Sustainable Reporting and Financial Performance of Manufacturing Companies in Kenya

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Background

What does extensive sustainable reporting look like?

- Survival and continuity are important objectives every firm strives to accomplish
- Looking at the financial statements is not enough to judge a company's performance. Lehman Brother in September 2008 became one of triggers global economic crisis.
- Corporations are becoming increasingly critiqued on the negative impacts of their business operations on employees, society, and the environment.
- Corporate mismanagement, companies face tremendous ramifications from their negligence resulting in bankruptcy, loss of value, reputation loss, and distrust.

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- Company's financial performance is not only seen from the figures listed in the financial statements, also how the company acts on the environment or social.
- Sustainability report is a report that contains financial performance information and non-financial information that consists social and environment activities enabling companies to grow sustainably
- Some firms have begun to devote more company resources toward socially responsible activities, whereas others refuse to participate on belief that sustainability is not aligned with profit maximization.
- Company use sustainability report to illustrate the impression of responsibility for the economy, social and environment, so that the company can be accepted by the society

Why

- Discloses information on the social, economic and environmental performance of an entity towards promoting sustainable development
- Act of publicizing information about how an entity has socially, economically and environmentally contributed to sustainable development
- Ensures opportunities open to an entity are fully exploited and risks inherent in social, economic and environmental development are mitigated

Reasoning

- To investigate the impact of expenditure on economic activities on the financial performance of selected manufacturing companies in Kenya
- To assess the impact of expenditure on social activities on the financial performance of selected manufacturing companies in Kenya
- To evaluate the impact of expenditure on environmental activities on the financial performance of selected manufacturing companies in Kenya

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Methodology

- The study is restricted to manufacturing firms in Kenya
- The time frame of (2015-2021) is chosen in order to observe the trend on the subject matter in recent years.
- The study was conducted through a descriptive research design aimed at investigating the sustainability reporting and performance of a selected
- The target population of this study was the 1144 manufacturing companies
- 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

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- The quantitative data in this research was analyzed by descriptive statistics using statistical package for social sciences (SPSS) version
- Descriptive statistics includes mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data
- Data was presented in tables, charts and graphs
- 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:
- $Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

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- Where:

- Y = Financial performance
- $\beta 0$ = Constant Term representing performance which is explained by other factors
- other than X 1, X2 and X3, β1, β2 and β3, = Beta coefficients
- $X1$= Social disclosure
- $X2$= Economic disclosure
- $X3$= Environmental disclosure
- ε = Error term

Outcomes

- Only 198 respondents responded and returned their questionnaires contributing to 69.33% response rate which is good
- 65.4% of the respondents indicated that social disclosure affect the financial performance of the company to a great extent
- 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
- Stake holder engage in humanitarian aid to enhance cooperate social responsibility initiatives of the company to help growth of the community and economic prosperity
- Established that economic disclosure affects the financial performance of selected companies to a great extent

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- Environment conservation disclosure affects the financial performance of selected companies to a great extent.
- Recycling and reusing and water and energy use affect the financial performance of the company to a very great extent.
- Profitability, asset base and liquidity of the company had greatly improved
- Sustainability report disclosures positively affect the company's financial performance as measured by ROI

Requires

- Companies should stimulate local cultures and education to the public
- Regulator to enforce the guidelines and ensure compliance
- Companies provide information on non-financial matters, as this increases transparency
- Companies should be committed to internationally recognized guidelines
- Companies should increase their environmental awareness and involvement
- Manufacturing companies should weigh non-financial benefits leading to financial performance in reporting sustainability

In short…

- Significant relationship exists between economic disclosures and financial performance.
- Sustainable reporting have positive significant influence on financial performance companies
- Governance disclosures have no significant impact on the financial performance of manufacturing companies in Kenya
- Further researches should be conducted in other areas of corporate sustainability reporting and financial performance by widening the scope

Policy-making Perspective

- Immense benefits to organizations, regulatory authorities, professional bodies in accounting, stakeholders, host communities of organizations and academia
- Aid management of various organizations in ascertaining the specific sustainability guidelines and tenets to follow
- Help future researchers who might want to dig deep on the subject matter
- Help to broaden the horizon of knowledge of regulatory agencies, legislative arm of government and relevant professional bodies
- Inform other companies that are yet to adopt sustainability reporting practices as it will educate them on its inherent impact

Challenges Sustainable Reporting Policy

- Practice of sustainability reporting is not common in Kenya and only few firms, issue sustainability reports
- Regulatory bodies did not mandate organizations to produce sustainability reports.

Closing remark

If a company wants to maintain its survival, company should pay attention to "3P". That is, besides pursuing profit (profit), the company should also pay attention to and engage in the fulfillment of people's welfare (people) and contribute actively in preserve the environment (planet)

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