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Volume 11

Issue 5

2024

ISBN 978-9966-046-15-4



Journal of Conflict Management and Sustainable Development

Volume 11 Issue 5

2024

Journal of Conflict Management and Sustainable Development

Typesetting by:

Anne W. Kiramba

P.O. Box 60561 – 00200,

Tel: +254 737 662 029,

Nairobi, Kenya.

Printed by:

Mouldex Printers

P.O. Box 63395,

Tel – 0723 366839,

Nairobi, Kenya.

Published by:

Glenwood Publishers Limited

P.O. Box 76115 - 00508

Tel +254 2210281,

Nairobi, Kenya.

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This Journal should be cited as (2024) 11(5) Journal of cmsd
ISSN : 3008-1238

Editor's Note

Welcome to the *Journal of Conflict Management and Sustainable Development*, Volume 11, No.5. The Journal is an interdisciplinary publication that focuses on key and emerging themes in Conflict Management, Sustainable Development and other related fields of knowledge.

Sustainable Development has been embraced at both the global and national levels as the blue print for socio-economic development and governance. The Journal interrogates and offers solutions to some of the current concerns in the Sustainable Development Agenda. It also explores the role of Conflict Management in the attainment of Sustainable Development.

The Journal has witnessed significant growth since its launch and is now a widely cited and authoritative publication in the fields of Conflict Management and Sustainable Development. The Editorial Team welcomes feedback and suggestions from our readers across the globe to enable us to continue improving the Journal.

The Journal is peer reviewed and refereed in order to adhere to the highest quality of academic standards and credibility of information. Papers submitted to the Journal are taken through a rigorous review by our team of internal and external reviewers.

This volume contains papers on various themes including: *Protecting Our Endangered Species for Sustainability; Changing The Narrative on the Right to a Clean and Healthy Environment: Analysing Ecocentrism as a Possible Method of Environmental Governance in Kenya; Integrating Environmental Social & Governance (ESG) Principles into Corporate Governance in Kenya: Trends, Challenges, and Best Practices; Problematic Overlaps and Duplication of Mandates of State and Governmental Agencies in Kenya: Proposals for Legal and Institutional Reform; Lesson Study: Towards an Improved Instruction in Stem Education in Junior Secondary Schools In Kenya; Management of Industrial Waste water in Kenya: Case study of Mavoko; Does the Law Work? A Case of Kenyan Prison Congestion and the Witchcraft Act; Fostering Sustainable Lifestyles for Posterity;*

Legislating to Protect and Compensate Whistleblowers in Kenya: An Appraisal of the Proposed Whistleblower Protection Bill, 2023; The Phenomena of Resource Curse and How to Navigate around it; Primary Teacher Education and Kenya's Vision 2030. The Lacuna in the Transformation Agenda; Mitigating the Environmental Impact of Oil: Strategies for Sustainable Development; and The Implications of Implementing Kenya's Electronic Travel Authorisation (eTA) System: A Comparative Appraisal. The Journal also contains a book review of Towards Human Rights and Prosperity for All and a review of Journal of Appropriate Dispute Resolution (ADR) & Sustainability Volume 2 Issue 3.

We welcome feedback, comments and critique from our readers to enable us to continue improving the Journal.

I wish to thank all those who have made this publication possible including reviewers, editors and contributors.

The Editorial Team also welcomes the submission of articles to be considered for publication in subsequent issues of the Journal. Submissions can be channeled to admin@kmco.co.ke and copied to editor@journalofcmsd.net. Our readers can access the Journal online at <https://journalofcmsd.net>.

Hon. Prof. Kariuki Muigua Ph.D, FCIArb, Ch.Arb, OGW.
Professor of Environmental Law and Conflict Management
Editor, Nairobi,
November, 2024.

Integrating Environmental Social & Governance (ESG) Principles into Corporate Governance in Kenya: Trends, Challenges, and Best Practices

By: **Murithi Antony* & Chepkoech Charity****

Abstract

The incorporation of Environmental, Social, and Governance aspects in corporate governance has indisputably changed the business operating environment globally. As pressure mounts from stakeholders, regulators, and investors, the need to include ESG within the governance structure grows increasingly noticeable for companies. This paper gives an in-depth analysis of how ESG considerations are changing corporate governance through the examination of trends, challenges, and best practices, with practical recommendations that enhance ESG integration. Key challenges identified include vague regulations, financial limitations, and a lack of awareness among businesses, which hinder effective ESG implementation. The paper proposes adopting best practices from other jurisdictions, establishing clearer guidelines, enhancing stakeholder engagement, and improving enforcement mechanisms; with an aim to align Kenyan corporate governance with global standards and promoting long-term sustainability.

1. Introduction

Environmental, Social and Governance (ESG) refers to a set of criteria used to assess a company's operations and performance in areas that are increasingly recognized as important for long-term sustainability and ethical responsibility.¹

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¹ Annesi, N., Battaglia, M., Ceglia, I., & Mercuri, F. (2024). Navigating paradoxes: building a sustainable strategy for an integrated ESG corporate governance. *Management Decision*.

These categories provide a framework through which one can contextualize a company's handling of its impact on the world environmentally, socially and in governance aspects.² The environmental aspect analyses a company in terms of performance in the natural environment.³ It considers energy consumption, management of waste, pollution, observance of any conservation operation, and adherence to set environmental laws.⁴ The companies are assessed by how they will be able to control their carbon footprint, efficiently use the available resources, and engage in sustainable practices.⁵

The social aspect encompasses how the firm's behavior on matters labor practices, diversity and inclusion, human rights, health and safety, community engagement associated with employees, suppliers, customers, and communities

< <https://www.emerald.com/insight/content/doi/10.1108/MD-10-2023-2006/full/html>>. (accessed on 30 Aug. 2024)

² Hoang, T. (2018). The role of the integrated reporting in raising awareness of environmental, social and corporate governance (ESG) performance. In *Stakeholders, governance and responsibility* (pp. 47-69). Emerald Publishing Limited. https://www.researchgate.net/publication/327349334_The_Role_of_the_Integrated_Reporting_in_Raising_Awareness_of_Environmental_Social_and_Corporate_Governance_ESG_Performance. (accessed on 30 Aug. 2024)

³ Annesi, N., Battaglia, M., Ceglia, I., & Mercuri, F. (2024). Navigating paradoxes: building a sustainable strategy for an integrated ESG corporate governance. *Management Decision*. < <https://www.emerald.com/insight/content/doi/10.1108/MD-10-2023-2006/full/html>>. (accessed on 30 Aug. 2024)

⁴ Maroun, W. (2022). Corporate governance and the use of external assurance for integrated reports. *Corporate Governance: An International Review*, 30(5), 584-607. < <https://onlinelibrary.wiley.com/doi/abs/10.1111/corg.12430>>. (accessed on 30 Aug. 2024)

⁵ Karwowski, M., & Raulinajtys-Grzybek, M. (2021). The application of corporate social responsibility (CSR) actions for mitigation of environmental, social, corporate governance (ESG) and reputational risk in integrated reports. *Corporate Social Responsibility and Environmental Management*, 28(4), 1270-1284. < <https://onlinelibrary.wiley.com/doi/abs/10.1002/csr.2137>>. (accessed on 30 Aug. 2024)

where the business operates.⁶ Firms are graded based on how much they contribute to society and in the treatment of people both within the organization and outside it.⁷ Governance, on the other hand, refers to the systems, practices, and policies internally employed by a company to govern it to arrive at effective decisions.⁸ This encompasses the board structure, executive compensation, transparency, accountability, and shareholder rights.⁹ Good governance ensures that the company acts in an ethical manner in the interest of stakeholders.¹⁰

ESG criteria have become a growing tool of choice for investors, regulators, and consumers alike to measure the degree of sustainability of a company and its ethical impact.¹¹ This can then often influence their investment decisions, regulatory compliance, or even brand reputation.¹²

⁶ Kim, S., & Li, Z. (2021). Understanding the impact of ESG practices in corporate finance. *Sustainability*, 13(7), 3746. < <https://www.mdpi.com/2071-1050/13/7/3746>>. (accessed on 30 Aug. 2024)

⁷ Câmara, P. (2022). The systemic interaction between corporate governance and ESG. In *The Palgrave handbook of ESG and corporate governance* (pp. 3-40). Cham: Springer International Publishing. < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4474337>. (accessed on 30 Aug. 2024)

⁸ Pollman, E. (2022). The making and meaning of ESG. *U of Penn, Inst for Law & Econ Research Paper*, (22-23). < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4219857>. (accessed on 30 Aug. 2024)

⁹ *Ibid*

¹⁰ Cundill, G., & Wilson, H. (2020). ESG. A framework for corporate governance and its environmental, social, and financial outcomes. *Academy of Management Proceedings*, 18896. < https://www.researchgate.net/publication/343373214_ESG_A_Framework_for_Corporate_Governance_and_its_Environmental_Social_and_Financial_Outcomes>. (accessed on 30 Aug. 2024)

¹¹ Huang, D. Z. (2021). Environmental, social and governance (ESG) activity and firm performance: A review and consolidation. *Accounting & finance*, 61(1), 335-360. < <https://ideas.repec.org/a/bla/acctfi/v61y2021i1p335-360.html>>. (accessed on 30 Aug. 2024)

¹² *Ibid*

2. Evolution and Global Integration of ESG in Corporate Structures

ESG integration marks a paradigm shift from strictly finance oriented business practices in corporate governance.¹³ Tradition-minded corporate governance functioned on the basis of a single goal, that is maximization of shareholder value, often sidelining the broader impacts of business activities on society and the environment.¹⁴ However, growing awareness of global challenges such as climate change, social inequality, and corporate ethics has catalyzed a broader approach that integrates ESG factors into business strategies.¹⁵

Globally, the integration of ESG criteria has become a key trend as shareholders increasingly demand that companies address these factors.¹⁶ This process is driven primarily by investors, who understand that ESG can greatly influence long-term corporate financial performance and sustainability.¹⁷ For example, in

¹³ Hoang, T. (2018). The role of the integrated reporting in raising awareness of environmental, social and corporate governance (ESG) performance. In *Stakeholders, governance and responsibility* (pp. 47-69). Emerald Publishing Limited. https://www.researchgate.net/publication/327349334_The_Role_of_the_Integrated_Reporting_in_Raising_Awareness_of_Environmental_Social_and_Corporate_Governance_ESG_Performance. (accessed on 30 Aug. 2024)

¹⁴ Annesi, N., Battaglia, M., Ceglia, I. and Mercuri, F. (2024), "Navigating paradoxes: building a sustainable strategy for an integrated ESG corporate governance", *Management Decision*, Vol. ahead-of-print No. ahead-of-print. <<https://doi.org/10.1108/MD-10-2023-2006>> Accessed 30 Aug. 2024

¹⁵ Hoang, T. (2018), "The Role of the Integrated Reporting in Raising Awareness of Environmental, Social and Corporate Governance (ESG) Performance", *Stakeholders, Governance and Responsibility (Developments in Corporate Governance and Responsibility, Vol. 14)*, Emerald Publishing Limited, Leeds, pp. 47-69. <<https://doi.org/10.1108/S2043-052320180000014003>> Accessed 30 Aug. 2024

¹⁶ Maroun, W. (2022). Corporate governance and the use of external assurance for integrated reports. *Corporate Governance: An International Review*, 30(5), 584-607. <<https://onlinelibrary.wiley.com/doi/abs/10.1111/corg.12430>>. Accessed 30 Aug. 2024.

¹⁷ Crifo, Patricia, et al. "Corporate Governance as a Key Driver of Corporate Sustainability in France: The Role of Board Members and Investor Relations." *Journal of Business Ethics*, vol. 159, no. 4, 2019, pp. 1127-46. JSTOR, <http://www.jstor.org/stable/45219475>. Accessed 30 Aug. 2024.

the United Kingdom, it can be seen from the legislative and regulatory steps taken that ESG integration has been embedded in the system of corporate governance.¹⁸ For example, the UK Companies Act 2006 requires the directors of companies to consider the long-term implications of their decisions, among other factors, on social and environmental matters in the decision-making process.¹⁹ Similarly, the Financial Conduct Authority has developed some of the strictest requirements on ESG disclosures for listed companies, which cements the better need for transparency and accountability in ESG reporting.²⁰

A bid to learn from the lessons experienced by the UK in the integration of ESG aspects helps provide a pathway for other jurisdictions, including Kenya. With good regulatory frameworks and best practices, Kenyan businesses can borrow a leaf and learn how to effectively place ESG considerations at their governance frameworks.²¹ The United Kingdom proves to be a case study for underpinning strong and effective ESG regulations in leading actual change, enhancing corporate accountability, and aligning business with global sustainability goals.²²

¹⁸ Dicuonzo, G., Donofrio, F., Iannuzzi, A. P., & Dell'Atti, V. (2022). The integration of sustainability in corporate governance systems: an innovative framework applied to the European systematically important banks. *International Journal of Disclosure and Governance*, 19(3), 249-263. < <https://link.springer.com/article/10.1057/s41310-021-00140-2>>. Accessed 30 Aug. 2024.

¹⁹ Companies Act. (2006). *Companies Act 2006*, c. 46. Retrieved from <https://www.legislation.gov.uk>

²⁰ Zenkina, I. (2023). Ensuring the transparency of ESG reporting based on the development of its standardization. In *E3S Web of Conferences* (Vol. 371, p. 05077). EDP Sciences. https://www.e3s-conferences.org/articles/e3sconf/abs/2023/08/e3sconf_afe2023_05077/e3sconf_afe2023_05077.html. Accessed on 30 Aug. 2024.

²¹ Muigua, P. D. (2022). Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya. *Social and Governance (ESG) Principles for Sustainable Development in Kenya* (December 27, 2022). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4312699. Accessed on 30 Aug. 2024.

²² de Souza, L. M. (2024). Benchmarking of National ESG Banking. *Sustainable Finances and the Law: Between Public and Private Solutions*, 16, 27.

A comparable perspective brings into focus the need for Kenyan firms to adopt such practices to remain competitive and in compliance with the expectations of the stakeholders.²³

The role of the ESG considerations in corporate governance within the Kenyan establishment is, at some points, embryonic. Recent efforts, such as the introduction of ESG reporting guidelines by the Nairobi Securities Exchange (NSE), represent significant progress towards aligning Kenyan practices with international standards.²⁴ These guidelines require listed companies to disclose their environmental and social impacts, as well as their governance practices.²⁵ While this is a positive step, the integration of ESG into Kenyan corporate governance faces several challenges, including gaps in regulatory guidance, limited awareness among businesses, and financial constraints.²⁶

Evidently, the Kenyan regulatory framework on integration of ESG is still at a

<https://www.researchgate.net/publication/379627896_Benchmarking_of_National_ESG_Banking_Regulations_State_of_Art_and_Remaining_Challenges>. Accessed on 30 Aug. 2024

²³ Maroun, W. (2022). Corporate governance and the use of external assurance for integrated reports. *Corporate Governance: An International Review*, 30(5), 584-607. <<https://onlinelibrary.wiley.com/doi/abs/10.1111/corg.12430>>. Accessed on 30 Aug. 2024

²⁴ See, Bowmans; "Kenya: Nairobi Securities Exchange Published ESG Disclosures Manual" available at <<https://bowmanslaw.com/insights/kenya-nairobi-securities-exchange-published-esg-disclosures-manual/#:~:text=The%20demand%20for%20ESG%20information,the%20end%20of%20November%202021.>>> accessed on 30 Aug. 2024

²⁵ *Ibid*

²⁶ Mgbame, C. O., Aderin, A., Ohalehi, P., & Chijoke-Mgbame, A. M. (2020). Achieving sustainability through environmental social governance reporting: overcoming the challenges. In *Environmentalism and NGO accountability* (Vol. 9, pp. 9-25). Emerald Publishing Limited.<https://www.researchgate.net/publication/346878722_Achieving_Sustainability_through_Environmental_Social_Governance_Reporting_Overcoming_the_Challenges>. Accessed on 30 Aug. 2024.

relatively nascent stage compared to other mature jurisdictions like the UK.²⁷ The evolution of ESG practices in Kenya will depend on continued regulatory developments, increased awareness among businesses, and the adoption of best practices from international markets.²⁸ Addressing these challenges, leveraging global insights is where Kenyan ESG integration will reach the desired level of accomplishment.

3. Legal and Regulatory Framework for ESG Compliance in Kenya

Kenya's legal framework for ESG integration is shaped by various regulations and guidelines that aim to promote environmental and social responsibility among businesses.²⁹ Indeed, provisions do exist within the Companies Act 2015, requiring a company domiciled within Kenya to consider its impact on the environment as well as society.³⁰ The Act mandates directors to act in the best interest of the company, which includes considering the long-term implication of the decision taken by the board on the environment and the society.³¹ This provision is in line with the global trend of integrating ESG issues into corporate governance and shows that the country is committed to sustainability.³²

²⁷ Annesi, N., Battaglia, M., Ceglia, I., & Mercuri, F. (2024). Navigating paradoxes: building a sustainable strategy for an integrated ESG corporate governance. *Management Decision*. <<https://www.emerald.com/insight/content/doi/10.1108/MD-10-2023-2006/full/html>>. Accessed on 30 Aug. 2024

²⁸ Sonko, K. N., & Sonko, M. (2023). ESG: The Way Forward for Stakeholders. In *Demystifying Environmental, Social and Governance (ESG) Charting the ESG Course in Africa* (pp. 267-282). Cham: Springer International Publishing. <https://ideas.repec.org/h/pal/psifcp/978-3-031-35867-8_8.html>. Accessed on 30 Aug. 2024.

²⁹ Kilusi, P., & Muigua, K. Attaining Environmental Sustainability in Kenya: Challenges and Prospects. <<http://kmco.co.ke/wp-content/uploads/2018/08/FOOD-SECURITY-AND-ENVIRONMENTAL-SUSTAINABILITY-IN-KENYA.pdf>>. Accessed on 30 Aug. 2024

³⁰ The Companies Act. No. 17 Of 2015.

³¹ *Ibid*

³² *Ibid*

The Capital Market's Act is also very instrumental in ensuring that good ESG practices are adopted by the listed company.³³ This Act requires companies to disclose information pertaining to their practice in relation to environmental and social needs, which utilizes investors by offering an insight into the ESG performance of the company.³⁴ In addition, the NSE deepened the embedding of ESG through setting up guidelines that require listed companies to report on their ESG activities and performance.³⁵ The guidelines aim at enhancing transparency and accountability in ESG reporting and developing Kenyan practice to be at par with international standards.³⁶

Despite these measures, Kenya's ESG regulatory framework remains relatively underdeveloped compared to the UK. The UK's comprehensive ESG regulations, including detailed disclosure requirements and robust enforcement mechanisms, provide a higher level of transparency and accountability.³⁷ For example, the corporate governance standards in the Companies Act 2006 and ESG disclosure requirements by the FCA create a benchmark and provide very good lessons to Kenya in shaping its framework on ESG.³⁸

³³ Capital Markets Act - Chapter 485a

³⁴ Mabiru, C. (2015). Capital Markets Act in Kenya: Deregulation of the Financial Services Sector and Consequence on Consumer Protection. *Available at SSRN* 2765939. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2765939. Accessed on 30 Aug. 2024

³⁵ *Ibid*

³⁶ Agutu, O. J., & Githira, W. C. (2023). Sustainability reporting and financial performance of listed financial firms in Kenya. *Journal of Accounting, Business and Finance Research*, 17(1), 31-42. <https://scipg.com/index.php/102/article/view/704>. Accessed on 30 Aug. 2024.

³⁷ Low, L. A. (2022). The All Important" G" in ESG and Its Relationship to Good Governance and Corporate Compliance in Anti-Corruption: Towards a More Holistic Approach. *Sw. J. Int'l L.*, 28, 340. < <https://www.swlaw.edu/sites/default/files/2023-05/5%20-%20Low.pdf> >. Accessed on 30 Aug 2024.

³⁸ Savi, A., & Ostrovnaya, A. (2023). ESG Regulatory Framework for Asset Managers in the EU, UK, US and Singapore: the Role of Social Knowledge and Value Judgement in the Asset Managers ESG Business Strategy. *UK, US and Singapore: the Role of Social Knowledge and Value Judgement in the Asset Managers ESG Business Strategy* (December 17,

To enhance ESG integration in Kenya, the regulatory framework may benefit from adopting more detailed guidelines and enforcement mechanisms.³⁹ Policymakers and regulators have taken specific steps towards the need for the alignment of Kenyan regulations with international standards on ESG that provide enhanced support for businesses seeking to implement ESG practices, which shall further lead to effective collaboration with stakeholders for compact integration.⁴⁰ This will create an enabling environment for ESG practices and guarantee long-term sustainability.⁴¹

4. Challenges in Integrating ESG in Corporate Governance

In as much as there are many drivers towards incorporating ESG in corporate governance, there are a set of challenges that bedevil its practice, particularly in Kenya.⁴² One major challenge is navigating the complex and evolving regulatory

2023). < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4667134 >. Accessed on 30 Aug. 2024

³⁹ Aboud, A., Saleh, A., & Eliwa, Y. (2024). Does mandating ESG reporting reduce ESG decoupling? Evidence from the European Union's Directive 2014/95. *Business Strategy and the Environment*, 33(2), 1305-1320. < <https://onlinelibrary.wiley.com/doi/10.1002/bse.3543> >. Accessed on 30 Aug. 2024

⁴⁰ Muigua, K. *Embracing Environmental, Social and Governance (ESG) Principles for Sustainable Development in Kenya*. ((2022) Journalofcmsd Volume 9(2)). Available at <<https://journalofcmsd.net/wp-content/uploads/2022/10/Embracing-Environmental-Social-and-Governance-ESG-Principles-for-Sustainable-Development-in-Kenya.pdf>>

⁴¹ Moessa de Souza, L. (2024). Benchmarking of National ESG Banking Regulations: State of Art and Remaining Challenges. *Sustainable Finances and the Law: Between Public and Private Solutions*, 27-61. < https://www.researchgate.net/publication/379627896_Benchmarking_of_National_ESG_Banking_Regulations_State_of_Art_and_Remaining_Challenges>. Accessed on 30 Aug. 2024

⁴² Maroun, W. (2022). Corporate governance and the use of external assurance for integrated reports. *Corporate Governance: An International Review*, 30(5), 584-607. < <https://onlinelibrary.wiley.com/doi/abs/10.1111/corg.12430>>. Accessed on 30 Aug. 2024

environment.⁴³ Kenyan companies often face difficulties with unclear and inconsistent ESG guidelines, which can lead to varying levels of implementation and reporting practices.⁴⁴ This lack of clarity can create uncertainty for businesses and hinder effective ESG integration.⁴⁵ Similar challenges are observed in other jurisdictions, including the UK, where businesses must navigate complex and sometimes overlapping regulatory requirements.⁴⁶

Another challenge is managing the financial implications of ESG integration.⁴⁷ Many ESG practices are cost-intensive, involving expensive investments in

⁴³ Hoang, T. (2018). The role of the integrated reporting in raising awareness of environmental, social and corporate governance (ESG) performance. In *Stakeholders, governance and responsibility* (pp. 47-69). Emerald Publishing Limited. <https://www.researchgate.net/publication/327349334_The_Role_of_the_Integrated_Reporting_in_Raising_Awareness_of_Environmental_Social_and_Corporate_Governance_ESG_Performance>. Accessed on 30 Aug. 2024

⁴⁴ Wang, L. (2024). Challenges and Opportunities of ESG Integration in Financial Operations. In *International Conference on Finance and Economics* (Vol. 6, No. 1). <https://www.researchgate.net/publication/380354078_Challenges_and_Opportunities_of_ESG_Integration_in_Financial_Operations>. Accessed on 30 Aug. 2024

⁴⁵ Neri, S. (2021). Environmental, social and governance (ESG) and integrated reporting. *Global Challenges to CSR and Sustainable Development: Root Causes and Evidence from Case Studies*, 293-302. <https://ideas.repec.org/h/spr/csrrhp/978-3-030-62501-6_14.html>. Accessed on 30 Aug. 2024

⁴⁶ Spataro, L., Quirici, M. C., & Iermano, G. (Eds.). (2023). ESG Integration and SRI Strategies in the EU: Challenges and Opportunities for Sustainable Development. <<https://link.springer.com/book/10.1007/978-3-031-36457-0>>. Accessed on 30 Aug. 2024.

⁴⁷ Cox, A. (2015). Fit-for-purpose and effective environment, social and governance (ESG) management: ESG implementation challenges, concepts, methods and tips for improvement. *Responsible Investment Banking: Risk Management Frameworks, Sustainable Financial Innovation and Softlaw Standards*, 43-58.

<https://www.researchgate.net/publication/300788671_Fit-for-Purpose_and_Effective_Environment_Social_and_Governance_ESG_Management_ESG_Implementation_Challenges_Concepts_Methods_and_Tips_for_Improvement>.

Accessed on 30 Aug. 2024

sustainable technologies and processes and reporting systems.⁴⁸ For Kenyan businesses, especially smaller companies, this could be onerous.⁴⁹ The financial pressures associated with ESG integration can affect a company's ability to adopt and maintain effective ESG practices.⁵⁰ Similar challenges are faced by businesses in the UK, although the UK has developed strategies to manage these costs, such as leveraging government incentives and support programs.⁵¹

A case study of Kenyan corporations highlights several common challenges in ESG integration. For example, some of the corporations may experience the inability to map and synchronize their ESG strategies with business objectives, thus leading to an inconsistency of the two when implemented and reported.⁵² More complications extend to low engagement with stakeholders and scant guidance by the regulatory bodies in integrating ESG.⁵³ This will be overcome by a consensus-building approach among regulators, businesses, and stakeholders.⁵⁴

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

⁵⁰ Kuznetsova, S. N., Kuznetsov, V. P., Smirnova, Z. V., Andryashina, N. S., & Romanovskaya, E. V. (2024). Corporate Governance in the ESG Context: A New Understanding of Sustainability. In *Ecological Footprint of the Modern Economy and the Ways to Reduce It: The Role of Leading Technologies and Responsible Innovations* (pp. 53-57). Cham: Springer Nature Switzerland. <

https://www.researchgate.net/publication/378492472_Corporate_Governance_in_the_ESG_Context_A_New_Understanding_of_Sustainability>. Accessed on 30 Aug. 2024

⁵¹ Dicuonzo, G., Donofrio, F., Iannuzzi, A. P., & Dell'Atti, V. (2022). The integration of sustainability in corporate governance systems: an innovative framework applied to the European systematically important banks. *International Journal of Disclosure and Governance*, 19(3), 249-263. < <https://link.springer.com/article/10.1057/s41310-021-00140-2>>. Accessed on 30 Aug. 2024.

⁵² *Ibid*

⁵³ Maroun, W. (2022). Corporate governance and the use of external assurance for integrated reports. *Corporate Governance: An International Review*, 30(5), 584-607. <<https://onlinelibrary.wiley.com/doi/abs/10.1111/corg.12430>>. Accessed on 30 Aug. 2024.

⁵⁴ *Ibid*

The other key challenges to ESG integration are enforcement and compliance. Companies lack a compulsion to act in a certain manner on ESG, and to report transparently on their activities.⁵⁵ Absence of complete mechanisms for enforcement in Kenya means that very little can be done to promote compliance with ESG. In the UK, there is a problem on how companies can be made to comply with disclosure requirements on ESG and best practice.⁵⁶ To this end, developing robust mechanisms of enforcement and improving regulatory oversight are key.⁵⁷

Addressing these challenges involves developing clear regulatory guidance, investing in capacity building, and fostering collaboration among stakeholders.⁵⁸ By doing so, Kenyan companies can improve their ESG integration efforts and align more closely with global standards.⁵⁹ The creation of a supportive regulatory environment for businesses and the availing of resources and incentives that will assist businesses overcome these challenges will, indisputably, set businesses towards resolving ESG integration in Kenya.⁶⁰

⁵⁵ *Ibid*

⁵⁶ *Ibid*

⁵⁷ *Ibid*

⁵⁸ Hoang, T. (2018). The role of the integrated reporting in raising awareness of environmental, social and corporate governance (ESG) performance. In *Stakeholders, governance and responsibility* (pp. 47-69). Emerald Publishing Limited. <https://www.researchgate.net/publication/327349334_The_Role_of_the_Integrated_Reporting_in_Raising_Awareness_of_Environmental_Social_and_Corporate_Governance_ESG_Performance>. Accessed on 30 Aug. 2024.

⁵⁹ Wang, L. (2024). Challenges and Opportunities of ESG Integration in Financial Operations. In *International Conference on Finance and Economics* (Vol. 6, No. 1). <https://www.researchgate.net/publication/380354078_Challenges_and_Opportunities_of_ESG_Integration_in_Financial_Operations>. Accessed on 30 Aug. 2024

⁶⁰ Ramadhani, D. (2019). Understanding environment, social and governance (ESG) factors as path toward ASEAN sustainable finance. *APMBA (Asia Pacific Management and Business Application)*, 7(3), 147-162. <<https://apmba.ub.ac.id/index.php/apmba/article/download/321/251>>. Accessed on 30 Aug. 2024.

5. Best Practices for Effective ESG Integration

Adopting best practices is crucial for effective ESG integration into corporate governance.⁶¹ Formulating a broad-based ESG policy is a fundamental step toward guiding corporate behavior and orienting ESG practices toward business objectives.⁶² Such policy needs to outline the key issues on environment, social, and governance, set goals, and give a clear line of performance metric.⁶³ An effective ESG policy will set a framework for incorporating ESG considerations into decision-making and ensures that companies are accountable for their ESG performance.⁶⁴

Second, there is need for strong mechanisms of monitoring and reporting regarding ESG practices. Companies should implement systems to track their ESG performance, assess progress towards ESG goals, and report transparently on their activities.⁶⁵ Transparent ESG reporting fosters credibility and builds trust

⁶¹ Blank, H., Sgambati, G., & Truelson, Z. (2016). Best practices in ESG investing. *The Journal of Investing*, 25(2), 103-112. < <https://quantpioneers.com/wp-content/uploads/2022/03/Best-Practices-in-ESG-Investing.pdf>>. Accessed on 30 August 2024.

⁶² Gary, S. N. (2019). Best interests in the long term: Fiduciary duties and ESG integration. *U. Colo. L. Rev.*, 90, 731. < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3149856>. Accessed on 30 Aug. 2024.

⁶³ Kotsantonis, S., Pinney, C., & Serafeim, G. (2016). ESG integration in investment management: Myths and realities. *Journal of Applied Corporate Finance*, 28(2), 10-16. <<https://www.hbs.edu/faculty/Pages/item.aspx?num=51511>>. Accessed in Aug. 2024.

⁶⁴ Nielsen, K. P., & Noergaard, R. W. (2011). CSR and mainstream investing: a new match?—an analysis of the existing ESG integration methods in theory and practice and the way forward. *Journal of Sustainable Finance & Investment*, 1(3-4), 209-221. < <https://econpapers.repec.org/RePEc:taf:jsustf:v:1:y:2011:i:3-4:p:209-221>>. Accessed on 30 August 2024.

⁶⁵ Eccles, R. G., Krzus, M. P., & Ribot, S. (2015). Models of Best Practice in Integrated Reporting 2015. *Journal of Applied Corporate Finance*, 27(2). < <https://econpapers.repec.org/RePEc:bla:jacrfn:v:27:y:2015:i:2:p:103-115>>. Accessed on 30 August 2024

with key stakeholders such as investors, customers, and communities.⁶⁶ Effective ESG reporting frameworks and regulations builds the credibility of institutions hence contributing to their performance.⁶⁷

Additionally, ESG integration is also based on effective stakeholder engagement. Engaging stakeholders is important for companies to become more transparent and accountable in their ESG responses.⁶⁸ For instance, research has shown that in the UK, companies that positively integrate ESG undertake regular consultations.⁶⁹ Feedback mechanisms used in the United Kingdom can be adopted in Kenya to lend greater integrity to its companies when formulating ESG strategies and in the reporting processes.⁷⁰

A comparative view of best practices in the UK has served as practical insight invaluable for corporate Kenya.⁷¹ The UK's focus on detailed ESG reporting,

⁶⁶ Blank, H., Sgambati, G., & Truelson, Z. (2016). Best practices in ESG investing. *The Journal of Investing*, 25(2), 103-112. < <https://quantpioneers.com/wp-content/uploads/2022/03/Best-Practices-in-ESG-Investing.pdf>>. Accessed on 30 August 2024

⁶⁷ *Ibid*

⁶⁸ Nielsen, K. P., & Noergaard, R. W. (2011). CSR and mainstream investing: a new match?—an analysis of the existing ESG integration methods in theory and practice and the way forward. *Journal of Sustainable Finance & Investment*, 1(3-4), 209-221. < <https://econpapers.repec.org/RePEc:taf:jsustf:v:1:y:2011:i:3-4:p:209-221>>. Accessed on 30 August 2024.

⁶⁹ Eccles, R. G., Kastropeli, M. D., & Potter, S. J. (2017). How to integrate ESG into investment decision-making: Results of a global survey of institutional investors. *Journal of Applied Corporate Finance*, 29(4), 125-133. < https://www.researchgate.net/publication/323355047_How_to_Integrate_ESG_into_Investment_Decision-Making_Results_of_a_Global_Survey_of_Institutional_Investors>. Accessed on 30 August 2024.

⁷⁰ *Ibid*

⁷¹ de Souza, L. M. (2024). Benchmarking of National ESG Banking. *Sustainable Finances and the Law: Between Public and Private Solutions*, 16, 27. < https://www.researchgate.net/publication/379627896_Benchmarking_of_National_ESG>.

enhanced stakeholder engagement, and alignment with international ESG standards provides a model for enhanced ESG integration.⁷² For instance, with experiences the UK has had with ESG disclosure requirements and best practices, it will mold the way for Kenyan companies in the drafting of more comprehensive ESG policies and reporting frameworks.⁷³ Kenyan corporations could, therefore, better engage with improving their ESGs performance by emulating global best practice.

To improve ESG integration, Kenyan companies should consider adopting best practices from international jurisdictions and tailoring them to local contexts.⁷⁴ Developing clear ESG policies, investing in monitoring and reporting systems, and engaging with stakeholders are essential steps for effective ESG integration.⁷⁵ By following these best practices, Kenyan companies can enhance their ESG performance and align with global standards, contributing to long-term sustainability and responsible business practices.⁷⁶

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⁷² Moessa de Souza, L. (2024). Benchmarking of National ESG Banking Regulations: State of Art and Remaining Challenges. *Sustainable Finances and the Law: Between Public and Private Solutions*, 27-61. < <https://www.springerprofessional.de/en/benchmarking-of-national-esg-banking-regulations-state-of-art-an/26951196>>. Accessed on 30 August 2024.

⁷³ *Ibid*

⁷⁴ Maama, H., & Marimuthu, F. (2022). Integrated reporting and cost of capital in sub-Saharan African countries. *Journal of Applied Accounting Research*, 23(2), 381-401. <<https://ideas.repec.org/a/eme/jaarpp/jaar-10-2020-0214.html>>. Accessed on 30 August 2024

⁷⁵ Marini, M. M. (2023). Sustainable Development Goals Disclosure among Top 25 Listed Companies in Kenya. *Journal of Economics, Finance and Accounting Studies*, 5(4), 40-53. <<https://al-kindipublisher.com/index.php/jefas/article/view/5817>>. Accessed on 30 August 2024.

⁷⁶ *Ibid*

6. Future Trends and Recommendations for ESG Governance

Looking ahead, several trends are likely to shape the future of ESG governance.⁷⁷ Among these is an emerging trend for increased focus on climate risk management.⁷⁸ With increased concern for climate change, both companies and investors are putting more emphasis on managing those climate-related risks and opportunities.⁷⁹ Trended further is the identification of the financial and operational impacts of climate change that many businesses overlook.⁸⁰

Another trend is toward the integration of human rights considerations into ESG practices.⁸¹ Companies are under increasing expectations to take up human rights issues, such as labor practices, diversity, and community impact, in their ESG strategy.⁸² The trend is consistent with a shift in the perception of what social considerations are in corporate responsibility and that business entities must

⁷⁷ Dathe, T., Helmold, M., Dathe, R., & Dathe, I. (2024). Outlook to ESG Future Trends. In *Implementing Environmental, Social and Governance (ESG) Principles for Sustainable Businesses: A Practical Guide in Sustainability Management* (pp. 227-233). Cham: Springer International Publishing. < <https://www.springerprofessional.de/en/implementing-environmental-social-and-governance-esg-principles-/26878470>>. Accessed on 30 August 2024.

⁷⁸ Li, T. T., Wang, K., Sueyoshi, T., & Wang, D. D. (2021). ESG: Research progress and future prospects. *Sustainability*, 13(21), 11663. < https://www.researchgate.net/publication/355514653_ESG_Research_Progress_and_Future_Pro Prospects>. Accessed on 30 August 2024.

⁷⁹ Au, A. K. M., Yang, Y. F., Wang, H., Chen, R. H., & Zheng, L. J. (2023). Mapping the Landscape of ESG Strategies: A Bibliometric Review and Recommendations for Future Research. *Sustainability*, 15(24), 16592. < <https://ideas.repec.org/a/gam/jsusta/v15y2023i24p16592-d1294934.html>>. Accessed on 30 August 2024.

⁸⁰ *Ibid*

⁸¹ Li, T. T., Wang, K., Sueyoshi, T., & Wang, D. D. (2021). ESG: Research progress and prospects. *Sustainability*, 13(21), 11663. < <https://www.mdpi.com/2071-1050/13/21/11663>>. Accessed on 30 Aug. 2024

⁸² *Ibid*

respect and promote human rights.⁸³ The UK experience in undertaking human rights due diligence, for instance, provides valuable lessons for Kenyan companies in developing comprehensive human rights policies and practices.⁸⁴ Improvements in ESG reporting technologies are also steering the future of ESG governance.⁸⁵ Developments in data collection, analysis, and reporting are becoming more accurate and transparent.⁸⁶ Therefore, companies can make use of these technologies to update and advance their ESG reporting practices to bring out more detailed and reliable information to the stakeholders.⁸⁷ Companies in Kenya can take advantage of this trend and develop digital platforms and tools in the ESG reporting processes as a way of enhancement for more transparency advocating.⁸⁸

Building ESG in Kenyan corporations calls for the development of clear and

⁸³ Rumyantseva, A., & Tarutko, O. (2022, November). Impact of the ESG principles on the corporate financial strategy. In *Challenges and Solutions in the Digital Economy and Finance: Proceedings of the 5th International Scientific Conference on Digital Economy and Finances (DEFIN 2022), St. Petersburg 2022* (pp. 309-318). Cham: Springer International Publishing. < https://ideas.repec.org/h/spr/prbchp/978-3-031-14410-3_32.html >. Accessed on 30 August 2024

⁸⁴ Ndung'u, D. T., & Onyuma, S. O. (2023). Emerging Environmental, Social and Corporate Governance Reporting by Listed Companies in the Post-CoronaPandemic in Kenya. *LAIKIPIA UNIVERSITY JOURNAL OF SOCIAL SCIENCES, EDUCATION AND HUMANITIES*, 1(1). < <http://journals.laikipia.ac.ke/index.php/jsseh/article/view/23> >. Accessed on 30 August 2024

⁸⁵ Egorova, A. A., Grishunin, S. V., & Karminsky, A. M. (2022). The Impact of ESG factors on the performance of Information Technology Companies. *Procedia Computer Science*, 199, 339-345. < <https://www.sciencedirect.com/science/article/pii/S1877050922000412> >. Accessed on 30 August 2024

⁸⁶ *Ibid*

⁸⁷ Hughes, A., Urban, M. A., & Wójcik, D. (2021). Alternative ESG ratings: How technological innovation is reshaping sustainable investment. *Sustainability*, 13(6), 3551. < <https://www.mdpi.com/2071-1050/13/6/3551> >. Accessed on 30 August 2024.

⁸⁸ *Ibid*

comprehensive ESG policies, investment in building capacities, and fostering collaboration with regulatory bodies and stakeholders.⁸⁹ In addition, these ESG strategies should draw on best practices from leading jurisdictions, including the UK, to begin guiding the development of ESG strategies and reporting in Kenyan grown corporations.⁹⁰ This is to equip such companies to navigate challenges related to the adoption of ESG best practices across different regulatory and operational environments around the world.⁹¹

Legal reforms and policy adjustments are also at the forefront of developing ESG integration into Kenyan policy frameworks and strategies.⁹² Policymakers should support the alignment of Kenyan regulations with international standards in ESG, improve enforcement, and support businesses in the actualization of ESG practices.⁹³ These shall further create an enabling environment for ESG integration and realization of long-term sustainability.⁹⁴ With such sets of recommendations, the companies in Kenya can institute worthwhile changes in ESG governance, and the regulators can help to establish a more sustainable and fair future.⁹⁵

⁸⁹ Eskantar, M., Zopounidis, C., Doumpos, M., Galariotis, E., & Guesmi, K. (2024). Navigating ESG complexity: An in-depth analysis of sustainability criteria, frameworks, and impact assessment. *International Review of Financial Analysis*, 103380. < <https://www.sciencedirect.com/science/article/abs/pii/S1057521924003120>>. Accessed on 30 August 2024.

⁹⁰ *Ibid*

⁹¹ *Ibid*

⁹² Arvidsson, S., & Dumay, J. (2022). Corporate ESG reporting quantity, quality and performance: Where to now for environmental policy and practice?. *Business strategy and the environment*, 31(3), 1091-1110. < <https://onlinelibrary.wiley.com/doi/full/10.1002/bse.2937>>. Accessed on 30 August 2024

⁹³ Finger, M., & Rosenboim, M. (2022). Going ESG: The economic value of adopting an ESG policy. *Sustainability*, 14(21), 13917. < <https://www.mdpi.com/2071-1050/14/21/13917>>. Accessed on 30 August 2024

⁹⁴ *Ibid*

⁹⁵ Eskantar, M., Zopounidis, C., Doumpos, M., Galariotis, E., & Guesmi, K. (2024). Navigating ESG complexity: An in-depth analysis of sustainability criteria, frameworks,

7. Conclusion

The integration of ESG into corporate governance represents a critical shift towards more sustainable and ethical business practices. As the global focus on ESG factors intensifies, Kenya must continually align its regulatory framework with international standards. By addressing challenges, adopting best practices, and supporting ongoing legal and policy reforms, Kenyan companies can enhance their ESG integration efforts and contribute to a more sustainable future. The future of ESG governance in Kenya depends on a collective commitment to sustainability, transparency, and responsible business practices, paving the way for long-term success and positive impact.

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