of liquidity and visibility on firm performance. The study used data from two hundred and eighty-nine listed companies where analysis was done following panel data regression. The outcome of the study showed that there was a strong positive link between environmental disclosures and firm performance. Moreover, results evidenced that environmental disclosures affected firm performance through mediating the association between the liquidity and firm performance.

Pedron, et al., (2020) looked into environmental disclosure information and profitability and firm value. The study sourced data from listed entities in Brazil. Secondary data was sourced from annual reports and financial statements. From the study's findings it was concluded that environmental disclosures positively impacted on firm profitability and value. Further the study results were noted to be in line with the postulates of legitimacy theory that requires firms to consider societies and environment over and beyond their profits.

Using secondary data sourced from a sample of listed non-financial firms, Kurawa and Shuaibu (2022) evaluated the nexus between environmental disclosures and firm outcomes in Nigeria. The study used explanatory research design in which descriptive statistics were used to process the data. The results that emanated from data analysis indicated that environmental disclosures had positive and significant effect on various firm aspects such as firm value and profitability. Equally, it emerged that environmental disclosures improved environmental activities for the firms.

2.3.2 Social Disclosures and Financial Performance

Qiu, et al., (2016) studied the effect of social and environmental disclosures on profitability and firm value among FTSE350 companies. The study used data from listed firms. The outcomes of the study showed that environmental disclosures had no effect on profitability. However, social disclosures had positive effect on profitability and firm value. Moreover, the study found out that economic disclosures improved firm profits and firm value.

Malik and Kanwal (2016) looked into social disclosures on financial performance of firms in Pakistan. The study used data that was extracted from reports of pharmaceutical companies. Results of the study showed that social disclosures had gained acceptance among the firms at a good rate. Further, it emerged that the social disclosures improved firm performance. This was attributed to the reason that firms that made social disclosures had to participate in CSR activities thus enhancing their brands.

Emeka, et al., (2020) studied social and environmental disclosures on performance of entities in Nigeria. The study collected secondary data from non-financial firms where panel regression analysis was done. The study's findings showed that social disclosures had positive and significant role on firm performance. Equally, it was noted that environmental disclosures had strong positive role on firm performance. In this aspect, the two forms of disclosures were found valuable in as far as firm performance was concerned.

Emuebie, et al., (2021) looked into role of social and environmental disclosure on firm performance. The study was based on consumer goods companies in Nigeria. In this study, secondary data was sourced from 16 listed companies and processing of data used multiple regression analysis. The results evidenced that both social and environmental disclosures bettered return on assets for companies. Also, the findings showed that firm size and age affected firm performance.

Nozawa, et al., (2019) examined corporate sustainability and firm financial performance. The aims of the study were to establish the effect of environmental, social and governance disclosures on firm returns in Japan. Data analysis used data envelopment analysis. The study's results indicated that governance, social and environmental disclosures affected corporate efficiency. However, the study examined that ESG activities reduced corporate financial returns.

Minutolo, et al., (2019) delved into environmental, social and governance disclosures and firm performance. The motivation of the study was to associate sustainability reporting and firm results and firm performance. The study used data from four hundred and sixty-seven firms in S&P. The study was based on legitimacy and stakeholder theory. Results showed that ESG disclosures boosted firm performance and firm value.

2.3.3 Governance Disclosures and Financial Performance

Almeyda and Asep (2019) studied the influence of environmental, social, governance disclosures on firm performance. The study focused on real estate companies in G7 countries. The study used five-year data from a sample of firms. Results of the study showed that ESG disclosures had positive effect on both return on asset and return on capital. However, the ESG disclosures had no effect on share price and price to earnings ratio.

Herbert and Agwor (2021) sought to relate governance disclosures and firm performance. The study sourced data from listed banks in Nigeria. Data used was extracted from financial statements and annual reports of the banks for a period of six years. The study adopted regression analysis to link the study variables. The outcome was that governance disclosures had positive effect on firm performance. However, the study did not find any relationship between governance disclosures and risk management by firms.

Brooks and Oikonomou (2018) sought to link ESG disclosures and firm wellness. The study was done to link environmental, social and governance disclosures and firm performance and firm value. The data used was sourced from firms in the United Kingdom. Content analysis was the main method that was used to source information and data. The outcome of the study indicated that ESG disclosures bettered firm performance. Moreover, it was noted that all the components positively enhanced financial performance of the entities.

Chen and Xie (2022) reviewed the nexus between ESG disclosures and corporate financial performance. The study looked into activities of non-listed entities in China from which data was sourced for the period 2000 to 2020. Findings from data analysis that was done using GMM analysis evidenced that ESG disclosures improved firm performance.

Ntim, et al., (2024) endeavored to evaluate the effect of environmental, social and governance disclosures and firm performance. In this study, firm performance was expressed in terms of accounting measures such as profits. The study obtained data from over forty countries where firm-level data was used. It emerged that ESG disclosures improved firm performance for the multinationals. Equally, ESG disclosures improved market-based performance measures for the MNCs.

Hossain (2022) looked into the nexus between ESG disclosures and firm performance of firms in Norway. Secondary data was sourced from firms for a period of ten years. The outcome of regression analysis showed that ESG disclosures had strong negative effect on firm performance that was measured in terms of return of assets. In contrast, ESG disclosures had positive effect on firm value as measured in terms of Tobin's Q.

2.3.4 Economic Sustainability Disclosures and Financial Performance

Orazalin and Mahmood (2018) studied economic, environmental and social indicators in Russia. The study focused on oil and gas companies. This study sourced data from sustainability reports and annual reports of the companies. The study revealed that sustainability reporting was influenced by several factors such as ownership, size of firm and age. In as much as the study delved into economic and sustainability indicators, the study did not evaluate how the attributes affected firm performance for the oil and gas companies leading a research gap.

Amacha and Dastane (2017) studied sustainability performance and its role on financial performance. The study was done on Malaysia oil and gas companies. In this study, financial performance was measured in terms of price earnings ratio, earnings per share and earnings before interest and tax. Results showed that most of the entities seldom disseminated sustainable reports in line with the legal requirements. The study showed that sustainability practices such as climate change concerns, environmental efficiency, health and safety, corporate conduct, governance and human capital practices contributed positively to financial performance of firms.

Alshehhi, et al., (2018) looked into the future of sustainability reporting practices in the world. The study was a content analysis of top tier journals in relevant field. It emerged that corporate sustainability and financial performance had positive impact. Moreover, it was noted that most entities focused on corporate social responsibility disclosures neglecting other sustainability practices. Specifically, nothing much was studied in relation to economic and environmental dimensions in most of the studies that were analysed.

2.4 Knowledge Gap

Whilst several studies have been conducted on sustainability reporting and various aspects of the firm, there still exist some research gaps that this study seeks to fill. Lin (2023) looked into role of environmental disclosures on firm sustainability in Bangladesh. However, the study did not look at other dimensions of sustainability reporting such as social and governance as the current study did. Again, the study was not done in Kenya as the instant study is. Wang, et al., (2020) looked at environmental disclosures and firm performance among Chinese firms. This leaves a gap as the study was done in a developed country while the current study is done in Africa and specifically in a developing country; Kenya. Secondly, there is a contradiction in terms of empirical evidence on the role of sustainability reports and firm performance.

Qiu, et al., (2016) looked at social and environmental disclosures and found out that social disclosures had positive effect while environmental disclosures had negative effect on firm profitability. In contrast, Pedron, et al., (2020) found out that environmental disclosures had positive effect on firm profitability. Therefore, there is a need to undertake more studies to bring a consensus in regard to role of sustainability reports on firm performance.

Lastly, there is a methodology gap that is present in some of the prior studies. For instance, Brooks and Oikonomou (2018) used content analysis to relate ESG disclosures and firm wellness while the current study collected first hand data. Equally, Alshehhi, et al., (2018) looked into the future of sustainability reporting practices in the world and noted that economic disclosures were being neglected at the expense of social disclosures.

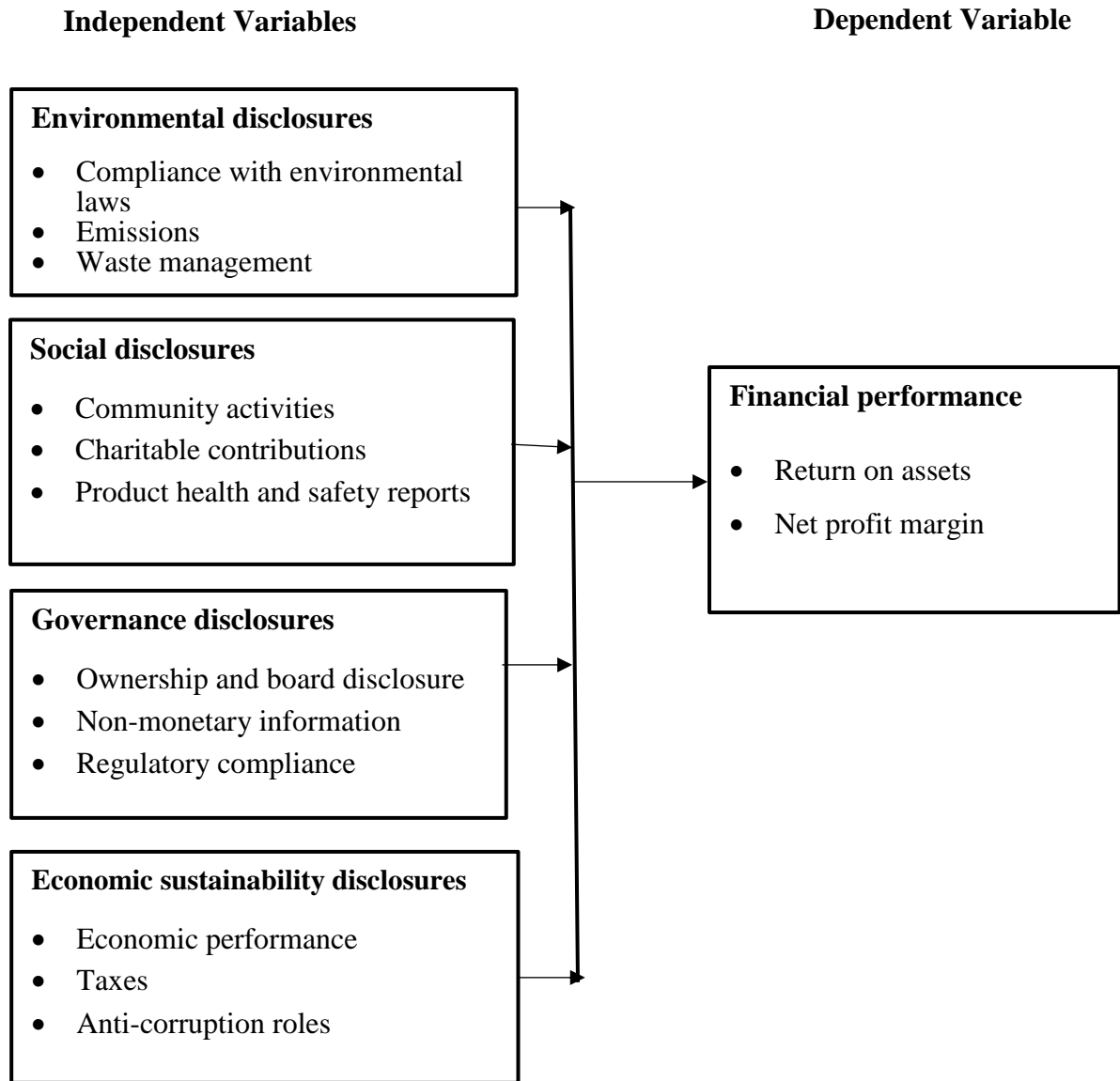
In view of the research gaps, this study primarily aims at examining the effect of sustainable reporting on financial performance of manufacturing companies in Kenya. The study collected primary data from manufacturing companies in Kenya. The study plays an important role in enhancing the discourse on ESG disclosures in Africa and thus be a good source of evidence to market regulators.

2.5 Conceptual Framework

The importance of having a conceptual framework is that it present variables in a concise manner in view of how they relate or expected to relate with other. Thus, a conceptual framework characterizes the overall picture of variable interconnectedness. This study has two types of variables; independent and dependent variable. The independent variables are drawn from the antecedents of sustainable reporting: environmental, social, governance and economic sustainability. The dependent variable is financial performance. Figure 1 is the conceptual framework.

FIGURE 1

Conceptual Framework



Source: Author (2025)

2.6 Research Hypotheses

This study sought to test the following hypotheses:

H₀₁: There is no statistically significant effect of environmental disclosures on financial performance of manufacturing companies in Kenya.

H₀₂: There is no statistically significant effect of social disclosures on financial performance of manufacturing companies in Kenya.

H₀₃: There is no statistically significant effect of governance disclosures affect financial performance of manufacturing companies in Kenya.

H₀₄: There is no statistically significant effect of economic sustainability disclosures on financial performance of manufacturing companies in Kenya.

2.7 Operationalization of Variables

TABLE 1
Operationalization of Variables

Nature of variable	Variable name	Operational definition and Measurement	Scale
Dependent variable	Financial performance	This refers to financial returns and was measured in terms of return on assets (ROA) and net profit margin.	Interval
Independent Variables	Environmental disclosure	This is information in relation to environmental compliance and emissions.	Interval
	Social disclosure	This is information on human rights, working conditions, health and safety and consumer protection. Was measured by use of questionnaire.	Interval
	Governance disclosure	This is information in regard to ownership, management, stakeholder engagement and regulatory compliance. Was measured by use of questionnaire.	Interval
	Economic disclosure	This is information that relates to economic performance, taxes and anticorruption. Was measured by use of questionnaire.	Interval

Source: Author (2025)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is an outline of procedures that are used to address the research problem. It includes key concerns of research design, population, sample and sampling design, instrumentation, data collection method and data analysis. The chapter also has ethical considerations that were observed in the study.

3.2 Research Design

Research design entails an outline of the plan that is used to collect and analyze data so that valid results can be obtained. In this aspect, research design is based on the type of data and the specific nature of a study (Asamoah, 2019). This study correlational research design. Ideally, correlational research design seeks to link variables by establishing whether variables have positive or negative effect on other variables. Moreover, this design which is a non-experimental way of systematic source of data to describe a scenario. In other words, in this research design, the aim is to get data on variables and analyze such data to offer a concise description of a scenario. This study attempted to describe the role of ESG disclosures on financial performance.

According to Sandra (2020) correlational research design primarily focuses on offering statistical characteristics of a phenomenon. In other words, correlational research aims at establishing aspects of a given population in a natural setting. Moreover, in this design, current statuses of variable are described without conducting experiment.

The current study looked into sustainability reporting and firm performance among manufacturing firms in Kenya. In this aim, data was collected from firms and variables described in respect to how they influence or relate each other. Atmowardoyo (2018) notes that correlational research design is useful in hypothesis establishment. In this study, key hypotheses were established and tested.

3.3 Population of the Study

Population of the study consist of all units that are studied. It is the entire composition of constituents that results of the study are applicable to (Uakram, et al., 2021). The population of this study was all manufacturing firms in Kenya that are member firms of Kenya Association of Manufacturers (KAM). In terms of the total membership, as of December 2024, KAM had 1,371 members in spread in the 14 chapters (KAM, 2024).

3.4 Sample and Sampling Procedure

A sample is smaller number of units extracted from the population that acts as the representative. (Rahman, et al, 2022). In view that a sample is a representative of the entire population, the sample consisted of a total of 310 manufacturing firms that has been arrived at using the sample determination formula as hereunder which is adopted from (Yamane, 1967).

$$n = \frac{N}{1+N(e)^2}$$

In the formula, N = population, e=level of precision (5% for this study) and n is the sample size.

$$n = \frac{1,371}{1 + 1,371(5\%)^2} = 310$$

In respect to sampling procedure, the study adopted stratified sampling technique. This technique entails categorizing samples into sub-groups that ensure all members of the population stands an equal chance of participating in the study. The membership of KAM is spread over 14 sectors comprising of 13 manufacturing sectors and 1 sector for service providers such as banks and insurance companies. These sub-groups were adopted as the strata for sampling purpose. The sample is shown on Table 2

The respondents who participated in the study were Chief Financial Officers (CFO) of the manufacturing firms. These are senior management staff that are involved in financial management and financial reporting for the companies. Moreover, CFOs are senior executives who play a vital role of overseeing activities of a company in respect to financial planning and financing expenditure. They are equally charged with the duty of addressing financial reporting requirements as per Generally Accepted Accounting principles (GAAPs) and other requirements such as ESG disclosures. It is the responsibility of the CFO to ensure that financial reports have all requisite disclosures that are of value to different stakeholders. Hence a total of 310 chief financial officers were contacted during data collection.

TABLE 2
Sample Size

Sector	Population	Sample Size	Percentage
1 Agriculture Sector/Agro-processing	61	14	4.45%
2 Automotive	71	16	5.18%
3 Building, Mining and Construction	58	13	4.23%
4 Chemical & Allied	116	26	8.46%
5 Energy, Electrical and Electronics	71	16	5.18%
6 Food and Beverages	283	64	20.64%
7 Leather and Footwear	24	5	1.75%
8 Metal and Allied	117	26	8.53%
9 Paper and board	89	20	6.49%
10 Pharmaceutical and Medical Equipment	37	8	2.70%
11 Plastics and Rubber	105	24	7.66%
12 Textile and Apparels Sector	63	14	4.60%
13 Timber	45	10	3.28%
14 Services and consultancy	231	52	16.85%
Total	1,371	310	100.00%

Source: Author (2025)

3.5 Instrumentation

This study used primary data which was collected by use of a questionnaire. Primary data is first hand in nature (Ajayi, 2017). To get standardized data, the questionnaire was structured whereby the respondents were required to respond to a set of questions. The questions adopted the Likert's scale which is an interval scale that ranges from 'strongly disagree' to 'strongly agree'. Using this scale makes data coding easy (Ingrid, 2018). Moreover, use of structured questionnaire makes data collection less time consuming as respondents are restricted to the responses on the questionnaire.

Additionally, it delimits responses to hypothesized statements that are outlined in the instrument making the researcher and the respondents remain within the scope and delimitations of the study. In its structure, the questionnaire had six sections where the first section gathered data on demographic nature including experience of the respondents and adoption of sustainability reporting. The other five sections collected data on environmental disclosure, social, governance, economic sustainability and financial performance of manufacturing firms.

3.5.1 Validity of Instrument

Validity is the extent or degree of relevance of data in respect to a concept or variable. It therefore seeks to ensure that the data collected is relevant to address the problem of the study and does not materially deviate from such (Gidron, 2020). In absence of validity, data collected is not relevant to the variables and therefore it is considered that the questionnaire does not collect the data it purports to collect.

The data collection instrument to content validity that deals in examining whether the tool is gathers the data is it supposed to collect. This validity, therefore, ensures that pertinent issues that are relevant to variables are included in the questionnaire. It covers accuracy and complete disclosure in as far as the questionnaire design is concerned (Leung, 2015). One way of improving content validity is to subject all constructs to expert review. Thus, the study tool was presented to five chief financial officers of other firms other those to participate in the main data collection so that content validity can be improved. By doing this, the instrument content validity was high and thus able to measure the data it is designed to measure. Equally factor analysis was done in order to reduce the items to fewer factors that explained a large percentage of variances in the data.

3.5.2 Reliability of Instrument

Reliability is a measure of consistency. It therefore evaluates whether a tool can gather same measurements in the same conditions. In this study, the internal reliability was assessed as it ensures that all items representing variables in the questionnaires fit as a unitary whole in measuring specific variables. This is an essential feature of an instrument as it ensures that data and information that is collected is consistent with the variables. To examine internal validity, the study proposes to use Cronbach's alpha in which scores of more than 0.700 for a set of items for a variable indicates a good reliability (Heale & Twycross, 2015). As shown on Table 3, Cronbach's alpha for all the variables were more than 0.7 and therefor the tool had internal reliability.

TABLE 3
Reliability Statistics

Variable	Cronbach's Alpha	N of Items
Environmental Disclosures	.841	10
Social Disclosures	.886	10
Governance Disclosures	.871	10
Economic sustainability Disclosures	.897	12
Financial Performance	.863	10

Source: (Data analysis, 2025)

3.6 Data Collection Method

This study collected data using the Drop-and-Pick method of questionnaire administration as the main method of data collection. Thus, the questionnaire was availed to respondents in hard copies and were collected after a week or when it has been filled. The entire data collection took period of three weeks. Secondly, where the respondents were not available to physically fill the questionnaire, a google survey form were sent to them where they can respond through electronic means. Using both methods improved the response rate.

The participants in this were CFOs as identified under the population of the study. Considering that they are senior executives, who possibly ran busy schedules, it is proposed that both physical delivery and online dissemination of questionnaire is used. Additionally, Drop-and pick later method allowed the CFOs ample time to respond to the questionnaires. The CFOs were approached through letter of introduction that explained the needs of the study and the kind of data that they were expected to provide.

3.7 Data Analysis

Data analysis is a detailed process of extracting measures or metrics that can be used to draw inferences. It entails conversion of raw data to statistics that can be used to make inferences in particular relevant to study problem. Data analysis started with data cleaning where questionnaires are sorted to get the correctly filled ones. Secondly, data coding is done so as to collate the data into a data set that can be analyzed in ease.

The last phase was to perform the tasks that generate statistics that are helpful in answering the research hypothesis. The study adopted descriptive and inferential statistics where the former entails getting means and standard deviations from the observations of the different variables. This was done by first coding the data in line with the Likert's scale where a continuum of 1-5 was used for strongly disagree to strongly agree. In addition, regression analysis was performed for two reasons. To begin with, regression analysis provides a succinct measure of how variables relate. It offers a mathematical equation that establishes the effect of changes in predictor variables on the response variable. Therefore, by using regression analysis, the study established whether sustainable reporting has a positive or negative effect on financial performance.

Secondly, regression analysis provides statistics in form of significance of coefficients that establishes the role of each predictor on response variable. Therefore, the regression analysis informs on whether environmental, social, governance and economic sustainability disclosures have significant effect on firm performance. In consideration that cross-sectional data was collected, the study proposes to adopt an OLS regression model as specified on Equation 1

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Whereas, Y is financial performance

β_0 represent the constant term

β_1 is coefficient of environmental disclosures (X_1)

β_2 is coefficient of social disclosures (X_2)

β_3 is coefficient of governance disclosures (X_3)

β_4 is coefficient of economic sustainability disclosure (X_4)

ε is error term

The study used SPSS version 24 to analyze the data. The output from data analysis was presented in tables and figures. Several diagnostic tests were done especially because the study adopted multiple regression analysis. These tests are; multicollinearity test, normality of residuals, heteroscedasticity and linearity.

3.7.1 Multicollinearity

This is a problem that occurs when predictors have high linear correlation with each other. In essence, linear regression assumes that all predictors are not highly correlated and in case they are, remedial actions should be undertaken. The Variance Inflation Factor (VIF) was used to examine multicollinearity. Where VIF are less than 10, the predictors do not have high collinearity correlated (Lavery, Archarya, Sivo, & Xu, 2019).

3.7.2 Heteroscedasticity

This is a problem that occurs when residuals' variances are not constant. In other words, it exists when variances of errors are unequal leading to inflation of residuals. The study used Breusch-Pagan test to test heteroscedasticity (Halunga & Orme, 2017). A Breusch-Pagan test statistic with a significance value of less than 5% manifests existence of heteroscedasticity.

3.7.3 Linearity and Normality of Residuals

Linearity measures whether data fits in a linear line. In other words, it tests whether data, particular the observed data fits in a linear line which can be used to predict variations in response variable (Schimidt & Finan, 2018). Moreover, it gives an impression on whether the data has normal distribution and whether residuals exhibit equal variances. This was not done as data set violated the assumptions of homoscedasticity and therefore used robust standard errors in estimating coefficients.

3.7.4 Normality of Residuals

Residuals are considered as normally distributed if they exhibit normal distribution. This assumption is critical as its violation negates the importance of regression estimates. In this study, normality of residuals was tested by use of Shapiro-Wilk tests. Where Shapiro-Wilk is less than 5%, there is significant deviation from normality (Khatum, 2021; Suleyman, 2022). This was not done as data set violated the assumptions of homoscedasticity and therefore used robust standard errors in estimating coefficients.

3.8 Ethical Considerations

Ethical considerations in research are norms that are adhered to so as to ensure that results are considered to have been fairly arrived at. Nazmul, et al., (2021) notes that ethical considerations are principles that must be followed to validate the process and outcome of given research. Foremost, the participants' information were treated with utmost confidence. For this reason, participants were referred to in form of codes and not in their individual identities such as from which the firms they are from. In this way, the responses were not tied to any individual thus protecting participant's confidentiality.

Moreover, the study is undertaken under the guidelines of KCA University which among other things requires knowledge and materials from other researchers and scholars to be duly cited and referenced accordingly. In addition, the results of the study are to be disseminated in accordance to guidelines of KCA University.

Also, research permit was sought from National Commission for Science, Technology and Innovation (NACOSTI) prior to undertaking field work activities. The NACOSTI permit was granted under ref 656448 dated 8th June 2025. This research permit is important as it legitimizes the study as to be done in line with laws of Kenya. Moreover, the permit made it easy to collect data from the manufacturing firms as the participants understood that the due process of research licensing has been followed.

Lastly, permission to collect data from the firms was sought. This was crucial as it was an opportunity for the researcher to explain the purpose of the study. This permission was done prior to the date of data collection. Additionally, the participants and the firms under consideration was provided with a copy of the research findings. These findings are useful to the firms as they can be used as basis for making managerial decisions in respect to ESG disclosures.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter focuses on data analysis and presentation of output from the data analysis. In addition, the chapter has interpretation of outcomes and discussions of the results in respect to the overall objective and specific objectives of the study. The chapter is arranged in the following thematic sections: response rate, general information, descriptive statistics, factor analysis and regression analysis. Data analysis was done using SPSS as it was fit in processing various statistics from the coded data set that was collated from raw data.

4.1 Response Rate

This study whose aim was to examine effect of sustainable reporting on financial performance of manufacturing companies in Kenya targeted 310 participants. Of these, 286 questionnaires passed the cleaning phase and this was a response of 92.26% which was considered excellent. Ideally a response rate of over 70% is perfect for analysis.

4.2 General Information

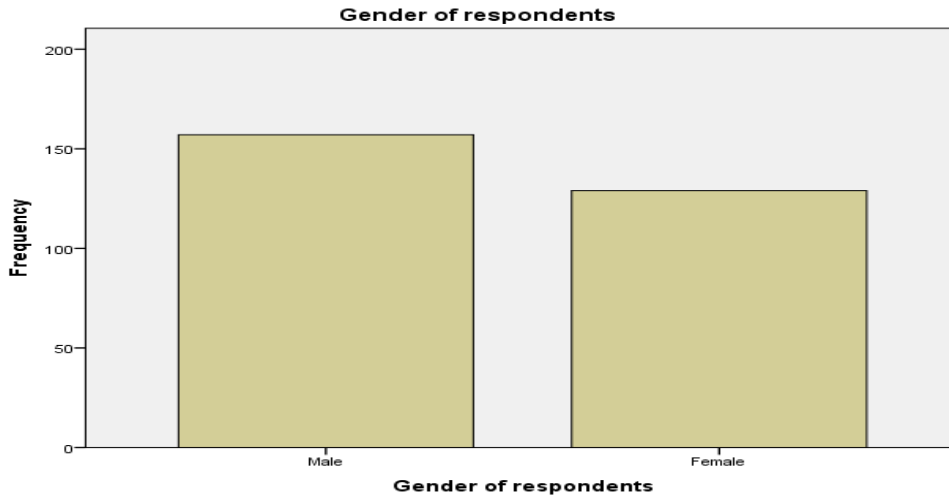
This section contains presentation of results on gender, age, education, experience and career specialization of the respondents.

4.3.1 Gender of Respondents

The outcome from data analysis on gender frequencies showed that most of the respondents were male at 54.9% and female were 45.1%. This indicated that most of the senior staff in the manufacturing firms in Kenya are men. However, the gender disparity was not huge. This finding is shown on Figure 2.

FIGURE 2

Gender of Respondents



4.3.2 Age of Respondents

Table 4 shows the age frequencies for the respondents. Results showed that most of the respondents were aged between 31-40 years at 46.2%, those aged between 41-50 years were 25.5% while those between 21-30 years were 22.7% of respondents. The least were respondents aged over 50 years which represented 5.6%. This outcome showed that the respondents had different ages and most had worked for some time and this could infer that they fitted in understanding discourses contained in the questionnaire. This finding is shown on Table 4

TABLE 4

Age of Respondents

		Frequency	Percent
Valid	Between 21-30 years	65	22.7
	Between 31-40 years	132	46.2
	Between 41-50 years	73	25.5
	Above 50 years	16	5.6
	Total	286	100.0

Source: (Data analysis, 2025)

4.3.3 Education of Respondents

Table 5 presents output from analysis of education levels attained by respondents. The results show that most of the respondents had undergraduate degrees representing 52.1% of respondents, 25.9% of respondents had postgraduate qualification and 22.0% had diploma qualification. This education exhibits that the participants had good qualification which could indicate that they had sufficient knowledge to understand matters in the study. Education is important as it equips individuals with skills to undertake key tasks in their jobs. These results are shown on Table 5

TABLE 5
Education Level of Respondents

		Frequency	Percent
Valid	Diploma	63	22.0
	Undergraduate	149	52.1
	Postgraduate	74	25.9
	Total	286	100.0

Source: (Data analysis, 2025)

4.3.4 Working Experience of Respondents

Results on working experience on Table 6 indicated that most of the respondents had worked for 8-11 years representing 37.8%, those between 4-7 years were 34.3%, those who had worked for over 11 years were 15.7% and the least had worked 1-3 years who were 12.2% of respondents. These results showed that the participants had worked for sufficient years and this provided them with knowledge to understand the nexus between sustainability reporting and financial performance of manufacturing firms. The results for working experience are presented on Table 6.

TABLE 6**Working Experience for Respondents**

		Frequency	Percent
Valid	Between 1-3 years	35	12.2
	Between 4-7 years	98	34.3
	Between 8-11 years	108	37.8
	Over 11 Years	45	15.7
	Total	286	100.0

Source: (Data analysis, 2025)

4.3.5 Career Specialization

Table 7 shows the results for career specialization for respondents. The findings showed that 25.5% were in technical and compliance department, 31.8% in finance and accounting, 15.4% were in operations management, 14.7% in project management, 12.2% in Information Technology (IT) department and 0.3% from other departments. This outcome shows that data was sourced from various departmental heads and this was essential as sustainability reporting is a composite framework for reporting on organizational operations. The results are shown on Table 7

TABLE 7**Career Specialization**

		Frequency	Percent
Valid	Finance and accounting	91	31.8
	Operations management	44	15.4
	Project Management	42	14.7
	Information Technology	35	12.2
	Professional		
	Technical and Compliance	73	25.5
	Others	1	.3
	Total	286	100.0

Source: (Data analysis, 2025)

4.4 Descriptive Statistics

This section has descriptive statistics for items used to proxy variables. The section is arranged as per the variables.

4.4.1 Environmental Disclosures and Financial Performance

Table 8 has descriptive statistics for environmental disclosures.

TABLE 8
Environmental Disclosures

	N	Mean	Std. Deviation
1. The Company understands the significances of the attributes of environmental disclosures	286	4.10	.630
2. Our company discloses all environmental emission information to stakeholders	286	4.13	.729
3. We disclose our efforts and resources that is used in environmental protection	286	4.25	.638
4. We participate in waste management to safeguard the environment from any harmful effects of our operations	286	4.21	.669
5. Our company publishes accurate information on the effect of our operations on human safety	286	4.15	.648
6. We have allocated sufficient resources for combating climate change effects due to our operations	286	4.23	.729
7. Our company has a policy for carbon management and global warming	286	4.18	.781
8. We are compliant to environmental regulations of the country and disclose this fact to our stakeholders	286	4.17	.694
9. Our company follows up on environmental compliance certifications	286	4.20	.742
10. Our company's activities focuses on long term health of ecosystems	286	4.23	.699
Valid N (listwise)	286		

Source: (Data analysis, 2025)

According to statistics on Table 8, there was understanding of attributes of environmental disclosures ($M=4.10$, $SD=0.630$). This means that environmental disclosures which relates to disclosing on actions taken to protect the environment. Moreover, results showed that most of the companies disclosed all environmental emission information to stakeholders ($M=4.13$, $SD=0.729$). Equally, results showed that efforts and resources used in environmental protection are disclosed ($M=4.25$, $SD=0.638$). It therefore infers that the manufacturing companies were concerned with how their operations affected the environment. For this reason, most had channelled resources for ensuring that the environment where they operated was protected.

In addition, manufacturing firms participated in waste management ($M=4.21$, $SD=0.669$). In this aspect, the manufacturing companies attempted to lower the harmful effects of their operations. At the same time, results showed that the manufacturing companies published accurate information in respect to how operations affected human safety ($M=4.15$, $SD=0.648$). Therefore, companies endeavoured to protect human safety. Moreover, results showed that sufficient resources were allocated combating climate change ($M=4.23$, $SD= 0.729$). Equally, manufacturing companies had carbon management policies ($M=4.18$, $SD=0.782$).

Further results on environmental disclosures showed that manufacturing companies that participated in the study were compliant to environmental regulations of the country and disclosed this fact to stakeholders ($M=4.17$, $SD=0.694$). This meant that environmental disclosure was central to sustainability reporting. Also, results showed that companies adhered to environmental compliance certifications ($M=4.20$, $SD=0.742$).

Lastly, respondents indicated that company’s activities focused on long term health of ecosystems (M=4.23, SD=0.699). In overall therefore, companies were concerned with environmental disclosures. This entails sharing of information in relation to a company’s environmental impact. Disclosing this information is critical as ensures that stakeholders are made aware on companies’ activities impact on the environment.

4.4.2 Social Disclosures and Financial Performance

Table 9 has descriptive statistics on social disclosures

TABLE 9
Descriptive statistics for Social Disclosures

	N	Mean	Std. Deviation
1. The Company understands the significance of social disclosures	286	4.22	.675
2. Management is very keen on community activities and discloses these activities in the annual reports	286	4.18	.702
3. Our company participates in charity activities in the societies we operate	286	4.22	.796
4. We communicate product safety information to our stakeholders	286	4.24	.697
5. The company adheres to consumer protection and privacy policy	286	4.22	.645
6. Our company discloses information on staff composition in terms of gender, age, qualification and so on	286	4.27	.691
7. We provide information on our corporate social responsibilities	286	4.19	.720
8. The company contributes towards betterment of public health	286	4.22	.720
9. The company endeavours to create value to societies	286	4.24	.661
10. The company has a charter for safe working conditions	286	4.29	.678
Valid N (listwise)	286		

Source: (Data analysis, 2025)

First, results showed that companies understood the significance of social disclosures (M=4.22, SD=0.675). This meant that manufacturing firms were keen on social disclosures as a component of sustainability reporting. Also, it emerged that management disclosed social activities in annual reports (M=4.18, SD=0.702). Respondents also indicated that the manufacturing companies engaged in charity activities for communities (M=4.22, SD=0.796). These results showed that social disclosures were highly regarded by the firms. Further results showed that companies communicated product safety information to stakeholders (M=4.24, SD=0.697). Therefore, manufacturing firms were keen to inform societies on their products and how safe they were.

It also emerged that companies adhered to consumer protection and privacy policy (M=4.22, SD=0.645). Additionally, results showed that the companies disclosed information on staff composition in terms of gender, age, qualification and so on (M=4.27, SD=0.691). Moreover, companies disclosed CRS activities (M=4.19, SD=0.720). This finding manifested that firms in the manufacturing sector found CSR disclosures significant. Additionally, results showed that companies participated in public health activities and disclosed these activities (M=4.22, SD=0.720). Also, the companies sought to create value to societies (M=4.24, SD=0.661) and lastly the companies had charters for safe working conditions (M=4.29, SD=0.678).

In overall, descriptive statistics showed that the manufacturing firms were keen on social disclosures that entailed how firm's operations impacted societal aspects like human rights and product safety. Social disclosures are qualitative reports that show a company's efforts and progress in adhering to issues that are important to societies.

As found in this study, companies publish various information such as labour management, health and safety, product safety, privacy information and so forth. Ideally, social disclosures relate to information that is considered valuable to societies of stakeholders that has interests in activities of a firm. Based on the outcome of descriptive statistics, social disclosures are critical in the overall sustainability report.

4.4.3 Governance Disclosures and Financial Performance

Table 10 has descriptive statistics for governance disclosures

TABLE 10
Descriptive statistics on Governance Disclosures

	N	Mean	Std. Deviation
1. Our company understands the value of governance disclosures	286	4.19	.676
2. The company discloses ownership structure to the public	286	4.22	.732
3. We disclose economic performance fairly to all stakeholders	286	4.23	.718
4. We provide non-monetary information to the public	286	4.29	.724
5. The company issues period reports on regulatory compliance	286	4.22	.710
6. Our company values disclosing information on risks that face our operations to stakeholders	286	4.31	.705
7. We do not withhold any information in relation to company board of directors	286	4.23	.662
8. Our management style is transparent when it comes to information dissemination to the public	286	4.27	.662
9. The Company adopts the best governance practices at all times	286	4.31	.689
10. The company fairly discloses executives' remuneration to stakeholders	286	4.26	.650
Valid N (listwise)	286		

Source: (Data analysis, 2025)

Results in Table 10 are in relation to governance disclosures. First, respondents indicated that the manufacturing companies understood the value of governance disclosures (M=4.19, SD=0.676). Also, the company's ownership was sufficiently disclosed (M=4.22, SD=0.732). Further, the companies disclosed economic performance to all stakeholders (M=4.23, SD=0.718). These aspects point that governance disclosures were regarded as important by most of the manufacturing companies that participated in the study. Additionally, results showed that non-monetary information was provided and disclosed to stakeholders over and above financial returns as part of governance disclosures (M=4.29, SD= 0.724). This is to mean that governance matters were taken serious by most of the manufacturing firms.

It was also noted that the manufacturing companies made periodic reports on regulatory compliance in respect to governance issues (M=4.22, SD=0.710). The companies also valued disclosing information on risks that face their operations to stakeholders (M=4.31, SD=0.705). Other results also evidenced that the companies did not withhold information in respect to directorship of the companies (M=4.23, SD=0.772). Further, companies transparently disclosed information in respect to management and dissemination of information to the public (M=4.27, SD=0.662). Results also showed that most of the companies adopted best governance practices (M=4.31, SD=0.689). Lastly, the manufacturing companies fairly disclosed executives' remuneration to stakeholders (M=4.26, SD=0.650).

The overall results showed that governance disclosures are regarded valuable by most of the manufacturing companies. The governance pillar of sustainability reporting looks at how management and shareholders conduct the affairs of companies. It entails aspects like disclosure on board diversity, senior management pay, ownership and directorship, business ethics, financial reporting and performance and regulatory compliance disclosures. In this study, as far as it can be deduced from the descriptive statistics, most manufacturing companies adhered to governance disclosures. Governance disclosures play an important role of convincing stakeholders that governance in the company is fair and that companies' operations are sincere.

4.4.4 Economic Sustainability Disclosures and Financial Performance

Table 11 has descriptive statistics for economic sustainability disclosures

TABLE 11
Economic Sustainability Disclosures

	N	Mean	Std. Deviation
1. Our company values economic sustainability disclosures	286	4.22	.694
2. We provide information on long term growth for the company	286	4.24	.692
3. The company makes available information in relation to risks that may compromise its going concern	286	4.27	.690
4. We provide information on our innovation achievement	286	4.28	.725
5. Our company discloses all tax liabilities fairly	286	4.27	.681
6. We provide information on resource use with transparency	286	4.26	.687
7. The management is committed to setting guidelines for economic sustenance of the company	286	4.25	.715
8. The company adheres to financial reporting guidelines as issued by regulatory bodies	286	4.18	.749
9. The company is committed to economic sustainability	286	4.31	.646
10. The company reports on economic contributions to local development	286	4.25	.735
11. The Company focuses on improving its economic value chain in dealing with various stakeholders	286	4.22	.659
12. Our Company reports on any abuse or misuse of office including corruption cases	286	4.17	.760
Valid N (listwise)	286		

Source: (Data analysis, 2025)

Results on economic sustainability disclosures indicated that the manufacturing companies valued economic sustainability disclosures (M=4.22, SD= 0.694). Similarly, it was noted that the companies produced information on long term growth strategies to stakeholders (M=4.24, SD=0.692). It was also found out that most of the manufacturers made available information in relation to risks that may compromise their going concern (M=4.17, SD=0.690).

Results also showed that companies reported on innovation achievements to stakeholders (M=4.28, SD=0.725). It can be deduced that economic sustainability disclosures are critical components for sustainability reporting. This is because, these disclosures show whether companies are to stay in operations for the long term. In addition, respondents indicated that the companies disclosed tax information fairly (M=4.27, SD=0.681). Moreover, resource use transparency disclosures were made (M=4.26, SD=0.687). Other results showed that management for the companies were committed to setting guidelines for economic sustenance of the companies (M=4.25, SD=0.715).

Most companies also adhered to financial reporting guidelines as issued by regulatory bodies (M=4.18, SD=0.749). Economic sustainability encompasses disclosures on how prudent operations are done. This therefore focuses management to establish efficient operations as they report this information to interested observers. It is for this reason that it was found out that the manufacturing companies were committed to economic sustainability (M=4.31, SD=0.646). More results showed that companies reported on economic contributions to local development (M=4.25, SD=0.735). It was also found out that the companies were focused on economic value chain in dealing with various stakeholders (M=4.22, SD=0.659). Lastly, it was found out that most of the companies reported on any abuse or misuse of office including corruption cases (M=4.17, SD=0.760). It means that companies were concerned with disclosing economic outcomes of various operations.

Essentially, economic sustainability reporting looks into financial aspect of performance reporting in a strategic approach. It does not only look at financial returns but also looks at how performance is sustained or improved.

4.4.5 Financial Performance

Table 12 has descriptive statistics for items that were used to proxy financial performance of the manufacturing companies.

TABLE 12
Financial Performance

	N	Mean	Std. Deviation
1. The company has recorded an increase in return on assets due to adoption of sustainability reporting	286	4.21	.681
2. Our company has improved in terms of operational performance	286	4.29	.662
3. Resource usage optimization has been achieved due to sustainability reporting	286	4.26	.682
4. Sustainability reporting determines the level of market size	286	4.35	.630
5. Sustainability reporting affects the level of customer retention thus improving our financial performance	286	4.27	.660
6. The company's liquidity is favourable as we do not have problems in paying short term liabilities as they fall due	286	4.26	.684
7. Our company is solvent as the total assets cover total liabilities	286	4.31	.657
8. We have achieved cost cutting objectives	286	4.23	.698
9. Return on shareholders' equity is good as the company is generating profits from its investments	286	4.35	.624
10. The Company has recorded an improvement in net profit margin	286	4.22	.689
Valid N (listwise)	286		

Source: (Data analysis, 2025)

On financial performance, descriptive statistics for the items used to express financial performance showed that the companies had good performance in response to adoption of sustainability reporting. First, companies recorded an increase in return on assets due to adoption of sustainability reporting (M=4.21, SD=0.681). Also, operational performance had increased (M=4.29, SD=0.662). Most companies also reported that resource usage optimization has been achieved due to sustainability reporting (M=4.26, SD=0.682).

This indicated that sustainability reporting led to better use of resources and this improved firm performance. Additionally, respondents indicated that there was direct nexus between sustainability reporting and market levels (M=4.35, SD=0.630). This indicated that disclosure of ESG information improved market access and retention.

Respondents too reported that sustainability reporting affects the level of customer retention thus improving company's financial performance (M=4.27, SD=0.660). Similar results were found out on whether the company's liquidity is favourable as they did not have problems in paying short term liabilities as they fall due (M=4.26, SD=0.684). Additionally, most companies were solvent (M=4.31, SD=0.657). It was also found out that most companies had achieved cost cutting objectives (M=4.23, SD=0.698). Return on shareholders' equity is good as the company is generating profits from its investments (M=4.35, SD=0.624).

In a nutshell, descriptive statistics depict a positive link between sustainability reporting and financial performance of manufacturing companies in Kenya. In theory, ESG disclosure improve corporate governance in companies and this improves overall efficiency leading to better firm performance. This theoretical consideration is in line with the descriptive statistics in this section of the research. Moreover, ESG disclosure promote stakeholder cooperation, acquisition of critical resources for economic sustainability and advocates for robust management efficiency and technology innovations. Thus, sustainability reporting plays a pivotal role in improving financial performance in as far as the descriptive statistics portray.

4.5 Factor Analysis

In this study, factor analysis was performed in order to extract factors that explained key variations in the data from the many items used to proxy variables of sustainability reporting.

4.5.1 Sample Adequacy Test

The data set was first examined for sample adequacy using KMO and Bartlett's Test whose results are presented on Table 13. The results showed that the sample was sufficient for factor analysis, $KMO=0.955$, $p<0.005$. Therefore, the data set was fit for dimension reduction analysis.

TABLE 13
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.955
Bartlett's Test of Sphericity	Approx. Chi-Square	7817.612
	Df	1326
	Sig.	.000

Source: (Data analysis, 2025)

4.5.2 Dimension Reduction

The study used principal component analysis (PCA) in factor extraction to establish factors that loaded well. In rotation, the direct oblimin method was used it was items were expected to exhibit high correlation. In essence, the goal of dimension reduction is to reduce the data set into few variables that explain maximum variances in the data. It therefore involves establishment of latent factors that represents variables. In so doing, intercorrelated items are loaded together to represent variables. Table 14 shows that a total of 8 components were extracted and this explained 57.232% of variations in the data set.

TABLE 14**Total Variance Explained Matrix**

Total Variance Explained							
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings ^a
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	
1	19.820	38.116	38.116	19.820	38.116	38.116	10.253
2	2.105	4.049	42.165	2.105	4.049	42.165	7.221
3	1.741	3.349	45.514	1.741	3.349	45.514	10.005
4	1.431	2.752	48.266	1.431	2.752	48.266	10.314
5	1.306	2.512	50.778	1.306	2.512	50.778	10.082
6	1.253	2.409	53.187	1.253	2.409	53.187	4.208
7	1.064	2.046	55.233	1.064	2.046	55.233	3.365
8	1.040	1.999	57.232	1.040	1.999	57.232	9.875
9	.979	1.883	59.115				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Source: (Data analysis, 2025)

4.5.3 Pattern Matrix

The maximum iteration for Convergence were 100 and the resulting suppressed pattern matrix was as shown on Table 15. The pattern matrix showed that environmental disclosure had four constructs that loaded well (construct 3, 4, 8 and 9), social disclosures had two factors (construct 2 and 6), governance disclosure had four constructs (3, 4, 5 and 6), economic sustainability disclosures had four factors from constructs 5,6,10 and 12. For the dependent variable, financial performance three factors loaded well from construct 2, 4 and 9. This information is presented on Table 15

TABLE 15
Pattern Matrix

Pattern Matrix^a	Component							
	1	2	3	4	5	6	7	8
4. We participate in waste management to safeguard the environment from any harmful effects of our operations (ed4)			.723					
3. We disclose our efforts and resources that is used in environmental protection (ed3)			.699					
9. Our company follows up on environmental compliance certifications (ED9)			.684					
8. We are compliant to environmental regulations of the country and disclose this fact to our stakeholders (ed8)			.644					
6. Our company values disclosing information on risks that face our operations to stakeholders (gd6)				.595				
3. We disclose economic performance fairly to all stakeholders (gd3)				.501				
4. We provide non-monetary information to the public (gd4)				.500				
3. Our company participates in charity activities in the societies we operate (SD3)				.497				
2. Our company discloses all environmental emission information to stakeholders (ed2)				.486				
5. The company issues period reports on regulatory compliance (Gd5)				.447				
12. Our Company reports on any abuse or misuse of office including corruption cases (es12)					-			
6. We provide information on resource use with transparency (es6)					.701			
5. Our company discloses all tax liabilities fairly (es5)					-			
2. Management is very keen on community activities and discloses these activities in the annual reports (SD2)					.536			
6. Our company discloses information on staff composition in terms of gender, age, qualification and so on (sd6)							.533	
								.409

4. Sustainability reporting determines the level of market size (fp4)	-	.746
9. Return on shareholders' equity is good as the company is generating profits from its investments (fp9)	-	.507
2. Our company has improved in terms of operational performance (fp2)	-	.412

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
a. Rotation converged in 29 iterations.

Source: (Data analysis, 2025)

4.6 Regression Analysis

The study adopted Ordinary Least Squares (OLS) regression as the data used was cross-sectional. The regression was undertaken at 95% confidence level.

4.6.1 Multicollinearity

Where predictors are highly correlated or show linear interdependence, the situation is termed as multicollinearity. Multicollinearity makes estimates unstable as it often inflates standard errors. The study used Variance Inflation factor (VIF) in testing for multicollinearity. Results on Table 16 revealed that VIF for environmental disclosure 1.655, VIF for social disclosures was 1.831, governance disclosures had VIF of 1.853 and economic sustainability disclosures had a VIF of 1.916. Considering that all VIFs were less than 10, it was concluded that multicollinearity was low and therefore the extracted factors were fit for use in regression.

TABLE 16
Variance Inflation Factors

Coefficients^a		Collinearity Statistics	
Model		Tolerance	VIF
1	Environ_Dis	.604	1.655
	Social_Dis	.546	1.831
	Governance_Dis	.540	1.853
	EconomicSus_Dis	.522	1.916

a. Dependent Variable: Financial_performance

Source: (Data analysis, 2025)

4.6.2 Heteroscedasticity

Heteroskedasticity is a problem that occurs when residuals' variances are not constant. The study used Breusch-Pagan test to test heteroscedasticity. This was examined by running the unstandardized residuals and squaring the residuals and then examining the ANOVA from the regression that considered squared residuals are the dependent variable. Table 17 indicated that Heteroskedasticity problem was present ($F=11.063$, $p<0.05$). Breusch-Pagan test statistic with a significance value of less than 5% manifests existence of heteroscedasticity.

TABLE 17
ANOVA for Breusch-Pagan Test

ANOVA^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.279	4	.820	11.063	.000 ^b
	Residual	20.823	281	.074		
	Total	24.103	285			

a. Dependent Variable: Squared_Residuals

b. Predictors: (Constant), EconomicSus_Dis, Environ_Dis, Social_Dis, Governance_Dis

Source: (Data analysis, 2025)

Since the residuals did not have constant variances, the coefficients were reported using robust standard errors. Robust standard errors for cross-sectional data attempts to adjust the standard errors to configure it with the model's residuals. It therefore makes the estimates resistant to issues like heteroskedasticity and non-normality of residuals leading more reliable estimates. In other words, it provides heteroskedasticity -robust standard errors that alleviates problems caused by disturbances in non-constant variances across all observations.

4.6.3 Model Summary

Table 18 is the model summary that was obtained by running robust standard errors OLS regression. It was noted that the R^2 was 0.423 which indicating that 42.3% of variations in financial performance of manufacturing firms was due to changes in environmental disclosures, social disclosures, governance disclosures and economic sustainability disclosures. In other words, 57.7% of variations in financial performance of manufacturing companies was due to other factors that were noted variables in the study. This finding revealed that sustainability reporting had significant contribution towards variations in financial performance of manufacturing companies in Kenya.

TABLE 18
Model Summary

Tests of Between-Subjects Effects					
Dependent Variable: Financial_performance					
Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	29.760 ^a	4	7.440	51.531	.000
Intercept	5.949	1	5.949	41.203	.000
Environ_Dis	.891	1	.891	6.169	.014
Social_Dis	.705	1	.705	4.884	.028
Governance_Dis	1.839	1	1.839	12.736	.000
EconomicSus_Di	3.005	1	3.005	20.810	.000
Error	40.570	281	.144		
Total	5432.111	286			
Corrected Total	70.330	285			

a. R Squared = .423 (Adjusted R Squared = .415)

Source: (Data analysis, 2025)

4.6.4 Model Statistical Significance

The statistical significant of the model linking sustainability reporting and financial performance of manufacturing companies was tested using ANOVA test. Results on Table 4.16 indicated that the model was statistically significant (F=51.531, p<0.05). Thus, sustainability reporting components; environmental disclosures, social disclosures, governance disclosures and economic sustainability disclosures are pertinent drivers of financial performance of manufacturing firms.

TABLE 19
Model Significance

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.760	4	7.440	51.531	.000 ^b
	Residual	40.570	281	.144		
	Total	70.330	285			

a. Dependent Variable: Financial_performance

b. Predictors: (Constant), EconomicSus_Dis, Environ_Dis, Social_Dis, Governance_Dis

Source: (Data analysis, 2025)

4.6.5 Coefficients

Table 4.17 shows the coefficients for the model that linked components of sustainability reporting and financial performance of manufacturing companies in Kenya. The parameter estimates led to this model:

$$Y = 1.359 + 0.136X_1 + 0.110X_2 + 0.193X_3 + 0.261X_4$$

Whereas 1.359 is financial performance when suitability reporting is not factored, 0.136 is the increase in financial performance in response to a unit increase in environmental disclosure, 0.110 is increase in financial performance in response to a unit increase in social disclosures , 0.193 is increase in financial performance in response to a unit increase in governance disclosures and 0.261 is increase in financial performance in response to an increase in economic sustainability disclosures. Therefore, all components of sustainability reporting that were examined in this study led to increase in financial performance of manufacturing companies in Kenya as illustrated on Table 20.

TABLE 20**OLS Robust Standard Errors Estimates**

Parameter Estimates							
Dependent Variable:	Financial_performance						
Parameter	B	Std. Error	t	Sig.	95% Interval	Confidence	
					Lower Bound	Upper Bound	
Intercept	1.359	.212	6.419	.000	.942	1.775	
Environ_Dis	.136	.055	2.484	.014	.028	.244	
Social_Dis	.110	.050	2.210	.028	.012	.208	
Governance_Dis	.193	.054	3.569	.000	.087	.300	
EconomicSus_Dis	.261	.057	4.562	.000	.149	.374	

Source: (Data analysis, 2025)

4.6.6 Testing Hypothesis and Discussion of Findings

The study had four null hypotheses. The null hypothesis is rejected where the p-value for the coefficient is less than 0.05 where data analysis is done at 95% confidence level. In this aspect, the first hypothesis that was set as ***H₀₁***: There is no statistically significant effect of environmental disclosures on financial performance of manufacturing companies in Kenya was rejected ($\beta=0.136$, $p<0.05$). It was therefore concluded that environmental disclosures had positive significant effect on financial performance of manufacturing companies in Kenya.

The finding that environmental disclosure affects financial performance in a positive manner is in line with the results of Lin (2023) who found out that environmental disclosures had positive significant effect on firm performance in Bangladesh. Pedron, et al., (2020) also found out that environmental disclosures had positive effect on firm profits in Brazil. Additionally, Kurawa and Shuaibu (2022) found out that disclosures in Nigeria had positive effect on firm value and profitability.

Environmental disclosures entail reporting on how company's activities affect the natural environment and the steps taken to alleviate harmful effects. It focuses on provision of information in respect to environmental impact, strategies to lower negative ecological hazards, policies and environmental performance to stakeholders. This information is therefore diverse. Ideally, where stakeholders learn that a company is considerate of the environment, they are fast to accept its products and this builds a strong brand that leads to better performance. Thus, environmental disclosures are information that inform stakeholders that a company is conserving resources and has adopted robust sustainable practices.

The second hypothesis that was stated as H₀₂: There is no statistically significant effect of social disclosures on financial performance of manufacturing companies in Kenya was equally rejected ($\beta=0.110$, $p<0.05$). This meant that social disclosures had strong positive influence on financial performance of manufacturing companies in Kenya. This finding agrees with the results of prior studies. For instance, Qiu, et al., (2016) studied FTSE350 companies and noted that social disclosures improved firm value, profitability and firm performance. Malik and Kanwal (2016) also found out that social disclosures legitimized company's operations leading to better market reception that translated to improved firm performance. Emeka, et al., (2020) too found out that social disclosures improved firm performance in Nigeria.

Social disclosures entail wide range of quantitative or qualitative information in respect to how a company takes care of society and communities in the areas it operates in. It includes corporate social responsibilities (CSR), health and safety and organisational ethical conducts. As such, social disclosures seek to inform stakeholders that the company is mindful of their interests and this improves brand reputation leading to market leadership bettering overall financial performance.

The third hypothesis that was stated as H₀₃: There is no statistically significant effect of governance disclosures affect financial performance of manufacturing companies in Kenya was also rejected ($\beta=0.193$, $p<0.05$). This indicated that governance disclosures had significant positive effect on financial performance of manufacturing companies in Kenya. The results are in congruent with the findings of Brooks and Oikonomou (2018) who found out that governance disclosures had significant positive effect on firm performance in the United Kingdom. Chen and Xie (2022) too reported that ESG disclosures positively impacted corporate financial performance. Similarly, Ntim, et al., (2024) endeavored to evaluate the effect of environmental, social and governance disclosures and firm performance and found a positive link between ESG disclosures and firm performance. However, Almeyda and Asep (2019) found out that ESG did not affect share price. This could be due to the fact that share price is largely influenced by other factors that could cut across the entire sector of the economy. It can therefore be noted that governance disclosures are critical components in sustainability reporting as it entails providing information on how entities are managed. Governance disclosure lead to transparency in company's operations that foster accountability and efficiency that lead to better firm performance.

Lastly, the final hypothesis that was stated as H₀₄: There is no statistically significant effect of economic sustainability disclosures on financial performance of manufacturing companies in Kenya as also rejected ($\beta=0.261$, $p<0.05$). This led to the conclusion that economic sustainability disclosures had strong positive effect on financial performance of manufacturing companies in Kenya. The results are in line with those of Amacha and Dastane (2017) who found out that sustainability practices such as climate change concerns, environmental efficiency, health and safety, corporate conduct, governance and human capital practices contributed positively to financial performance of firms. Economic sustainability disclosure looks into how companies remain as going concern whilst pursuing other disclosures. It offers economic outlook and prospects for future growth. Therefore, this information is above historical reporting of financial performance as it shows future plans for sustainability. Where this information is available to stakeholders, companies are legitimized leading to better market performance that directly improves financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter contains the summary of findings, conclusions and recommendations for the study that sought to investigate the effect of sustainability reporting on financial performance of manufacturing companies in Kenya. The chapter also has limitations faced and further makes suggestions for further studies.

5.2 Summary of Findings

The study sought examine to effect of sustainability reporting on financial performance of manufacturing companies in Kenya. Primary data was sourced from three hundred and ten respondents whereas a response rate of ninety two percent was achieved. Data analysis was done in both descriptive and inferential statistics. Inferential statistics entailed OLS regression analysis. The findings are summarized in this section;

5.2.1 Environmental Disclosures and Financial Performance

The study found out that environmental disclosure had positive and significant effect on financial performance of manufacturing companies in Kenya. As such an increase in environmental disclosures lead to a positive variation in financial performance of manufacturing companies. This indicated that environmental disclosures are critical components of sustainability reporting.

5.2.2 Social Disclosures and Financial Performance

The study found out that social disclosures had a positive effect on financial performance of manufacturing companies in Kenya. Additionally, the relationship between social disclosures and financial performance was found to be statistically significant. It therefore indicated that social disclosures were key drivers of financial performance of the manufacturing companies.

5.2.3 Governance Disclosures and Financial Performance

The study found out that governance disclosures had a positive and significant effect on financial performance of manufacturing companies in Kenya. Thus, adoption of governance disclosures enhanced financial performance of manufacturing companies. This indicated that governance disclosures better firm performance.

5.2.4 Economic Sustainability Disclosures and Financial Performance

The study found out that there was a positive effect of economic sustainability disclosures on financial performance. It therefore meant that adoption of economic sustainability disclosures was instrumental in improving financial performance of manufacturing firms in Kenya.

5.3 Conclusion

The study concluded that sustainability reporting influenced financial performance of manufacturing companies in Kenya. In respect to individual component of sustainability reporting, it was concluded that all components; environmental, social, governance and economic sustainability had significant positive effect on financial performance of manufacturing companies in Kenya.

It therefore implies that adoption of sustainability reporting is instrumental as it leads to positive variations in financial performance of companies in the manufacturing sector. The role of ESG disclosures is to promulgate a culture of transparency in all activities of a company. Moreover, sustainability reporting is paramount as it ensures that information is disseminated to stakeholders in a timely manner thus building stakeholder's trust. Thus, quality and credible sustainability reporting is crucial as it can positively influence financial returns for companies.

5.4 Limitations of the Study

The study had one limitation. First, the study sampled participants in the Kenyan manufacturing sector as the sector is diverse and undertaking a census would not have been practical. Whilst all due care was taken to eliminate sample biases, sampling has an inherent limitation that the selected participants may not perfectly represent the population. t

5.5 Recommendations

The recommendations to manufacturing companies and to policy makers are made as follows:

Recommendations to manufacturing companies

Manufacturing companies should adopt sustainability reporting as it was found to improve financial performance. The current reporting environment is dynamic and stakeholders are requiring more information other than financial information. ESG reporting is therefore an integral part of reporting and this is manifested by how it is increasingly becoming a major global concern especially in the wake of climate change and global warming.

Manufacturing companies in Kenya, should therefore recruit certified ESG personnel who may help achieve the ESG reporting goals so as to improve financial performance as it has been established in the study. Additionally, manufacturing companies to periodically apply for ESG rating so that they can track the progress towards achieving globally recognized ESG reporting guidelines.

Recommendations to policy makers

There is need for policy makers such as Capital Markets Authority, Institute of Certified public Accountants (ICPAK) and Nairobi Securities Exchange (NSE) among others to come up with a framework that would assist local companies adhere to compulsory ESG reporting guidelines as instituted by the International Sustainability Standards Board (ISSB). This would ensure that there is a standard way fulfilling sustainability reporting with ease.

5.6 Suggestions for Further Studies

The study sought to examine effect of sustainability reporting on financial performance of manufacturing companies in Kenya. The study used primary data that was sourced from various firms. It is therefore recommended that a second study be done using secondary data so that results can be compared and contrasted. In addition, another study can be done in another sector, say financial sectors so that more empirical evidence on the effect of sustainability reporting on financial performance of companies in Kenya is obtained. Lastly, financial performance of manufacturing firms is not affected by ESG disclosures only. Thus, it is recommended that another study be done with introduction of moderator variable such as top leadership support and cost of implementing ESG guidelines and how this influences the nexus of sustainability reporting and financial performance of companies in Kenya.

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