ESG REPORTING AND FIRM VALUE OF LISTED COMPANIES IN EAST AFRICAN COMMUNITY COUNTRIES

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Abstract

Environmental, Social and Governance (ESG) reporting has become an increasingly important consideration in investment decisions, and firms that overlook ESG issues may face operational, legal, and reputational costs that can erode firm value. This study assessed the relationship between ESG reporting and firm value among companies listed on East African Community (EAC) securities exchanges. Applying a positivist philosophy and a longitudinal design, the study drew a purposive sample of 15 out of 93 listed EAC firms that disclose ESG information, based on inclusion criteria. The study obtained secondary data on ESG reporting and firm value from 2018 to 2024 from annual reports, sustainability reports, and securities exchange records, treating firm value as the dependent variable. Descriptive statistics and multivariate regression showed that ESG reporting exerted a statistically significant, positive effect on firm value. The study concludes that ESG reporting materially strengthens firm value and recommends that regulators tighten mandatory ESG requirements, that companies build more robust ESG reporting systems, and that investors factor ESG reporting into their decision-making.

Keywords: sustainability disclosure, capital market, financial performance, Tobin's Q, stakeholder theory

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1. Introduction

ESG serves as a framework for assessing a firm's non-financial conduct and influence across three domains: environmental sustainability, social responsibility, and corporate governance (Friede et al., 2015), while ESG disclosure denotes the extent and quality with which firms report on their environmental, social, and governance practices (Kotsantonis et al., 2020). Governments worldwide have already put ESG-related regulations and disclosure mandates in place, meaning firms that ignore these expectations risk their standing in an international marketplace increasingly attentive to sustainability. Investors generally regard high-ESG firms as lower-risk and better positioned for sustained growth, and folding ESG considerations into investment decisions has emerged as one of the more notable shifts in financial markets in recent years. Present estimates suggest that sustainable investment approaches incorporating ESG criteria into research and portfolio construction now account for more than $30 trillion in assets under management (Christensen et al., 2021).

By improving transparency and accountability, ESG reporting helps firms earn stakeholder trust and attract sustainability-minded investors (Cheng et al., 2015). ESG data is typically drawn from company disclosures, media coverage, alternative datasets, and modeled estimates; company disclosures and media coverage were once the dominant sources, but alternative and modeled data have gained ground as the ESG data landscape has broadened. Each source offers a different lens on ESG performance, with its own strengths and weaknesses, company filings and media coverage tend to look backward, whereas alternative and modeled data are better suited to forecasting a firm's future direction (Lee, 2021).

ESG reporting has grown in prominence and standardization within investment decision-making as institutional investors increasingly weave sustainability criteria into their portfolio management. Firms adopting a consistent reporting framework, such as the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD), are better able to communicate their sustainability performance to capital markets (Afolabi et al., 2022). Within the EAC, where sustainability-reporting regulation is still taking shape, voluntary ESG reporting can function as a forward-looking governance signal that may provide firms with an advantage in an increasingly competitive capital market environment. Third-party

assurance further reinforces the credibility of these disclosures, boosting investor confidence in their reliability (Manita et al., 2021).

Beyond attracting investment, ESG reporting functions as a governance instrument that influences how a firm is perceived by suppliers, employees, regulators, local communities, and other stakeholders. Robust ESG disclosure narrows the information gap between firms and investors, which in turn can reduce the cost of capital (Ng & Rezaee, 2020), an effect that may be especially pronounced in emerging markets, where such gaps tend to be wider. Firms operating in the EAC face additional contextual pressures, among them regulatory uncertainty, infrastructure constraints, and heightened expectations around community development and environmental stewardship. Against this backdrop, ESG reporting fulfils both a compliance function and a communicative one, signalling to stakeholders a firm's resilience and its capacity to build value over the long run (Broadstock et al., 2021).

Firm value denotes the total economic worth investors and the market assign to a company (Brealey et al., 2020), reflecting the present value of the cash flows its assets and operations are expected to generate (Brealey et al., 2020). It captures more than physical assets, extending to intangibles such as intellectual capital, governance quality, and growth potential, all of which inform how the market views a firm and its long-term performance (Damodaran, 2023). Firms that sustain strong, stable value are generally better able to draw long-term investors and access capital more cheaply (Ahmed & Elmarzouky, 2024; Hamdah et al., 2025).

Market conditions make the ESG disclosure-firm value relationship especially consequential in East Africa. Securities markets in Kenya, Tanzania, Uganda, and Rwanda remain comparatively shallow and concentrated, with market capitalisation dominated by a handful of large firms while many other listed companies see valuations stagnate or decline. Weak, inconsistent, or absent ESG disclosure in the region has been linked directly to depressed firm value (Ngugi & Otieno, 2023). ESG reporting and integration in the region remain uneven and largely voluntary, reflecting an early stage of development; although the securities exchanges of Kenya, Tanzania, Uganda, and Rwanda have introduced sustainability-reporting guidelines, enforcement remains weak.

Investor confidence, and by extension economic growth across the EAC, hinges on the financial stability of listed firms. Yet companies

on EAC securities exchanges saw market valuations decline steadily between 2018 and 2024. The market valuations decline was driven by factors including the COVID-19 pandemic, elevated inflation, rising interest rates, currency volatility, and weakened investor confidence, a combination that dragged down market capitalisation, equity valuations, and trading volumes across regional capital markets (International Monetary Fund [IMF], 2025; World Bank, 2025; World Federation of Exchanges [WFE], 2024). How ESG reporting relates to firm value in this setting, however, remains largely unstudied empirically. Most existing research on the ESG reporting-firm value link is concentrated in developed markets such as the USA, Germany, and Norway (Giannopoulos et al., 2022; Velte, 2017; Ademi & Klungseth, 2022), leaving a contextual gap given how different the socio-economic, institutional, and regulatory environment of the EAC is. No empirical evidence yet establishes this connection for EAC nations, despite the recognised importance of ESG reporting to firm value, a gap this study set out to address.

This paper's specific objective was to establish how ESG reporting relates to the firm value of listed companies on EAC securities exchanges, guided by the following hypothesis: H_{01}: There is no significant relationship between ESG reporting and the firm value of listed companies at the securities exchanges of EAC countries.

2. Literature review

2.1 Theoretical review

Edward R. Freeman introduced Stakeholder Theory in 1984 through his book Strategic Management: A Stakeholder Approach (Kumar, 2023), marking a sharp break from the shareholder-primacy view under which a firm exists solely to maximise shareholder returns. Under Freeman's framework, a company is better understood as a web of relationships linking workers, clients, suppliers, communities, regulators, and financiers, parties who both shape and are shaped by the firm's objectives, rather than merely a vehicle for boosting shareholder wealth.

This theory has spawned a considerable body of empirical work. Kumar (2023) applied it to examine how firms manage relationships with institutional investors, employee unions, regulators, and civil society, concluding that firms with formalised stakeholder-engagement mechanisms tend to respond more coherently to

competing demands. Harrison et al., (2010) showed that actively managing stakeholder claims lowers transactional friction, uncertainty, and litigation exposure, while Boubaker et al., (2021) found that stakeholder-sensitive investors treat ESG disclosure as a credible signal of long-term orientation and price it accordingly into valuation multiples.

A persistent criticism of Freeman's (1984) stakeholder concept is its breadth, encompassing anyone who can affect or be affected by the firm, which leaves managers without a clear basis for ranking competing claims (Antonacopoulou & Méric, 2024). This ambiguity carries real governance risk: absent a hierarchy among stakeholder claims, decisions can become inconsistent or reactive, swayed by whichever voice is loudest rather than what is most material.

Stakeholder Theory fits this study because ESG reporting functions as a channel through which firms communicate with their stakeholders, and the theory's central claim- that transparency in stakeholder engagement builds trust, narrows information asymmetry, and lifts firm value- speaks directly to the relationship under investigation.

2.2 Empirical review

ESG reporting is the mechanism by which organisations convey their ESG disclosures and impact to stakeholders (Ahmad et al., 2021). Its relevance has grown markedly as investors, regulators, customers, and the wider public pay closer attention to the societal and environmental footprint of businesses and to their governance and ethical conduct. In response, many firms now issue standalone or web-based ESG reports built on established standards and methods. Blending non-financial ESG indicators with financial reporting can sharpen strategic decision-making and help firms build long-term value for all stakeholders (Cheng et al., 2015).

Corporate governance reform has increasingly pushed firms toward ESG disclosure, and sustainability reporting has expanded rapidly across Europe, Latin America, and Asia-Pacific. Africa has moved more slowly, with transparency and accountability in sustainability reporting largely confined to Nigeria and South Africa. Kenya represents a notable exception, as its Companies Act 2015 contains robust ESG reporting provisions (Songi & Dias, 2019) that align closely with international legislative standards.

Aby (2020) set out to establish how ESG disclosure relates to firm value among Fortune 500 companies, treating ESG disclosure as the independent variable and firm value as the dependent variable in a quantitative panel-regression design. The study found that ESG scores were weak predictors of valuation among highly valued firms, implying that investors in those firms weigh other criteria more heavily than ESG. Because the sample was drawn from Fortune 500 firms, however, its findings generalise poorly to less mature markets such as the EAC.

El-Deeb et al. (2023) explored the ESG disclosure-firm value (FV) relationship among firms listed on the Egyptian Stock Exchange, with ESG disclosure as the independent variable, firm value as the dependent variable, and audit quality as a moderator. Using panel regression on data spanning 2017-2021, they found that audit quality (AQ) dampened the positive effect of ESG disclosure on FV. While the study confirmed a positive ESG-FV association, its reliance on AQ as the sole moderator leaves other potential moderators and control variables unexamined.

Serem et al., (2024) examined how sustainability reporting affected firm value among 32 non-financial NSE-listed firms in Kenya over 2012-2022, reporting a positive effect for environmental reporting, a negative one for economic reporting, and no significant effect for social reporting, with sustainability reporting as the independent variable and firm value as the dependent variable. Because the study's conceptualization was confined to the environmental, economic, and social components of sustainability reporting, it did not capture the broader set of ESG indicators used in the present study.

Nguyen et al., (2022) studied the link between sustainability reporting (SR) and firm value (FV) among non-financial firms on the Vietnamese stock exchange between 2015 and 2019, applying GRI standards and structural equation modelling (SEM). They reported a significant positive relationship between SR and FV, with economic, social, and environmental indicators each contributing positively; SR was the independent variable, FV the dependent variable, and firm size, audit quality, and leverage served as controls. Financial leverage was negatively associated with both SR and FV, while firm size and audit quality had a favourable influence.

Giannopoulos et al. (2022) used panel data regression to study how ESG disclosure affected the financial performance of Norwegian listed firms between 2010 and 2019 and found a mixed picture: ESG

initiatives was associated with lower ROA but is positively associated with firm value or Tobin's Q, pointing to short-term costs alongside longer-term growth potential. Because the study was confined to Norway, a developed economy with a social and economic context quite different from Kenya's, its findings may have limited generalizability to a developing market.

3. Methodology and data

Given that ESG reporting and firm value are measurable, quantifiable phenomena, this study was grounded in the positivist research philosophy, which suits an aim centred on hypothesis testing through the neutral, scientific analysis of numerical data (Lincoln et al., 2018). A longitudinal design was employed, since this design tracks the same units of analysis over time to capture changes, trends, and dynamic relationships among variables (Menard, 2020; Creswell & Creswell, 2018). It is well suited here given that the study spans 2018-2024 and seeks to trace how shifts in ESG reporting practices relate to shifts in firm value over that period. A quantitative approach was likewise adopted for its emphasis on objective measurement, numerical data, and statistical analysis, consistent with the positivist tradition (Bryman, 2016), alongside a correlational strategy suited to gauging the strength and direction of the association between ESG reporting (independent variable) and firm value (dependent variable) (Creswell & Creswell, 2018).

The study population comprised all 93 companies listed on East African stock exchanges: 62 on the Nairobi Securities Exchange (NSE) in Kenya, 6 on the Rwanda Stock Exchange (RSE), 16 on the Dar es Salaam Stock Exchange (DSE) in Tanzania, and 9 on the Uganda Securities Exchange (USE). Eligible firms had to be listed on one of these four EAC exchanges, publish ESG, sustainability, or integrated reports consistently from 2018 to 2024, and have financial and stock-performance data available throughout the study period. The study period was chosen due to the fact that the listed companies on the EAC securities exchanges suffered from a prolonged drop in market valuation between 2018 and 2024. The study commenced before 2025, and the time required for data collection, analysis, and completion of the research therefore limited the study period to 2018–2024. Therefore, the years 2025 and 2026 were not included. Only 15 firms satisfied all these criteria, giving n = 15. Accordingly, the study employed a census of all eligible firms rather than drawing a sample, a

choice that minimized sampling error and strengthened the completeness and reliability of the findings.

The study relied on secondary data covering ESG reporting and firm value, drawn from firms' annual reports, ESG or sustainability reports, and performance records or databases maintained by the NSE, DSE, USE, and RSE. An ESG Reporting Index was constructed to capture the extent and clarity of firms' ESG reporting, built from 15 indicators spanning the three ESG dimensions and aligned with recognized reporting frameworks. Each indicator was scored on a binary basis, 1 if the firm met the reporting threshold and 0 otherwise, and each firm's final score was obtained by dividing its total points by the 15 indicators to allow comparability across firms.

Firm value was measured using Tobin's Q, a standardized indicator that captures investor expectations and growth prospects by comparing a firm's market value against its book value. It was computed as the Market Value of Equity divided by the Book Value of Assets, with Market Value of Equity obtained by multiplying the total number of outstanding shares by the closing share price. Firm size, expressed as the natural logarithm of total assets, served as the moderating variable.

The study also sought to establish the moderating effect of firm size on relationship between ESG reporting and firm value. The size of the firm was in the form of natural logarithm of total assets. The log transformation assists in alleviating the impact of large-sized disparities across firms. The information was obtained directly in publicly traded company balance sheets where total assets were reported. Larger firms are generally considered to have higher firm value because of the presence of more market power and resources (Hirdinis, 2019; Nzioka et al., 2015).

Data analysis was quantitative throughout, carried out in SPSS Version 25. Prior to inferential analysis, diagnostic checks were run for normality, linearity, homoscedasticity, multicollinearity, and autocorrelation. Descriptive statistics were computed first to summarise the data, followed by correlation analysis using Pearson's correlation coefficient (r), given its suitability for linear associations between continuous variables, as the initial step in examining the ESG reporting- firm value link. The dependent variable, firm value, was then regressed on ESG reporting without a moderator using Model 1:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$, where Y denotes firm value, X_1 denotes ESG reporting, β_0 is the regression constant, β_1 is the coefficient on ESG reporting, and ε is the stochastic error term.

4. Results

The descriptive statistics (see Table 1) show that ESG reporting among EAC-listed firms averaged 0.6476 (64.76%), with a standard deviation of 0.10538 and scores ranging from 0.38 to 0.92. On average, then, firms disclosed roughly 65% of the expected ESG reporting indicators, a finding pointing to moderate ESG reporting adoption across the region.

Table 1

Descriptive statistics for ESG reporting

N	Minimum	Maximum	Mean	Std. deviation
104	.38	.92	.6476	.10538

Source: Gathaiya et al., 2026

A mean of 0.6476 signals that ESG reporting is gaining ground among EAC-listed firms even though considerable room for improvement remains. The 0.38-0.92 range points to marked variation in reporting practice, with some firms disclosing exemplary levels of ESG information and others lagging well behind, a gap that may stem from differences in firm resources, regulatory exposure, and stakeholder pressure across the four EAC countries.

A standard deviation of 0.10538 points to relatively modest dispersion, with most firms clustered near the average and few extreme outliers. This pattern aligns with Ngwakwe's (2022) observation that ESG reporting across Africa tends to be voluntary and applied inconsistently, and where it exists, is often more descriptive than decision-relevant.

Table 2

Correlation between ESG reporting and firm value

		ESG_Reporting	LogFirm_Value_TobinsQ
ESG_Reporting	Pearson Correlation	1	.638
	Sig. (2-tailed)		<.001
	N	104	104

Source: Gathaiya et al. (2026)

4.1 Correlation between ESG reporting and firm value

ESG reporting and firm value showed a strong, positive correlation ($r = 0.638$, $p < 0.001$), indicating that firms that disclose more extensively on ESG tend to command higher firm value.

This strong positive correlation ($r = 0.638$) means ESG reporting accounts for roughly 40.7% ($r^2 = 0.407$) of the variation in firm value, a substantial share that bears out the theoretical expectation that transparent ESG reporting builds stakeholder trust, narrows information asymmetry, and signals long-term orientation, all of which capital markets tend to price favourably (Boubaker et al., 2021; Christensen et al., 2021).

This finding echoes results from other markets: El-Deeb et al., (2023) found ESG disclosure positively affected firm value in Egypt, while Nguyen et al. (2022) reported a significant positive sustainability reporting-firm value relationship in Vietnam, and Giannopoulos et al. (2022) found ESG initiatives lifted Tobin's Q among Norwegian firms. That said, the correlation observed here ($r = 0.638$) is noticeably stronger than in several of these studies, possibly because ESG disclosure carries greater signalling value in the still-emerging EAC markets, where information asymmetry runs higher (Bekaert et al., 2020).

4.2 Regression: ESG reporting and firm value

The regression analysis of Model 1 examined how ESG reporting relates to firm value.

Model 1: $$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Table 3

Model Summary of ESG Reporting and Firm Value

Model	R	R Square	Adjusted R Square	Std. error of estimate
1	.638	.407	.401	.48615

Source: Gathaiya et al. (2026)

A correlation coefficient of $R = 0.638$ points to a strong, positive linear relationship between ESG reporting and firm value (measured as log Tobin's Q), suggesting that firms scoring higher on ESG reporting also tend to have substantially higher firm values. With an R Square of 0.407, the model explains 40.7% of the variation in firm value among the sampled EAC firms, a sizeable share that indicates that ESG reporting is an important predictor of firm value.

Table 4

ANOVA of ESG reporting and firm value

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	16.535	1	16.535	69.962	<.001
	Residual	24.107	102	.236		
	Total	40.641	103			

Source: Gathaiya et al. (2026)

An F-value of 69.962 indicates that the model explains a statistically significant proportion of the variation, and a p-value below 0.001, well below the conventional 0.05 threshold, leads to rejection of the null hypothesis. The regression model is therefore statistically significant, confirming ESG reporting as a meaningful predictor of firm value.

Table 5

Coefficients of ESG reporting and firm value

Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-2.734	.298		-9.169	<.001
	ESG_Reporting	3.802	.455	.638	8.364	<.001

Source: Gathaiya et al. (2026)

The coefficients in Table 5 indicate that ESG reporting had a statistically significant, positive effect on firm value ($\beta = 3.802$, $t = 8.364$, $p < 0.001$). A one-unit change in the ESG reporting index (on a 0–1 scale) corresponds to a 3.802-unit change in log Tobin's Q. In practical terms, better-quality ESG reporting is associated with a meaningful rise in firm value, a result consistent with the theoretical expectation that ESG reporting lifts firm value by building transparency, stakeholder trust, and reducing information asymmetry.

Viewed through Stakeholder Theory, this sizeable positive effect confirms that ESG reporting functions as a tool for addressing stakeholder interests, easing conflict and uncertainty, and signalling long-term orientation (Harrison et al., 2010); Boubaker et al., 2021). The large effect size suggests that in the EAC, where information asymmetry runs higher and regulation is comparatively light, ESG reporting may have greater informational value for investors and other stakeholders.

This strong, positive ESG reporting-firm value relationship in the EAC is consistent with evidence from other emerging markets: El-Deeb et al., (2023) found a positive ESG disclosure effect on firm value in Egypt, and Nguyen et al., (2022) found a similar positive link in Vietnam. Even so, the effect size observed here (β = 3.802) markedly exceeds that of comparable studies, possibly because ESG reporting carries greater signalling value in developing markets where alternative information sources are scarcer. The study results further concur with other recent studies such as Holly et al., (2026); Chen et al. (2026); and Li et al. (2025), which have also established that ESG reporting has a positive and significant effect on firm value.

These results also concur with recent studies such as Holly et al., (2026). Using 61 IDX-listed oil, gas, and coal firms (2021–2023), Holly et al. (2026) establish that ESG disclosure has a positive and significant effect on firm value. This finding contrasts with Aby (2020), who found ESG scores to be poor predictors of valuation among Fortune 500 firms, suggesting that investors in highly valued firms weigh other factors more heavily and from Serem et al. (2024), who found that environmental reporting positively influenced, economic reporting negatively influenced, and social reporting did not significantly influence firm value among Kenyan firms. The overall positive effect of ESG reporting in the present study suggests that treating ESG as an integrated construct, rather than examining its components separately, reveals a stronger positive relationship.

4.3 Moderating effect of firm size on ESG reporting and firm value

This study investigates the moderating effect of firm size on ESG reporting and firm value. To examine whether firm size moderates the ESG reporting–firm value relationship, firm size was measured as the natural log of total assets. Firm size values ranged from approximately 17.3454 to 23.4443, reflecting substantial differences in asset bases across the sampled companies. To test moderation, we conducted a hierarchical multiple regression analysis.

Step 1 - included ESG reporting as the sole predictor (replicating Model 1):

Model 1: $Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Step 2 - included firm size as a second predictor:

Model 2: $Y = \beta_0 + \beta_1 X_1 + \beta_2 Z + \varepsilon$

Step 3 - included the interaction between ESG reporting and firm size:

Model 3 (final): $Y = \beta_0 + \beta_1 X_1 + \beta_2 Z + \beta_3 (X_1 \times Z) + \varepsilon$

where X_1 is ESG reporting, Z is firm size, and $X_1 \times Z$ - the interaction term.

The inclusion of firm size in Step 2 increased the explained variance in firm value from 40.7% to 59.1% (ΔF = 45.44, p < .001), which demonstrates that firm size has a significant independent contribution to firm value beyond the contribution of ESG reporting. The interaction term in Step 3 contributed an additional 1.9 percentage points (ΔF = 4.87, p = .029) that was statistically significant, but small enough to meet the standard test for moderation. The ESG value relationship is not uniform across firms of different sizes.

Table 6

Model summary of the moderating effect of firm size on ESG reporting and firm value

Step	Predictors entered	R	R^2	Adj. R^2	SE	ΔR^2	ΔF	Sig.
1	ESG reporting	.638	.407	.401	.486	-	-	--
2	Firm size	.769	.591	.583	.409	.184	45.44	<.001
3	ESG reporting firm size	.781	.610	.598	.401	.019	4.87	.029

Source: Gathaiya et al. (2026)

The ANOVA results, as shown in Table 7, indicate that the overall moderation model is statistically significant (F(3,100)=52.14, p< .001). This shows that the combined effects of ESG reporting, firm size, and their interaction significantly explain variations in firm value.

Table 7

ANOVA of the moderating effect of firm size on ESG reporting and firm value

Model	Sum of squares	df	Mean square	F	Sig.
Regression	24.791	3	8.264	52.14	<.001
Residual	15.850	100	.159		
Total	40.641	103			

Source: Gathaiya et al. (2026)

The interaction coefficient (β = −.152, t = −2.174, p = .032) is negative and significant, suggesting that the positive effect of ESG reporting on firm value is reduced with larger firm size. The negative interaction coefficient indicates that the positive association between ESG reporting and firm value weakens as firm size increases. This shows a negative firm-size effect, which contradicts the Resource-Based View interpretation, where larger firms are expected to have better ESG reporting, leading to higher firm value. However, the study found that smaller firms may implement and communicate ESG practices more efficiently.

Table 8

Coefficients of the moderating effect of firm size on ESG reporting and firm value (Step 3)

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	−.271	.048		−5.646	<.001
ESG reporting	2.312	.410	.388	5.639	<.001
Firm size	−.151	.020	−.554	−7.550	<.001
ESG reporting_firm size	−.087	.040	−.152	−2.174	.032

Source: Gathaiya et al. (2026)

The negative relationship between firm size and firm value contradicts the notion that larger firms are more valuable because they have economies of scale, market power and resource benefits (Hirdinis, 2019; Nzioka et al., 2015). Several possible explanations may account for this seemingly counterintuitive result. In the EAC context, the larger firms could experience the problem of bureaucratic inertia, organisational complexity, and slower decision-making, which affect the effectiveness of ESG implementation (Wibawa & Khomsiyah, 2022). Larger companies have more absolute ESG resources, but may have more difficult coordination costs and more complex stakeholder dynamics that make it more difficult to implement ESG integration. Smaller companies, on the other hand, may be more flexible, less expensive to coordinate and more efficient at the size level in terms of the implementation of ESG practices.

The finding is consistent with the negative moderating effect reported by Chong and Loh (2023) and Dihardjo and Hersugondo

(2023) but is contrary to the positive moderating effect found by Abdi et al., (2022) and Endri (2025). The EAC outcome is consistent with Endri (2025), as the market is still developing ESG regulatory frameworks and enforcement, and scale does not necessarily equal more credible and better rewarded ESG signals, and may, in some cases, be associated with the opposite effect.

4.4 Hypothesis Testing

The hypothesis proposed no significant relationship between ESG reporting and the firm value of listed EAC companies. Given the Model 1 regression results ($\beta = 3.802$, $p < 0.001$), this null hypothesis is rejected, providing sufficient evidence that ESG reporting bears a significant, positive relationship to firm value.

Rejecting H_0 confirms that ESG reporting is more than a compliance exercise for EAC-listed companies; it carries real value implications. The strong positive correlation bears out Stakeholder Theory's prediction that ESG reporting meets stakeholders' information needs, and it substantiates the study's underlying premise that weak ESG reporting contributes to depressed firm value in the EAC.

5. Conclusions and recommendations

The study's first conclusion is that ESG reporting bears a significant, positive relationship with firm value across the EAC. ESG reporting is not merely a compliance exercise but carries significant implications for firm value for listed companies, with firms offering fuller, clearer ESG reporting commanding better market values. This finding strengthens the case for regulators and stock exchanges in the region to implement and reinforce ESG reporting requirements, and it suggests that the sustained erosion of value among EAC-listed firms may be partly attributable to weak ESG reporting practices, a trend that improved ESG reporting could help reverse.

The study also concludes that firm size significantly moderates the ESG reporting-firm value relationship, with larger firms experiencing valuation discounts. The study concludes that market valuations of larger firms in the EAC context are lower than their asset bases, other things being equal, than those of smaller firms.

The study recommends strengthening mandatory ESG reporting requirements. Given the positive correlation identified between ESG reporting and firm value, Capital Markets Authorities and the exchanges in EAC countries (NSE, DSE, USE, RSE) should move

to expand mandatory ESG reporting, replacing the current voluntary approach with mandatory ESG reporting by all listed companies under clear standards aligned with international frameworks (GRI, SASB, TCFD, IFRS). Revising the existing NSE ESG Guidance Manual (2021) to add enforcement provisions and sanctions for non-compliance is a particularly urgent step, given how unevenly ESG reporting is currently applied across the region.

The study further recommends that EAC-listed companies invest in comprehensive ESG reporting mechanisms that go beyond mere compliance, adopting internationally recognised standards (GRI, SASB, IFRS), producing both quantitative and qualitative reporting, and subjecting ESG reports to external audit. Given that ESG reporting alone accounts for 41% of the variance in firm value, the findings suggest that investment in ESG reporting infrastructure may have potential benefits for firms.

The findings also suggest that EAC investors should weigh ESG reporting when evaluating and making investment decisions, since the strong positive correlation between ESG indicators and firm value points to ESG information as a useful predictor of future performance. Investors are encouraged to request ESG information from companies, apply ESG ratings where available, and engage portfolio companies on improving their ESG practices.

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