

**THE USE OF FINANCIAL DISCLOSURES FOR DECISION MAKING BY
INVESTORS IN KENYA: A CASE OF INSTITUTIONAL INVESTORS AT NAIROBI
STOCK EXCHANGE**

BY

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
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ABSTRACT

Decision making is the cognitive process leading to the selection of a course of action among variations. It is a reasoning process which can be rational or irrational. The availability and use of financial disclosures in decision-making is a contentious issue in Kenya and the world at large. Several researches have been carried out to that effect, but still there seems to be no answer to this question. This was evident when the Uchumi Supermarkets, one of the companies listed at the NSE, despite the release of the financial reports; investors were in the dark concerning the financial position of the super-store until its financial distress was manifested in the closure of its branches countrywide and the subsequent delisting from Nairobi Stock Exchange (NSE). This, therefore, leads to the question; of what value are financial disclosures to investors in their decision-making? The objective of the study was to establish the use of financial disclosures by institutional investors who trade at the Nairobi Stock Exchange.

To satisfy the research objective the researcher used ex-post facto research design comprising a sample of institutional investors trading at the NSE. The researcher employed a combination of stratified, convenience and simple random sampling methods to generate the required sample size of 50 respondents. Primary data was collected using semi-structured questionnaires. The research assistants dropped the questionnaires at the respondents' offices and collected them within a day or two. The target respondents were organizations' Chief Executive Officers (CEOs) and accountants. Once the pertinent data were collected, the researcher carried out analysis of the same using frequencies, mean scores, percentages, standard deviations, and U test. Where appropriate, the study results are presented in pie charts and graphs. Computer software SPSS was used to analyze the data.

The findings of the data analysis revealed that annual reports and published daily share prices were often used by investors as source of information (mean score 1.7 and 1.6) for investment decisions. Investors also use information from the managers of the companies, information from the website, advice from the stockbrokers and friends but on the least scale. The study established that delays in publication of the disclosures caused serious problem (63%). All the contents of the financial disclosures are considered important by the institutional investors (mean score < 2.1); environmental issues are however not ranked high. The findings of the study lead to the conclusion that majority of the institutional investors use financial disclosures as sources of vital information for investment decisions. It was observed that, investors have exerted little pressure to managers and prepares of information for adequate disclosures and that Kenya lacked comprehensive legal framework to ensure relevant information flow for investment decision making and investor protection. Investors do not have confidence in financial analysts and stockbrokers in the use of relevant and reliable financial information. Investment decisions are complex and require both financial and non-financial information, insight and experience.