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Emerging Environmental, Social and Corporate Governance Reporting by Listed Companies in the Post-Corona Pandemic in Kenya

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Abstract

There is an emerging trend in which Kenyan securities market investors are closely scrutinizing listed firms' sustainability efforts, not only their financial performance but also shareholder disclosures. The environmental, social and corporate governance (ESG) reporting concerns are therefore issues that are of increasing concern, over and above financial returns provided by firms listed at the Nairobi Securities Exchange. Listed firms that aspire to keep their shareholders happy, attract new investors and boost demand for their products and services can often do so by acting more sustainably and socially responsible. This not only appeases investors but also helps improve financial performance of the listed firms. Existing shareholders need to become aware of the growing push for listed firms to improve sustainability reporting and implement more environmentally friendly activities. The recent Corona pandemic has also put firms' long-term viability and operational resilience to test. As a result, ESG issues have become even more important not just for corporate boards but also market regulators and other policymakers. This calls for an urgent need to understand how their actions affect the environment and society in order to maximize good effects and minimize negative ones. While many Kenyan listed firms have some ESG reporting initiatives, majority of them follow the limiting Global Reporting Initiative (GRI) requirements. Although the benefits of ESG reporting are well known on a global scale, doing so in Kenya is not without its difficulties. Listed firms that fail to address such hurdles risk missing out on some of the most important advantages of ESG reporting, such as opening up new capital sources from investors with a commitment to sustainability – such as from pension funds, development finance institutions, and private equity firms – as well as improving operational efficiency. Motivated by the emerging ESG corporate reporting concerns, and employing a multi-scenario documentary analysis approach, this paper first analyses the literature and examines the reasons behind the investors' concern for ESG reporting in the post Corona pandemic period. It then examines the theories underpinning ESG reporting. In addition, the paper explains the relevant sustainable financial disclosure regulation in Kenya. Moreover, it discusses the challenges and the future of ESG reporting. Finally, the paper makes key important recommendations aimed at promoting ESG reporting by listed firms as well as encouraging impact investing among stock investors in Kenya.

Keywords: Corona Pandemic, environmental reporting, governance reporting, global reporting initiative, impact investing, social reporting

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Introduction

Businesses cannot function in a vacuum or as closed systems unless they interact with their surroundings. Because of their frequent engagement with their environment, they are likely to have some impact on the environment and society as a result of their actions. Companies that are listed on securities exchanges become more complicated and productive as they strive to gain a competitive advantage over their competitors-actions, which have an impact on the wider environment and society. Industrialization has also been linked to a variety of economic, social, and environmental risks, such as environmental degradation, air and water pollution, and increased deforestation and habitat loss for both aquatic and terrestrial species (Utile, 2016). Sustainability reporting is the most important tool for communicating sustainability performance and implications to investors as well as industry regulators. A sustainability report, in its most basic form, is a report on an organization's environmental and social performance (Huang et al., 2014).

Traditional financial reporting, according to Simnet et al. (2009), has been criticized in recent years for failing to reflect the various dimensions of a company's worth. Financial reporting criticism, combined with the economic crisis, has increased the demand on corporate accounting to capture and depict the various dimensions of a company's value (Utile, 2016). Furthermore, the increasing demand for non-financial disclosures, as well as various environmental consciousness and the push for sustainable economic growth, are drawing the attention of companies to the importance of making their operations environmentally conscious and sustainable. With growing concern for the global environment and the preservation of ecosystems in order to ensure their long-term viability, sustainability reporting has become critical for both developed and developing countries and their financial markets.

A move towards a more holistic approach to analysing a company's success, the environmental, social and governance (ESG) indicator is now universally recognized as a valuable metric for judging listed firms' non-financial performance. There is a global trend towards incorporating sustainability measures into business operations. This trend has been prompted by the widespread recognition that businesses must play a larger role in mitigating the negative social and environmental consequences of their operations. Furthermore, a growing body of evidence indicates that strong ESG performance is associated with higher returns and financial performance (Money Africa, 2022). These issues have also been prioritizing for economic development by the United Nations Agenda 2030 as goals on sustainable development, African Union Agenda 2063 as aspiration on governance and social justice, East African Community Vision 2050, and Kenya Vision 2030 pillars on environment and natural resource management.

Overview of Environmental, Social and Governance Reporting

The scope of environmental, social, and governance issues is broad and varies according to the listed firm and industry in which it operates. However, there are some key common areas that are typically covered in ESG reporting. Environmental issues include a firm's environmental impact, such as greenhouse gas emissions, energy and water consumption, and waste management practices (Kluwer, 2023). It also takes into account the effects on biodiversity, natural resources, and climate change (Green Business Bureau, 2022). Social issues category includes a company's societal impact, such as labour practices, human rights, and community involvement (PWC, 2021). It also considers the company's impact on its employees, customers, and suppliers, as well as the communities in which it operates. Whereas governance issues refer to a firm's management and leadership, such as board composition, executive compensation, and ethical behaviour, its risk management, compliance, and transparency are also included (Onyuma, 2023).

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Other areas covered by ESG reporting, according to Ernst and Young (2022), also include product responsibility, customer privacy and data security as well as political lobbying. Listed firms may also report on specific sustainability goals that they have set (KPMG, 2022). ESG reporting is becoming increasingly important as investors and other stakeholders seek to understand a company's long-term viability and impact on society and the environment.

The concerns for ESG are gaining importance among stock investors and other stakeholders as key indicators of a firms' overall health and long-term sustainability. Stock investors can identify firms that are well-positioned to manage risks and capitalize on opportunities over the long-term by considering these issues in investment decisions in an effort to undertake impact investing.

The practice of publicly disclosing information about a firm's environmental, social, and governance performance is referred to as ESG reporting. This type of reporting is becoming increasingly important as stock investors and other stakeholders seek to understand a listed firm's long-term viability and impact on society and the environment. Carbon emissions, water usage, labour practices, human rights, and board diversity are all covered in ESG reporting. Such ESG reporting aims to provide a comprehensive view of a firm's non-financial performance, allowing stock investors and other stakeholders to make informed impact investing decisions about the firm (Ndung'u & Onyuma, 2023).

Greenhouse gas emissions, energy, water, and waste management or recycling, biodiversity (environmental), health and safety, diversity and inclusion, human rights, data security, selling practices, product safety (social), and business ethics and culture (governance), are some key issues (Deloitte, 2022). The Business Roundtable has published Principles of Corporate Governance on a global scale since 1978. Every version of the report since 1997 has embraced shareholder primacy principles, and contends that businesses exist primarily to serve shareholders.

The forum's values were significantly revised in August 2019, expanding the scope of corporate social responsibility to include all stakeholders, including employees, community members, consumers, and suppliers, rather than just wealthy shareholders (Business Roundtable, 2019). Companies that take a strong stand on environmental, social, and governance issues, on the other hand, have higher equity returns and lower credit-related risk (Onyuma, 2023). As listed businesses enter this new era, they must actively seek out this specific group of investors (Ndung'u, 2021).

Firms that are dedicated to sustainability reporting and actively contribute to their communities can undoubtedly entice modern investors. As a result, transparent reporting on such efforts and their outcomes is critical. While conducting research on the relationship between corporate sustainability disclosure and firm financial performance on the Johannesburg Stock Exchange, Wasara and Ganda (2019) discovered a positive relationship between social disclosure and return on investment. According to their research, implementing corporate social disclosure can motivate listed firms to be socially responsible while also delivering financial returns.

Despite the fact that many large listed firms have set sustainability targets and disclosed ESG-related data for 2022, securities investors, regulators, and the general public are scrutinizing corporate sustainability initiatives and calling out what they perceive to be greenwashing. Much of this scepticism stems from fears that companies are using sustainability-related disclosures and labels on products and services as a marketing tool to appear more aggressive on these issues than they actually are. New global ESG-related standards will be introduced in 2023, and global standard-setting bodies such as the newly formed International Sustainability Standards Board

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(ISSB) can assist in addressing what may be the most significant barrier to accountability; the lack of a common baseline for disclosure standards that are consistent across jurisdictions and industries (International Financial Reporting Standards (IFRS), 2023).

Given the demand by international investors with global investment portfolios, companies must provide high-quality, transparent, reliable, and comparable reporting on climate and other ESG issues. The goal of the ISSB is to establish a global baseline of sustainability-related disclosure standards that will inform securities investors and other capital market participants about listed firm's sustainability-related risks and opportunities, allowing them to make better decisions (ISSB, 2023).

The Link between ESG Disclosure and Corporate Social Responsibility

The ESG criteria, according to Antea Group (2022), are a set of principles used by potential investors to evaluate listed firms in which they may invest. The ESG standards investigate a firm's environmental impact (environmental), as well as its interactions with employees, suppliers, customers, and the larger society in which it operates (social). They investigate the leadership, executive compensation, shareholder rights, audits, and internal controls of a listed firm (governance). Corporate Social Responsibility (CSR), on the other hand, is a self-regulatory business paradigm in which listed firms are more conscious of their social impact, and includes the environment, the economy, and the people who comprise society.

Notably, CSR practitioners actively operate in ways that benefit society and the environment while also increasing accountability to themselves, their stakeholders, and the general public. While both ESG and CSR are concerned with a firm's impact on the environment and society, the primary distinction is that CSR is a business model used by individual firms, whereas ESG is a criterion used by stock investors to evaluate a firm and determine whether it is worth investing in (Business Leader, 2022).

Further, ESG and CSR are concepts that are related, but there are some key differences. Non-financial aspects of a firm's operations that can have an impact on its long-term sustainability and performance are referred to as ESG. Environmental, social, and governance issues are included as key indicators of a firm's overall health. ESG reporting is becoming increasingly important as stock investors and other stakeholders seek to understand a firm's long-term viability and impact on society and the environment (Novisto, 2022)

The CSR, on the other hand, refers to a firm's commitment to being socially responsible and accountable for its operations' impact on society and the environment. It therefore encompasses a wide range of activities, including charitable giving, community involvement, and environmental stewardship. In fact, CSR is frequently viewed as a way for businesses to go above and beyond their legal responsibilities and demonstrate their commitment to being good corporate citizens. While ESG is a reporting and measurement framework, CSR is a firm's broader philosophy and practices. Both concepts are becoming increasingly important to businesses and stakeholders as they seek to understand and assess a company's long-term viability.

Historical Development of Environmental, Social and Governance Reporting

The concept of ESG has evolved over time, with various turning points and key events shaping its evolution. Some key historical developments in the field of ESG have been discussed by Forbes (2020), Carbon View (2021), Preqin (2023), Corporate Finance Institute (2023), BakerTilly 2023, and Financial Times (2022). During the 1970s, the modern environmental movement gained traction with the first Earth Day held in 1970. This raised environmental awareness and the need

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for firms to address their environmental impact. In the 1980s, the concept of socially responsible investing (SRI) emerged as stock investors began to consider social and environmental issues in their investment decisions. In the 1990s, the United Nations launched the Global Compact initiative, which encouraged firms to implement environmentally friendly and socially responsible policies and practices.

By the 2000s, CSR became widely used and listed firms began to publicly disclose information about their social and environmental performance. In the 2010s, ESG became more common, and firms began to report on a variety of non-financial performance indicators. Eventually, from the 2020 onwards, ESG investing is becoming mainstreamed, with many stock investors and asset managers incorporating ESG targets into their investment strategies. The outbreak of the Corona pandemic has accelerated the incorporation of ESG issues, as stock investors have grown concerned about firms' resilience in the face of various systemic risks.

Global Perspective of ESG Reporting

The Harvard Business Review (2019) interviewed 70 senior executives from 43 global institutional investing firms, including the world's three largest asset managers (BlackRock, Vanguard, and State Street) and massive asset owners such as the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), and Japan, Sweden, and the Netherlands' government pension funds. It found that ESG was almost universally imprinted on the minds of these executives. The majority of the investment leaders identified concrete efforts being made by their firms to incorporate sustainability concerns into their investment criteria. The implication is that issues underpinning ESG have become far more important for long-term securities investors, and if they have not done so already, company executives will be held accountable for their ESG performance by shareholders.

Global ESG investments increased by 15 percent in the previous two years, reaching $35.3 trillion in assets under management, according to a report by Global Sustainable Investment Alliance (GSIA). Such investments account for 36 percent of total assets in the United States, Canada, Japan, Australasia, and Europe, with a $53 trillion market capitalization expected by 2025. While Europe accounts for half of all ESG assets globally, Bloomberg Intelligence predicts that Asia, particularly Japan, will be the next growth engine. This is because green bond issuance has tripled this year, and has shown a large maturity in 2023 indicating plenty of room for new issuance (Forbes, 2021).

According to a 2022 global survey conducted by FTSE Russell, more than half of global asset owners are actively implementing or reviewing ESG concerns in their investment strategy. As a result of this evidence, investors are incorporating ESG into their investment decision-making process. Also, EY (2022) conducted a survey from 1,040 Chief Financial Officers (CFOs) and other finance executives and 320 institutional investors around the world to explore their expectations and goals regarding sustainability investing and reporting. The study found that 78 percent of investors expect their firms to focus on ESG activities, even if that means less profit in the short-term. Global investors have come to expect more comprehensive, meaningful reporting of key nonfinancial performance data, which they are increasingly using to assess long-term value development. These findings have been supported by independent research, such as those conducted by RBC Global Asset Management (2019) and HSBC (2019).

The IBM Impact is a new paradigm for a firm's ESG efforts, representing IBM's vision for a more sustainable, equitable, and ethical future. According to its 2021 ESG report released in April 2022, IBM Impact is comprised of three pillars; environmental impact, equitable impact, and

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ethical impact. These principles have been ingrained in the DNA of IBM for over a century, guiding work for its people, stakeholders, and the world (IBM, 2022).

The ESG Market Trends in Kenya

Locally, ESG issues are the significant newcomer on the capital market scene that ever corporate investor wants to speak about. We are seeing an increase in the frequency with which ESG issues are discussed in boardrooms, factored into major management decisions, and negotiated into transaction documents. Listed firms are increasingly considering ESG issues in relation to their enterprises as a value-addition rather than a risk mitigation measure. Investors are prioritizing ESG and future sustainability challenges as major metrics when considering possible mergers and acquisitions (M&A), rather than a basic compliance tick-box exercise.

ESG is not a new trendy jargon; it has been around for quite some time. However, it has risen to prominence in recent years as a result of a number of factors, including firms becoming more socially and ethically conscious of the impact they want to make, investor pressure to develop long-term sustainable business models, increased pressure from customers and other stakeholders demanding increased accountability, and new domestic, regional, and global regulations requiring mandatory compliance (Bowmans, 2022a). The ESG issues and key developments in Kenya are discussed in the next sections.

Environmental Reporting

Kenya has always had a robust legislative and policy framework aimed at environmental protection and rehabilitation. Article 42 of Kenya's 2010 Constitution establishes the right to a clean and healthy environment as a basic right for all Kenyans. Furthermore, Article 69 imposes environmental obligations on the state, including the sustainable management of natural resources, the maintenance of a minimum tree cover, and the protection of biodiversity. In fact, the 13th November 2023 was declared a public holiday for Kenyans to plant trees. These requirements are carried out by several pieces of legislation, such as the Climate Change Act of 2016, which establishes the legal foundation for low-carbon climate development.

Another significant step taken by the Kenyan government in relation to climate change was when it became one of the first countries to ratify the Paris Climate Agreement, and in 2017, the Ministry of Environment and Natural Resources banned the use, manufacture, and importation of all plastic bags used for commercial and household packaging. As a result, manufacturers are continuously searching for sustainable environmentally friendly alternative packaging (UN Climate Change, 2017).

The Kenya Green Bond Programme (KGBP) was established in 2017 to encourage financial sector innovation by creating a domestic green bond market to boost green investments. The Kenya Bankers Association, Nairobi Securities Exchange (NSE), Climate Bonds Initiative, Financial Sector Deepening Africa, and FMO- Dutch Development Bank collaborated on the KGBP initiative (FSD Africa, 2017). Green bonds are those in which the issuer agrees to using the bond proceeds transparently and exclusively to finance or refinance green projects, assets, or commercial operations with an environmental impact (Onyuma, 2020). Following the KGBP, the Capital Markets Authority (CMA) issued a Policy Guidance Note on Green Bonds in February 2019, which was followed by the London Stock Exchange listing of the first shilling-denominated green bond in East and Central Africa. The bond funds were intended to be used to construct 5,000 environmentally friendly student housing units (CMA, 2017)

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In 2021, the Central Bank of Kenya (CBK) issued a guidance on climate related risk management aimed at commercial banks and mortgage finance companies and informed them on how to manage their climate related risks by incorporating climate related management into their business decisions and activities (CBK, 2021)

Furthermore, at the recently concluded conferences of the parties to the United Nations Framework Convention on Climate Change or COP26/COP27, which took place in November 2021 in Scotland, and November 2022 in Egypt, Kenya's commitment to the environment was visible through the numerous pledges it made to the preservation, restoration, and promotion of environmental sustainability. These obligations include, among other things, ending deforestation by 2030, continuing investment in renewable energy so that Kenya achieves complete 100 percent renewable energy by 2030, and achieving 100 percent clean cooking by 2028, all as part of the global net zero carbon target.

Social Reporting

The recent Corona pandemic altered work life as it was previously perceived by both firms and their employees. Employees want more flexible work conditions. Potential employees are also interested in working for organizations that actively promote ESG in their workplace culture and practices (McKinsey, 2021). Taking into account changing labour trends, the Kenyan Employment (Amendment) Bill 2021 sought to reform employment laws. The Bill is intended to address growing employee burnout and promote work-life balance.

Because of recent legislative developments, manufacturers have had to adapt the way they sell their products and services to consumers. Consumers are driving change by demanding socially responsible behaviour from businesses, which goes beyond the conventional annual corporate social responsibility public relations event. With increased consumer activism in Kenya, and in this era of social media cancellation culture, companies have realized that consumers want to be associated with brands that are sensitive to climate change and sustainability concerns, but will quickly turn to brands that are found to be continuing practices that are on the wrong side of this trend (Forbes, 2020).

Gender equality, which is established in the Constitution, is another significant area of concern under the social umbrella. The CMA has issued Guidelines on Corporate Governance Practices by Publicly Traded Companies, which require boards of listed firms to develop procedures that ensure diversity in their composition, particularly gender diversity. The NSE has also set a target of having at least one-third of Kenya's 63 listed firms to have female board members (CMA, 2021).

Indigenous peoples' protection remains a prominent topic of focus for international investors in the ESG sector. Many land-related projects develop Indigenous Peoples Plans, which set mechanisms to ensure that the local population receives culturally relevant social and economic benefits. These policies uphold indigenous peoples' dignity, rights, and culture while ensuring that they receive culturally relevant benefits at par with other ethnic groups (Poyser & Daugaard, 2023).

Finally, in recent years, data privacy has moved to the top of consumer worries. Following global landmark data privacy breaches, governments have begun to regulate data protection, beginning with the European Union's landmark General Data Protection Regulations (European Council, 2022) as well as Kenya's Data Protection Act.

In Kenya, the Data Protection Act 2019 is being gradually implemented, with the issuance of numerous data protection regulations in 2021, which has influenced how Kenyan organizations

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manage the data that they acquire. Organizations collecting personal data must examine the purpose, openness, involvement, usage restraints, and collection limitations.

Governance Reporting

Governance issues have become increasingly vital in order to generate and sustain economic progress. The Companies Act, 2015 (Section 655, 4 b), which in many cases places personal obligation on directors of listed firms to ensure compliance, is a basic framework for governance-related concerns. Additionally, according to Bowmans (2022b), several firms are adopting global industry best practices and joining standards and reporting indices such as the International Finance Coalition (IFC) Performance Standards, the Sustainability Accounting Standards Board (SASB), and the limiting Global Reporting Initiative (GRI).

As a result, the CBK and NSE have issued guidelines requiring the board of directors and senior management of listed firms to actively participate in developing and executing ESG strategies, policies, and reporting requirements. Together with the Companies Act, this imposes a stronger responsibility on firm directors to report on ESG issues. Additionally, listed firms were given one year to integrate and comply with the ESG reporting requirements based on the GRI criteria under the NSE ESG disclosure manual, which was issued in November 2021 (NSE, 2021). Furthermore, The CBK Guidance requires financial institutions to provide climate-related information to the Task Force on Climate-related Financial Disclosures with a timeframe of January 2023 to June 2023 has been provided (CBK, 2021).

These regulations, together with the broader interest in ESG, have resulted in extra requirements for listed firms when selecting top executives and board members. Thus, most blue chip firms are indicating categorically in job adverts that the prospective CEO should understand and be able to execute ESG best practices (Myjobmag, 2022; Career Associated, 2022).

What then is the Problem?

Securities investors are, of recent, paying closer attention to a firm’s sustainability activities, both in terms of overall operations and shareholder transparency. Listed firms that wish to keep their current investors pleased while also attracting new ones to stimulate demand can frequently accomplish so by acting more sustainably. This not only appeases investors but also aids in performance improvement. Existing shareholders should be aware that there is an increasing effort to improve sustainability reporting and undertake more ecologically friendly operations. The Corona Pandemic outbreak has tested listed firms' long-term viability and operational resilience. The ESG issues have become more critical for legislators, boards and CEOs as a result of the Corona Pandemic. In collaboration with the GRI, the NSE established recommendations mandating listed firms to disclose how they deal with concerns such as community, employee number, corruption, customer data protection, and environmental effect. The guidelines were not mandatory, and the NSE only persuaded them to implement sustainability reporting methods in order to boost profitability and investment attractiveness to both domestic and foreign investors.

The ESG reporting was to be incorporated into regular annual reports as well as separate sustainability reports. However, despite the NSE directive, more than half of the listed firms have failed to comply with the NSE’s new mandate requiring them to provide ESG disclosures ahead of the November 2023 deadline. Only 29 firms (46%) of those listed on the Exchange, among them Safaricom, East African Breweries, Nation Media Group, Bamburi Cement, KCB Bank Group, Kakuzi, and Standard Chartered Bank have included ESG disclosures in their financial reports. Most importantly, the disclosures are designed to increase transparency around listed firms,

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facilitating new investments, particularly from international investors. There is lack of information as to why there is reluctance among listed firms to incorporate ESG reporting into their regular annual reports or even as separate sustainability reports. Yet it was meant to boost their overall performance and open room for new impact investors.

As securities investor interest and activism grows globally, ESG reporting is gaining traction in Kenya. While a sizeable number of Kenyan corporations have reported GRI, it has been mainly skewed. Using desktop review of literature via documentary analysis, this study therefore sought to examine the reasons behind the emerging investors' concern for ESG reporting post-Corona Pandemic. It then evaluates the theories underpinning ESG reporting and explains the relevant sustainable financial disclosure regulation in Kenya. Moreover, it discusses the challenges and the future of ESG reporting. Finally, the paper makes key important recommendations aimed at promoting ESG reporting by listed firms in Kenya.

Theoretical Analysis of ESG Reporting

The field of ESG reporting is supported by several theories. The following is a discussion of the major theories underpinning the ESG reporting. In this study, we have used the Agency theory and the Risk Management theory, which are hereby discussed.

Agency Theory

Agency theory was propounded by Stephen Ross and Barry Mitnick in 1973, independently and roughly concurrently (Mitnick, 2019). According to agency theory, companies function as agents for their shareholders. That is, shareholders invest in corporate ownership and so entrust their resources to the management of the corporation's directors and officers. According to the theory, when it comes to ESG issues, management may not always act in the best interests of shareholders or owners, which can easily lead to problems such as moral hazard and adverse selection. Management, for example, may not prioritize environmental sustainability or social responsibility if it does not align with their short-term goals or is not rewarded by shareholders, thereby resulting in negative environmental or societal impacts. To address this potential misalignment, agency theory in the context of ESG suggests mechanisms such as performance-based compensation, board oversight, and shareholder monitoring. This should be able to align management and shareholder interests and ensure that the firm is taking appropriate ESG actions (CFA Institute, 2020).

Furthermore, investors can apply agency theory to ESG by incorporating ESG considerations into their investment decisions and engaging with companies on ESG issues to ensure that management is taking appropriate actions. In sum, agency theory in the context of ESG emphasizes the importance of aligning management and shareholder interests when it comes to ESG issues, as well as the use of mechanisms to ensure that management is taking appropriate actions to address those issues.

Risk Management Theory

Herbert Simon's decision-making theory was initially published in his well-known book, *Administrative Behaviour* in 1947. He claimed that decisions were crucial because if they were not made on time, they would have a detrimental impact on goal of an organization. Risk management theory is a set of principles and practices that guide organizations in identifying, assessing, and managing risks in a systematic and effective manner. In the context of ESG, risk management theory refers to the process of identifying, assessing, and mitigating the risks associated with a

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business or investment that have an impact on the environment, society, or corporate governance. Changes in government regulations, shifts in consumer preferences, and physical risks from climate change are all examples of ESG risks. These risks can have a significant impact on a company's financial performance, reputation, and long-term viability.

According to ESG risk management theory, firms should identify and assess potential ESG risks associated with their operations before developing strategies to mitigate or manage those risks. This can include things like lowering emissions, investing in renewable energy, improving labour practices, and putting in place good corporate governance practices. Furthermore, by incorporating ESG considerations into their investment decisions, investors can apply risk management theory in the context of ESG. This can include assessing the environmental, social, and governance risks associated with a specific investment and factoring those risks into their overall risk management strategy.

It is important to note that incorporating ESG into risk management should be able to open up new opportunities for businesses and investors. Listed firms, for example, may be able to improve their reputation, build trust with stakeholders, and create new business opportunities by addressing ESG risks. Similarly, investors who consider ESG issues when making investment decisions may be better able to identify and capitalize on long-term sustainable investment opportunities.

Investors' Concern for ESG Reporting Post Corona Pandemic

The Corona Pandemic has highlighted the importance of securities investors considering environmental, social, and governance issues. The crisis has highlighted the vulnerabilities of businesses that do not have strong ESG practices, as well as the potential risks and opportunities associated with these issues.

Following the pandemic, securities investors have become more interested in ESG compliant investments as a way to manage risk and capitalize on long-term sustainable opportunities. Several factors are driving this trend, including (Karugu et al., 2023; Bowmans, 2022b): First, increased understanding of the financial risks and opportunities associated with ESG issues: The pandemic has brought to light the importance of issues like supply chain resilience, employee health and safety, and environmental sustainability. As a result, securities investors are becoming more aware of the risks and opportunities associated with these issues. Secondly, consumer preferences are shifting. The pandemic has accelerated a shift in consumer preferences toward products and services that promote health, well-being, and environmental and social responsibility. This has resulted in an increase in demand for ESG-friendly products and services, as well as new business opportunities for listed firms that can meet this demand.

Moreover, governments all over the world have been enacting new regulations and policies in order to promote sustainability and address the effects of the pandemic. This has introduced new risks and opportunities for businesses as well as prompted investors to consider the potential impact of these regulations on their investments. Lastly, the pandemic has highlighted the importance of long-term investments that can withstand short-term market fluctuations. ESG investments are frequently viewed as a means to accomplish this because they are focused on long-term, sustainable opportunities. Overall, the Corona Pandemic has highlighted the importance of ESG considerations for investors, resulting in increased demand for ESG investments as a means of risk management and capitalizing on long-term sustainable opportunities.

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Challenges in Effective ESG Reporting In Kenya

There are four barriers to implementing an effective ESG reporting framework: Setting governance frameworks; understanding reporting boundaries; undertaking materiality analysis; and generating and releasing relevant ESG content (Intellecap, 2023; Bowmans, 2022b).

On setting governance framework, it is vital to establish an active governance framework to drive meaningful ESG reporting. The Kenya Companies Act of 2017 requires company directors to consider ESG issues that may affect the company's future performance. The board oversees the ESG reporting agenda, which is supported by the CEO and driven by the Sustainability Manager.

The lack of an active governance structure can have a significant impact on the implementation of ESG reporting by listed firms in Kenya. There are a number of ways in which this can occurs (Teigland, & Hobbs, 2022). The first one is that without an active governance structure in place, there may be limited accountability for ESG reporting within listed firms. This can make it difficult to ensure that firms are collecting and reporting accurate and comprehensive ESG data. The second one is limited transparency. Active governance structures can help promote transparency in ESG reporting by ensuring that information is shared in a timely and open manner. Without such structures, listed firms may be less likely to share ESG data with stakeholders or to report on their performance in a meaningful way.

In addition, there arises limited stakeholder engagement. Active governance structures can help facilitate stakeholder engagement around ESG issues that should generate support and drive positive change. Without such structures, however, listed firms may be less likely to engage with stakeholders around ESG issues or to use ESG reporting as a tool for driving positive change. Moreover, there is the possibility of limited capacity building. Active governance structures can help build capacity within listed firms around ESG reporting, including providing training and support to employees responsible for collecting and analysing ESG data. Without such structures, listed firms may be less equipped to implement robust ESG reporting systems, which can affect the necessary reporting.

On understanding reporting boundaries, think of all of the entities over which a firm has control (organizational boundary) as well as all of the entities over which it has influence (operational boundary) such as subsidiaries, suppliers, vendors, and contractors. The upstream and downstream must be considered, and the reporting boundary must be established accordingly. This may differ from one listed firm to another depending on the industry and type of information required for reporting. The understanding of the reporting boundaries is an important aspect of implementing a robust ESG reporting by listed firms in Kenya. Reporting boundaries refer to the specific activities or areas of a firm’s operations that are included or excluded from the scope of its ESG reporting (OECD, 2020).

Some of the reasons why understanding reporting boundaries is important include the following issues. Firstly, by clearly defining reporting boundaries, listed firms can ensure that their ESG reports accurately reflect the scope of their operations and the impacts of those operations on the environment, society, and governance. This should help promote transparency and credibility in ESG reporting. Secondly, it can also aid comparability. Understanding reporting boundaries can thus help ensure that ESG reports are comparable across different listed firms and industries. This is because different firms may have different reporting boundaries based on the nature and scope of their operations. In addition, such understanding should be able to promote prioritization in that it can help listed firms prioritize their ESG reporting efforts, by focusing on the most material issues within the scope of their operations. This can help them identify and address the most significant ESG risks and opportunities. Lastly, there is the issue of stakeholder engagement.

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Understanding reporting boundaries can therefore help facilitate stakeholder engagement around ESG issues, by providing a clear and transparent view of the company's operations and their impacts. This should help build trust and support among stakeholders (Nduati-Mutero & Njoroge, 2022).

On undertaking materiality analysis, which refers to the principle that determines which topics are relevant enough to warrant reporting, disclosures about water waste and treatment, for example, may be more significant to a chemical producer than a furniture manufacturer. Materiality is defined within the reporting boundaries, and listed firms should do materiality analysis at least once a year. Undertaking materiality analysis is therefore another important aspect of implementing ESG reporting by listed firms in Kenya. Materiality analysis is the process of identifying and prioritizing the most significant ESG issues within the scope of a firm's operations, based on their potential impacts on the firm's financial performance and stakeholder interests.

Some of the reasons why undertaking materiality analysis is important include the following as explained by KPMG (2014): First, focus in which undertaking materiality analysis can help listed firms focus their ESG reporting efforts on the most significant issues within the scope of their operations. This should ensure that ESG reporting is relevant, credible, and useful to different stakeholders. Secondly, prioritization is key because materiality analysis can help listed firms prioritize their ESG reporting efforts based on the potential impacts of ESG issues on the its financial performance and stakeholder interests. This should help the firms identify and address the most significant ESG risks and opportunities. In addition, stakeholder engagement is paramount since materiality analysis can also help facilitate stakeholder engagement around ESG issues, by providing a clear and transparent view of the firm's most significant ESG risks and opportunities. This should help build trust and support among stakeholders. Lastly, undertaking materiality analysis can help listed firms comply with regulatory requirements around ESG reporting, by ensuring that their ESG reports address the most significant ESG issues within the scope of their operation (Ansarada, 2023).

Once the above three obstacles have been addressed, selecting the relevant data, generating and releasing relevant ESG content, should be simple. The sustainability manager, assisted by the CEO, will need to participate in stakeholder engagement, both internally and externally, in order to put up the necessary processes for data collection. At this point, the GRI also gives guidelines on how to pick the sustainable development goals applicable to the ESG reporting process. Therefore, listed firms must choose the SDGs that are most relevant to their operations rather than all of them (Tocchini & Cafagna, 2022). This is critical to prevent accusations of greenwashing and to disclose measurable and tangible annual progress towards the SDG targets. This will ensure that ESG practices and reporting is not seen as a mere PR exercise.

Furthermore, generating and releasing relevant ESG content should be another important aspect of implementing ESG reporting by listed firms in Kenya. Relevant ESG content refers to the specific information that such firms should include in their ESG reports, such as data, metrics, targets, policies, practices, and initiatives related to environmental, social, and governance issues. Some of the reasons why generating and releasing relevant ESG content is important, according to PWC (2021), include promoting transparency where the generation and releasing of relevant ESG content can help listed firms promote transparency and accountability around their ESG performance. By providing detailed information on their ESG practices and initiatives, listed firms should be able to build trust and credibility among their stakeholders.

Another reason is comparability where relevant ESG content can also help ensure that ESG reports are comparable across different firms, sectors and industries. This is because firms can use

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standardized metrics and reporting frameworks to provide consistent and comparable data on their ESG performance by firms. In addition, generating and releasing relevant ESG content can help firms prioritize their ESG efforts, by identifying the most significant ESG risks and opportunities within the scope of their operations. This should help companies allocate resources more effectively to address these issues. Finally, generating relevant ESG content can also help facilitate stakeholder engagement around ESG issues, by providing a clear and transparent view of the company's ESG performance and initiatives. This should help build trust and support among stakeholders. It is therefore evident that reporting boundaries as well as generating relevant ESG content is at the heart of a firms ESG performance.

The Future of ESG Reporting in Kenya

It is evident that ESG is quickly becoming an integral part of good corporate governance practice. Thus, within ESG, a number of trends are emerging which will shape how the securities exchange listed firms sustain in their operational environments. The following are some notable trends that will generally develop in the near future in corporate arenas. If listed firm top management fail to act, they will likely suffer consequences. Going forward, there will be a convergence of governance and standards. In addition, sustainable products will become the norm in the future. Moreover, carbon offsetting will get better as firms become more responsible, and climate positivity will become the new net-zero by listed firms. Furthermore, organisations will have to disclose any climate risks they are responsible for (Conmy, 2023).

Similarly, greenwashing will be punished, and engendering of the board of listed firms will become the fashionable thing in corporate arena. ESG investing will continue to rise, renewable energy will become cheaper, and all these will define their future success, and impact investing concerns will grow among Kenyan securities investors,

The future of ESG reporting in Kenya looks promising, as there is a growing recognition among businesses, investors, regulators, and civil society of the importance of ESG issues for long-term sustainability and value creation. Some of the trends that are likely to shape the future of ESG reporting in Kenya, among others have been discussed by Butt and Nduba-Banja (2022) and Karugu et al. (2023). To begin with, there is likely to be regulatory developments as the Kenyan government is expected to introduce new regulations and guidelines around ESG reporting, which could help promote more consistent and standardized ESG reporting practices among listed firms. Secondly, there is a growing demand among local and international investors for ESG data and insights, as investors increasingly recognize the importance of ESG issues for long-term value creation and risk management.

Moreover, stakeholder engagement can be expected to increase given that there is a growing recognition among the listed firms that engaging with stakeholders on ESG issues is critical for building trust, reputation, and social license to operate. As such, listed firms are likely to increase their efforts to engage with stakeholders on ESG issues, and to report on their stakeholder engagement activities. In addition, advances in technology, such as Blockchain and Artificial Intelligence as well as Machine Learning are likely to play an increasing role in ESG reporting, by enabling more efficient and accurate data collection, analysis, and reporting. Finally, ESG reporting is likely to become more integrated with other reporting frameworks, such as financial reporting, sustainability reporting, and integrated reporting, as listed firms seek to provide a more holistic view of their performance and value creation.

Overall, the future of ESG reporting in Kenya looks promising, as firms, investors, and regulators increasingly recognize the importance of ESG issues for long-term sustainability and

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value creation. By promoting more consistent, transparent, and relevant ESG reporting practices, listed firms can build trust, reputation, and social license to operate, while contributing to the achievement of sustainable development goals and other social and stewardship issues.

Conclusions and Recommendations

The field of ESG continues to face challenges, such as a lack of standardization and uniformity in reporting, a lack of regulation and oversight, difficulty measuring and reporting impact, a lack of data and information availability, as well as lack of understanding and awareness. Nevertheless, meaningful diversification potential in ESG investments was significantly observed globally during the recent Corona pandemic. Adopting an ESG policy by Kenyan listed firms therefore has the potential of enhancing the innovation capacity and innovative activities, value creation, financial performance, and future sustainability of the listed firms. It is important to note that firms cannot predict the effects of pandemics and other crises with certainty, and that the true impact is determined by a variety of factors outside of their control and expertise. Stock investors, on the other hand, have a right to this information as well as the sustainability fundamentals of the companies. Investors are better informed now, and as the Corona pandemic has shown, listed firms' businesses and operations will be scrutinized more closely. As a result, sustainability reporting would be an important tool for publicly listed firms to use in order to gain the trust and confidence of their investors and as well as other stakeholders.

Listed firms that want to stand out and be relevant in the future will need to make a quick transition from financial reporting to integrated reporting. Integrated reporting should enable such firms tell their story of positive societal and environmental impacts and contributions, intangible assets and competitive advantages related to ESG issues, and financial performance, including profitability and returns to their investors. These firms must now demonstrate the 'S' in ESG to investors, and those who want to stay relevant must reconcile the firms' worth beyond a balance sheet.

Firms' boards must empower management and their investor base to address information gaps related to ESG and integrated reporting in order to create long-term value that will last through some pandemic and other crises. Listed firms must also monitor the impact of any emerging pandemic or crisis on their business performance and operations, and provide timely and accurate information to investors and other stakeholders.

Overall, the environmental, social and governance performance can have a significant positive relationship with listed firms' sustainability, indicating that undertaking business activities, creating value for society by upholding environmental, social and governance principles are mutually dependent. The arguments fronted here are supported by existing literature such as those by Ahmad et al(2023) as well as Teigland and Hobbs (2022).

The following recommendations could be considered to overcome the current challenges facing ESG reporting in Kenya. To begin with, lack of an active governance structure can make it challenging for listed firms in Kenya to implement robust ESG reporting systems since it is not a legal requirement for them to do so. To address this, it may be necessary to develop and implement more comprehensive governance frameworks that can help promote transparency, accountability, and stakeholder engagement around ESG issues. Such frameworks could include requirements for ESG reporting and disclosures, as well as training and capacity-building programmes to support the implementation of ESG reporting systems.

Moreover, understanding reporting boundaries is an important aspect of implementing ESG reporting by listed firms in Kenya. Listed firms that take the time to define and communicate

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their reporting boundaries can ensure that their ESG reports accurately reflect the scope of their operations and the impacts of those operations on the environment, society, and governance. This should help promote transparency, credibility, comparability, prioritization, and stakeholder engagement around ESG issues.

Furthermore, undertaking materiality analysis is an important aspect of implementing ESG reporting by listed firms in Kenya. Listed firms that take the time to identify and prioritize the most significant ESG issues within the scope of their operations can ensure that their ESG reports are relevant, credible, and useful to their stakeholders. This should help promote focus, prioritization, stakeholder engagement, and compliance around ESG issues.

In addition, generating and releasing relevant ESG content can be an important aspect of implementing ESG reporting by listed firms in Kenya. Firms that provide detailed information on their ESG performance, practices, and initiatives can promote transparency, comparability, prioritization, and stakeholder engagement around ESG issues. This should help build trust, credibility, and support among stakeholders, and ultimately contribute to the long-term sustainability of the firms and their operations.

In terms of recommendations aimed at improving investor knowledge of impact investing in Kenya, Kenyan stock investors should embrace sustainable investing since ESG investing has the potential to empower them to align their investment portfolios with responsible practices and positive societal impacts. Investors should therefore educate themselves about ESG investing and the key ESG factors that matter to them. This will enable the understanding of the impact of ESG considerations on investment performance and the positive change it can drive.

Moreover, stock investors need to research the available ESG-focused investment options in the market such as EFTs, mutual funds or other impact investing opportunities that align with ESG priorities by checking for ESG ratings and reports to understand a Fund’s or company’s ESG performance. Furthermore, investors should engage with listed firms on ESG matters, vote on shareholder resolutions, and ask questions about the firms’ ESG initiatives. In addition, Kenyan stock investors should explore impact investing opportunities that aim to generate positive social and environmental outcomes alongside financial returns, thus allowing them to contribute directly to causes they care about. Lastly, stock investors should endeavour to diversify their ESG portfolios; as such, diversification remains crucial in ESG investing. This will help them spread their investments across different sectors and asset classes to manage investment risk efficiently. The arguments fronted herein, it is hoped, will help stimulate future research on ESG issues that influence corporate investments and their future sustainability.

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