THE EFFECT OF VOLUNTARY FINANCIAL DISCLOSURES ON THE STOCK RETURNS OF FIRMS QUOTED ON THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

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

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

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DEDICATION

I dedicate this work to the Almighty God and to my Parents Mr. Tarsicious Wambugu and my late Mum Mrs. Nazarene Wambugu for planting the seed of education, my loving husband Benson Mwangi for his unwavering support and continuous encouragement, my sons Brian and Ronnie for their understanding throughout my studies.

ABSTRACT

Business organizations have become aware of the importance of presenting information about the broader range of activities including both their financial performance and non-financial performance such as socially responsible performance. Regulations on mandatory supply of financial information through statements are not the only reason why organizations provide financial information but firms provide information beyond the mandatory requirements. The main purpose of this study is to establish the effect of voluntary financial disclosures on the stock returns of companies listed at the Nairobi Securities Exchange. This study used a descriptive study design. The population of the study was all the 61 firms listed at the NSE as at December 2013. The sampling technique was purposive or judgmental, as the study purposively chose the 20 companies consistently making up the NSE –20 share index between 2009 and 2013 (five years) because they are rich in information and are blue chip. The study used secondary data from the Capital Markets Authority (CMA). The selected period was year 2009 to year 2013 (5 years).The particular secondary data was extracted from financial statements of sample firms and from the Nairobi Securities Exchange handbook for the five years period of study, from 2009 to 2013.The researcher used frequencies, averages and percentages in this study. The researcher used Statistical Package for Social Sciences (SPSS) version 20 to generate the descriptive statistics, trend analysis and also to generate inferential results. A multivariate regression model was used to link the independent variables to the dependent. The study concluded that; increase in corporate governance voluntary disclosure results to increase in the levels of stock returns, increase in corporate social responsibility voluntary disclosure results to increase in the levels of stock returns. increase in human resource accounting voluntary disclosure results to increase in the levels of stock returns and increase in firm size voluntary disclosure results to increase in the levels of stock returns. The study recommended that firms should embrace voluntary financial disclosure as it posits them to many privileges/advantages. These advantages may include; easy access to external financing, securing a good name with governmental and non-governmental organizations, having a good public image. In addition, the study recommends that firms should ensure a balance of their debt to equity as increased debt is seen to cause a reduction on the stock returns. To the government, the study recommends the tax levies should be reviewed in a bid to improve the performance of the firms. As a result the stock returns of these firms would increase.

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LIST OF ABBREVIATIONS

APT	Arbitrage Pricing Theory
CAPM	Capital Asset Pricing Model
CDGI	Corporate Governance Disclosure Index
CMA	Capital Market Authority
DJIA	Dow Jones Industrial Average
EMH	Efficient Market Hypothesis
FASB	Financial Accounting Standard Board
FISD	Financial Times Services Division
IFR	Internet Financial Reporting
IPO	Initial Price Offer
NEMA	National Environment Management Authority
NSE	Nairobi Securities Exchange
SEC	Securities and Exchange Commission
SFAC	Statement ofFinancial Accounting Concepts
SIIA	Software and Information Industry Association
SPSS	Statistical Package for Social Science

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Business organizations have become aware of the importance of presenting information about the broader range of activities including both their financial performance and non-financial performance such as socially responsible performance (Akisik and Gal, 2011). After corporate scandals and financial crises, regulators, academicians, investors and other stakeholders called for greater corporate transparency from the business world. Greater corporate transparency means decreasing information asymmetry between managers and stakeholders by better information disclosure via various media such as press releases, corporate web sites, prospectuses, and annual reports (Kothari, Li and Short, 2009).

Regulations on mandatory supply of financial information through statements are not the only reason why organizations provide financial information (Healy and Palepu, 2001). Healy and Palepu, (2001) argues that financial information is provided before installation of the regulatory bodies; firms not under regulatory brackets still provide statements; firms provide financial statements more frequently than is required by the regulations and many organizations provide substantially more information than is required by the regulators.

Stock market returnsis sometimes synonymous to stock prices (Leuz, Verrecchia, 2000). A strong market is one that impounds new information to stock prices and hence making the stock prices for the firms stable and accurately valued. Due to misevaluations of firms by public capital markets, managers provide the information known by them alone to the capital markets to correct the misevaluations, since stocks value is dependent on information (Velashani and Mehdi, 2008).Walter (2006) noted that since organizations in the same industry tend to mimic one another, voluntary disclosure by one organization is mimicked by other firms, hence more information released to the market tendingthe capital markets towards efficiency.

The information asymmetry and agency conflict can adversely impede the allocation of resources in capital markets of an economy (Velashani and Mehdi, 2008).The regulatory bodies, standards setters, auditors, and capital market intermediaries seek to facilitate and enhance the credibility of management disclosures hence playing an important role in mitigating the problem of information asymmetry and agency conflict (Healy and Palepu, 2001). Deegan (2010) posits that corporate disclosure is critical for the well functioning of an efficient capital market, furthermore, companies exercise voluntary disclosures for capital market reasons.

In light of the increasing focus on the Nairobi Securities Exchange as an important avenue for attracting foreign investments and to encourage local residents to invest in shares, Kenyan companies may engage in voluntary disclosures as a means to enhance the value of their stocks hence investor confidence (Barako, 2007). Ensuring investor confidence enhances investors' participation in the market activities and encourages saving and channeling of savings into productive real investment, therefore fostering capital accumulation and efficiency in investment and real sector development. It is however debatable whether protection of investors promotes market efficiency. To enhance the customers' confidence, a market needs to be fair in which customers have complete confidence, a market in which the public interest and the interest of investors rather than immediate profits is the primary aim of those concerned (Shiller, 2000).

Investors get information regarding the organizations trading in NSE through their annual reports and other announcements. It is the dire need of information so that stock prices in the NSE reflect the most current information, that is, NSE like any other exchange market encourages the firms to disclose as much information as is possible. This is advantageous since literatures reveal that organizations with good corporate governance, more so in corporate reporting are able to raise capital from the markets relatively cheap (Zareian, 2012). Furthermore, the greater the disclosures, the greater the extent to which the stock prices reflect the whole truth hence obeying the market fundamentals. This helps the investors to rightfully choose the securities to invest in.

Daily price movements in the NSE are significantly related to investor sentiment. Consequently, investors' psychology is a potential explanation for stock price movements. The indicators of stock market development show the general increase or decrease in the total shares traded, turnover, and market capitalization (Rono, Tenai, Kiplangat and Bitok, 2011). Levitt (2000) suggests that the quality of information is the vital blood of a powerful and efficient market. Without it, liquidity is crippled and the market efficiency fades out. This confirms the fundamental role that can be played by disclosure information in the capital market especially with respect to liquidity.

1.1.1 Voluntary Financial Disclosure

Voluntary financial disclosure refersto disclosure of information regarding the organization up-and-beyond the statutory requirements. The practice of voluntary disclosure has attracted a lot ofattention from researchers. Meek, Roberts and Gray (1995), classify voluntary disclosures as strategic, non-financial and financial information. They classify the disclosures depending on what they are intended for and the contents of such disclosed information. Since the management knows more about the company than the shareholders, customers, suppliers, creditors, and government regulators including capital market authorities, the management finds it useful to inform the outsiders what they know about the company (Feng and Li, 2007).

The key aim of voluntary disclosures is to inform the public more about the company. In turn, the management hopes that the stakeholders of the company will respond favorably to the company. Whether strategic, non - financial or financial voluntary disclosures, Meek, Roberts, and Gray1995), posits that most organizations gain some benefits by virtue of disclosing more than is expected if the issued information is strategically availed to the important parties who are likely to act in favor of the company. The disclosures are sometimes not periodic while others are periodically released including voluntary disclosures released together with annual reports of an organization.

Marston and Shrives (1991) stated that many studies have measured disclosure quality, but there is no concrete explanation or general guide for the selection of items to measure the extent of voluntary disclosure. Wallace and Naser (1995) defined disclosure as an abstract construct since it is difficult to determine its intensity or quality. In addition, it does not possess own inherent characteristics. The most prominent financial disclosure include; voluntary corporate governance disclosures such as experience, skills, expertise of board members. Other disclosures include corporate social responsibility, environmental accounting, human resource accounting, and economic value added statements as voluntary disclosures (FASB, 2013).

1.1.2 Stock Returns

Stock returns consist of ratio of the investment total income (loss) in a given period to capital consumed at the beginning of the period to obtain the benefits. Return includes changes in original capital (stock price) and Dividend per share. Return scale is regarded as an important index in evaluating financial performance of the firms. Since increasing wealth of stockholders is considered as the main goal of economic units, the firms should act in such a way that increases wealth of stockholders by achieving appropriate return whereby increased wealth of stockholders is defined as stock 'positive return' in each fiscal period (Zarein, 2012).

Return is a complicated and multi-dimensional concept, which is closely related to interest, value and price criteria. Although interest, value and price criteria can be derived from financial statements, these criteria are different from accounting interest, economic value and economic return, which are interested by most users. The firms accepted in the stock exchange can assess these variables using market information and analysts always attempt to identify mispriced stocks using financial statements information and other available information (Zarein, 2012).

Many factor influence investors to invest in the available investment opportunity in the stock market of which it consists of the primary and the secondary markets. Many factors affect the development of both the primary and the secondary markets. Many factors have contributed to the increase in stock prices like, excess liquidity in the local markets, high oil prices, huge increase in national revenue, government spending on major projects, expansion in the private sector, encouraging and supportive remarks from government officials, and good business results of some companies, privatization, and oversubscribed initial public offerings among others. Most of these factors are instrumental in building a positive investors' sentiment. The effect of having around half of the nations' population buying new IPO, or when an IPO price increases by 10 folds in its first day of trading are solid proof of the impact on investor's sentiment (Subrah, 2000).

1.1.3 Relationship between Voluntary Financial Disclosure and Stock Returns

Many studies reveal that organizations operating in industries highly dependent on external financing have a considerably higher level of voluntary accounting disclosures (Velashani and Mehdi, 2008). They further realized that the results were still up-held after controlling for differences in legal and financial systems amongst countries, and firm-specific controls for firm size and performance.The findings revealed that organizations with relatively higher levels of disclosure usually have lower costs of capital (Walter 2006). Therefore, voluntary disclosures lower information asymmetry costs and hence the cost of external financing for the firm.

Additionally, literatures from past studies reveal that most researchers have been skewed to the factors that influence the extent of voluntary disclosure. Those studying the relationship between voluntary disclosure and stock returns, like Ponnu and Maurice (2009), Oyenje (2012), Munyao (2012) and Lopokoiyit (2012) focused on the CSR and corporate governance and related issues. Other researchers elsewhere have linked causality between quality voluntary disclosures and stock returns and in turn the stock market performance. Yet again, some have had conflicting results. Zareian (2012) studied the relationship between quality of voluntary disclosure and stock returns and sought to establish stock correlations between voluntary disclosure quality and stock returns each year. Results showed that while there was absolutely no correlation between disclosure quality and stock returns in some years, there were some correlations in other years.

Hail (2002) established that there is no relationship between voluntary disclosures and stock returns. He however established that there is negative linear relationship between the voluntary disclosures and the cost of equity. As such, an increase in voluntary disclosures would reduce the cost of acquiring equity capital from capital markets. He held that increasing voluntary disclosures reduce the cost of capital since such disclosures increase the demand and liquidity of the company's stock. He posits that this reduces the cost of publicity and issuance of the stocks since investors know the firm better.

1.1.4 Voluntary Disclosure with Regard to Nairobi Securities Exchange

The Nairobi Securities Exchange, formally Nairobi Stock Exchange was established in 1954 as a voluntary association of stockbrokers in the European community. It was registered under the Societies Act. Since then the market has undergone tremendous transformations. At the heart of the Exchange is market liquidity enhancement by fostering transformational and utmost ethical practices amongst the participants so that more investors are assured of free and fair information for their trade related decision-making (Ngugi, 2005).

Hence, the Kenyan Government has initiated reforms at the NSE aiming to transform the exchange to be the vehicle to mobilize domestic savings and to attract foreign capital investments (Barako, 2007). Consequently, corporate financial reporting and especially enhanced voluntary disclosures is an important ingredient of enhancing confidence and trust of the market by both local and foreign investors (Ngugi, 2005).

Since the year 2008, the exchange has greatly emphasized on corporate governance with some participants punished for faulting the acceptable market regulations.

Amongst other changes are enhanced communications by and within the NSE itself. In November 2011, the exchange launched the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices, after extensive market consultations with local asset owners and fund managers. The launch of the indices reveals the interest of growth into the domestic investment and diversification opportunities in the East African region. This was followed by NSE becoming a member of Financial Times Services Division (FISD) of the Software and Information Industry Association (SIIA) in March 2012. By providing the indices in its website, the initiative provided the investors with current information of reliable indication of the Kenyan equity market's performance during trading hours.

With its emphasis on attracting more investors, NSE has to encourage all the participants in the market to provide as much information as is practically possible. Barako (2007) posits that the level of disclosures including voluntary disclosures amongst the participants in the NSE has increased over the years. Definitely, with the CMA emphasizing on tightening corporate governance amongst the market participants, the extent of disclosure including voluntary disclosure is bound to be enhanced in the NSE.

1.2 Research Problem

Investment in securities of companies listed at the Nairobi Securities Exchange by the local investors has steadily gained momentum over the last few years (Wanyonyi and Olweny, 2011).The effect of voluntary financial disclosure on stock returns is a controversial issue that has been widely discussed in the accounting and financial literature (Zareian, 2012). Quality of financial information can be measured either by the level of disclosure (Botason, 1997) or by the level of earnings management (Bhattacharya, Ecker, Olsson and Schipper, 2007).

Ponnu and Maurice (2009) in their corporate social responsibility disclosure in Kenya noted that CSR disclosure received only modest attention and the theme most commonly disclosed was community involvement, which had little relationship to stock returns. Lopokoiyit (2012) investigated the effect of corporate governance practices on the share prices of companies listed in the NSE. He noted that there is a direct relationship between corporate governance practices and share prices. Hail (2012) study concluded that there exists a negative relationship between cost of equity capital and voluntary corporate disclosure. Studies on the effect of voluntary disclosures are inconclusive since some find a negative relationship (Hail, 2012; Ponnu and Maurice, 2009) while some revealed a positive relationship (Wanyonyi and Olweny, 2011; Lopokoiyit, 2012).

Bruslerie and Gabten (2011) sought to determine if the process of filtering out financial information voluntary disclosed by firms was modified by the introduction of the IFRS. Results revealed voluntary communication policies did not change with the introduction of the IFRS. Laswad, Fisher and Oyelere (2001) examined the voluntary internet financial reporting practices of local authorities and found out that only size and type of council are associated with the quantity and type of financial disclosure on the Internet. The above studies failed to address the effect of voluntary financial disclosures on the stock returns of companies since they only concentrated on the factors that increase the likelihood of making voluntary disclosures by a company.

Few studies have addressed voluntary financial disclosure and specifically the effect of voluntary financial disclosure on stock return of firms listed in the NSE. This study therefore wishes to address the effect of voluntary financial disclosure on stock return of firms listed in the NSE. The question that the study wishes to address is: What is the effect of voluntary financial disclosure on stock return of firms listed in the NSE?

1.3 Research objectives

To establish the effect of voluntary financial disclosures on the stock returns of companies listed at the Nairobi Securities Exchange.

1.4 Value of the study

This study will provide more insight on the effect of voluntary financial disclosure on stock returns. This will provide management of Nairobi Securities Exchange, listed firms and also firms intending to list with more insight on the importance of voluntary financial disclosure.

This study will add more knowledge on the concept of voluntary financial disclosure and give more empirical findings on the relationship between voluntary financial disclosure and stock returns. This will provide more literally material which will be of value to scholars, students and researchers. This study can also be used as a basis of further research and also in academics in the area of voluntary financial disclosure.

The study findings will prove to be important to the stock market in Kenya, other organizations in the country, policy makers in Nairobi Securities Exchange and other financial services and in scholarship.

The findings can further be applied by policy makers in the area of voluntary financial disclosure and stock returns. Voluntary financial disclosure selectively reduces the asymmetry of information in the financial market. Policy makers can hence use the study findings to design policies that will encourage voluntary financial disclosure in the stock market but at the same time instilling effective regulatory environment.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of theories which inform the foundations of the study. It also contains general and empirical literature that informs the study.

2.2 Theoretical Review

This section contains review of theories relevant and which inform the theoretical background of the research subject matter. The theories reviewed are: voluntary disclosure theory, efficient market hypothesis, financial intermediation theory and random walk theory.

2.2.1 Voluntary Disclosure Theory

The notion of voluntary disclosure supports the idea, even in the absence of regulation; managers still wish to disclose additional information. The study base this idea on considerations found in agency theory, which assert agency costs are borne mainly by agents (Jensen and Meckling, 1976). Therefore, agents try to reduce their agency costs to maximize their wealth. As described in agency theory, agency costs are a product of information asymmetry, whereby the agent has more private information about the firm's performance than the principal.

Theoretical and empirical studies in accounting focus on the informational role of voluntary disclosures for the capital markets (Healy and Palepu, 2001; Verrecchia, 2001). In USA, the SEC and the FASB provide guidelines for mandatory disclosures; the disclosure literature in accounting refers to voluntary and discretionary disclosures, interchangeably, as information management releases itself. In Kenya, the reporting framework is regulated by CMA and the IASB.The underlying assumption in the disclosure literature is the manager possesses superior information to all outsiders. The result is managers’ trade-off between making accounting choices and providing disclosures to “communicate their superior knowledge of a firm’s performance to investors, and to manage reported performance for contracting, political, or corporate governance reasons” (Healy and Palepu, 2001).

Theoretical studies related to disclosure suggest full disclosure of information will occur due to investors’ belief non-disclosing firms have the worst possible information (Grossman, 1981). Such studies also assume credible disclosures and zero disclosure costs. However, Verrecchia (1983) suggests, in the presence of fixed, positive disclosure costs, only firms whose information provides economic benefits above such costs will disclose. In addition, disclosure policies are influenced when disclosures provide information to competitors. Theoretical studies in accounting related to disclosure are most concerned with what types of disclosures mightoccur, instead of disclosures actually made by firms (Healy and Palepu, 2001).

2.2.2 Efficient Market Hypothesis Theory

In finance, a stock price reflects or contains financial information. The efficient market hypothesis (EMH), also called Joint Hypothesis Problem, asserts that financial markets are informational efficient (Barako, 2007). Consequently, one cannot consistently achieve returns in excess of the average market returns on a risk-adjusted basis, given the information available at the time the investment is made since before any investor acts on the information, the market will have adjusted the stock prices to reflect new information (Fama and French, 1992). The three major versions of the hypothesis include weak form, semi-strong form, and strong form. The weak-form

EMH claims that prices on traded assets including stocks, bonds, or property already reflect all past publicly available information. The semi-strong form EMH claims that prices reflect all publicly available information. The strong form EMH asserts that prices instantly reflect even hidden or insider information.

Critics argue that it is pointless to search for under-valued stocks or to try to predict trends in the market through either fundamental or technical analysis (Zareian, 2012) while academics point to a large body of evidence in support of EMH, many dissensions have been raised. Critics have blamed the belief in rational markets for many of the late 2000s financial crisis. For example, investors, such as Warren Buffett have consistently beaten the market over long periods of time, which by definition is impossible according to the EMH (Feng and Li, 2007).

Detractors of the EMH also point to events, such as the 1987 stock market crash when the Dow Jones Industrial Average (DJIA) fell by over 20% in a single day, as evidence that stock prices can seriously deviate from their fair values. In response, proponents of the hypothesis have stated that market efficiency does not mean having known certainty about the future. Market efficiency is a simplification of the world which may not always hold true, and that the market is practically efficient for investment purposes for most individuals.

2.2.3 Financial Intermediation Theory

Current financial intermediation theory builds on the notion that intermediaries serve to reduce transaction costs and informational asymmetries (Diamond, 1984). As developments in information technology, deregulation, deepening of financial markets, and tend to reduce transaction costs and informational asymmetries, financial intermediation theory shall come to the conclusion that intermediation becomes useless. This contrasts with the practitioner's view of financial intermediation as a value-creating economic process. It also conflicts with the continuing and increasing economic importance of financial intermediaries. From this paradox, we conclude that current financial intermediation theory fails to provide a satisfactory understanding of the existence of financial intermediaries.

Different participants in financial markets firms, financial intermediaries, rating agencies, and investors typically have varying amounts of information about, or differing abilities to determine, the value of securities offered in the market. Two types of asymmetric information problems commonly arising for nonfinancial firms include the following: a firm issuing a security has more information about the potential cash flows associated with the security than do investors; some investors have more information about a security's value (or better ability to value the security) than other investors; i.e., some investors are "informed" whereas others are "uninformed" (Hirschleifer and Riley, 1979).

2.2.4 Random Walk Theory

Consistent with the efficient market hypothesis is the random walk hypothesis which is a financial theory stating that stock market prices evolve in a random fashion hence cannot be predicted (Hubert, 2001).The theory precisely states that stock price changes have the same distribution and are independent of each other, so the past movement or trend of a stock price or market cannot be used to predict its future movement. It is the notion that stocks take a random and unpredictable path. Proponents of the random walk theory believe that it is impossible to outperform the market without assuming additional risk.

Critics of the theory, however, contend that stocks do maintain price trends over time. They argue that it is possible to outperform the market by carefully selecting entry and exit points for equity investments. Martin Weber, a leading researcher in behavioral finance, found trends in stock markets after performing many studies. In one of his ten years stock market analysis, he looked at the market prices for noticeable trends and found that stocks with high price increases in the first five years tended to become under-performers in the following five years contradicting the random walk hypothesis (Hubert, 2001). Another contradiction was his findings of stocks that had an upward revision for earnings outperforming other stocks in the following six months.

Hubert (2001) posits that an investor with this knowledge has an edge in predicting which stocks to pull out of the market and which stocks, the stocks with the upward revision, to leave in. Martin Weber's studies detract from the random walk hypothesis, because there are trends and other tips to predicting the stock market. Furthermore, the contradictions of the efficient market hypothesis allow some investors to earn abnormal earnings by capitalizing on the weaknesses in the market.

2.3 Determinants of Stock Returns

Stock return is determined by several factors such as economic growth given by stock market capitalisation; stock market liquidity given by total number of shares traded, equity turnover, investors' confidence in capital market, exchange rates and both voluntary and statutory disclosures among others.

Aduda, Masila and Onsongo (2012) sought to investigate the determinants of development in the Nairobi Stock Exchange. Secondary data for the period 2005-2009 was used to model the factors influencing the development of the NSE. The regression results found that, macro-economic factors such as stock market liquidity, institutional quality, income per capita, domestic savings and bank development are important determinants of stock market development in the Nairobi Stock Exchange. The regression analysis reported no relationship between stock market development and macroeconomic stability-inflation and private capital flows. The results also revealed that Institutional quality represented by law and order and bureaucratic quality, democratic accountability and corruption index are important determinants of stock market development because they enhance the viability of external finance. This result suggests that the resolution of political risk can be an important factor in the development of the Nairobi Stock Exchange.

Ouma and Muriu (2014) investigated the impact of the macroeconomic variables on stock returns in Kenya during the period 2003-2013, using the Arbitrage Pricing Theory (APT) and Capital Asset Pricing Model (CAPM) framework for monthly data. The Ordinary Least Square (OLS) technique is applied to test the validity of the model and the relative importance of different variables, which may have an impact on the stock returns. The empirical analysis found two interesting results. First, all variables were I(0). Second, with the exception of interest rates, there existed a significant relation between stock market returns and macroeconomic variables. According to the findings of the study, Money Supply, exchange rates and inflation affected the stock market returns in Kenya. Money supply and inflation were found to be significant determinants of the returns at NSE. Exchange rates was however, found to have a negative impact on stock returns, while interest rates is not important in determining long rung run returns in the NSE.

Gatua (2013) analyzed the share price performance of seven firms and sought to identify the factors that influence share prices for the selected firms in various sectors at NSE by developing a model(s) for share price determination. Data was collected on the seven variables under study for a period of five years (2008 –2012) and regression analysis was utilized to determine the effect of selected macroeconomic variables on the share prices of seven companies in seven sectors at NSE, and the share prices for the companies were analyzed in terms of change in magnitude. The general results indicated that there is no one model to predict share prices at NSE. Only one company, Equity Bank, had a model that could be used to determine share prices based on the variables under study and this could be explained by the fact that the share prices of Equity Bank had a big differential (of Kshs 312.15) with the highest price at Kshs 324.00 and the lowest price at Kshs 11.85 while the share prices of the other companies under study had small differentials with the biggest differential being Kshs 54.25.

2.4 Empirical Literature Review

Laohapolwatana, Smith and Howieson (2005) investigated the impact of voluntary disclosure on sell-side analyst stock recommendations. The study used an explanatory research design. The study was based on a sample of 200 recommendation revisions of 40 listed Australian companies. The results suggested that voluntary disclosures do contribute to analyst stock recommendations. The findings revealed that the quantity of disclosure is positively related to the number of recommendations and that disclosure with favourable signals or with price sensitive contents are significantly related to the direction and type of financial revisions. In additions, disclosure of specific themes (e.g. dividend and product) in company announcements and news are significantly associated with the recommendation change. This has implication for both the formulation of accounting policies and the regulation of financial disclosure.

Oyugi (2007) sought to determine whether or not there exists a relationship between frequency of financial disclosure and security returns. Secondly to establish whether or not there exists a relationship between frequency of financial disclosure and volume of shares traded at the Nairobi Stock Exchange (NSE). The study used data covering a five year period from 2001 to 2005 derived from the NSE. Security returns were determined using the market model on monthly basis. Trading volumes were determined by shares traded divided by outstanding shares for each month. The study revealed that security returns for firms reporting on quarterly basis were higher compared to those of firms reporting semi-annually. Trading volumes of firms reporting on quarterly basis were found to be higher compared to trading volumes of the firms reporting semi-annually. The study concluded that there exists a strong relationship between frequencies of financial disclosure and trading volume of firms quoted at the NSE. On the other hand, there is a weak relationship between financial disclosure frequency and share returns of companies quoted at the NSE.

Onkoba (2008) sought to investigate the effect of selected accounting variables on stock liquidity for firms listed at the Nairobi Securities Exchange. In particular, the study examined the effect of debt to equity ratio on stock liquidity, the effect of dividend yield on stock liquidity, the effect of asset turnover ratio on stock liquidity and the effect of earnings per share on stock liquidity for firms listed at the Nairobi Securities Exchange. The study used a descriptive design model. The population of this study comprised of all the listed firms at the Nairobi Securities January 2008 to December 2012. The sample constituted all the firms that comprise Exchange from the NSE 20 Share Index. Analysis was conducted through the use of regression analysis and ANOVA. The results indicated that accounting variables, as represented by the predictor variables only influenced ten percent of variations in stock liquidity as indicated by the adjusted R square statistic.

Mwirichia (2008) examined the actual corporate governance disclosure practices in the listed public limited companies by considering 45 disclosure items. A sample of 35 listed companies was used. To facilitate the analysis, a Corporate Governance Disclosure Index (CGDI) was computed and a number of hypotheses tested. The mean and standard deviation of CGDI were found to be 74.967 and 7.305 respectively. Compared to other emerging economies it was apparent that NSE listed companies report more comprehensively and gap between the good and poor reporters is narrower. In addition, only a mild difference was found to exist among the CGDI of various sectors. Financial sector was found to make more intensive corporate governance disclosure than the non-financial sector. In general, companies were found to be more active in making financial disclosures rather than non - financial disclosures. Multiple regression result showed 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 were not found to have any significant impact on corporate governance disclosure.

Iatridis (2009) sought to analyze the financial characteristics of firms that provide extensive disclosures, and assess the financial impact of their motives. The study examined the financial attributes of firms that disclose information about key accounting issues including risk exposure, changes in accounting policies, use of international financial reporting standards and hedging practices. Results showed that in order to raise finance in the capital and debt markets, firms tend to provide extensive accounting disclosures. Firms that provide informative accounting disclosures appear to display higher size, growth and leverage measures. The findings also showed that the disclosure of sensitive accounting information has not adversely affected firms' profitability. In fact,firms that provide detailed accounting disclosures tend to exhibit higher profitability. The implementation of international financial reporting standards enhances the quality and the comparability of financial statements; hence, it promotes consistency and reliability in financial reporting and facilitates companies’ in raising capital internationally.

Kothari, Li and Short (2009) documented systematic evidence of risk effects of disclosures called from a virtually exhaustive set of sources from the print medium. The study used an explanatory research design. The study used secondary data. Content analysis were done on more than 100,000 disclosure reports by management, analysts, and news reporters (i.e. business press) in constructing firm-specific disclosure measures that were quantitative and amenable to replication. Results revealed that when content analysis indicates favorable disclosures, the firm’s risk, asprovided by the cost of capital, stock return volatility, and analyst forecast dispersion, declines significantly. In contrast, unfavorable disclosures were accompanied by significant increases in risk measures. Analysis of disclosures by source corporations, analysts, and the business press revealed that negative disclosures from business press sources resulted in increased cost of capital and return volatility, and favorable reports from business press reduce the cost of capital and return volatility.

Rahman (2010) examined the impact of Internet Financial Reporting (IFR) on stock prices in Indonesia Stock Exchange. This study also investigates whether IFR companies have better financial condition than non IFR companies as predicted by signalling hypothesis. This study investigated all public companies incorporated in Kompas 100 index. The results showed that the degree of information disclosed in website has significant positive impact on abnormal return. The t-test used to test any significant difference between IFR companies and non IFR companies showed insignificant result. Finally, the hierarchical regression test used to examine the impact of moderating variable, corporate governance, on IFR companies' stock prices also showed insignificant result.

Suka (2011) examined the information content of profit warning announcements at the Nairobi Stock Exchange. This was achieved by studying fourteen companies that had issued profit warning between the periods 2002 to 2010.The study made use of the stock returns and market returns data to determine whether profit warning announcement elicit any reaction in the Kenyan stock market. The study made use of daily adjusted prices for sample stocks for the event window of 31 days, consisting of 15 days before and 15 days after the profit warning announcement. The event study methodology was employed in the determination of the effects of the profit warning announcement. Abnormal returns were calculated by use of the market model and tests are conducted to test the significance. The study found out that the Kenyan Stock market reacts negatively to profit warning announcements as shown by a general decline in mean abnormal returns around the profit warning announcement period. This is consistent with the hypothesis that profit warnings have information content which is associated with a negative revaluation of the firm. The study equally found out that there are negative abnormal returns that are statistically significant at 5% level, around the profit warning announcement date.

Muthamia (2013) sought to estimate the financial distress in the firms quoted in the Nairobi Securities exchange. The study applied descriptive correlation design involving a total of 26 firms selected from the population of 61 quoted firms. It excluded the firms in the banking, insurance and manufacturing sectors to which the chosen model was not applicable. The study applied secondary data from audited financial reports for nine years to estimate financial distress using the Altman's Z" -score model. The study found that financial distress was prevalent among the sampled firms but the estimates obtained from the sample were not significant enough to be generalized on the population. The results suggested that the firms quoted in Nairobi Securities Exchange did experience financial distress from time to time to which there was minimal reaction from market observable in terms of movement of stock returns

Jouiroua and Chenguel (2014) highlighted the level of voluntary disclosure of Tunisian companies. In addition, they sought to identify the determinants on this disclosure. The study used a descriptive research design. The study used primary data collected from annual reports of listed Tunisian firms relative to the year 2007. The empirical results showed that the size of the company (as measured by the number of employees), the independence of the board of directors and audit firm size had a positive and significant influence on the level of disclosure, while the age of the firm, had a negative influence on the level of disclosure.

2.4 Summary of Literature Review

Quality of financial information can be measured either by the level of disclosure (Botason,1997) or by the level of earnings management (Bhattacharya, Ecker, Olsson and Schipper, 2007). Ponnuand Maurice (2009) in their corporate social responsibility disclosure study in Kenya noted that CSR disclosure received only modest attention and the theme most commonly disclosed was community involvement, which had little relationship to stock returns. Lopokoiyit (2012) investigated the effect of corporate governance practices on the share prices of companies listed in the NSE. He noted that there is a direct relationship between corporate governance practices and share prices. Hail (2012) study concluded that there exists a negative relationship between cost of equity capital and voluntary corporate disclosure. Studies on the effect of voluntary disclosures are inconclusive since some find a negative relationship (Hail, 2012; Ponnu and Maurice, 2009) while some revealed a positive relationship (Wanyonyi and Olweny, 2011; Lopokoiyit, 2012).

Bruslerie and Gabten (2011) sought to determine if the process of filtering out financial information voluntary disclosed by firms was modified by the introduction of the IFRS. Results revealed Voluntary communication policies did not change with the introduction of the IFRS. Laswad, Fisher and Oyelere (2001) examined the voluntary Internet financial reporting practices of local authorities and found out that only size and type of council are associated with the quantity and type of financial disclosure on the Internet. The above studies failed to address the effect of of voluntary financial disclosures on the stock returns of companies since they only concentrated on the factors that increase the likelihood of making voluntary disclosures by a company. This represents a scarcity gap.

Few studies have addressed voluntary financial disclosure and specifically the effect of voluntary financial disclosure on stock return of firms listed in the NSE. This study therefore wishes to address the effect of voluntary financial disclosure on stock return of firms listed in the NSE. The question that the study wishes to address is: What is the effect of voluntary financial disclosure on stock return of firms listed in the NSE?

CHAPTER THREE:RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the type of research design, population, and target population, sampling frame, sample, sample size, sampling technique, instruments used, and data analysis.

3.2 Research Design

A research design is the structure of research. Newing (2011) states that a research design is a general plan or strategy for conducting a research study to examine specific testable research questions of interest.

This study used a descriptive study design. Descriptive research aims at getting answers to the Who? What? Where? When? How? And How many questions? In this study descriptive study design assisted to find out the present state of affairs in relation to what extent organizations voluntarily disclose non-statutory required data to the public and the implications of the voluntary disclosure on the stock returns for a firm trading in the NSE.

3.3 Population

A population refers to an entire group of individuals, events or objects having a common observable characteristic (Mugenda and Mugenda, 2003). The population of the study was all the 61 firms listed at the NSE as at December 2013.

3.4 Sample and Sampling Technique

The sampling technique was purposive or judgmental, as the study purposively choose the 20 companies consistently making up the NSE –20 share index between 2009 and 2013 (five years) because they are rich in information and are blue chip. The NSE 20 share index also contains the financial services sector. These companies have unique features and are subject to higher levels of disclosure requirements by regulators like IRA and CBK. Their inclusion in the sample was controlled by a dummy variable to check whether the effect of voluntary disclosure varies between financial and non-financial sectors.

3.5 Data Collection

The study used secondary data from the Capital Markets Authority (CMA). The selected period was year 2009 to year 2013 (5 years). The particular secondary data was extracted from financial statements of sample firms and from the Nairobi Securities Exchange handbook for the five years period of study, from 2009 to 2013.Voluntary disclosure aspects was calculated in respect to the above factors. These were Voluntary disclosure of human resource accounting (employee productivity analysis); Voluntary disclosure of environment accounting; Voluntary disclosure of corporate social responsibility; Voluntary corporate governance disclosures.

The matrix below was used to operationalize the measure of extent of disclosure. The extent was measured relative to the number of words dedicated to information on the voluntary disclosure as shown below:

Table 3.1: List of Voluntary Disclosure Items

Voluntary Disclosure	Examples
Corporate Governance	i Break down of market share growth and information on new products ii Strategic direction and future leadership need iii Board leadership structure iv Business experience of directors v Information on senior management responsibilities vi Experience and background vii Product description viii Long-term objectives
Corporate Social responsibility	i) Information on community involvement ii) Activities in abating pollution iii) Fostering a culture of ethical behaviour and respect iv) Sustainable business practices while delivering products and services that enable sustainability v) Customerrelations vi) Commitment to improving transparency regarding long term performance and risk management
Environmental Accounting	i Environmental accounting practices ii Environmental management program (long term and short term) iii Establishment of environmental targets and objectives

	iv Environmental study and research incentives v Product innovations related to environmental degradation reduction vi Environmental education programs (internally and/or community) vii Environmental studies / research viii Mention of company's environmental compliance ix Partnership with environmental organizations Award x Participations in environmental indices
Human Resource Accounting	i) Education ii) Know-how iii) Employment Safety iv) Employee numbers v) Professional experience vi) Employee featured vii) Entrepreneurial spirit, proactive and reactive ability viii) Training programs ix) Gender x) Union issues xi) Employee thanked xii) Employee productivity.

Source (FASB Annual Report, 2013), Human Capital Reporting in a Developing Nation (J. Guthrie 2004)

3.6 Data Analysis

The researcher used frequencies, averages and percentages in this study. The researcher used Statistical Package for Social Sciences (SPSS) version 20 to generate the descriptive statistics, trend analysis and also to generate inferential results. Regression analysis was used to demonstrate effect of voluntary financial disclosure on the stock returns of NSE- 20 share index firms. According to Mugenda and Mugenda (2003), the regression technique is used to analyse the degree of relationship between two variables. The results were presented using tables to give a clear picture of the research findings at a glance.

3.6.1 Analytical Model

A multivariate regression model was used to link the independent variables to the dependent variable as follows;

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \mu$

Where;

Y = Actual stock returns, (capital gains). Defined as the appreciation in price divided by the original price of the stock

Actual stock returns will be calculated as follows;

$$\frac{stock\ Price\ in\ year_t - \text{stock Price}\ in\ year_{t-1}}{stock\ price\ in\ year_{t-1}}$$

X_1 = Number of items voluntarily disclosed with respect to corporate governance (Table 3.1)

X_2 = Number of items voluntarily disclosed with respect to corporate social responsibility (Table 3.1)

X_3 = Number of items voluntarily disclosed with respect to environment accounting (Table 3.1)

X_4 = Number of items voluntarily disclosed with respect to human resource accounting (Table 3.1)

X_5 = Dummy for financial services sector

X_6 = Divided pay out

X_7 = Firm Size (Log of Total Assets)

Dividend pay-out value was measured by divided payout ratio recorded in the Nairobi Securities Exchange Hand Books. Firm size was measured by the log of total assets. Other areas of voluntary disclosures were assumed to be beyond the scope of this study. The study concentrated on the most researched ones, which are highlighted in the previous section. For corporate governance, only those aspects that are not a mandatory requirement by CMA were used.

β_0 = the constant term

β_ii= 1….6 measure of the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, $X_{2,}$ X_3, $X_{4,}$ $X_{5,}X_6$.

μ = is the error term which captures the unexplained variations in the model.

Evaluation of Significance;

In this study, the level of significance was 5% which means that all statistical tests werecarried out and compared against the 5% level of significance. The statistical tests include Ordinary Least Regression (OLS) tests. In particular, coefficient of determination test (goodness of fit test) was achieved by inspecting the R^2. The R^2

shows the amount of variance of the dependent variable that is explained by the independent variables.

The overall model significance was tested by applying the ANOVA/F-test. The F test checks whether the independent variables are good joint predictors.

CHAPTER FOUR: DATA ANALYSIS,RESULTS AND DISCUSSION

4.1 Introduction

This chapter deals with the analysis of data. The objective of the study was to establish the effect of voluntary financial disclosures on the stock returns of NSE- 20 share index firms. The data analysis is in harmony with the objective of the study where patterns were investigated through descriptive analysis, trend and inferential analysis which were then interpreted and inferences drawn on them.

4.2 Descriptive Statistics

The table 4.1 below indicates the descriptive statistics of the variables that were used in the study. The results indicate that the stock returns (capital gains) of the NSE- 20 share index firms had a minimum of -8 and a maximum of one (1) and its reported mean was -0.2 which deviated by 1.218. Similarly the results of corporate governance indicate that the minimum and maximum values in this case were 5.42 and 8.64 respectively with a mean value of 7.161 deviating by 0.602.Corporate social responsibility indicates that the minimum and maximum values were 4.06 and 8.64 respectively. Results also indicated that the environmental accounting had minimum and maximum values of 4.06 and 6.75 respectively, a mean value of 5.511 and a standard deviation of 0.664. Further, result show that human resource accounting had a minimum and maximum values of 5.19 and 7.38 respectively, a mean of 6.11 and a standard deviation of 0.546. Financial service sector had a minimum and maximum value of zero (0) and one (1) respectively, a mean of 0.25 and a standard deviation of 0.435. Dividend payout ratio had a mean and standard deviation values of -0.829 and

0.652 respectively. Among the other variables adopted in the study was firm size whose reported mean and standard deviation were 16.37 and 3.074 respectively.

Table 4.1 Descriptive Statistics

	Minimum	**Maximum**	**Mean**	**Std. Dev**
Stock Returns	-8.000	1.000	-0.200	1.213
Ln corporate governance	5.420	8.640	7.161	0.602
Ln corporate social responsibility	4.060	8.350	6.641	0.789
Ln environmental accounting	4.060	6.750	5.511	0.664
Ln human resource accounting	5.190	7.380	6.110	0.546
Financial Services Sector	0.000	1.000	0.250	0.435
Ln dividend payout ratio	-2.210	0.980	-0.829	0.652
Firm Size	0.000	20.000	16.370	3.074

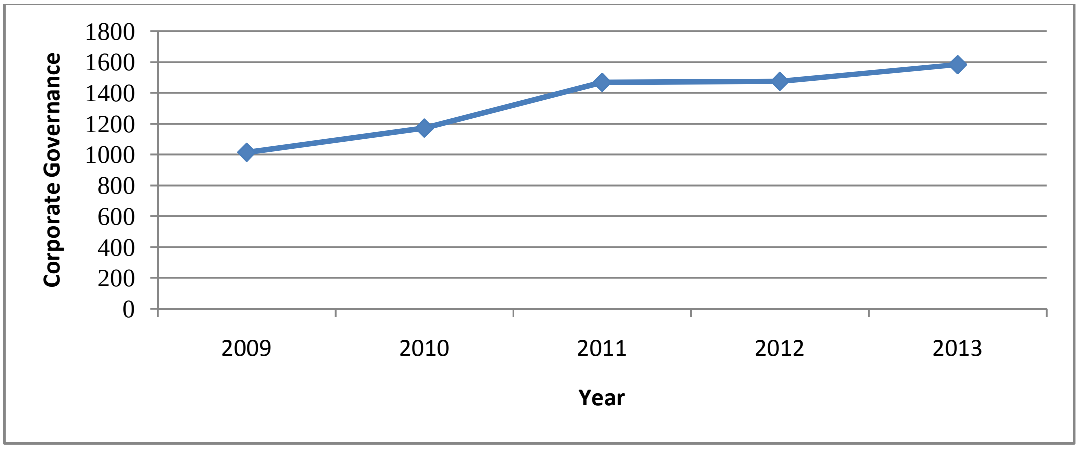
4.3 Trend Analysis

This section provides graphical representation of the movement and changes of the variables under study over the years 2009 to 2013.

4.3.1 Trend Analysis of Corporate Governance

The fiqure 4.1 below shows the corporate governance disclosure of the NSE- 20 share index firms for the period 2009 to 2013. The fiqure indicates that corporate governance disclosure of the NSE- 20 share index firms used in the study over the 5 year period was increasing linearly between 2009 to 2013. This implies that the firms have realized the importance of voluntary disclosure of corporate governance as this places them at a better position of acquiring external favours such as easy access to external financing without difficulties.

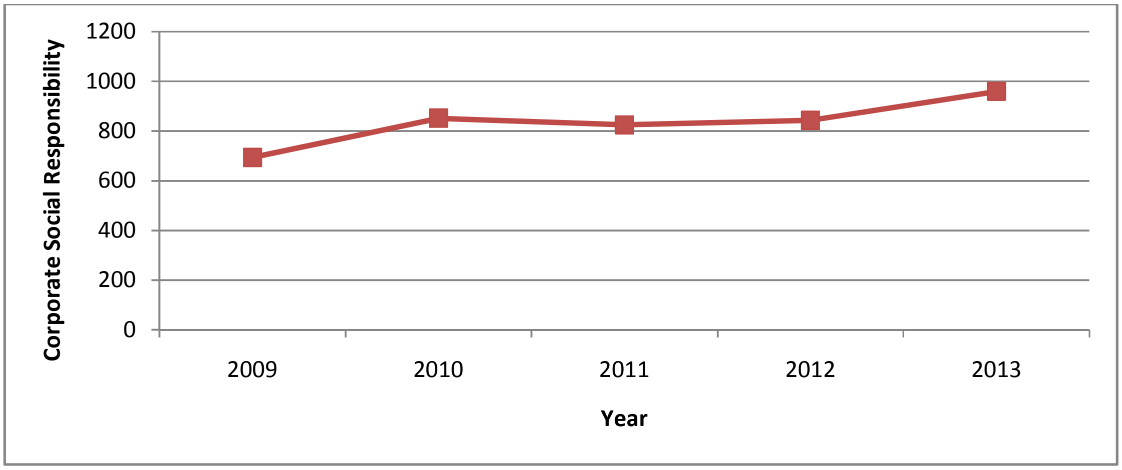
Figure 4.1 Trend Analysis of Corporate Governance



4.3.2 Trend Analysis of Corporate Social Responsibility

The fiqure 4.2 below shows the corporate social responsibility disclosure of the NSE-20 share index firms for the period 2009 to 2013. The fiqure indicates that corporate social responsibility disclosure of the NSE- 20 share index firmsused in the study over the 5 year period was increasing linearly between 2009 to 2013. This implies that the firms have realized the importance of voluntary disclosure of corporate social responsibility as this places them at a better position of acquiring external favours such as easy access to external financing and government related favours without difficulties.

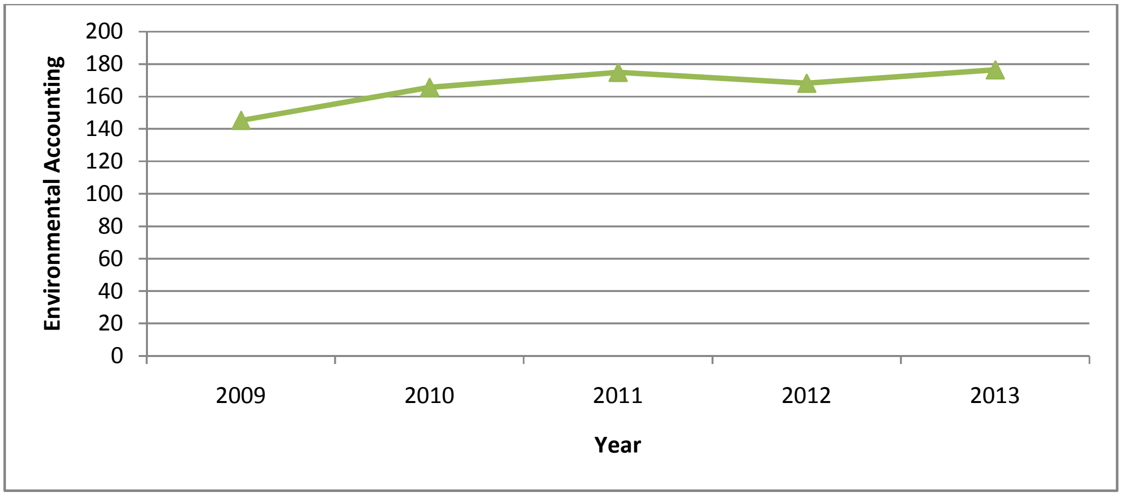
Figure 4.2 Trend Analysis of Corporate Social Responsibility



4.3.3 Trend Analysis of Environmental Accounting

The fiqure 4.3 below shows the environmental accounting disclosure of the NSE- 20 share index firms for the period 2009 to 2013. The fiqure indicates that environmental accounting disclosure of the NSE- 20 share index firms used in the study over the 5 year period was increasing linearly between 2009 to 2013. This implies that the firms have realized the importance of voluntary disclosure of environmental accounting as this places them at a better position of acquiring external favours such as easy access to external financing and recognition by environmental based organizations such as NEMA without difficulties.

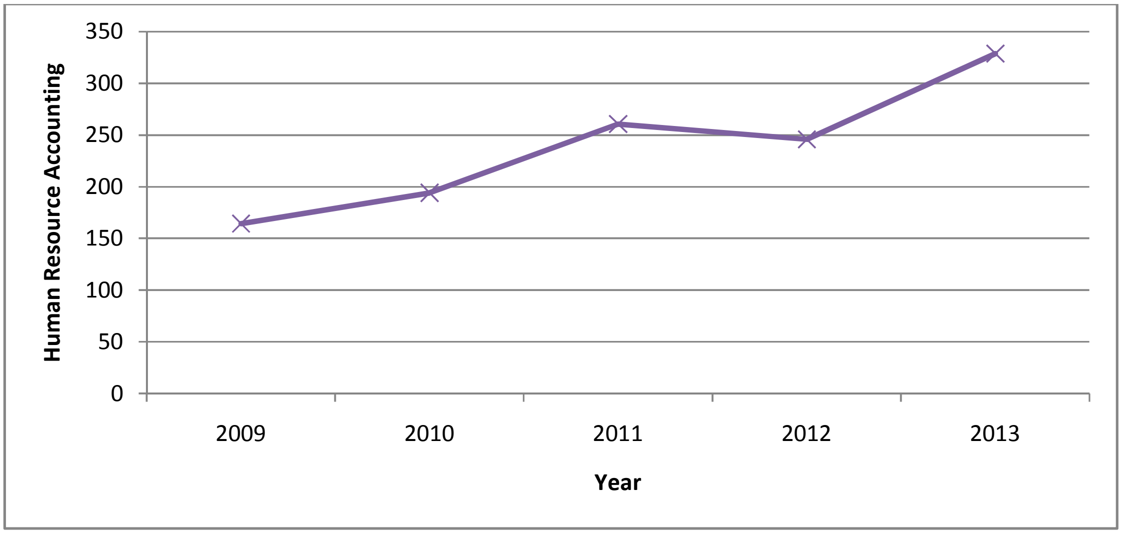
Figure 4.3 Trend Analysis of Environmental Accounting



4.3.4 Trend Analysis of Human Resource Accounting

The fiqure 4.4 below shows the human resource accounting disclosure of the NSE- 20 share index firms for the period 2009 to 2013. The fiqure indicates that human resource accounting disclosure of the NSE- 20 share index firms used in the study over the 5 year period was increasing linearly between 2009 to 2013. This implies that the firms have realized the importance of voluntary disclosure of human resource accounting as this places them at a better position of acquiring external favours such as attracting qualified personell during recruitments without difficulties.

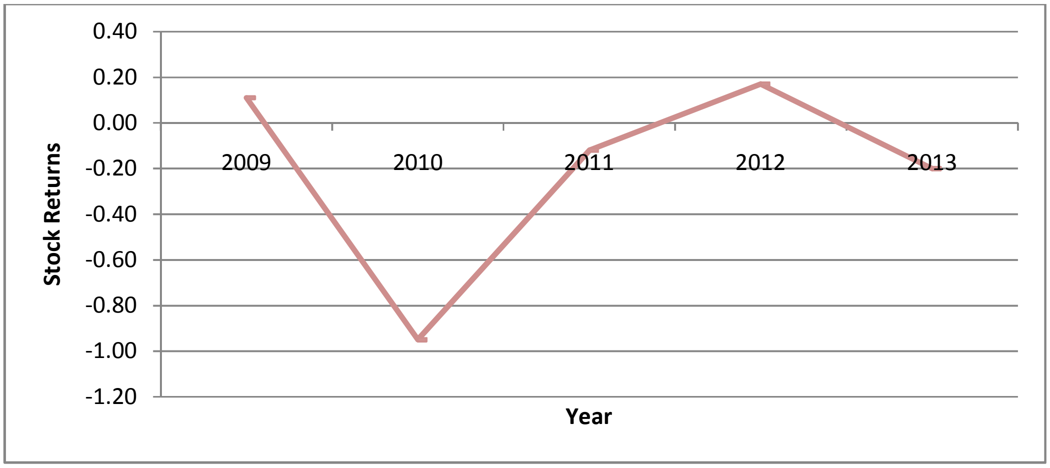
Figure 4.4 Trend Analysis of Human Resource Accounting



4.3.5 Trend Analysis of Stock Returns

The fiqure 4.5 below shows the stock returns of the NSE- 20 share index firms for the period 2009 to 2013. The fiqure indicates that the stock returns of the NSE- 20 share index firms used in the study over the 5 year period was negative for the largest part of the study period (2009 to 2013). This implies that despite the reported increase in voluntary financial disclosure, the firms have been on a down hill trend with regard to their performance (profitability) as they may have increased the levels of external financing compared to previous years and thus taiting their image to the public.

Figure 4.5 Trend Analysis of Stock Returns



4.4 Inferential Data Analysis

This section provides the analysis of relationship among the independent variables to the dependent variable. As well as determining the significance of the variables under study.

4.4.1 Regression Analysis

The regression equation took the following form.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \mu$$

Where;

Y = Actual stock returns, (capital gains). Defined as the appreciation in price divided by the original price of the stock

An actual stock return was calculated as follows;

$$\frac{stock\ Price\ in\ year_t - \text{stock Price}\ in\ year_{t-1}}{stock\ price\ in\ year_{t-1}}$$

X_1 = Number of items voluntarily disclosed with respect to corporate governance (Table 3.1)

X_2 = Number of items voluntarily disclosed with respect to corporate social responsibility (Table 3.1)

X_3 = Number of items voluntarily disclosed with respect to environment accounting (Table 3.1)

X_4 = Number of items voluntarily disclosed with respect to human resource accounting (Table 3.1)

X_5 = Dummy for financial services sector

X_6 = Divided pay out

X_7 = Firm Size (Log of Total Assets)

Table 4.2 shows the fitness of the model identified above in determining the relationship between voluntary financial disclosure and stock returnsof the NSE- 20 share index firms. The coefficient of determination also called the R square was 70.9%. This means that the combined effect of the predictor variables (corporate governance, corporate social responsibility, environment accounting, human resource accounting, financial services sector, divided pay out, firm size) explains 70.9% stock returns.

All the variables significance tests were carried out by examining the t-statistics. After calculating the t-statistics was larger than the critical t-value of 1.96 apart from environmental accounting, financial service sector and divided pay out. This indicated that the independent variables are a significant determinant of stock returns

Table 4.2: Model of Fitness

Indicator	Coefficients
R	0.842
R Square	0.709
Adjusted R Square	0.589
Std. Error of the Estimate	0.558

The results on analysis of variance in Table 4.3 indicate that the overall model was significant. This shows that the combined effect of corporate governance, corporate social responsibility, environment accounting, human resource accounting, financial services sector, divided pay out and firm size were statistically significant in explaining stock returns. This was demonstrated by a p value of 0.001 which is less that the acceptance critical value of 0.05.

Table 4.3: Analysis of Variance (ANOVA)

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.891	7	1.842	5.918	0.001
Residual	5.29	17	0.311		
Total	18.181	24			

The results in Table 4.4 present the regression of coefficients of the study. These results shows that there is a positive relationship between stock returns and corporate governance, corporate social responsibility, environment accounting, human resource accounting, financial services sector, divided pay out and firm size as supported by beta coefficients of 6.019, 1.432, 1.319, 0.438, 0.834, 0.111, 0.28 and 0.137

respectively. This means an increase in the independent variables will increase the stock returns. The analysis also yields results that show that corporate governance, corporate social responsibility, human resource accounting and firm Size were statistically significant as the probability (p) values were 0.003, 0.016, 0.02 and 0.027 respectively which were lower than the conventional value of 0.05. Similarly, environment accounting, financial services sector and divided pay out were not statistically significant as the probability (p) value was 0.074, 0.778 and 0.228 respectively which was higher than the conventional value of 0.05.

Table 4.4: Regression of Coefficients

Variable	**Beta**	**Std. Error**	**t**	**Sig.**
(Constant)	6.019	2.493	2.414	0.027
Ln corporate governance	1.432	0.409	3.5	0.003
Ln corporate social responsibility	1.319	0.495	2.666	0.016
Ln environmental accounting	0.438	0.23	1.907	0.074
Ln human resource accounting	0.834	0.325	2.564	0.02
Financial Services Sector	0.111	0.388	0.286	0.778
Ln dividend payout	0.28	0.224	1.25	0.228
Firm Size	0.137	0.057	2.412	0.027

CHAPTER FIVE:SUMMARY,CONCLUSIONAND RECOMMENDATIONS

5.1 Introduction

This chapter dealt with the summary of the findings, the conclusion and recommendations. This was done in line with the objective of the study. Areas of further research were suggested and limitations of the study were taken into account.

5.2 Summary of Findings

The study findings indicate that corporate governance, corporate social responsibility, environment accounting, human resource accounting, financial services sector, divided pay out and firm size had a positive relationship with stock returns as shown by a beta coefficient of 6.019, 1.432, 1.319, 0.438, 0.834, 0.111, 0.28 and 0.137 respectively (t=2.414, 3.5,2.666,1.907,2.564,0.286,1.25 and 2.412 respectively). These findings agree with those of Laohapolwatana, Smith and Howieson (2005) who investigated the impact of voluntary disclosure on sell-side analyst stock recommendations.The findings revealed that the quantity of disclosure is positively related to the number of recommendations and that disclosure with favourable signals or with price sensitive contents are significantly related to the direction and type of financial revisions. The findings also agree with those of Oyugi (2007) who sought to determine whether or not there exists a relationship between frequency of financial disclosure and volume of shares traded at the Nairobi Stock Exchange (NSE). The study concluded that there exists a strong relationship between frequencies of financial disclosure and trading volume of firms quoted at the NSE. On the other hand, there is a weak relationship between financial disclosure frequency and share returns of companies quoted at the NSE.

The study findings also indicate that corporate governance, corporate social responsibility, human resource accounting and firm Size were statistically significant in explaining stock returns as supported by p values of 0.003, 0.016, 0.02 and 0.027 respectively.

5.3 Conclusions

It can be concluded that increase in corporate governance voluntary disclosure results to increase in the levels of stock returns. It can also be concluded that increase in corporate social responsibility voluntary disclosure results to increase in the levels of stock returns. Further, it can be concluded that increase in human resource accounting voluntary disclosure results to increase in the levels of stock returns. Finally, it can be concluded that increase in firm size voluntary disclosure results to increase in the levels of stock returns.

The study concludes that firms should embrace voluntary financial disclosure as it posits them to many advantages. These advantages may include; easy access to external financing, securing a good name with governmental and non-governmental organizations, having a good public image.

5.4 Recommendations

From the findings discussed above the study recommends that firms should embrace voluntary financial disclosure as it posits them to many privileges/advantages. These advantages may include; easy access to external financing, securing a good name with governmental and non-governmental organizations, having a good public image.

In addition, the study recommends that firms should ensure a balance of their debt to equity as increased debt is seen to cause a reduction on the stock returns.

To the government, the study recommends the tax levies should be reviewed in a bid to improve the performance of the firms. As a result the stock returns of these firms would increase.

Corporate governance, corporate social responsibility, environmental accounting and human resource accounting should not be practiced just for regulatory purpose alone. The opportunity they provide for growth and survival in the market ought to be the driving force. Moreover, these disclosures have practical outcomes with respect to company performance.

Disclosure alone in the annual reports shall not be enough. Such disclosure must be emphasised as they facilitate and stimulate performance of companies, limit abuse of power and monitors managers opportunistic behaviour.

5.5 Limitation of the Study

The study was limited to selected aspects of corporate governance, corporate social responsibility, environment accounting, human resource accounting, financial services sector, divided pay out and firm size. Given that stock returns of the NSE- 20 share index firms could be attributable to other factors that were not covered in this study, then the findings of the study would not necessarily be generalizable to the entire population of listed firms in Kenya.

Secondly the study was constrained by the inability to find data from some of the 20 share index companies listed at the NSE and in other cases where data was available they were not complete and as a result this might have introduced some element of biasness in the study finding and thus the representatives of the findings may not represent an accurate picture of the relationship between voluntary financial disclosure and stock returns of the 20 share index firms listed at the NSE.

5.6 Suggestions for Further Research

The study recommends that further research focusing on the specific industries of firms listed at the NSE could perhaps reveal more focused results as different industries may respond differently to certain information releases. An analysis of the effect of voluntary information release on stock returns as soon as it is released can help depict the short-term effect of such information disclosures on stock return.

The study also recommends that further research on other factors that affect the level of stock returns. Future research may be done on other industries not within the Nairobi stock exchange.

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APPENDICES

Appendix I: List of NSE 20-Share Index Companies

1.ReaVipingo Plantations Ltd

2.Sasini Ltd

3.Express Ltd

4.Kenya Airways Ltd

5.Nation Media Group

6.Barclays Bank Ltd

7.Kenya Commercial Bank Ltd

8.Standard Chartered Bank Ltd

9.British American Tobacco Kenya Ltd

10.East African Breweries Ltd

11. Mumias Sugar Co. Ltd

12.Bamburi Cement Ltd

13.Ken Gen Ltd

14. Kenya Power &Lightning Co. Ltd

15.Uchumi supermarket

16. Safaricom Ltd

17.Equity bank

18.Co-operative Bank

19.KenolKobil

20.Athi River mining

Source: NSE, 2013

Appendix II: Voluntary Disclosure Index (X_n), and Stock Returns(Y)

Company Name	Year	X1	X2	X3	X4	X5	X6	X7	Stock Returns
Rea Vipingo Plantations Ltd	2009	913	287	70	179	0	0.2000	13.989	.
	2010	539	267	227	227	0	0.7100	14.055	0.380
	2011	511	274	153	272	0	0.1400	14.438	-0.214
	2012	469	274	128	245	0	0.1700	14.566	0.132
	2013	745	274	126	247	0	.	13.990	0.393
Sasini Ltd	2009	800	58	76	5	0	0.1700	15.842	.
	2010	1213	78	58	0	0	0.1100	15.960	0.545
	2011	969	76	180	0	0	0.4100	15.999	-0.104
	2012	1630	451	186	0	0	2.5000	15.936	-0.100
	2013	1322	205	335	0	0	0.4630	15.550	0.177
Express Ltd	2009	0	0	0	0	0	.	13.595	.
	2010	0	0	0	0	0	.	13.569	-0.032
	2011	520	0	0	0	0	.	12.786	-1.000
	2012	1263	0	0	0	0	.	12.719	-0.114
	2013	0	0	0	0	0	.	13.085	0.103
Kenya Airways Ltd	2009	716	362	117	293	0	0.1100	17.809	.
	2010	1162	579	60	935	0	0.2300	17.780	0.671
	2011	1113	1156	558	1415	0	0.2000	17.850	-0.860
	2012	1236	918	0	1353	0	0.2300	17.798	-1.312
	2013	1613	918	0	1602	0	.	17.657	-0.274
Nation Media Group	2009	515	1562	0	865	0	0.7000	15.385	.
	2010	453	1410	0	815	0	0.8000	15.506	0.293
	2011	509	911	0	634	0	1.0400	15.654	-0.193
	2012	518	583	0	535	0	0.6300	15.825	0.369
	2013	514	876	0	490	0	0.7463	15.324	0.293
Barclays Bank Ltd	2009	784	584	0	0	1	0.6000	12.013	.
	2010	2206	675	510	0	1	0.7000	12.049	0.280
	2011	4319	1075	220	966	1	1.0000	12.020	-3.789
	2012	5644	1539	0	0	1	0.6000	12.127	0.171
	2013	1198	1310	857	276	1	0.5000	12.053	0.105
Kenya Commercial Bank Ltd	2009	1128	998	342	352	1	0.5400	16.785	.
	2010	1097	775	685	458	1	0.4500	19.342	0.057
	2011	1324	889	385	401	1	0.5000	19.617	-0.291
	2012	1441	1008	412	288	1	0.4600	19.722	0.434
	2013	1416	1357	286	386	1	0.4149	19.305	0.370
Standard Chartered Bank Ltd	2009	1425	857	564	283	1	0.7300	18.634	.
	2010	1322	791	312	324	1	0.7300	18.777	0.376
	2011	1012	614	458	309	1	0.5700	18.916	-0.613
	2012	1456	1022	256	348	1	0.4700	19.090	0.319
	2013	3278	1679	715	402	1	0.4929	18.868	0.227

British American Tobacco Kenya Ltd	2009	0	0	0	0	0	1.0000	15.643	.
	2010	0	0	0	0	0	0.9900	15.764	0.341
	2011	754	0	0	0	0	0.9800	15.945	-0.098
	2012	0	0	0	0	0	0.9900	16.026	0.501
	2013	0	0	0	0	0	0.9936	15.625	0.178
East Africa Breweries Ltd	2009	429	541	615	592	0	0.9200	17.039	.
	2010	604	482	247	356	0	0.9600	17.094	0.166
	2011	462	475	301	338	0	0.9400	17.342	0.062
	2012	586	368	256	312	0	0.6500	17.284	0.150
	2013	729	627	155	329	0	0.8777	16.969	0.217
Mumias Sugar Co. Ltd	2009	1056	115	199	401	0	0.3800	16.434	.
	2010	1093	323	0	375	0	0.3800	16.512	0.533
	2011	1615	486	129	226	0	0.3900	16.810	-0.797
	2012	1456	599	0	0	0	0.3800	16.892	-0.172
	2013	784	603	83	390	0	.	16.325	-0.452
Bamburi Cement Ltd	2009	1648	2282	0	0	0	0.6000	17.285	.
	2010	1523	4217	0	0	0	0.6100	17.321	0.166
	2011	1554	2212	0	0	0	0.6900	17.327	-0.496
	2012	1456	2468	0	0	0	0.8600	17.578	0.324
	2013	1789	3268	0	0	0	1.1518	17.010	0.119
Kengen Ltd	2009	1368	564	0	0	0	0.5300	18.448	.
	2010	1236	721	0	0	0	0.3300	18.783	0.149
	2011	1423	825	0	0	0	0.5200	18.824	-0.262
	2012	1138	918	699	371	0	0.4600	18.814	-0.576
	2013	2719	613	0	433	0	0.2510	18.551	0.432
Kenya Power& Lighting Co. Ltd	2009	2664	1394	420	0	0	0.1963	18.073	.
	2010	2456	1247	329	0	0	2.6667	18.258	0.270
	2011	2245	1458	454	0	0	0.2083	18.613	-8.302
	2012	2789	1132	359	0	0	0.2119	18.714	-0.424
	2013	3562	1025	298	0	0	.	18.360	-0.041
Uchumi Supermarket	2009	0	0	0	0	0	0.1300	15.609	.
	2010	0	0	0	0	0	.	14.436	.
	2011	0	0	0	0	0	.	14.717	-0.272
	2012	0	0	0	0	0	0.2913	14.823	0.283
	2013	887	316	0	0	0	0.2222	.	0.201
Safaricom Ltd	2009	0	638	0	0	0	0.3800	17.839	.
	2010	1706	1503	0	0	0	0.5200	18.068	0.459
	2011	1952	1425	0	0	0	0.6100	18.194	-0.461
	2012	226	1336	0	1041	0	0.7000	18.250	-0.188
	2013	2493	1810	0	1394	0	0.7045	.	0.467
Equity Bank Ltd	2009	1963	1246	123	0	1	0.3500	18.429	.
	2010	1895	1158	268	0	1	0.4200	18.778	0.464
	2011	2896	1548	196	0	1	0.2900	19.095	-0.631
	2012	2475	1236	423	0	1	0.3800	19.309	0.148
	2013	2205	1369	114	0	1	0.4178	18.956	0.374

Co-operative Bank Ltd	2009	2040	1232	145	325	1	0.2400	18.522	.
	2010	1920	1583	158	395	1	0.3100	18.855	0.529
	2011	2450	1124	135	654	1	0.2600	18.941	-0.551
	2012	1850	965	189	425	1	0.2700	19.117	0.028
	2013	1956	1208	198	624	1	0.2273	18.881	0.290
KenolKobil	2009	2145	1142	235	0	0	0.3700	16.132	.
	2010	2014	965	459	0	0	0.4000	16.257	-4.000
	2011	2456	1247	329	0	0	0.4500	16.394	-0.005
	2012	2245	1458	454	0	0	.	15.809	0.266
	2013	2789	1132	359	0	0	0.2632	15.828	-0.342
Athi River Mining	2009	696	0	0	0	0	0.2300	16.312	.
	2010	985	245	0	0	0	0.1600	16.623	0.393
	2011	1258	678	0	0	0	0.1700	16.837	-0.158
	2012	1600	576	0	0	0	0.1900	17.110	-2.551
	2013	1648	589	0	0	0	0.2190	16.817	0.506

Appendix III: Voluntary Disclosure Score Card

Voluntary Disclosure	Number of Words Disclosure item is disclosed
Voluntary corporate governance disclosures	134,181
Voluntary disclosure of corporate social responsibility	83,384
Voluntary disclosure of environment accounting	16,605
Voluntary disclosure of human resource accounting	23,866