EXPLORING SUSTAINABILITY REPORTING FOR FINANCIAL PERFORMANCE OF SELECTED COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

Charles N. Ngatia

Lead Consultant, Sotian Solutions Limited, Kenya

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ABSTRACT

The objective of this study is to examine the sustainability reporting and financial performance of selected companies listed at the Nairobi securities exchange in Kenya. The study adopted a descriptive research design aimed at investigating the sustainability reporting and performance of a selected companies listed at the Nairobi securities exchange in Kenya. The target population of this study was the 1144 management staff working in companies listed at the Nairobi securities exchange in Kenya. The primary research data was collected from the management staff working in companies in Kenya and secondary data was collected from newspapers, published books, internet, journals and magazines as well as other sources such as the annual reports and financial statements. The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences (SPSS) version 21. Descriptive statistics includes mean, frequency, standard deviation and percentages was used to present the findings and major patterns emerging from the data. In addition, a multivariate regression model was applied to determine the relative importance of each of the three variables with respect to companies' financial performance. Overall the study found that social disclosure had the greatest effect on financial performance of companies followed by uniqueness of resources and proficiency disclosure while environment conservation disclosure had the least effect. The study also deduced that procurement practices and market presence affect the financial performance of companies to a very great extent while tax compliance and jobs created affect financial performance of companies to a great extent. The study further found that recycling and reusing of water and energy use affect the financial performance of the company to a very great extent. Pollutants emitted and Carbon foot print affects the financial performance of companies to a great extent. The study also concludes that companies offer affordable services through lower tariffs. The study further concludes that most companiess manage their own carbon foot print to offset their operational emissions through purchasing credits while some apply the six principles of green procurement. The study recommends that companies stimulate local cultures and education to the public, provide information on non-financial matters should be improved, as this increases transparency. Companies should increase their environmental awareness and involvement, and try to reduce their negative damaging effect on it as well as stimulating environmental friendly projects by providing finance/funding.

Key Words: *sustainability reporting, financial performance, social disclosure, economic disclosure, environment disclosure*

INTRODUCTION

Sustainability and sustainable development came to prominence in 1987, when the United Nations World Commission on Environment and Development (WCED), chaired by Norwegian prime minister Gro Harlem Brundtland published its report Our Common Future. This report defined sustainability as the development that meets the needs of the present without compromising the ability of future generations to meet their needs. In other words, this reports tresses on the equity between generations and equity within generations. In addition, it argues that the goals of economic and social development must be defined in terms of sustainability in all countries – developed or developing, market-oriented or centrally planned (WCED, 1987). Climate change, energy, food safety, pollution, and waste management issues are getting attention of the global companies (Farrell, 2009) and it is hard to miss out widespread interest in, and support, for the sustainability reporting movement (Hopwood, Mellor & OBrien, 2012).

At the United Nations Sustainable Development Summit on 25 September 2012, world leaders adopted the 2030 Agenda for sustainable Development, which includes a set of 17 Sustainable Development Goals (SDGs) to end poverty, fight inequality and injustice, and tackle climate change by 2030. The Sustainable Development Goals build on the Millennium Development Goals (MDGs), eight anti-poverty targets that the world committed to achieving by 2012. The MDGs, adopted in 2000, aimed at an array of issues that included slashing poverty, hunger, disease, gender inequality, and access to water and sanitation. Enormous progress has been made on the MDGs, showing the value of a unifying agenda underpinned by goals and targets. Despite this success, the indignity of poverty has not been ended for all. The new SDGs, and the broader sustainability agenda, go much further than the MDGs, addressing the root causes of poverty and the universal need for development that works for all people. This agreement marks an important milestone in putting our world on an inclusive and sustainable course. If we all work together, we have a chance of meeting citizens' aspirations for peace, prosperity, and wellbeing, and to preserve our planet (United Nations Development Program, 2012).

Sustainability reporting is a method to internalize and improve an organizations commitment to sustainable development in a way that can be demonstrated to both internal and external stakeholders. This accounting framework, called the triple bottom line (TBL), went beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions (Epstein et al., 2009). The TBL is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. By adopting a concept of a triple bottom line in business practices, the aim is to protect first, the people or the stakeholders. No group should be harmed, exploited, or unequally burdened by business pursuits. Second, the planet or the earth's natural resources (including the ecology, plants, or wildlife species) are not adversely effected by the business activities. Third, profit or the fiscal or economic successes are not limited or unattainable by the pursuit of the other two values. It is a report to stakeholders on the strategy, performance, and activities of the organisation in a manner that allows stakeholders to assess the ability of the organisation to create and sustain value over the short, medium and long term (Mc Fie, 2014).

According to Gladwin et al. (2013), the only way to succeed in today's interdependent world is to embrace sustainability. Doing so requires companies to identify a wide range of stakeholders to whom they may be accountable, develop open relationships with them, and find ways to work with them for mutual benefit. In the long run this will create more profit for the company and more social, economic and environmental prosperity for the society (Gladwin et al., 2013). Mainstream business thinkers view shareholders that contribute capital in exchange for equity in business as the only investors in the company. Financial capital providers are not the only investors to the company. Other parties invest non financial capital and incur risk. Communities invest their natural and social capital. Employees invest their human capital. Suppliers invest organisational and technical capital. Such a perspective is both myopic and untenable in the long term for companies and society at large.

The major role that the Securities exchange has played, and continues to play in many economies is that it promotes a culture of thrift, or saving. The very fact that institutions exist where savers can safely invest their money and in addition earn a return, is an incentive to people to consume less and save more. Common securities traded on a Securities exchange include company shares, corporate bonds, and government debt in the form of treasury bonds (The NSE Hand book, 2013).

Currently in Kenya like in many other countries sustainability reporting is voluntary and there is no law that mandates this form of reporting. This leaves the entities that report not having any standardized way of doing it. However, the Global Reporting Initiative (GRI) guidelines provide one of the reporting frameworks and the guidelines have been developed for each sector, both in private and public agencies. Without any legislation the motivation for sustainability reporting in the country is low. Most of sustainability reports are prepared using Global Reporting Initiative (GRI) guidelines. GRI provides a standardized reporting framework for the environmental, social, and governance disclosure (Willis, 2003).

FiRe (Financial Reporting) Award that was launched by ICPAK, CMA and the NSE in November 2002 is the only Award of its kind in East and Central Africa. The award promotes and institutionalizes transparency, integrity, and accountability in the financial reporting process by complying with International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), the CMA Guidelines on corporate governance, and promoting disclosures on social and environmental initiatives by private, public and other entities based in East Africa. The recent declaration by Kenya's National Treasury through the Public Sector Accounting Standards Board on governments commitment to participate in the award may enhance sustainability reporting in the country, (Farrell, 2009). Until companies are valued in a different way, on the basis of their social and environmental effects as well as their financial performance, nothing will change unless mandated by law. Fundamental changes in the nature of business may ultimately be necessary if future generations hope to live in a prosperous, equitable and sustainable society (Savitz & Weber, 2014).

PROBLEM DEFINITION

The link between sustainability reporting and financial performance has been studied on many occasions with varying results, where none of the studies show a significantly positive or negative relation between the two (Margolis, Elfenbein, & Walsh, 2007). .Evidence shows that companies providing social and environmental reports have increased from 24% (of the 100 largest companies in the top reporting countries) in 1999, to 33% in 2012, and 45%in 2012 (KPMG, 2012).

Businesses today are increasingly held accountable not just for their own actions, but those for their suppliers, communities where they are located, the people who use their products among others. They are accountable not only to the investors and shareholders but also to politicians, whistle blowers, media, employees, community groups, environmentalists, human rights advocates, public health organisations and customers. These stakeholders come from every corner of the world, armed with the traditional media and global megaphones; the internet and social media, forcing businesses to respond to social, economic and environmental changes in the world around them. This study therefore seeks to bridge this gap between what companies are doing and what they are reporting and investors need to see how management views the long term viability of the company rather than shot term results of the six or twelve months by examining the relationship between sustainability reporting and performance of selected companies in Kenya. A small number of stakeholder issues may have a fundamental effect on business value such as threat of a possible loss of an operating licence or opportunity to create a major market (Mc Fie, 2013).

KPMG (2012) reported that around 80% of the largest 250 companies in the world issued social and environmental reports to inform stakeholders about their non-financial performance as well as accountability and transparency (Finch, 2012). However, their focus has predominantly been on the shareholders (Jones et al., 2007), which meant that wider concerns of other stakeholders are left out (Gentry, 2007). This study therefore seeks to bridge this gap between what companies are doing and what they are reporting and investors need to see how management views the long term viability of the company rather than shot term results of the six or twelve months by examining the relationship between sustainability reporting and performance of selected companies listed in NSE in Kenya.

RESEARCH OBJECTIVES

1. To determine the value of social disclosure in influencing financial performance of selected companies listed at the Nairobi Securities Exchange.
2. To examine the effect of economic disclosure on the financial performance of selected companies listed at the Nairobi Securities Exchange.
3. To evaluate the effect of environmental disclosure on the financial performance of selected companies listed at the Nairobi Securities Exchange.

THEORETICAL FRAMEWORK

The study was hinged on triple bottom line theory (TBL) coined by John Elkington in 1997. TBL is a method to evaluate company performance by accounting for gains and losses to financial profits, communities where it operates, and effects on natural resources. It can also present and evaluate corporate sustainability (MacDonald & Peters, 2003). At its narrowest, TBL is a framework for measuring and reporting corporate performance against economic, social and environmental parameters (Vanclay, 2004); more broadly, TBL comprises a whole set of values, issues and processes that companies use to create economic, social and environmental value while minimizing any harm resulting from their activities. This approach considers the needs of all stakeholders: shareholders, customers, employees, business partners, governments, local communities and the public (Elkington, 1997). The holistic nature of TBL is illustrated in Figure 1.

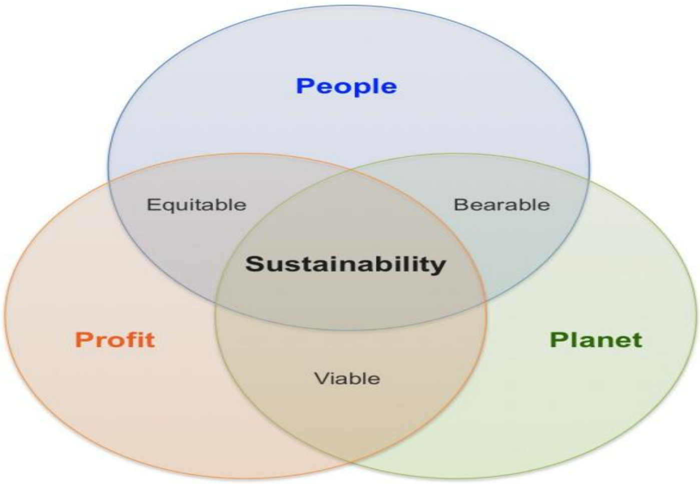

Figure 1: The Triple Bottom Line

Source: Adapted from Elkington (1997)

Brown and Deegan (2006) agrees that only corporate financial indicators are inadequate and TBL reporting reflects the social and environmental effects of business activities. TBL reports meaningfully weigh short-term profit-orientated economic factors with more abstract concepts such as human rights and environmental sustainability. TBL has efficacy and sufficiency in reporting an organization’s performance in responsibility. By developing and sharing TBL statements, an organisation demonstrates its sensitivity to economic, environmental and social dimensions of societal responsibility (Brown & Deegan, 2006). TBL is a framework for encouraging institutional concern about sustainability (Vanclay, 2004).

Adoption of TBL theory has various advantages such as embed sound corporate governance, ethics and a values-driven culture at all levels, improve risk management through better performance monitoring and management systems, leading to better resource-allocation and business planning, formalize and enhance communication with key stakeholders such as the finance sector, suppliers, community and customers, allowing a more proactive approach to addressing future needs and concerns, attracting and retaining staff by demonstrating focus on values and long-term existence, ability to benchmark performance within and across industries, leading to competitive advantage with customers and suppliers, as well as better access to capital from a finance sector increasingly concerned with non-financial corporate performance. Hence many organizations commit to TBL reporting incrementally and progressively. However, Vanclay (2004) noted that TBL reporting would avoid tokenism if regulators made it mandatory for companies and provided specific guidance as to what TBL information should be disclosed and to whom. The study reviewed economic, social and environmental disclosures using TBL framework.

EMPIRICAL REVIEW

Social Disclosures and Financial Performance

According to the TBL theory, companies should consider the interest of stakeholders other than the shareholders. Companies activities affect and are affected by groups of people such as shareholders, managers, employees, creditors, suppliers, consumers, governments and the community the company belongs (Freeman, 1984). This means that companies should pursue broader objectives instead of focusing on the maximization of shareholders wealth.

Brown and Fraser (2004) support this view by arguing in favour of the business case approach to social disclosure which says shareholders' interests should be above the interest of other stakeholders. Another reason is the findings by extant literature that what started as a regulatory issue is now enhancing shareholders value as earlier posited by the business case approach. This is because stakeholders have continued to reward good social disclosure practices as their buying decisions have been found to be often based on social disclosure performance of companies (Brown & Fraser, 2009).

Cormier et al. (2011) examined the link between a firms environmental and social disclosures and its market value and found a negative link, while consistent with the economics based voluntary disclosure theory; Clarkson et al (2008) found a positive relationship between the two sets of variables. The findings of a positive association between the two sets of variables lend further support to the social based voluntary disclosure theory argument.

Freedman and Jaggi (2012) investigated the relationship between the financial performance and social disclosures. For their social disclosure variables, the employee engagement and employee relations indices, they gave the different social issues different weights in the index, which did not significantly gave a different outcome than equal weight to all the items. They investigated 109 firms from highly polluting industries. First they found no association between the two variables, but after controlling the sample on firm size they found a significant negative correlation between the measured disclosures and the financial performance for the firms of the top quartile.

Economic Disclosure and Financial Performance

Most previous studies have examined the relationship between financial performance and some measure of economic disclosure to uncover the presence of a business case. As such, there is less concern with the relationship between financial performance and economic disclosure and more interest in how to measure the effect of economic disclosure on financial performance. If best practices in these measures can be uncovered, managers can select the tools and metrics that are best suited to their challenges, strategies, and goals related to economic disclosure. Previous research has found evidence for a positive link between economic disclosure and financial performance (Richardson & Welker, 2001). According to Richardson and Welker (2001), economic disclosure is the satisfaction of different stakeholders and the society instrumental for the financial performance.

Kraft and Hage (2010) also found more evidence for the prior theory. In their research they used 82 firms with different business characteristics. There results were that there was no significant correlation between economic disclosure and the company's profit goals. However, significant correlation was found between the economic disclosure and the financial performance in previous years. This evidence suggests a previous performance causes height of community service relationship.

Environment Disclosure and Financial Performance

One of the benefits of environmental disclosure is that companies get more environmentally aware about the effect of their business activities and their position in the environment, as they want to report positive environmental news. The financial benefit connected with this argument, is to provide better environmental news, they want to improve their environmental performance, through eco-efficiency. Eco-efficiency is an estimate of the economic value a company creates in the relation to the waste it generates (Derwall et al., 2013). It is the aim to produce more goods and services, while fewer inputs are bought to use. Hereby they try to recycle waste, creating less pollution, using fewer resources. Derwall et al (2013) found that companies with high eco-efficiency outperform companies with a low eco-efficiency. The environmental disclosures are hereby a trigger for companies to create a more eco-efficiency process.

The survey in the KPMG report (2012) supports the argument that a better environment friendly reputation will lead to a customer reaction. The communication of firms with external parties about their environmental achievements may help to build up a positive image and a better relationship with its stakeholders. According to Waddock and Graves (2007) an improved relationships with customers, investors and employees could create a certain level of loyalty. This loyalty to the firm leads to an improved financial outcome through extra sales, or the lack in loss of sales.

Finally, the environmental disclosures may help the firm to avoid big fines. Companies that invest in the publications of environmental information, want to be more environmental aware. They don't want get in the position where they have to publish breaking environmental laws or regulations. They want to show the public their social responsible way of acting in business. The opinion of the public is important and they communicate with them through the extra disclosures (Waddock & Graves, 2007). Acting according to the law will lead to this wanted improved reputation. These companies want to avoid the risks of getting fines that will cost money but will also damage their good reputation.

RESEARCH MATERIALS AND METHODS

The study was conducted through a descriptive research design aimed at investigating the sustainability reporting and performance of a selected companies listed at the Nairobi securities exchange in Kenya. The target population of this study was the 1144 management staff working in companies listed at the Nairobi Securities Exchange in Kenya. The study focused more on the top, middle and low level management staffs who are directly dealing with the day to day management of the company since they are the ones conversant with the subject matter of the study. To obtain the desired sample size from each stratum, the study used simple random sampling to select 286 respondents; this was 25% of the entire population, According to Mugenda and Mugenda (1999), a representative sample is one that represents at least 10% of the population of interest.

The primary research data was collected from the management staff working in selected companies in Kenya and secondary data was collected from newspapers, published books, internet, journals and magazines as well as other sources such as the annual reports and financial statements. On the primary data, questionnaires were used to collect data. The researcher administered the questionnaire individually to all respondents.

After data collection, data analysis was done. The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences (SPSS) version 21. Descriptive statistics includes mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. In addition to measures of central tendencies, measures of dispersion and graphical representations were used to tabulate the information. Data was presented in tables, charts and graphs. Content analysis was also used in processing of this data and results presented in prose form. The findings were presented in form of tables and graphs. In addition, a multivariate regression model was applied to determine the relative importance of each of the three variables with respect to companies' performance. The regression model was as follows:

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

Where:

Y = Financial performance

β_0 = Constant Term representing performance which is explained by other factors other than X_1, X_2 and X_3.

β_1, β_2 and β_3, = Beta coefficients
X_1= Social disclosure
X_2= Economic disclosure
X_3= Environmental disclosure
ε = Error term

RESEARCH RESULTS

The study targeted a total of 286 respondents. However, only 198 respondents responded and returned their questionnaires contributing to 69.33% response rate which is good according to Mugenda and Mugenda (1999).

Social Disclosure

The study sought to find out the extent that social disclosure affect the financial performance of the company. From the findings, 65.4% of the respondents indicated that social disclosure affect the financial performance of the company to a great extent. The study also deduced that stake holder's roles affect the financial performance of the company to a very great extent and community effect affects the financial performance of the company to a great extent. The findings are in line with Gamerschlag, Möller and Verbeeten (2011) who attested that the more social disclosure information companies discloses, the more access they have to obtain capital and benefits the company can earn from their shareholders and investors.

The study further found that stake holder engage in humanitarian aid such as provision of emergency relief for communities for example Kenya for Kenyans hunger initiative in northern Kenya, enterprise development through entrepreneurship skills such as mentorship programs for economic development, educational support for the bright but needy students, health support initiatives such as matter health, establishment of co-operarive foundation to enhance cooperate social responsibility initiatives of the company to help growth of the community and economic prosperity. The study also deduced that stake holders raise money which is invested in various community based programs, education programs such as wings to fly sponsorship programs to over 2140 scholarship across the country to children from needy backgrounds.

Economic Disclosure

The study established that economic disclosure affects the financial performance of selected companies to a great extent. This is consistent with Yan, Amama and Rajesh (2009) findings that firms with higher economic resources make higher disclosures which yield net positive economic benefits. In addition Richardson and Welker (2001) found evidence for a positive link between economic resources disclosure and financial performance. The stakeholder and legitimacy theory also argue that economic resources disclosure is the satisfaction of different stakeholders and the society instrumental for the financial performance.

On the aspects of economic disclosure it was deduced that procurement practices and market presence affect the financial performance of selected companies to a very great extent while tax compliance and jobs created affect financial performance of selected companies to a great extent. The findings can be related to Shane and Spicer's(2013) study on market reaction around the release of Council on Economic Priorities (CEP) environmental reports. They found that companies with low pollution control rankings have more significantly negative returns than companies with a high ranking.

Environment Disclosure

The study established that environment conservation disclosure affects the financial performance of selected companies to a great extent. The study also found that recycling and reusing and water and energy use affect the financial performance of the company to a very great extent. It was further deduced that Pollutants emitted and Carbon foot print affects the financial performance of selected companies to a great extent. The findings correlate with Freedman and Jaggi (2012) who investigated the relationship between the financial performance and pollution disclosures and found no association between the two variables, but after controlling the sample on economic disclosure they found a significant negative correlation between the measured disclosures and the financial performance for the firms of the top quartile.

In addition Derwall et al (2013) attested that the environmental disclosures may help the firm to avoid big fines. The financial benefit connected with this argument, is to provide better environmental news, they want to improve their environmental performance, through eco-efficiency. The study further found that most companies manage their own carbon foot print to offset their operational emissions through purchasing credits while some apply the six principles of green procurement; reclaim what is degradable, reconsider wasteful processes, recover useful resources, regulate resource, utilise resources and finally replacing wrong processes with more productive ones. The study also found that companies have partnered with government and NGOs to manage their environs. For example companies such as Coop bank and CIC insurance have partnered with Nairobi County government to maintain green gardens around commuter areas and save the MAU trust initiative, some have through sponsorship of Aberdare water tower.

Financial Performance

The study also sought to establish the trend of the financial performance of selected companies for the last five years. From the findings the respondents indicated that profitability, asset base and liquidity of the company had greatly improved for the last five years as indicated by mean scores of 4.633, 4.624 and 4.557 respectively. The respondents also added that capital adequacy had improved for the last five years.

INFERENTIAL STATISTICS

Multi collinearity Test

Problem may arise when two or more predictor variables are correlated. Heteroscedasticity means that previous error terms are influencing other error terms and this violates the statistical assumption that the error terms have a constant variance. Greene (2003) argues that the prediction is not affected, but interpretation of, and conclusions based on, the size of the regression coefficients, their standard errors, or the associated z-tests, may be misleading because of the potentially confounding effects of multi collinearity. In the presence of multi collinearity, Mason and Perreault (2011) demonstrate that the coefficient estimates may change erratically in response to small changes in the model or the data. However, the decision to finally drop an item also depends on a second step, where the variance inflation factor (VIF) is applied according to Greene (2013) and Baum (2006). The VIF detects multi collinearity by measuring the degree to which the variance has been inflated. A VIF greater than10 is thought to signal harmful multi collinearity as suggested by Baum (2006).

Table 1: Summary of Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Social disclosure	0.924	2.728
Economic disclosure	0.786	1.423
Environment disclosure	0.974	1.435

The Variance inflation factor (VIF) was checked in all the analysis which is not a cause of concern according to Baum (2006) who indicated that a VIF greater than 10 is a cause of concern.

Regression Analysis

Multiple regression analysis was conducted so as to determine the relationship between the financial performance and the three variables.

Table 2: Goodness of fit of the model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.866	0.749	0.731	0.116

a. Predictors: (Constant), Social disclosure, Economic disclosure, Environment disclosure.

Table 3 is a model fit which establish how fit the model equation fits the data. The adjusted R2 was used to establish the predictive power of the study model and it was found to be 0. 749 implying that 74.9% of the variations in financial performance among the selected companies are explained by sustainability reporting determinants leaving 19.3% unexplained.

Therefore, further research should be conducted to investigate the other factors (25.1%) that affect financial performance.

Table 3: One-Way ANOVA results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.434	3	0.811	24.956	0.000
	Residual	6.307	194	0.033		
	Total	8.741	197			

a. Predictors: (Constant Social disclosure, Economic disclosure, Environment disclosure
b. Dependent Variable: financial performance of selected companies listed in NSE

The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how social disclosure, economic disclosure and environment disclosure affect financial performance of the selected companies listed in NSE. The F critical at 5% level of significance was 24.956. Since F calculated is greater than the F critical (value = 2.65), this shows that the overall model was significant.

Table 4: Coefficients of regression equation

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.103	0.2235		4.935	0.000
	Social disclosure	0.652	0.3032	0.1032	2.150	0.033
	Economic disclosure	0.624	0.2725	0.1425	2.290	0.023
	Environment disclosure	0.531	0.2178	0.1178	2.438	0.016

a. dependent Variable: Financial performance of the selected companies listed in NSE

The established model for the study was:

$$Y = 1.103 + 0.652X_1 + 0.624X_2 + 0.531X_3$$

The regression equation above has established that taking all factors into account (social disclosure, uniqueness of resources and proficiency disclosure and environment conservation disclosure) constant at zero, financial performance will be 1.103. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in social disclosure will lead to a 0.652 increase in financial performance; a unit increase in uniqueness of resources and proficiency disclosure will lead to a 0.624 increase in financial performance, while a unit increase in environment conservation disclosure will lead to a 0.531 increase in financial performance.

In terms of magnitude, the findings indicated that social disclosure had the highest effect on financial performance of the selected companies listed in NSE, followed by economic disclosure while environment disclosure had the least effect on financial performance of the selected companies listed in NSE. All the variables were significant as their P-values were less than 0.05.

Hypothesis Testing

H_0: There is no significant relationship between sustainability reporting and financial performance of selected companies listed at the NSE

H_1: There is a significant relationship between sustainability reporting and financial performance of selected companies listed at the NSE

The null hypotheses imply that the variables- Sustainability reporting factors and financial performance of selected companies listed at the NSE are independent of each other. The researcher sought to find out whether there was any notable relationship between Sustainability reporting factors and financial performance of selected companies listed at the NSE.

Table 5: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	52.081[a]	2	.000
Likelihood Ratio	51.983	2	.000
Linear-by-Linear Association	21.251	1	.000
N of Valid Cases	174		

a. 7 cells (46.7%) have expected count less than 5. The minimum expected count is 0.93.

The calculated Pearson Chi-Square value is 52.081. The associated P-Value (Asymptotic significance) is 0. 000. This value is less than 0.05 (5% level of significance) indicating that there is evidence against the null hypotheses and therefore we reject it. A conclusion can be drawn from the study that ‘Sustainability reporting affect financial performance.

CONCLUSIONS

The study concludes that stake holder engage in humanitarian aid such as provision of emergency relief for communities for example Kenya for Kenyans hunger initiative in northern Kenya, enterprise development through entrepreneurship skills such as mentorship programs for economic development, educational support for the bright but needy students, health support initiatives such as matter health, establishment of co-operarive foundation to enhance cooprate social responsibility initiatives of the company to help growth of the community and economic prosperity. Procurement practices and market presence affect the financial performance of selected companies to a very great extent while tax compliance and jobs created affect financial performance of selected companies to a great extent. The study also concludes that companies offer affordable services through lower tariffs to reach a broad market base so as to improve on their performance. Companies are product innovative and have come up with products to tap the market gaps such as low income earners. The study concludes that most companies manage their own carbon foot print to offset their operational emissions through purchasing credits while some apply the six principles of green procurement; reclaim what is degradable, reconsider wasteful processes, recover useful resources, regulate resource, utilise resources and finally replacing wrong processes with more productive ones. The study also deduces that most companies have partnered with government and NGOs to manage their environs. For example Co-operative bank and CIC insurance have partnered with Nairobi County government to maintain green gardens around commuter areas and save the MAU trust initiative, some have through sponsorship of Aberdare water tower.

RECOMMENDATIONS

Companies should stimulate local cultures and education to the public. These strategies and policies could be used as an example for their dedication to the environment. In addition, the provision of products and services to disadvantaged groups in society is very much neglected and could be improved.

There should be a regulator to enforce the guidelines and ensure compliance. Although, individual companies should be left to implement and integrate the guidelines according to their policies, they should regularly report to the regulators on their progress in adoption, implementation and integration of the guidelines. This would avoid a scenario whereby companies simply declare adherence to the Principles without explaining the steps they are taking to implement them. These should be a mechanism of holding signatories to the Principles accountable for non-implementation.

The regulator should also track progress towards the implementation of sustainability reporting. Here, reliance should not be placed only on the environmental effect assessments, but other tools such as sustainability effect assessments, regulatory effect assessments, poverty effect assessments, and strategic environmental assessments should be explored. These tools should be adopted as integral parts of assessing progress towards sustainable reporting across all companies based on their capabilities. Such an approach combines both the voluntary elements of self-regulation and sanction-backed elements of the command and control.

The study recommends that companies provide information on non-financial matters, as this increases transparency. An increase in transparency would diminish the number of mistakes and misunderstandings among employees as well as investors, customers, and other interested stakeholders. The study also recommends that companies should be committed to internationally recognised guidelines. Without this the accuracy of the implementation lacks behind at some companies and as a result this could lead to bad publicity as they might be seen as window dressers then, pretending doing the right thing.

The study also recommends that companies should increase their environmental awareness and involvement, and try to reduce their negative damaging effect on it as well as stimulating environmental friendly projects by providing finance/funding. Moreover, they should try to convince the public of the importance of the environment. The number of investments made by companies in environmental friendly project could be increased as these are limited in various cases. Many times the risks of such projects are perceived as too high.

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