THE EFFECT OF VOLUNTARY DISCLOSURES ON THE QUALITY OF FINANCIAL REPORTING FOR COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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NOVEMBER, 2016
DECLARATION

I hereby declare that this research project is my original work and has not been submitted for a degree course in this or any other institution.

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D63/77498/2015

This research project has been submitted for examination with my approval as the University Supervisor.

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ACKNOWLEDGEMENTS

A good pen can only write so well in the hands of a writer. It takes the efforts of others to help realize a dream even with the best efforts put forth by the dreamer himself. I am entirely appreciative to the Almighty Lord for His love, grace, and guidance in this academic pursuit. I appreciate the enormous support and guidance I have received from my supervisor Mr. Herrick Ondigo and his valuable input to the realization of this work. The overwhelming backing I have that have been forthcoming from relatives and friends is invaluable. They have given up their precious time, effort and resources to enable me achieve this success. Particularly, my beloved husband Kepha and my parents Lucy and Prisca have encouraged me in this academic pursuit and their awesome support cannot go unappreciated. I acknowledge with immense appreciation the efforts of my late dad, Mr. Elkanah Nyabuti who sacrificed his all and made indelible efforts in making me appreciate education, diligence and hard work. My immense gratitude also goes out to my mentors who have caused me to value hard work and excellence and shine amid the inherent obscurity of life and for this I am entirely indebted.
DEDICATION

I dedicate this proposal to my parents, my loving husband and my daughters who have been my anchors and have never failed to believe in me and give up their precious time and resources so as to fuel my dreams.
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<tr>
<td>CGR</td>
<td>Corporate Governance Reporting</td>
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<td>CMA</td>
<td>Capital Market Authority</td>
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<td>CoQ</td>
<td>Cost of Quality reporting</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>EMH</td>
<td>Efficient Market Hypothesis</td>
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<td>EPR</td>
<td>Environmental Policy reporting</td>
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<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<td>FR</td>
<td>Financial Reporting</td>
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<td>HCR</td>
<td>Human Capital Reporting</td>
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<td>IASB</td>
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<td>NASI</td>
<td>NSE All Share Index</td>
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<td>NSE</td>
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<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<td>VD</td>
<td>Voluntary Disclosures</td>
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ABSTRACT
Timely information that can be relied on is the most powerful tool in the hands of any stakeholder within the business environment. This is because the availability of relevant and reliable information at the right time can cause a stakeholder to make a prudent, efficient and informed decision and reap returns from having that timely information. Access to such is, however, a far-fetched illusion to stakeholders following the persistent problems of agency conflicts and information asymmetry. As a result, availing of some information concerning an organization’s performance is made mandatory by law and regulation. Even with this mandatory provision, there is at times a need for an organization to go beyond the set-out thresholds and avail additional information to its stakeholder in a bid to enhance the quality of its reports. Such voluntary disclosures are important and as such, an evaluation of whether they have any effect on the quality of financial information reported is called for. This study investigated the effect that such voluntary disclosures have on the quality of financial reports by looking at the yearly reports of organizations listed on the Nairobi Securities Exchange over a five-year period between 2011 and 2015. This data was coded, cleaned and analysed using the Statistical Package for Social Sciences version 20. The data was evaluated and analysed using a linear regression model. The results of the study were a confirmation that there does exist a relationship between voluntary disclosures and the quality of financial reporting as measured by the extent of earnings management. This has informed recommendations for policy and practice to preparers of financial reports and regulators concerning what voluntary disclosures ought to be made mandatory overtime owing to their great significance. This study recommends that organizations should have voluntary disclosure over and above the statutory prerequisites set by the administrative bodies, especially those identifying with Environmental Policy, Cost of Quality and Corporate Social Responsibility. The government should also exert the same efforts it is putting in encouraging firms to make corporate governance disclosures to all the other forms of voluntary disclosures.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Financial reporting is done with the objective of communicating information to users to enable them make prudent and informed economic decisions (FASB, 2010). For this information to be useful, it has to contain some inherent qualitative characteristics pertaining to its dependability, relevance, understandability as well as comparability across time and entities. Provisions are therefore made in law and regulations to ensure that such are encapsulated in financial reports by the preparers thereof. However, these mandatory provisions do not entirely guarantee that the financial information presented meets the threshold prescribed. In addition, managers, who by virtue of their position in the agency relationship have access to superior information, are always at discretion in determining what information in excess of what is required by law and regulation to avail to stakeholders in pursuit of their interests as well as the interests of other stakeholders.

Any disclosures done by firms, mandatory or voluntary, have costs inherent in making them. Kothari (2004) identifies these costs as direct costs of doing the disclosures, litigation costs (that are potential should the outcome of prospectus be unfavorable) and proprietary costs (whereby disclosure of information about the firm can be competitively dangerous). He, on the other hand, outlines that disclosures are of benefit in reduction of information asymmetry and its component price of capital by dwindling bid-ask spreads, impacting positively on trade volumes and lessening stock return unpredictability. It is against this backdrop that an evaluation should be done to determine if the benefits of such discretionary disclosures outweigh their inherent costs for firms listed on the Exchange and if these disclosures add any value to the quality of financial reports.

1.1.1 Voluntary Disclosures

The most powerful tool in the hands of any stakeholder within the business environment is information. This is because the availability of relevant and reliable information at the right time causes stakeholders to make prudent, efficient and informed decisions and reap returns from it (Oyerogba, 2014). However, following the business-wide problems of agency conflicts and information asymmetry, most stakeholders find access to timely, relevant, reliable information and consequently the reaping of these returns a far-fetched illusion. Thus, availing some
information on organizational performance is made mandatory by law and regulation. Even with this mandatory provision, there is at times need for organizations to go beyond set-out thresholds and avail additional information to its stakeholder so as to improve the quality of its reports.

Corporate disclosures are normally categorized into two; mandatory and voluntary (Hassan & Marston, 2010). The former refer to a basic market demand for information that is disclosed on the foundation of prospects of a country’s law such as the Companies Act laws of Kenya Cap 486, professional bodies and regulating authorities like the Capital Markets Authority and the Nairobi Securities Exchange (for the firms listed thereon). These mandatory disclosures usually take the form of published annual reports whose extent, quality and content vary across companies, industries and countries at large (Oyerogba, 2014). Voluntary disclosures (VD) on the other hand, according to Barako, Hancock and Izan (2006) refer to information disclosed by a firm over and above its mandatory requirements, based on its free will and decision. Voluntary information is availed for the purpose of satisfying the needs of the users who seem not to be adequately satisfied with the mandatory disclosures.

As a matter of fact, corporate disclosures have an inherent bearing on the worth of the company due to their economic significance. The price paid for corporate disclosure is particularly inexpensive as compared to the cost of inadequate or complete lack of disclosure that includes costs of a dented corporate image and costs of litigation when a firm avails information that misleads stakeholders (Oyerogba, 2014). Also, with the emergence of strategic management accounting, stakeholder wealth maximization has emerged as the most appealing objective to pursue. Binh (2012) elucidates that this entails ensuring that all stakeholders of a firm—customers, suppliers, employees, investors, regulators, lenders and the general public—who demand greater disclosure, are satisfied.

A significant turn of events is evident since in the past, enterprises were fixated around provision of adequate and timely disclosures to investors, a group of stakeholders that were deemed the most important in any entity in pursuit of shareholder wealth maximization and profit objective. This paradigm shift has had ripple effects even in financial reporting by warranting inclusion of other reports such as cost of quality reports and environmental reports that majorly report non-financial information that the entity is not necessarily obligated to report on. Voluntary
disclosures have thus become very important for firms to satisfy stakeholders’ needs that seem to be inadequately satisfied by information supplied by mandatory disclosures (Binh, 2012).

The importance of voluntary disclosures cannot be overemphasized. Stockholders put their investment in a financial venture when they believe the information they have concerning such a venture is adequate (Botosan, 1997). This information-strategic, financial or non-financial- is always availed to its users with the objective of enabling them to make economic decisions. Managers are, however, always confronted with the problem of establishing which information to release to investors and which information to withhold. The existing research on the subject outline several valid reasons that make disclosure very important some of which are minimization of transaction costs in the market, reduction of information asymmetry as well as its component cost of capital, evasion of adverse selection in addition to preventing enormous adverse share price variation resulting from earnings releases (Kothari, 2004).

1.1.2 Quality of Financial Reporting

Financial reporting can be explained as the lens through which stakeholders view any firm in terms of performance, leverage, value among other perspectives. The quality of this reporting relates to the extent to which it can be relied on as accurate in reflecting a company’s operating performance reported in its financial statements as well as its usefulness in forecasting cash flows. This reporting quality emanates from the general quality of statements of accounts and it denotes the degree by which the availed info is able to describe the financial standing as well as operations of the organization (Robinson & Munter, 2004).

For the information availed in the books of accounts and reports to be useful to those intended to use it in assessing the financial standings, performance and adaptableness of a firm, it must have some qualitative characteristics relating to content and presentation. The IASB (2008) conceptual framework outlines primary characteristics relating to content of this information as relevance and reliability whereas those relating to presentation in financial statements are understandability and comparability. They are always looked at within the threshold of quality which is materiality because if information is immaterial, then it is of no use. Information is considered material when its omission or misstatement impacts on the decision of the user by causing a user to make a decision different from that he would have made had it been included or stated properly (IASB, 2008).
The reliability of financial information is normally evaluated by the degree of material error as well as objectivity which ensures that users are able to perceive the accuracy purported by the statements. Bowrin (2008) takes reliability to mean the degree by which financial proclamations are free from substantial errors. IASB (2008) prescribes that this primary quality emanates from underlying secondary characteristics namely faithful representation, economic substance over legal form in representation of events, neutrality (freedom from bias), prudence (conservatism) and completeness.

On the other hand, IASB’s guideline provides that financial information relevance is measured on its ability to impact in the decision making of those intended to use it in addition to capability of having a change in decisions made. Information is said to be relevant if it has three secondary characteristics, namely timeliness, predictive value and feedback value (that which confirms or corrects prior expectations) (IASB, 2008). As far as content of information is concerned, preparers of financial statements have to make accounting trade-offs between relevance and reliability because more of one may mean less of the other.

Financial information has to be presented in such a manner that it satisfies understandability such that it is readily understandable to users, who it is expected, have substantial knowledge of not only business but also other commercial activities and of accounting in addition to possessing the will to examine it with due diligence, (IASB, 2008). It ought to have comparability such that users have the ability to make comparison of the financial reports of the firm in a given time span with the aim of identifying inherent tendencies as well as across companies to examine the financial standings in addition to performance. A prerequisite to such comparability is consistency and adequate disclosures in preparation of these reports.

In spite of the fact that the meaning of value can be depicted effectively in the more extensive setting, numerous specialists contend that the portrayal of value is generally mind boggling and a wide agreement among the scholastics does not by any stretch of the imagination exist. In any case, quality data is proposed to, in any event, meet the necessities or details given to it in addition to meeting or surpassing client desires implying that information need to be of help in addition to been able to add value (Kahn et al., 2002). Over time, scholars have grappled with the question of how to measure quality of financial reporting owing to its complex nature and the difficulty in measuring the abstract idea of quality. Along these lines, earlier research has
focused on components like budgetary restatements and profit administration, which avoid accomplishing top notch money related discharges (Cohen et al., 2004).

In measuring the nature of monetary reporting, researchers in this way measure the degree of profit administration, which has been characterized by Dechow, Sloan and Sweeney (1995) as a methodology in the hands of administration of an association to intentionally control the association's income in order for the figures to facilitate a pre-chosen objective. This, they noted, is finished with the true objective of revenue levelling so that as opposed to years of unbelievably awesome or terrible income, associations endeavor to keep figures by and large stable by including and ousting cash from stores account (Dechow et al., 1995). Fischer and Rosenzweiz (1995) all the more correctly characterize income administration as the chiefs' activity which increment or decline current reported profit of an organization's financials with no comparing increment or diminishing in the long term monetary pick up in the organization. The significant strategy that is regularly utilized as a part of measuring the degree of profit administration and income smoothing is the optional accumulations technique as endorsed by Dechow et al. (1995).

**1.1.3 Effect of Voluntary Disclosures on the Quality of Financial Reporting**

Voluntary disclosures are done in a bid to minimize information asymmetry and transaction costs (Kothari, 2004). Healy and Palepu (2001) found that organization management undertake disclosures with a view of communicating their greater acquaintance of the corporation’s performance to investors and in the management of reported performance for contracting, political as well as corporate governance rationale. For this information revealed through disclosures, mandatory or otherwise, to be useful it ought to contain qualitative characteristics of useful information (IASB, 2008). If, for instance the voluntary disclosures are insufficient in all material aspects, then the financial reports may lack the qualitative characteristic of completeness and thus inhibiting its usefulness. The extent of these voluntary disclosures in all material aspects also determines the quality of the reporting.

Mwiti (2014) identifies economic benefits as the major drive that encourages managers to provide more information through voluntary disclosures. She further argues that managers engage in these discretionary disclosures to say more about their companies since regulatory disclosures do not comprehensively reflect management’s performance. Users are thus provided
with more complete and understandable reports that give information at reduced transaction costs which eventually translate to reduced costs of capital. Moreover, voluntary disclosures reduce information asymmetry and its related costs thus attracting more investors to financial markets, resulting in increased market success (Healy & Palepu, 2001).

1.1.4 Nairobi Securities Exchange

Up until recent years, the Nairobi Securities Exchange was known as the Nairobi Stock Exchange. It came into being in 1954 as an association of stockbrokers formed voluntarily under the Society’s Act and charged with the mandate of regulating trading activities and developing the securities market. It facilitates the trading amongst stockbrokers, formerly physically on the trading floor but in recent times remotely from wherever they are, thanks to automation of the Exchange. Focused upon attracting more investors, the NSE is dedicated to encouraging all the in the market to provide as much information as is practically possible. Barako (2007) suggests that the level of disclosures including voluntary disclosures amongst the participants in the NSE has increased over the years majorly as a result of these extensive reforms.

The bourse developed the NSE 20-share index, revised in 2007, to be a true barometer of the market and provide a review of weighted movement in price of major counters. Further another market measure, NASI was introduced in the year 2008 as an alternative index to the NSE 20-share index. It was intended to be an overall indicator of the market performance since it includes all the shares quoted in the market provided there was activity in the specific stock for the day. However, NASI has not gained prominence since its launch and therefore the NSE 20-share index still remains the main market index (Asava, 2013).

With the CMA emphasizing on tightening corporate governance amongst the market participants, the extent of disclosure, particularly voluntary disclosure, has been boosted at the NSE. Ngugi (2005) postulates that the Kenyan stock market has grown rapidly over the years and thus greatly accentuating the usefulness of corporate financial reporting. He further stresses that relevant accounting information is required to help investors make sound decisions based on the financial statements prepared. Ponnu and Akoth (2009) in their study found that CSR disclosures received only modest attention amongst companies listed on the NSE with the major theme disclosed voluntarily being community development.
1.2 Research Problem

Financial reporting is founded on the existence of an agency relationship between managers and shareholders as well as all other stakeholders in the firm. These stakeholders get information about listed firms from their annual reports and other announcements, which often comprise both mandatory and discretionary corporate disclosures. The quality of these reports automatically affects stakeholder decisions. Meek, Roberts and Gray (1995) noted that most organisations gain some benefit by virtue of disclosing more than is expected if the availed information is strategically available to important parties that are likely to act in favour of the company.

Though numerous studies have been done on VD, seldom are researches done to link VD to quality of financial reporting. VD has been linked to economic consequences such as earnings management and financial restatements (Verrechia, 2001). Mwiti (2014) studied VD with a focus on their impact on stock returns and found that an increase in VD led to an increase in stock returns because VD acted as a strong corporate governance tool. Oyerogba (2014) examined the impact of VD on investors’ decision and performance and found that VD was huge in clarifying speculators' choice and execution of recorded organizations in Nigeria. He additionally noticed that the abnormal state of VD in these organizations prompted superior and made it simple for financial specialists to settle on choices whether to put resources into the organizations or not. Binh (2012) investigated on VD data of non-monetary organizations recorded on the Vietnamese Exchange and noticed that corporate yearly reports ought to uncover more budgetary, forward-looking and general corporate data to help clients settle on great and auspicious choices in business and venture in light of it.

More literatures have skewed on the elements affecting voluntary disclosures and Barako et al (2006) recognized elements, for example, corporate administration qualities, possession structure and organization attributes, nearness of a review advisory group, the extent of non-official chiefs on the board, levels of institutional and foreign ownership, company size and level of debt. Botosan (1997) also studied the relationship between expected cost of equity and disclosures and found that cost of equity increased with higher levels of timely disclosures possibly owing to increased stock price volatility. In contrast, other researchers such as Asava (2013) and Zareian (2012) find no relationship between voluntary disclosures and the quality of financial reports, particularly stock returns and the information they relay to investors.
This study aimed at filling the gap between the informational requirements of stakeholders and the efforts of managers concerning disclosure beyond thresholds of law and regulation for the Kenyan listed companies through annual reports. As a matter of fact, researchers like Kothari (2004) have called for cost-benefit analyses on VD done by firms to justify their inclusion in corporate reports. VD by firms have costs inherent in availing them as well as perceived benefits in their use. Consequently, Cost-Benefit analysis is necessary to justify why managers ought to go beyond thresholds laid by regulation and law. Thus this study was done against the backdrop that with VD deemed important to firms, especially within the stakeholders’ wealth maximization perspective; are they necessary and do these disclosures affect the quality of financial reporting?

1.3 Research Objective
To determine the effect of voluntary disclosures on the quality of financial reporting of firms listed at the NSE.

1.4 Value of the study
The focus of this study was on investigating the impact of voluntary corporate disclosures on the qualitative characteristics of financial reporting. The discoveries of this study are anticipated to make an impact on the existing body of literature as well as greatly benefit the academicians in this field especially pertaining to the necessity of such disclosures following an assessment of their cost and benefits to justify their inclusion in financial reports. Regulators will also be informed by this research concerning which voluntary disclosures to be made mandatory owing to their enormous influence on the quality of financial reports.

In addition, policy makers will be informed by this study pertaining to the value of VD and the need to formulate policies that enhance voluntary disclosures and high quality financial reports. Auditors and preparers of financial reports of these listed companies are expected to become more informed concerning the significance, costs and benefits of voluntary disclosures. The study will also inform stakeholders of firms listed at the NSE on what their firms report on voluntarily and their consequent benefit to them.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter elucidates the theories that have informed this study as well as the works of other researchers on these concepts.

2.2 Theoretical Review
Scholars have put forth hypotheses explaining need for voluntary disclosures. These include the Agency theory, the Efficient Markets Hypothesis and the Random Walk Theory among others.

2.2.1 Agency Theory
Ross (1973), the primary defender of the office hypothesis presented Agency as far as issues of pay where he considered Agency to be an impetuses issue. He is viewed as the birthplace of the financial hypothesis of Agency while Mitnick (1973) is viewed as the source of the institutional hypothesis of Agency. Mitnick contends that corporate conduct never happens as it is favored by the essential since it doesn't pay to make it culminate. In this manner, society makes organizations that take care of these blemishes by overseeing or buffering them, adjusting to them or turning out to be constantly contorted by them.

The Agency relationship, as characterized by Jensen and Meckling (1976), is an agreement under which one or more people (the principals) draw in someone else (the Agent) to play out some administration for their sake and delegates some basic leadership power to the specialist. In organizations, Agents relate to chiefs while principals compare to shareholders. They facilitate hypothesize that directors can get to data more than shareholders, and consequently the agency relationship leads to information asymmetry. This in turn causes the agency conflict arising from the assumption that the two parties have different interests and naturally managers will perform their activities in a mode that is able to their wellbeing at the expense of shareholders’ interests.

The first means of mitigating the agency problem is regulation by the law, IASs, IFRS and Securities Exchange rules requiring managers to fully disclose private information. The SEC and FASB outlines the guidelines that need to be followed in the process of mandatory disclosures. However, full disclosure is not guaranteed even with these regulations (Al-Razeen & Karhari 2004) owing to the conflict between managers and shareholders. They argue that corporate
reporting directions are hence expected to furnish financial specialists with the base amount of data that aids in basic leadership.

In addition, principals have to incur agency costs to mitigate on the conflict. These include monitoring costs (paid by shareholders to follow up on managers and minimize the agents’ divergent activities), connection costs (paid by managers for optimal contracts to warranty that thee will be no harm to the principal’s interests will result from their actions) and outstanding loss costs (stemming from the divergence of judgments of agents from judgments that would lead to maximization of the principal’s wellbeing). Thus, the price of agency is the summary of these three costs (Jensen & Meckling, 1976).

Since full disclosure is not necessarily assured by regulation and incurrence of agency costs, voluntary disclosure emerges to mitigate on this agency problem. Literature in accounting can be explained as voluntary and unrestricted disclosures interchangeably, in the course of information management releasing itself, (Healy & Palepu, 2001). It is a very important measure where managers disclose more information than what is called for by regulation to reduce the agency costs (Barako, 2007) furthermore to persuade the outside clients that administrators are acting in an ideal way (Watson, 2002). The basic supposition in such is that managers have superior info as compared to the rest of outsiders. In this manner managers perform trade-offs between settling on bookkeeping decisions and undertaking disclosures to "convey their better learning than financial specialists, and to oversee reported execution” (Healy & Palepu, 2001).

This theory is relevant to this study because it envisages divergence of interests between managers and shareholders and justifies inclusion of discretionary disclosures in financial reports by managers to solve agency problems. Since corporate disclosures are done to provide information for decision making, (Al-Razeen & Karhari 2004), the theory elucidates that voluntary disclosures increase the scope of reporting by managers to users and consequently avail information that is to a large extent complete and reliable for decision making.

2.2.2 Efficient Market Hypothesis

This hypothesis origin is associated with Fama in the 1960's. Its general idea is monetary markets are "educationally proficient". Instructive productivity alludes to how rapidly and precisely the market responds to new data. A stock cost dependably reflects or contains money
related data and security costs alter quickly and precisely to new data benefited in the market. Thus, it is not possible for one can't accomplish returns in excess of the normal market returns on a hazard balanced premise, given the data accessible at the season of speculation, since before any financial specialist follows up on it, the market will have balanced the stock costs to reflect new data (Fama and French, 1992).

The three noteworthy levels of the proficiency as hypothesized by this start include: powerless frame, semi-solid shape, and solid frame. The powerless shape EMH holds that it is difficult to foresee future stock costs by breaking down costs from the past. It contends that the present cost is a reasonable one that considers any openly accessible data contained in the past value information. The semi-solid shape EMH claims that security costs mirror all openly accessible data, over a significant time span, for occasion data on past costs, financial reports, financier firm proposals, speculation admonitory letters among others. The solid frame EMH attests that security costs in a flash mirror all open and private (covered up or insider) data, implying that even corporate insiders can't make anomalous benefits utilizing data that has not been profited to the overall population.

While there exists a huge assortment of validation in support of EMH, numerous disagreements have been raised. Adversaries of the EMH likewise indicate occasions, for instance, the coming down of the 1987 security exchange where Dow Jone Industrial Average (DJIA) dropped by excess of 20% in only a day, which confirms that stock costs are able to truly stray from their normal qualities. Commentators have faulted the faith in reasonable markets for a large number of the late 2000s money related emergencies (Asava, 2013). Thus, in light of these reactions, defenders of the hypothesis have expressed that market proficiency does not mean having no instability about the future yet rather, it is an outline of the world which may not generally remain constant, and the market is essentially effective for speculation purposes for most individuals, (Asava, 2013).

This theory is relevant to this study in that it links movement of security prices to information availed in the market through corporate disclosures, be they mandatory or discretionary. Participants in financial markets use information for decision making concerning investments (Asava, 2013) and thus the type and amount of disclosures always informs the kind of investment decisions made. It follows, therefore, that if high quality information is availed in
corporate reports owing to voluntary disclosures made in financial markets that are assumed to be informational efficient (Fama & French, 1992), users are bound to benefit from that information and reap bounties of returns from it.

2.2.3 Random Walk Theory
This premise was originally examined by Kendall (1953) but gained popularity later thanks to Malkiel (1973) who wrote an investment classic, “A Random Walk Down Wall Street” in which he offered that analyses of the market, fundamental, technical or otherwise are futile. Thus individuals should not attempt to time the market but rather adopt the long-term buy-and-hold strategy as best since stock value variances are independent of each other and have the same likelihood circulation. It is a money related hypothesis expressing that securities exchange costs advance in an irregular form thus can’t be anticipated (Hubert, 2001). This speculation is steady with the Efficient Market Hypothesis, especially the solid shape, so that the past development or pattern of a stock cost or market can't be utilized to foresee its future development. The thought stocks take an arbitrary and eccentric way. In this manner, it is difficult to outflank the market without accepting extra hazard.

Critics of this hypothesis, however, attest that the speculation scene is not the same as how it was when Malkiel composed his book. In addition, today, everybody has simple and quick access to significant news and stock quotes and stocks do keep up value drifts after some time. They contend that it is conceivable to beat the market via painstakingly selecting section and leave focuses for value speculations. Martin Weber, a main specialist in behavioral back, discovered patterns in securities exchanges subsequent to performing numerous studies. In one of his ten years securities exchange investigation, he took a gander at the market costs for recognizable patterns and found that stocks with high cost increments in the initial five years had a tendency to wind up under-entertainers in the accompanying five years, accordingly repudiating the irregular walk theory (Hubert, 2001).

Another disagreement was his discoveries of stocks that had an upward update for income beating different stocks in the accompanying six months. Hubert (2001) affirms that a financial specialist with this learning has an edge in anticipating which stocks to haul out of the market and which stocks (with the upward amendment) to stay in. Martin Weber's studies take away from the arbitrary walk speculation, in light of the fact that there are patterns and different tips to
foreseeing money markets. Moreover, the contradictions of the efficient market hypothesis allows for some investors to earn an abnormal earnings by capitalizing on the weaknesses in the market.

This theory is relevant to this study owing to its assertion that stock prices move, albeit in a random fashion, upon availability of information in the market (Hubert 2001). This information availed in reports by regulation or managers’ discretion definitely informs investors’ decisions.

2.3 Determinants of Financial Reporting Quality
Previous researchers have identified that the quality of books of accounts reported is impacted upon by a variety of factors which include inducements of managers and auditors, organization features as well as quality of accounting standards encompassing GAAP (Ball et al., 2003).

2.3.1 Industry Affiliation and Company Size
Different firms disclose their financial, strategic and non-financial information differently depending on the industry within which they operate. Consequently, the information quality varies across industries in light of content and user Specifications. Firms in the banking sector seem to have advanced quality financial reports (Bowrin, 2008) as compared to other firms.

The size of the organization has likewise been broadly turned out to be firmly identified with aptness and along these lines to the nature of monetary reporting (Owusu-Ansah, 2000). Albawwat and Ali-basah (2015) additionally noticed that the measure of organizations additionally influences revelation to such an extent that bigger ones seem to uncover more data than their little partners would. This can be clarified by the way that bigger organizations are normally evaluated by huge review firms which have more experience and assets (Ashton et al., 1989).
2.3.2 International Business Diversification

The world has truly turned into global village with financial markets and co-operations crosswise over local fringes. The effect of globalization and connections of monetary market on firms' divulgence decisions can't be ignored. More noteworthy worldwide presentation prompts better disclosure practices and better bookkeeping quality since more noteworthy communications of firms with remote markets prompt more prominent straightforwardness, (Khanna et al., 2004). Furthermore, worldwide firms which work in a few markets and are delicate to the diverse prerequisites in the different purviews display more prominent nature of income and reports. Consequently more prominent universal introduction prompts better disclosure practices and better bookkeeping quality.

Khanna et al. (2004) facilitate illustrates that organizations endeavoring to enter U.S. commercial center find that the cost of working together abroad is more prominent if their revelations don't fulfill the necessities of U.S. clients for case the need to survey the long haul feasibility of their suppliers furthermore those of suppliers like the need to evaluate company's financial soundness. In addition, firms that have enhanced operations abroad are probably going to have more noteworthy motivators to give monetary data extensively to their remote customers. They set up their yearly reports in consistence with the IFRS and are spurred to tackle different data asymmetries amongst their partners like clients, suppliers and potential speculators through money related reporting.

2.3.3 Regulatory Framework of Accounting and Auditing

Financial reporting is done within the thresholds of regulations as set by accounting and auditing standards and requirements. Palmer (2008) notes that die to the risk of their their notoriety capital, in unverifiable circumstances, reviewers of higher quality will empower more noteworthy and higher quality disclosures as far as capacity to educate. Along these lines higher quality auditors have more prominent disclosures as far as both degree and quality are concerned. Selection of IFRS principles prompts higher nature of monetary data because of all the more convenient misfortune acknowledgment and decreased income administration (Latridis, 2010).
Barth et al. (2008) likewise highlight the significance of IAS for better quality budgetary data especially the higher relationship of bookkeeping results with share costs and returns. They, in any case, contend that IAS could be to some degree of settle for less for occasion when guidelines diminish administration watchfulness bringing about bookkeeping estimations which don't reflect execution and money related position and also residential measures do. Barth et al. (2008) additionally take note of that quality upgrades emerging from IAS could be counterbalanced by attributes of money related reporting framework other than standards.

2.3.4 Quantity of Information
The quality of monetary declarations is substantially impacted upon by the amount of information. For information to be of use, it has to be complete in all material aspects, (IASB, 2008). In many cases, a rise in the amount of relevant info increases the quality of financial reporting. As a matter of fact the quality of financial reporting is enshrined in completeness of disclosure of transactions and events within the bounds of materiality.

2.3.5 Corporate Governance
Factors such as corporate authority characteristics, form of ownership as well as organization’s features, presence of an audit committee, the proportion of non-executive directors on the board, levels of institutional and foreign ownership influence the corporate disclosures made and consequently the quality of corporate reports (Barako et al, 2006). This has a profound effect on the quality of its financial information quality.

The influence of families, outsiders and piece shareholders in a firm decreases the nature of monetary articulations attributable to their enthusiasm for needing to ensure their wealth and settle on choices in view of their very own objectives, (Klai and Omri, 2011). Then again, organizations confronting control from budgetary foundations or the state have better quality exposures in light of the fact that the state and institutional financial specialists are available on the sheets and in this manner they have the likelihood of ensuring the nature of reporting and the observing of administration.

2.3.6 Economic Losses and Distress
Ball and Brown (1968) clarify that there dependably happens a negative market response to awful news about profit. Showcase players dependably respond to data benefited to the market.
concerning a firm. Misfortunes are typically translated as an indication of monetary pain of the business. To evade such negative response, supervisors intentionally oversee monetary data to depict a superior picture of business execution (Burgstahler and Dichev 1997) Thus; the frequency of misfortunes is relied upon to lessen the nature of money related data.

Besides, data arranged amid misfortune years will probably contain mistakes of estimation since those in management may need to anticipate unordinary things for example rebuilding expenses and change in bookkeeping approaches (Dechow and Dichev 2002). Economic losses and financial distresses sustained by firms are thus a major determinant of the quality of corporate reporting done by firms.

2.4 Empirical Literature Review

A research carried out by Singhvi and Desai (1971) concerning financial disclosures by firms in the USA revealed that the quality of disclosures done by larger firms was better than that of smaller firms. They also noted that disclosures of firms with a large number of stockholders were better than those of firms with fewer stockholders. They identified the auditing firm as one of the determinants of quality of disclosures by citing that companies audited by large Certified Public Accountants institutions had better quality of disclosures than those firms audited by smaller firms (Singhvi & Desai, 1971). Nonetheless, their study only sought to establish the effects influencing VD and did not ascertain their effect on reporting of monetary matters.

Botosan (1997) studied the relationship between anticipated cost of capital and three disclosure and other published reports as well as reports on investor relations. He found that cost of equity capital decreased with annual report disclosure levels. His results were extended to include larger and more heavily followed firms across industries. There was found to be a positive association such that cost of equity increased with higher levels of timely disclosures such as quarterly reports possibly owing to increased stock price volatility. Cost of equity was however found to have no association with investor relations. Despite this, Botosan narrowly focused on one cost, that of equity capital in evaluating disclosures.

Barako et al. (2006) inspected the degree to which corporate administration attributes, possession structure and organization qualities impact VD in a creating nation, Kenya. They noticed that the nearness of a review board of trustees is altogether connected with the level of deliberate
exposure. Also, the extent of non-official executives on the board, they affirmed, is adversely connected with the degree of VD though the levels of institutional and remote proprietorship have a critical positive effect on these exposures. Likewise, vast organizations and organizations with abnormal state obligation deliberately uncover more data. Then again, elements like board administration structure, liquidity, gainfulness and sort of outer review firm don't fundamentally impact the level of deliberate divulgences done by organizations in Kenya. All things considered, their concentrate just recognized components influencing VD and did not further dive into researching the impact of these on the nature of money related reporting.

Barako (2007) studied the determinants of VD in annual reports of Kenyan companies and found that most firms make VD aimed at informing the public more of their positive attributes than their negative ones. He noted that rarely do firms report voluntarily of their negative performance and information. He concluded that firms cannot link their corporate disclosures to their financial performance. This notwithstanding, he failed to delve further into showing the effect, positive or negative, that these disclosures have on the quality of the reports.

Wesonga (2008) also studied financial disclosures, both mandatory and discretionary, and their use by investors for decision-making. He found that many institutional investors use financial disclosures as a source of vital information for their investment decisions. He consequently found that the higher the quality of disclosures, the higher the quality of their investment decisions. Despite his important conclusion, Wesonga’s study centered on only one group of users- the institutional investors in evaluating the effect of VD.

Palmer (2008) studied auditor quality and financial reporting disclosure of sampled Australian firms against the backdrop of the uncertainty in adoption of IFRS and found that auditor quality has a significant role as pertains to financial disclosures made by firms. He found that owing to risk posed to their reputation capital, high quality auditors will require greater level and extent of financial disclosures from firms, both mandatory and discretionary. As much as his study was important in identifying auditor quality as a factor influencing disclosure, Palmer did not further evaluate the effect of these greater disclosures required on the overall reporting quality.

(CSR) disclosures. They looked at disclosure practices of companies listed on the NSE in their annual reports and web sites. They found that CSR disclosures received only modest attention amongst companies listed on the Exchange with the major theme disclosed voluntarily being community development. They however did not evaluate the impact that these disclosed thematic areas have on the overall quality of financial reporting.

Binh (2012) researched on VD information of non-financial companies listed on the Vietnamese Exchange and concluded that there exists a consensus amongst analysts and managers on the importance and hierarchy of VD items. However, there exist significant gaps between Financial Experts’ necessities and Financial Managers' perspectives on exposure. Having found that numerous things were insufficiently uncovered in the specimen organizations' yearly reports, he presumed that corporate yearly reports ought to reveal more money related, forward-looking and general corporate data to help clients settle on great and convenient choices in business and speculation basing on the exact and progressive information sources. In spite of this, his study focused on managers and financial analysts and did not delve into the overall benefit of VD to all stakeholders and the effect of these disclosures on the quality of financial reporting.

Mwiti (2014) examined the effect of VD on stock market returns of NSE listed firms and found that there was a strong, significantly positive relationship between VD and stock returns. Thus, firms can increase stock returns by increasing their VD owing to the ability of VD to act as a corporate governance tool. She confirmed the empirical evidence of Kothari (2004) that increased disclosures reduce a firm’s cost of capital by reducing information asymmetry and transaction costs. However, her study narrowly focused on stock returns and did not elucidate whether the increased stock returns due to more disclosure alluded to better quality of reports.

Oyerogba (2014) explored the utilization of VD in deciding the nature of money related explanations as confirm from organizations listed on the Nigerian exchange. He inferred that VD was measurably critical in clarifying financial specialists' choice and execution of recorded organizations in Nigeria. He additionally inferred that there was an abnormal state of VD in these organizations which prompted their elite and made it simple for financial specialists to settle on choices whether to put resources into the organizations or not. This is on the grounds that it decreased the spread amongst offers and asks and in this way builds money markets liquidity.
Despite this, his study focused on investor decisions and performance of firms and not the overall effect of discretionary disclosures on the quality of reporting that informs these investor decisions.
2.5 Conceptual Framework

This explains how the variables in this study are related as well as the particular measurable facets under each variable. Companies often prepare reports to voluntarily disclose their information. These include reports on corporate governance, environmental policy, cost of quality, employee responsibility as well as corporate social responsibility. On the other hand, the quality of financial reporting is assessed on the basis of relevance, reliability, understandability and comparability of information availed to users. This is measurable upon consideration of the extent of earnings manipulation within the industries they operate in the market.

Organization size has, over time, been observed to be altogether and decidedly identified with the degree of disclosure (Lang and Lundholm, 1993). Bigger organizations are probably going to go under more examination from money related experts and shareholders than little organizations, prompting weight for better disclosure. Benefit is additionally decidedly connected with the degree of an organization's disclosure (Owusu-Ansah, 1998). It is normal that more gainful organizations will have a more noteworthy degree and nature of exposure than less beneficial firms. Organizations with higher leverage uncover more data than those with lower obligation levels (Inchausti, 1997) in light of the fact that they have a more prominent commitment to fulfill the instructive needs of its long-term creditors.

Figure 1: Conceptual Model

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Voluntary Disclosure</strong></td>
<td></td>
</tr>
<tr>
<td>• Corporate Governance Disclosure</td>
<td></td>
</tr>
<tr>
<td>• Environmental Policy Reports</td>
<td></td>
</tr>
<tr>
<td>• Corporate Social Responsibility Reports</td>
<td></td>
</tr>
<tr>
<td>• Human Capital Reporting</td>
<td></td>
</tr>
<tr>
<td>• Cost of Quality Reports</td>
<td></td>
</tr>
<tr>
<td>• Company Size</td>
<td></td>
</tr>
<tr>
<td>• Profitability</td>
<td></td>
</tr>
<tr>
<td>• Leverage</td>
<td></td>
</tr>
<tr>
<td><strong>Quality of Financial Reporting</strong></td>
<td></td>
</tr>
<tr>
<td>• Extent of earnings Management and financial restatements that determine reliability of reports.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher
2.6 Summary of the Literature Review

Theories such as the Agency theory, Efficient Market Hypothesis and the Random Walk theory have underpinned the importance of information disclosures in enabling users to make informed decisions. These users may be furnished with common corporate reports or tailor-made annual reports to satisfy their need as stakeholders of any firm, pursuant to the stakeholder wealth maximization theory. Owing to the divergence of stakeholder interests and information needs, theorists agree that full disclosure by firms is impossible. This is also the case as a result of exorbitant costs of disclosure that may at times not be commensurate with the benefits of full disclosure. In addition, theorists also agree that some disclosures may prove potentially dangerous to the firm in light of its competitors and labour union demands. Such costs and user needs call for firm decisions as to the amount and extent of information to voluntarily disclose.

Literature exists to a large extent concerning the factors influencing VD and the effects of VD on measurable attributes such as stock returns, firm performance and investor decisions. Owing to the high subjectivity in measurement of quality of financial reports arising from corporate disclosures and the existence of inefficiencies in markets, many scholars identify no significant relationship between VD and the quality of financial reporting. In addition, the disclosure culture in various markets results in a limited number of voluntary disclosure items reported on by firms, (Zareian, 2012). This notwithstanding, firms have over time realized that the costs of disclosure are lower than those of lack of or inadequate VD because more disclosures tend to move toward satisfaction of the diverse stakeholder needs and build the firm’s reputation capital.

With a call from regulators for firms to embrace corporate governance, corporate social responsibility, environmental protection and conservation, consumer and employee protection, firms find themselves with the need to evaluate the costs and benefits of more disclosure. Listed companies particularly aim at attracting more investors who make their investment decisions based on the availed corporate reports. It is thus important to understand the relationship between the extent and level of disclosures and the quality of the reports leaned on by investors in making their decisions. Scanty literature exists on the effect of VD on the quality of financial reporting and this underpins the need for this study.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This chapter highlights the procedures that were followed in the whole research process. It discusses the research design, the study population and sampling method, data collection methods and instruments, data processing and analysis.

3.2 Research Design
This can be explained as a systematic organization of the measures, factors as well as tools to be applied in assortment and examination of the obtained data for attainment of the objectives of the study in the most efficiently and effectively. A research design directs the researcher by offering guidelines on how to collect, analyze and interpret data in a coherent manner. (Kothari, 2004)

This work embraced a longitudinal descriptive study design. This is a design in which nothing is manipulated and information is collected without changing the environment to demonstrate relationships, behavior, characteristics and attitudes. Being longitudinal, the design followed individual NSE listed firms over a five-year period of time. The descriptive study design was preferred since it is suitable in its applicability within tight time and cost constraints (Mugenda & Mugenda, 2003). Further, it is dependable and valid.

3.3 Population
A population can be defined as totality of people and objects from which an experimentally generalizable induction can be accomplished, (Bryman & Bell, 2007). It can likewise be characterized as a whole of all things considered under a study, (Mugenda & Mugenda, 2003).

The population for this study, as per the NSE Handbook 2013, was 62 NSE listed companies spanning 10 sectors, whose annual reports were available at the Exchange, having been listed for the entire period of the study from 2011–2015, (appendix 1). This research used census to study all elements of the population and determine the effects of VD on the quality of financial reporting for the listed companies. This comprehensive and unified study informed an understanding of VD of NSE listed firms.
3.4 Data Collection
This study used secondary data sources. Secondary data is data that is already available, having been collected in the past by other parties other than the researcher for the purpose of the current study (Mugenda & Mugenda, 2003). Secondary data on VD was valuable to the study due to its availability, hence fast and easy to collect as well as its proficiency in light of monetary and time constraints. Conversely, it has a major demerit of its propensity to obsolescence. However, as far as this research is concerned, secondary data was the only method that could be used. Most importantly, the impact of out-datedness did not arise because the data used spanned the 5 years between 2011 and 2015. This was deemed relevant as the research work aimed at to describing the effects of VD on the quality of FR for companies listed at the NSE.

A succinct content evaluation of yearly financial reports of the organisations during the period 2011-2015 was done with a focus on the non-statutory disclosures and the quality of the reports. Under five major categories of common voluntary disclosures namely Corporate Social Responsibility reports, Corporate Governance reports, Environmental policy reports, Cost of Quality reports and Human Capital reports, items of VD were identified and assessed as pertains to their relevance, costs and benefits. As an indicator of the underlying qualitative characteristics of financial reporting, the extent of reliability of financial reports was assessed with a focus on financial restatements and earnings management.

3.5 Data Analysis
The data obtained was analyzed by applying the Statistical Package for Social Science (SPSS version 20). A regression analysis was conducted on the data collected concerning VD and the quality of financial reporting to determine the nature of their relationship. The use of Ordinary Least Squares Regression was deemed the best option as it has the capability of indicating whether there is substantial positive or negative relation between the major variables of the study (Castillo, 2009).

The findings from the analysis were organized, summarized and presented using tables. They were then used to answer the research questions.
3.5.1 Analytical Model

A regression analysis was done to establish the effect of voluntary disclosures on the quality of financial reporting while controlling for firm features namely company size, profitability as well as leverage.

Quality of financial reporting was established by the measure of unrestricted enlargement which is an Earnings Management tool. This was justified by its previous application by Jesus and Emma (2013) based on the Dechow et al. (1995) discretionary accruals model as follows:-

\[ EM_j = \frac{TA_j}{A_j} - [a_0 (1/A_j) + a_1 ((\DeltaREV_j - \DeltaREC_j) /A_j) + a_2 (PPE_j/A_j)] \]

Where:

\( EM_j \) = Discretionary Accrual (Earnings Management).

\( TA_j \) = Total accruals of the firm \( j \)

\( A_j \) = Beginning of year total assets of the firm \( j \)

\( \DeltaREV_j \) = Change in net revenue of the firm \( j \)

\( \DeltaREC_j \) = Change in accounts receivables of the firm \( j \)

\( PPE_j \) = Property, plant, and equipment of the firm \( j \)

\( a_0, a_1 \) and \( a_2 \) = Parameters of each variable

Regression model used:

\[ Y = \beta_0 + \beta_1(CSR) + \beta_2(EPR) + \beta_3(CoQ) + \beta_4(HCR) + \beta_5(CGR) + \beta_6(SIZE) + \beta_7(PROF) + \beta_8(LEV) + \varepsilon \]

Where:

\( Y \) = Quality of Financial Reporting as measured by the extent of earnings management and financial restatements that determine the reliability of financial information in reports. This was justified by the works of Verrechia (2001), who linked VD to these economic consequences, and those of Jesus and Emma (2013).
$\beta_0$ = the constant term representing the level of quality of financial reporting in the absence of VD

$\beta_i$ = the co-efficient used to measure sensitivity of the dependent variable to a unit change in the explanatory variable

CSR = Corporate Social Responsibility discretionary reporting,

EPR = Environmental Policy discretionary reporting,

CoQ = Cost of Quality discretionary reporting,

HCR = Human Capital discretionary reports,

CGR = Corporate Governance discretionary reporting

The discretionary reporting above was as measured proportionately by dummy values assigned to each item of the disclosure index such that 0 represented absence of the disclosure item in financial reports and 1 represented the presence of the item in the reports. The use of this binary coding system was justified by its use by other researchers such as Oyerogba (2014) and Mwiti (2013) who scored items of their disclosure index a value of one (1) if present and zero (0) if absent.

SIZE = Company Size as measured by the natural Logarithm of Total Assets

LEV = Firm leverage as measured by Debt to Assets ratio

PROF = Company profitability as measured by Return on Assets

$\varepsilon$ = the error term which captures the unexplained variations in the model.

### 3.5.2 Test of Significance

The Pearson Product Moment Co-efficient was used to analyze the data in which correlation coefficient ($R$) and the coefficient of determination ($R^2$) of the data set of voluntary disclosure and financial reporting quality were established.

The research used the co-efficient of determination ($R^2$) as a test of significance to assess how much of the relationship between the variables was explainable by factors in the model and how much was explained by other factors outside the model.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter lays forth the empirical findings and outcomes of the research’s analysis and the consequent discussions on the influence of voluntary disclosures on the quality of financial reporting for firms listed at the Nairobi Securities Exchange. The data used in this study was obtained from the in-depth content examination of the yearly financial reports of the 62 companies, spanning 10 sectors, listed at the NSE within the five year period of 2011-2015. The data was prepared, coded and analysed on the basis of each independent variable using the SPSS version 20.

The research work intended to find the nature of the relationship between voluntary disclosures and the quality of financial reporting of NSE listed firms. The independent variables for the study were Corporate Governance reports, Corporate Social Responsibility reports, Human Capital reports, Environmental Policy reports and Cost of Quality reports whereas the dependent variable was the quality of financial reporting. In establishing their relationship, the study controlled for firm size, age, profitability and leverage.

4.2 Response Rate

The response rate is the extent to which the final data set includes all subjects in the population and in this study, it is arrived at as the number of the firms for which enough relevant data was available for analysis divided by the total number of firms listed on the NSE that were supposed to be used in the study, including those whose data was unavailable, multiplied by 100. A total of 37 companies out of 62 companies had the complete relevant data and therefore were used giving a response rate of 60% . A response rate above 50% is adequate for analysis (Babie, 2002) and thus a response rate of 60% in this study was considered adequate.

4.3 Descriptive Statistics

This study sought to examine the association existing between voluntary disclosures and the quality of financial reporting. Financial reports of the NSE were analysed in an effort to identify items voluntarily disclosed by the firms as well as the corresponding discretionary accruals for each period that measure the degree of earnings administration and consequently the quality of the reports.
<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>.43</td>
<td>1.00</td>
<td>.7492</td>
<td>.16054</td>
<td>.026</td>
</tr>
<tr>
<td>EPR</td>
<td>.14</td>
<td>.86</td>
<td>.4454</td>
<td>.30775</td>
<td>.095</td>
</tr>
<tr>
<td>CoQ</td>
<td>.17</td>
<td>.67</td>
<td>.4051</td>
<td>.13046</td>
<td>.017</td>
</tr>
<tr>
<td>HCR</td>
<td>.29</td>
<td>.64</td>
<td>.3792</td>
<td>.08594</td>
<td>.007</td>
</tr>
<tr>
<td>CGR</td>
<td>.00</td>
<td>1.00</td>
<td>.6259</td>
<td>.28279</td>
<td>.080</td>
</tr>
<tr>
<td>Company size</td>
<td>5.648</td>
<td>9.486</td>
<td>7.3914</td>
<td>.885509</td>
<td>.784</td>
</tr>
<tr>
<td>Profitability</td>
<td>-.131</td>
<td>.219</td>
<td>.04432</td>
<td>.054173</td>
<td>.003</td>
</tr>
<tr>
<td>Leverage</td>
<td>.000</td>
<td>.876</td>
<td>.51640</td>
<td>.273994</td>
<td>.075</td>
</tr>
<tr>
<td>Earnings management</td>
<td>-16.37</td>
<td>13.49</td>
<td>-.1115</td>
<td>6.38947</td>
<td>40.825</td>
</tr>
</tbody>
</table>

**Source: Research Findings**

The table above shows the descriptive statistics from the study where the study variables namely the mean, standard deviation and variance are displayed. The independent variables CSR, EPR, CoQ, HCR and CGR and the control variables namely Company Size, Profitability and Leverage have a very small variation of 0.026, 0.095, 0.017, 0.07, 0.08, 0.784, 0.003 and 0.075 respectively. This means that the values of these variables had very little spread amongst the firms listed on the NSE. However, the dependent variable namely Earnings Management had a very high variance of 40.825, meaning that values of Earnings Management had a very high spread amongst the firms.

**4.4 Correlation Analysis**

Tests to determine correlation amongst the study variables were carried out on the raw data to show the nature (direction) and extent (strength) and of the association existing between the variables of the study. It is worth noting, however, that correlation does not show causality (what variable causes or gives rise to another) between the variables. Rather, it only enlightens us on the scale with which the a variable varies due to change in the other. A positive correlation means that the variables vary together in the same direction; that is, when any of the variables increase the others increase and when any decreases, the others decrease as well. The negative correlation, on the other hand, means that the variables vary together in the opposite direction;
that is, when any of the variables increase the others decrease and vice versa. The correlation of study variables is shown by the table below:

### Table 4.2: Correlation of Study Variable

<table>
<thead>
<tr>
<th></th>
<th>CSR</th>
<th>EPR</th>
<th>CoQ</th>
<th>HCR</th>
<th>CGR</th>
<th>Co. size</th>
<th>Prof</th>
<th>Lever</th>
<th>Earnings mgt</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPR</td>
<td>Pearson Correlation</td>
<td>.542**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CoQ</td>
<td>Pearson Correlation</td>
<td>.024</td>
<td>-.195</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.017</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.886</td>
<td>.246</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>HCR</td>
<td>Pearson Correlation</td>
<td>.341*</td>
<td>-.102</td>
<td>.741**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.039</td>
<td>.549</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CGR</td>
<td>Pearson Correlation</td>
<td>.338*</td>
<td>-.063</td>
<td>-.290</td>
<td>-.246</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.041</td>
<td>.713</td>
<td>.082</td>
<td>.143</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company size</td>
<td>Pearson Correlation</td>
<td>.103</td>
<td>-.056</td>
<td>.127</td>
<td>.183</td>
<td>-.118</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.542</td>
<td>.742</td>
<td>.452</td>
<td>.277</td>
<td>.487</td>
<td></td>
<td></td>
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<tr>
<td>Profitability</td>
<td>Pearson Correlation</td>
<td>-.088</td>
<td>-.035</td>
<td>.220</td>
<td>.095</td>
<td>-.022</td>
<td>-.006</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.602</td>
<td>.836</td>
<td>.191</td>
<td>.576</td>
<td>.898</td>
<td>.973</td>
<td></td>
<td></td>
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<tr>
<td>Leverage</td>
<td>Pearson Correlation</td>
<td>-.102</td>
<td>-.416*</td>
<td>.270</td>
<td>.079</td>
<td>.077</td>
<td>.435**</td>
<td>-.277</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.548</td>
<td>.010</td>
<td>.106</td>
<td>.644</td>
<td>.649</td>
<td>.007</td>
<td>.096</td>
<td></td>
</tr>
<tr>
<td>Earnings mgt</td>
<td>Pearson Correlation</td>
<td>.125</td>
<td>-.109</td>
<td>.017</td>
<td>.127</td>
<td>.330*</td>
<td>.287</td>
<td>.410*</td>
<td>-.028</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.462</td>
<td>.520</td>
<td>.922</td>
<td>.453</td>
<td>.046</td>
<td>.085</td>
<td>.012</td>
<td>.870</td>
</tr>
</tbody>
</table>

N=37  
**. Correlation is significant at the 0.01 level (2-tailed).  
*. Correlation is significant at the 0.05 level (2-tailed).  
Source: Research Findings
Pearson correlation was used by the researcher to analyze the variables so as to test the direction, strength and significance of the relationship among all the variables that have been measured. As shown in table 4.2 the predictor variable CSR had a weak to moderate strong and positive correlation with the other predictor variables namely EPR, CoQ, HCR and CGR of 0.54, 0.02, 0.341 and 0.338 respectively. Upon comparing it to the control variables, the study found a weak positive correlation between CSR and Company size of 0.103 and a weak negative correlation of -0.088 and -0.102 between CSR and the other control variables profitability and leverage respectively.

The predictor variable EPR has a negative weak correlation with all the other variables ranging between -0.035 and -0.416 whereas the other predictor variable CoQ has a strong positive correlation with HCR of 0.741, a weak negative correlation of -0.29 and a weak positive correlation with the all the control variables of 0.127, 0.220 and 0.270 respectively. HCR has a weak negative relationship with CGR of -0.246 and a weak positive correlation with all the control variables of 0.183, 0.095 and 0.079 respectively. CGR has a weak relationship with all the control variables, a negative one with company size and profitability of -0.118 and -0.022 and a positive correlation of 0.077 with leverage.

Amongst themselves, the control variables have a weak to moderate relationship with company size correlating weakly and negatively by -0.006 with profitability and positively to a moderate extent with leverage by 0.435. On the other hand leverage has a negative correlation with profitability of -0.277. Ultimately, each item on the model relates with earnings management by a weak to moderate extent. EPR, CoQ and leverage have a weak negative correlation with the dependent variable of -0.109, -0.017 and -0.28 respectively whereas CSR, HCR, CGR and company size relate to it positively though to a weak extent by 0.125, 0.127, 0.33 and 0.287. Profitability is the only variable that positively relates to earnings management to a moderate extent by 0.41.

### 4.5 Regression Analysis

Regression enquiry is an arithmetical skill used in explaining the connection between variables and determining whether the analytical model used in the study fits the data. It helps in forecasting or predicting the unknown value of one variable having known the value of the other.
variable. This is made possible by use of coefficients of variables arrived at after regressing the data set.

4.5.1 Regression model

The study conducted regression analysis on the analytical model to determine its goodness of fit in explaining the variables. The table below shows the results thereof:

Table 4.3: Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.683&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.466</td>
<td>.313</td>
<td>5.29404</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Leverage, CGR, HCR, Profitability, EPR, Company size, CoQ, CSR

Source: Research Findings

The outcomes illustrated in table 4.3 confirm that the model displays goodness of fit as shown by the coefficient of fortitude (R²) of the value 0.313. This means that independent variables, together, explain 31.3% of the variations in the dependent variable, earnings management. The remaining 68.7% of variations are brought about by other factors outside the model.

4.5.2 Analysis of Variance

This test is verification for whether the homogeneity of variance has been met. The test examines the mean differences between two or more groups. The table below shows the Anova of this study’s variables.

Table 4.4: Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>684.957</td>
<td>8</td>
<td>85.620</td>
<td>3.055</td>
<td>.013&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>784.753</td>
<td>28</td>
<td>28.027</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1469.710</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earnings management
b. Predictors: (Constant), Leverage, CGR, HCR, Profitability, EPR, Company size, CoQ, CSR

Source: Research Findings
From table 4.4, the significance value is 0.013 meaning that all factors have a significant effect on the dependent variable because the significance value (p value) is lower than 0.05.

### 4.5.3 Coefficients of the Regression Analysis

The scholar piloted a multiple linear regression analysis so as to establish the relationship between independent variables and dependent variable (earnings management). The study variables had to be regressed to find the coefficients for each variable as shown below:

**Table 4.5: Coefficients of Regression Analysis between Earnings Management and Voluntary Disclosures**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-27.515</td>
<td>9.172</td>
<td>-3.000</td>
<td>.006</td>
</tr>
<tr>
<td>CSR</td>
<td>-7.863</td>
<td>10.675</td>
<td>-.198</td>
<td>-.737</td>
</tr>
<tr>
<td>EPR</td>
<td>.383</td>
<td>4.835</td>
<td>.018</td>
<td>.079</td>
</tr>
<tr>
<td>CoQ</td>
<td>-16.402</td>
<td>12.607</td>
<td>-.335</td>
<td>-1.301</td>
</tr>
<tr>
<td>HCR</td>
<td>34.238</td>
<td>21.717</td>
<td>.461</td>
<td>1.577</td>
</tr>
<tr>
<td>CGR</td>
<td>10.586</td>
<td>4.435</td>
<td>.469</td>
<td>2.387</td>
</tr>
<tr>
<td>Company size</td>
<td>2.526</td>
<td>1.211</td>
<td>.350</td>
<td>2.085</td>
</tr>
<tr>
<td>Profitability</td>
<td>49.437</td>
<td>19.125</td>
<td>.419</td>
<td>2.585</td>
</tr>
<tr>
<td>Leverage</td>
<td>-1.367</td>
<td>4.902</td>
<td>-.059</td>
<td>-.279</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earnings management

**Source: Research Findings**

The regression equation was:

\[
Y = \beta_0 + \beta_1(\text{CSR}) + \beta_2(\text{EPR}) + \beta_3(\text{CoQ}) + \beta_4(\text{HCR}) + \beta_5(\text{CGR}) + \beta_6(\text{SIZE}) + \\
+ \beta_7(\text{PROF}) + \beta_8(\text{LEV}) + \epsilon
\]

\[
Y = -27.515 - 7.863(\text{CSR}) + 0.383(\text{EPR}) - 16.402(\text{CoQ}) + 34.238(\text{HCR}) + 10.586(\text{CGR}) \\
+ 2.526(\text{SIZE}) + 49.437(\text{PROF}) - 1.367(\text{LEV}) + \epsilon
\]

As per the linear regression equation recognized, taking all factors (CSR, EPR, CoQ, HCR, CGR, Company Size, Profitability and Leverage) constant at zero, Earnings management was -
The empirical outcomes examined further shows that while taking all other independent variables constant at zero, a unit increase in CSR will lead to a 7.863 decrease in earnings management, a unit increase in EPR will lead to a 0.383 increase in earnings management, a unit increase in CoQ will lead to a 16.402 decrease in earnings management, a unit increase in HCR will lead to a 34.238 increase in earnings management and a unit increase in CGR will lead to a 10.586 increase in earnings management.

Further, a unit increase in company size as measured by total assets will lead to a 2.526 increase in earnings management, a unit increase in Profitability will lead to a 49.437 increase in earnings management and a unit increase in leverage will lead to a 1.367 decrease in earnings management. This therefore implies that CSR, CoQ and leverage have a negative relationship whereas EPR, HCR, CGR, company size and profitability have a positive relationship with earnings management. The constant, CGR, Company size and Profitability were found to have the most significant effect on earnings management as evidenced by significance values of 0.006, 0.024, 0.046 and 0.015. This is the case because significance values are less than 0.05.

### 4.6 Discussion of Research Findings

This study performed a longitudinal analysis of the voluntary disclosures and earnings management of NSE listed companies over a five year period from 2011-2015. In the study, it was eminent that all voluntary disclosures taken together have a significant positive relationship with earnings management. This is depicted by the Pearson Product Moment coefficient (r) of 0.683. In addition, voluntary disclosures namely EPR, HCR, CGR along with the control variables company size and profitability have a positive relationship with earnings management while CSR, CoQ and the control variable leverage have a negative relationship with earnings management. This means that increases in CSR and CoQ disclosures reduce earnings management in firms and consequently facilitates high quality financial reports. On the other hand disclosures on environmental policies, human capital and corporate governance seem to encourage earnings management and in the end may compromise the quality of financial reports.

Amongst themselves, the items of Voluntary disclosures namely Cost of Quality, Corporate Social Responsibility, Corporate Governance. Environmental Policy and Human Capital reports were found to have a weak to moderate relationship. This means that disclosure of one only has a weak to moderate effect on the other. Moreover, all these independent variables of voluntary
disclosure along with the control variables were found to have a significant effect on quality of financial reporting. Owing to the little spread found in the independent variables across firms listed at the NSE, the research found that these firms seem to report almost similarly on the items of voluntary disclosures.

The outcome of the analysis, particularly on size as an significant predictor of corporate reporting behaviour was consistent with past researchers such as that of Ahmed and Courtis (1999), who found that size, listing status and financial leverage have a significant impact on disclosure level and its consequent use in giving quality financial information. However the findings of this study were inconsistent with those of Asava (2013) and Zareian (2012) who found no relationship between voluntary disclosures and the quality of financial reports.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
The study aimed at establishing the effect of voluntary disclosures on the quality of financial reporting for companies listed at the Nairobi Securities Exchange. This chapter is a comprehensive blend of the whole study and contains a summary of the research findings, an elucidation of the findings in light of the research objective, conclusions and the consequent recommendations.

5.2 Summary
The researcher used descriptive statistics to analyze the variables and found that for the independent variables CSR had a mean of 0.75 and a standard deviation of 0.16, EPR had a mean of 0.45 and a standard deviation of 0.31, CoQ had a mean of 0.41 and a standard deviation of 0.13, HCR had a mean of 0.38 and a standard deviation of 0.09, CGR had a mean of 0.63 and a standard deviation of 0.28. For the control variables, the study found company size having a mean of 7.39 and a standard deviation of 0.89, Profitability having a mean of 0.04 and a standard deviation of 0.05 and leverage having a mean of 0.52 and a standard deviation of 0.27. The dependent variable, earnings management, on the other hand, had a mean of -0.1115 and a standard deviation of 6.39.

Correlation of variables of the study was also done and the researcher found that each item on the model relates with earnings management to a weak to moderate extent. EPR, CoQ and leverage have a weak negative correlation with the dependent variable of -0.109, -0.017 and -0.28 respectively whereas CSR, HCR, CGR and company size relate to it positively though to a weak extent by 0.125, 0.127, 0.33 and 0.287. Profitability is the only variable that positively relates to earnings management to a moderate extent by 0.41.

The model shows a goodness of fit as indicated by the coefficient of determination $r^2$ with value of 0.313. This implies that the independent variables together explain 31.3% of the variations as a result of the factors affecting the quality of financial reporting as measured by the extent of earnings management. 68.7% of the variations in the dependent variable are brought about by factors not captured by the model.
The regression equation established depicts that, taking all factors (CSR, EPR, CoQ, HCR, CGR, Company Size, Profitability and Leverage) constant at zero, earnings management reduces by 27.515. Further, while taking all other independent variables constant at zero, a unit increase in CSR and CoQ will lead to a 7.863 and a 16.402 decrease in earnings management respectively, while a unit increase in EPR, CGR and HCR will lead to a 0.383, 10.586 and 34.238 increase in earnings management. Further, a unit increase in company size as measured by total assets will lead to a 2.526 increase in earnings management, a unit increase in Profitability will lead to a 49.437 increase in earnings management and a unit increase in leverage will lead to a 1.367 decrease in earnings management. This therefore implies that CSR, CoQ and leverage have a negative relationship whereas EPR, HCR, CGR, company size and profitability have a positive relationship with earnings management.

5.3 Conclusions
Regulatory agencies of the Kenyan Government put forth specific provisions and regulations for firms to always adhere to in preparing their financial reports. Various reforms have been introduced over time by regulators for instance the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE). They are designed to transform the securities exchange into a means of mobilizing domestic savings and attracting foreign direct capital investment. Thus, there is increased attention paid to those items making firms more striking to investors. The major item them is high quality financial reports that can be depended on by users to help them make informed economic decisions. Kenyan companies thus engage in voluntary disclosures and report on items over and above those required by law to improve the usefulness of their reports.

Users want reliable financial information that can help them make prudent decisions while incurring least costs. Moreover, there are empirical evidences over time suggesting that increased information disclosure reduces a firm’s transaction costs and particularly the cost of capital by reducing information asymmetry (Botosan, 1997). From the findings of this research, it was clearly determined that there was a relationship between the independent variables and the dependent variable and the amount and type of disclosures done voluntarily reduces earnings management to a large extent and thus improves the quality of financial reports.
5.4 Recommendations for Policy and Practice

The study recommends that organizations should have voluntary disclosure over the statutory prerequisites set by the administrative bodies, especially voluntary disclosures identifying with Environmental Policy Reporting, Cost of Quality reporting and Corporate Social Responsibility reports. This is on the grounds that the presence of these diminishes the degree of profit administration and thus increases the quality of financial reporting. There was a solid positive critical relationship was that was evidently found between voluntary disclosure and the financial reporting quality.

The government should also exert the same efforts it is putting in encouraging firms to make corporate governance disclosures to all the other forms of voluntary disclosures. Since companies seemed to put more emphasis on the guidelines set by the Capital Markets Authority (CMA) in corporate governance reporting, it was evident that the strengthening of the mandate of government agencies like the Kenya Bureau of standards (KEBS) is necessary. This will ensure that voluntary information for example Cost of Quality reports are given more attention and prepared more regularly. Further disclosure should be encouraged because disclosed financial information is essential for investors to efficiently allocate scarce resources (Cooke, 1989), and assess investment options (Gray, Meek, Roberts, 1995)

5.5 Limitations of the Study

In determining and evaluating the extent of voluntary disclosures, this research used a self-constructed disclosure index. Evidently, this type of method used in measurement is entirely subjective and dependent on the researcher’s judgment thus consequently introducing bias to the research process. A binary coding system was used in which 1 was assigned to presence of an item on the disclosure index and 0 for its absence. Different researchers would definitely give different ratings to the items on the index and this may hamper objectivity.

The study focused on the annual financial reports of NSE listed companies for only five years and the selected years 2011 to 2015 may be inadequate to warrant generalization of the results. Besides, the research was carried out for companies listed at the NSE in Kenya and consequently the results cannot generalize to firms not listed on the exchange as well as firms in other countries. Moreover, this research only focuses on voluntary disclosure related to one
communication tool used by firms. Namely the annual financial reports while other communication tools exist to facilitate voluntary disclosure for the firms.

5.6 Suggestion for Further Research

These research findings are limited only to understanding the relationship between voluntary disclosures and the quality of financial reporting. Further research can be carried out to determine the relationship between individual aspects of voluntary disclosures on financial reporting quality. In addition, this research recommends that further sector-specific studies could perhaps reveal a little bit more focused results because different industries may prefer or be able to report on particular items voluntarily, that may be different in nature and extent from other sector-specific disclosure items.

Further research can be carried out to establish the actual costs of disclosure or absolute non-disclosure by firms. In addition, more research can be done on the subject without entirely relying only on the published annual financial reports of the companies listed at the Nairobi Securities Exchange as the only communication tool.
REFERENCES


Jesus, S.G., & Emma, G.M., (2013). Does Corporate Governance Influence Earnings


APPENDIX I

Companies listed on the NSE as at 31st December 2015

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>SYMBOL</th>
<th>COMPANY</th>
<th>SYMBOL</th>
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<td><strong>CONSTRUCTION AND ALLIED</strong></td>
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<td>1) Eaagads Ltd</td>
<td>EGAD</td>
<td>33) ARM Cement Ltd</td>
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<td>2) Kakuzi Ltd</td>
<td>KUKZ</td>
<td>34) Bamburi Cement Ltd</td>
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<td>3) Kapchorua Tea Co Ltd</td>
<td>KAPC</td>
<td>35) Crown Paints Kenya Ltd</td>
<td>BERG</td>
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<tr>
<td>4) The Limuru Tea Co Ltd</td>
<td>LIMT</td>
<td>36) E. A. Cables Ltd</td>
<td>CABL</td>
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<td>5) Rea Vipingo Plantations Ltd</td>
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<td>37) E. A. Portland Cement Co. Ltd</td>
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<td>6) Sasini Ltd</td>
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<td>7) Williamson Tea Kenya Ltd</td>
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<td>38) Nairobi Securities Exchange Ltd</td>
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<td>39) Centum Investment Co. Ltd</td>
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<td>9) Marshalls (E.A.) Ltd</td>
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<td>40) Olympia Capital Holdings Ltd</td>
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<td>10) Sameer Africa Ltd</td>
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<td>41) Trans-Century Ltd</td>
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<td>BBK</td>
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<td>44) Kenya Power &amp; Lighting Co Ltd</td>
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<td>45) Total Kenya Ltd</td>
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<td>46) Umeme Ltd</td>
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<td>16) I &amp; M Holdings Ltd</td>
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<td>47) British American Investments Co. (Kenya) Ltd</td>
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<td>17) Kenya Commercial Bank Ltd</td>
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<td>48) CIC Insurance Group Ltd</td>
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<td>18) National Bank of Kenya Ltd</td>
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<td>49) Jubilee Holdings Ltd</td>
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<td>51) Liberty Holdings Ltd</td>
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<td>22) Express Kenya Ltd</td>
<td>XPRS</td>
<td>53) A. Baumann and Co. Ltd</td>
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<td>54) B.O.C Kenya Ltd</td>
<td>BOC</td>
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<td>KQ</td>
<td>55) British American tobacco Kenya Ltd</td>
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<td>LKL</td>
<td>56) Carbacid Investments Ltd</td>
<td>CARB</td>
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<td>30) Uchumi Supermarket Ltd</td>
<td>UCHM</td>
<td>61) Unga group Ltd</td>
<td>UNGA</td>
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<tr>
<td><strong>TELECOMM. &amp; TECH.</strong></td>
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<td>31) Flame Tree Group Holdings Ltd</td>
<td>FTGH</td>
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<tr>
<td>32) Home Africa Ltd</td>
<td>HAHR</td>
<td>62) Safaricom Ltd</td>
<td>SCOM</td>
</tr>
</tbody>
</table>

Source: www.nse.co.ke
APPENDIX II

DISCLOSURE INDEX

Human Capital Reports

1) Have they commented on experience of the management team?
2) Have they provided description of workforce?
3) Have they provided amount spent on education, training and development of employees?
4) Have they provided employee retention rates?
5) Have they provided average remuneration per employee?
6) Have they provided average age of key employees?
7) Have they provided average gender composition for employees?
8) Have they provided other measurement of intellectual capital?
9) Have they provided investment in ERP?
10) Have they commented on strategy for management of human capital?
11) Have they commented on strategy regarding ERP systems in the firm?
12) Have they disclosed employee entitlements e.g. to annual leave, retirement benefits scheme, health and wellness scheme for employees and their dependants?
13) Have they disclosed the nature of agreements with employees and labour unions?
14) Have they commented on health and safety of employees at work?

Cost of Quality Reports

1) Have they identified the principal products and/or services?
2) Have they described specific characteristics of these products and/or services?
3) Have they commented on quality of production processes e.g. warranties as testimony to belief in the production processes?
4) Have they commented on R & D expenditures?
5) Have they disclosed commitment to innovation and investments in creative improvements in production?
6) Have they commented on product development cycle?
7) Have they commented on ratio of inputs to outputs?
8) Have they commented on new products?
9) Have they commented on rejection/defect rates?
10) Have they commented on volume of materials consumed?
11) Have they commented on changes in production methods?
12) Have they commented on changes in product materials?

**Corporate Governance Reports**

1) Have they provided a statement of corporate goals or objectives?
2) Have they provided a general statement of corporate strategy?
3) Have they commented on actions taken to achieve the corporate goals?
4) Have they provided a period for achieving corporate goals?
5) Have they provided attitude towards questions on ethics and adherence to the Code of Ethics?
6) Have they provided for existence of committees and reports on their engagements?
7) Have they disclosed Directors’ non-performance based remuneration?
8) Have they provided for separation of roles of the CEO and the Chairman?
9) Have they disclosed their commitment to adhere to the company guidelines issued by CMA?
10) Have they disclosed that Directors are given appropriate and timely information to enable them maintain effective control over all strategic, operational and compliance issues?

**Environmental Policy Reports**

1) Have they provided strategy towards environmental issues?
2) Have they disclosed periodical reviews of environmental policies?
3) Have they indicated stakeholder involvement in environmental policy formulation and implementation?
4) Have they disclosed social costs incurred in environmental protection and conservation?
5) Have they disclosed the firm’s commitment to reduction of environmental impact?
6) Have they accounted for environmental impact assessment?
7) Have they commented on other effective environmental risk assessments processes?

**Corporate Social Responsibility Reports**

1) Have they accounted for any corporate social responsibility they engage in?
2) Have they been fueled by an understanding of stakeholder interests?
3) Have their CSR engagements been tied to the core business activities?
4) Have they shown the firm’s effort in alleviating societal suffering?
5) Have they disclosed any means of giving back to the society?
6) Have they disclosed any expense incurred in community development?
7) Have they linked CSR to their corporate strategy?

Source: Researcher (2016)