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*Original Article*

# Moderating Effect of Corporate Governance on the Relationship between Social Sustainability Reporting and Firm Value: Evidence from the Nairobi Securities Exchange, Kenya

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**ABSTRACT**

**Purpose:** The main purpose of this study was to examine the moderating effect of corporate governance on the relationship between social sustainability reporting and firm value among companies listed in the Nairobi Securities Exchange, Kenya. **Methodology:** The study's target population include all 64 NSE-listed companies. The study employed secondary data collected by the use of the annual reports sourced from NSE and firms' websites for eleven (11) years from 2012-2022. Content analysis technique was employed for the collection of secondary data using data collection sheets. This research used a longitudinal research approach and correlation research design. **Results:** The study found that social sustainability reporting had an insignificant effect on firm value among companies listed on the Nairobi Securities Exchange. Additionally, corporate governance was shown to have no significant moderating influence on the relationship between social sustainability reporting and firm value. **Conclusion/Implication**: These findings suggest that companies should reconsider the relevance and quality of their social sustainability reports to better align with stakeholder expectations. Enhanced transparency and storytelling regarding social impacts are necessary to improve investor engagement.

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## INTRODUCTION

The firm value represents a company's wealth and its ability to enhance stakeholder wealth, primarily reflected in its share price, which indicates investor confidence in the company's success (Cheng, Kim & Ryu, 2023). It encompasses the value of the assets on the company's financial statements and is a broader measure than profit maximization, as a high firm value signifies greater shareholder prosperity (Van Horne, 2020). The assessment of firm value employs various metrics, such as market value and book value of equity, providing insights into re-investment opportunities and growth potential (Hirdinis, 2019). However, global trends indicate persistent challenges in maintaining stable firm values, with significant declines noted among corporations in the Western world since World War II, particularly in the UK manufacturing sector and African firms (Hendratama & Huang, 2021; Bank of England, 2020; Asngar, Nkoa & Zambo, 2022). Given these dynamics, understanding the factors affecting firm value is essential, prompting this study to explore the impact of social sustainability reporting on the firm value of listed companies on the Nairobi Securities Exchange in Kenya.

Previous research suggests a connection between sustainability reporting and firm value, with studies indicating that sustainability reports can build stakeholder trust and ultimately enhance corporate sustainability, leading to improved profits and firm value (Atanda, 2021). Support for this correlation is found in the work of de Villiers et al. (2017), which highlights that companies providing detailed sustainability performance information tend to achieve better market values. Additionally, Burzillo, Shaffer & Sloan, (2022) found that higher levels of sustainability reporting correlate with increased market capitalization and Tobin's Q values, while effective sustainability practices can raise a firm's share price over the long term (Eccles, Ioannou & Serafeim, 2019). Other research supports the idea that strong sustainability transparency can enhance firm value through improved investor retention and competitiveness (Cormier et al., 2019). However, findings are mixed, with some studies revealing negative or no associations between sustainability reporting and firm value (Serem, Gudda, Ombok & Manyaga, 2024; Friske, Hoelscher & Nikolov, 2023; Astuti & Juwenah, 2017) indicating inconsistencies, particularly in the sub-Saharan region.) Disparity underscores the need for further investigation into the impact of sustainability reporting on firm value.

In recent years, social sustainability reporting has emerged as a critical aspect of corporate investment evaluation, gaining recognition from investors for its role in enhancing risk management, operational transparency, stakeholder communication, and engagement (Bellucci et al., 2019; Di Tullio et al., 2021). Reports that adhere to established standards, such as the Global Reporting Initiative (GRI) and International Integrated Reporting Council (IIRC), have proven particularly valuable to investors seeking deeper insights into companies' long-term economic, social, and environmental performance (Yudistira et al., 2017; Jamil et al., 2021). By voluntarily disclosing information on their socio-economic and environmental impacts, companies can bridge information gaps and elevate transparency regarding their sustainability practices (Martínez et al., 2016; Nobanee & Ellili, 2016).

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Literature supports the positive implications of social sustainability reporting for companies, primarily through its capacity to reduce information asymmetries and improve transparency, enabling investors to make more informed investment decisions (Hahn & Kühnen, 2013). Companies are encouraged to report comprehensively on core indicators set by the GRI framework, covering a multitude of issues including human rights, labour practices, anti-corruption measures, and community relations. Such disclosures are essential for guiding investments toward sustainable objectives and fostering trust among stakeholders. However, despite progress in social sustainability reporting, global efforts remain concentrated in Europe, America, and Asia, while Africa struggles with voluntary implementation, leading to a significant gap in regional reporting (Shalihin et al., 2020; Wachira and Berndt, 2019).

In Kenya, although there is an increasing trend towards social sustainability reporting, the quality remains inadequate compared to global standards, focusing primarily on financial metrics and lacking comprehensive assessments of social and environmental impacts (Tilt et al., 2021; Kariuki, 2019). The effectiveness of corporate governance structures has been identified as a pivotal factor influencing both the quality of sustainability reporting and firm value (Erin et al., 2021). While studies reveal a positive correlation between corporate governance and firm value in Kenya, there exist discrepancies in findings regarding their relationship (Manyaga, 2021; Doorasamy, 2021). This inconsistency highlights the need for further investigation into the moderating effects of corporate governance on the relationship between social sustainability reporting and firm value, as established studies suggest that effective governance can enhance the impact of sustainability efforts (Chang et al., 2017; Mahoney et al., 2023). Therefore, this study aims to explore how social sustainability reporting affects firm value and how corporate governance moderates this relationship for firms listed on the Nairobi Securities Exchange.

## LITERATURE REVIEW

### Theoretical Review

This study was grounded on two key theoretical frameworks: Agency Theory and Legitimacy Theory. Legitimacy Theory, which has its roots in the 1970s, particularly in Max Weber's exploration of social legitimacy, posits that organizations must validate their actions to gain community acceptance and maintain legitimacy (Weber, 1968; Child, 1979). According to this perspective, companies voluntarily disclose information about their activities when management senses community expectations, ultimately engaging in a 'social contract' with society to legitimize their operations (Deegan, 2002; Cormier & Gordon, 2001). By adhering to societal norms and expectations, firms employ various legitimating strategies to enhance, maintain, or defend their legitimacy (Tilling, 2004). In this context, corporate social sustainability reporting emerges as a mechanism for organizations to validate their actions and influence stakeholder perceptions, thereby augmenting their value (Atanda, 2021). The frequent application of legitimacy theory in social and environmental accounting underscores its relevance in understanding how social, economic, and environmental reporting interacts with firm value.

On the other hand, Agency Theory, originally conceptualized by Berle and Means (1932) and later formalized by Jensen and Meckling (1976), addresses the dynamics between principals (owners) and agents (managers) in business enterprises. The theory highlights agency risks that arise from the separation of ownership and control, leading to governance concerns and misaligned incentives. Recent research has expanded this framework to explore implications for corporate governance, executive compensation, and financial reporting (Bebchuk & Fried, 2004; Core et al., 2006; Dittmar, 2011). Within this framework, the voluntary disclosure of social information is viewed as a strategy to mitigate agency costs and enhance transparency, ultimately affecting a firm's risk profile and

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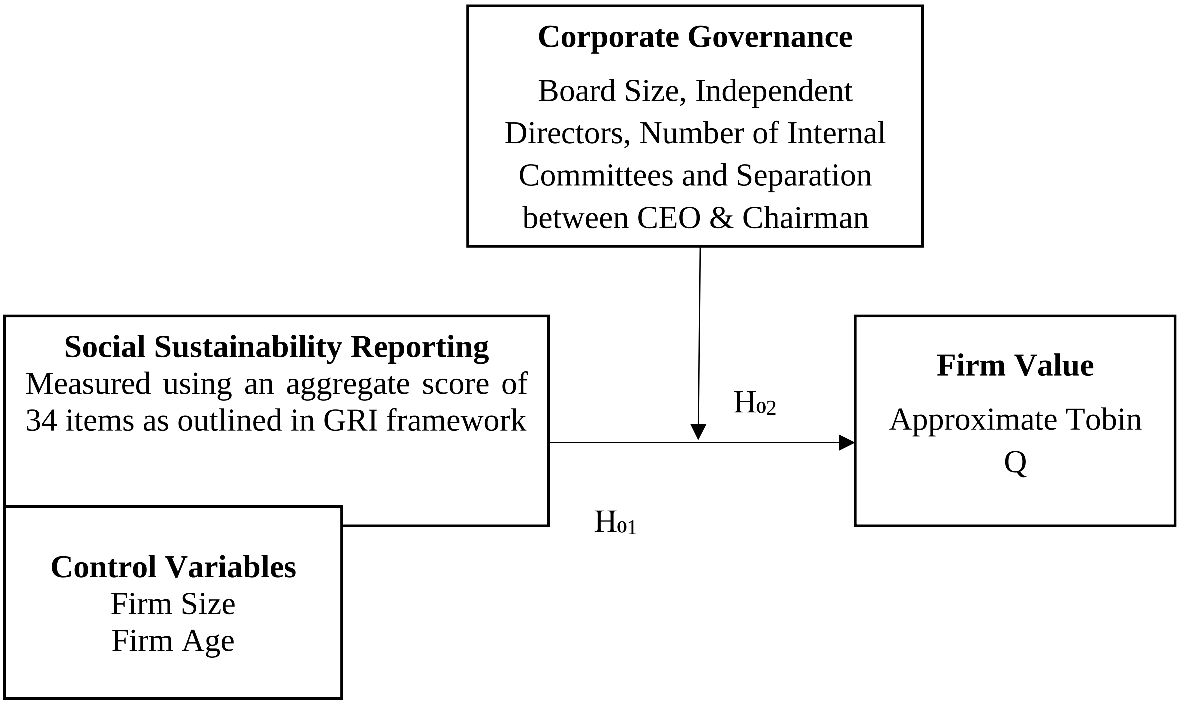
market value (Loh et al., 2017). This study utilizes Agency Theory to examine how social sustainability reporting (SOR) influences agency dilemmas. The effects of social sustainability reporting on firm value can be interpreted from two perspectives: if managers leverage social sustainability reporting to bridge information asymmetry with shareholders, this may alleviate agency problems and align interests, potentially increasing firm value (Park, 2021). Conversely, if managers exploit social sustainability reporting opportunistically to create further information asymmetry, this may exacerbate agency conflicts, resulting in diminished firm value (Platonova et al., 2018). Thus, the impact of social sustainability reporting on firm value is contingent upon the motivations driving managerial engagement in sustainability practices.

### Conceptual Framework

The conceptual model Figure 1 presents a schematic picture of the researchers' presumed perceptions of existing relationships among the various variables of the study. The schematic diagram captures the linkage in the literature. The model suggests a relationship between social sustainability reporting– as an independent variable, corporate governance as a moderating variable and firm value as a dependent variable.

**Figure 1: Conceptual Framework showing the Moderating Effect of Corporate Governance on the Relationship Between Social Sustainability Reporting and Firm Value**




As shown in Figure 1 above Social Sustainability Reporting has an influence on firm value as moderated by corporate governance. Different researchers have conceptualized Social Sustainability Reporting and assessed the constructs differently resulting in different measurements and firm value implications. The relationship between social sustainability Reporting, corporate governance and firm value constructed was an understudy to shed light on the effect on the Kenyan context.

### Empirical Review and Hypotheses Development

Social sustainability reporting and firm value have been the subject of various studies with mixed outcomes, revealing a complex interplay between these variables. For instance, Chen et al. (2017)

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conducted a study in China that identified a statistically significant negative relationship between social reporting and firm value, suggesting that the publication of social reports might be perceived as indicative of weak corporate governance. Contrarily, Muslichah (2020) examined the impact of environmental and social disclosure on firm value in Indonesia and concluded that while direct effects on firm value were insignificant, there was a positive correlation between environmental and social disclosure and financial performance. This financial performance was found to mediate the impact on firm value, showcasing how differing metrics can influence outcomes.

In a cross-country analysis, Laskar and Maji (2018) explored the effect of corporate sustainability reporting across four Asian nations, noting a significant positive impact on firm performance, particularly in developed countries. Similarly, Swarnapali and Luo (2018) focused on Sri Lankan firms and reported a positive relationship between social sustainability reporting and firm market value, although their findings were complicated by varying regression coefficients across different firms. Asuquo et al. (2018) reported no significant impact of sustainability reporting on corporate performance within Nigerian brewery firms, potentially due to the limitations of their analytical approach. In contrast, the current study aims to leverage panel analysis for a more refined examination of how sustainability dimensions contribute to firm value.

The variability of findings extends to regional studies as well. Ngatia (2014) identified a significant impact of social disclosure on financial performance among firms listed on the Nairobi Securities Exchange, while Saiti (2015) found an insignificant correlation between social accounting practices and stock returns. Additionally, Ching et al. (2017) concluded that social reporting did not enhance value relevance for listed firms. Overall, the research highlights that while some studies reveal positive associations between social reporting and firm value, many others indicate no relationship, or even negative correlations, making it challenging to draw definitive conclusions about the impact of social sustainability reporting on firm value. Therefore, the study hypothesized that:

> *$H_1$: Social sustainability reporting has a significant effect on the firm value of companies listed in the NSE*

Research examining the relationship between corporate governance and social sustainability reporting practices has produced varied results. Many studies indicate a positive correlation between effective board governance and the quality of social sustainability reporting (Maroun et al., 2014; Windolph et al., 2014; Shamil et al., 2014). The application of legitimacy theory in these contexts reveals that corporate boards often act to legitimize their actions to different stakeholders, thereby enhancing the organization's reputation and responsiveness to stakeholder expectations (Faisal et al., 2012; Liao et al., 2015). On the other hand, some researchers emphasize the role of stakeholder theory, suggesting that social sustainability reporting should centre around the information needs of various stakeholders, providing complementary insights to those offered by legitimacy theory (Di Tullio et al., 2021).

The literature also highlights the significant role that board characteristics, such as size and independence, play in social sustainability reporting practices. There is an ongoing debate regarding the effectiveness of larger boards, with some scholars arguing that larger boards could resist management and external pressures (Dienes et al., 2016), while others view them as potentially inefficient (Ntim & Soobaroyen, 2013). Additionally, the presence of independent directors is believed to enhance stakeholder engagement and potentially improve the quality of social sustainability disclosures, with several studies supporting the idea that independent boards better address the information needs of stakeholders (Chiu & Wang, 2015; Odriozola & Baraibar-Diez, 2017). These findings suggest that board composition plays a crucial role in shaping

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corporate governance and social sustainability reporting practices.

Recently, the concepts of gender diversity and financial expertise within boards have gained prominence in discussions surrounding corporate governance and social sustainability reporting. Research indicates that gender-diverse boards tend to improve social sustainability disclosures due to the distinct perspectives female directors bring to the decision-making process (Tilt et al., 2021; Al-Shaer & Zaman, 2016). Women directors often display greater sensitivity to sustainability issues and community concerns, enhancing the organization's responsiveness to stakeholder needs (Gray et al., 2014). In addition, board financial expertise, which encompasses educational qualifications and industry experience, has also been linked to better social sustainability reporting. Studies suggest that educational diversity is crucial for improving corporate information disclosure, particularly concerning Environmental, Social, and Governance (ESG) factors (Chiu & Wang, 2015; Uwuigbe et al., 2017b). As such, this study posits:

> $H_2$*: Corporate governance has a significant moderating effect on the relationship between social sustainability reporting and firm value among companies listed on the NSE.*

## METHODOLOGY

For this study, a positivist social science approach was chosen, emphasizing the collection and quantitative analysis of data from annual reports. In this study, a combination of the longitudinal research approach and correlational research design was employed. This approach aids in defining the research phenomenon by analyzing independent variables (specifically, social sustainability reporting) and their effect on the dependent variable (firm value) with corporate governance acting as a moderating variable. It also facilitates hypothesis testing and the analysis of outcomes over an extended period (Gay et al., 2011).

### Sampling

This study focused on 64 companies listed on the Nairobi Securities Exchange (NSE) as of December 31, 2022, chosen for their legal obligation to publish annual reports and investor-focused disclosures. The timeframe of the study is strategically significant, as it encompasses three national elections in Kenya during 2013, 2017, and 2022, which helps mitigate the impact of political stability on the findings. Additionally, the NSE experienced structural policy revisions aimed at enhancing efficiency and effectiveness during this period, while the number of listed companies remained relatively stable, contributing to the reliability of the results. The study employed purposive sampling to select companies with comprehensive, publicly accessible data, ensuring focused analysis while excluding 18 financial firms due to distinct reporting regulations that differentiate them from non-financial entities. Ultimately, the dataset includes a sample of 32 listed companies from 2012 to 2022, resulting in 352 observations, with 14 firms omitted for not meeting the study's criteria, thereby relying on extensive annual report data for statistical analysis.

### Data Collection

This study utilized secondary data sources to gather information from audited annual reports and financial statements of 32 companies listed on the Nairobi Securities Exchange (NSE) from 2012 to 2022. Data was accessed through four main channels: the NSE, individual company websites, the African Financials website, and the Capital Markets Authority website, with a data collection sheet employed to compile relevant panel data. This approach allowed for a thorough evaluation of the content within financial reports, in accordance with legal auditing requirements. The data was organized into an Excel spreadsheet, which included key variables such as Firm Value, Social Sustainability Reporting, Corporate Governance, Firm Size, and Firm Age. The analysis employed both descriptive statistics (mean, median, standard deviation, minimum, and maximum) and inferential statistics using

 

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Random Effect and Fixed Effect models to examine the relationships among the variables while acknowledging potential limitations in data accuracy and completeness.

**Measurement of Variables**

This study measured one independent variable (social sustainability reporting); dependent variable (firm value); moderating variable (corporate governance) and control variables (firm Size and firm age) as summarized in Table 1 and detailed below;

**Table 1Measurement of Variables**

| Variable | Measurement | Sources |
|---|---|---|
| Firm Value | Q-Ratio is calculated as the sum of the market share price and the number of common stock shares outstanding plus the value of the firm's short-term liabilities plus the book value of the firm's long-term debt divided by the book value of the total assets of the firm. | Approximate Q was introduced by Chung and Pruitt (1994) and modified by the researcher. |
| Social Sustainability Reporting | Is measured using an aggregate score of 34 items as outlined by the GRI framework. | Plumlee, Brown, and Marshall (2008); Moroney, Windsor, and Aw (2009) and Rupley, Brown, and Marshall (2011). |
| Corporate Governance | Board Size, Independent Directors, Number of Internal Committees and Separation between CEO & Chairman | Bertoncelli, Fandella & Sironi (2021) |
| Firm Size | Measured using the log of total assets | Tariverdi, Lashgari & Jalalpour, 2014; Laeven, Ratnovski & Tong, 2014 |
| Firm Age | Defined as being from the year under review minus the establishment date of the company, in order to determine how many years, it had been incorporated. | Eriki, 2015 |

**Source:** Literature Review

**Model Specification**

Panel data was used to evaluate the hypotheses. In this study, the researcher adhered to the recommendations put forth by Baron and Kenny (1986) and Frazier et al. (2004), emphasizing the utilization of panel regression analyses to explore moderation effects. The models are as follows:

$$FV_{it+1} = \beta_{0it} + C + \beta_{1it}SOR_{1it} + \varepsilon \ldots\ldots\ldots 1$$

$$FV_{it+1} = \beta_{0it} + C + \beta_{1it}SOR_{1it} + \beta_{4it}CG_{it} + \beta_{5it}SOR_{1it} * CG_{it} + \varepsilon \ldots\ldots\ldots 2$$

Where;$FV$ - is the measure of the firm value of the listed companies for period t+1, $\beta_0$ is a change in FV that independent variables present in the model cannot explain. Note that it is the constant in the equation, $FA$ Firms Age, $FS$ Firms Size, $SOR$ Social Reporting, $\varepsilon$ is error term $i$ firms at time $t$ while $\mu_{it}$ Is the individual-specific effect.

## RESULTS

In this section, the study's data analysis and findings are discussed. The data were summarized and displayed through tables, while various statistical techniques, with the assistance of Stata, were employed to analyse the collected data in accordance with the study's goals. Additionally, this chapter outlines the process of data analysis, presentation, and interpretation of the results, which directly correlate with the study's guiding objectives.

**Descriptive and Correlation Analysis**

The analysis of firm values for companies listed on the Nairobi Securities Exchange (NSE) reveals significant disparities, with values ranging from a minimum of 0.39 to a maximum of 82.80 and an

 

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average of 2.77, exhibiting a right-skewed distribution. In terms of social reporting practices, scores ranged from 0.03 to 0.59, with an average of approximately 18%, indicating moderate reporting levels among firms, though variability exists. Corporate governance scores averaged 2.45, reflecting moderate practices with a slight skew towards higher scores, while firm sizes showed stability with an average size of 10.10, and firm ages averaged 71.19 years, indicating a tendency towards older firms in the NSE overall.

The analysis of the correlation matrix revealed a weak negative correlation between Social Sustainability Reporting (SOR) and Firm Value (FV) ($\rho = -0.094$, p-value $> 0.05$), indicating that companies prioritizing social reporting experience a slight decline in their firm value. In contrast, Firm Value (FV) and Corporate Governance (CG) were found to have a weak positive correlation ($\rho = 0.115$, p-value $< 0.05$), suggesting that firms with better corporate governance practices might also see a minor decrease in firm value. Additionally, a moderate negative correlation between Firm Value (FV) and Firm Size (FS) ($\rho = -0.351$, p-value $< 0.05$) suggests that the firm values of smaller companies are typically much greater than larger firms. A weak positive correlation between Firm Value (FV) and Firm Age (FA) ($\rho = 0.094$, p-value $> 0.05$) indicates that older firms experience a slight increase in their value. However, it is essential to interpret these results cautiously, as correlation does not equate to causation, necessitating further research to explore these relationships more thoroughly.

**Table 2: Descriptive and Correlation Statistics**

n=32

| Stats | Mean | SD | Skewness | Kurtosis | FV | SOR | CG | FA | FS |
|---|---|---|---|---|---|---|---|---|---|
| FV | 2.77 | 8.51 | 6.05 | 42.66 | 1 | | | | |
| SOR | 0.18 | 0.09 | 1.25 | 5.89 | -0.094 | 1 | | | |
| CG | 2.45 | -0.28 | 2.31 | 3.2 | 0.115* | 0.046 | 1 | | |
| FS | 10.1 | 0.75 | -0.24 | 2.82 | 0.094 | 0.069 | -.258** | 1 | |
| FA | 71.19 | 28.17 | 0.51 | 3.2 | -.351** | .338** | -2.34** | -.225** | 1 |

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

### Unit Root Test

The study tested three different unit root tests: Levin-Lin-Chu, Harris-Tzavalis, and Im-Pesaran-Shin. The null hypothesis (Ho) for all three tests is that the panels (variables) contain unit roots, meaning they are non-stationary. The alternative hypothesis (Ha) for the Levin-Lin-Chu and Harris-Tzavalis tests is that the panels are stationary. For the Im-Pesaran-Shin test, the alternative hypothesis is that some panels are stationary. The p-values presented in the table indicate the probability of obtaining the observed results under the assumption that the null hypothesis is true. A smaller p-value suggests stronger evidence against the null hypothesis. For all variables (FV, SOR CG, FS, and FA), the p-values are reported for each test. In each case, the p-value is less than 0.05 (5 percent level of significance), which means that the null hypothesis of unit root (non-stationarity) is rejected in favour of the alternative hypothesis of stationarity. The test results show that all variables (FV, SOR CG, FS, and FA) are integrated of order zero (I (0)), meaning they are stationary at levels. After taking the first difference of the variables (I (1)), they remain stationary. This indicates that the variables have a long-term relationship after differencing.

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**Table 3: Unit root test**

| | | Inverse chi-squared (60) | Inverse normal | Inverse logit t (154) | Modified inv. chi-squared |
|---|---|---|---|---|---|
| | | P | Z | L* | Pm |
| FV | Statistic | 185.621 | -6.373 | -7.436 | 11.468 |
| | p-value | 0.000 | 0.000 | 0.000 | 0.000 |
| SOR | Statistic | 399.617 | -11.947 | -19.399 | 31.003 |
| | p-value | 0.000 | 0.000 | 0.000 | 0.000 |
| CG | Statistic | 151.013 | -2.672 | -5.156 | 8.308 |
| | p-value | 0.000 | 0.004 | 0.000 | 0.000 |
| FS | Statistic | 184.986 | -5.022 | -7.466 | 11.410 |
| | p-value | 0.000 | 0.000 | 0.000 | 0.000 |
| FA | Statistic | 1898.993 | -39.762 | -95.855 | 167.876 |
| | p-value | 0.000 | 0.000 | 0.000 | 0.000 |

**Hierarchical Random-Effects GLS Regression (Hypothesis Testing)**

Before hypotheses testing, the study conducted several diagnostic tests to ensure the reliability and suitability of the data for analysis. The Jarque-Bera test for normality revealed a value of 0.6769, supporting the assumption of normality for the residuals. The Wooldridge test for autocorrelation yielded an F-statistic of 3.265 with a p-value of 0.5041, indicating no significant autocorrelation in the panel data. Additionally, White's test showed a chi-square statistic of 156.18 and a p-value of 0.1174, confirming the absence of heteroscedasticity and supporting the assumption of constant error variance. The Variance Inflation Factor (VIF) test indicated a mean VIF of 1.60, suggesting no significant multi-collinearity among the independent variables as all values were below the threshold of 10. Collectively, these diagnostic tests enhance the study's reliability and validity, allowing for accurate interpretation and inference of the regression results.

To determine the existence of this correlation and choose the appropriate method between fixed effects and random effects for panel data regression, researchers employ the Hausman specification test. Table 4 clearly demonstrates that the null hypothesis of no association between unobserved effects and explanatory variables is accepted. This finding is corroborated by the chi-square value of 1.25, which yields a p-value of 0.9400. As a result, the researchers conclude that the random effects model is adequate for this analysis. These results emphasize the importance of considering the correlation between the error term and the explanatory variables in order to obtain accurate estimations of the relationships. By opting for the random effects model, the analysis assumes that unobserved time-invariant factors are random.

The results of the analysis regarding the hypotheses reveal that H1, which posits that there is no significant relationship between social sustainability reporting and the firm value of companies listed on the Nairobi Securities Exchange, is accepted based on the findings. The coefficient estimate for social sustainability reporting is -2.949 with a p-value of 0.230, indicating an insignificant effect on firm value. The relatively high p-value indicates that the relationship is not statistically significant, supporting the acceptance of H1, and suggesting that social sustainability reporting does not impact firm value in this context.

In examining the moderating effect of corporate governance on the relationship between social sustainability reporting and firm value (H2), the interaction term "ZSOR*CG" has a coefficient of -0.043 with a p-value of 0.157, suggesting that corporate governance does not significantly moderate this relationship. Additionally, the ΔR-squared increased by only 0.001 when the interaction term was included in the model, indicating that corporate governance adds minimal explanatory power to the model

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regarding firm value. The overall R-squared values of 0.0890 and 0.0880 indicate a low proportion of variance explained by the models, corroborating the lack of significant findings. Therefore, the results do not provide support for H2, stating that corporate governance has a significant moderating effect on the relationship between social sustainability reporting and firm value among companies listed on the NSE. In conclusion, both hypotheses were accepted, indicating that social sustainability reporting does not have a significant effect on firm value, nor does corporate governance significantly moderate this relationship in the context of the Nairobi Securities Exchange. These findings highlight the need for further investigation to explore other factors that might influence firm value beyond social sustainability reporting and corporate governance.

**Table 4: Hierarchical Random-effects GLS regression**

| | | Model 1 | | | Model 2 | |
|---|---|---|---|---|---|---|
| FV | **Coef.** | **Std. Err.** | **P>z** | **Coef.** | **Std. Err.** | **P>z** |
| Cons | 0.000 | 0.168 | 1.000 | 0.002 | 0.171 | 0.991 |
| FS | -0.082 | 0.086 | 0.341 | -0.079 | 0.086 | 0.358 |
| FA | -0.040 | 0.107 | 0.710 | -0.063 | 0.108 | 0.562 |
| SOR | -0.016 | 0.026 | 0.525 | -0.007 | 0.027 | 0.787 |
| SOR*CG | | | | -0.043 | 0.030 | 0.157 |
| **Model Summary** | | | | | | |
| R-sq: overall | 0.0890 | | | 0.0880 | | |
| ΔR-sq: overall | | | | 0.001 | | |
| Waldchi2(3) | 1.85 | | | 3.81 | | |
| Prob> chi2 | 0.6034 | | | 0.4321 | | |
| **Hausman** | | | | | | |
| Chi2(3) | 4.55 | | | 4.86 | | |
| Prob>chi2 | 0.2080 | | | 0.3014 | | |
| **Test of Normality** | | | | | | |
| Jarque-Bera | .6769 | | | | | |
| Chi (2) | . 7129 | | | | | |
| **Wooldridge test for autocorrelation in panel data** | | | | | | |
| F (1, 31) | 3.265 | | | | | |
| Prob > F | 0.5041 | | | | | |
| **White test for Homoscedasticity** | | | | | | |
| Chi2(1) | 156.18 | | | | | |
| Prob > chi2 | 0.1174 | | | | | |
| **Multi-collinearity** | | | | | | |
| Mean VIF | 1.60 | | | | | |

## DISCUSSION

The results indicate an insignificant relationship between social sustainability reporting and firm value. The specific reporting practices and disclosure levels of the companies in the Nairobi Securities Exchange vary widely, affecting the perceived value and relevance of social sustainability reports. Additionally, the market and investor sentiment towards social sustainability practices and their impact on firm value differ in this particular context. However, it is essential to acknowledge that previous studies on this subject have yielded diverse findings, with the current results aligning with the previous studies of Muslichah (2020) and Asuquo, Dada, and Onyeogaziri (2018).

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Laskar and Maji (2018) noted contradicting results that social sustainability reporting had a positive impact on firm performance. Similarly, Swarnapali and Luo (2018) noted the same trend in developing countries. Their studies imply that firms publishing social sustainability reports have higher firm value than firms that do not. This could therefore be due to the fact that social reporting is a sign of strength in disclosures, thus affecting firm value positively.

The results also indicate that corporate governance does not significantly moderate the relationship between social sustainability reporting and firm value for companies listed in the Nairobi Securities Exchange. This implies that regardless of the strength of corporate governance practices, the impact of social sustainability reporting on firm value remains relatively unchanged.

Social sustainability reporting may be more commonly adopted by firms as a form of reputational management or signalling rather than having a direct impact on financial performance. Hence, corporate governance practices do not have a substantial influence on the relationship between social reporting and firm value.

The results align with the tenets of agency theory that transparent disclosure is a critical mechanism for mitigating agency conflicts between managers and shareholders. The study's findings of social sustainability reporting asymmetry suggest that agency conflicts still persist, leading to a negative and insignificant impact on firm value.

## CONCLUSIONS

The study reported an insignificant relationship between social sustainability reporting and firm value. This suggests that social sustainability reporting practices do not have a substantial impact on firm value in the context of the Nairobi Securities Exchange. The varying disclosure levels and relevance of social sustainability reports among companies could contribute to the lack of significance. Additionally, the perceived importance of social sustainability practices and their impact on financial performance may differ among investors in this particular market. Furthermore, the study highlighted the insignificant role of corporate governance in influencing the relationship between social reporting and firm value.

### Recommendations

This study has several important implications for managerial policies and practices regarding social reporting and corporate governance in companies listed on the Nairobi Securities Exchange. First, given the reported insignificant relationship between social sustainability reporting and firm value, managers need to reassess their social reporting practices and consider aligning them more closely with stakeholder expectations and the specific interests of investors. This could involve enhancing the quality and relevance of disclosures to ensure that social sustainability reports provide valuable insights that resonate with investors, thereby potentially increasing their perception of firm value.

Additionally, the variation in disclosure levels among companies suggests that a standardized framework for social sustainability reporting practices may be beneficial. Managers should consider adopting best practices in social reporting that reflect recognized frameworks, such as the Global Reporting Initiative (GRI), to improve comparability and credibility. By doing so, companies might increase investors' confidence in the information provided, even if the direct correlation to firm value remains uncertain in the short term.

Lastly, the study's findings regarding the insignificant role of corporate governance in moderating the relationship between social sustainability reporting and firm value indicate that organizations should not solely rely on governance structures as a means to enhance firm value. Instead, companies should focus on integrating social responsibility practices into their overall strategic objectives to better align with the evolving expectations of investors and stakeholders. This holistic approach can contribute to a more sustainable business model

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that prioritizes both financial performance and social impact, ultimately fostering long-term value creation in the market.

## Further Studies

The findings of this study provide a foundation for further research in the field of social sustainability reporting and firm value. It is recommended to explore the potential moderating effects of industry-specific factors on the relationships between different types of sustainability reporting and firm value. Additionally, comparative studies across different stock exchanges and countries can provide a broader understanding of how cultural and institutional contexts influence the relationships between social sustainability reporting and firm value.

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