DETERMINANTS OF INTERNET FINANCIAL REPORTING IN KENYA:
EVIDENCE FROM COMPANIES QUOTED AT THE NAIROBI STOCK
EXCHANGE

BY
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DECLARATION

This research project is my original work and has not been submitted for examination in any other University.

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D61/70069/2008

This research project has been submitted for examination with my approval as university supervisor.

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I thank God for giving me the wisdom and courage and for guiding me throughout my life for without Him I would not have come this far. I would also like to acknowledge the following for their contributions which facilitated the completion of this project.

First and foremost, I thank my supervisor Ms. Winnie Nyamute, for providing unlimited, invaluable and active guidance throughout the study. Her immense command and knowledge of the subject matter enabled me to shape this research project to the product that it is now.

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I also thank my family for letting me still their valuable family time to work on this project. It is my hope that their sacrifice has finally paid off.

Finally, I owe my gratitude to a number of people who in one way or another contributed towards completion of this project especially my fellow colleagues at work and students. To all of you, I say Asante Sana!
DEDICATION

To my wife Fridah and children Melissa and Nathan who have been my inspiration. Their support during the entire study is much valued.
ABSTRACT

To evaluate a potential investment, investors require detailed financial and other types of information about the companies. Evidence has shown that most institutional investors usually or occasionally review corporate Web sites before meeting a company's management. Corporate Web sites therefore provide a means for companies to provide such information. Some of the companies listed on the NSE provide such information while other do not. This leads to the question of what determines the choice to publish financial information on the internet. This study sought to establish the determinants of corporate internet financial reporting in Kenya with a specific reference to the firms listed on the Nairobi Stock Exchange.

This study adopted a descriptive survey design. The population of this study was all the 58 firms listed and trading on the NSE as at 1st October 2011. Secondary data were used in the study by searching for websites using Google and Yahoo search engines and looking for financial information published on the websites. Financial information on profitability, assets, type of auditor, industry and whether the company was cross-listed were also sought from the company websites, the CMA, and the NSE. A multiple regression model was used to establish the determinants of internet financial reporting. The data was organized and entered into the SPSS and analysed using descriptive and multivariate analysis.

The study found that 79.3% of the firms had websites and of these, 78.3% published financial information on their websites. Since the data did not meet all the conditions for a Pearson regression, the rank regression was employed. Rank regression analysis showed that total
assets had a positive and significant effect on IFR (B = 0.011, p = 0.036). The study concludes therefore that the major determinant of internet financial reporting in Kenya size of the company as measured by the total assets. The study recommends the need for the regulators to issue guidelines and strictly stipulate the need for all listed companies to have websites and to publish their financial information online. Future research might test empirically how internet disclosure impacts upon companies' stock prices or dividends, to examine how this reporting provides value-relevant information for investors.
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US  United States
USA  United States of America
XBRL  eXtensible Business Reporting Language
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This section provides a brief background on the subject matter. The section covers evolution of Internet Financial Reporting (IFR) and a discussion on the determinants of IFR as theorized and empirically tested in prior studies in this area. The section also previews the firms listed on the Nairobi Stock Exchange (NSE) and why this market has been selected for the study.

1.1.1 Internet Financial Reporting

As soon as academic researchers became aware of the spread of financial reporting on the Internet a number of conference papers were presented containing surveys of Internet reporting (Flynn and Gowthorpe (1997), Lymer (1997), Lymer and Tallberg (1997)). These papers took a sample of companies from different countries and counted up the number with Web sites and with some financial information on the Web site. The results gave an indication of the state-of-the-art for corporate reporting on the Internet at the time of the survey. Marston and Leow (1998) surveyed FTSE100 companies and tested for an association between company size and industry group and extent of financial disclosure on the Internet. Their results showed that larger companies were more likely to disclose and the results for industrial classification were mixed.

Around this time articles began to appear in the business press (Gowthorpe and Flynn, 1997; Wildstrom, 1997) reflecting the growing awareness of the importance of the Internet as a
means of financial communication. It was noted that the investor relations process could be improved and made more transparent and inclusive by means of Internet reporting. For instance, copies of slides from analyst presentations could be placed on a company Web site. Reilly (1997) provides a discussion of the investor relations implications of Internet reporting.

In 1999 a special section of the European Accounting Review, "The Internet and corporate reporting in Europe", was published. Lymer (1999) provided an overview of electronic corporate reporting along with a detailed literature review. He also discussed a wide range of issues that need to be considered by companies, regulators and standard setters in determining how this form of reporting should develop in the future. Craven and Marston (1999) presented the results of a survey of Internet reporting based on the top 200 UK companies. They found that larger companies were more likely to disclose information on their Web site, although industrial classification did not seem to be significant. Debreceny and Gray (1999) surveyed French, German and UK company Web sites with particular reference to whether or not the auditor’s report was included. Deller et al. (1999) carried out a survey of the Internet investor relations activities of US, UK and German corporations. They found that in the USA investor relations via the Internet is more common and offers more features than the other two countries.

disclosure scores with German companies. They found that for Austria larger companies disclosed more and that those with a higher percentage of free float of total shares outstanding scored more. Ashbaugh et al. (1999) surveyed 290 US firms whose traditional financial reporting practices had been critiqued by the Association for Investment Management and Research (AIMR). They hypothesised an association between Internet financial reporting (measured as a 0/1 variable) and firm size, return on assets, rating of reporting practices by the AIMR and the percentage of equity held by individual investors. In their logit analysis they found that only firm size was significant.

The growth of Internet reporting has not gone unnoticed by accounting regulators. The International Accounting Standards Committee (IASC) (Lymer et al., 1999) has published a discussion paper Business Reporting on the Internet which proposes some standards for Web-based business reporting. It also includes a survey of Internet reporting covering the 30 largest corporations in 22 countries. The Financial Accounting Standards Board (FASB) in the USA has published Electronic Distribution of Business Reporting Information (2000) as part of its Business Reporting Research Project. This includes details of a survey of the Fortune 100 companies. Both of these reports contain extensive literature reviews. In France the Commission des Opérations de Bourse (COB) (1999) has issued some guidelines on the use of the Internet by listed companies.

Ashbaugh et al. (1999) consider a company to be providing internet financial reporting when it discloses on its website a comprehensive set of financial statements and auditors' report or when there is a link to its annual report elsewhere on the internet or when there is a link to
the securities and exchange commission's electronic data gathering, analysis, and retrieval (EDGAR) system. However, Oyelere et al. (2003) defined a company as using internet financial reporting when it provides on the web a comprehensive set of financial statements or some financial highlights from its financial statements or partial or summarized financial statements. Smith and Pierce (2005) noted that IFR describes one of the other existing printed information distribution channels and provides complementary and extended information, which are not economically worth of printing. IFR points to the use of corporations' websites to print information related to their financial function. When corporations use IFR, there is a comprehensive set of financial statements at their websites, and a link has been created to their annual report in everywhere of the internet.

The content of IFR can include annual reports, quarterly reports, press releases (to print in newspaper), share price information, analysis reports and management discussions of operations (Poon and Tak Yu, 2003). In general, corporations that use IFR, their annual report is together with and authors' report. In addition, most countries use the form of portable document format (PDF) to print reports (Ashbaugh, et al., 1999), also acquired experimental information show that, corporations which use IFR, are generally larger and more profitable than other corporations (Pervan, 2005), this form of reporting can be presented through video or audio files, too (Kelton, 2006). In their study in the US, Skaife et al (1999) defined a firm practicing Internet Financial Reporting (IFR) when it provided in its web site either a comprehensive set of financial statements, a link to its annual report elsewhere on the Internet, or a link to the US Security and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval system.
A number of studies have empirically tested the determinants of IFR in several countries and the results are conflicting. For instance, Al Arusi et al. (2009) found that the level of technology, ethnicity of CEO and firm size are determinants of both internet financial and environmental disclosures in Malaysia. Oyelere et al (2003) in a study in New Zealand revealed that firm size, liquidity, industrial sector and spread of shareholding - were determinants of voluntary adoption of Internet financial reporting (IFR) and that firm characteristics such as leverage, profitability and internationalization were insignificant. Fekete et al. (2009) revealed that new regulatory guidance in corporate governance, more rigorous legislation and stronger enforcement of rules leads to improved disclosure transparency via corporate internet reporting.

Aly et al (2010) found that profitability, foreign listing and industry were the determinants of the amount and presentation formatting of information disclosed companies' web sites and that firm size, leverage, liquidity and auditor size, were insignificant. Marston (2003) found that company size was significantly positively associated with the existence of a Web site but the extent of financial disclosure did not appear to be related to size. The study also found no significant association between profitability, industry grouping and overseas listing status and Internet disclosure. Gutiérrez-Nieto, et al (2008) found that size was a significant determinant of financial and social information disclosure on the internet. Abdelsalam and El-Masry (2008) found that board composition and ownership structure influence a firm's timeliness of corporate internet reporting behaviour. Henchiri (2007) found that cross-listing and not size was the only significant determinant of web disclosures for companies quoted on
African stock exchanges. These conflicting results warrant further scrutiny of the factors in other markets.

### 1.1.2 Listed Firms on the Nairobi Stock Exchange

Until August 2011, the Nairobi Stock Exchange (NSE) was categorized into three market segments: Main Investment Market Segment (MIMS); Alternative Investment Market Segment (AIMS); and Fixed Income Market Segment (FIMS). The MIMS segment was further categorized in four sectors, namely: agricultural; industrial and allied; finance and investment; and commercial and services. But these have been re-classified into 12 sectors to bring them in line with various sectors of the economy (NSE, 2011). These sectors are agricultural (7 companies), commercial and services (8 companies), telecommunication and technology (2 companies), automobiles and accessories (4 companies), banking (10 companies), insurance (4 companies), investment (3 companies), manufacturing and allied (9 companies), construction and allied (5 companies), and energy and petroleum (4 companies). The other two sectors are fixed income securities market segment which lists preference shares and bonds (NSE, 2011). There are therefore 56 companies currently listed and trading on the NSE. The list of firms listed in attached as appendix A.

Kenya has been selected to investigate corporate internet reporting for several reasons. First, there is a need for Kenya, as a developing country, to raise capital, attract foreign investment and promote the confidence and understanding of stakeholders. Companies have incentives to disseminate financial information online to reach a wider range of international as well as national investors. Second, in a recent study, Ragab and Omran (2006) on the Egyptian stock market found that accounting information is value-relevant information in the Egyptian stock market.
market and argued that stock markets need complementary information sources other than published accounting reports to become more informationally efficient.

Internet reporting is one of the most important sources of such information and potentially complements other published accounting in Kenya. Finally, there is evidence that the number of internet users in Kenya has dramatically increased. By 2006, there were 2.7M internet users in Kenya (Communications Commission of Kenya, CCK, 2006). By June 2010, the number of internet users in the country stood at 8.69 million or 8.5% penetration (CCK, 2011). This is a huge rise given that there were only 45,000 internet uses in 2001 (CIA World Factbook, 2011). This evidence suggests that there is increasing need/trend in Kenya by different stakeholders to seek information through the internet.

1.2 Statement of the Problem

To evaluate a potential investment, investors require detailed financial and other types of information about the companies. A study conducted by Cowell (2000) led to the conclusion that 75% of institutional investors usually or occasionally review corporate Web sites before meeting a company's management. Corporate Web sites therefore provide a means for companies to provide such information. The potential role of the internet, as a relatively new means of communicating information to the general public in developing countries, is to meet stakeholder demands for greater speed and volume of timely information, in better and more effective ways (Willis et al., 2003). The use of the internet enables information to be disseminated worldwide and thus facilitate the improved availability of financial information in particular, so encouraging investment.
The companies listed on the NSE are selected for the study given the unique environment in which they operate. With 56 firms currently listed on the NSE and the trend showing a growth in the number of firms listed on the NSE over the recent past, this market offers the best avenue to study the internet financial reporting issues in sub-Saharan Africa. Nel and Baard (2006) found that only 32.5% of companies in Africa were making online investor relation information available to potential investors. In the same study, only 20% of the companies in Kenya had investor relation sections. This study offers to the impetus to focus on listed firms in Africa and more so on those listed on the NSE given the time period that has passed between the times the former study was conducted, within which time several changes on internet financial reporting must have taken place.

There are conflicting results as regards the determinants of internet financial reporting (Al Arusi et al. 2009; Oyelere et al. 2003; Fekete et al. 2009; Aly et al. 2010; Marston, 2003; Gutierrez_Nieto et al. 2008; Abdelsalam and El-Masry, 2008; and Henchiri et al. 2007). Apart from Nel and Baard (2006) who noted that only a few companies in Kenya had investor relations section on their websites, no other study has attempted to investigate the internet financial reporting in Kenya. The purpose of this study is to investigate the potential factors that may affect the level of corporate internet reporting by Kenyan companies listed on the Nairobi Stock Exchange. The study attempted to answer the question: what are the determinants of internet financial reporting in Kenya?
1.3 **Objective of the Study**

This study sought to establish the determinants of corporate internet financial reporting in Kenya with a specific reference to the firms listed on the Nairobi Stock Exchange.

1.4 **Importance of the Study**

To the best of researcher's knowledge, there is no study examining the potential drivers of the levels of corporate internet reporting in Kenya. Consequently, this study is the first to explore this issue. It will therefore contribute to the limited literature on disclosure practices in developing countries in general and in Kenya in particular.

These findings are also expected to benefit a number of stakeholders including the companies, investor relations, financial analysts, auditors, investors and other users.

The companies will benefit from the findings because they need to attract investors by disclosing timely, relevant information. Disclosure of such information on their websites can save them time and money and thus this study will recommend to them appropriately why they need to do so.

The findings of this study will also benefit the financial analysts. They will save time and effort in collecting and analysing the information their clients need by using company websites to collect such information. Thus, the recommendation for all companies to provide information on their websites will benefit such analysts.
The study findings are also of interest to international investors because they can easily access and obtain information required for their investment decisions in countries far away from them if the information is availed on the company websites.

The study findings also benefit the investor relations society because it can be formed so that the functions of Investor Relations are developed. One of its activities would be to enhance internet financial reporting.

The legislators in Kenya can include in the rules and regulations communication of financial information through companies websites and determine who is responsible for it, what should or should not be included.

The auditors should determine what their responsibilities regarding internet financial reporting are and how to develop this. Training courses should be given to the companies to enhance internet financial reporting with emphasis on various internet reporting languages. The findings will also be important to scholars and researchers as a basis for further studies in Kenya on internet financial reporting.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review. The review starts with a theoretical review where theories and frameworks on internet financial reporting are shown. This is followed by an empirical literature on the determinants of internet financial reporting. The summary of literature wraps up the chapter in which the research gap is elaborated.

2.2 Theoretical Literature

The theories discussed here are innovation diffusion theory, institutional change theories and economics-based theories. These are summarized in Figure 1.

![Diagram of Theories Explaining Motivations for Disclosure]

Figure 1: Theories explaining motivations for disclosure
Mahajan and Peterson (1985) defined an innovation as any idea, object or practice that is perceived as new by members of social system and defined diffusion of innovation as the process by which the innovation is communicated through certain channels over time among members of a social system. Diffusion of innovation theory tries to explain and describe the mechanism of how a new invention, in this case internet financial reporting, is adopted and becomes successful (Clarke, 1999). Sevcik (2004) stated that not all innovations are adopted, even if they are good, and it might take a long time for an innovation to be adopted. He added that resistance to change may be an obstacle to diffusion of innovation. Although it might not stop the innovation, it will slow it down. Rogers (1995) identified five critical attributes that greatly influence the rate of adoption. These are relative advantage, compatibility, complexity, trialability, and observability.

Based on Rogers' ideas, the rate of adoption of internet financial reporting will depend on how organisations perceive its relative advantage, compatibility, triability, observability and complexity. If organisations in Kenya observe the benefits of publishing financial information via the internet, they will adopt the innovation given other factors such as the availability of the required tools. Organisations with websites and having information technology departments will adopt the innovation faster than other organisations with no such facilities. Other factors to be considered are triability and complexity; organisations may decide whether to use PDF, HTML or XBRL in presenting the financial reporting on the internet depending on their triability and complexity.
2.2.2 Institutional Change Theories

The American sociologist, Philip Selznick, who is considered the father of institutional theory, observed that organisations adapt not only to the strivings of their internal group but also to the values of external society (Hatch, 1997). The American Neo-institutional theorist, Richard Scott, defined institutionalization as the process by which actions are repeated and given similar meaning by self and others (Hatch, 1997). This has led the Neo-institutionalists to describe the process by which practices become institutions (Hatch, 1997). Hatch (1997) explained that some actions are repeated because explicit rules or laws exist to ensure their repetition such as the legal and political influences, while other actions are supported by norms, values, expectations, and cultural influences; sometimes actions are repeated because of a desire to be or look like another institution. These actions are governed by social influences.

Trying to answer the question of what makes organisations similar or homogeneous, DiMaggio and Powel (1983) identified three mechanisms (theories) of institutional change: coercive, mimetic and normative isomorphism. According to Carpenter and Feroz (1992), coercive isomorphism results from political influence and problems of legitimacy. Formal and informal pressures will be exerted on the organisation by other organisations or by cultural expectations in the society in which the organisation is a member. These can take the form of governmental mandates or statutory requirements or cultural expectations. Therefore, coercive isomorphism is a form of forced selection where a company is forced by powerful organisations such as the government or providers of capital to adopt an innovation, such as internet financial reporting, regardless of its benefit to the organisation (Xiao et al., 2004).
Mimetic isomorphism occurs “when organisations model themselves after others” (Carpenter and Feroz, 1992). In this case, companies follow earlier adopters from the same sector as a result of uncertainty about organisational technology. It is a form of fashion, where companies imitate others (Xiao et al., 2004). DiMaggio and Powel (1983) emphasized that organisations tend to mirror other organisations in the same field that are perceived to be more legitimate or successful or when there is a greater uncertainty about what is the correct way to handle technology.

Normative isomorphism results from professionals (Carpenter and Feroz, 1992). They create standards and homogeneous organisational practices to be followed (Xiao et al., 2004). There are some professional pronouncements which affect the adoption of internet financial reporting among companies in different countries. DiMaggio and Powel (1983) explained that there are two features of professionalization which are considered important sources of isomorphism; the first is related to the formal education produced by university specialists and the second is related to the growth and expansion of professional networks across which new models diffuse rapidly. Universities and professional training institutions are important centres for the adoption of innovation. Professional and trade associations are another vehicle for the spread of normative isomorphism, as they enable individuals working in same positions to exchange ideas. Another important aspect for encouraging the normative isomorphism is the selection of highly skilled personnel at the entry level.
2.2.3 Economics-Based Theories

These theories include agency theory, capital needs theory, signaling theory, and legitimacy theory. Agency theory provides an explanation for management incentives to disclose voluntarily. Watson et al. (2002) stated that managers have incentives to increase disclosure to convince shareholders that they are acting optimally because they know that shareholders seek to control their behaviour through bonding and monitoring activities. Therefore, one way of reducing agency costs is to increase the amount of information included in accounting reports (Marston, 1996). Many disclosure studies, such as Ruland et al. (1990), Cooke (1993), Bradbury (1992) and Hossain et al. (1994) have used agency theory to explain cross-sectional variation in voluntary disclosure practice.

The constant need for capital is one reason why management has a prime motive for disclosure and needs to do an effective job in explaining the company to investors. Highly leveraged companies are likely to increase their disclosure also to satisfy the needs of debenture holders and trustees (Watson et al., 2002). The FASB Working Group (FASB, 2001) that studied companies in the chemical industry observed that there had been a significant increase in the quality of voluntary disclosures over the previous five years. It was stated in the report (FASB, 2001) that the reason is competition for capital. After one company provides a particular disclosure requested by investors, competitive pressure causes other companies to follow suit. A company's cost of capital is believed to include a premium for investors' uncertainty about the adequacy and accuracy of the information available about the company. To cite an extreme example, if a company disclosed nothing, its cost of capital,
if any was available, would be very expensive. Informative disclosures that help investors interpret companies’ economic prospects are believed to reduce the cost of capital.

Firms will try to adopt the same level of disclosure as other firms within the same industry because if a firm does not keep up with the same level of disclosure as others, it may be perceived by stakeholders that it is hiding bad news (Craven and Marston, 1999). Therefore, firms may use internet disclosure to keep pace with other firms in the same industry. Craven and Marston (1999) stated that the very use of the Internet might itself be a signal of high quality. It implies that the firm is modern and up to date with the latest technology rather than old fashioned and conservative. It is also argued that managers of profitable firms increase the level of disclosure to signal to investors that the firm is profitable and to support their continuation and compensation (Oyelere et al., 2003).

The threat of shareholder litigation can have two effects on managers’ disclosure decisions. First, managers may increase voluntary disclosure for fear of legal actions against them for inadequate or untimely disclosures (Healy and Palepu, 2001). Skinner (1994) stated that managers of firms with bad earnings news have an incentive to pre-disclose that information to reduce the cost of litigation. Second, litigation can potentially decrease managers’ incentives to provide disclosure, particularly of forward-looking information (Healy and Palepu, 2001). Therefore, early adoption of internet financial reporting could be due to organisational characteristics suggested by economics based theories (Xiao et al., 2004), while later stages of adoption may be due to innovation diffusion theory.
2.3 Empirical Literature

The empirical literature reviews literature on internet financial reporting practices and on the determinants of internet financial reporting.

2.3.1 Internet Financial Reporting Practices

Skaife et al (1999) examined firms' use of the Internet to enhance the relevance of their financial reporting. The study found that while 70% of the firms in the sample engaged in IFR, there was substantial variation in the quality of firms' IFR practices. Specifically, the variations in quality pertained to the timeliness and therefore, the usefulness of firms' financial reporting on the Internet. It was found that some firms provide more timely financial disclosures via the Internet while other firms report outdated financial data. It was observed that the usefulness of firms' financial reporting on the Internet depended on how easy it is to access that data, the amount of data disclosed and/or whether users can download or analyze the data.

Fisher et al, (2004) did an exploratory study to identify the key audit implications of Internet financial reporting through a comprehensive review of the academic and professional literature. Further, the study analysed the contents of all listed company Websites in New Zealand to assess the nature and extent of audit-related Web practices. The relatively high degree of similarity between New Zealand's auditing standards and those of other jurisdictions contributed towards the international generalisability of the content analysis. The literature review highlighted issues relating to the auditor's role and responsibilities, the audit report, and audit procedures. The results of the content analysis of auditor Web-related
practices revealed several significant concerns for the auditing profession in relation to the presentation, context, and content of the audit report in a Web-based environment.

Nel and Baard (2006) studied usage of corporate websites in Africa to market investors. A sample of 240 companies from Kenya, Egypt, Morocco, Tunisia, Nigeria, and South Africa were selected for the study. The company websites were searched from Google and Yahoo search engines. For the companies which could not be found on the two search engines, their information was searched on other websites with information on them. This study showed that only 173 (72%) of the largest 40 companies in Egypt, Kenya, Morocco, Nigeria, South Africa and Tunisia, from among 240 companies that were evaluated, had working corporate Web sites. Only 78 (45%) of these working corporate Web sites incorporated a dedicated section for IR. Of the remaining 95 Web sites, 57 (33%) supplied some types of financial information, normally in the form of financial statements.

Aly (2008) assessed the development of voluntary internet financial reporting and disclosure in Egypt. Quantitative methods were used to identify the extent of internet corporate financial reporting in the Egyptian companies. A disclosure index was constructed to determine the level of voluntary internet financial reporting of the 100 most active listed Egyptian companies for the year ended 2004. It was found that 27 companies had no websites, the websites of 9 companies were under construction, 62 companies had websites and 35 companies disclosed their financial information on their websites. The average disclosure rates of financial information were 30% for the Egyptian companies which had websites and 44% for companies having websites and disclosing financial information. 100% of
communication companies and 67% of financial services companies disclosed financial information on their websites and all communication companies had disclosure scores over 50%.

Salawu (2009) examined the status of financial reporting on the internet by the Nigerian listed companies. Secondary data were sourced from the websites of the sample companies. The descriptive analysis was used to analyze the data obtained. The sample consisted of 220 companies listed on the Nigerian Stock Exchange. Among the 220 companies, 62 (28.2%) are financial companies while 158 (71.2%) are non-financial companies. The study showed that, 119 (54.1%) companies had official website while 101 (45.9%) did not have an official website. Furthermore, 31 (14.1%) companies published their financial information on-line while 189 (85.9%) did not publish their financial information on-line. Also, 21 (9.5%) published their information using Portable Document File (PDF) format while 10 (4.5%) published theirs using Hyper Text Markup Language (HTML) format.

Oyelere and Mohamed (2010) investigated the extent and variety of practices of internet financial reporting by companies listed on the Muscat Securities Market (MSM) in Oman. The 142 companies listed on the MSM were investigated to ascertain whether they maintained websites and/or if these sites were being used for communicating financial information. Only 84 of the listed companies were found to operate websites, with even less (only thirty-one) engaging in IFR. However, IFR was not restricted to the publication of annual financial statements only as the companies also disclosed financial highlights through
their websites. The results of this study indicated that IFR was still at an embryonic stage in Oman.

Turel (2010) examined the level of internet financial reporting in Turkey. Furthermore, it tries to find out whether there is an expectation gap in internet financial reporting. The findings indicated that an expectation gap exists; financial statement users have higher expectations for various facets than what companies actually report in the areas such as; reports of analysts, phone number to investor relations, segmental reporting, financial data in processable format, and summary of financial data. The findings serve as evidence that the companies should engage in appropriate actions to reduce this expectation gap.

2.3.2 Determinants of Internet Financial Reporting

Oyelere et al (2003) examined the voluntary adoption of the Internet as a medium for transmitting financial reports and determinants of such voluntary practice by New Zealand companies. The results indicated that some determinants of traditional financial reporting - firm size, liquidity, industrial sector and spread of shareholding - were determinants of voluntary adoption of Internet financial reporting (IFR). However, other firm characteristics, such as leverage, profitability and internationalization did not explain the choice to use the Internet as a medium for corporate financial reporting.

Marston (2003) surveyed Internet reporting by the top 99 Japanese companies in 1998. It was found that the majority of these companies (78) had a Web site in English and that of these 68 reported some financial information with 57 providing detailed accounting information.
Company size was significantly positively associated with the existence of a Web site but the extent of financial disclosure did not appear to be related to size. There was no significant association between profitability, industry grouping and overseas listing status and Internet disclosure.

Henchiri (2007) studied web disclosures of the companies quoted on African stock exchanges. The study attempted to identify the determinants of the African firm Web disclosures. Using an improved Hedlin’s three stage model (1999), the study found that African stock exchanges obtained an average score of 54.8% and African companies got an average score of 48.2%. Econometric results showed that there was no size effect contrarily to the related literature. The determinant of online disclosures quality was the requirement for the firm to be quoted on another place than its domestic market.

The study by Aly (2008) on the development of voluntary internet financial reporting and disclosure in Egypt also identify factors which influence Egyptian listed companies to voluntarily adopt internet-based corporate financial reporting. The results of univariate analysis revealed that firm size variables (total assets, total sales); leverage variables (Total Debt /Total Assets and Long term Debt/ Total Assets); foreign listing; industry type; and audit firm size were significantly associated with the extent of internet disclosure at least at the 5% level of significance. The results of multiple regressions indicated that profitability, foreign listing and industrial sector (communications and financial services) were important factors affecting the amount and presentation formatting of financial information disclosed on Egyptian companies’ websites.
Gutiérrez-Nieto, et al (2008) assessed how and why microfinance institutions (MFIs) disclose financial and social information on the internet. Legitimacy theory provided the theoretical framework. The empirical study analysed factors influencing MFIs to publish financial and social information on the internet. The model was tested using regression analysis. The sample consisted of publicly available data from the web sites of 273 MFIs. The study found that MFIs' internet presence overall was scarce and that greater levels of disclosure were needed. It was found that large MFIs with a high degree of public exposure on the internet disclosed greater amounts of information on their web sites than smaller MFIs with a low degree of public exposure. It was also found that for-profit MFIs disclosed more financial information on their web sites, while non-profit non-governmental organisations (NGOs) reveal more social information.

Abdelsalam and El-Masry (2008) investigated the timeliness of corporate internet reporting (TCIR) by a sample of Irish-listed companies. The authors applied an updated version of Abdelsalam et al. TCIR index to assess the timeliness of corporate internet reporting. The index encompassed 13 criteria that were used to measure the TCIR for a sample of Irish-listed companies. In addition, the authors assessed the timeliness of posting companies' annual and interim reports to their web sites. Furthermore, the study examined the influence of board independence and ownership structure on the TCIR behaviour. Board composition was measured by the percentage of independent directors, chairman's dual role and average tenure of directors. Ownership structure was represented by managerial ownership and blockholder ownership. The study found that Irish-listed companies, on average, satisfied only 46 per cent of the timeliness criteria assessed by the timeliness index. After controlling
for size, audit fees and firm performance, evidence that TCIR was positively associated with board of director's independence and chief executive officer (CEO) ownership was provided. Furthermore, it was found that large companies were faster in posting their annual reports to their web sites. The findings suggested that board composition and ownership structure influenced a firm's TCIR behaviour, presumably in response to the information asymmetry between management and investors and the resulting agency costs.

The study by Al Arusi et al (2009) investigated whether the voluntary financial and environmental disclosures through the internet can be explained by the same determinants as in conventional reporting. Specifically, the study examined the relationship between the extent of financial and environmental disclosures on the internet and six variables (ethnicity of chief executive officer (CEO), leverage, level of technology, existence of dominant personalities, profitability, and firm size). Six hypotheses were tested using data collected from 201 Malaysian listed companies on the Bursa Malaysia's Main and Second Boards for the financial year 2005. A regression model was utilized to analyze the results of the study in tandem with the previous studies. The results indicated that level of technology, ethnicity of CEO and firm size were determinants of both internet financial and environmental disclosures. However, the existence of a dominant personality was found to negatively affect the level of financial disclosures but not environmental disclosures. The other variables did not show any significant relationship with either financial or environmental disclosures. This study differs with the present one because it focused on Malaysia and also because it tested environmental disclosure.
Fekete et al (2009) examined the association between corporate characteristics and disclosure comprehensiveness (quality and quantity) measured by the level of corporate internet reporting. The study applied the disclosure index developed by Kelton and Yang (2008) to measure the extent of each sample firm’s corporate internet reporting by presentation format, information content, and corporate governance disclosures. The findings suggested that corporate characteristics influenced the corporate internet reporting behavior of entities, presumably in response to the information asymmetry between management and investors and the resulting agency costs. The results suggested that new regulatory guidance in corporate governance, more rigorous legislation and stronger enforcement of rules led to improved disclosure transparency via corporate internet reporting.

Almilia (2009) noted that there was disparity in IFR practices among companies due to the voluntary nature of this practice as well as lack of specific regulations for IFR. The researcher thus sought to measure the quality of Internet Financial Reporting of public firms on the Jakarta Stock Exchange. The study identified financial variables that affect IFR among Indonesia Stock Exchange companies. Specifically, firm size and return on equity were identified as determining factors of internet financial reporting in Indonesia.

Bozcuk et al (2009) investigated the state of internet financial reporting in light of the regulatory changes in the financial reporting environment of Turkish firms. The study surveyed the top 500 Turkish industrial firms on the ‘Istanbul Chamber of Industry 500 list’ to ascertain whether the regulatory changes had led to significant changes with respect to their financial reporting on the internet. The study reported a statistically significant increase
in the number of firms providing financial disclosures on the internet. The study also
highlighted a number of problem areas such as the extremely low level of voluntary
disclosures (merely 7 per cent of the firms) and the apparent reluctance of listed firms to
provide financial information unless it was mandatory to do so. This study therefore sheds
light on the role of regulations on IFR.

Desoky (2009) examined the IFR practice by listed companies in Egypt as one of the
emerging markets (EMs) and investigated empirically some company characteristics as
determinants of such practice. Using a 39-item index, content analysis of websites was
performed for 88 of the most active Egyptian listed companies on the Egyptian Stock
Exchange (EGX). Further, the study employed statistical analysis to test the association
between six company characteristics (independent variables) and the extent of the IFR
(including three dependent variables). Among the sampled companies, only 57 had
accessible websites and 45 provided financial information in their websites. The results of
univariate analysis, which were verified by multivariate linear regression, showed that some
company characteristics (e.g. size, profitability, foreign listing and ownership structure) were
significantly positively associated with the IFR, while legal form was significantly negatively
associated.

Rahman (2010) while examining the impact of Internet Financial Reporting (IFR) on stock
prices in Indonesia Stock Exchange also explored the moderating role of corporate
governance in increasing the value of IFR companies for the investors. The study
investigated all public companies incorporated in Kompas 100 index. The hierarchical
A regression test used to examine the impact of moderating variable, corporate governance, on IFR companies' stock prices showed insignificant result.

Aly et al (2010) examined the potential factors that may affect the level of corporate internet reporting by Egyptian listed companies. The content analysis approach to examine the information cited by the largest Egyptian companies was used in their web sites. Ordinary least square multiple regression analysis was used to examine the determinants of the internet reporting. The study found that 56 per cent of Egyptian companies reported a significant portion of information on their web sites. The study found that some financial characteristics explained the variation in the degree of internet reporting between Egyptian listed companies. In particular, profitability, foreign listing and industrial type were the determinants of the amount and presentation formatting of information disclosed on Egyptian companies' web sites. However, other firm characteristics, such as firm size, leverage, liquidity and auditor size, did not explain corporate internet reporting.

Elsayed et al (2010) investigated the effect of corporate governance and firm characteristics on the IFR of the Egyptian listed companies. They developed a disclosure index to measure the three components of the IFR for the Egyptian listed corporations by using an un-weighted checklist. The results found a significant relationship between the three components of IFR (TOTAL, CONTENT and PRESENTATION) and firm size, ownership diffusion, type of business, profitability, audit type, institutional ownership and board size. The results indicate that large non-financial companies that are audited by the big four auditing companies with high diffusion in their ownership and lower presentation of institutions in the ownership
structure are more likely to be related to TOTAL and CONTENT. In addition, large profitable companies with high diffusion in their ownership are more likely to be related to TOTAL and PRESENTATION. Finally, companies with a large board size are associated only with PRESENTATION.

2.4 Summary of Literature

The chapter has discussed several theories that motivate voluntary disclosures. The economics-based theories have been shown as being the most appropriate for studying internet-based disclosure motivations in the initial stages while innovation diffusion theories explain later IFR adoptions. The empirical literature has reviewed both the practice and the determinants of IFR. From the studies, nothing has been done on Kenya yet which offers a significant motivation to carry out the study on the companies listed on the NSE.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods that were used to carry out the study. It contains research design to be used in the study, the target population, sample size and sampling method, data collection and analysis methods and tools.

3.2 Research Design

This study adopted a descriptive survey design. Survey is a methodology whereby a sample of subjects is drawn from a population and studied to make inferences about the population (Collis and Hussey, 200). Survey research is a very popular and practical tool used in accounting studies (Abdolmohammadi and McQuade, 2002). It was used by Moyes et al (2001) to identify the relative importance of 38 factors in revising analysts’ estimate of earnings in UK and US. A number of authors have carried out surveys to establish the extent of internet reporting by companies in different countries (Flynn and Gowthorpe, 1997; Lymer, 1997; Lymer and Tallberg, 1997). A survey was carried out in Kenya to identify the extent of internet reporting and the characteristics of companies adopting internet reporting.

3.3 Population and Sampling

The population of this study was all the 58 firms listed and trading on the NSE as at 1st October 2011. The list of these firms is shown in appendix A. Since the number of listed firms in Kenya is not so large and the data required for this study for these firms is readily available, all the 56 firms were included in the sample.
3.4 Data Collection

Secondary data were used in the study. Searching of websites was done using Google and Yahoo search engines. The NSE links to company websites was also used to search for company websites. A similar sequence for identifying corporate websites was used by Fisher et al. (2004) among other scholars. Any kind of financial information on the website will be sought. The format of presentation (PDF, HTML, MS Word or combination of these) was checked too from the websites. This data collection approach is similar to the one used in Laswad et al. (2005). The data was collected for the year 2011 in order to show the status of internet financial reporting in Kenya. The following model was adopted for the study.

\[ IFR = a + b_1 \text{PROFIT} + b_2 \text{SIZE} + b_3 \text{INDUSTRY} + b_4 \text{AUDIT} + b_5 \text{LISTING} + c \]

Where

IFR measures internet financial disclosure using dummy variables where is 1 for those disclosing financial information online and 0 for those not doing so.

PROFIT measures profitability (ROA)

SIZE measures firm size (Log of Total Assets)

INDUSTRY measures industry sectors (codes 1-10)

AUDIT measures the size of audit firm (dummy variable 1 for big 4 international audit firms otherwise 0)

LISTING measures foreign listing (or cross listing) which will be dummy variable 1 if cross listed otherwise 0.

3.5 Data Analysis

The organized data was entered into the SPSS and analysed using various methods. Comprehensive descriptive statistics was used in order to evaluate internet financial reporting
and disclosure. The relationship between the characteristics of the Kenyan companies and amount of internet disclosure was examined using one of the multivariate analysis methods: the multiple regression method. Tests for regression conditions were done especially the multicollinearity and autocorrelation of variables. Multicollinearity was tested using correlation analysis while autocorrelation was tested using Durbin-Watson statistic. Rank regression and Ordinary Least Squares (OLS) were then used to perform the regression and the results interpreted based on the p-values, F-statistics, and adjusted $R^2$. 
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the results of data analysis. A total of 46 companies out of the 58 listed ones had websites and were therefore included in the final analysis. This gives a sample size of 79.3% of the firms listed on the Nairobi Stock Exchange. This chapter is organised as follows. Section 4.2 presents results of descriptive analysis. Section 4.3 presents results of correlation analysis while section 4.4 presents the results of regression analysis. Section 4.5 presents a discussion of findings.

4.2 Descriptive Analysis

Table 1 shows the results as regards the type of industry from which the companies studied in this study came from. As shown, of the 46 companies, 4.3% of the companies were from agriculture, 15.2% from commercial & services, 4.3% from telecommunication & technology, 6.5% from automobiles & accessories, 21.7% from banking, 10.9% from insurance, 6.5% from investment, 10.9% from manufacturing & allied, 10.9% from construction & allied and 8.7% from energy & petroleum.
Table 1: Type of Industry

<table>
<thead>
<tr>
<th>Type of industry</th>
<th>Number of companies</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2</td>
<td>4.3</td>
</tr>
<tr>
<td>Commercial and services</td>
<td>7</td>
<td>15.2</td>
</tr>
<tr>
<td>Telecommunication and technology</td>
<td>2</td>
<td>4.3</td>
</tr>
<tr>
<td>Automobiles and accessories</td>
<td>3</td>
<td>6.5</td>
</tr>
<tr>
<td>Banking</td>
<td>10</td>
<td>21.7</td>
</tr>
<tr>
<td>Insurance</td>
<td>5</td>
<td>10.9</td>
</tr>
<tr>
<td>Investment</td>
<td>3</td>
<td>6.5</td>
</tr>
<tr>
<td>Manufacturing and allied</td>
<td>5</td>
<td>10.9</td>
</tr>
<tr>
<td>Construction and allied</td>
<td>5</td>
<td>10.9</td>
</tr>
<tr>
<td>Energy and petroleum</td>
<td>4</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 2 shows the number of companies with websites. The study found that out of the 58 companies listed on the NSE, 17.2% do not have websites while 3.4% have websites that are static. This therefore means that 79.3% of the companies listed on the NSE have functioning websites.

Table 2: Number of companies with websites

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>All companies</td>
<td>58</td>
<td>100</td>
</tr>
<tr>
<td>Less: Companies with no websites</td>
<td>10</td>
<td>17.2</td>
</tr>
<tr>
<td>Less: Companies with non-active websites</td>
<td>2</td>
<td>3.4</td>
</tr>
<tr>
<td>Companies with websites</td>
<td>46</td>
<td>79.3</td>
</tr>
</tbody>
</table>

Table 3 shows the results on the number of companies with or without websites by industry.

As shown, 28.6% of the firms in agriculture had websites while 57.1% did not. In the commercial & services industry, 87.5% had websites and 12.5% did not have websites. All the firms in the telecommunication & technology, banking, insurance, construction & allied,
and energy & petroleum industries had websites. For the automobiles & accessories industry, 75% had websites while another 75% of the firms in the investment industry also had websites. Lastly, 55.5% of the firms in the manufacturing & allied industry had websites while 44.5% did not have them.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Has website</th>
<th>Has no website</th>
<th>Static website</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>%</td>
<td>No</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2</td>
<td>28.6</td>
<td>4</td>
</tr>
<tr>
<td>Commercial and services</td>
<td>7</td>
<td>87.5</td>
<td>1</td>
</tr>
<tr>
<td>Telecommunication and technology</td>
<td>2</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Automobiles and accessories</td>
<td>3</td>
<td>75</td>
<td>0</td>
</tr>
<tr>
<td>Banking</td>
<td>10</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Insurance</td>
<td>5</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Investment</td>
<td>3</td>
<td>75</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturing and allied</td>
<td>5</td>
<td>55.5</td>
<td>4</td>
</tr>
<tr>
<td>Construction and allied</td>
<td>5</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Energy and petroleum</td>
<td>4</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>79.3</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 4 shows the results on the type of information contained in the websites. It was found that 80.4% had company history while 19.6% did not have that kind of information. It was also revealed that all the firms had information on products and services. Further, 78.3% of the firms had financial information on their websites while 21.7% did not.
Table 4: Types of information on websites

<table>
<thead>
<tr>
<th>Types of Information</th>
<th>Yes</th>
<th>No</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company history</td>
<td>37</td>
<td>9</td>
<td>80.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Products and services</td>
<td>46</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Financial information</td>
<td>36</td>
<td>10</td>
<td>78.3</td>
<td>21.7</td>
</tr>
</tbody>
</table>

Table 5 presents the results on companies with financial information as classified by industry. As shown, half of the firms in the agriculture industry had financial information on their websites while half of them did not. The same was true for telecommunication & technology firms. All the firms in banking and investment had financial information on their websites, 33.3% of those in the automobiles & accessories did so, 80% of those in insurance did so, 60% of those in manufacturing & allied did so, 80% of those in construction & allied did so, while 75% of the firms in the energy & petroleum industry did so. It was noted that 85.7% of the firms in commercial & services industry reported their financial information on their websites.

Table 5: Companies with financial information by industrial classification

<table>
<thead>
<tr>
<th>Industry</th>
<th>No</th>
<th>%</th>
<th>Yes</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1</td>
<td>50</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Commercial and services</td>
<td>1</td>
<td>14.3</td>
<td>6</td>
<td>85.7</td>
</tr>
<tr>
<td>Telecommunication and technology</td>
<td>1</td>
<td>50</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Automobiles and accessories</td>
<td>2</td>
<td>66.7</td>
<td>1</td>
<td>33.3</td>
</tr>
<tr>
<td>Banking</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Insurance</td>
<td>1</td>
<td>20</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>Investment</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing and allied</td>
<td>2</td>
<td>40</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>Construction and allied</td>
<td>1</td>
<td>20</td>
<td>4</td>
<td>80</td>
</tr>
<tr>
<td>Energy and petroleum</td>
<td>1</td>
<td>25</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10</td>
<td>21.7</td>
<td>36</td>
<td>78.3</td>
</tr>
</tbody>
</table>
Table 6 shows the nature of financial information disclosed on websites. As shown, the results reveal that 91.7% of the firms presented their annual reports while 8.3% did not. Further, 69.4% of the firms presented financial highlights while 30.6% did not. It was also noted that 63.9% of the firms reported both the annual reports and the financial highlights.

<table>
<thead>
<tr>
<th>Table 6: Nature of financial information disclosed online</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Annual report</td>
<td>33</td>
<td>3</td>
</tr>
<tr>
<td>Financial highlights</td>
<td>25</td>
<td>11</td>
</tr>
<tr>
<td>Both</td>
<td>23</td>
<td>13</td>
</tr>
</tbody>
</table>

On the formats of publication of financial information, it was noted that all the firms that presented annual reports did so using PDF, none used HTML and only 3% used both the PDF and digital copies. On the financial highlights, 88% preferred the use of PDFs, 12% used HTML and 4% used both PDF and HTMLs. These results are shown in Table 7.

<table>
<thead>
<tr>
<th>Table 7: Format of publication of financial information</th>
<th>Annual Report</th>
<th>Financial Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Format</td>
<td>No</td>
<td>%</td>
</tr>
<tr>
<td>PDF</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>HTML</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PDF/Digital</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>PDF/HTML</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 8 shows a number of descriptive statistics on the period that the financial information covered. As shown, the results reveal that the mean period for annual reports was 3.6 years
while for financial highlights it was 3 years. The median period for annual reports was 3 years and that for financial highlights was 2 years. The most frequent period covered (mode) was 4 years for annual reports and 1 year for financial highlights. The lowest period was 1 year for both annual reports and financial highlights while the largest period covered was 14 years for annual reports and 10 years for financial highlights. As regards the percentiles, the 25% percentile was 2 years for annual reports and 1 year for financial highlights while the 75% percentile was 4 years for both annual reports and financial highlights.

Table 8: Descriptive statistics on period of financial information

<table>
<thead>
<tr>
<th></th>
<th>Period AR</th>
<th>Period FH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3.6471</td>
<td>3.0000</td>
</tr>
<tr>
<td>Median</td>
<td>3.0000</td>
<td>2.0000</td>
</tr>
<tr>
<td>Mode</td>
<td>4.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>14.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Percentiles 25</td>
<td>2.0000</td>
<td>1.0000</td>
</tr>
<tr>
<td>Percentiles 50</td>
<td>3.0000</td>
<td>2.0000</td>
</tr>
<tr>
<td>Percentiles 75</td>
<td>4.0000</td>
<td>4.0000</td>
</tr>
</tbody>
</table>

Table 9 shows the results on the number of cross-listed firms. As shown, the sample had 8 cross-listed companies or 17.4% of the firms. Thus, 82% of the firms were not cross-listed.

Table 9: Number of cross-listed companies

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not cross-listed</td>
<td>38</td>
<td>82.6</td>
</tr>
<tr>
<td>Cross-listed</td>
<td>8</td>
<td>17.4</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>100</td>
</tr>
</tbody>
</table>

On the type of auditors, the results in Table 10 show that 95.7% of the firms were audited by the big four companies. These are PwC, KPMG, Deloitte and Touche, and Ernst and Young)
while only 4.3% were audited by other firms. More specifically, the auditor general and BDO East Africa audited the rest of the firms.

<table>
<thead>
<tr>
<th>Table 10: Type of auditor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of auditor</td>
</tr>
<tr>
<td>Big 4 audit firm</td>
</tr>
<tr>
<td>Not big 4 audit firm</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3 Correlation Analysis

Table 11 shows the results of a correlation analysis between the independent variables. As shown, total assets had very high significant correlations with net income and size. Net income was highly and significantly correlated with size while also significantly correlated with listing. ROA was significantly correlated with size while audit was significantly correlated with size. There was therefore multicollinearity between some of the independent variables hence need to drop some of them in the regression.

| Table 11: Correlation matrix of independent variables |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                         | Total assets | Net income | ROA | Size | Audit | Industry | Listing |
| Total assets            | 1            | 1           | 1   | 1    | 1      | 1            | 1              |
| Net income              | .714**       | .080       | -.306* | 1 | 1      | 1            | 1              |
| ROA                     | -.191        | .156       | .161 | .333* | 1      | 1            | 1              |
| Size                    | .819**       | .668**     | -.306* | 1 | 1      | 1            | 1              |
| Audit                   | .156         | .151       | .161 | .333* | 1      | 1            | 1              |
| Industry                | .017         | -.021      | -.221 | .169 | -.147 | 1            | 1              |
| Listing                 | .284         | .324*      | .104 | .308* | .098  | -.112         | 1              |

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Table 12 shows the correlation between dependent variable (IFR) and independent variables. As shown, total assets, ROA and size were significantly correlated with IFR. On the basis of these correlations therefore, and the multicollinearity problem in table 11, a decision is made that only total assets, ROA, industry, audit and listing be used in the OLS regression analysis.

Table 12: Correlation between dependent variable and independent variables

<table>
<thead>
<tr>
<th></th>
<th>IFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>.304*</td>
</tr>
<tr>
<td>Net income</td>
<td>.215</td>
</tr>
<tr>
<td>ROA</td>
<td>-.374*</td>
</tr>
<tr>
<td>Size</td>
<td>.367*</td>
</tr>
<tr>
<td>Audit</td>
<td>-.112</td>
</tr>
<tr>
<td>Industry</td>
<td>.030</td>
</tr>
<tr>
<td>Listing</td>
<td>.242</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

4.4 Regression Analysis

Most of the conditions necessary for performing OLS regression were not met hence the Spearman’s rank regression analysis is chosen to perform the multiple regression. This is presented in section 4.4.1. An OLS regression analysis is also carried out in section 4.4.2.

4.4.1 Spearman’s Rank Regression Analysis

Table 13 presents the rank regression analysis. As shown, the model was not fit for the study at 95% confidence level (Sig. F = 0.052). The Durbin-Watson statistic was 2.240 hence no serial autocorrelation of independent variables was detected. Generally, the factors had a low effect on IFR (R = 0.482) contributing to 13.7% of the variance in IFR (adjusted R² = 0.137).
A negative relationship existed between ROA and IFR. The same was true for audit and industry. On the other hand, total assets and listing had a positive effect on IFR. The most significant effect was found for the effect of total assets on IFR ($B = 0.011, p = 0.036$). It therefore follows that the size of a company as measured by the total assets is a significant determinant of whether it reports online or not.

Table 13: Full rank regression model of IFR for 46 companies

<table>
<thead>
<tr>
<th>R</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>SE of estimate</th>
<th>$R^2$ change</th>
<th>F change</th>
<th>Sig. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.482</td>
<td>0.232</td>
<td>0.137</td>
<td>0.38752</td>
<td>0.232</td>
<td>2.423</td>
<td>0.052</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-value</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constants</td>
<td>1.067</td>
<td>0.321</td>
<td>3.321</td>
<td></td>
<td>0.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-0.005</td>
<td>0.005</td>
<td>-0.176</td>
<td>-1.139</td>
<td>0.261</td>
<td>0.800</td>
<td>1.250</td>
</tr>
<tr>
<td>Total assets</td>
<td>0.011</td>
<td>0.005</td>
<td>0.363</td>
<td>2.173</td>
<td>0.036</td>
<td>0.688</td>
<td>1.454</td>
</tr>
<tr>
<td>Audit</td>
<td>-0.413</td>
<td>0.328</td>
<td>-0.204</td>
<td>-1.258</td>
<td>0.216</td>
<td>0.728</td>
<td>1.373</td>
</tr>
<tr>
<td>Industry</td>
<td>-0.011</td>
<td>0.023</td>
<td>-0.068</td>
<td>-0.464</td>
<td>0.645</td>
<td>0.885</td>
<td>1.130</td>
</tr>
<tr>
<td>Listing</td>
<td>0.195</td>
<td>0.167</td>
<td>0.179</td>
<td>1.168</td>
<td>0.250</td>
<td>0.813</td>
<td>1.230</td>
</tr>
</tbody>
</table>

4.4.2 Ordinary Least Squares Regression Analysis

The OLS regression shown in table 14 reveals that the model was 25.7% fit ($R^2 = 0.257$) and was significant in explaining the relationships (Sig. $F = 0.031$). The independent variables accounted for 16.4% of the variance in IFR. It was noted that ROA, audit, and industry were negatively correlated with IFR. The only significant effect on IFR was from ROA ($B = -1.456, p = 0.020$). This means that from the OLS, ROA is the most significant factor and has a negative influence on IFR.
<table>
<thead>
<tr>
<th>Coefficients</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-value</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constants</td>
<td>1.044</td>
<td>0.315</td>
<td></td>
<td>3.312</td>
<td>0.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-1.456</td>
<td>0.602</td>
<td>-0.353</td>
<td>-2.419</td>
<td>0.020</td>
<td>0.872</td>
<td>1.147</td>
</tr>
<tr>
<td>Total assets</td>
<td>1.331E-6</td>
<td>0.000</td>
<td>0.189</td>
<td>1.272</td>
<td>0.211</td>
<td>0.842</td>
<td>1.187</td>
</tr>
<tr>
<td>Audit</td>
<td>-0.230</td>
<td>0.287</td>
<td>-0.114</td>
<td>-0.804</td>
<td>0.426</td>
<td>0.926</td>
<td>1.080</td>
</tr>
<tr>
<td>Industry</td>
<td>-0.006</td>
<td>0.022</td>
<td>-0.042</td>
<td>-0.297</td>
<td>-0.768</td>
<td>0.932</td>
<td>1.073</td>
</tr>
<tr>
<td>Listing</td>
<td>0.252</td>
<td>0.158</td>
<td>0.231</td>
<td>1.598</td>
<td>0.118</td>
<td>0.886</td>
<td>1.129</td>
</tr>
</tbody>
</table>

### 4.5 Discussion of Findings

Kenya is a developing country and in order to develop, it has to attract foreign investment into the country. To promote confidence and encourage investors to invest in Egypt, companies should meet stakeholders’ demands for greater speed and volume of transparent and timely financial information. The internet can provide better and more effective ways of communicating financial information. Therefore, there is a need to examine the role played by the internet in communicating financial information in Kenya in order to find out how that role may be enhanced.

This chapter showed that the assumptions for multiple regression analysis were not fully met by the data. Transformation using full rank and normal scores was therefore used. Standard OLS multiple regressions were run using the Enter method for the entire sample size of companies which had disclosed financial information on their websites. The dependent variable was internet financial reporting. Two regressions were run for the dependent variable, one using the rank and the other using the normal score. It was concluded that total assets and ROA are the important factors affecting the choice of firms to disclose their financial information.
financial information on their websites. On profitability (ROA) the results are consistent with those of Aly (2008) in Egypt but inconsistent with the same results in terms of listing and industry.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, conclusions of the study, recommendations for policy and practice, limitations of the study, and suggestions for further research.

5.2 Summary of Findings and Discussions

This study sought to establish the determinants of internet financial reporting in Kenya. The analysis was done on 46 companies which had working websites. This was 79.3% of the companies listed on the NSE. It was noted that 80.4% of the companies with websites had company history on their websites, 78.3% had financial information while all had products and services. On the nature of financial information disclosed, 91.7% presented their annual reports, 69.4% presented financial highlights while 63.9% of the firms reported both the annual reports and the financial highlights. All the firms that presented annual reports did so using PDFs while only 3% used both the PDF and digital copies. On the financial highlights, 88% preferred the use of PDFs, 12% used HTML and 4% used both PDF and HTMLs. The median period for annual reports was 3 years and that for financial highlights was 2 years. Only 17.4% of the firms are cross-listed. On the type of auditors, the results showed that 95.7% of the firms were audited by the big four companies.

In the multivariate analysis, two multiple regression models were run for the dependent variable, one using the rank and the other using normal scores. Rank regression showed a
negative relationship between profitability and IFR. The same was true for audit and industry. On the other hand, total assets and listing had a positive effect on IFR. The most significant effect was found for the effect of total assets on IFR (B = 0.011, p = 0.036). The factors had a low effect on IFR (R = 0.482) contributing to 13.7% of the variance in IFR (adjusted $R^2 = 0.137$). The OLS regression revealed that the independent variables accounted for 16.4% of the variance in IFR. It was noted that ROA, audit, and industry were negatively correlated with IFR. The only significant effect on IFR was from ROA (B = -1.456, p = 0.020).

5.3 Conclusions and Recommendations

The study concludes that most (79.3%) of the companies listed on the Nairobi Stock Exchange have websites. Of these, 78.3% disclose financial information on the websites. Most companies disclose their annual reports (91.7%) more than the financial highlights (63.9%). The most preferred format of presentation is the PDF. Most of the listed are also audited by the four largest audit firms and only 17.4% of the firms in the sample were cross-listed.

From the multivariate analysis, it is concluded that size of the firm positively influences the internet financial reporting in Kenya. This was the case from the rank regression analysis. Thus, the adoption and amount of internet financial reporting and disclosure is affected by the size of the reporting company as measured by the total assets. Therefore, the larger the size of a company, the greater the likelihood to disclose financial information on the website.
The OLS regression results lead to the conclusion that profitability of a company negatively affects internet financial disclosure. These results cannot however be relied upon given that the data did not meet the strict conditions for OLS regression analysis. Other factor such as cross-listing, industry, and auditor type do not significantly affect internet financial reporting in Kenya.

The CMA and the NSE should issue guidelines and strictly stipulate the need for all listed companies to have websites. This way the presence of the companies can be virtually ascertained and an investor seeking any information on the company can just click and get such information without having to go through physical problems of searching for such information.

It was noted that majority of the firms without websites were in the agricultural sector. This sector is very important for the economic growth of Kenya. It is therefore important that these firms have websites. This way, the business may improve in terms of getting orders online from other countries other than Kenya hence expand their market and thereby increase the exports.

Financial information is reliable to the extent that it is verifiable, reports faithfully and is free from error. As a result of non existence of regulation in Kenya as well as certification from official authorities, the reliability of the financial information of the Kenyan companies as published is in doubt. Hence, it is recommended that official regulations be put in place. The
Institute of Certified Public Accountants of Kenya should incorporate Internet Financial Reporting into the Accounting Standard and Regulatory framework.

5.4 Limitations of the Study

This study presents a snapshot of internet financial reporting and disclosure of Kenyan companies. It investigated the level of internet financial reporting in Kenyan companies during a certain period of time. Data was collected from companies' websites in October 2011. As internet financial reporting is a new phenomenon in most countries in Africa including Kenya and the information has not been available over a long period of time, this study could not examine the longitudinal data of internet financial reporting, and so is limited to a cross-sectional study. However this study provides a base for future longitudinal studies of internet financial reporting in Kenya.

The number of companies involved in the IFR in this study is relatively small. However, a small sample size is a characteristic of many disclosure studies (Cooke, 1998:213). For example Wallace et al. (1994) sampled 50 non-financial Spanish firms, Leventis and Weetman (2000) tested 87 companies listed on the Athens Stock Exchange (ASE), and Owusu-Ansah (1998) used 49 listed companies in Zimbabwe. The sample size reflects the limited adoption of internet financial reporting in Kenya. Therefore, it is difficult to generalise the results of the IFR because the sample sizes used are relatively small.

The $R^2$ (explanatory power) in multiple regression analysis ranged between 23.2% and 25.7% which means that the multiple regression model, which contained five variables,
explains about 23% - 25% of the variation in the internet financial reporting in Kenya. Although this percentage is considerable, it means that other variables that were not included could affect IFR. Future studies might include use of qualitative interviews to find out more factors.

Finally, this study was not designed to explore the economic consequences of voluntary internet financial reporting, e.g., the extent to which internet financial reporting provides value-relevant information for investors. Future research might explore how internet financial reporting and disclosure affect stock prices and trading volumes of the shares.

5.5 Suggestions for Further Research

Future research might test empirically how internet disclosure impacts upon companies’ stock prices or dividends, to examine how this reporting provides value-relevant information for investors. Firms tend to disclose more information in order to reduce information asymmetry between themselves and investors. By attracting more investors to the firm, the cost of capital is expected to be reduced for the company. Therefore, the relationship between the level of internet financial reporting and disclosure and cost of capital could be examined in future research.

Recently, corporate governance has become an important issue in both developed and developing countries. Corporate governance is concerned with the relationship between management, board of directors and other shareholders. Corporate governance should be considered in disclosure studies in general and in internet disclosures in particularly as it is
the board of directors that manage the disclosure of information. Corporate governance factors that could be examined in Kenyan companies are non-executive directors' ownership, role duality, proportion of family members on the board, and the existence of an audit committee. Study of corporate governance is needed in Kenya, as no studies have tested the relationship between the level of internet financial reporting and disclosure.

This is the first empirically based study undertaken on internet financial disclosure in Kenya. In the future, the internet is expected to become the standard means of company communication, and thus it is expected that more Kenyan companies will be involved in internet financial disclosure. Therefore, in a few years' time, further examination of Kenyan companies' websites and their online financial reporting is suggested as a worthwhile topic for research.

This study can act as a benchmark in the area of internet financial reporting for developing countries in the region (such as East African countries). A comparison between internet financial reporting in Kenyan and other East African countries could be conducted. Collecting data for more companies in different countries, especially those with different disclosure regulations, would enhance the validation of the results in this study and would assist in identifying the differences and similarities in policy makers' decisions.

This study used OLS multiple regression to find out companies' characteristics which were related to the amount of internet financial reporting and disclosure for a sample of 46 companies which had websites. A future study could employ logistic regression for all listed
companies to find out companies’ characteristics which are related to their adoption of internet financial reporting and disclosure. Logistic regression is a form of regression where the dependent variable is dichotomous (with the values of zero and one) and the independents can take on any measurement type. It is useful for situations in which the presence or absence of a characteristic or outcome (presence of internet financial disclosure) needs to be predicted based on values of a set of predictor variables (company’s characteristics) (Tabachnick and Fidell: 2001).
REFERENCES


Desoky, A.M. (2009), Company characteristics as determinants of Internet financial reporting in emerging markets: the case of Egypt, in Mathew Tsamenyi, Shahzad Uddin (ed.) Accounting in Emerging Economies (Research in Accounting in Emerging Economies, Volume 9), Emerald Group Publishing Limited, pp.31-71


Gowthorpe, C., Flynn, G. (1997), "Reporting on the Web: the state-of-the-art", Accountancy,


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Appendix A: Companies Listed at the Nairobi Stock Exchange

AGRICULTURAL
1. Eaagads Ltd Ord 1.25 AIM
2. Kakuzi Ord 5.00
3. Kapchorua Tea Co. Ltd Ord Ord 5.00 AIM
4. Limuru Tea Co. Ltd Ord 20.00 AIM
5. Rea Vipingo Plantations Ltd Ord 5.00
6. Sasini Ltd Ord 1.00
7. Williamson Tea Kenya Ltd Ord 5.00 AIM

COMMERCIAL AND SERVICES
8. Express Ltd Ord 5.00 AIM
9. Hutchings Biemer Ltd Ord 5.00
10. Kenya Airways Ltd Ord 5.00
11. Nation Media Group Ord. 2.50
12. Scangroup Ltd Ord 1.00
13. Standard Group Ltd Ord 5.00
14. TPS Eastern Africa (Serena) Ltd Ord 1.00
15. Uchumi Supermarket Ltd Ord 5.00

TELECOMMUNICATION & TECHNOLOGY
16. AccessKenya Group Ltd Ord. 1.00
17. Safaricom Ltd Ord 0.05

AUTOMOBILES & ACCESSORIES
18. Car & General (K) Ltd Ord 5.00
19. CMC Holdings Ltd Ord 0.50
20. Marshalls (E.A.) Ltd Ord 5.00
21. Sameer Africa Ltd Ord 5.00

BANKING
22. Barclays Bank Ltd Ord 2.00
23. CFC Stanbic Holdings Ltd ord.5.00
24. Diamond Trust Bank Kenya Ltd Ord 4.00
25. Equity Bank Ltd Ord 0.50
26. Kenya Commercial Bank Ltd Ord 1.00
27. Housing Finance Co Ltd Ord 5.00
28. National Bank of Kenya Ltd Ord 5.00
29. NIC Bank Ltd 0rd 5.00
30. Standard Chartered Bank Ltd Ord 5.00
31. The Co-operative Bank of Kenya Ltd Ord 1.00

INSURANCE
32. Kenya Re-Insurance Corporation Ltd Ord 2.50
33. CFC Insurance Holdings Ltd ord.1.00
34. Jubilee Holdings Ltd Ord 5.00
35. Pan Africa Insurance Holdings Ltd 0rd 5.00

INVESTMENT
36. Centum Investment Co Ltd Ord 0.50
37. City Trust Ltd Ord 5.00 AIM
38. Olympia Capital Holdings ltd Ord 5.00

MANUFACTURING & ALLIED
39. A.Baumann & Co Ltd Ord 5.00 AIM
40. B.O.C Kenya Ltd Ord 5.00
41. British American Tobacco Kenya Ltd Ord 10.00
42. Carbacid Investments Ltd Ord 5.00
43. East African Breweries Ltd Ord 2.00
44. Eveready East Africa Ltd Ord.1.00
45. Kenya Orchards Ltd Ord 5.00 AIM
46. Mumias Sugar Co. Ltd Ord 2.00
47. Unga Group Ltd Ord 5.00

CONSTRUCTION & ALLIED
48. Athi River Mining Ord 5.00
49. Bamburi Cement Ltd Ord 5.00
50. Crown Berger Ltd 0rd 5.00
51. E.A.Cables Ltd Ord 0.50
52. E.A.Portland Cement Ltd Ord 5.00

ENERGY & PETROLEUM
53. KenGen Ltd Ord. 2.50
54. KenolKobil Ltd Ord 0.05
55. Kenya Power & Lighting Co Ltd Ord 2.50
56. Total Kenya Ltd Ord 5.00