



# THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND ENVIRONMENTAL SUSTAINABILITY DISCLOSURE AMONG THE LISTED NSE FIRMS IN KENYA

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## ABSTRACT

The study examines the relationship between ownership structure (ownership concentration and institutional ownership) and ecological sustainability disclosures on firms listed at the Nairobi Securities Exchange. The study period was (5) years (from 2013 to 2017). It employed a correlational survey research design covering the period of five (5) years (2013 - 2017). The target population was sixty-five (65) firms listed at the NSE, with a sample size of 56 firms. Data was utilised from firms' annual reports, stand-alone reports, and website. Pearson's correlation, Ordinary Least Square regression model and Environmental Disclosure Index were used in analysis. The results showed that the change in ownership concentration ( $F= 1.77, \rho=.13>.05$ ) and institutional ownership ( $F= 1.57, \rho=.18>.05$ ) between 2013 to 2017 was not statistically significant. The correlation findings indicated institutional ownership being positively related to environmental sustainability disclosure  $r = .218, p<.01$ , while ownership concentration was not correlated with environmental sustainability disclosure,  $r = 0.074$ . Using the fixed effect model, ownership concentration had a negative and insignificant effect on environmental sustainability disclosure ( $\beta= -.02, \rho>.05$ ), while institutional ownership showed a positive and significant effect on environmental disclosure sustainability ( $\beta= .05, \rho<.05$ ). For the random effect model, ownership concentration showed a negative and significant effect on environmental sustainability disclosure ( $\beta= -.03, \rho<.05$ ), with institutional ownership indicating a positive and significant influence on environmental sustainability disclosure ( $\beta= .04, \rho<.05$ ). The study thus observed a positive association between ownership structure and environmental disclosures, implying that the more concentrated ownership by one institution owning more than 50 percent of a company's shares, the more favourable it is in relation to enhancing environmental disclosure. This supports the legitimacy theory. The study indicated that institutional ownership is most preferred when it comes to enhancing environmental disclosure. More so, on matters regarding environmental disclosure, higher ownership by the regulatory authorities is paramount since as it will influence compliance and disclosure. Future studies needs to focus on government share ownership in the firms and the resulting effects on corporate environmental disclosures, as well as individual shareholders shareholding capacity versus shareholding by firms.

**KEYWORDS:** ownership structure, ownership concentration and institutional ownership, environmental sustainability disclosures, listed firms, legitimacy theory.

## 1.1 INTRODUCTION

The concept of environmental sustainability has been developed from the arrival of the concept of 'Our Common Future' in 1987, The Brundtland Report, and World Business Council for Sustainable Development (WBCSD) that gave a meaning of practical advancement, which has turned out to be a standout amongst the most generally embraced definitions today; 'improvement which addresses the issues of the present without bargaining the capacity of future ages to address their own issues' (World Commission on Environment and Development 1987). Firms currently employ sustainability policies and engage in a variety of sustainability -linked practices to warrant sustainable business



practices (Ullah, Muttakin and Khan, 2019). According to Ullah, Muttakin and Khan (2019), sustainability helps firms to find equilibrium between their commercial and social objectives goals, as well as ensuring effective use of scarce resources. Further, sustainability stress the interests of all stakeholders, by considering societal, environmental, and ethical aspects (Mittal, Sinha and Singh, 2008).

Environmental sustainability is majorly concerned with the enhancement and conservation of biological and physical characteristics of the earth (United Nations Department of Economic and Social Affairs, 2002). In relation to corporate governance, environmental sustainability disclosure can be termed to be a way of ensuring effective corporate governance which incorporates transparency in its environmental performance, sometimes viewed as “governance by disclosure” (Gupta, 2008). The term governance as clarified by Erhun (2015) constitutes various fields such as “welfare governance, economic governance, and environmental governance”. The three governance measures are incorporated under corporate governance. In this study, the emphasis was on environmental sustainability-related corporate governance.

With proper corporate governance structures in place, organization’s accountability and transparency is guaranteed through adequate triple bottom line (TBL) disclosure, which entails three measurements namely social, monetary and natural (Elkington, 1997). For corporate governance effectiveness, the concept has been cited as the most appropriate due to its holistic nature of value creation over the short, medium and long term (McFie, 2018). However, Aburaya (2012) observed that despite increased disclosure, the general corporate disclosure and more especially corporate environmental disclosure continues to be among the “biggest challenges” affecting implementation of corporate governance. Further to the application of good corporate governance, corporate sustainability will also be guaranteed if the firm pays close attention towards social and environmental dimensions. This makes the firm as an economic entity not only responsible to major stakeholders but also the wider community (Dirman, 2019).

One of the most devastating environmental concerns by a firm’s activities in Kenya was the massive health problems suffered by Mombasa County residents in Kenya, resulting from lead battery recycling factory adjacent to Owino Uhuru slum. The factory was emitting poisonous gas, effluents and other physical exposure (Okeyo and Wangila, 2012). It led to various lead poisoning related diseases and deaths, with 2018 laboratory test results indicating three out of 18 residents having high lead levels in their blood (Mwakio, 2018).

According to Setiawan, 2016 as cited in Wahyuni, 2020, institutional ownership significantly impacts the firm's performance while the constitution of the independent board of commissioners does not significantly impact the firm's financial performance. Osemene, Florence, & Grace, 2018 indicates that the frequency of audit committee meetings has a significant effect on a company's financial performance. Whetman, 2018 prove that sustainability reporting has an impact on a company's financial performance. Meanwhile, Ching, Gerab, & Toste, 2017 cannot prove the effect of sustainability reporting disclosure on company performance as measured by accounting or market variables. Al-Hadi, Taylor and Al-Yahyaee (2016) claims that royal family on board (BROY) plays a critical role in overcoming agency problems as well as information asymmetry, together with influencing sustainability reporting.

## LITERATURE REVIEW AND HYPOTHESIS

Severe global human-induced climate change has been witnessed recently, with firm’s emissions contributing immensely. Worse off are the recent corporate scandals that have ravaged several firms, awakening several numbers of studies regarding how firms are governed as well as report on climate-related activities (Ofoegbu, Odoemelam, and Okafor, 2018). However, it remains discretionary for firms to disclose their ecological effect (Plumlee, Brown, Hayes and Marshall, 2015), with the information severely deficient in various firms reports (Al-Janadi, Rahman and Omar, 2012) and even where it is contemporaneous, firms only report it shallowly. The decision as to which firm, when, how, what and to what extent to disclose these ecological matters rest upon an entity’s corporate governance mechanism (Mayorga and Trotman, 2016; Agyei-Mensah, 2016), in addition to the firm attributes such as asset base, and profitability (Ahmad, Osazuwa and Mgbame, 2015).

Despite corporate governance being hailed as a solution for corporate ecological failures, little is evidenced by the extant literature as to its value creation on ecological sustainability disclosures. This is coupled with disclosure



variances from corporate attributes. Corporate environmental disclosure in the past few decades has been an important area of focus more especially with the continued unprecedented global environmental degradation attributed to industrial activities that are harmful to the natural environment. Corporate ecological disclosure is intended at provision of vital and faithful information on an entity's operations in ecology (Bateman, Blanco and Sheffi, 2017; Odoemelam and Okafor, 2018). This information is captured in some traditional end-year reports and in the all-in-one-integrated annual report (de Villiers, Venter and Hsiao, 2017). Variance in the ownership structure of an entity can have a significant effect on firm's governance and therefore impacting on the degree of corporate environmental reporting. Ownership components, as well as the ownership method, have been found to possess significant role in disclosing the changes in environmental sustainability reporting behaviours.

### **Ownership Structure and Environmental Sustainability Disclosure**

Chau and Gray (2002) on the relationship between ownership structure and non-mandatory reporting such as ecological reporting, on Asians listed firms from Singapore and Hong Kong found that the level of ownership outside the entity was positively related to voluntary reporting – incorporating ecological reporting. In particular, the findings also showed that the extent of information reporting was likely to be less in insider or family-owned firms, a significant characteristic of the Hong Kong as well as Singapore securities (stock) market. Juhmani (2013) examined the association between ownership structure measures and the extent of non-mandatory information reporting – including environmental disclosures - of all 50 firms listed on the Bahrain Stock Exchange (BHS) in the year 2010. Results indicated a significant negative relationship at .004 significant level only between blockholder ownership and voluntary information reporting, supporting the hypothesis that Bahraini firms with large blockholder ownership level disclose little non-mandatory environmental information as compared to the ones with low blockholder (Samaha, Dahawy, Hussainey and Stapleton, 2012).

Esa and Zahari (2016) study, it investigated the influence of ownership structures and board characteristics on corporate social responsibility (CSR) disclosures in Malaysia indicated that ownership structure and board characteristics have no significant influence on CSR reporting with an adjusted  $R^2$  of .241 ( $F = 3.486$ ,  $P = .000$ ). Family ownership, board professional qualification, board size as well as independent non-whole time service director had a significant influence on CSR reporting at 5, 10, and 1 percent significance level

### **Agency Theory**

Jensen and Meckling (1976) argues that based on this theory, clear distinction of ownership and management leads into agency costs classified: oversight costs, borne by the principal towards minimizing agent actions which are against the principal's aspirations; bonding costs, borne by the agent towards guaranteeing the principal that the agent doesn't carry out actions which are not in the principal's interest; and, salvage costs, borne since oversight and bonding might not completely align agent character and principal's interests. This theory is based on the precincts of "information asymmetry, opportunism, and possible conflict of interests" (Aburaya, 2012).

Agency Theory is alluded by Zahra and Peace II (1989) as the most appreciated as well as prominent perspective which has guided studies on corporate boards. The theory suggests that within the framework of CG mechanisms, the managers have a high likelihood of emphasizing on corporate social and ecological issues than stockholders since they have no salvage claim on an entity's generations. The assumptions underlying corporate governance and ecological reporting are agency theory (Jensen and Meckling, 1976) that creates the framework for the connection between the variables (Odoemelam and Okafor, 2018; Kabir and Thai, 2017; Allegrini and Greco, 2013; Ienciu, Popa and Ienciu, 2012).

## **RESEARCH METHODOLOGY**

Mixed-method approach was applied because the study entailed both quantitative data and qualitative data. This provided a better understanding of the research problem than either approach alone (Leech and Onwuegbuzie, 2008). A panel research design within the domain of correlational survey design method was applied on a panel data over a period of 5 years (2013-2017). The study was done at the Nairobi Securities Exchange (NSE) 65 listed firms in Kenya (Nairobi Securities Exchange, 2018). Purposive sampling method was used to determine the sample size where a sample size of 56 firms was selected based on the firms' provision of environmental-related information in their annual



reports, ecological stand-alone reports, website, newsletters, and any other secondary source. For those that did not provide were eliminated. Secondary data was used such as firms' annual report, stand-alone report, as well as company website. Data analysis was inferential statistical test techniques such as Jarque-Bera tests, Shapiro Wilk tests were applied towards test of data normality. Pearson correlation was as well applied in testing collinearity. Hausman test was used in determining the regression model applied.

## RESULTS AND DISCUSSIONS

### Ownership Structures

Ownership structure in the study was measured in terms of ownership concentration and institutional ownership. Table 4.2 presents findings on the ownership structure. From the findings, the ownership concentration was at 50% in 2013 while institutional ownership was at 46%. In 2014, ownership concentration declined to 43% as well as institutional ownership which declined to 43%. However, in 2015, ownership concentration increased to 55% while institutional ownership increased to 46%. There was a further increase in ownership concentration to 56% in 2016 though institutional ownership declined to 39%. Finally, in 2017, ownership concentration increased to 57% while institutional ownership declined to 33%. Evidently, there has been an increase in ownership concentration over the years while institutional ownership has been on the decline. Despite this, the change in ownership concentration ( $F=1.77, \rho=.13>.05$ ) and institutional ownership ( $F=1.57, \rho=.18>.05$ ) between 2013 to 2017 was not statistically significant.

*Ownership Structures*

Year	Stat	Ownership Concentration	Institutional Ownership
2013	Obs	56.00	56.00
	Min	0	0
	Max	.95	.94
	<b>Mean</b>	<b>.50</b>	<b>.46</b>
	p50	.65	.56
	Skewness	-.38	-.47
	Kurtosis	1.62	1.78
2014	Obs	56.00	56.00
	Min	0	0
	Max	1	.94
	<b>Mean</b>	<b>.43</b>	<b>.43</b>
	p50	.24	.55
	Skewness	.26	-.29
	Kurtosis	1.56	1.60
2015	Obs	56.00	56.00
	Min	0	0
	Max	1	.94
	<b>Mean</b>	<b>.55</b>	<b>.46</b>
	p50	.71	.55
	Skewness	-.53	-.39
	Kurtosis	1.80	1.74
2016	Obs	56.00	56.00
	Min	.00	.00
	Max	1.00	.94
	<b>Mean</b>	<b>.56</b>	<b>.39</b>
	p50	.68	.48



2017	Skewness	-0.77	-0.02
	Kurtosis	2.35	1.38
	Obs	56.00	56.00
	Min	0	0
	Max	1	.92
	<b>Mean</b>	<b>.57</b>	<b>.33</b>
	p50	.68	.22
	Skewness	-0.92	.31
	Kurtosis	2.57	1.39
	ANOVA	F	1.77
	Prob>F	.13	.18

Source: Research data (2019)

### Correlation Results

Institutional ownership was positively related to environmental sustainability disclosure, with a coefficient of  $r = .218$  which was significant at  $p < .01$ . However, ownership concentration was not correlated with environmental sustainability disclosure, with a coefficient of  $r = 0.074$ .

#### *Pearson Correlation between Environmental Sustainability Disclosure and Corporate Governance*

	EsD	Bi	Bd	bq	Bm	oc	aci	acm	fs	bs
<b>EsD</b>	1									
<b>Bi</b>	.600**	1								
<b>Bd</b>	-.271**	-.240**	1							
<b>Bq</b>	.322**	.300**	.119*	1						
<b>Bm</b>	.377**	.410**	0.056	.402**	1					
<b>Oc</b>	0.074	.216**	-0.078	.164**	.210**	1				
<b>Io</b>	.218**	.153*	-0.085	0.025	.228**	0.031				
<b>AcI</b>	.349**	.215**	-0.103	.122*	.171**	.462**	1			
<b>AcM</b>	.279**	.493**	0.01	.383**	.574**	.291**	.272**	1		
<b>Fs</b>	.445**	.592**	-0.042	.321**	.369**	.285**	.184**	.449**	1	
<b>Bs</b>	.263**	.401**	.168**	.349**	.322**	0.087	-.141*	.385**	.457**	1

Note: \*\* Correlation is significant at the .01 level (2-tailed). \* Correlation is significant at the .05 level (2-tailed).

N=56; Dependent variable, esd = Environmental sustainability disclosure, bi = board independence, bd = board diversity, bq = board qualifications, bm = board meetings, oc = ownership concentration, io = institutional ownership, aci = audit committee independence, acm = audit committee meetings, fs = financial strength, bs = board size

Source: Research data (2019)

**Fixed Effect Model**

Ownership concentration had a negative and insignificant effect on environmental sustainability disclosure ( $\beta = -.02$ ,  $\rho > .05$ ). In the same way, the audit committee meetings had no influence on the environmental sustainability disclosure ( $\beta = .00$ ,  $\rho > .05$ ). In addition, institutional ownership showed a positive and significant effect on environmental sustainability disclosure ( $\beta = .05$ ,  $\rho < .05$ ). Specifically, an increase in disclosures by .05 units leads to an increase in environmental disclosure sustainability by the same unit. The t-value = 2.77 which implies that it is more than the standard error.

<i>Fixed Effect Model</i>						
<b>Fixed-effects (within) regression</b>		<b>Number of obs</b>		=	<b>272</b>	
<b>Group variable: firmID</b>		<b>Number of groups</b>		=	<b>56</b>	
<b>R-sq: within = .6399</b>		<b>Obs per group: min</b>		=	<b>4</b>	
<b>between = .3940</b>		<b>Avg</b>		=	<b>4.9</b>	
<b>overall = .4872</b>		<b>Max</b>		=	<b>5</b>	
<b>corr(u_i, Xb) = -.0775</b>		<b>F(9,207)</b>		=	<b>4.87</b>	
		<b>Prob &gt; F</b>		=	<b>.000</b>	
					<b>[95%</b>	
<b>Esd</b>	<b>Coef.</b>	<b>Std. Err.</b>	<b>T</b>	<b>P&gt;t</b>	<b>Conf.</b>	<b>Interval]</b>
Bi	.24	.03	8.90	.00	.18	.29
Bd	-.10	.04	-2.61	.01	-.17	-.02
Bq	.07	.03	2.49	.01	.02	.13
Bm	.00	.00	1.45	.15	.00	.01
Oc	-.02	.02	-.85	.40	-.05	.02
Io	.05	.02	2.77	.01	.02	.09
Aci	.12	.03	4.85	.00	.07	.17
Acm	.00	.00	-.02	.98	-.01	.01
Bs	.01	.00	2.66	.01	.00	.01
_cons	.11	.03	3.74	.00	.05	.17
sigma_u	.08					
sigma_e	.06					
Rho	.65	(fraction of variance due to u_i)				

F test that all  $u_i = 0$ :  $F(55, 207) = 7.67$  Prob > F = .0000

*esd* = Environmental sustainability disclosure, *bi* = board independence, *bd* = board diversity, *bq* = board qualifications, *bm* = board meetings, *oc* = ownership concentration, *io* = institutional ownership, *aci* = audit committee independence, *acm* = audit committee meetings, *bs* = board size

Source: Research data (2019)

**Random Effect Model**

Ownership concentration showed a negative and significant effect on environmental sustainability disclosure ( $\beta = -.03$ ,  $\rho < .05$ ). Specifically, an increase in ownership concentration by .03 units leads to a decline in environmental sustainability disclosure by the same unit. Moreover, institutional ownership had a positive and significant influence on environmental sustainability disclosure ( $\beta = .04$ ,  $\rho < .05$ ). It is therefore expected that an increase in institutional ownership by .04 units, leads to an increase in environmental sustainability disclosure by the same unit.



**Random effect Model**

<b>Random-effects GLS regression</b>		<b>Number of obs</b>	=	<b>272</b>		
<b>Group variable: firmID</b>		<b>Number of groups</b>	=	<b>56</b>		
<b>R-sq: within = .6355</b>		<b>Obs per group: min</b>	=	<b>4</b>		
<b>between = .4377</b>		<b>Avg</b>	=	<b>4.9</b>		
<b>overall = .5132</b>		<b>Max</b>	=	<b>5</b>		
<b>corr(u_i, X) = 0 (assumed)</b>		<b>Wald chi2(9)</b>	=	<b>398.77</b>		
		<b>Prob &gt; chi2</b>	=	<b>0</b>		
					<b>[95%</b>	
	<b>Coef.</b>	<b>Std. Err.</b>	<b>Z</b>	<b>P&gt;z</b>	<b>Conf.</b>	<b>Interval]</b>
Esd	.24	.03	9.47	.00	.19	.29
Bi	.24	.03	9.47	.00	.19	.29
Bd	-.12	.04	-3.32	.00	-.19	-.05
Bq	.07	.03	2.81	.01	.02	.13
Bm	.00	.00	1.90	.06	.00	.01
Oc	-.03	.02	-1.93	.05	-.07	.00
Io	.04	.02	2.50	.01	.01	.08
Aci	.13	.02	5.78	.00	.09	.18
Acm	.00	.00	-1.13	.26	-.01	.00
Bs	.01	.00	2.95	.00	.00	.01
_cons	.13	.03	4.70	.00	.08	.18
sigma_u	.07					
sigma_e		.06				
Rho	.57		(fraction of variance due to u_i)			

*esd* = Environmental sustainability disclosure, *bi* = board independence, *bd* = board diversity, *bq* = board qualifications, *bm* = board meetings, *oc* = ownership concentration, *io* = institutional ownership, *aci* = audit committee independence, *acm* = audit committee meetings, *bs* = board size

Source: Research data (2019)

**Hypotheses Testing**

**Hypothesis 1(H<sub>01a</sub>)** stated that institutional ownership has no significant effect on environmental sustainability disclosure. Findings showed that institutional ownership had coefficients of the estimate which was significant basing on  $\beta = .05$  ( $\rho < .01$ ) which is less than  $\alpha = .000$  hence it was concluded that institutional ownership had a positive and significant effect on environmental sustainability disclosure. Consequently, an increase in institutional ownership by .05 units leads to an increase in environmental sustainability disclosure by the same unit. In conformity with the results, Ghazali (2007) noted that firms with major state ownership held shares, as well as direct ownership, reported more CSR information in their end year reports thus having a significant influence on CSR disclosure. However, Al-Hssaini, Al-Kwari, and Nuseibeh (2006) found that the number of institutional investors, individual investors and government ownership, the results showed their little effect on the extent of CSD.

**Hypothesis 1(H<sub>01b</sub>)** stated that ownership concentration has no significant effect on environmental sustainability disclosure. However, the regression results indicated that ownership concentration had a negative and insignificant influence environmental sustainability disclosure ( $\beta = -.02$ ,  $\rho < .05$ ). The null hypothesis was therefore accepted and it was concluded that an increase in ownership concentration by .02 units leads to a decline in environmental sustainability disclosure by the same unit. Juhmani (2013) indicated a significant negative relationship between blockholder ownership and voluntary information reporting. Contrary to the results, Brammer and Pavelin (2008) and Cormier, Magnan and Velthoven (2005) provided evidence of significant negative relationship between ownership concentration and environmental disclosure quality in annual reports.



Also, Grüning and Ernstberger (2010) established that ownership concentration has a positive impact on environmental sustainability disclosure. In the same way, Chau and Gray (2002) found out that the level of ownership outside the entity was positively related to voluntary reporting – incorporating ecological reporting. However, Esa and Zahari (2016) indicated that ownership structure and board characteristics have no significant influence on CSR reporting. Similarly, Marshall *et al.* (2011) study lacked evidence with regard to an association between long-dimension institutional ownership as well as any of the discretionary ecological reporting quality measures. Also, Mgbame and Onoyase (2015) examination of corporate governance (ownership concentration) on ecological reporting indicated a positive and significant association.

Ownership concentration was not correlated with environmental sustainability disclosure. These findings tend to support the legitimacy theory that in a poorly regulated environment with voluntary disclosure perspective (traditional reporting framework) as compared to the mandatory reporting perspective (integrated reporting framework), the discretionary disclosure substitute legitimacy disclosure (Odoemelam and Okafor, 2018)

## CONCLUSION

Institutional ownership had a positive association with environmental disclosure. This suggests that concentrated ownership by one institution owning more than 50 percent of a company's shares, the more favourable it is in relation to enhancing environmental disclosure. This supports the legitimacy theory, in the sense that the controlling institution may want to gain more social legitimacy by signaling out more information to the public, hence reducing information asymmetry among the various stakeholders. On the other hand, ownership concentration had a negative and significant influence on environmental sustainability disclosure.

## RECOMMENDATIONS AND SCOPE FOR FURTHER RESEARCH

Furthermore, the study has indicated that institutional ownership is most preferred when it comes to enhancing environmental disclosure. More so, on matters regarding environmental disclosure, higher ownership by the regulatory authorities is paramount since as it will influence compliance and disclosure. So, when it comes to increasing environmental disclosure, it is recommended that regulators promote this concentrated institutional ownership, especially government ownership. However, before doing so, it is very important to implement rigid laws on minority rights. To a great extent, the research found that institutional ownership, if efficiently utilized, could help in enhancing environmental sustainability disclosure. Also, further studies may be carried out on government share ownership in the firms and the resulting effects on corporate environmental disclosures. Individual shareholders shareholding capacity versus shareholding by firms is as well another area that can be explored by other studies.

This study focuses on NSE listed firms in Kenya. Further studies can as well examine ecological sustainability disclosure issues for small-and-medium enterprises (SMEs), as they are also facing sustainable development issues, and dealing with them in an unobservable way. Studies on SMEs can add value to the contemporaneous ecological sustainability literature from a new dimension.

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