THE EFFECT OF COMPANY SIZE AND VOLUNTARY DISCLOSURE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research is my original work and has not been presented to any academic institution for any award.

Signature .... DATE ....

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

Signature .... Date ....

Mr. Mirie Mwangi

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This research is made possible through the help and support from everyone including; god, parents, teachers and friends

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I sincerely thank my parents who provided the advice and financial support. The product of this research paper would not be possible without them.

DEDICATION

I dedicate this research work to my supervisor who never failed to teach and guide me, to my family who supported me, to my friends who helped me finish this project and most of all to the Almighty God who gave me strength to complete my project.

ABSTRACT

The main objective of this study was to investigate the effects of voluntary disclosure and company size on the financial performance of commercial banks in Kenya. Specifically, this study examined general and strategic disclosure, financial disclosure, forward looking disclosure, board disclosure as a proxy for measuring voluntary disclosure and company size and how they affect the financial performance of commercial banks in Kenya. Firm performance was measured using Return on Equity (ROE). This study adopted a descriptive research design. The study took a sample of 17 out of 44 commercial banks in Kenya. The data were collected through developing a disclosure index consisting of 47 disclosure items. Secondary data were collected using documentary information from Company annual accounts for the period 2008 to 2011. Data was analyzed using a multiple linear regression model. The study found that a strong relationship exist between the voluntary disclosure, firm size and financial performance. Financial disclosure, board disclosure and forward looking disclosure was found to positively affect the financial performance while general and strategic disclosures was found to negatively affect financial performance of commercial banks in Kenya. There was a positive relationship between asset a proxy for company size and firm financial performance. This relationship is expected as firms disclose more its information asymmetry reduces which reduces cost of capital. There has been extensive research done on corporate governance in Kenya in general, however less studies have focused on areas of corporate governance. Hence more focus is needed on the areas of corporate governance in Kenya.

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ABREVIATIONS AND ACRONYMS

AIMR: Annual Association for Investment Management and Research

CBK: Central Bank of Kenya

CCG: Centre for Corporate Governance

CG: Corporate Governance

CMA: Capital Market Authority

FAF: Financial Analysts and Federation reports.

ICPAK: Institute of Certified Public Accountants Kenya.

NSE: Nairobi Stock Exchange

OECD: Organization for Economic Corporation and Development

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

During the initial stage of corporatism, that of the nineteenth-century entrepreneur, corporate governance posed few internal or external concerns for society. Most businesses were essentially local. Corporate managers were elected by, and responsible to, a concerned and cohesive body of stockholders, usually the members of one or a few founding families (Lipton, 1987).

Despite the rise of general incorporation, most states retained strict limits on the size and scope of corporate activity. During the final quarter of the nineteenth century, states began to remove restrictions on corporate size, and it became permissible to in- corporate "for any lawful purpose."' Corporations grew in power and complexity. Local opinion and the invisible hand of the marketplace were no longer sufficient to ensure social well-being (Lipton, 1987).

The structure of corporate governance (CG) has received increasing attention in the accounting and financial literature (Webb, 2004). A series of high-profile corporate scandals in the USA and across the world and the collapse of prominent business firms such as Enron and WorldCom, etc., have led to the development of the CG concept. According to the Organization for Economic co-operation and development, corporate governance is the system by which business corporations are directed and controlled.

Corporate governance refers in essence to the organization of the relationship between owners and managers of a corporation. The term corporate governance has two components: corporate, which refers to corporations or big companies; and governance, which is defined as the act, fact, or manner of governing (Esa and Ghazali, 2012).

1.1.1 Voluntary Disclosure and Company Size

Disclosure is the timely provision of relevant information that results in a transparent and accurate picture of corporate operations, financial performance, and governance. Although researchers differ on the matter, there is considerable evidence of a positive relationship between corporate disclosure and beneficial financial outcomes such as lower cost of debt capital, improved liquidity and favourable perceptions of corporate governance.

Corporate disclosure is receiving considerable attention from stakeholders as part of the business dialogue (Dye, Pearce & Doh, 2005). Increased expectations for disclosure have resulted from a number of factors such as: public outcry over high profile corporate scandals; the growing prevalence of reporting mechanisms such as the

Disclosure is regarded as a mechanism of accountability. A commitment to comprehensive and high-quality disclosure is expected to reduce information asymmetry. Several new regulations have increased the transparency of financial reporting, particularly the introduction of the International. Financial Reporting Standards (IFRSs), which became mandatory for all publicly listed firms in many countries all over the world which aim at providing higher levels of transparency to investors. Disclosure outside financial statements is still to a large extent at the discretion of the management and varies widely across firms and countries (Cedrick and John, 2008).

Larger companies can be expected to disclose more information to show or portray their corporate citizenship, thereby legitimizing their existence. In addition, larger companies usually undertake more activities, make a greater impact on society, have more shareholders who might be concerned with social programs undertaken by the company and the annual report can be an efficient means of communicating this information (Esa and Ghazali, 2012).

1.1.2 Financial Performance of Commercial banks

Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and the whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively (Lishenga and Mbaka,

2012). Financial soundness of a bank can be measured using both profitability ratios and capital base or adequacy of the bank. Financial soundness is a situation where depositor's funds are safe in a stable banking system.

The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another. External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure. However, useful measures of financial performance which is the alternative term as financial soundness are coined into what is referred to as CAMEL.

The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings and Liquidity. Although banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage.

1.1.3 Relationship between Voluntary Disclosure, Company Size and Financial Performance

Barako (2007) suggests that the management of a profitable enterprise would voluntarily disclose more to the market to enhance the value of the firm, as this also determines their compensation as well as the value of their human capital in a competitive labour market. Therefore a positive relationship is expected between voluntary disclosure and financial performance.

Studies done by Stanwick (1998) and Lang (1993) showed a positive relationship between firm performance and voluntary disclosure. This is because firms have to strive to disclose good information; hence to work towards this goal, firm performance will increase.

There are mixed reactions on how company size affect firm performance, Lishenga and Mbaka (2002) find a negative relationship between firm size and performance as larger firms agency costs increases with firm size while Hossain (2003) and Stanwick (1998) concluded a positive relationship between company size and performance, due to the fact that larger firms have more resources that can be used to increase financial performance of a firm.

From the theoretical perspective of agency theory managers who have better access to a firm's private information can make credible and reliable communication to the market to optimise the value of the firm and also reduce the cost of capital of a firm.

From the signaling theory by Spence (1973), companies reduce information asymmetry by providing information. The lower the reliability, timeliness, relevance and understanbility of disclosure the higher the uncertainty of returns on capital and stronger the signal that there is hidden bad news about the company. This would increase cost of capital, reduce demand for the company's shares and reduce firm value.

1.1.4 Commercial Banks in Kenya

The banking industry in Kenya comprises of 44 banks among these 31 are locally owned and 11 are foreign owned. Amongst this 11 banks are listed in the NSE. The banking industry in Kenya is governed by the companies act, banking act and Central bank act.

The Kenyan banking sector continued on a growth trajectory with the size of assets standing at Ksh. 2.2 trillion, loans and advance worth Ksh 1.3 trillion, while a deposit base was Ksh 1.7 trillion. The profit before tax for the quarter ended June 2012 increased by 4% from Ksh 24.7 billion in March 2012 to Ksh 28.5 billion in June 2012.

The banking sector remains sound and resilient. It is noteworthy that the financial sector is developing faster than the overall economy. It grew by 9% in 2010 and 7.8 in 2011 while the economy grew by 5.8% and 4.4% in 2010 and 2011 respectively. This has been driven by financial infrastructure that has enabled financial inclusion.

Like most Commonwealth countries, the Kenyan Companies Act (Chapter 486, Laws of Kenya), is based on and is substantially the same as the UK Companies Act of 1948. The Kenyan Companies Act sets the general framework for financial accounting and reporting by all registered companies in Kenya, and stipulates the basic minimum requirements with regard to financial reporting. Because of the limited details of the Act, financial reporting and regulation is supplemented by pronouncements of the Institute of Certified Public Accountants Kenya (ICPAK), extensively manifested in the adopted

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector in Kenya on corporate governance are The Capital Markets Authority (CMA), the Nairobi

Stock Exchange (NSE), the Centre for Corporate Governance (CCG) and Central Bank of Kenya (CBK) which regulates the banking industry (Lishenga and Mbaka, 2012).

The CMA created a major impact in the development of corporate governance guidelines in Kenya when it issued in 2002 the Capital Market guidelines on Corporate Governance. The stated objective of the CMA guidelines on Corporate Governance was to strengthen and promote the standards of self-regulation and bring the level of governance practices in line with international trends.

Following the CMA guidelines, the NSE amended its Listing Manual and incorporated the CMA guidelines on corporate governance into the continuous obligations of listed companies and it continuously monitors compliance by listed companies with these obligations. In Kenya the emphasis on good corporate governance and accountability to shareholders and stakeholders has been on listed companies. The potential for listed companies being subjected to sanctions for non-compliance by either the CMA or NSE has played an important role encouraging compliance with the guidelines

International Financial Reporting Standards With respect to corporate governance, the Kenyan Centre for Corporate Governance (CCG), an affiliate of the Commonwealth Association for Corporate Governance (CACG) is the key institution that drives the corporate governance reforms. As a consequence, in 2002 the Kenyan Capital Markets Authority (CMA) issued a mandatory Corporate Governance code for public listed companies, modelled on the CCG principles for corporate governance in Kenya compiled in 1999. In 2005, CCG issued a draft guideline on reporting and disclosures in Kenya.

1.2 Research Problem

Corporate governance is a new area of research which is widely done by scholars. This is due to the increase in application of corporate governance practices all over the world. This study incorporates two categories of corporate governance in relation to financial performance that is company size and voluntary disclosure.

This study has targeted commercial banks in Kenya due to the fast growth of the banking sector in Kenya and also due to an increase in emergence of banks in recent times. As firms increase there is a need to regulate and ensure that these firms are following the corporate governance practices laid out for them by the CMA.

A study done by Aksu and Kosedag (2005) investigated the relationship between transparency, disclosure and firm performance in Istanbul stock exchange with a sample of 52 firms concluded that Turkish firms have a higher financial disclosure but lower board disclosure and also that there exist a positive relationship between transparency and disclosure and financial performance of the firms.

While a study done by Barako (2007) examined the determinants of voluntary disclosure in Kenyan listed companies' annual reports and concluded that board disclosure, foreign ownership, firm size significantly affect the level of disclosure. A study done by Matengo (2008) on relationship between corporate governance and financial performance of banking industry in Kenya found that transparency significantly affect financial performance while disclosure did not show any significant relationship.

Most studies done locally have concentrated on how corporate governance affects financial performance of firms and less have focused on how voluntary disclosure affects financial performance of firms. From the above empirical evidence it can be seen that locally there has been no study done between disclosure, firm size and financial performance of the banking sector that provides a significant relationship. Hence this study will help provide evidence on the relationship between financial performance of banks, voluntary disclosure and firm size.

1.3 Research Objective

The objective of the study was to determine the relationship between voluntary disclosure, company size and financial performance of commercial banks in Kenya.

1.4 Value of the Study

Banking industry is the fastest growing sector in Kenya and therefore any study done on it will increase the information available to public at large. Corporate governance is an area which has increased awareness of the public towards the firms in a country hence this study might help policy makers to set new policies on corporate governance practices in relation to banks.

The study will also help commercial banks in Kenya in understanding of corporate governance issues, the role of disclosure, audit reports, and other relevant laws and,

institutions in the proper management of their corporations to enhance performance and to minimize waste. In general provide an overview of the level of disclosure necessary. The study will also provide knowledge to the scholars of finance and will add to the extensive literature available.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at the theories used in corporate governance which explains the measures for voluntary disclosure. It further brings out the various studies that have been carried out on the relevance of voluntary disclosure on performance. In addition to the above the chapter concludes by highlighting the various measures to be used in both voluntary disclosure and financial performances.

2.1 Theoretical Framework

2.1.1 Agency theory

Agency theory models the relationship between the principal and the agent. Jensen and Meckling (1976) defined an agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". In the context of the firm, the agent (manager) acts on behalf of the principal (shareholder)

In the context of the firm, a major issue is the information asymmetry between managers and shareholders. In this agency relationship, insiders (managers) have an information advantage. Owners therefore face moral dilemmas because they cannot accurately evaluate and determine the value of decisions made. The agent therefore takes advantage of the lack of observability of his actions to engage in activities to enhance his personal goals. Formal contracts are thus negotiated and written as a way of addressing agent–shareholder conflicts.

Therefore, voluntary disclosure presents an excellent opportunity to apply agency theory that is managers who have better access to a firms' private information can make credible and reliable communication to the market to optimise the value of the firm. These disclosures include investment opportunities and the financing policies of the firm.

Conversely, managers may, because of their own interests, fail to make proper disclosure or nondisclosure of important information to the market. Such practices may not be in the

interests of shareholders. This may result in a higher cost of capital and, consequently, shareholders may suffer a lower value for their investments. Therefore agency theory can help resolve the problem of information asymmetry and increase the level of voluntary disclosure in turn increasing the performance of a firm. Agency theory mainly outlines disclosure in terms of financial data disclosure.

2.1.2 Institutional Theory

Institutional theorists have emphasized the value of conformity with the institutional environment and adherence to external rules and norms (DiMaggio & Powell, 1983). Regulatory bodies, nongovernmental organizations, interest groups, and the public are all institutions that voice expectations (Scott, 1987). According to Donaldson (1982), society contracts with companies to comply with institutional norms and requirements as a requisite for approval to operate in the public sphere. The advantages of that compliance include prestige, legitimacy, and social support (DiMaggio & Powell, 1983).

To enjoy the benefits of legitimacy, however, companies must also disclose enough about their policies and activities for institutions to determine if they are adhering to the social contract. Increased disclosure reflects a company's awareness of its responsibility to society and shows the extent to which the company has embraced the prevailing societal values. It is also a means of integrating companies into the institutional fabric of their stakeholder communities and strengthening the social bonds between the companies and their stakeholders. Institutional theory can be seen as supporting non- financial disclosures mainly general and strategic, forward looking and social and board disclosure.

2.1.3 Signaling theory

According to signaling theory (Spence, 1973), signals are a reaction to information asymmetries between companies and stakeholders, and companies reduce the asymmetry by providing information. Companies that are characterized by increased disclosure signal to their stakeholders that they are trustworthy and are less likely to be encumbered by regulatory oversight.

By using disclosure to serve these purposes, managers of better performing companies can distinguish themselves from their peers. According to this theory therefore, increase

in voluntary disclosure increase public loyalty and this may lead to increase in demand of a firms shares leading to increase in financial performance.

2.1.4 Transaction Cost Economics

Transaction cost economics (TCE) as expounded by the work of Williamson (1975, 1984) is often viewed as closely related to agency theory. TCE views the firm as governance structure whereas agency theory views the firm as a nexus of contrasts. As firms grow in size, as may be caused by desire to achieve economies of scale amongst other factors, there is an increasing need for more capital which needs to be raised from the capital markets and thus possibility of widening the shareholder base and hence more importance to corporate governance.

This theory can explain that as a firm grows its disclosure and corporate governance practices in general also increases. Hence in accordance to the transaction cost economics a positive relationship can be expected between company size and financial performance of the banking industry.

2.2 Empirical Review

Barako (2007) studied the determinants if voluntary disclosure in Kenya companies annual reports. The study examined factors associated with voluntary disclosure of four types of information: general &strategic, financial, forward looking and social and board information in annual reports for Kenya from the year 1992-2001. The main theory outlined in the study was the agency theory. A disclosure index was constructed and ordinary least square method used. The findings were that board leadership structure, foreign ownership, institutional ownership and firm size significantly affect the level of disclosure.

Hossain (2003) studied the extent of disclosures in annual reports of banking companies in India. The objective of the study was to investigate the level of disclosure both mandatory and voluntary done in banks. The results stated that banks were compliant with the rules regarding mandatory disclosure however are far behind in disclosing voluntary items. It was also noted that size, profitability and board composition and market discipline were significant in explaining the level of disclosure while age of a

firm, complexity of the firm and assets in place were not significant in explaining level of disclosure. The study constructed a disclosure index for 23 banks annual reports.

Aksu and Kosedag (2005) investigated the relationship between transparency and disclosure and firm performance in the Istanbul stock exchange with a sample of 52 firms. The objective of the study was to associate T&D scores to return on equity and market based performance measures. The findings were that Turkish firms have higher financial disclosure but lower board disclosure and also there exist a positive relationship between T&D scores and financial performance of the firms. The study used a transparency and voluntary disclosure score to carry out this research.

Matengo (2008) studied the relationship between corporate governance practices and financial performance of banking industry in Kenya. The objective of the study was to determine the relationship between corporate governance practices and performance among commercial banks. A sample of 45 banks was taken and corporate governance determinants were measured using a questionnaire while financial performance was measured using the CAMEL model. The findings were that transparency significantly affected firm performance while disclosure and trust did not show a significant relationship.

Haggard, Martin and Periera (2008) investigated whether voluntary disclosure improve stock price in formativeness. The objective of the study was to find the relationship between stock price and voluntary disclosure. Disclosure in this case was measured using the annual reviews if corporate reporting practices (ARIMA scores). The findings were that there exist a negative relationship between stock prices and voluntary disclosure.

Lishenga and Mbaka (2002) Studied on compliance with corporate disclosure and firm performance for Kenyan firms a sample of 35 listed companies was taken. The objective of the study was to establish a link between corporate governance index and performance of listed company. The theories stated in the paper were: Agency theory, transaction cost economics, stakeholder theory, stewardship theory, class hegemony theory, managerial hegemony theory. Firm performance was measured using Tobin Q and ROA while corporate governance was measured by corporate governance index and disclosure was

measured by firm size, board size, profitability and age of a firm. The study concluded that firm size and age were negatively related to performance while board size showed insignificant relationship and corporate governance index showed a positive relationship with performance.

Lang and Luncholm (1993) investigated on the crossectional determinants of analyst ratings of corporate disclosure. The objective of the study was to find out the determinants of disclosure and investigate the relationship between disclosure, firm size and firm performance. The study was carried out on 27 industries and descriptive statistics was used in the study. Disclosure was measured by the financial analyst and federation reports (FAF). The study concluded that there existed a positive relationship between firm performance, firm size and disclosure level.

Stanwick (1998) studied on the relationship between corporate social disclosure and organizational size, financial performance and environmental performance. The objective of the study was to examine the relationship between corporate social performance of the organisation and the three variables; the size of the organisation, the financial performance of the organization and the environmental performance of the organization. Data was collected from 1987 to 1992 and descriptive design was used. A corporate reputation index was constructed. The findings were that social performance was indeed impacted by the size of the firm, the financial performance of the firm and amount of pollution emissions released by the firms.

2.3 Conclusion

Most studies carried out shows a positive relationship between corporate governance indicators and financial performance of firm. Studies done by Aksu and Kosedag (2005) found a positive relationship between disclosure and financial performance, while study done by Matengo (2008) did not find any relationship between disclosure and financial performance of banking industry.

Lishenga and Mbaka (2002) concluded that corporate governance index showed a positive relationship with performance, while study done by Lang and Luncholm (1993) showed a positive relationship between disclosure, firm size and financial performance.

Therefore from the empirical literature it is expected that voluntary disclosure is positively related to financial performance and firm size is also positively related to firm size.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the design of the research proposal and its procedure. The target population under its study, and instruments and procedure for data collection are also presented in this chapter.

3.1 Research Design

Most literature reviewed revealed the construction of a disclosure index to measure voluntary disclosure. Hence in order to carry out this study a disclosure index for commercial banks will be constructed. The study will be based on descriptive statistic.

Descriptive statistics can be defined as procedures used to summarize and describe important characteristics of a set of measurements. Descriptive statistics help in ensuring the reliability and the validity of the research carried out. This study will use a regression model and will have dependent and independent variables. The dependent variable is an outcome of the independent variable; hence any changes in the independent variable will affect the dependent variable.

3.2 Target Population

The target population for this research comprises of commercial banks licensed by the Central bank of Kenya as listed in appendix II.

3.3 Sample Population

The study comprises of a sample of 17 commercial banks from a population of 44 commercial banks as licensed by the Central Bank of Kenya.

3.4 Data Collection Method

The study will be based on secondary data collection since they will provide a more realistic conclusion to meet the objectives of the study. Data will be mainly collected from the publicly available information as the published annual reports of a sample of 17 from 44 commercial banks in Kenya. The study will be carried out from 2008-2011.

3.5 Data Analysis

The variables used in the study consist of a dependent and five independent variables. The dependent variable is return on equity which is a proxy for measuring financial performance and it's calculated as:

$$\frac{\textbf{net income}}{\textbf{shareholders equity}} \times \mathbf{100}$$

The independent variable that is company size and voluntary disclosure were measured as follows:

The determinants of voluntary disclosure as identified by Barako (2007) will be used as a proxy to measure voluntary disclosure. Voluntary disclosure can be divided into financial disclosure and non financial disclosure. Financial disclosure in this study will be captured by the financial data which summarises all the data a company has to disclose in terms of financial analysis, ratios.

While non financial disclosure will be broken into general and strategic information, forward looking information and Social and board disclosure. General and strategic information implies the information on the general overview of a company in the annual reports, forward looking information involves disclosure of future plans of a company, that is what are the companies goals in the future and how the company is going to achieve it and social and board disclosure includes information on the board of the company who controls and runs the bank. Scores will be allocated according to the level of financial information published by companies Firm size will be measured by natural logarithm of total asset of a firm.

In general voluntary disclosure was measured by:

1. General and strategic disclosure

2. Financial disclosures

3. Forward looking disclosure

4. Social and Board Disclosure

3.6 Regression Analysis

Journals reviewed in chapter two of the paper have focused on developing a disclosure index to measure voluntary disclosure. Hence the study will develop a disclosure index based on the explanatory variables shown in the regression model. The study will be based on a multiple regression model. Analysis will be based on dependent, independent and error term. SPSS software will be used to analyse the data collected and to provide a sufficient conclusion. The t test and correlation study will be carried out to see if there exists a significant relationship between the variables and to test whether there exists a relationship amongst the independent variables.

The model below will assist in analysis;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

In this case:

Financial performance = F(general and strategic information, financial data, forward looking information , Social and board disclosure and company size)

$ROE = \alpha + \beta_1 GENSI + \beta_2 FINDTA + \beta_3 FRWDLKN + \beta_4 BRDISC + \beta_5 ASST + \varepsilon$

Where,

ROE is return on equity which is a dependent variable and a proxy to measure financial performance,

GENSI, FINDTA, FRWDLKN, BRDIS are proxy to measure voluntary disclosure and ASST is a proxy to measure company size,

α, β_1, β_2, β_3, β_4, β_5 are constants which will show the relationship between performance, voluntary disclosure and company size in the study.

And ε is the error term of the model.

Disclosure index

In this study the disclosure index will be constructed in terms of general and strategic information, financial data, forward looking information and Social and board disclosure.

Scores will be allocated to banks whose annual reports indentify the following categories and those who don't disclose the following categories and each item were given equal weights in terms of 0 and 1 based on appendix 1. The scores were then converted to percentages as seen from appendix iv – vii.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis, results and discussion of the study. The data has been analysed using the SPSS package and presented in the form of percentages, means, standard deviation, correlation analysis and test of significance. The findings in this chapter will help in fulfilling the objective of the study.

4.2 Data Presentation

4.2.1 Descriptive Statistics

Table 4.1: Summary of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	17	2.98	41.16	25.0029	10.96778
GENSD	17	19.23	48.08	33.1459	8.00306
FINDTA	17	34.38	68.75	53.6782	10.66710
FWDLKN	17	.00	41.67	14.5429	12.59770
BRDISC	17	20.59	72.06	49.5676	13.24190
ASST	17	9.59	11.38	10.6424	.49357
Valid N (listwise)	17				

The table above shows that the average Return on equity for 17 commercial banks was 25.0029% while the minimum Return on equity on average was 2.98% and maximum was 10.96778%. It can be also seen that board disclosure and financial data disclosure is a frequent disclosure for commercial banks as it had a mean of 49.5676% and 53.6782% respectively while forward looking disclosure is the least amongst all the categories with a mean of 14.5429%. Asset measured by natural logarithm of total assets of a company has a mean of 10.6424 and a standard deviation of 0.49357 this means that commercial banks assets lie in the same range hence not very diverse.

4.2.2 Correlation Analysis

4.2 Summary of Pearson's Correlation analysis

		ROE	GENSD	FINDTA	FWDLKN	BRDISC	ASST
ROE	Pearson Correlation	1	.383	.490*	.528*	.635**	.642**
	Sig. (2-tailed)		.129	.046	.029	.006	.005
	N	17	17	17	17	17	17
GENSD	Pearson Correlation	.383	1	.657**	.815**	.499*	.579*
	Sig. (2-tailed)	.129		.004	.000	.041	.015
	N	17	17	17	17	17	17
FINDTA	Pearson Correlation	.490*	.657**	1	.667**	.419	.722**
	Sig. (2-tailed)	.046	.004		.003	.095	.001
	N	17	17	17	17	17	17
FWDLKN	Pearson Correlation	.528*	.815**	.667**	1	.638**	.640**
	Sig. (2-tailed)	.029	.000	.003		.006	.006
	N	17	17	17	17	17	17
BRDISC	Pearson Correlation	.635**	.499*	.419	.638**	1	.526*
	Sig. (2-tailed)	.006	.041	.095	.006		.030
	N	17	17	17	17	17	17
ASST	Pearson Correlation	.642**	.579*	.722**	.640**	.526*	1
	Sig. (2-tailed)	.005	.015	.001	.006	.030	
	N	17	17	17	17	17	17

***. Correlation is significant at the 0.05 level (2-tailed).**
****. Correlation is significant at the 0.01 level (2-tailed).**

Pearson’s correlation analysis lies between -1 and +1. From the above it can be noted that return on equity is positively related to general and strategic disclosure, financial data disclosure, forward looking disclosure, board disclosure and assets. It can also be noted that board disclosure and assets are more correlated to return on equity than the other indicators. This means that as board disclosure and assets increase so does return on equity. The independent variables are correlated with each other this may not provide an accurate relationship and a variable can be dropped to provide more accurate results, However the coefficients range towards 0.5 and not 1 hence all the explanatory variables can be used to define the relationship.

4.2.3 Summary of the Regression Model

4.3 : Goodness-Of-Fit Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741[a]	.549	.344	8.88630

4.3 : Goodness-Of-Fit Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741[a]	.549	.344	8.88630

a. Predictors: (Constant), ASST, BRDISC, GENSD, FINDTA, FWDLKN

Goodness-of-fit statistics help a study in evaluating a model. If the adjusted R-square lies near 1 then it would mean the model has a higher level of error hence not fit the study while if the value is near 0 it means the model has few errors. The table above shows how well the data fits the model. In this case the model has an adjusted R-square of 0.344 which means that the model has a smaller error of component since it ranges towards 0 and not 1.

4.2.4 Regression Model

4.4 Regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-86.223	64.990		-1.327	.211
GENSD	-.290	.497	-.211	-.583	.572
FINDTA	.078	.338	.076	.232	.821
FWDLKN	.103	.359	.119	.288	.778
BRDISC	.343	.225	.503	1.528	.155
ASST	9.217	7.044	.417	1.308	.217

a. Dependent Variable: ROE

The table above shows the coefficients of the model and the significance of each coefficient. The model has a constant of -86.223 while the coefficients for the explanatory variables are -0.211, 0.076, 0.119, 0.503 and 0.417 respectively. The standardized coefficients of beta were used to identify the relationship between financial performance, voluntary disclosure and company size. The t- statistics of the model are not significant at 5%, however forward looking and financial disclosures are significant at 10%.

4.3 Summary and Interpretation

From the descriptive statistics above it is evident that the highest level of disclosure done by commercial banks is financial disclosure while the lowest is forward looking disclosure. The highest levels of disclosures done by banks are financial and social & board disclosures, this also implies that financial performance of banks will be highly affected by financial and social disclosure.

The Pearson correlation analysis shows the relationship between the variable that is both the explanatory and dependent variables. The correlation analysis shows a positive relationship between return on equity; general disclosure, financial disclosure, forward looking disclosure, board disclosure and assets. Hence the model is expected to show a positive coefficient for the above variables.

The goodness-of- fit statistics was carried out to ensure that the data collected is fit for the model and the summary in table 4.3 justifies the model as the adjusted R statistics that is 0.344 it lies in the range of 0 and 1, more towards 0. The lower adjusted R statistics states the data will be more useful for predicting the model and R-squared in the study is 0.549 which means 54.9% of the explanatory variables explain the dependent variable.

The regression analysis in table 4.4 shows the coefficients of all the explanatory variable in relation to return on equity, while the standard errors show how the data is fit for the model while the t-test shows the variables are not significant at 5% in explaining the relationship between voluntary disclosure, company size and explaining return on equity. The equation below shows the coefficients of each independent variable and its standard errors.

$$roe = -86.223 - 0.211GENSD + 0.076FINDTA + 0.119FWDLKN + 0.503DISC + 0.417ASST + \varepsilon$$

(64.990) (0.4972) (0.338) (0.359) (0.225) (7.044)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights the findings of the study, the objective of the study and to what extent the objective was achieved. This chapter also concludes the recommendation and the summary of the whole study.

5.2 Summary

The study was carried out to establish a relationship between company size, voluntary disclosure and financial performance of commercial banks and the regression analysis in chapter four fulfils the objective of the study. The study used a sample of 17 banks from 44 commercial banks in Kenya. Financial performance was the dependent variable measured by return on equity and the independent variables were voluntary disclosure and company size, where voluntary disclosure was measured by general and strategic disclosure, financial disclosure, forward looking disclosure and social and board disclosure, while company size was measured by logarithm of total assets for 4 years. Disclosure levels were measured using a checklist of 47 disclosure items a firm should disclose.

5.3 Conclusion

Corporate governance has become an essential part of a company for the past few years and has been widely applied in Kenya and for the past years firms have been regulated and all information published is in accordance to the rules and regulations set by the CMA.

The study found a negative relationship between general & strategic disclosure and return on equity this means that a 1% increase in strategic disclosure leads to a 21% decrease in return on equity of a firm. This however is not in accordance with the journals reviewed in chapter two. However financial, forward looking and board and social disclosure is positively related to return on equity. A 1% increase in financial disclosure leads to a 7.6% increase in financial performance of commercial banks, while a 1% increase in

forward looking disclosure leads to a 11.9% increase in return on equity and a 1% increase in board and social disclosure leads to a 50.3% increase in return on equity.

The study also concluded that firm size affects financial performance of commercial banks. The regression model shows that a 1% increase in assets of a firm proxy for company size increases performance by 41.7%.

The study concludes that firms should lean towards disclosure of financial and social and board disclosure to increase their performance. However study carried out by Barako (2007) shows that general and strategic disclosure is a good proxy for measuring disclosure which does not explain in this study. Study done by Aksu and Kosedag (2005) in Istanbul highlights a significant relationship between financial disclosure and performance, however no significant relationship between board and social disclosure and financial performance. Lang and Luncholm (1993) found a positive relationship between firm performance and firm size which is also explained in this study. The study conforms to the studies reviewed in terms of a positive relationship between financial disclosure and financial performance and a positive relationship between company size and financial performance.

5.4 Recommendations

From the study it can be concluded that corporate governance over the years have been gaining awareness from the public and the investors and there has been a satisfactory level of corporate governance practiced in commercial banks in Kenya especially financial and board disclosure. However few changes can help increase disclosures in Kenya.

Firstly, corporate governance should be emphasized in all practices and disclosure levels should not be restricted to annual reports. Firms should ensure transparency and disclosure in all kinds of activities.

Secondly, it was noted that large companies disclose more information as compared to small firms, hence corporate governance practices should be followed by all firms no matter their size.

Thirdly, steps should be taken for mandatory compliance of the CMA notification and for reducing the gap between disclosure practices especially for companies not quoted at NSE.

Lastly, efforts should be made to create a unified measure for voluntary disclosure as to provide a more accurate analysis for policy recommendations.

5.5 Limitations of the Study

There are various limitations of the study and some are as follows:

Firstly, the data collected was a sample of 17 banks from a list of 44 banks in Kenya; a census would help the study give more accurate picture of the relationship between voluntary disclosure and financial performance.

Secondly, the study has focused mainly on four level of disclosure; however there is a need to modify the checklist of levels of disclosures and include information on board size, auditor's opinion and a way to confirm accuracy of the information disclosed in annual reports.

Thirdly, disclosure was constructed based on scoring categories on the basis of a yes or a no (1 or 0), this may however be biased as it's based on opinions and it may be possible that the company many not disclose a particular item, however it has information on another item which is not included in the check list. Hence there is no importance given to a particular item, each item is weighted equally, therefore weightage should be based on how importance that particular item is to voluntary disclosure.

Lastly, the study has focused on one sector that is banking sector; a study done for all sectors in Kenya would provide a more helpful insight for comparison purposes to scholars.

5.6 Recommendations for Further Research

For further research it is recommended that scores should be allocated on the basis of importance, an important item should be allocated a higher score. In addition scholars should try developing a unified checklist for voluntary disclosure. This would help in an un biased scoring.

This study has only looked at one sector; therefore research is needed to be done in agricultural, telecommunication, transport, tourism, construction sectors to set a comparison of how voluntary disclosure affect financial performance of different sectors in Kenya.

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Appendix I: Determinants of Voluntary Disclosure

General and strategic information
Information relating to the general outlook of the economy
Company's mission statement
Brief history of the company
Organisational structure/chart
Description of major goods/services produced
Description of marketing networks for finished goods/services
Company's contribution to the national economy
Company's current business strategy
Likely effect of business strategy on current performance
Market share analysis
Disclosure relating to competition in the industry
Discussion about major regional economic developments
Information about regional political stability
Financial data
Historical summary of financial data for the last 6 years or over
Review of current financial results and discussion of major factors underlying performance
Statement concerning wealth created e.g. value added statement
Supplementary inflation adjusted financial statement
Return on assets
Return on shareholders' funds
Liquidity ratios
Gearing ratios
Forward-looking information
Factors that may affect future performance

Likely effect of business strategy on future performance
New product/service development
Planned capital expenditure
planned research and development expenditure
Planned advertising and publicity expenditure
Earnings per share forecast
Sales revenue forecast
Profit forecast
Social and Board Disclosure
Number of employees for the last two or more years
Reasons for change in employee number
Productivity per employee
Other productivity indicators
Indication of employee morale e.g. turnover, strikes and absenteeism
Information about employee workplace safety
Data on workplace accidents
Statement of corporate social responsibility
Statement of environmental policy
Environmental projects/activities undertaken
Information on community involvement/participation
Names of directors
Age of directors
Academic and professional qualification of directors
Business experience of directors
Directors' shareholding in the company and other related interests (e.g. stock options)
Disclosure concerning senior management responsibilities, experience and background

Appendix II: Commercial Banks in Kenya

1. Bank of India
2. Credit Bank Ltd
3. Giro Bank Ltd
4. Guardian Bank Ltd
5. Diamond Trust Bank (K) Ltd
6. National bank of Kenya Ltd
7. Standard Chartered Bank (K) Ltd
8. Barclays Bank of Kenya Ltd
9. Habib Bank A.G Zurich
10. Universal Bank Ltd
11. Citi Bank NA
12. Kenya Commercial Bank
13. CFC Stanbic Holdings Ltd
14. Equatorial Commercial Bank Ltd
15. NIC Bank Ltd
16. Bank of India
17. Commercial Bank of Africa Ltd
18. Jamii Bora Bank Ltd
19. Prime Bank Ltd
20. Consolidated Bank of Kenya Ltd
21. Bank of Baroda (K) Ltd
22. Paramount Universal Bank
23. EABS Bank Ltd
24. Dubai Bank Ltd
25. Eco Bank Ltd
26. Bank of Africa Ltd
27. I&M Holdings Ltd
28. The Cooperative Bank of Kenya Ltd

29. Equity Bank Ltd
30. Chase Bank (K) Ltd
31. Gulf African Bank Ltd
32. Habib Bank Ltd
33. Imperial Bank Ltd
34. I&M Bank Ltd
35. K-rep Bank Ltd
36. Middle East Bank (K) ltd
37. Transnational Bank Ltd
38. Victoria Commercial Bank Ltd
39. Family Bank Ltd
40. Fidelity Commercial Bank Ltd
41. Fina Bank Ltd
42. First Community Bank Ltd

SOURCE: Central Bank of Kenya, 2011

Appendix III : Return On Equity

BANKS	2008	2009	2010	2011
ABC BANK	22.77%	23.20%	29.46%	30.28%
BARCLAYS	40.30%	39.20%	34.25%	41.11%
CFC STANBIC	27.59%	18.40%	20.96%	30.82%
CHASE BANK	25.81%	29.30%	31.20%	28.62%
CO-OPERATIVE BANK	33.61%	23.90%	27.52%	29.41%
DIAMOND TRUST	18.61%	24.50%	35.64%	31.34%
ECO BANK	0.00%	3.80%	3.76%	7.03%
EQUITAORIAL BANK	10.89%	-1.20%	-3.70%	5.91%
EQUITY BANK	15.85%	24.20%	32.90%	34.53%
FAMILY BANK	20.96%	34.10%	16.01%	15.72%
FINA BANK	10.95%	7.00%	11.32%	20.22%
I & M BANK	33.47%	31.20%	23.15%	32.17%
KENYA COMMERCIAL BANK	30.07%	26.90%	28.23%	31.18%
NATIONAL BANK	32.41%	28.90%	27.17%	23.37%
ORIENTAL BANK	25.54%	7.20%	16.07%	14.93%
STANDARD CHARTERED	45.27%	41.30%	37.94%	40.11%
IMPERIAL BANK	35.69%	35.20%	40.31%	44.28%

Source: Central Bank of Kenya Annual Reports

Appendix IV: Total Assets

	2008	2009	2010	2011
BANKS	000's	000's	000's	000's
ABC BANK	10,404,506.00	11,005,310.00	11,847,749.00	12,572,087.00
BARCLAYS	168,512,000.00	164,875,000.00	172,415,000.00	167,029,000.00
CFC STANBIC	75,117,396.00	83,166,251.00	107,138,602.00	140,086,550.00
CHASE BANK	21,489,504.00	27,882,114.00	30,858,603.00	36,513,015.00
CO-OPERATIVE BANK	83,486,000.00	110,678,091.00	154,339,991.00	168,311,639.00
DIAMOND TRUST	44,145,697.00	50,679,080.00	70,600,177.00	77,808,318.00
ECO BANK	10,498,916.00	13,949,401.00	26,892,183.00	27,210,496.00
EQUITAORIAL BANK	4,408,719.00	4,461,421.00	10,240,732.00	12,926,902.00
EQUITY BANK	77,135,000.00	96,512,000.00	133,890,000.00	176,911,000.00
FAMILY BANK	10,410,389.00	13,305,770.00	20,188,377.00	26,001,753.00
FINA BANK	14,366,249.00	18,331,250.00	20,943,933.00	22,645,013.00
I & M BANK	36,655,878.00	44,009,222.00	86,882,153.00	108,063,712.00
KENYA COMMERCIAL BANK	191,211,386.00	195,011,548.00	251,356,200.00	330,346,300.00
NATIONAL BANK	42,695,700.00	51,404,408.00	60,026,604.00	68,664,516.00
ORIENTAL BANK	2,398,808.00	3,200,090.00	4,850,909.00	5,030,089.00
STANDARD CHARTERED	99,019,571.00	123,778,972.00	142,746,249.00	164,046,624.00
IMPERIAL BANK	13,431,704.00	15,358,108.00	19,642,199.00	27,278,184.00

Source : Annual reports from 2008-2011

Appendix V: General & Strategic Disclosure

BANKS	2008	2009	2010	2011
ABC BANK	15%	17%	21%	23%
BARCLAYS	38%	42%	54%	58%
CFC STANBIC	35%	36%	37%	38%
CHASE BANK	27%	28%	30%	31%
CO-OPERATIVE BANK	50%	49%	47%	46%
DIAMOND TRUST	23%	26%	28%	31%
ECO BANK	23%	24%	26%	27%
EQUITAORIAL BANK	23%	30%	32%	38%
EQUITY BANK	38%	38%	43%	42%
FAMILY BANK	31%	32%	37%	38%
FINA BANK	31%	31%	31%	31%
I & M BANK	35%	35%	38%	38%
KENYA COMMERCIAL BANK	31%	33%	36%	38%
NATIONAL BANK	31%	34%	43%	46%
ORIENTAL BANK	23%	23%	23%	23%
STANDARD CHARTERED	31%	33%	36%	38%
IMPERIAL BANK	23%	24%	30%	31%

Source : Annual reports

Appendix VI: Financial Disclosures

BANKS	2008	2009	2010	2011
ABC BANK	44%	42%	39%	38%
BARCLAYS	63%	63%	63%	63%
CFC STANBIC	56%	58%	61%	63%
CHASE BANK	44%	44%	50%	50%
CO-OPERATIVE BANK	63%	63%	75%	75%
DIAMOND TRUST	50%	50%	50%	50%
ECO BANK	50%	50%	50%	50%
EQUITAORIAL BANK	50%	50%	50%	50%
EQUITY BANK	50%	53%	60%	63%
FAMILY BANK	31%	33%	36%	38%
FINA BANK	38%	40%	41%	44%
I & M BANK	63%	63%	63%	63%
KENYA COMMERCIAL BANK	63%	63%	74%	75%
NATIONAL BANK	56%	57%	62%	63%
ORIENTAL BANK	38%	40%	48%	50%
STANDARD CHARTERED	63%	62%	75%	75%
IMPERIAL BANK	50%	50%	50%	50%

Source : Annual Reports

VII: Forward Looking Disclosure

BANKS	2008	2009	2010	2011
ABC BANK	0%	0%	0%	0%
BARCLAYS	39%	40%	43%	44%
CFC STANBIC	22%	22%	22%	22%
CHASE BANK	0%	0%	0%	0%
CO-OPERATIVE BANK	22%	22%	22%	22%
DIAMOND TRUST	0%	0%	0%	0%
ECO BANK	0%	0%	0%	0%
EQUITAORIAL BANK	11%	11%	11%	11%
EQUITY BANK	22%	22%	33%	33%
FAMILY BANK	11%	11%	22%	22%
FINA BANK	0%	0%	11%	11%
I & M BANK	17%	17%	22%	22%
KENYA COMMERCIAL BANK	22%	25%	36%	39%
NATIONAL BANK	11%	11%	11%	11%
ORIENTAL BANK	0%	0%	0%	0%
STANDARD CHARTERED	11%	22%	22%	33%
IMPERIAL BANK	11%	11%	22%	22%

Source: Annual Reports

Appendix VIII: General & Social Disclosure

BANKS	2008	2009	2010	2011
ABC BANK	35%	36%	40%	41%
BARCLAYS	41%	50%	56%	65%
CFC STANBIC	53%	55%	54%	56%
CHASE BANK	35%	36%	40%	41%
CO-OPERATIVE BANK	59%	60%	64%	65%
DIAMOND TRUST	41%	44%	44%	47%
ECO BANK	26%	30%	32%	35%
EQUITAORIAL BANK	18%	20%	21%	24%
EQUITY BANK	68%	72%	72%	76%
FAMILY BANK	50%	55%	57%	62%
FINA BANK	44%	45%	58%	59%
I & M BANK	47%	48%	58%	59%
KENYA COMMERCIAL BANK	59%	60%	61%	62%
NATIONAL BANK	24%	24%	52%	53%
ORIENTAL BANK	47%	47%	47%	47%
STANDARD CHARTERED	65%	66%	66%	68%
IMPERIAL BANK	56%	57%	57%	59%

Source: Annual Reports