THE RELATIONSHIP BETWEEN VOLUNTARY DISCLOSURES AND ANNUAL STOCK TRADING VOLUMES OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I, the undersigned, declare that this research project is my own work and has never been presented in any other university or college for a degree or any other award.

Signed: ______________________ **Date ____________________**

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I would also like to thank my family for the constant support and regular follow up in ensuring I complete the project successfully.

DEDICATION

This project is dedicated to my family for the much support they have shown me throughout the project and for their encouragement that enabled me to complete the study successfully.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS AND ACRONYMS

CMA: Capital Markets Authority

FASB: Financial Accounting Standards Board

NSE: Nairobi Securities Exchange

NYSE: New York Stock Exchange

ABSTRACT

Each year, different corporations strive to provide more and more information to their stakeholders through voluntary disclosures. Voluntary disclosures have become quite common in financial reporting that it may not be possible to find an annual report of a listed company without one or more categories of voluntarily disclosed information being included in different sections. The objective of this study was to investigate the relationship between voluntary disclosures and average daily trading volumes of companies listed at the Nairobi Stock Exchange.

This study examines the financial background of the company, analysis of business data, forward looking information, information about management and shareholders and information about intangible assets as variables that impact on the average daily trading volumes of listed companies by influencing investment decisions of investors in the securities market. A descriptive research design was adopted and a sample of twenty corporations in different industries in Kenya. A disclosure index was developed that included thirty four different items of study that were used in weighting each of the five categories of voluntary disclosures. Company annual reports were then analyzed for five years from 2012 to 2016 to determine which of the 34 items were included. Primary data regarding the daily trading volumes of each of the 20 companies was collected from the Nairobi Stock Exchange. A multiple linear regression model was then used to analyze the data collected.

Regression analysis was used to determine the level of association between the variables in the study. The regression equation derived from the analysis shows there is a positive relationship between average daily trading volumes and the independent variables in the study. An analysis of the significance of the relationship showed the relationship between average daily trading volumes and the independent variables was not highly significant. The study concludes that corporations should disclose more information voluntarily to improve the performance of their securities in the market.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In the increasingly dynamic trading environment that characterizes the securities markets today, accurate and timely information plays a critical role in ensuring both investors and organizational managers are in a position to make informed judgments that will both maximize their earnings potential and strategically position their organization for growth. To bridge the information gap, therefore, and ensure that all stakeholders are sufficiently informed of an organizations activities, managers in most companies now days voluntarily provide more information, over and above both statutory and regulatory disclosure requirements (Einhorn, 2005).

Current research on voluntary disclosures focus more on their impact on stock returns, reported profits, working capital management and the general reputation of a firm as evidenced by its brand value. Less research has been done in identifying the relationship between voluntary disclosures and trading volumes of different securities at the Nairobi Securities Exchange. According to Moerman, Vyas, Shroff, & Kim (2014) organizations usually change the nature and timing of their voluntary disclosures at different times of the year to boost their stock price by increasing demand or encouraging general investment in their company. This goes to show that there is an underlying relationship between voluntary disclosures and trading volumes that can be used by organizations in boosting their stock activity at certain times of the year.

Theoretically, there are a number of theories that tend to support the proposition that voluntary disclosures impact on the average annual trading volumes of listed companies. The signaling theory is one of these, which proposes that when insiders in an organization make particular investment moves, it's a signal that they have more information about the company that other investors do not have. The efficient market hypothesis, which is based on the premise that investors react to the amount of information available publicly regarding the investment target, also supports the notion that the availability of more information influences investment decisions. The agency theory also reinforces the argument, as it implies that corporate managers do not disclose all information in their possession to investors.

Voluntary disclosures not only provide a company with an avenue to ensure its stock remains competitive in the securities markets but also enables organizational management to disclose more information on items appearing on their financial statements that they may otherwise not have been able to disclose. According to Lana, Wang, & Zhang (2013) voluntary disclosures are also associated with a low cost of capital, as companies that have a history of providing more information on their activities find it relatively easier to raise capital. Binh (2012) notes that voluntary disclosures also improve the value of share stock over time, as investors are better able to understand the general direction in which a company is heading.

1.1.1 Voluntary Disclosures

The most efficient securities markets are those that are able to incorporate the most recent information about their securities in their security prices. Accurate and up to date information is therefore essential for investors to be able to determine where to invest their capital for both the long and short-term investment cycles. In ensuring therefore that limited liability companies do not also mislead their shareholders and investors in general, governments and regulatory agencies have put in place minimum disclosure requirements relating to different aspects of an entities business operations. Nonetheless, with the increasing information needs by stakeholders, corporations have found it in their best interests to disclose as much information as possible regarding their operations to reduce information asymmetries and ensure all stakeholder's information needs are met.

As per the regulators' requirements, listed companies are required to submit several financial statements within the financial year, the final, and most widely circulated is the annual report, which contains comprehensive information, both commercial and otherwise about a company in for a particular financial year. In the recent past, this has become the most common way through which corporations voluntarily disclose additional information regarding their activities. Voluntary disclosures address specific information needs of different stakeholder groups, as opposed to required statutory disclosures that intend to paint the same picture of the company to all stakeholders. This in turn aids in reducing information asymmetries even further and keeping agency conflicts if any at a minimum. As a result, almost all listed corporations now days provide additional information to what they are supposed to disclose, both to ensure that their stakeholders have sufficient information and therefore avoid agency conflicts and to attract investors to invest with the company through their different securities.

Voluntary disclosures cover a wide variety of information, ranging from current business activities to the historical activities and future strategies of a company. Specifically, the Financial

Accounting Standards Board has identified six categories of voluntary disclosures, which include the following; Company Background, Analysis of Business Data, Business Data, Forward-Looking Information, Information about management and shareholders and information about intangible assets. Company background covers information relating to the historical activities and growth trends of an organization from its inception to its current shape and form. Business data is information that analyzes the business activities of the company in the recent past and the results achieved from selected and implemented strategies; this includes information such as new product or service lines, changes in geographical areas covered, etc. Analysis of business data is information analyzing the past to current business results of an organization, analytical tools such as trend analyses, industry growth analysis, and share of the company's market within the industry are provided for review by stakeholders. The forward-looking information explains the growth prospects of the company, and different strategies it intends to undertake to achieve more growth. Information about management and shareholders relating to the capital structure of the company, i.e., different securities used and the management structure currently in place, their contribution, and remuneration. Lastly, information about intangible assets relates to the information about the assets such as goodwill, research on development, patents, copyrights, etc.

1.1.2 Average Annual Trading Volumes

The average annual trading volumes represent the amounts of shares traded per day of an individual stock over a period of one year. The average trading volume is usually used as an indicator of the news or current information prevailing in the market concerning a particular stock. An increase in the average trading volume indicates that there is increased demand in the market for the stock, which also means that investors regard the stock as having the potential for growth. A decrease in the average trading volumes indicates reduced interest in the stock by investors, either as a result of new information or due to the volatility of the stock in recent trading history.

The average annual trading volumes also indicate the overall market liquidity, and consequently the transaction costs of carrying out a trade in a particular market. A high trading volume translates to a high number of trading transactions, which eventually reduces the transaction costs of carrying out a single trade, and in turn, encourages more investors to invest in the market. Low trading volumes result in reduced market liquidity, as less and less investors invest in the market, which eventually leads to higher transaction costs and a reduced incentive for investors to invest in the market.

Average annual trading volumes also impact on the stock price of a specific security both in the short term and even in the long run. According to Hasbrouck (2009) highly traded stocks usually maintain a relatively stable stock price in comparison to shares that have low demand. When a stock is in high demand, the ask and bid prices tend to be closer, with a less significant spread. As a result, buyers and sellers can complete transactions much more quickly. When a stock is in low demand as evidenced by a decrease in the trading volumes, the difference in the bid and ask prices is relatively higher, as a result, the prices of the stock end up fluctuating from time to time.

Average annual trading volumes also play a part in momentum trading, which is a trading environment in which securities maintain movement in a single direction, i.e. either increasing or decreasing in prices. Investors taking this approach generally may maintain these particular type of movement for a specific period of time ranging from a few minutes to even a day or several days. For this particular type of investment strategy to be practical, investors pay close attention to annual trading volumes and their movement.

1.1.3 Relationship between Voluntary Disclosures and Average Annual Trading Volumes

Recent trends in financial reporting show that voluntary disclosures are a key component of the annual report of most corporations that must disclose their yearly results publicly. As a result, certain, if not all parts of this voluntarily disclosed information end up impacting on investor confidence, which consequently affects the trading volumes and market liquidity.

In the securities market, investors react to publicly available information regarding potential investment targets. Therefore, as proposed by the efficient market hypothesis theory, the more information available in the market regarding a company, the more informed investors are regarding the market meaning they can make more informed decisions. The provision of voluntary disclosure over and above the required disclosures means that investors can analyze their potential investment target in more detail. As a result, they can identify suitable investment targets that best fit their preferred portfolio. As a result, the investment risk is mitigated, and investors can purchase more securities, leading to changes in the average annual trading volumes.

Previous research studies have already established the link between voluntary disclosures and insider trading, or stock market manipulation (Cheng & Lo, 2006; Brockman, Khurana, & Martin, 2008). Corporations that intend to manipulate their market prices usually provide information that portrays their growth prospects in a positive light, and at times this information is voluntarily provided over and above the statute required disclosures. This, in essence, means that certain information when voluntarily disclosed may greatly influence an investors decision on whether or not to invest in a company.

According to Lee & Swaminathan (2000), information from voluntary disclosures including forward-looking information, business data, analysis of business data and information about intangible assets can aid investors in determining the overall direction in which the company is headed and whether or not an investment in the company would be worthwhile. Depending on the efficiency of the market in question, voluntary disclosures also aid in reducing information asymmetry within the market and consequently positioning investors effectively to make decisions that will contribute positively to their portfolio.

1.1.4 Companies Listed at the Nairobi Securities Exchange

Established in 1954, the Nairobi Securities Exchange has a total listing of 64 firms currently and is the primary securities trading market in the country. Over the last ten years, the organization has undergone tremendous changes that have competitively positioned it to be one of the leading securities markets in the region. This has not only been achieved through improvements in technology but also through improvements in the regulatory framework in place that has encouraged effective and efficient reporting which has greatly aided in improving the efficiency of the market. The regulatory framework put in place by the Capital Markets Authority, which has been instrumental in reshaping the reporting requirements for listed companies has boosted transparency in financial reporting and ensured the investors have up to date investments on different securities to make timely decisions.

According to Outa (2011), the level of disclosure in place for listed companies at the NSE has greatly improved in the recent past. This is not only attributed to the strength of the regulatory environment but also to the need for companies to appeal more to the investment market as a whole. As a result of this need, voluntary disclosures have gained prominence in the recent past as a means through which corporations get as much information as possible on their activities to all stakeholders. In fact, almost all companies currently listed on the NSE do provide voluntary disclosures in accompaniment of the required statutory disclosures yearly (Ponnu & Okoth, 2009).

1.2 Research Problem

To effectively make investment decisions regarding their portfolio, investors need up to date information regarding their specific investment targets. Although the regulatory environment provided by the CMA and other bodies is sufficient in ensuring stakeholders receive enough information about the activities of a company so as to make sound decisions, voluntary disclosures play a critical role in providing stakeholders with more information and hence enable them to make much more strategic and long-term investment decisions. This, in essence, means that there is a relationship between voluntary disclosures and the average annual trading volumes which is a reflector of investor confidence in a particular stock or company.

There is comparatively less research analyzing the effect of public disclosures on trading volumes as a variable than research which analyzes other variables including price, returns, and profitability. According to Ross (1989) research on trading volumes has not featured prominently on most academic work as has other variables in the exchange market. This highlights the need for more research analyzing trading volumes as a variable in the exchange market and the need to ascertain any underlying relationships between it and other variables in a bid to position investors and scholars to effectively make associations between trading volumes and other aspects of the market in decision making.

Most of the research conducted on voluntary disclosures is focussed on the financial performance, working capital management, and stock price movements for listed companies, with less focus on the stock movements within the financial year. Nyabuti (2016) analyzed the effect of voluntary disclosures on the quality of financial reporting and concluded that voluntary disclosures do indeed enhance the quality of financial reporting, as investors were provided with more information on a company's activities. Kendi (2016) studied the relationship between voluntary disclosures and the financial performance of companies listed at the Nairobi Securities Exchange and concluded that there is a direct and positive relationship between voluntary disclosures and financial performance due to the reduced cost of capital that companies benefit from as a result of increased investor confidence. Wanjau (2015) studied the effect of voluntary disclosures on the stock returns of firms listed at the NSE and concluded that voluntary disclosures to result in a higher stock return as investors are better able to foresee changes in the value of a company in the long term. More research studies focussing on voluntary disclosures mostly attempt to identify a link between the level of disclosure and improvements in one or more financial elements of the affairs of an organization. Most other studies attempt to identify specific factors that affect the level of disclosure adopted by an organization. Key research questions that the study intends to answer include: do average annual trading volumes of listed companies at the NSE change as a result of voluntary disclosures? Can corporate managers use voluntary disclosures as a means of influencing the trading activity of their securities? Can investors use voluntary disclosures as a basis for predicting the future performance of a given security in the exchange market?

In this paper, the effect of voluntary disclosures on the average annual trading volumes is explored in detail. Through the analysis of a sample of listed companies, a relationship between the two variables will be established, and possibly identify the benefits of the inclusion of voluntarily disclosed information in the financial statements of organizations.

1.3 Research Objective

To determine the relationship between voluntary disclosures and the average annual trading volumes of firms listed at the NSE.

1.4 Value of the Study

The research is intended to be beneficial to investors, corporate management, capital markets regulatory bodies and reporting standards regulatory bodies by enabling them to identify the effect of voluntary disclosures on NSE trading volumes. As more and more investors resort to securities investment, identification of ways through which they can be able to safeguard their investment through the making of effective and efficient decisions is important. The primary goal of all regulatory bodies, relating to both financial reporting and securities trading is to eliminate information asymmetry in the market through the provision of accurate information to all stakeholders in the market. Despite their best efforts however certain sections of the market still end having to make decisions with less than optimal information of the current state and activities of the companies that they are investing in. Through this research, both reporting regulatory bodies and corporate management can be able to see the need to provide much more information to stakeholders. After establishing the link between the two variables, practicing accountants will also be able to identify the kind of information that will be most beneficial to investors when disclosed.

In addition to this, the research will able to add on on the increasingly growing body of literature on financial reporting and specifically on voluntary disclosures and how they impact on different aspects of the operation of an entity.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter analyzes various theoretical and empirical studies conducted on the subject. Theoretically, an analysis of the various theories covering the subject are explored in detail while empirically, the research analyzes the previous research studies covering the effects of voluntary disclosures on average annual trading volumes of listed companies.

2.2. Theoretical Literature Review

2.2.1. Mosaic Theory

According to the Mosaic theory, decisions on whether or not to invest in a particular stock are primarily determined by the public information available concerning those shares. As a result, investors frequently gather as much information as possible about different securities before deciding on whether to purchase them. This further highlights the importance of publicly available information in determining the purchase decisions of different stocks.

As per the theory, investors and stockbrokers usually rely on the publicly available information in the identification of suitable investment targets. There is a chance however that the whole market may not have the same information, as certain parties in the market may have nonpublic information that can be instrumental in making potential investment decisions. The available nonpublic information used in making these decisions may or may not be classified as insider trading, depending on the source and how the investors were able to piece it together from different sources.

Voluntary disclosures include information relating to all aspects of a company’s operation, meaning the public can access information that would have been otherwise categorized as insider information when in the hands of only certain investors. This involves making conclusions from all the publicly available information from different sources, including information that is yet to be made public.

2.2.2. Efficient Market Hypothesis

According to the EMH hypothesis, the efficiency of the securities market is what determines the amount of information that will be available to investors and consequently the investment decisions made. As per the theory, the price of each security usually reflects all the information that is publicly available regarding each security. As a result, securities can neither be overpriced nor underpriced but will always be traded at fair value. This also means that there are no investors or brokers who can have better information than others regarding securities and therefore be better positioned to make timely decisions.

As per the theory, security markets are usually categorized into three groups depending on their level of efficiency. In the weak form efficient market hypothesis, the information publicly available to all investors is mainly historical. It is therefore not possible to predict future security prices using the previous prices. In a semi-strong form market, security prices do reflect recent and past information regarding the security prices, with little or no information regarding the future of the stock. In the strong form market hypothesis, all information relating to a security is publicly available to all participants in the market, including historical, current and future information. Security prices therefore instantly reflect all the information available in the market concerning each security.

The theory has been criticized mainly for its assumptions which have been viewed as being unrealistic and unlikely to be in place in any market. According to Brown & Cliff (2004), the theory does not take into consideration changing economic cycles and the fact that there are irrational investors in the market at times.

2.2.3. The Agency Theory

The agency theory is also critical in the analysis of the relationship between company disclosures and reactions by investors in the market. In publicly listed organizations, corporate managers are the direct agents of the shareholders, who are mandated to act in the best interests of the shareholders. On the other hand at certain points in time, managers have their interests regarding the organization, which may at times conflicts with the interests of other stakeholders. In certain instances conflicts between the shareholders and management stem more from the failure by the latter to provide sufficient information regarding the state of affairs of the company, than from differences in strategic focus as often assumed.

At times the management of an organization may withhold some information that they may deem as damaging to their reputation if released in the public domain. Shareholders, on the other hand, may need this information in making decisions regarding their investment in the company. Despite the best efforts of regulatory agencies in ensuring corporate managers disseminate as much information as possible for use by shareholders, achieving full transparency is still a challenge for most companies, one of the reasons why voluntary disclosures do play a key role in further bridging the information gap between shareholders and managers in an organization.

The primary reason why firms with limited liability are obligated to disclose essential information as dictated by regulatory bodies is to aid in the reduction of agency costs. Agency costs mainly include the costs incurred by shareholders in ensuring that managers as their agents are indeed acting in their best interests. As a result, the conflicts between management and stakeholders are kept to a minimum. Other agency costs include the costs incurred by stakeholders in providing incentives to managers to ensure they are sufficiently motivated to safeguard the interests of the shareholders.

2.2.4. Signalling Theory

The signaling theory further reinforces the agency theory through the analysis of ways through which an organization's management can reduce information asymmetries between them and their shareholders. The theory proposes that shareholders usually interpret information received from a company as a signal of the future state of affairs of the company. For example, a company that pays a high dividend instead of retaining its earnings may be interpreted as having favorable growth prospects. Furthermore, investors do not only analyze the information that is directly disclosed by a company but also analyzes the activities and recent changes that are taking place in the organization. For example changes in the directorship, or de-investment by some of the prominent shareholders.

It is assumed that the managers of a company are in the best possible position to predict the financial future of the company, and its consequent performance on the stock markets. As a result, the public and shareholders, in general, will interpret the actions and decisions of management as being a guide in deciding whether or not to retain their investment. Information disclosed by the management that is interpreted by shareholders may or may not be verifiable depending on its nature, and may only be taken seriously by a specific segment of the market, but still impacts to a great deal the general reputation of the firm's stock. As a result, corporate managers try their best in ensuring that the information they provide to their stakeholders is as efficient as possible in boosting investor confidence in their stock. This is, therefore, one of the key motivators to managers to include as much additional information by way of voluntary disclosures as possible to ensure their stakeholders have as much information as possible on the growth prospects of the company. This, in essence, means that voluntary disclosures can be efficiently used as a management tool for influencing the overall reputation and public image of a company.

2.3. Determinants of Changes in the Average Annual Trading Volumes

There are some other factors in the securities markets that directly or indirectly influence investment decisions and consequently the average annual trading volumes of different securities in the investment markets. These factors can be broadly categorized into two, market-specific factors and secondly, factors relating to the listed companies whose securities are traded. Market-specific factors include the length of the trading day, i.e., whether it is a full trading day or a half day. The efficiency of the market regarding how long it takes for new information to be reflected in the security prices is also a determinant, as well informed investors will make decisions much more quickly. The nearness to the expiry of option contracts also determines the volume of trade of the security represented by the option. Information relating to the company mainly has to do with the publicly available information regarding the company's current and future activities. This information is usually provided by the company itself, or may be availed by third parties like the press or may be the result of a regulatory agency making a change in policies.

The available public information relating to a particular company determines investor perceptions regarding a specific stock. This includes all information ranging from statutorily required disclosures to voluntarily disclosed information. As a result, organizations that divulge a greater deal of information regarding their activities by way of voluntary disclosures will have a much more informed shareholder and investor base than those who disclose less, and consequently my experience higher trading volumes depending on the usefulness of that information in making decisions.

The general performance of the overall economy and the securities market also determine the level of investment in securities and consequently the trading volumes that will be recorded in a specific year. Cyclical economic variations impact on investment as a whole and therefore determine whether investors will invest more in the securities market or resort to other vehicles of investment.

2.4. Empirical Review

2.4.1. Global Studies

Sun (2003) analyzed the relationship between trading volumes and security prices and returns. The research intended to add new dimensions to portfolio theory through the identification of any underlying relationship between security prices and trading volumes. Analyzing the companies listed the NYSE, the objective of the research was to first determine the relationship between trading volumes and the returns made by investors, which consequently determines the price volatility as investors are willing to accommodate a higher price when they are sure of a return. The population of the study was all the companies listed on the NYSE, a sample of fifty companies was selected for the study. The period of the study was six years from 1996 to 2001. The research showed that for the majority of the businesses in the sample, the trading volumes usually peaked when the companies made their earnings announcement and provided additional information regarding their activities. The research concluded that security prices do have an impact on the trading volumes, as it was observed that trading volumes to change significantly when security prices vary considerably.

Ho & Wong (2001) studied the relationship between corporate governance structures and the extent of voluntary disclosures. The study intended to determine specifically which corporate governance structures which when in place encourage a company to disclose as much information as possible that they are not obligated to disclose under the statutory requirements in place as enforced by regulatory bodies. The study was carried out over a period of five years. The study used a weighted relative index to gauge the differences in disclosures among the different companies studied. The extent of disclosures was then compared to the kind of corporate governance structures that the company being reviewed has in place and a conclusion made on the contribution of each corporate governance structure in ensuring the company disclosed more. The different corporate governance structures studied include; the proportion of nonexecutive directors in the company, the proportion of family members on the board, the existence of an audit committee and the existence of dominant personalities on the board. Among the structures studied, the research concluded that the presence of the audit committee resulted in much more disclosures. The study concluded that organizations that had all the corporate governance structures in place did disclose more information than those that had fewer structures.

Eng & Mak (2003) studied the relationship between voluntary disclosures and corporate governance much more specifically, with the analysis of only two issues; ownership structures and board composition. The objective of the study was to accurately determine whether in cases where managers owned substantial portions of a company’s shares they would be willing to disclose more information and whether the composition of the board has an impact on the degree of voluntary disclosures in a company. The study period was six years, from 1998 to 2002. The population of the study included all listed companies in Singapore, while the sample included seventy firms. The study concluded that there was greater disclosure in cases where managers had a lower ownership stake in the company. The disclosure was higher where the government also had key ownership interests in a company. The disclosure was also high when most of the directors of a company were internal when more and more outside directors were involved in a company's board, the level of disclosure did reduce. As a result, it is quite clear that corporate governance dramatically impacts on the degree of voluntary disclosure adopted by an organization.

Einhorn (2005) studied the interaction between mandatory and voluntary disclosures for several sampled Israeli companies. The objective of the study was to determine whether the mandatory reporting environment had any impact on the degree to which companies would select to provide voluntary disclosures. The study period was ten years, from 1995 to 2004. The population of the study included all the listed companies at the Tel Aviv stock exchange, while the study sampled thirty firms. The objective of the study was to determine whether the regulatory environment as expressed in the required mandatory disclosures was instrumental in establishing the extent of disclosures by listed companies. Both the aggregated and non aggregated reporting environments were analyzed by the study, aiding in determining whether disclosures being analyzed relate to all aspects of a company's operation. A statistical model was used in the analysis of the data. The study concluded that required and mandatory disclosures by regulatory bodies go a long way in shaping the reporting environment which ultimately influences the level of voluntary disclosures that are provided by companies. Reporting environments characterized by very strict reporting standards usually encourage firms to disclose more, while reporting environments that have relatively fewer reporting requirements have comparatively fewer disclosures. This means that the local reporting environment in Kenya also has a bearing on determining the incentive that firms have to provide voluntary disclosures.

Ren & Zhou (2010) analyzed the recurrence of trading volumes at the Chinese stock markets, with the objective of determining whether they move in particular patterns at different specific prices. The study sought to determine whether investors use past information in determining investment strategy, i.e., if a specific stock performed well in the past after attaining a specific price, do investors now believe that after achieving the same price, it will perform better again? The population of the study included all the companies listed in Beijing, while the sample included twenty companies. The study used conditional probability distributions in making determinations of the exact relationship between trading volumes and specific security prices for the sampled stock. The study concluded that in a particular market, there is indeed a relationship between trading volumes and prices in instances where there are increasing price returns. Investors tend to make associations between current stock prices and cases in the past where similar prices were recorded for the same stock. As a result, trading volumes do recur at certain intervals depending on the price movements.

According to Bamber, Stevens, & Barron (2011), the response of trading volumes to public disclosures is not always related to the price, or the price changes immediately preceding the disclosures. The study examines the relationship between trading volumes and public disclosures by a company, without specific consideration of the price component. The population of the study included listed firms in Athens, but the study sampled fourty-five companies.A statistical model was used in the analysis of the data. A disclosure index was used in weighing the level of disclosure by each company in the sample. The study concludes that trading volumes are indeed correlated to public disclosures irrespective of the price of a security, as they are directly useful in determining the investor perceptions of the future of the company and the price of its securities. The assumption of investor rationality was used in part of the analysis but was relaxed in other aspects of the analysis to determine the impact of public information on investors that tended not be rational in the decision making. The research concluded that investor rationality is quite overhyped and there are sections of investors who may overreact to available public information.

2.4.2. Local Studies

Mugo (2014) analyzed the effects of voluntary disclosures on the financial performance of commercial banks in Kenya. The objective of the study was to determine if voluntarily disclosed information regarding a banks future and current activities end up impacting on the returns realized by the bank at the end of the financial year. The study period was five years, from 2009 to 2013. A statistical model was used in the analysis of the data. Different kinds of disclosures were analyzed including those touching on the general affairs of the company, and those focused on the future strategic direction that the company is taking. The study sampled 42 local banks and used an index to gauge the depth of the disclosures, which was then compared to the return on equity achieved in the specific year under consideration. The study concluded that an increase in voluntary disclosures and especially financial disclosures usually results in a higher increase in the reported return on equity. Information relating to the strategic direction of the company, however, showed little to almost no correlation to increases in the return on equity.

Mukaba (2016) analyzed the relationship between voluntary disclosures and financial distress of manufacturing firms listed at the NSE. The objective of the research was to determine the relationship between the extent of voluntary disclosures among manufacturing firms and the probability that they will experience financial distress. A sample of nine manufacturing firms listed at the NSE were studied through the comparison of their voluntary disclosures as weighted by an index and the amount of leverage as shown in their income statements. A statistical model was used in the analysis of data collected. A regression equation was derived that linked the two variables. The study determined that firms that disclosed more information through voluntary disclosures were least likely to face financial distress, hence concluding that there is a relationship between voluntary disclosures and the capital structure of manufacturing organizations.

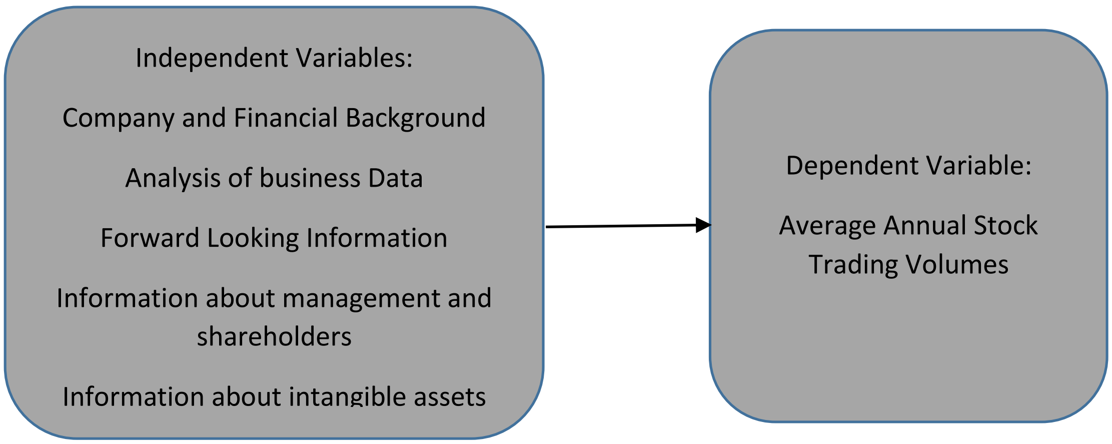
Maina (2016) studied the relationship between voluntary disclosures and the returns made by firms listed on the NSE. The population of the study included all the firms listed on the Nairobi Stock Exchange. A sample of seventeen companies was selected for the study. The objective of the study was to determine the relationship between voluntary disclosures and stock returns made by investors on different securities of listed firms. The study sampled some companies listed at the NSE through the analysis of their annual reports and other disclosures. The disclosures of the different companies were weighted on a scale by the researcher in determining their concreteness. A statistical model was then used in determining the relationship between the variables. Different types of disclosures were analyzed including; forward-looking information, data on current and planned business activities, and general corporate governance information relating to the management and shareholders of the company. The study concluded that there is a direct and positive relationship between voluntary disclosures and the stock returns, the more the disclosures, the higher the return made on a company's stock by investors.

2.5 Conceptual Framework

The study seeks to determine the relationship between voluntary disclosures and the average annual stock trading volumes at the NSE. The key research question is therefore whether an increase in the amount of information that is disclosed by companies will translate to more investment by investors in the market. As a result, the study assumes that amount of stock trading volumes depends on the amount of information availed to investors by listed companies. As a result, the trading volumes form the dependent variable of the study, while voluntary disclosures form the independent variables of the study. According to the FASB, there are five key categories of voluntary disclosures that are included in the annual reports of companies, these include: the background and financial information of a company, information analyzing present and past business dat in the company, forward-looking information, information about management and shareholders of a company, over and above regulatory requirement and finally information about the intangible assets of a company. The study will, therefore, investigate the relationship between the dependent and independent variables using data from listed companies at the NSE.

A conceptual framework of the research model is shown below:

Figure 2.1 A conceptual model of the study.



2.6 Summary of Literature Review

From the review of key studies analyzing the impact of voluntary disclosure on the different aspects of firm performance that are related to voluntary disclosures, it appears that no analysis has been done linking the trading volumes of securities and the extent of voluntary disclosures for firms listed at the Nairobi Stock Exchange. Some research studies though have been conducted that link profitability to voluntary disclosures (Kendi, 2016, Mugo, 2014) and others that link voluntary disclosure to security prices (Maina, 2016). It is therefore important to determine exactly whether or not there is a relationship between voluntary disclosures and the stock trading volumes of companies to determine which type of information influences the decision of investors and either encourage them to invest or de-invest.

The determination of whether or not there is a relationship between the extent of disclosure and the trading volumes of stock is important for multiple stakeholders. From a managerial perspective, this could act as an incentive to disclose more information and therefore increase the sale and purchase of stock at the market and consequently the stock price and equity value of the firm. Investors and potential investors in a company can also benefit from the knowledge of this relationship, as companies that disclose more are likely to be viewed as better investment targets since they are more likely to attract more investors gain regarding security prices. Scholarly, it is also important to add voluntary disclosures to other elements that influence an investors decision on whether or not to invest in a company.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology used in answering the research questions and drawing conclusions from the study. The research design, sample population and data analysis and collection methods are explored in depth.

3.2 Research Design

The research design represents a set of guidelines and procedures that are utilized in the collection, study, and analysis of the different variables being studied. Through the research design, specific ways to which each research question can be answered is determined with the objective of solving the research problem. According to Lewis (2015), the research design represents the strategy that the researcher adopts in developing the study, through the analysis of the different variables and research questions of the study with the goal of solving the research problem. Other definitions of the research design mainly focus on the critical aspects of the study that are addressed through the design, i.e., the data collection aspect and the analysis of the data collected in trying to identify any underlying relationships. According to Christensen, Johnson, & Turner (2011), the research design mainly revolves around data collection and how a researcher can ideally identify the most efficient way of collecting data that will best answer the research questions.

A descriptive research design is best suited for this study. A descriptive research design mainly intends to provide an accurate depiction of the variables being studied and consequently identify any underlying relationships. According to Liamputtong (2013), the efficient use of a descriptive research design entails observing the phenomenon being researched and then providing an accurate description of the same in an unbiased way. Surveys and case studies also fall under descriptive research in cases where observation may not capture critical aspects of the variables being studied. Key variables being studied in this paper include the level of nonstatutory disclosures adopted by companies and the annual trading volumes of firms listed at the NSE. Both the dependent and independent variables are quantitative. Hence it is possible to determine changes in both variables through observation and a detailed case study of each firm in the sample population.

3.3 Population

This includes all the elements that can be studied in total in concluding the research problem. The population of the study includes all the sixty-eight firms listed at the NSE as at 31st December

2016, representing a myriad of industries, ranging from financial services, agriculture, manufacturing, and real estate investment.

3.4 Sample Population

A stratified sample of twenty listed companies in different industries will be selected for the study based on their respective industries. Industries to be included in the study include the banking industry, the commercial and services industry, the energy and petroleum industry, the insurance industry, investment industry, the manufacturing industry, the construction industry and the telecommunications industry. Since the number of companies in each industry varies greatly, stratification was used in sampling, where the 68 listed firms were divided into four groups, after which five companies were selected from each group. The sample is selected from different industries as the research questions are not industry-specific and the findings of the study are meant to be uniform and applicable to organizations in multiple industries.

3.5 Data Collection

Data covering the dependent variable that is the annual stock trading volumes will be collected from the NSE for the years 2012 to 2016. Data collected will show the stock trading volumes for each company in the sample population at the end of each trading month for each year, an average will then be computed for each year and input in the model for the analysis. Data on the independent variables which are the five categories of voluntary disclosures as identified by the FASB will be collected from the annual report of the companies in the sample population. A disclosure index will be used in weighting the extent of disclosure. A list of 34 items will be used to determine the extent of disclosure in each annual report of all companies in the sample for each of the five years under study. A score of one was given where an item in the list was disclosed, while a score of zero was given where there was no disclosure.

3.6 Data Analysis

In answering the research questions, the study will use five independent variables and one dependent variable. The independent variables include the company background, analysis of business data, forward-looking information, information about management and shareholders and lastly the information about the intangible assets of a firm. The dependent variable is the variability in the annual stock trading volume of a firm. The independent variables consist of both financial and nonfinancial elements as classified by the Financial Accounting Standards Board. Financial information mainly includes the analysis of business data as shown in a firm's financial statements.

This is further broken down by the analysis of the different financial ratios covering the annual performance of a company. The non financial variables include; the company background which is information about the progression of a firm to its current shape; forward-looking information, which is information that explains the future planned strategies of a firm and what it intends to achieve in future; information about management and shareholders, which is a detailed explanation of the share structure, board information and the management of the firm; and information about the intangible assets of a company, which includes information on such assets as goodwill and patents and copyrights.

A regression model will be used to determine if there is a relationship between the dependent and the independent variables.

A summary of the regression model is shown below.

$Y = \alpha + \beta 1X1 + \beta 1X2 + \beta 1X3 + \beta 1X4 + \beta 1X5 + \varepsilon$

Y is the dependent variable in the model, which represents the annual stock trading volumes.

α, $\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, $\beta 5$, are constants which show the relationship between the dependent and independent variables

X1 - represents the background and financial information that was volunatrily disclosed.

X2 - represents information analyzing business data that was voluntarily disclosed

X3 - represents forward looking information volunarily disclosed.

X4 - represents information about management and shareholders that was volunatrily disclosed

X5 - represents information on intangible assets that was volunatrily disclosed

ε represents the error term in the analysis.

The disclosures will be weighted by an index showing the depth of disclosure by each firm regarding each of the variables in the research question. Both the dependent and independent variables will then be fitted in multiple regression models, which will be analyzed by the SPSS analysis software.

Tests of Significance

Additional tests including a correlation analysis, a t-test and a statistical significance two-tailed test at 95% confidence intervals will also be included in the analysis to determine if there are any underlying relationships among the variables being studied. These tests will focus on the following hypothesis

H0 = There is no significant relationship between voluntary disclosures and average annual trading volumes.

H1 = There is a significant relationship between voluntary disclosures and average annual trading volumes.

3.7 Data Validity and Reliability

According to Aust, Diedenhofen, Ullrich, & Musch (2013), data validity refers to the accuracy and overall soundness of research. Many factors affect the accuracy of a research study, and some of these factors are outside the control of the researcher. Some of these factors have a profound effect on the research and in some cases may end up invalidating parts of or the entire research. According to Silverman (2016), data validation needs to be carried out for all aspects of the study including the methods used in the study and the overall research design chosen by the researcher. Reliability of research refers mainly to the suitability of the data collected in answering the research questions. Data collected should be up to date, and in line with the research needs of the topic under discussion.

Primary data that will be collected from the NSE covers the dependent variable, which is the average stock trading volumes for each company in the sample population. The NSE is the only source of the data, and since it is the organization that trades all the securities for the listed companies, the data is accurate and represents the actual volume of the securities traded for each company. Data on the dependent variable is therefore reliable and precise.

Secondary data to be collected covers the independent variable, which are the five categories of voluntary disclosures. The data will be collected from the annual report of the companies in the sample population. A disclosure index was determined by weighing the volume of disclosure through an analysis of previous studies covering voluntary disclosures. Thirty-four common items used in weighing voluntary disclosures were then selected and used in the weighing the extent of disclosure of each of the five categories of the voluntary disclosures. The annual reports are the official statements issued by a company to the public and are therefore reliable and accurate. The information collected from the annual reports and used in the study is thus accurate and suitable for the study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS, AND DISCUSSIONS

4.1. Introduction

In this chapter, the results of the data analysis are presented together with a discussion of the analytical tools used to analyze the data. Primary data was analyzed using SPSS where the dependent variable, which is the average annual trading volume for each year from 2012 to 2016 was analyzed together with all the independent variables to ascertain if there is an underlying relationship. The independent variables included; the company and financial background of the company, the extent to which the annual report analyzed business data for the uses, forward-looking information, information about management and shareholders and finally information about intangible assets of the company. The regression analysis was mainly used to test whether voluntary disclosures did have any effect on the trading volumes of listed companies. A correlation analysis was also used to determine if there were any relationships among the variables under study, while a t-test was used to evaluate the variance in trading volumes and voluntary disclosures among the companies in the sample population.

4.2. Data Presentation

4.2.1 Descriptive Statistics

Table Summary of Descriptive Statistics

Descriptive Statistics					
	Mean	Std. Deviation	Min	Max	N
Trading Volumes	1163065.5882	2799490.96760			20
Company Background & Finances	.7584	.17118	0.38	1.0	20
Analysis of Business Data	.6531	.15203	0.33	0.83	20
Forward Looking Information	.4762	.15177	0.17	0.83	20
Information on Management and Shareholders	.8400	.14326	0.4	1.0	20

Intangibles	.6176	.19514	0.25	1.0	20

The results of the descriptive statistical analysis are as shown in the table above. From this, it's clear that the companies in the sample population had a mean disclosure of 76% as relates to the company background and financial information. The maximum disclosure index as relates to company background and financial information was 100%, while the lowest was 38%. The standard deviation of the variable was 17%, as result companies can deviate from the mean by 17%.

In the analysis of business data, the minimum value was 33%, meaning that of the companies in the sample population, the one with the lowest disclosure index as relates to the analysis of business data was 33%. The maximum value was 83%, meaning that of the sample companies, the one with the highest disclosure index in the analysis of business data had 83%. The mean value as measured by the disclosure index in the analysis of business data was 65% and had a standard deviation of 15%. As a result, the disclosure index of the data could deviate on both sides of the mean by 15%.

In presenting forward-looking information in their financial statements, the minimum value was 17% meaning the company with the least disclosure index in forward-looking information had 17%. The maximum value was 83% meaning the company with the highest disclosure index in forward-looking information had 83%. Forward-looking information had a mean of 48%, with a standard deviation of 15%, meaning the data could deviate from the mean by 15% on either side.

The lowest disclosure index for intangible assets was 25%, meaning the company with the lowest disclosure index on intangible assets had 25%. The highest was 100%, meaning the company with the highest disclosure index on intangible assets disclosed all information on the selected criteria for providing information on intangible. The mean stood at 61%, while the standard deviation was 19%, meaning the data could deviate from both sides of the mean by 19%.

4.2.3. Correlation Analysis

Summary of Pearson Correlation Analysis

Correlations

		Volumes	Background Info (X1)	Business Data (X2)	Forward Infor(X3)	Mgt Infor (X4)	Intangibles (X5)
Volumes	Pearsons Correlation	1.000	.110	.148	.168	.189	.060
	Sig (2-tailed)	.	.158	.088	.062	.042	.294
	N	20	20	20	20	20	20
X1	Pearsons Correlation	.110	1.00	.184	.328	.166	.235
	Sig (2-tailed)	.158	-	.046	.001	.064	.015
	N	20	20	20	20	20	20
X2	Pearsons Correlation	.148	.184	1.000	.117	.072	.138
	Sig (2-tailed)	.088	.046	-	.142	.256	.104
	N	20	20	20	20	20	20
X3	Pearsons Correlation	.168	.328	.117	1.000	.484	.351
	Sig (2-tailed)	.062	.001	.142	.	.000	.000
	N	20	20	20	20	20	20
X4	Pearsons Correlation	.189	.166	.072	.484	1.000	.628
	Sig (2 Tailed)	.042	.064	.256	.000	.	.000
	N	20	20	20	20	20	20

X5	Pearsons Correlation	.060	.235	.138	.351	.628	1.000
	Sig (2 tailed)	.294	.015	.104	.000	.000	.
	N	20	20	20	20	20	20

A correlation analysis was also undertaken to determine any underlying relationships between the independent variables and the dependent variables. The analysis would indicate whether voluntary disclosures by corporations impact on the daily trading volumes. The Pearson correlation analysis was used in the analysis and had values that range from -1 to 1. The analysis shows that daily trading volumes is positively correlated with background and financial information of a company, analysis of business data, forward-looking information, information about management and shareholders and lastly information about intangible assets. This shows that voluntary disclosures impact on the volume of daily trades in shares by different corporations. From the analysis, its clear that information about management and shareholders had the strongest correlation with daily trading volumes, and it can be concluded therefore that the more information a company provides about its management and shareholders, the more investors will respond through the purchase or sale of shares depending on the what the information would indicate about the future of the company.

4.2.4. Analysis of the Goodness of Fit

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	**.268[a]**	**.072**	**.043**	**2781390.41438**

The regression was tested with the goodness of fit model as shown in the table above. Variables in this equation were tested to determine how well they fit into the equation. The independent variables being the company and financial background, the analysis of business data, forward-looking information about the company, information about management and shareholders and finally the information about the intangible assets of the company. The dependent variable being the daily trading volumes of each company. As indicated in the model, the R square value, which represents the coefficient of determination shows that about 7.2% percentage change in the value of trading volumes of listed companies is as a result of the changes in the independent variables. The adjusted R square stood at 4.3%, which further indicates that there is a relationship between the dependent and the independent variables. In the R square analysis, values for the adjusted R square that tend towards zero indicate that the model has fewer errors, while cases where the adjusted R squared value tends towards one shows there is a high incidence of errors in the model and therefore it is not worthy of being studied. The adjusted R square for the model tends towards zero, indicating that there are relatively few errors in the model and consequently it is worthy of study.

4.2.5 ANOVA Analysis

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	4.717E+13	5	9.433E+12	1.219	.308
Residual	6.112E+14	79	7.736E+12		
Total	6.583E+14	84			

The significance as indicated by the analysis of variance is 0.308, which is above 0.05, meaning the relationship between the dependent variable and the independent variable is not statistically significant.

4.2.6 Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4171187.759	2387570.964		-1.747	.085
	Background	921518.157	1919129.629	.056	.480	.632
	BsData	2425534.745	2043653.265	.132	1.187	.239
	Forward	1400889.890	2388736.458	.076	.586	.559
	Mgt	4269923.448	2932908.103	.219	1.456	.149
	Intangibles	-1946886.029	2037268.502	-.036	-.956	.342

The regression analysis shows the level of association between the independent and dependent variables. The coefficient of each variable in the equation is as shown in the table above, with the significance of each coefficient respectively. The constant for the model is -4171187.759, the standardized coefficients of the model include 0.56 for company background and financial information, 0.132 for the analysis of business data, 0.076 for forward-looking information, 0.219 for information on management and shareholders and -0.136 for information on intangible assets. The beta coefficients were included in the model to determine the underlying associations among the variables in the model. The t statistic in the model is has a significance of 8% which is substantially high and shows the model is accurate. The significance of the background information is also high in the model standing at 6%, while most other variables are also significantly high and point to the accuracy of the mode.

Trading Volumes = -4171187.759 + 056X1 + 0.132X3 + 0.076X2 + 0.219X3 – 0.36X4

4.3. Summary and Interpretation of Findings

The objective of the study was to determine the impact of voluntary disclosures on the trading volumes of firms listed on the Nairobi Stock Exchange. The analysis conducted in chapter four that included regression and other statistical analyses achieves the key objective of the study. In the analysis, the average daily trading volumes formed the dependent variable that was to be influenced by the independent variables which included company and financial background, forward-looking information, information on management and shareholders, analysis of business data and finally information provided about intangible assets. The average trading volumes was selected for five years, at the end of each trading month, then an average computed for each year that was used in the analysis. Voluntary disclosures were analyzed for the five years under study, from 2012 to 2016, and a checklist of 34 items were used to determine the level of disclosure for each independent variable. The results if the analysis shows that there is indeed a relationship between voluntary disclosures and the daily trading volumes of firms listed at the NSE. The correlation analysis conducted shows that the dependent variables and the independent variables are positively correlated. Consequently, through what they choose to disclose or not to disclose companies listed at the NSE can influence to a great extent their trading volumes and either promote the sale of their stock to invest or cause investors to abandon their stock, hence leading to depreciation of their stock value.

From the analysis, it is clear that most of the listed firms at the NSE provide more disclosure relating to the information about management and shareholders, which had a mean disclosure index of 84%. This information mainly covers the management structure of the company and the key employees at different levels in the organization. The least disclosed information from the analysis is forward-looking information, which had a mean disclosure of 47%. Forward-looking information presents the users of financial information with information about the planned activities of the company and what it intends to achieve in future. From this, it can be concluded that average trading volumes are more highly influenced to change through the provision of more information about the management and shareholdings of the company.

From the analysis, the sampled companies listed at the NSE had a minimum disclosure of 38% as related to the company and financial background information (X1). The maximum value for this variable was 100%. The mean for the variable over the five years under analysis stood at 75% while the standard deviation was 17%.

In the analysis of business data, the minimum value of the disclosure index as 33%, meaning the company that disclosed the least information had a disclosure index of 33%. The highest was 83%. The mean and the standard deviations were 65% and 15% respectively. The values indicate that a majority of the firms in the sample population provided quite detailed analysis of their financial results and business operations in general.

Forward-looking information was the lowest disclosed category of voluntary disclosures. Most of the companies in the sample population provided quite a few details of their planned future operations.The lowest value for the variable was just 17%, while the highest value for the variable was 83%. The mean was 48%, while the standard deviation was 15%. The mean is significantly high and shows that most of the sampled companies attempted to provide clear information about their future endeavors.

As relates to the information about management and shareholders most of the firms in the sample population had a high disclosure index, and included as much information as possible in the financial statements. The lowest value for the variable was 40%, while the highest was 100%. The mean for the variable was 84%, while the standard deviation was 14%. This shows that the companies strived to provide as much information as possible about their management structure, board composition, key employee positions, internal company culture and the different classes of shareholders currently investing with the company.

In providing information about their intangible assets, the disclosure index among the sampled companies varied a great deal, with some companies providing less information, while other companies provided almost all the information available regarding such assets. The lowest value for the variable was 25%, while the highest value stood at 100%. The mean was 62%, with a standard deviation of 20%. This shows that all the companies listed on the NSE did provide their shareholders with sufficient and substantial information regarding their intangible asset values.

In analyzing the trading volumes of the sampled companies over the five years, Safaricom Limited had the highest levels of trading activities, and had an average annual activity of over 11 million shares over the five years, which is in line with the analysis as its also one of the companies with the highest disclosure indices over the five year period. The standard Group Limited had the least activities over the five year period and averages just 3000 shares per year over the five years, which also supports the correlation between trading volumes and voluntary disclosures as the company also had some of the lowest disclosure indices in the sample population.

In analyzing the results of the Pearson correlation coefficient, its clear that there is a positive correlation between the trading volumes and the independent variables, including the analysis of business data, information about intangible assets, background and financial history of the entity, forward-looking information, and information about management and shareholders. Which is supported by the model through the positive coefficients of most of the variables.

A goodness of fit analysis was also conducted to confirm whether the collected data and the model are correlated and worthy of study. The results indicate that the data fits in the model. The adjusted R statistic is generally expected to tend towards zero and lie between 0 and 1. From the analysis, the adjusted R statistic is 0.043 which lies between 0 and 1 and generally tends towards zero, meaning the data does fit in the model. The R square value of the model is 7.2%, which shows that about 7.2% of the data in the dependent variable is explained by the independent variables in the model.

The summary of the regression model shows the coefficients of each independent variable in the model and the constant that are to be used in predicting the dependent variable. Most of the coefficient are positive which points to the accuracy of the model. The standard error of the model also shows that the data fits in the model. The t-test of the analysis has a significance of 8%, which shows that there are other variables in addition to voluntary disclosures that explain the changes in the values of the average daily trading volumes of listed companies.

The results of the analysis are in line with previous research studies that have investigated the impact of voluntary disclosures on different aspects of the operation of listed companies. According to Mugo (2014), voluntary disclosures relating to management and shareholders play a role in an investors decision making process on whether or not to invest in a particular company, this study differs from this conclusion in terms of the significance of the relationship between the variables. According to Einhorn, (2005) voluntary disclosures commits organizational management to the organizational strategies and objectives, and as a result, better financial results can be achieved by an organization, which is consequently an incentive for investors to invest more leading to changes in the daily volumes of the organization. Studies conducted by Kendi, (2016) found that information about management and shareholders is the most highly disclosed category of voluntary disclosures, which is in line with the findings of this study. Unlike Ho & Wong (2001) who studied the markets in China and Outa (2011) who studied the markets in Kenya, this study found forward-looking information to be the least disclosed category of voluntary disclosures.

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1. Summary

In chapter one, the study analyzes in depth the background of the study through the definition of the key concepts of the study. An analysis of the daily trading volumes as a financial concept in investment decision making is made, and voluntary disclosures as a medium of providing investors with more information are explored in detail. The key objectives of the study are also explained as being the determination of whether or not voluntary disclosures do have any impact on the average daily trading volumes of firms listed on the Nairobi Stock Exchange. In the second chapter, a literature review is conducted of the different theories that cover voluntary disclosures including the modern portfolio theory, Mosaic theory, sector rotation theory, Efficient market hypothesis, Agency theory and the Signalling theory. Some studies that focussed on trading volumes are also analyzed in detail and the factors that were identified to influence trading volumes explained. Internal factors that were listed as being key in determining the trading volumes included; organizational strategy, financial performance, capital structure, assets held by the organization and debt levels. External factors were determined to be economic stability as shown by inflation levels, political stability, the level of competition in the industry and the levels of savings and investment in the economy. Findings from some other studies were also incorporated in the report. In chapter three, the research design used in conducting the study was explained as being a descriptive research design that used both primary data collected from the NSE, and secondary data collected from the annual reports of the companies being studied. Elements that could be included in the population of the study include all the companies that are listed at the NSE, due to the listing of new organizations and the delisting of certain organization, 17 companies were studied in ensuring data continuity. Companies in the sample population were from a diverse set of industries, including communication and technology, banking, investment, services, and manufacturing. The different variables in the study were also analyzed in detail, both the dependent and the independent variables were explained at this level. The dependent variable was determined to be the average trading volumes, while the independent variables were determined to be the different categories of the voluntary disclosures including company and financial background of the company, analysis of business data, forward-looking information, information about management and shareholder and information about intangible assets. The reliability and validity of the data were analyzed in this chapter and reasons identified supporting the inclusion of the data in the analysis.

Chapter four presented the analysis of the data and the conclusions that were drawn from the different analytical tools that were used to find the relationships between the variables. The findings showed that generally, companies disclose more information relating to management and shareholders voluntarily than the other categories of voluntary information identified. Forward-looking information was the category of voluntary disclosures that was least disclosed by companies in the sample population. As a result, it can be concluded that companies that disclose as much information as possible relating to their management and shareholders will record an increase in the activity of their stock, leading to higher daily trading volumes. These results are supported by the correlation analysis which shows that trading volumes are positively correlated with the independent variables, meaning voluntary disclosure do influence trading volumes at the NSE.

5.2. Conclusion

In the current business and investment environment, reliable and timely information plays a critical role in influencing investor decisions and other parties that continuously transact with an entity, including lenders, the government, employees and other parties.As a result, organization strives each year to ensure they provide their stakeholders with as much information as possible regarding their operations, over and above regulatory disclosure requirements. To meet as many information needs of their stakeholders as possible, companies are disclosing more and more information each year voluntarily regarding their operations. This study determined that all the companies listed on the NSE do provide voluntary disclosures to their stakeholders, although in varying degrees. A key reason for the high disclosure by listed companies in Kenya are the high disclosure requirements put in place by regulatory agencies including the CMA and overall financial reporting guidelines as outlined in the IFRS. Also the annual reports of listed companies nowadays are highly scrutinized by different stakeholders, including investors and customers. Companies, therefore, strive to the best of their ability to ensure that they provide stakeholders with a clear perspective of the current state of affairs of te company, and consequently promote investment and the financial success of the company.

As shown by the regression analysis, there is a positive correlation between voluntary disclosures and the average trading volumes of different companies. The regression analysis shows that a 1% increase in disclosures relating to the financial and company background of the company results in a 56% increase in the trading volumes of a company at the NSE. A 1% increase in disclosures relating to the analysis of business data results in a 13.2% increase in the average trading volumes of companies listed at the NSE. The regression analysis also shows that an increase in disclosures relating to forward-looking information of 1% results in a 7.6% increase in the average trading volumes of companies listed at the NSE. The analysis also showed that a 1% increase in information relating to management and shareholders leads to a 22% increase in the average trading volumes. There was a negative relationship between trading volumes and disclosures relating to intangible assets held by a company. From the analysis, a 1% increase in disclosures relating to information on intangible assets results in a 36% decrease in the average daily trading volumes.

From the findings of the study, it can be concluded that voluntary disclosures impact on the daily trading volumes of listed companies. Although there is no direct study that has been done linking voluntary disclosures to average daily trading volumes, it is clear that when companies disclose more information, investors use this information in making decision son whether or not to invest in a company, leading to either increased investment and hence rising stock prices, or less investment, leading to declining stock prices depending on the nature of the information disclosed. These findings are in line with the findings of Maina (2016) who studied the effects of voluntary disclosures on stock prices and concluded that stock prices improve when corporations disclose more information, in conjunction with other factors.

5.3. Recommendations for Policy and Practice

From the study, it s clear that voluntary disclosures have become part and parcel of the annual disclosures made by companies listed at the NSE. This has been as a result of both developments in the corporate governance disclosure environment and the need for companies to ensure that multiple stakeholders have the right information regarding their activities. Some recommendations can, therefore, be made from the study including the following.

From the study, it is clear that there are widely varying levels of disclosures by different companies in the sample population. This was witnessed even in companies operating in the same industry. This means that there are some companies that provide voluntary disclosures mainly to avoid scrutiny from different stakeholders. Others try to provide as much information as possible but in essence disclose quite less information that would not make a difference to a decision maker about the company. As a result, levels of disclosure vary greatly form company to company and from industry to industry, which means certain investors in the market end up having more information while other investors have less information regarding the companies they intend to invest in. It is recommended therefore that where possible disclosure requirements for voluntary disclosures should be identified, that will ensure all companies provide exactly the same information and consequently ensure that all stakeholders have the same information.

Secondly, voluntary disclosures should not be exclusive to listed companies. In a growing economy like Kenya, a majority of business entities that are substantially large are not listed at the NSE, which includes large corporations like banks, retail chains, manufacturing entities e.t.c. As a result, unlisted companies get to enjoy the benefits of not complying with the regulatory requirements put in place by the CMA, and as a result, a number of key stakeholders that transact with such companies remain largely uninformed as to their financial situation. It is recommended that voluntary disclosures be encouraged even for unlisted entities to ensure multiple stakeholders remain informed of the current status of each business entity they deal with regularly.

Thirdly, it is interesting to note that despite voluntary disclosures not being mandatory, they are usually only disclosed with the mandatory disclosures in the annual report at the end of the financial year. This means investors usually have to wait for the annual report of a company in order to get updates about different aspects of a company's operation, which delays decision making and even means some of the disclosed information becomes valueless as decisions have already been made that may only be reversible at high costs. It is better therefore for companies to provide updates throughout the year to their investors relating to both required and mandatory disclosures.

Lastly, initiatives can also be put in place by the CMA and other regulatory agencies to ensure that voluntarily disclosed information is as beneficial as possible to stakeholders. This means a method should be devised that will evaluate the level of disclosure made by companies. The disclosure index used in this analysis may omit some information that can be critical in measuring the extent of disclosure. A regulator backed index of measuring disclosure can be of great help to different participants in the market.

5.4. Limitations of the Study

The study is limited in the scope that it may have omitted some aspects of voluntary disclosures that could have made an impact on the decision of a user of financial statements. The study focused on five key categories of voluntary disclosure including financial and company background, analysis of business data, information on management and shareholders, forward-looking information and information on intangible assets. There may be other types of information that could have been included in the study that could have possibly impacted on the results of the study. The disclosure index used in quantifying the level of disclosure of the sample population may also fail in incorporating some elements of voluntary disclosures that may have been impactful while including others that have minimal impact on the study. Other elements in the disclosure index have less impact on the study in comparison to other elements, but eventually, they are all assigned the same weights in the study and have the same impact on the findings of the study.

In determining the level of disclosure by each company in the target population, the study used data presented in the annual reports of each company only. Data from quarterly and half year reports and any other corporate disclosure were not included in the analysis.As a result, some information that was captured in these other reports but was omitted from the annual reports is not shown in the study.

5.5. Suggestions for Further Studies

The study analyzed the impact of voluntary disclosures on average daily volumes alone. The research can be expanded to include other elements of the investment market including security prices, corporate goodwill. In addition to voluntary disclosures, the research can also be expanded to include all disclosures made by a company in general.

Secondly, it's important that a much more comprehensive disclosure index be developed to determine exactly which companies disclose more information and which one hold back some information. The disclosure index used in this study includes some elements that may not be materially important in the determination of the overall level of disclosure although all elements are weighted equally in the analysis. More research can, therefore, be conducted in identifying an accurate index of determining the levels of disclosure.

The study can also be expanded to include other elements of corporate governance that were not included in the analysis. Corporate governance in general covers a lot of elements some of which are required to be disclosed by regulatory agencies while others are voluntarily disclosed by management. A study can, therefore, be conducted to specifically determine which set of factors motivate organizational managers to disclose more information voluntarily, and as a result, identify possible ways of increasing the level of disclosure among listed companies in Kenya.

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APPENDIX

VOLUNTARY DISCLOSURE INDEX

Disclosure Index Checklist

	Company and Financial Background of the Firm
1	Previous years financial performance of the firm
2	Information on the historical share price of the firm's stock
3	History of the company
4	Key achievements of the firm
5	Additional information on the capital structure of the firm
6	Analysis of the effects of inflation on the financial performance
7	Information on the value addition on the capital assets of the firm
8	Analysis of key financial ratios for previous years
	Total
	Analysis of Business Data
1	Explanations on the business strategy and model of the firm
2	Analysis of the market share of the company
3	Analysis of the industry as a whole and how its changing
4	Relationship between the business strategy and financial performance
5	Analysis of the products/services of the firm and their differentiation
6	Analysis of the marketing mechanisms in place and supplier relations
	Total
	Forward Looking Information
1	Analysis of factors that may impact on the performance
2	Anticipated changes to the business strategy
3	Anticipated changes i.e. increases/decreases in capital structure
4	Changes to the products/services of the company
5	Anticipated growth in the revenues of the company
6	Anticipated growth in the earnings per share and overall profit
	Total
	Information about management & shareholders

1	Employees currently working for the firm
2	Employee benefits, redundancy and welfare policies
3	Recruitment practices and positive discrimination
4	Directors responsibility and level of engagement
5	corporate social responsibility
6	Policies in place regarding the environment and its improvement
7	Qualifications, remuneration, age and names of the directors
8	Information on the senior management of the company
9	Directors share ownership and any employee share option plans
10	Changes in the employee or management structures
	Total
	Information about Intangible assets of a firm
1	A listing of the intangible assets of the company
2	Valuation of the listed intangible assets
3	Anticipated changes in the values of the intangible assets
4	Historical changes in the value and existence of these assets
	Total

Items in the index were collected from a number of studies analyzing volunatry disclosures, both in academia and in industry, including Cheng & Lo (2006), Pwc (2012) and Binh, (2012).

Listed Companies at the NSE as at 31st December 2016

		TOTAL NO OF
	AGRICULTURAL	**SHARES ISSUED**
1	Eaagads Ltd Ord 1.25 AIM	32,157,000
2	Kakuzi Ltd Ord.5.00	19,599,999
3	Kapchorua Tea Co. Ltd Ord 5.00 AIM	7,824,000
4	The Limuru Tea Co. Ltd Ord 20.00 **AIMS**	1,800,000
5	Sasini Ltd Ord 1.00	228,055,500
6	Williamson Tea Kenya Ltd Ord 5.00 AIM	17,512,640
	AUTOMOBILES & ACCESSORIES	
1	Car & General (K) Ltd Ord 5.00	40,103,308
2	Marshalls (E.A.) Ltd Ord 5.00	14,393,106
3	Sameer Africa Ltd Ord 5.00	278,342,393
	BANKING	
1	Barclays Bank of Kenya Ltd Ord 0.50	5,431,536,000
2	Diamond Trust Bank Kenya Ltd Ord 4.00	266,321,115
3	Equity Group Holdings Ltd Ord 0.50	3,773,674,802
4	Housing Finance Group Ltd Ord 5.00	352,416,667
5	I&M Holdings Ltd Ord 1.00	392,362,039
6	KCB Group Ltd Ord 1.00	3,066,056,647
7	National Bank of Kenya Ltd Ord 5.00	308,000,000
8	NIC Bank Ltd Ord 5.00	639,945,603
9	Stanbic Holdings Plc ord.5.00	395,321,638

10	Standard Chartered Bank Kenya Ltd Ord 5.00	343,510,571
11	The Co-operative Bank of Kenya Ltd Ord 1.00	4,889,316,295
	COMMERCIAL AND SERVICES	
1	Atlas African Industries Ltd ***GEMS***	1,497,370,885
2	Deacons (East Africa) Plc Ord 2.50**AIMS**	123,558,228
3	Express Kenya Ltd Ord 5.00 **AIMS**	35,403,790
4	Hutchings Biemer Ltd Ord 5.00	360,000
5	Kenya Airways Ltd Ord 5.00	1,496,469,035
6	Longhorn Publishers Ltd Ord 1.00 **AIMS**	369,940,476
7	Nairobi Business Ventures Ltd Ord. 1.00 ***GEMS***	23,600,000
8	Nation Media Group Ltd Ord. 2.50	188,542,286
9	Standard Group Ltd Ord 5.00	81,731,808
10	TPS Eastern Africa Ltd Ord 1.00	182,174,108
11	Uchumi Supermarket Ltd Ord 5.00	364,959,616
12	WPP Scangroup Ltd Ord 1.00	378,865,102
	CONSTRUCTION & ALLIED	
1	ARM Cement Ltd Ord 1.00	959,940,200
2	Bamburi Cement Ltd Ord 5.00	362,959,275
3	Crown Paints Kenya Ltd Ord 5.00	71,181,000
4	E.A.Cables Ltd Ord 0.50	253,125,000
5	E.A.Portland Cement Co. Ltd Ord 5.00	90,000,000
	ENERGY & PETROLEUM	
1	KenGen Co. Ltd Ord. 2.50	6,243,873,779

2	KenolKobil Ltd Ord 0.05	1,471,761,200
3	Kenya Power & Lighting Co Ltd Ord 2.50	1,951,467,045
4	Kenya Power & Lighting Co Ltd 4%	
5	Kenya Power & Lighting Co Ltd 7%	
6	Total Kenya Ltd Ord 5.00	175,028,706
7	Umeme Ltd Ord 0.50	1,623,878,005
	INSURANCE	
1	Britam Holdings Ltd Ord 0.10	1,938,415,838
2	CIC Insurance Group Ltd ord.1.00	2,615,538,528
3	Jubilee Holdings Ltd Ord 5.00	65,884,500
4	Kenya Re Insurance Corporation Ltd Ord 2.50	699,949,068
5	Liberty Kenya Holdings Ltd Ord.1.00	535,707,499
6	Sanlam Kenya Plc Ord 5.00	144,000,000
	INVESTMENT	
1	Centum Investment Co Ltd Ord 0.50	665,441,775
2	Home Afrika Ltd Ord 1.00	405,255,320
3	Kurwitu Ventures Ltd Ord 100.00	102,272
4	Olympia Capital Holdings ltd Ord 5.00	40,000,000
5	Trans-Century Ltd Ord 0.50 AIM	281,426,593
	INVESTMENT SERVICES	
1	Nairobi Securities Exchange Ltd Ord 4.00	259,500,791
	MANUFACTURING & ALLIED	
1	A.Baumann & Co Ltd Ord 5.00 AIM	3,840,066
2	B.O.C Kenya Ltd Ord 5.00	19,525,446

3	British American Tobacco Kenya Ltd Ord 10.00	100,000,000
4	Carbacid Investments Ltd Ord 1.00	254,851,988
5	East African Breweries Ltd Ord 2.00	790,774,356
6	Eveready East Africa Ltd Ord.1.00	210,000,000
7	Flame Tree Group Holdings Ltd Ord 0.825	161,866,804
8	Kenya Orchards Ltd Ord 5.00 AIM	12,868,124
9	Mumias Sugar Co. Ltd Ord 2.00	1,530,000,000
10	Unga Group Ltd Ord 5.00	75,708,873
	TELECOMMUNICATION	
1	Safaricom Ltd Ord 0.05	40,065,428,000
	REAL ESTATE INVESTMENT TRUST	
1	STANLIB FAHARI I-REIT	180,972,300
68		**89,320,524,708**