A SURVEY OF CORPORATE GOVERNANCE DISCLOSURES *AMONG* ICEHYAN FIRMS QOUTED AT NAIROBI SOCK EXCHANGE

BY

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DECLARATION

This management research project is my original work and has not been submitted for a degree in any other university.

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

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DEDICATION

To God

"If the Lord does not build the house, the work of the builders is useless..." Psalms 127:1

To my family

To my wife, Rosaline, children; Denis, Fridah, Brian and Tichina, for the support offered and the sacrifice of their time which they were entitled to.

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LIST OF ACRONYMS

CGDI	Corporate Governance Disclosure Index
CMA	Capital Markets Authority
ICPA(K)	Institute of Certified Public Accountants of Kenya
HKSA	Hong Kong Society of Accountants
KIM	Kenya Institute of Management
NGOs	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development

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ABSTRACT:

Corporate governance is a burning issue now-a-days. In Kenya, a number of attempts have been made on part of different governmental and non-governmental institutions for ensuring better corporate governance. Considering the importance of this issue, this paper has tried to examine the actual corporate governance disclosure practices in the listed public limited companies by considering 45 disclosure items. A sample of 35 listed companies has been taken for this purpose. To facilitate the analysis, a Corporate Governance Disclosure Index (CGDI) has been computed and a number of hypotheses have been tested. The mean and standard deviation of CGDI have been found to be 74.967 and 7.305 respectively. Compared to other emerging economies it is apparent that NSE listed companies report more comprehensively and gap between the good and poor reporters is narrower. In this study, only a mild difference has been found to exist among the CGDI of various sectors. Financial sector has been found to make more intensive corporate governance disclosure than the non-financial sector. In general, companies have been found to be more active in making financial disclosures rather than non-financial disclosures. Multiple regression result shows that corporate governance disclosure index is significantly influenced (at 5% level of significance) by whether or not the company is in the finance sector, the size of the board of directors, and the age of the company. Local ownership, the size of the company, whether or not the company is a multinational, and size of the company are not found to have any significant impact on corporate governance disclosure.

1.0 CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

With the rash of accounting scandals in the early part of this century, matters of corporate governance and ethics advanced quickly to the forefront of the minds of investors and managers alike. It is now understood that these scandals were driven, in part, by failures of corporate governance combined with a cavalier disregard for business ethics and codes of conduct (Farber 2005; Staubus 2005).. The Asian crisis of 1997, the Enron saga, and the collapse of WorldCom and Parmalatt are examples of tragic events that were catalytic in attracting world wide attention to the benefits of good governance practices and the risks of bad governance.

The essence of corporate governance is about how owners (principals) of firms can ensure that the firm's assets (and the returns generated by those assets) are used efficiently and in their best interests by managers (agents) delegated with powers to operate those assets. This problem is intrinsic to any arrangement where owners themselves do not undertake the management functions directly.

The corporate governance problem arises due to the existence of separation of ownership and control rights, informational asymmetry, and incomplete or state-contingent contracts (Lin, 2001:5). In such a regime, the prerequisite for effective corporate governance involves: *Alignment of risk-bearing and control* (e.g. rights of shareholders in appointing management, approval of strategy and cash-flow); *Monitoring and oversight* of management and firm's performance based on transparency, regular and reliable disclosures, and internal checks and balances; and *Incentives* (managerial incentives to enhance effort and align interests of management with those of owners).

It is general^ accepted that the governance problem entails a tension between accountability and managerial initiative i.e. between the need for directors or management to be accountable to shareholders on one hand and the need for management to have the discretion to maximize profits. An apt analogy is in terms of, *"unleashing the tiger (management) into the jungle of the market to seek and exploit opportunities while ensuring that the tiger brings home the meat without consuming it all himself, or that it does not eat up the owner in the process " (Lin, 2001:6).*

In a good corporate governance system, management should be accountable not only to shareholders, but also other stakeholders such as employees, creditors, major suppliers and customers. The scope of accountability can be broadened even further to include those with an indirect stake, i.e. "'society" as a whole. Closely related to the question of "to whom should the board be accountable" is the issue of the advantages of corporate governance. A narrow conception of corporate governance deals with safeguarding the interests of shareholders (and other security claimants). This seems pretty much to be the dominant view among firms and institutional investors in Anglo-Saxon countries. Good corporate governance in this context involves mainly enhanced capacity for shareholders to perform oversight and monitoring functions through, for example, approving (or setting) strategic and financial objectives, management selection, decisions on directors remuneration, profit distribution, board representation, etc.

Does corporate governance matter? The consensus worldwide is that governance matters. The Hong Kong Society of Accountants (HKSA) (2001) went so far as to assert that the reason that the Hong Kong economy did not crumble in conjunction with the Asian economic downturn was because of superior governance standards.

Empirical findings also show that there is evidence of direct linkages between governance and future firm value. A survey by McKinsey & Co (McKinsey, 2002) indicates that a majority of institutional investors consider corporate governance matters to be *at leasing important* as financial indicators when making investment decisions, to the point where 76 percent of institutional investors would be willing to pay a premium to invest in firms with good governance structures. Patel and Dallas (2002) confirm the presence of a governance price premium as well.

Just as important as the actual quality of corporate governance is the accurate, timely and adequate disclosures of the practices to interested parties.

"The foundation of any structure of corporate governance is disclosure. Openness is the basis of public confidence in the corporate system, and funds will flow to the centers of economic activity that inspire trust. "

This is a famous quote made by Sir Adrian Cadbury (2000: vi) explaining the importance of corporate governance disclosure.

The HKSA (2001, 2), commenting on the Asian Crisis concurred, states:

"Poor disclosure, although not a cause of the downturn, certainly exacerbated underlying economic problems. At the very least, it can be said that better disclosure would have allowed both governments and companies to react to underlying economic problems in a timelier manner

Numerous countries have already issued corporate governance codes and the recommendations of these codes that typify '"good" corporate governance undoubtedly contribute towards increased transparency and disclosure (Mallin, 2002: 253). In case of Kenya, the Capital Markets Authority (CMA)), Central Bank of Kenya , the Institute of Certified Public Accountants of Kenya (ICPAK), and the Kenya Institute of Management (KIM) are some of the pioneer bodies working for ensuring better corporate governance in the country. Their efforts include publication of code of corporate governance for Kenya, different reports, organization of seminars, and award prizes for meritorious governance practices.

Despite the understanding that significant value accrues to providing good governance information, client corporate disclosures are nevertheless highly variable There is a diverse population of alternative reporting formats that can be, and are, adopted by firms. These include sustainability reports (KPMG International [KPMG] 2005), annual reports (Patel and Davis 2002). and corporate investor relations (IR) websites (Radner 2002).

Even within a given reporting format, there is considerable variability. KPMG (2005) finds that two-thirds of sustainability reports published by the global Fortune 250 contain a section on corporate governance, while Patel and Davis (2002) find that the main item driving differential disclosure quality rankings in annual reports is whether or not the firm provides governance disclosures.

The perennial question about value-relevant disclosures is whether or not they should be regulated and/or subjected to attestation. Regulation is costly; and this study intends to establish the status of governance disclosures in Kenya. Only after ascertaining a picture of the complete disclosure package available to investors is it appropriate to address the question of whether more regulation is desirable in the area of governance disclosures.

1.2 STATEMENT OF THE PROBLEM

The aim of governance mechanisms is to reduce the agency costs that exist due to the separation of ownership and control especially in large corporations (Jensen and Mecklin (1976). A net reduction in agency costs should, in theory, help increase corporate value and/or improve corporate performance. This is the main argument guiding the bulk of the research conducted on the subject the world over.

In recent years, corporate governance issues for participants at the NSE have taken centre stage. In 2ofc, Uchumi Markets, a leading company in the retail industry was placed under statutory management and suspended from the stock exchange amid suspicions of director/insider trades and fraud. More recently, two stockbrokers have come crushing down with preliminary investigation pointing at abuse of trust and alienation of clients' money.

There have been calls for the market regulator (The CMA) to wake up from its slumber and be more exacting in demanding quality corporate governance and timely disclosures. Corporate governance activists and institutional investors have increasingly called for increased voluntary governance disclosures. Despite this disquiet and concern there have been relatively few comprehensive studies of governance disclosure practices and response to the regulation in Kenya.

Extant literature in Kenya have focused on the cross-sectional surveys of existence of selected corporate governance mechanisms. In a recent study Mululu (2005) found that board activity is related to a number of corporate governance variables such as the board size, the number of executive directors, number of shares held by the largest shareholder, the number of shares held by directors, the number of shares held by unaffiliated block holders, and the number of other directorships held by outside directors

Other prior research on corporate governance in Kenya has focused mainly on compliance with the principles of the best corporate governance practices, and surveys of the state of corporate governance in various sectors. Jebet (2001) documented the corporate governance structures in listed companies; Kitonga (2002) studied the need for corporate governance audit in Kenya; and Mwangi (2003) investigated the determinants of corporate governance practices.

Other governance studies have been sector-based surveys of corporate governance practices, inclining Wang'ombe (2003) on practices in cooperative societies; Wairimu (2003) on NGOs; Mwangi (2002) in insurance companies; and Ademba (2006) on SACCOs

It is evident that most prior research have confined themselves to surveys of governance practices. The current study is the first effort to use a comprehensive corporate governance index to investigate the extent of governance disclosures. Further an attempt was made to gauge the determinants of corporate governance disclosures in quoted companies.

1.3 OBJECTIVES OF THE STUDY

The study sought to achieve the following objectives;

1. To survey the extent of corporate governance disclosure of companies at the NSE.
2. To evaluate the relationship between firms' corporate disclosure indices and firm attributes.

1.4 SIGNIFICANCE OF THE STUDY

The study has implications for;

Academicians and researchers: The results of the study should serve as appoint of departure for further investigation in governance structures and systems for academics and researchers in general. This study for be an eye-opener for research in the developing markets.

Regulators of financial markets: The study findings will assist regulators identify the crucial asp^s of corporate governance that should be emphaci7ed in the governance matrix. Given the many scams and financial frauds reported in many corporation and the vast sums of wealth of shareholders destroyed thereby, findings of the study should help regulators play their role effectively

Management and boards of companies: Management will be guided on the key value adding aspects of governance and will be prepared to provide the assistance that would facilitate good governance practices. Boards act on behave of shareholders, endeavoring always to report comprehensively, accurately and on a timely basis. The study would go some way in helping them play their oversight role.

2.0 CHAPTER TWO: LITERATURE REVIEW

2.1 HISTORY AND MEANING OF CORPORATE GOVERNANCE

Governance is a word with a pedigree that dates back to Chaucer and in his day the word carried with it the connotation wise and responsible, which is appropriate. It means either the action or the method of governing and it is in that the latter sense that it is used with reference to companies. Its Latin root, *"gubernare "* means to steer and a quotation which is worth keeping in mind in this context is: 'He that governs sits quietly at the stern and scarce is seen to stir.' (Cadbury, 2002: l). Though corporate governance is viewed as a recent issue,^lere is, in fact, nothing new about the concept. Because it has been in existence as long as the corporation itself (Imam, 2006: 32).

Over centuries corporate governance systems have evolved, often in response to corporate failures or systemic crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the securities law in the United States was put in place following the stock market crash of 1929. There has been no shortage of other crises, such as the secondary banking crisis of the 1970s in the United Kingdom, the U.S. savings and loan debacle of the 1980s, East-Asian economic and financial crisis in the second half of 1990s.

In addition to crises, the history of corporate governance has also been punctuated by a series of well-known company failures: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, Baring Bank and in recent times global corporations like Enron, WorldCom, Pamalat, Global Crossing and the international accountants, Andersen. These were blamed on a lack of business ethics, shady accountancy practices and weak regulators. They were a wake-up call for developed countries on corporate governance. Each crisis or major corporate failure - often a result of incompetence, fraud, and abuse-was met by new elements of an improved system of corporate governance (Iskander and Chamlou, 2000:1).

Governance has proved an issue since people began to organize them for a common purpose. How to ensure the power of organization is harnessed for the agreed purpose, rather than diverted to some other purpose, is a constant theme. The institutions of governance provide a framework within which the social and economic life of countries is conducted. Corporate governance concerns the exercise of power in corporate entities (www.ccsz.uts.edu.au).

There are probably as many definitions of corporate governance as there are corporations. The earliest definition of Corporate Governance is provided by the Economist and Noble laureate Milton Friedman (1970) *(vide* Indian infoline, 2001:1). According to him, Corporate Governance is to conduct the business in accordance with owner or shareholders' desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs (*vide* Indian infoline, 2001:1). This definition is based on the economic concept of market value maximization that underpins shareholder capitalism. Apparently, in the present day context, Friedman's definition is narrower in scope.

Over a period of time the definition of Corporate Governance has been widened. It now encompasses the interests of not only the shareholders but also many stakeholders. In fact, a much-quoted definition of corporate governance comes from Sir Adrian Cadbury, father of the core of the UK Combined Code on corporate governance which regulates corporate governance in UK companies. His definition of corporate governance is "the system by which business corporations are directed and controlled (Cadbury, 2002: 1)."

But the most authoritative functional definition of corporate governance is provided by the OECD which is consistent with the definition provided by Sir Adrian Cadbury: "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance" (OECD, 1999: 9).

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society. The incentive to corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will help them to achieve their corporate aims and to attract investment. The incentive for their adoption by states is that these standards will strengthen the economy and discourage fraud and mismanagement (Cadbury, 1999: VI).

The principal characteristics of effective corporate governance are: transparency (disclosure of relevant financial and operational information and internal processes of management oversight and control); protection and enforceability of the rights and prerogatives of all shareholders; and, directors capable of independently approving the corporation's strategy and major business plans and decisions, and of independently hiring management, monitoring management's performance and integrity, and replacing management when necessary *(vide* Gregory, 2000: i). All these characteristics are there to achieve the broad objective of good corporate governance: maximizing long term shareholder value (Ahmed, 2006: 24).

2.2 CORPORATE GOVERNANCE ENFORCEMENT MECHANISMS

Lin (2001) identifies three constituent decision making bodies on which a system of corporate governance revolves three: the shareholders' annual general meeting (AGM), the board of directors, and management. It is often assumed that this architecture represents the corporate governance of a firm. But the effectiveness - indeed the very existence of - corporate governance depends entirely on how this skeletal structure is fleshed out. How it is fleshed out depends on:

(a) **Statutory provisions,** particularly those relating to the definition and exercise of shareholders' rights, oversight mechanisms and disclosure, contained in the legal and other (especially financial and securities) regulatory framework of the country or jurisdiction and replicated - and further developed - in the charter of the company;

(b) **Monitoring,** compliance and enforceability of these legal and other statutory requirements. However, how governance works in practice and more crucially how effective it is, depends on a host of internal characteristics (ownership and capital structure) and external factors which act as enforcement mechanisms, of which the most important are

(c) **Ownership concentration** or dispersal, which determines whether a firm is tightly controlled by a group of insiders (e.g. majority shareholders) or by a large number of widely dispersed small shareholders governing largely through markets (e.g. share price movements), and the balance of powers and interests between majority/insiders and minority/outsiders shareholders;

(d) **Board attributes,** such as the composition, representativeness, independence and qualification of board members, as well as the existence **of** sub-committees (headed by non-executive or independent directors) on audit, nomination and remuneration, **to** ensure that it can be an effective oversight body on behalf of stakeholders;

(e) **Supporting checks and balances,** such as independent share registrars, company secretaries, internal financial controls and accurate and timely information accessible to board members;

(f) **Accounting standards** (including auditing) and conventions which determine the type, detail and quality of information disclosed to ensure transparency;

(g) **Product market competitiveness** to instill commercial discipline on management;

(h) **Efficiency and competitiveness** of financial markets, providing financial discipline and incentives, especially equity markets where shareholders can exercise their "vote" in governance through entry and exit, and which provides a market for corporate control as well as monitoring functions performed by institutional investors;

(i) **Competitiveness of managerial** job markets which make managerial jobs "contestable" and thereby elicit managerial effort; and

(j) **Cultural and historical factors,** which, amongst other things, strongly influence business organization, practices as well as the passivity or activism of shareholders in governance. Thus, both internal and external enforcement mechanisms impact on corporate governance (Lin, 2001:5-9)

2.3 THE INTERACTION OF DIFFERENT GOVERNANCE ftfiECHANSSMS

Corporate governance comprises many dimensions. Based 0l1 the U.K. Code, it can be divided broadly into the role of directors, directors' remuneration, the role of shareholders, and accountability and audit.

Some of the structures are complements while others are substitutes to certain extent. The previous research has found different governance patterns. For example. Peasnell et al. (2001) find evidence of a convex association between the proportion of outside board members and the level of insider ownership in the U.K. corporate control process. Shivdasani and Yermack (1999) observe, using U.S. data, that when the CEO serves on the nominating committee or no nominating committee exists, firms usually appoint fewer independent outside directors and more grey outsiders. Similarly, Vafeas (1999) discover that the likelihood of engaging a nominating committee is related to board characteristics such as inside ownership, number and quality of outsider directors for U.S. firms.

Board structure is an important governance mechanism. Kenneth et al. (1995) note the substitution effects between outside directors, and incentives to insiders using eighty one U.S. bank- holding companies in his study. Both Dedman and Elisabeth (2002) and Young (2000) investigate the board structure determinants before and after Cadbury Report. They either find managerial entrenchment is reduced or non executive directors are increased following the imposition of new standards of "best practice" regarding board structure.

2.4 THE RELATIONSHIP BETWEEN GOVERNANCE AND *FIRM* PERFORMANCE

My study builds on Himmelberg et al.(1999) who use panel data to show that managerial ownership is explained by key variables in the contracting environment. A large fraction of the cross-sectional variation in managerial ownership is explained by the unobserved firm heterogeneity. Moreover, after controlling for both observed firm characteristics and firm fixed effects, changes in managerial ownership do not affect firm performance statistically.

Many other researchers have examined the relationship between variety of governance mechanisms and firm performance. However, the results are mixed. Some examine only the impact of one governance mechanism on performance as Himmelberg et al. did, while others investigate the influence of several mechanisms together on performance. None of them covers a complete set of governance mechanisms. Below, we will briefly review some of previous studies on the governance-performance relationship.

(1)Board Composition

It is suggested that higher proportion of non-executive directors in the board helps to reduce the agency cost. Kee at al. (2003) and Hutchison and Gul (2003) support this view by showing that higher levels of non-executive directors on the board weaken the negative relationship between the firm's investment opportunities and firm's performance. However, de Jong et al. (2002), Coles et al. (2001), and Weir et el. (2002) dispute it by stating that there is no significant relationship between non-executive directors' representation and performance. In contrast, in the U.K, Weir and Laing (2000) find a negative relationship between non-executive director representation and performance. In addition, Yermack (1996) present that small board has a higher market valuation.

Stronger support for the positive impact of non-executive directors comes from event study analysis. The studies by Rosenstei and Wyatt (1990 and 1997) and Shivdasani and Yermack (1999) show that the appointment of non executive directors increases company value.

(2) Leadership Structure

Although U.K Code regards separation of the role of CEO and chairman as a sign of good governance, previous empirical analyses do not support it. For example, Coles et al.(2001), Weir et al.(2002), and Weir and Laing (2000) do not find any significant relationship between CEO duality and performance. Brickley et al. (1997) observe that costs of separation are larger than benefits for most large U.S. firms.

(3) Board ownership

The findings of the primarily U.S. based literature suggest that management is aligned at low or possibly high levels of ownership but is entrenched at intermediate ownership levels (e.g., Morck et al., 1988; McConnell and Servaes, 1990). U.K. evidence confirms that U.K. management becomes entrenched at higher levels of ownership than their U.S. counterparts (e.g. Faccio et al., Short and Keasey, 1999). Hutchison and Gul (2003) report that management share ownership and managers ' remuneration weaken the negative relationship between the firm's investment opportunities and firm's performance. In contrast, Coles et al. (2001) do not find any contribution to performance by managerial ownership.

(4) Institutional Holdings

As the U.K. Code encourages institutions to take an active role in governance, we may expect a positive relationship between institutional holdings and firm performance.

Unfortunately, empirical evidence is not supportive of this recommendation. Both Faccio and Lasfer (1999, 2000) find that major outside and industrial shareholders negatively influence the firm value.

(5) Committee Composition

For U.K. companies, Conyon (1997) provides a thorough review of the workings of remuneration committees and shows that the firms with remuneration committees pay directors less remuneration. Conyon & Mallin (1997) observe that U.K. firms have been slow in adopting nominating committees, a symptom of failure of the corporate governance system. By contrast, audit committee use in the U.K. has been widespread (e.g. Conyon, 1994; Collier, 1993). The results in Forker's (1992) study suggest that the quality of disclosure is only weakly related with audit committees and non-executive directors.

(6) *Managers' Remuneration*

The empirical work shows that the role of managers' remuneration in coordinating managers' and investors' interests is limited. Hutchinson and Gul (2003) find a positive role for managers' remuneration, while Coles et al.(2001) do not.

2.5 ENDOGENEITY OF CORPORATE GOVERNANCE MECHANISM IN FIRM VALUATION

Bhagat and Black (2000) find evidence that firms suffering from low profitability respond by increasing the independence of their board of directors, but no evidence that firms with more independent boards achieve improved profitability. Vafeas (1999) observes that the annual number of board meetings increases following share price declines. He further finds that operating performance improves following years of abnormal board activity.

Some other studies are in the ownership area. None of them provides support to the governance-performance relationship. Oyvid and Bernt (2001) discover that quantitative conclusions are sensitive to choice of instruments. Demsetz and Villalonga (2001) fail to find significant relationship between ownership and performance. What is more, Cho (1998) concludes that investment affects corporate value and in turn corporate value affects ownership but not vice-versa.

Agrawal and Knoeber (1996) examine the use of mechanisms to control agency problems between managers and shareholders. These mechanisms are: shareholding of insiders, institutions, and large block holders; use of outside directors; debt policy; the managerial labor market; and the market for corporate control. The findings are consistent with optimal use of each control mechanism except outside directors. Closely following their approach, we construct a simultaneous equation system to investigate the influence of corporate governance scorecard on firm performance.

Barnhart and Rosenstein (1998) investigate the combined effect of ownership structure and board composition on corporate performance. The results indicate that managerial ownership, board composition, and Tobin's Q are jointly determined. Vafeas and Theodorou (1998) examine a board group of board structure variables for U.K. firms. Contrary to expectations, the results reveal an insignificant relationship between board structure (percentage of non-executive directors, leadership structure, board ownership and committee composition) and firm performance.

2.6 CORPORATE GOVERNANCE SCORECARD AND FIRM VALUE

Other than focusing on one or two separate variables for corporate control, recently their have been an increasing number of studies that employ corporate governance scorecard as a comprehensive measure to examine the agency problem. It has the advantage to implicitly incorporate either the substitutive or complementary effect of variety of governance practices into one study.

The empirical literature on the relationship between firm value and corporate governance scorecard usually analyzes either inter-country difference or inter-firm variation within a country. The most prominent example of studies on inter-country difference is Laporta et al. (2002), who investigate differences in governance standards among twenty seven countries. Their evidence shows that firms incorporated in countries with better governance standards tend to have higher valuations. Examples of studies investigating inter-firm variation within one country are Drobetz et al.(2003) for the U.S., Klapper and Love (2004) for fourteen emerging markets, Durnev and Kim (2002) for Korea, Black (2001) for Russia, and Callahan et al.(2003) for Fortune 1000 firms. The results appear to confirm a positive relationship between governance standards and firm value. More importantly, the relationship seems to be stronger in countries with less developed standards.

To the best of our knowledge. Klapper and Love (2004) and Durnev and Kim (2002) are the only two research that investigate the determinants of corporate governance scorecard. Overall Klapper and Love (2004) find that firm-level governance is correlated with firm size, sales growth and assets composition. Moreover, they report that good governance is positively correlated in market valuation and operating performance. Similarly, Durnev and Kim (2002) report higher disclosure level and in turn higher market valuation for firms with greater growth opportunities, greater needs for external financing, and more concentrated cash flow rights. Our study differs from theirs in the following ways: Firstly, we use time- varying governance scorecard to control unobserved firm heterogeneity with fixed effects. Secondly, we broaden governance measurements with governance scorecard as well as shareholding variables. Finally, we explicitly put governance mechanisms into a simultaneous equation system to address the endogeneity problem.

Among the inter-firm variation studies, Gompers et al. (2003), Marry and Stangeland (2003), Klapper and Love (2004), and Bauer et al. (2003) examine the impact of the governance standards on firm performance approximated by profitability ratios as well. All of them document a positive relationship between governance scorecard and performance except for Bauer et al. (2003) who surprisingly detect a significant negative relationship.

When set up a zero investment portfolio, investors can earn normal returns by buying firms from higher level corporate governance group and short-selling those from lower level corporate governance group (Gompers et al., 2003; Drobetz et al., 2003; Bauer et al., 2003)

Drobetz et al. (2003) and Chen et al. (2003) investigate the influence of governance scorecard on cost of equity capital for Germany and nine Asia markets respectively. Their findings show that good corporate governance helps to reduce such cost.

Creamers et al. (2003) find that external and internal governance mechanisms are strong complements in association with long term abnormal returns and accounting measures of profitability. Besides, Q's of firms with both high takeover vulnerability and high public pension fund ownership are high, but lower than the Q's of firms where only one of the two governance mechanisms is high.

2.7 EMPIRICAL STUDIES

A good number of theoretical and empirical researches on corporate governance disclosure have been undertaken throughout the globe due to the continuing emphasis on this. In conducting the research on corporate governance, annual reports have been used as a main source of information. Karim *et al.* (1996) argued that annual reports of the companies should be considered as the most important source of information about a company and they used that for a variety of reasons. Bushman a..d Smith (2001) argued that a fundamental objective of corporate governance research in accounting is to provide evidence on the extent to which information provided in financial accounting systems mitigate agency problems.

Research in the field of corporate governance disclosure during the recent years has mainly focused on the disclosure practices found in the annual reports by determining the extent of corporate governance disclosures in the annual reports of the companies of a country. In the Twenty First Session of International Standards of Accounting and Reporting (Geneva 27-29 October, 2004) UNCTAD Secretariat presented a report (which was prepared after conducting a survey on 30 companies representing different geographical regions and industry) that found increasing convergence among national and international corporate governance codes and guidelines but it also reported significant deviation in terms of disclosure practices and content of disclosure.

Gompers *et al* (2003) used the incidence of 24 governance rules to construct a "Governance Index" to proxy for the level of shareholder rights at about 1500 large firms in the USA during the 1990s. They found that firms with stronger shareholder rights had higher firm value, higher sales growth, higher profits, lower capital expenditures, and made fewer corporate acquisitions. But except for size and, to a lesser extent, ownership structure, Real Labelle (2002) did not find consistent and significant relations between disclosure quality of governance practices and firm performance or other corporate governance variables such as the proportion of unrelated director, the CEO's plurality of offices and the level of financing activity in Canada.

Similarly, a number of attempts have been made by various researchers throughout the world regarding the determinants of corporate governance. Durnev and Kim (2005) provide empirical and theoretical evidence that companies with greater growth opportunities, greater needs for external financing, and more concentrated cash flow rights practice higher quality governance and disclose more and the strength of their influence depends in part on the country's legal environment.

On the other hand, Barucci and Falini (2005) find that in Italian financial market, governance features are affected by shareholders' composition, balance sheet data and company features. Anand *et al.* (2006) provide empirical evidence that the absence of a large empirical block holding and a high need for external financing are the firm characteristics associated with the adoption of the Canadian guidelines and when it comes to voluntarily adopting the U.S. Sarbanes-Oxley Act (SOX) provisions, firm size becomes an important determinant.

From the context of Bangladesh, Hossain *et al* (2005) made a study on voluntary disclosures on corporate social responsibility in Bangladesh by taking 75 sample companies. They found that only 9 companies (12%) disclosed several issues on corporate governance in their annual reports covering issues like Internal Financial Control (including management structure, financial reporting, asset management, functional reporting), Statement of director's responsibilities for preparation and presentation of financial statements. Board Committees and Rights and relations with shareholders. Besides, they also found 5 companies to highlight legal issues, 9 to disclose about business ethics, 7 companies to report on the shareholder's dialogue, 5 to report on community relations, 14 to report on environmental sustainability and no companies to report on human rights and labour standards.

Al-Amin and Tareq (2006) found significant statistical relationship between company size measured by annual turnover and corporate governance disclosure after a survey of 30 companies. After conducting a questionnaire survey of 151 companies in 2002, Centre for Policy Dialogue (CPD) reported the adoption of corporate governance policy in 66.7 percent of the companies and compliance with national and international benchmarks in 43.3 percent of the companies.

Hossain and Khan (2006) conducted an extensive survey of 100 sample companies of Dakar Stock Exchange and CSE (Chittagong Stock Exchange) and found significant relationship between corporate governance disclosures and some corporate attributes such as multinational affiliation, linkage of auditor with big four audit firms, concentrated ownership by sponsors and banking companies influence. In their survey, they considered 25 issues in developing corporate governance disclosure index. The present study has been conducted considering 45 different issues that not only cover these 25 issues but also other important issues considered by UNCTAD (2004)

2.8 CORPORATE GOVERNANCE AREAS

This study will survey corporate governance reporting profiles. The survey is a stock-taking exercise of reporting practices, and is based on five corporate governance principles developed by the Organization for Economic Co-operation and Development (OECD). The survey seeks to ascertain whether there variations in reporting practices of governance since the publication of the recommendations of CMA in 2002. The recommendations target five areas: the rights of shareholders; equitable treatment of shareholders; role of stakeholders; disclosure and trar, parency; and board responsibilities.

1. Rights of Shareholders

"The corporate governance framework should protect and facilitate the exercise of shareholders' rights."

Certain common requirements are generally accepted as the fundamental building blocks for protecting the rights of shareholders, regardless of the type of legal and regulatory system the economy employs: The following issues are important

• the presentation of audited annual reports and the disclosure of un-audited semi-annual reports and quarterly financial statements;

• the requirement of a minimum period of notice for shareholder meetings;

• the allowance of proxy voting;

• the disallowance of multiple voting shares;

• the right of shareholders to vote on the appointment and removal of directors, the authorization of share capital changes, amendments to the company's articles or statutes, and major corporate transactions (acquisitions, disposals,

mergers, takeovers);

• the ability of shareholders to nominate candidates for the position of director; and

• the ability of shareholders to propose agenda items at shareholder meetings.

2. Equitable Treatment of Shareholders

"The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights."

Generally accepted features of the equitable treatment of shareholders are:

• laws that define "insiders";

• the requirement that insiders disclose their transactions;

• laws that explicitly define penalties, including fines and imprisonment, for the violation of insider trading regulations; and

• a legal and regulatory framework that requires disclosure of related party transactions.

3. The Role of Stakeholders

"The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises."

Four main factors are generally considered in assessing the role of corporate stakeholders:

• the availability of employee stock ownership plans (ESOPs) or other long-term employee incentive plans;

• the disclosure of details of employees' safety and welfare;

• the according of first priority to employees' wages and benefits in the event of insolvency; and

• the disclosure of any event related to environmental issues.

4. Disclosure and Transparency

"The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company."

Features of an acceptable system of corporate disclosure and transparency include: the provision of an annual report that includes general information on:

- the company and its main business,
- audited annual financial and accounts.
- the basis of remuneration of board members,
- consolidated financial reports,
- information 011 the structure and practice of corporate governance within the firm.
- directors' shareholdings and transactions in the company's stock

3.0 CHAPTER THREE: RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The study adopted an analytical approach. The main objective of this study was to examine the level of corporate governance disclosures of the sample companies. In line with Bhuiyan and Biswas (2007). a corporate governance disclosure index will be developed and regressed on various firm attributes, which theory posits could influence governance disclosures by firms.

3.2 POPULATION AND SAMPLE

This research was based on all companies listed at the NSE for the year 2007. The companies were classified into 2 broad headings: Financial sector and non-financial sector. Financial sector includes banks and insurance companies. Non-financial sector includes agricultural, commercial' and industrial and allied. The disclosure practices of selected companies are analyzed for financial year ending in the calendar year 2007. The primary sources of data used for the survey include company annual reports and internet. With the help of the list of disclosure issues, the annual reports of the companies were examined.

3.3 VARIABLES AND MODEL SPECIFICATION

Issues in corporate governance disclosure are classified into 5 broad categories. These are financial disclosures, non-financial disclosures, annual general meetings, timing and means of disclosure, and best practices for compliance with corporate disclosure (see appendix l)

Under non-financial disclosures, different headings such as company objectives, governance structure and policies, members of the board and key executives, material issues regarding employees, environmental and social stewardship, material foreseeable risk factors, and independence of auditors are used. Under all these broad and subcategories, a total of 45 issues will be considered (See Appendix l).

A dichotomous procedure will be followed to score each of the disclosure issue. Each company will be awarded a score of ' 1' if the company appears to have disclosed the concerned issue and '0' otherwise. The score of each company will be totaled to find out the net score of the company. A corporate governance disclosure index (CGDI) will then be computed by using the following formula:

$$\overline{C}C_jDI = \frac{TotalScoreoftheIndividualCompany}{Maximum \quad PossihleScoreOhtainahlebyCompany} * 100$$

By using the total CGDI the following hypotheses will be tested:

Hypothesis 1 There is no significant difference among the CGDI of four segments..

Hypothesis 2 CGDI of financial and non-financial sectors are equal.

Hypotheses 3.Companies do not differ significantly in average, financial and non-financial disclosure index.

Hypothesis 4 There is no significant association between a number of corporate attributes ***(viz,*** size of the company, local ownership (which includes public ownership, institutional ownership, and government ownership), multinational company, belonging to financial or non-financial institution, age, size of the board of directors, and the type of auditor) and the extent of corporate governance disclosure.

Regression

To provide primary evidence of the impact of corporate attributes on corporate governance disclosures of different companies in Kenya, this paper used the following multiple regression technique.

CG = PO + plLNSA+ p2LOCALt + p3MNCt + p4FINt + pSAGEt + p6BODt + p7BIG5t + et

Where,

Dependent Variable

CG is the dependent variable. It is the Corporate Governance Disclosure Index defined as Total score obtained by the company divided by the maximum score obtainable by one company multiplied by 100.

Independent Variables:

LNSA is Sales (Proxy for size) and is defined as the Natural logarithm of the sales of the company. The size of the reporting company has been a major variable in most studies examining disclosure variability and several measures of size may be annual sales, total assets, fixed assets, paid up capital, shareholders equity, capital employed, and the market value of the firm (KarL.i, 2006: 97). In this study, natural log of sales has been used as the proxy for the size of the company.

LOCAL is the proportion of Local Ownership, and is defined as the proportion of general ownership (summation of public, institutional and government ownership) in the company. In Kenya companies, ownership pattern include, institutional ownership, government ownership, foreign ownership and public ownership. In this study local ownership (which includes public ownership, institutional ownership, and government ownership) has been used with the expectation to find any relationship with corporate governance disclosure.

MNC is whether or not company is a multinational or has a foreign parent . MNC Dichotomous with 1 if the company is a multinational one and 0 otherwise. In Kenya at present, a number of multinational companiesfor companies with a significant foreign ownership element] are operating. Because of their operation in different parts of the world, it is expected that multinational companies will make more corporate governance disclosure than local companies. So a dummy variable has been taken where 1 for the multinational listed companies on NSE and 0 for other companies .

FIN represents the financial or non-financial status of the company and is the Financial Institution Dummy Variable, 1 if the company is a financial institution and 0 otherwise. In Kenya, the Central Bank pays special attention to financial institutions reporting practices. So in this study, attempts will be made to add one dummy variable (1 if the company is a financial institution) in the multiple regression model to find significant relationship with corporate governance disclosure, if any.

AGE is the age in years of operation in the market as a listed public limited company. In this paper, attempts have been made to find out if there exists any relationship between the number of years of operation as a listed public limited company in the market and the extent of corporate governance disclosure. Age has been calculated by finding the difference between the annual report year and the year of listing.

BOD represents board Size. It is the number of directors in the board. Large boards are usually more powerful than small boards and. hence, considered necessary for organizational effectiveness (Florackis and Ozkan, 2004). For instance, as Pearce and Zahra (1991) point out, large powerful boards help in strengthening the link between corporations and their environments, provide counsel and advice regarding strategic options for the firm and play crucial role in creating corporate identity. So the board size has been considered in the multiple regression model.

BIGS is a dummy variable, taking a value of 1 if the company is audited by one of the 'Big Five' audit firms, and 0 if otherwise. The big five audit firms are expected to influence their auditees to disclose more comprehensively.

3.4 DATA ANALYSIS

Multiple regression was used to test the hypotheses, and assumptions of multicollinearity, normality, homoscedasticity and linearity will also tested. Natural log of assets (LNASST) were used to develop a correlation matrix with the other variables. The Pearson correlation matrix was used to test the multicollinearity assumption, while an analysis of residuals, plots of the standardized residuals against predicted values was conducted to test for homoscedasticity, linearity and normality assumptions.

Before going for testing the above mentioned hypotheses, a *Run Test* wase performed for testing the randomness of observed data. Besides *Run Test*, several statistics techniques such as *Kolmogorov-Smirnov goodness of fit test, Wilkoxon Rank Sum W test, Analysis of Variance (ANOVA)* will be applied in this study. For checking normality of population *Kolmogorov-Smirnov goodness of fit test* was conducted and *Wilkoxon Rank Sum W test* was conducted to test the equality of means where normality of population can't be ensured.

4.0 Ci-IAPYEPi FOUR: DATA ANALYSIS MD FINDINGS

4.1 SAMPLE SELECTION

The study aimed at documenting the financial statement disclosures of the 54 companies listed at the NSE for their financial years ending in the calendar year 2007. The library of the CMA was the chief source of the statements. The library did not have several copies of financial statements of several companies. The affected companies were approached and where possible provided the statements. In all was able to access the statements of 35 companies which form the basis of the study. Table 3 summarizes the sampled companies.

4.2 ANALYSIS OF CORPORATE GOVERNANCE DISCLOSURES

While there is increasing tendency to disclose different aspects of corporate governance, the disclosure practices and the content of disclosures among the selected companies did not vary widely. It appears most listed companies have converged in their reporting practices. Two factors contributing to the convergence can be cited. First is the effect of the issuance of the CMA guideline which, though voluntary, nevertheless had a compelling influence, with companies striving to comply. Second is the fact that almost all companies on the NSE are audited by about four audit firms in the "big Five" league. This narrows the areas of discretion.

Table 1 Frequency Distribution of Total Score by Individual Company. The total scores are determined as set out in Table 3

Total Score	N	Cum. N	%	Cum. %
21-25	1	1	2.94	2.94
26-30	8	9	23.53	26.47
31-35	19	28	55.88	82.35
36-40	6	34	17.65	100

Source: Compiled and Computed from the Annual Report of the Concerned Company

As seen in above in Tables 1 and in Table 2. the range in the disclosure item scores among the selected companies is narrow. With a maximum of 45 disclosure items and the average score of 32.74, or 72.75%, one company received the highest score of 40 or 89%. At the low end, also one company received a score of 25, or 55.55%. Test result of Run Test on the data asserts that null hypothesis of randomness of data can't be rejected as P-value is more than a value which is 5%. The majority of the selected companies have disclosed information that is consistent with the disclosure items checklist. In general, the highest scores are associated with those disclosure items that address financial results, accounting policies, shareholder rights, and the existence of various governance structures and mechanisms. At the high end of the range, all selected companies have disclosed financial and operating results, shareholder rights, size and composition of the board of directors, compliance with different legal rules and accounting policies, information regarding auditor appointment and auditor fees and 97% has disclosed the information regarding notice and agenda of the annual general meeting. Lower scores concerned with various diverse aspects such as the shareholder rights (0%). number of outside directorship held by company's directors (5%), attendance at board meetings (22.85%), Corporate reporting framework (17.147%),information relating to organizational hierarchy (34%), as well as existence of a code of conduct (40%).

Table 2: The table shows the total scores attained bv all the 35sampled companies on various aspects of corporate governance. Total possible Corporate Governance Disclosure Index (CGDI) score is 35. The percentage positive CGDI score on each aspect is computed and displayed

DISCLOSURE ITEM	Total CGDI scored	Possible CGDI score	%CGDI score
I.Financial Disclosures:			
1. Financial and Operating Results	j-i		100°b35
2.Related Party Transaction		35	94.29%33
3.Critical accounting policies		35	100%35
4. Corporate reporting framework		35	17.14%6
5. Statement of directors' responsibility		35	94.29
6. risk estimates in preparing FSs	6	35	17.14
7. Segment reporting	28	35	8080
8. Information regarding future plan	19	35	54.2919
9. Dividend	35	35	10035
	230	315	65.710
II. Non- Financial disclosures			
A. Company Objectives:			
10. Information about company objectives	10	JO	28.5710
	10	**35**	**28.5710**
B. Ownership and Shareholders' Rights:			
11. Ownership Structure	34	35	97.1434
12. Shareholder Rights	35	35	1000
13. Size of board	35	35	10005
14. Composition of board	35	35	100
15. Division between chairman and CEO	34	35	97.14
16. Chairman Statement	35	35	10035
17. Information about Independent Director	23	35	65.7123
18. Role and functions of the board	30	35	85.7130
19. Organizational Hierarchy	12	35	34.2912
20. Changes in Board Structure	16	35	45.7116
21. Compliance with different legal rules		35	10035
22.Audit committee	35	35	10035
23.Remuneration committee	35	35	10035
24. Any other committee	32	35	91.4232
25. Composition of the committee	29	35	82.8529
26. Functioning of the committee	31	35	88.5731
27. Organizational code of ethics	14	35	4014

D. Members of the Board and key executives:

28. Biography of the board members	22	35
29. No. of directorship hold by individual members	2	35
30. No. of board meeting	24	35
31. Attendance in board meeting	8	35
32. Director stock ownership	11	35
33. Director remuneration	28	35
	95	210

E. Material issues regarding employees, environmental and social stewardship

34. Employee relation/Industrial relation	24	35
35. Environmental and social responsibility	25	35

Financial Disclosures: As has been said earlier, the selected companies are more eager to disclose financial information rather than non-financial information. All the companies have disclosed information regarding financial and operating results , accounting policies and all have disclosed information regarding dividend.

In case of corporate reporting framework, only 17% companies have disclosed their position. Corporate reporting framework includes declaration by the board regarding fair presentation of financial statements, consistent application of accounting policies and standards, sound internal control system, ability to continue as a going concern etc.

Non-financial Disclosures: Out of 35 companies sampled 23 companies (65%) have mentioned the requirements of the CMA Compliance Report in the respective annual reports. It means that about 35% companies didn't make any disclosure regarding Corporate Governance Disclosure requirement of the CMA. The reluctance on part of the companies to comply with the disclosure requirement is an alarming sign, indeed.

Again only 10 companies (28%) have been found to disclose information regarding company objectives. All but one of the selected companies have disclosed information regarding ownership structure and all have disclosed information regarding shareholder rights. In the survey, disclosure of voting right and attachment of proxy form is considered as synonymous to shareholder right.

The results of the survey show a disparity among selected companies between the disclosure of the existence of governance mechanisms and the disclosure of information on the transparency and effectiveness of these mechanisms. On average 95% of the selected companies have lisclosed the existence of some sort of governance structures (existence of audit committee, remuneration committee, and other committees), 82% on composition of the committees and 88% on role and functions of the committees. Again, all the companies have disclosed the composition of the board (including executives and non-executives), with 86% disclosing the role and functions of the board.

Results also reveal different levels of transparency among selected companies with respect to the board. 63% percent of selected companies have disclosed the qualifications and biographical information of each board member, while only 6%% of selected companies have disclosed the number of directorships and other positions held by directors. Companies did better in disclosing the remuneration of directors. 80% companies have disclosed this information in the notes to the financial statement

71% of selected companies have disclosed the company policy and performance in connection with environmental and social responsibility, although in most cases relationships between a company's policy and performance and their impact could not be discerned. The content of disclosure varies among selected companies. A few companies have disclosed specific natural environmental targets, while others disclosed more employee training and health programmes and/or contributions made to the natural environment and community.

Sound internal control system is a pre-requisite for good corporate governance. Out of 35 companies surveyed, only 17 (49%) companies have disclosed information regarding internal control system inside the organization. Most of the companies provided the information in the CMA checklist. Though it is a general practice to disclose the notice of AGM and the agenda of the AGM in the annual report. 1 company was found without such disclosure. As a result, from the annual report it is not possible to find out the matters to be discussed or decisions to be taken in the AGM.

24 companies (69%) have disclosed information regarding number of board meetings held during the last financial year. Out of these companies, 8 companies have been found to disclose each and every director's attendance in the board meetings as well.

Though internet is not so widespread in our country at the current moment, still 20 companies (57%) have disclosed information regarding financial position and/or annual report in their website. If a company had a website address shown on it annual report . this was taken as evidence that its annual report was available on the internet. Most of these companies are banks and financial institutions and foreign companies.

Not a single company has disclosed in a statement that the board of directors had confidence that the auditors were independent and their integrity had not been compromised in any way. All selected companies disclosed the complete letter of the "Independent Audit Report" in their annual. Again, all the companies disclosed information regarding appointment and rotation of auditors as well as their remuneration.

The sector wise disclosure is shown in the following table:

Table 3 Sector-wise CGDI Distribution

Sector	***No. of Companies***	Minimum	Maximum	Av.CGDI	S.D.	Kolmogorov Smirnov	P.Value
All sectors		25	41	74.967	7.305		
Financial sector	12	30	41	78.51852	7.174799		
Other sectors	23	25	37	73.03029949	6.764551		

Source: Computed and Compiled from Annual Reports

Financial Vs Non financial sector reporting

In many countries (Kenya included), financial sectors (Banks and Insurance companies in this study) are subject to close monitoring and supervision by Central Banks and the regulating authorities of stock exchanges. As a result, more restrictions are imposed on this sector while the non-financial sectors are a little bit relaxed to some extent. So, in this study attempts were made to distinguish financial and non-financial sectors' CGDI. The hypotheses tested were that:

Ho: There is no significant difference between financial and non-financial sector avg. CGDI.

Hi: Significant difference exists between the financial and non-financial sector avg. CGDI. The result is given in Table 4. Using the Kolmogorov-Smirnov Two-sample test, at 5% level of significance, null hypothesis of equal variance can't be rejected because significance value is more than the a value of 5%. By performing analysis of variance, and assuming un-equal variance, the null hypothesis of equality of means can't be accepted at 5% level of significance. So null hypothesis of difference in average CGDI

between financial and non-financial sector can't be rejected. Therefore there is a significant in the level of reporting in the two sectors.

Regression Analysis Results

Finally, attempts have been made to find out the impact of various corporate characteristics on the corporate governance disclosure. For this, a multiple regression model is run. The descriptive statistics for the independent and dependent variables are given in Table 9.

A correlation matrix of various independent variables along with dependent variables is constructed which is shown in Table 10. The correlation matrix shows that other than size of the board and age, all the independent variables are significantly correlated with corporate governance disclosure index at 1% or 5% (MNC) level of significance. High correlation has been found between natural log of asset and natural log of sales (.704), belonging to financial and non-financial institution (FIN) and natural log of asset (0.675). Due to the existence of high correlation between natural log of asset and some other independent variables, natural log of sales has been selected to act as proxy for size of the firm, i

Table **4: Descriptive statistics of the dependent and independent variables**

	min	Ma	mean	s.dev	skewness	kurtosis
LNSA	20.50621	27.36778	22.47178	1.312862	1.553309	4.783146
LOCAL	0.11	1	0.728676	0.296651	-0.73234	-0.90002
MNC	0	1	0.294118	0.462497	0.945951	-1.17818
FIN	0	1	0.352941	0.485071	0.644235	-1.688
AGE	1	57	23.91176	15.95708	0.345663	-0.65354
BOD	5	17	10.26471	2.689022	0.087562	0.261162
BIG5	0	1	0.941176	0.238833	-3.92534	14.24414
CGDI	57.77778	91.11111	74.96732	7.305196	-0.20227	0.048686

The results of multiple regression (Table 6) show that the corporate governance disclosure is significantly influenced (at 5% level) by whether you are in the finance sector or not; the size of the board of directors; and the age of the company. The size of the company (represented by the natural log of sales), local ownership, and the auditor have no significant impact on reporting (This may not be exactly true as all but two companies sampled are audited by the "'Big five").

The multiple correlation coefficient *(R)* is 0.649 *(R2* = .421) and the adjusted *R2* is 0.393, meaning that more than one-third of the variation in *corporate governance disclosure index* can be predicted from the selected independent variables. It has also been found that the variable has both the highest correlation with CGDI (0.50) when other predictor variables are ignored (i.e. the highest zero-order correlation) and the highest unique correlation with CGDI (0.420) when its shared variation with the other predictor variables is taken into account (i.e. the highest beta value). The beta weights suggest that other than local ownership (-.185) and age (-.026), all the independent variables are positively contributing towards predicting disclosure levels.

TABLE 5:CORRELATION MATRIX

	CGDI	LNSA	LOCAL	MNC	FIN	AGE	BOD	BIG5
CGDI	1							
LNSA	0.0802	1						
LOCAL	-0.0335	-0.13089	1					
MNC	-0.0270	-0.0006	-0.83748	1				
FIN	0.3644	-0.1529	0.012821	-0.0715	1			
AGE	-0.1755	0.0513	-0.19479	0.1802	-0.2425	1		
BOD	0.2344	0.5003	-0.01379	-0.0401	-0.0273	-0.3009	1	
BIG5	0.0954	0.1194	0.1020	0.1846	-0.1129	-0.0610	0.0767	1

As the CMA notification has been found to exert significant influence on corporate governance disclosure practice, so it is important to make the compliance of the conditions mandatory in the place of voluntary compliance (comply or explain basis) on part of the listed companies. Again, the positive beta value of natural log of sales implies that larger the size of the firm, the greater will be the extent of disclosure. So law is necessary to reduce the gap between large and small firm level disclosure practice. On the other hand, though local ownership has been found to be a significant independent variable in explaining the extent of corporate governance disclosure practice, its beta value is negative meaning that corporate governance disclosure decreases as local ownership portion increases in a company. So policies should be devised so that corporate governance disclosure increases with the increase in local ownership portion in the company. Moreover, from the multiple regression model output, it has also been observed that belonging to financial or non-financial institution, age. multinational company, and, size of the board of directors do not contribute significantly towards predicting the corporate governance disclosure. It means that for Kenyash, these variables are not significant contributors towards ensuring better corporate governance at the current moment.

5.0 CHAPTER FIVE : CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSIONS

It has been found that a good number of NSE listed companies in Kenya have chosen to disclose information regarding various issues of corporate governance with a view to ensure compliance with regulatory requirement and to increase the confidence of various constituents of business as well as society.

1. The survey findings show that corporate governance disclosure in Kenya is significantly influenced by belonging to financial or non-financial institution company, size of the board of directors, and age of the company and the CMA notification, but, size of the company, local ownership, multinational company status do not have significant impact on corporate governance disclosure.
2. Companies listed at the NSE are observed to report comprehensively on the corporate governance practices and have endeavored to a great extent to follow the guidelines of the CMA on sound corporate governance principles. This is evidenced by the high average corporate governance disclosure index (CGDI) of 75% (comparative figure in Bangladesh (Bhuyain and Biswas, 2007) are 56%).
3. The gap in corporate governance reporting practices of companies at the NSE has narrowed markedly. The impact of the CMA guideline issued in 2002 has positively resulted in quality corporate governance practices and reporting. This is shown by the smaller standard deviation of CGDI of 7.305 for NSE compared to 17.20 in Bangladesh (Bhuyain and Biswas , 2007).
4. The survey result reveals that there are important corporate governance issues on which disclosure is not yet a widespread practice. It is particularly a matter of concern that the biography of the board members, remuneration committee

information, code of ethics, directorship information, organizational hierarchy are not being widely disclosed. Given the growing complexity of business operations and of issues that boards have to deal with, the investing public would be interested to know whether members of the board of the enterprises in which they have invested or plan to invest in have sufficient educational and professional qualification to carry out the business, how the remuneration of the employees is being fixed, under which rules and guidelines the board members are running the business, and to what extent the board members are busy with other companies" directorship.

5. Within the current type of analysis, scope may be widened by covering the corporate governance disclosure practice by Kenyan public limited companies over a number of years to find out the extent of importance the organizations are emphasizing on this issue.

5.2 RECOMMENDATIONS FOR FURTHER RESEARCH

Extensive research is needed in the area of corporate governance disclosures in Kenya since literature review is lacking. This research examined disclosure of the corporate governance. Further research is recommended on this area are:

1. Practice of good corporate governance by the board and management among the companies listed in Nairobi Stock Exchange. Practice together with disclosure can facilitate and stimulate the performance of companies, limit the insiders' abuse of power over corporate resources and provide a means to monitor managers' opportunistic behavior.
2. The CMA guideline has had an impact on the reporting practices of quoted companies; so has Central Bank requirements on the financial statement of financial institutions. The majority of business organizations, however, fall outside the purview of the CMA and the Central Bank. There is need to assess the gaps and loopholes in the governance and related reporting for such private companies. Scholarly effort should be directed in this sector.

3. Further research is necessary using time series techniques and panel data to evaluate the improvements and trends over time. This can help ascertain the drivers , (or impediments) to advancement in proper governance practices and reporting.
4. Further research may also include managerial perceptions studies and stakeholders' perceptions studies.

5.3 LIMITATIONS OF THE STUDY

The findings of the study may be limited in the generalizability because of several data and methodological weaknesses:

1. Moreover, in this project all the disclosure items are given same weight. Although this helps to reduce subjectivity, the market may place higher emphasis on certain elements of governance.
2. Also, some aspect of governance may be considered to be a basic component or prerequisite to implementing others and thus should be given more weight.

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APPENDICES

APPENDIX (i)

Corporate Governance Disclosure Index Questionnaire Checklist. Financial statements will be examined to determine whether or not they **report on the disclosure issues listed** heiow. **'YES' wiil score 1, while 'NO' SCORES 0.**

DISCLOSURE ITEM	YES (I)	NO (0)
I. **Financial Disclosures:**		
1. Financial and Operating Results		
2. Related Party Transaction		
3. Critical Accounting Policies		
4. Corporate reporting framework		
5. Statement of Director's responsibilities towards preparation and presentation of financial statements		
6. Risk and estimates in preparing and presenting financial statements		
7. Segment reporting		
8. Information regarding future plan		

9. Dividend		
II. Non- financial disclosures		
A. Company Objectives:		
10. Information about company objectives		
B. Ownership and Shareholders' Rights:		
11. Ownership Structure		
12. Shareholder Rights		
C. Governance Structure and Policies:		
13. Size of board		
14. Composition of board		
15. Division between chairman and CEO		
16. Chairman Statement		
17. Information about Independent Director		
18. Role and functions of the board		
19. Organizational Hierarchy		
20. Changes in Board Structure		

21. Compliance with different legal rules		
22. Audit committee		
23. Remuneration conuJltee		
24. Any other committee		
25. Composition of the committee		
26. Functioning of the committee		
27. Organizational code of ethics		
D. Members of the Board and key executives:		
28. Biography of the board members		
29. No. of directorship hold by individual members		
30. No. of board meeting		
31. Attendance in board meeting		
32. Director stock ownership		
33. Director remuneration		
E. Material issues regarding employees, environmental and social		

stewardship:		
34. Employee relation/Industrial relation		
35. Environmental and social responsibility		
F. Material foreseeable risk factors:		
36. Risk assessment and management		
37. Internal control system		
G. Independence of Auditors:		
38. Auditor appointment and rotation		
39. Auditor fees		
III. Annual General Meeting:		
40. Notice of the AGM		
41. Agenda of the AGM		
IV. Timing and means of disclosure:		
42. Separate Corporate Governance statement/ separate section for corporate governance		
43. Annual report through internet		

44. Any other event		
V. **Best practices for compliance with corporate governance:**		
45. Compliance with CMA notification		

Appendix (ii): The table shows the total scores attained by the 23 non financial sampled companies on various aspects of corporate governance. Total possible Corporate Governance Disclosure Index (CGDI) score is 35. The percentage positive CGDI score on eacli aspect is computed and displayed

Financial statements will be examined to determine whether or not they report on the disclosure issues listed below. 'YES' will score 1, while 'NO' SCORES 0.

OTHER SECTOR

DISCLOSURE ITEM	til SCORE	TTL PSSBL	% SCORE
I. Financial Disclosures:			
1. Financial and Operating Results	23	23	100
2. Related Party Transaction	21	23	91
3.Critical accounting policies	23	23	100
4. Corporate reporting framework	4	23	17
5. Statement of directors' responsibility	21	23	91
6. Risk and estimates in preparing sentirig FSs and presenting financial statements	2	23	9
7. Segment reporting	18	23	78
8. Information regarding future plan	13	23	57
9. Dividend	23	23	100
	148	207	71
II. Non- financial disclosures			
A. Company Objectives:			
10. Information about company objectives	9	23	39
	10	23	43
B. Ownership and Shareholders' Rights:			
11. Ownership Structure	22	23	96
12. Shareholder Rights	23	23	100
13. Size of board	23	23	100
14. Composition of board	23	23	100
15. Division between chairman and CEO	23	23	100
16. Chairman Statement	23	23	100

17. Information about Independent Director	13	23	57
18. Role and functions of the board	20	23	87
19. Organizational Hierarchy	6	23	26
20. Changes in Board Structure	12	23	52
21. Compliance with different legal rules	23	23	10(
22. Audit committee	23	23	10(
23. Remuneration committee	23	23	10(
24. Any other committee	20	23	87
25. Composition of the committee	18	23	78
26. Functioning of the committee	19	23	83
27. Organizational code of ethics	6	23	26
	332	391	85
D. Members of the Board and key executives:			
28. Biography of the board members	14	23	61
29. No. of directorship hold by individual members	0	23	0
30. No. of board meeting	14	23	61
31. Attendance in board meeting	0	23	0
32. Director stock ownership	8	23	35
33. Director remuneration	18	23	78
	54	138	39
Corporate Social responsibility	0		
34. Employee relation/Industrial relation	16	23	70
35. Environmental and social responsibility	17	23	74
	33	46	72
F. Material foreseeable risk factors:			
36. Risk assessment and management	16	23	70
37. Internal control system	10	23	43
	26	46	57
G. Independence of Auditors:			
38. Auditor appointment and rotation	20	23	87
39. Auditor fees	22	23	91

	42	46	96
III. Annual General Meeting:			
40. Notice of the AGM	22	23	96
41. Agenda of the AGM	22	23	96
	44	46	96
IV. Timing and means of disclosure:			
42. Separate Corporate Governance statement/ separate section for corporate governance	20	23	87
43. Annual report through internet	10	23	43
44. Any other event	19	23	83
	49	69	71
V. Best practices for compliance with corporate governance			
45. Compliance CMA with CMA GUIDELINES notification	15	23	65
	23	23	65

	MEAN	S.DEV
Total **score**	33	3.036811
LNSA	22.80812	1.491084
LOCAL	0.806842	0.235043
	0.210526	0.418854
	0	0
AGE	25.57895	17.08253
BOD	10.7368[illegible]	3.052170
BIG5	0.894737	0.315302
CGDI	73.33333	6.748466

Appendix (iii): The table shows the total scores attained bv thel2 sampled FINANCIAL COMPANIES on various aspects of corporate governance. Total possible Corporate Governance Disclosure Index (CGDI) score is 35. The percentage positive CGDI score on each aspect is computed and displayed

DISCLOSURE ITEM	Total CGDI scored	Possible CGDI score	%
. Financial Disclosures:			
1. Financial and Operating Results	12	12	100
I. Related Party Transaction	12	12	100
5.Critical accounting policies	12	12	100
I. Corporate reporting framework	2	12	
i. Statement of directors' responsibility	12	12	100
>. risk estimates in preparing FSs	4	12	33
1. Segment reporting	10	12	83
!. Information regarding future plan	6	12	50
). Dividend	12	12	100
	82	**108**	
I. Non- financial disclosures			
1. ***Company Objectives:***			
0. Information about company objectives	1	12	8
	1	**12**	**8**
>. ***Ownership and Shareholders' Rights***			
1. Ownership Structure	12	12	100
2. Shareholder Rights	12	12	100
3. Size of board	12	12	100
4. Composition of board	12	12	100
5. Division between chairman and CEO	11	12	92
6. Chairman Statement	12	12	100
7. Information about Independent Director	10	12	83
8. Role and functions of the board	10	12	83
9. Organizational Hierarchy	6	12	50
0. Changes in Board Structure	4	12	33
1. Compliance with different legal rules	12	12	100
2. Audit committee	12	12	100
3. Remuneration committee	12	12	100
4. Any other committee	12	12	100
5. Composition of the committee	11	12	92
6. Functioning of the committee	12	12	100
7. Organizational code of ethics	8	12	67
	169	**204**	**83**
K Members of the Board and key executives:			

28. Biography of the board members	8	12	67
29. No. of directorship hold by individual members	2	12	17
30. No. of board meeting	10	12	83
31. Attendance in board meeting	8	12	67
32. Director stock ownership	3	12	25
33. Director remuneration	10	12	83
	41	**72**	**57**
)			
>4. Employee relation/Industrial relation	8	12	67
i5. Environmental and social responsibility	8	12	67
	16	**24**	**67**
Material foreseeable risk factors:			
?6. Risk assessment and management	12	12	100
>7. Internal control system	7	12	58
	19	**24**	**79**
7. ***Independence of Auditors:***			
18. Auditor appointment and rotation	10	12	83
59. Auditor fees	11	12	92
	21	**24**	
II. Annual General Meeting:			
0. Notice of the AGM	12	12	100
•1. Agenda of the AGM	12	12	100
	24	**24**	**100**
V. **Timing and means of disclosure:**			
2. Separate section for corporate governance	11	12	92
3. Annual report through internet	10	12	83
4. Any other event	11	12	92
	32	**36**	**89**
5. Compliance with CMA CMA otification GUIDELINES	8	12	67
	8	**12**	**67**