DETERMINANTS OF VOLUNTARY DISCLOSURE IN THE ANNUAL REPORTS OF COMPANIES LISTED AT THE NAIROBI SECURITES EXCHANGE

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THEAWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI

OCTOBER, 2014

DECLARATION

This research project is my original work and has not been presented for award of any degree in any University for examination purposes.

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

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ACKNOWLEDGEMENTS

It is my pleasure to thank the many people who made this project possible. It is difficult to overstate my gratitude to my supervisor Dr. Adunda throughout my project writing period he shared with me a lot of his expertise and research insight. He quickly became for me the role model of a successful researcher in the field. He provided advice, good teaching and brilliant ideas.

I am indebted to my many student colleagues for providing a stimulating and fun environment in which to learn and grow. I also wish to thank my family for providing a loving environment for me and all my friends, who have joined me in the discovery of what life is about, and how to make the best of it.

Lastly, and most importantly, I wish to thank my parents. To them I dedicate this proposal.

DEDICATION

I dedicate this work to the Almighty God and to my family; my dearest mum Phoebe Akinyi and guardian Isaiah Ogwe, for their encouragement and support throughout my studies.

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ABBREVIATIONS

ANOVA: Analysis of Variance

CMA: Capital Market Authority

CPA: Certified Public Accountant

CSR: Corporate Social Responsibility

FASB: Financial Accounting Standard Board

IFRS: International Financial Reporting Standard

IND: Independent Non-executive Director

MNC: Multinational Corporation

NSE: Nairobi Securities Exchange

OLS: Ordinary Least Square

ROA: Return on Asset

SPSS: Statistical Package for Social Science

VIF- Variance Inflation Factor

ABSTRACT

Financial reporting and disclosures by management are the primary methods of keeping investors informed about corporate performance. To date, there is very little supporting empirical evidence about the impact of firm specific-attributes such as size, age, profitability, leverage, ownership structure on the extent of annual voluntary disclosure. However, the empirical evidence from previous studies was conflicting and not conclusive. The objective of the study was to determine whether the extent of voluntary information disclosure is associated with the Nairobi Securities Exchange listed firm-specific characteristics. The study was based on descriptive statistic design. The target population for this research comprised of the 62 companies listed at the Nairobi Securities Exchange as at December 31, 2012. This study comprises of a sample of 31 listed firms. The data was collected through developing a voluntary disclosure index consisting of 47 disclosure items and the scores were used to measure the voluntary information disclosed. Data was mainly collected from the publicly available information as the published annual reports of a sample of 31 from 62 listed firms at the NSE. The data collected was for a period of one year, the year 2012. The collected secondary data was analyzed using Statistical Package for Social Science (SPSS) version 20. The multivariate OLS model with robust standard errors was used in this study to test the simultaneous effect of six firm attributes on the extent of overall voluntary disclosure, and to determine which of the six independent variables was significant in explaining the variations in the voluntary disclosure levels among NSE listed firms. The study revealed that diffuse share ownership was significant for voluntary disclosures and that existed a positive association between diffuse ownership and the extent of voluntary disclosure. The study concluded that the presence of an external auditor type, firm's level of leverage measured by debt to asset ratio and age of the firm were also key variables that influence the voluntary release of annual reports' information. The study concluded that there existed a positive significant relationship between firms profitability measured by ROE and voluntary disclosure of financial information. The study concluded that companies' size measured by natural logarithm of the total assets was statistically related to the level of voluntary disclosure by the sample of companies in their annual reports. The findings of this study will help Kenyan regulators to fine-tune the country's regulatory policies to better suit the needs of the financial market. The study recommends that companies should focus on higher ranking auditors to audit company annual reports. The auditor type is employed as a signal to the market.

CHAPTER ONE

INTODUCTION

1.1 Background to the study

Financial reporting and disclosures by management are the primary methods of keeping investors informed about corporate performance. Corporate disclosures of financial information are a means of communicating a firm's financial performance to outside investors and capital markets (Abraham and Tonks, 2006). Transparency and disclosure represent one of the pillars of corporate governance. Several scandals have occurred worldwide due to lack or improper corporate disclosures. Different stakeholders use corporate disclosure in their decision-making process (Shehata, 2013).

Much of the literature on voluntary disclosure in accounting considers the economic based models of disclosure by seeking to link financial reporting to economic consequences (Verrecchia, 2001). Investors - shareholders and debt-holders - are basically savers who want to invest their money in a 'good' business. However, linking savings to business investment opportunities is a complex process due to information asymmetry, where entrepreneurs have more and better information about businesses than savers. This leads to the agency problem: when savers invest in a business, they delegate their decision-making authority to entrepreneurs; in other words, savers are not actively involved in a business's management (Healy and Palepu, 2001).

Corporate reporting regulations aim at providing investors with the minimum amount of information that can facilitate effective investment decisions making. Information

is communicated to investors whether directly, via financial reports and press releases, or indirectly, via information intermediaries such as financial analysts or financial intermediaries such as banks (Healy and Palepu, 2001).

It has been argued that managers should voluntarily disclose information that would satisfy the needs of various stakeholders (Meek et al., 1995). Voluntary disclosure is aimed at providing a clear view to stakeholders about the business's long-term sustainability and reducing information asymmetry and agency conflicts between managers and investors. However, Core (2001) argued that voluntary disclosure will still remain a matter of biased information selected by managers.

1.1.1 Voluntary Disclosure in Annual Reports

Voluntary disclosure is defined by Meek et al. (1995) as "free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports." Moreover, voluntary disclosure may include disclosure "recommended by an authoritative code or body" (Hassan et al., 2011).

Owusu-Ansah (2005) and Wallace et al. (1994) consider disclosure as a communication of economic information, whether financial or non-financial, quantitative or otherwise concerning a company's financial position and performance. Disclosure results in a combination of mandatory and voluntary items that constantly interact with each other. Mandatory disclosure is a company's obligation to disclose a minimum amount of information in corporate reports (Wallace et al., 1994; Owusu-Ansah, 2005), whereas voluntary disclosure is a provision of additional information when mandatory disclosure is unable to provide a true picture about company's value and managers' performance.

Meek et al., (1995), classify voluntary disclosures as strategic, non-financial and financial information. They classified the disclosures depending on what they were intended for and the contents of such disclosed information. Since the management know more about the company than the shareholders, customers, suppliers, creditors, and government regulators including capital market authorities (Feng & Li, 2007), the management finds it useful to inform the outsiders what they know about the company.

Financial Accounting Standards Board (FASB) classifies voluntary disclosures into 5 categories as: (i) Business data, (ii)Analysis of business data e.g. Trend analysis and comparisons with competitors, (iii)Forward-looking information e.g. Sales forecast breakdown and plans for expansion, (iv)Information about management and shareholders e.g. Information on stockholders and Shareholding breakdown and (v)Company background e.g. Product description and long-term objectives.(FASB Annual Reports, 2013)

In business activities, investors require timely and correct information to reach effective investment decisions. This kind of information can be collected through many ways, and one of the most important resources is the corporations' annual reports. The most important role of annual reports is to provide relevant, useful and reliable financial information to investors, shareholders and other interested people about the financial position and performance of the business as well as its future prospects to help users in decision-making, (Yuen et al., 2009).

The information that has been supplied by annual reports towards their stakeholders includes two types: compulsory and voluntary information and compulsory disclosure is of more importance. Mandatory disclosure is a basic market demand for

information that is required by various laws and regulatory bodies and has been ruled at national or regional level through professional organizations or government authorities. On the opposite, corporate voluntary disclosure, being in excess of requirements, represents frees choices on the part of managers to provide information to users of the annual reports (Yuen et al., 2009). This voluntary information is disclosed to satisfy the users' needs that seem to be inadequately supplied by the mandatory disclosure.

Generally, disclosure is done in company annual reports either through the statements or notes accompanying the statements. Although other means of releasing information, such as interim reporting, letters to shareholders and employee reports, are used by the companies, the annual report is considered to be the major source of information to various user-groups. Nevertheless, all parts of the annual reports are not equally important to all users. Income statement is believed to be the most preferred sections to investors while cash flow statement and statement of financial position are most useful sections to bankers and creditors (Ho & Wong, 2001). Likewise, users of accounting information weight audit reports, directors' reports, accounting policies and historical summary differently. The annual report should contain information that will allow its users to make correct decisions and efficient use of limited resources. Companies provide information on the ground that such disclosure will not respond to the negative impact on the company image.

1.1.2 Factors that influence Voluntary Disclosure in Annual Reports

From the previous studies, the following factors that may influence voluntary disclosure practices of Kenyan listed companies are considered. These factors include

ownership structure, size of the firm, firm’s level of leverage, size of audit firm, firm’s profitability and age of the firm.

1.1.2.1. Ownership Structure

Agency theory suggests that in a modern corporation, due to the separation of ownership and control, there is a likelihood of agency conflicts (Jensen and Meckling, 1976), with the potential for conflict to be greater where shares are widely held than when it is in the hands of a few. Thus, discretionary disclosure provides managers with an avenue to demonstrate that they act in the best interests of the owners. Managers may therefore, voluntarily disclose information as a means to reduce agency conflicts with the owners.

Diffuse ownership is beneficial in terms of an optimal allocation of risk bearing, but as a consequence, the firm's shareholders are generally too diversified to take much direct interest in a particular firm. Hence, there is an increased need for monitoring in firms whose ownership is diffused Raffournier (1995). Singhvi and Desai (1971) state that there may be a positive association between the number of stockholders and the quality of disclosure in annual reports, that agency relations may play a major role in the disclosure policy of companies because annual reports can be used to reduce monitoring costs. Hence, they believe that managers of firms with diffuse ownership are motivated to disclose more information to help shareholders monitor their behaviour.

1.1.2.2 Size of the Firm

As argued by Lang and Lundholm (2003), a relationship between disclosure and firm size is expected if the disclosure cost (transaction cost and legal costs) is decreasing in

firm size. An alternative reason is that disclosure increases with firm size because the incentives for private information acquisition are greater for larger firms (the transaction cost) where the profit to trading on private information is higher.

Chau and Gray (2002) argued that larger firms disclose more voluntary data than smaller ones. This finding is based on the assertion that the proportion of outside capital tends to be higher for larger firms. So, the potential benefits from shareholder-manager contracting, including financial disclosure, increase with firm size. Larger firms enjoy more resources and expertise than smaller ones. However, there is no reason for smaller firms to disclose additional information when they assume that the costs incurred will not be recovered.

1.1.2.3 Firm's level of leverage

Jensen and Meckling (1976) suggested that agency costs are higher for firms with more debt in their capital structure. So, it will be useful for such firms to disclose more voluntary accounting data in order to reduce information asymmetry and monitoring costs.

Ho and Wong (2001) stipulated that when the firm is closed to debt covenants, it discloses more optimistic information in order to signal future positive perspectives for both investors and debtors. So, the level of disclosure is positively related to the leverage ratio. They argued that companies with higher levels of debt financing will be subject to more scrutiny than firms that mainly depend on equity financing. Consequently, it is predicted that higher leveraged firms tend to disclose more information in order to lower different costs of debt.

1.1.2.4 Size of audit firm

Although firms' management is fully responsible for the content of disclosure, agency theory predicts that audit firms can influence the level and quality of corporate disclosure. Audit firms are an external corporate governance mechanism important in monitoring managers by examining firm financial performance and disclosure. It can be argued that audit firms can limit agents' opportunistic behaviour, which may help reduce agency conflicts (Haniffa and Cooke, 2002). Therefore, it can be argued that the quality of external auditing can improve the level of corporate disclosure. It is found that large audit firms (big-four) have better auditing performance standards than small audit firms (Depoers, 2000). Therefore, large audit firms are more likely to have highly experienced, trained and qualified auditors. Arguably, large audit firms are expected to be more independent (Haniffa and Cooke, 2002). Also, big-four audit firms may require a high level of disclosure to protect themselves against shareholders who might damage their reputations (Depoers, 2000).

1.1.2.5 Firm's profitability

Based on the signalling theory, Raffournier (1995) argued that firms expecting future positive financial perspectives have stronger incentives to disclose more discretionary information than firms expecting poor financial perspectives. Specifically, managers disclose future positive discretionary accrual levels along with changes in the dividend policy. The disclosure of such information reduces information asymmetry between managers and outsiders along with agency costs.

Meek et al. (1995) argued that higher profitability motivates managers to provide greater information because it increases the investors' confidence, which in turn, increases management compensation. Thus, both accounting and capital market performances are positively associated with higher levels of voluntary disclosure.

Similarly, a positive association between firm profitability and the level of voluntary disclosure is expected.

1.1.2.6 Age of the firm

The age of business entity is a critical factor in determining the level of information disclosure in its annual reports. An older company is likely to be more expert in collecting, processing and releasing information. Accordingly, it may seem that long-standing firms having more experience in ways of providing more extensive disclosure about their financial results and current position to satisfy users' needs than young firms. Moreover, older firms are more likely to include more financial and non-financial information above legal requirements in their annual reports than younger banks, Owusu-Ansah (2005). The age of a firm therefore like any other corporation or business entity, may influence the level of information disclosure.

1.1.3 Relationship between Factors and Voluntary Disclosure in Annual Reports

Barako (2007) found 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 profitability of a firm.

A consistent finding in the prior studies is that size is an important predictor of corporate reporting behaviour. With the exception of size, findings concerning relationship between company characteristics and corporate disclosure practices are mixed. Inchautsi (1997) found a significant positive relationship between type of audit firm and disclosure practices, whereas, Depoers (2000) found no significant association. Similarly, Hassan et al. (2011) and Wallace and Naser (1995) observed a positive relationship between leverage and the level of disclosure. Bradbury (1992) found no significant relationship between leverage and the extent of voluntary disclosure. Haniffa and Cooke (2002) documented strong support for the hypothesis that foreign ownership is positively associated with the level of voluntary disclosure. Singhvi and Desai (1971) reported a similar finding that foreign ownership influences companies' corporate reporting practices.

1.1.4 Firms listed at Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE), formally Nairobi Stock Exchange was constituted in 1954 as a voluntary association of stock brokers 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, 2003).

Therefore, 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, 2003).

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. 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, Barako (2007).

The firms listed at the NSE are divided into 10 sections according to the nature of the business: Agricultural sector, Telecommunication and technology, Commercial and Services, Automobiles and Accessories, Manufacturing and Allied, Construction and Allied, Energy and Petroleum, Banking, Insurance and Investment sectors. By the end of the year 2013, there were 62 listed companies at the NSE (see Appendix 1)

1.2 Statement of the Problem

To date, there is very little supporting empirical evidence about the impact of firm specific-attributes such as size, age, profitability, leverage, ownership structure on the extent of annual voluntary disclosure. However, the empirical evidence from previous studies was conflicting and not conclusive. Some of the firm-specific attributes examined in the prior studies were found to be significantly associated with the extent of voluntary disclosure in one study, while in other studies these were found not to have a significant impact on the voluntary disclosure level.

In recent years, there has been an increasing research focus on companies' voluntary disclosure practices (Chau and Gray, 2002; Meek et al., 1995). However, most of the research attention is on the industrialised Western countries. In contrast, a limited number of research studies examined disclosure practices of companies in developing economies. Asava (2013) investigated whether there is a relationship between voluntary disclosures and stock returns of companies listed at the Nairobi Securities Exchange. The study established the effect of voluntary disclosures such as; business data, analysis of business data, forward-looking information and information about management and shareholders, individually and jointly on stock returns. The findings revealed that there is no relationship between voluntary disclosures and stock returns.

Mukti (2013) investigated the effects of voluntary disclosure and company size on the financial performance of commercial banks in Kenya. The study found that a strong relationship exist between the voluntary disclosure, firm size and financial performance. Oyenje (2012) investigated whether there is a relationship between corporate social responsibility (CSR) practices and financial performance of firms in the manufacturing, construction and allied sectors of the NSE. The findings revealed a

positive relationship existed between CSR, manufacturing intensity and return on assets. Further, there was a significant positive relationship between CSR practices and financial performance.

Most prior local studies have focused on how voluntary disclosure affects financial performance of firms in manufacturing sector (Oyenje, 2012) and voluntary disclosure practices and its effects on stock returns, (Asava , 2013) and less have focused on voluntary disclosure and firm characteristics. Mukti, (2013) investigated on voluntary disclosure and commercial banks' characteristics. The influential factors that are expected to determine the amount of information disclosure in the annual reports of listed firms have not been adequately addressed in the academic disclosure literature in Kenya. Accordingly, it is believed that the outcome of this research will help fill this gap in the academic disclosure literature. The study considered the voluntary disclosure practices by NSE listed firms and their associations with firm's characteristics, a dimension that has not been explored in studies to date.

This study attempts to provide answers to the following research questions: (i) To what extent have companies listed in NSE voluntarily disclosed information in their annual reports? and (ii) Was there any association between the extent of voluntary information disclosure by NSE listed companies and each of the company characteristics (size of firm, firm ownership structure, leverage, size of audit firm, profitability and age of the firm)?

1.3 Objective of the study

The aim of this research was to determine whether the extent of voluntary information disclosure is associated with the Nairobi Securities Exchange listed firm-specific characteristics.

1.4 Value of the study

The study would help listed and unlisted companies in Kenya in understanding of the role of voluntary disclosure in the proper management of their corporations to enhance performance. And hence the findings from this study can make a prevailing contribution to improve transparency in the listed/unlisted companies' annual reports in developing countries in particular, especially those with limited information or lack of financial transparency.

The empirical findings of this updated study would provide significant information for listed company management, government agencies, financial analysts, researchers, and potential local and foreign investors, to help them to assess the transparency level and the amount of information available from NSE listed companies for their decision-making processes. For instance company executives can make an informed decision in engaging on voluntary disclosures, and the stock traders, the research can help them determine how to act after voluntary disclosures, so as to earn better returns for their investments.

This study also could contribute to the body of literatures on determinants of voluntary accounting disclosures and related fields. As such, future researchers can draw literatures from the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the existing literature on voluntary disclosure. Specifically, the chapter attempts to achieve the following two major objectives. First, it investigates the key theories associated with corporate disclosure. Second, the chapter discusses the empirical literature on corporate disclosure studies that have been undertaken in both developed and developing countries to measure the general level of voluntary disclosure in corporate annual reports. In addition, it sheds light on the factors influencing voluntary corporate disclosure.

2.2 Review of Theories

2.2.1 Agency Theory

Agency theory, as an economic theory, was developed by Jensen and Meckling in 1976. In particular, this theory has been widely used by accounting researchers to explain and understand voluntary disclosure phenomena in many countries with different social, political and economic background (e.g. Cooke, 1989b; Meek et al., 1995; and; Depoers, 2000).

Current mainstream accounting research is based extensively on economic models of agency that represent the operating company manager as “agent” and the individual investor as “principal”. From a theoretical perspective, agency theory is mainly concerned with the principal-agent relationship between the principals (for example, owners) and agents (for example, the corporate managers). An agency relationship is defined 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" (Jensen and Meekling, 1976).

The agency theory attempted to explain how shareholders, as principals, and companies' managers as agents, arrange the relationship to protect their own interests. It also tries to predict the conflicts of the parties within the companies (i.e. conflicts of interest between companies' managers and shareholders), because their goals are not in perfect agreement (Depoers, 2000). The principal can limit or reduce any potential conflict with the agent by founding appropriate incentives for the agent and by incurring monitoring costs designed to limit opportunistic action by the agent (Jensen and Meckling, 1976).

Agency theory is concerned with solving two problems arising in the agency relationships: firstly an agency problem arises when the desires of the principal and agent conflict and it is difficult or costly for the principal to confirm how the agent is actually behaving, the problem here is that the principal cannot prove that the agent has acted improperly, and secondly a problem of risk sharing, which arises when the agent and the principal have diverse attitudes toward risk, the problem here is that the principal and the agent may tend to select opposing actions when the risk happens (Depoers, 2000).

According to agency theory, disclosing additional information by companies' managers on a voluntarily basis tends to reduce the agency costs resulting from conflicts between companies' managers and shareholders. It also considers corporate annual reports disclosure as a mechanism to decrease information asymmetry between the company insiders (as agents) and outsiders' investors (as principals), (Hawashe, 2014)

2.2.2 Signalling Theory

Signalling theory was originally developed and used to explain information asymmetry in labour markets. This theory has also been widely used by accounting researchers as a further theory to explain why companies voluntarily disclose additional information in their annual reports (e.g. Raffournier, 1995). According to Morris (1987) signalling is a common phenomenon relevant in the market with information asymmetry; hence the signalling theory shows how this asymmetry can be reduced by the party with additional information signalling it to others**.** Moreover, signalling theory provides a unique, practical, and empirically testable perspective on problems of social selection under conditions of imperfect information.

A signal can be a visible action or structure utilised to indicate the sign of quality, typically the sending of a signal is grounded on the premise that it should be positive to the signaller. In most signalling models, the subsequent steps are likely to occur: essentially, sellers in the market are assumed to own more information about their products than buyers. In this situation, the buyers have no information about particular products but they have some general perceptions. Then the buyers will individually value the sellers' products at the same price which is a weighted average of their overall perceptions, (Morris, 1987)

Under such a scenario, sellers of high average quality products incur an opportunity loss because their products could sell at a higher price if the buyers have been informed about the quality of products, whereas sellers of below average products make a chance gain. Alternatively, sellers of high quality products may have an incentive to withdraw their products from the market. On the other hand, sellers of superior products may have an incentive to disclose their information (or signal) to

the market to distinguish their products from that sold by other sellers who have lower value products. Sellers know better than buyers about the quality of products they are selling in the market (asymmetric information) and buyers cannot easily assess product quality (imperfect information), (Raffournier, 1995).

There are ways by which the high quality sellers' products can distinguish themselves. One is to disclose information indicating quality then the buyer can verify certain of this information, and such self-verification will give credibility to the rest. Buyers sensibly interpret nondisclosure information (non-signalling) regarding the seller's products being sold as "bad news". Therefore, the buyers will discount the price of the product up to a point at which it is in the seller's interest to reveal the information. The information asymmetry between sellers and the prospective buyers can be overcome by the sellers with more detailed information signalling it to buyers (Morris, 1987).

Based on the signalling theory viewpoint, companies' managers are interested in disclosing 'good news' to the market participants in order to avoid the undervaluation of their shares. Additionally, managers of companies who are more interested to disclose additional information voluntarily bear in mind that this guarantees a good signal about their companies' performance and weakens information asymmetry (Khlifi and Bouri, 2010).

Signalling theory suggests that voluntary information disclosure in corporate annual reports can be used as a signal in order to improve the corporate image/reputation, attract new investors, lower capital costs and also help to improve its relationships with the relevant stakeholders, (Hawashe, 2014)

2.2.3 Capital Need Theory

This theory implies that companies' managers who are intending to make capital market transactions have motivations to disclose information voluntarily to decrease the information asymmetry problem and thus decrease the external financing cost, (Healy and Palepu 2001).

The capital need theory predicts that increased voluntary disclosure of information by the company's managers will enable them to lower the company's cost of capital through reducing investor uncertainty. Additional information disclosure enhances stock market liquidity thereby decreasing costs of equity capital either through reduced transactions cost or increased demand for a company's shares. Thus, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company's future performance and to assist trading in shares (Hassan et al., 2011).

According to this theory, revealing greater information in annual reports helps to attract new investors thereby helping to maintain a healthy demand for the company's shares and a share price in the market will more accurately reflect its intrinsic value. At the same time, companies with a higher level of disclosure should reasonably tend to gain higher stock prices over the long run. The argument is that enhanced corporate disclosure is expected to lead to improvements in investors' capital-allocation decisions as well as investors' assessment of the return from a firm's share, (Cooke, 1989b).

It has also been argued that greater information disclosure in corporate annual reports tends to reduce the fluctuation of a company share price, Singhvi and Desai (1971). The theory explains that greater annual report disclosure can help to reduce the

problem of information asymmetry which often exists between the company management and its shareholders; it improves stock liquidity, and lowers the cost of raising finance in the markets for disclosing company.

2.3 Other Determinants of Voluntary Disclosure in Annual Reports

2.3.1 Board Size

Board size may influence the level of voluntary disclosure. The level of disclosure is a strategic decision made of the board of directors. As a top-level management body, the board of directors formulates policies and strategies to be followed by managers. It has been argued that a greater number of directors on the board may reduce the likelihood of information asymmetry (Chen and Jaggi, 2000). Research emphasises the importance of strategic information and resources in a highly uncertain environment.

The size of the board is believed to affect the ability of the board to monitor and evaluate management and small board encourages faster information processing (Brudbury, 1992). Further, the ability of directors to control and promote value-creating activities is more likely to increase with the increase of directors on the board. With more directors, the collective experience and expertise of the board will increase, and therefore, the need for information disclosure will be higher.

2.3.2 Independent Non-executive Directors

The effectiveness of the corporate governance in reducing agency problems between management and shareholders depends significantly on the composition of the board of directors. A board is generally composed of inside and outside members. Inside members are selected from among the executive officers of a firm. They either belong

to the management group or are the family that owns the firm. Outside directors are members whose only affiliation with the firm is their directorship.

Firms can expect more voluntary disclosure with the inclusion of a larger number of independent non-executive directors on the board (Chen and Jaggi, 2000). Further, inclusion of independent non-executive directors on corporate boards improves the comprehensiveness and quality of disclosure. The presence of outside directors plays a critical role in corporate governance in the release of adequate information. A firm may have a higher level of disclosure if the board consists of more outside directors.

2.3.3 Audit Committee

The presence of an audit committee significantly influences the magnitude of corporate disclosure (Ho and Wong 2001). The composition of audit committees with insiders and outsiders is also an important factor in examining the level of disclosure. Further, the majority of the audit committee members must be nonexecutive directors. They are expected to enhance corporate transparency and disclosure. Ho and Wong (2001) regarded the audit committee as an effective monitoring tool to improve disclosure and reduce agency costs. It is expected that the size of the audit committee is associated with the level of disclosure and vice versa.

2.3.4 Listing status

Prior studies have argued that listed companies are more likely to disclose more financial and non-financial information in their annual reports than unlisted companies. Several empirical studies have shown that there is a positive relationship between listing status and disclosure levels (e.g. Singhvi and Desai, 1971; Cooke, 1989b; Wallace et al.,1994; Hossain et al., 1994; Inchausti, 1997). For instance,

Wallace et al. (1994) reported that comprehensive disclosure increases with listing status. Companies listed in the stock market disclose more detailed information than unlisted companies.

Additionally, Singhvi and Desai (1971) examined the relationship between listing status and the extent of corporate disclosure in the United States. Singhvi and Desai found that there is a significant association between the extent of information disclosure and listing status. Similarly, Cooke (1989b) tested the association between listing status and extent of corporate annual disclosure in Sweden. He found that there is a significant association between the extent of disclosure and listing status.

2.4 Review of Empirical Studies

One of the earliest studies was conducted by Singhvi and Desai (1971) titled an experimental quality analysis of financial disclosure by firms in USA. They argue that information disclosure by the firms may be in various forms and an annual report to stockholders is an important form of periodical disclosure. They found that: Disclosure quality is better in large firms compared to smaller ones. Also, disclosure quality is better in the firms with more number of stockholders. Further, disclosure quality is better in the firms audited by CPA institutes compared to the firms audited by small institutes.

In Mexico, Chow and Wong-Boren (1987) conducted an empirical study to investigate the association between the three company attributes (company size, financial leverage, and proportion of assets in place) and the extent of voluntary disclosure published by 52 listed Mexican manufacturing companies. They found a significant positive association between the voluntary disclosure level and firm size.

On the other hand, they found no significant association between financial leverage and assets in place, and the voluntary disclosure level.

In Sweden, Cooke (1989b) examined empirically the relationship between the extent of voluntary disclosure and a number of firm-specific characteristic (quotation status, company size, parent company relationship, and industry type). The study sample consisted of 90 Swedish companies. The researcher constructed an index of disclosure content of 146 items of voluntary information to measure the extent of voluntary disclosure provided by a company. Cooke (1989b) found that the amount of voluntary disclosure in annual reports associated significantly with quotation status, industry type, and company size.

In Malaysia, Hossain et al. (1994) conducted an empirical study to examine the effect of six firm-specific characteristics (firm size, ownership structure, leverage, assets-in-place, size of audit firm, and foreign listing status) on the general level of voluntary disclosure. The analysis of results showed that firm size, ownership structure and foreign investment were significantly related to the level of information voluntarily disclosed, while leverage, assets-in-place, and size of audit firm did not appear to be important factors in explaining voluntary disclosure by firms.

Meek et al. (1995) conducted an empirical study to examine the association between the extent of voluntary disclosure in the annual reports of multinational corporations (MNCs) from the U.S., U.K. and Continental Europe and some firm characteristics namely, company size, country/region of origin , industry, leverage, multinationality, profitability, and international listing status. The study sample consist of 116 U.S, 64 U.K., and 46 continental European MNCs. Using multiple linear regression, they found that company size, country/region, and international listing status were the

three most important variables explaining the voluntary disclosures of the sample of companies while the other independent variables did not appear to be significant in explaining voluntary annual reports disclosure for the samples of firms.

In Switzerland, Raffournier (1995) attempted to evaluate the level of voluntary disclosure in annual reports of 161 Swiss listed companies and also examined the relationship between the extent of voluntary disclosure and a number of firms' characteristics, namely firm size, profitability, ownership structure, leverage, the percentage of fixed assets, size of auditing firm, internationality, and industry type. The relationship between the extent of voluntary disclosure and selected firms' characteristics was tested by both univariate analysis and multiple regression. The researcher found that firm size and internationality level were associated significantly with the level of voluntary disclosure. Inversely, no significant relationship was found for percentage of fixed assets, size of auditing firms, industry type, profitability, leverage, and ownership diffusion.

Gray et al. (1995) investigated the impact of international capital market pressures on the extent of voluntary disclosure by 116 U.S. and 64 U.K. multinational companies (MNCs). Using analysis of variance (ANOVA), they concluded that US internationally listed MNCs voluntarily disclosed significantly more strategic and non-financial information than U.S. domestic listed MNCs. They also revealed that there was no difference in the overall level of voluntary disclosures between international listed status and domestic listed U.K companies.

In Spain, Inchausti (1997) studied the influence of seven variables on the level of information disclosure by Spanish listed companies. The association between the level of disclosure and the seven independent variables was examined by using

stepwise regression analysis and panel data analysis. In this study, only three independent variables, namely firm size, auditing, and stock exchange were found to influence the level of annual disclosure.

In France, Depoers' (2000) study assessed empirically the extent of voluntary information disclosure in the annual reports of 102 French listed companies and its association with company-specific characteristics. A sample of companies was randomly selected from the entire population of companies listed on the Paris Stock Exchange in 1995. The findings of this study revealed that the level of voluntary disclosure was statistically associated with firm size, foreign activity, proprietary costs, and labour pressure. Results from this study also showed that leverage, auditor size, and ownership structure were insignificant.

Haniffa and Cooke (2002) carried out a study to examine the relationship between a number of independent variables and the extent of voluntary disclosure in the annual reports of Malaysian listed companies. The results, based on the full regression model, indicated that two corporate governance variables (family members sitting on board and non-executive chairman), and group firm-specific characteristics were significantly associated with the extent of voluntary disclosure. On the other hand, cultural variables were found not significant associated with the extent of voluntary disclosure.

Chau and Gray (2002) examined the association of ownership structure with the extent of voluntary disclosures in annual reports of listed companies in Hong Kong and Singapore. A sample of 60 listed industrial companies was selected randomly from Hong Kong and 62 from Singapore. A linear multiple regression analysis was used to test the association between the extent of voluntary disclosure (dependent

variable) and the independent variable of ownership structure. The results of the test indicated that there is a positive association between wider ownership and the extent of voluntary disclosure by Hong Kong and Singapore listed companies. Chau and Gray (2002) concluded that insider and family-controlled companies have little motivation to disclose information in excess of mandatory requirements because the demand for public information disclosure was relatively weak in comparison with that of companies with wider share ownership.

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 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.

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.

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.

Mwirichia (2008) carried out a survey of corporate governance disclosures among Kenyan firms quoted at Nairobi stock exchange and found that financial sectors make more intensive corporate governance disclosure than the non-financial sector and that in general; companies have been found to be more active in making financial disclosures rather than non-financial disclosures. Local ownership, the size of the company, whether or not the company is a multinational, and size of the company were found not to have any significant impact on corporate governance disclosure.

Yuen et al. (2009) investigated the impact of ownership features, corporate governance mechanisms, and firm-specific characteristics on the voluntary disclosure practices by 200 listed companies in China. The results revealed that individual ownership, the existence of an audit committee, firm size, and leverage were significantly related to the extent of voluntary disclosure.

2.5 Summary of the Literature Review

This chapter has discussed relevant empirical studies and the common academic theories that have attempted to explain why companies voluntarily disclose information in their annual reports. The theories have been used to provide explanatory insights to voluntary disclosure phenomena. However, there is no single theory offering a satisfactory explanation of the voluntary disclosure behaviour since each of these theories has its own particular assumptions. Such a view was supported by Khlifi and Bouri (2010) who affirm that in spite of the need to develop a specific theory of disclosure, there was no a definite one that had been conceived to satisfy this requirement.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the design of the study and its procedure. The chapter also discusses the research methods applied in this study, including the data collection and the sample selection, and the research instruments and procedures followed. In addition, this chapter outlined statistical data analysis techniques adopted in the present study.

3.2 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 the listed firms was constructed. The study was based on descriptive research design. Descriptive research design is defined as procedures used to summarize and describe important characteristics of a set of measurements. Descriptive research design help in ensuring the reliability and the validity of the research carried out. Furthermore, the descriptive study design is preferred since it is suitable in its applicability within little time and cost constraints (Mugenda and Mugenda, 2003).

3.3 Population

According to Njenga and Kabiru (2009), a population is the totality of the individuals and objects from which a scientifically generalizable inference can be achieved. The target population for this research comprised of the 62 companies listed at the Nairobi Securities Exchange as at December 31, 2012. (See appendix I).

3.4 Sample

This study comprises of a sample of 31 listed firms. Studying a sample would be a better option because there is limited time and resources to collect data from the

whole population, Njenga and Kabiru (2009). The sampling method used was the stratified sampling, since the population (NSE listed firms) is divided into strata (sectors). This method is useful when a population is characterized as heterogeneous but consists of a number of homogeneous sub-populations.

3.5 Data Collection

The study was based on secondary data collection since they provided a more realistic conclusion to meet the objectives of the study. Secondary data is the data that is already available having been collected in the past by other parties other than the researcher for the purpose of the current study (Mugenda & Mugenda, 2003). It is advantageous for its availability and also, it is efficient in both monitory and time constraints.

Data was mainly collected from the publicly available information as the published annual reports of a sample of 31 from 62 listed firms at the NSE. The data collected was for a period of one year, the year 2012.

3.6 Data Analysis

The collected secondary data was analyzed using Statistical Package for Social Science (SPSS) version 20. Hossain et al. (1994) state that a multivariate analysis is considered to be more appropriate to assess the simultaneous effect of a company's characteristics on the extent of overall voluntary disclosure. This study used a regression model and had dependent and independent variables. The dependent variable was an outcome of the independent variable; hence any changes in the independent variable affected the dependent variable. Hence, the multivariate OLS model with robust standard errors was used in this study to test the simultaneous effect of six firm attributes on the extent of overall voluntary disclosure, and

determine which of the six independent variables was significant in explaining the variations in the voluntary disclosure levels among NSE listed firms. The multivariate OLS regression model was represented by the following equation:

TVDIS = β0 + β1OWNS + β3SIZE + β4LEVG + β5AUDT + β6PRFT + β7AGE + ϵ

Where:

TVDIS = the total voluntary disclosure index score (dependent variable)

OWNS = Ownership structure

SIZE = Size of firm

LVRG = Firm level of leverage

AUDT = Audit firm size

PRFT = Profitability of firm

AGE = Age of the firm

β = regression model coefficients (parameters)

β0 = constant or intercept

ε = error term

The variables used in the study consist of a dependent and six independent variables. The dependent variable is the total voluntary disclosure index score, while the independent variables are ownership structure, size of the firm, firm's level of leverage, size of audit firm, firm's profitability and age of the firm. The variables were measured as follows: a voluntary disclosure index was constructed to determine the extent of voluntary information disclosed for the firms under study. Voluntary disclosure was divided into financial disclosure and non-financial disclosure. Financial disclosure in this study was captured by the financial data which summarises all the data a company discloses in terms of financial analysis, ratios.

While non-financial disclosure was 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 and social and board disclosure includes information on the board of the company. Scores were allocated according to the level of financial information published by companies.

Ownership structure was measured as the percentage of outside share ownership in the firm. The percentage of inside share ownership (CEO and executive directors) was computed first to arrive at the outside shareholdings. Firm size was measured by the natural logarithm of total assets; firm level of leverage was measured as a ratio of total liabilities to total assets. Audit firm size was measured by coding: code 1 for Big-4 firms while code 0 for any other audit firm. Profit was measured by ROE while firm age was measured by the number of years a firm has been in business.

3.7 Data Validity and Reliability

Reliability and validity are important in quantitative research. Due to the different natures of qualitative and quantitative data, reliability and validity rely heavily on the data collection and analysis processes. Reliability refers to the possibility of reproducing the same results if the research were repeated while Validity indicates the extent to which the interpretation of the results accurately reflects the phenomena under consideration (Collis and Hussey, 2009).

CHAPTER FOUR

DATA ANALYSIS , RESULTS AND DISCUSSIONS

4.1 Introductions

This chapter presents the data analysis, presentation and interpretation of the study, the study analyzed the determinants of Voluntary Disclosure in the Annual Reports of Companies listed at the Nairobi Securities Exchange. The data was collected from 31 Companies listed at the Nairobi Securities Exchange.

4.2 Response Rtaes

Table 4.1: Companies Included in the Studies

Sector	Number of companies	Number included in	Percentage
	Listed	sample	included
Agriculture	11	6	54
Commercial and Services	16	8	44
Finance and investments	12	10	67
Industrial and allied	23	8	43
Total	62	31	

The study collected data from all the sampled 31 companies listed companies making a response rate of 100% where 6 companies selected were from agricultural sector, 7 were from commercial and services, 10 were from finance and investment and 8 were sampled from industrial and allied.

4.3 Data Validity

Validity was achieved by having objective data and pre-testing a sample of the information used where the data was mainly collected from the publicly available information as the published annual reports of a sample of 31 listed firms at the NSE. The data collected was for a period of one year, the year 2012. The accuracy of the

data was adhered to and collected from Nairobi Securities Exchange website and reports. This ensured that the collected data was the correct and required to answer the research questions for the study.

4. 4 Descriptive Analysis

Table 4. 2: Voluntary disclosure score: financial information

Disclosure score (%)	No. of companies	2012
<= 10	6	(14.0%)
11-20	12	(27.9%)
21-30	10	(23.3%)
31-40	7	(16.3%)
41-50	5	(9.3%)
51-60	2	(4.6%)
61-70	0	(0.0%)
71-80	1	(2.3%)
81-90	1	(2.3%)
>90	0	(0.0%)

Table 4. 3: number and percentages of companies whose disclosure score is within the specified range.

Disclosure score (%)	2012
<= 10	0 (0.0)
11-20	12(37.2%)
21-30	9(30.4%)
31-40	4(11.6%)
41-50	2(7.0%)
51-60	2(9.2%)
61-70	1(2.3%)
71-80	1(2.3%)
81-90	0.0
>90	0.0

The Table 4.3 shows the number and percentages of companies whose disclosure score is within the specified range. Table 4.3 presents a summary of the company's voluntary disclosure scores for year 2012 for each category of information. The level of voluntary disclosure is generally low. On

aggregate, there is a substantial increase in the level of voluntary disclosure of the information in annual reports.

Table 4. 4: Voluntary disclosure score: Forward-looking disclosure

Disclosure score (%)	2012
<= 10	11(38.5%)
11-20	6(22.3%)
21-30	12 (40.9%)
31-40	1(4.0%)
41-50	1(2.3%)
51-60	0 (0.0)
61-70	0 (0.0)
71-80	0 (0.0)
81-90	0 (0.0)
>90	0 (0.0)

The Table 4.4 shows the number and percentages of companies whose disclosure score of forward looking disclosure. From the finding in Table 4.4 , 40% of the companies disclose 21-30% information on forward looking disclosure, 38% disclose less than 10% , 22% of the companies disclose 11-20% forward disclosure while 1% of the companies disclose 31-40 % and 41-50% respectively.

Table 4. 5: Voluntary disclosure score: social and board disclosure.

Disclosure score (%)	2012
<= 10	6 (20.0%)
11-20	16 (51.0%)
21-30	5 (15.0%)
31-40	2 (10.0%)
41-50	1 (3.0%)
51-60	1 (1.03%)
61-70	0 (0.0%)
71-80	0 (0.0%)
81-90	0 (0.0%)
>90	0 (0.0%)

The Table shows the number and percentages (in parentheses) of companies whose disclosure score is within the specified range.

The Table shows the number and percentages of companies whose disclosure score of social and board disclosure. From the finding in Table 4.5 , 51% of the companies disclose 11-20% information on social and board disclosure, 20% disclose score of social and board disclosure less than 10% , 15% of the companies disclose 21-30% score of social and board disclosure while 1% of the companies disclose 41-50 % and 51-60% respectively.

Table 4. 6: Descriptive Analysis Summary

Independent variables	**Max**	**Min**	**Mean**	**Median**	**Std. Dev.**
Board size (Number)	18	4	8.2	8.0	2.6
Board composition (%)	90	11	68.0	71.5	20.5
Board Audit Committee (%)	92				
Dual Board Leadership (%)	68				
Big-Four auditor (%)	80				
Size,Total Assets(KShs).	112017	57	7440	2259	17024
Return on equity (%)	43.80	40.4	41.50	4.85	21.27
Leverage Debt-asset ratio (%)	13.88	0.91	2.14	1.27	2.14
Liquidity (times) (Number)	66.80	0.00	9.03	2.40	14.21
Shareholder concentration (%)	87.00	45.2	82.0	75.3	15.6
Ownership (Number)	87.5	0	28.3	13.5	30.2

Table 4.6 presents sample characteristics. Most (68%) companies voluntarily adopted the dual board leadership structure by 2012, and utilised the services of the big international audit firms. Most companies had a majority of non-executive directors on the board. However, whether the non-executive directors were truly independent as defined in the Corporate Governance, The board size ranged from 4 to 18 in 2012.

The company size ranged from 57 million to 112,017 million Kenya shillings. Profitability Performance of the listed companies measured as the return on equity had ranges from 43.80 and 40.4 with an average of 41.50. The study found that 82% of the shareholder concentration which ranges from 87% to 45.2. By 2012, an overwhelming 92% of the companies used audit services of international audit firms,

4.5 Correlation Analysis

Table 4. 7: Pearson product–moment correlation coefficients for the year 2012

Variables	VDISC	TAS	ROEQ	LIQ	DEB	PFRO	ISHS	NEDS
Dependent								
VDISC	1							
Predictors								
Log ASS	.43*	1						
ROEQ	-.09*	.08	1					
LIQRT	-.13*	-.11*	.11*	1				
Leverage	.23*	-.06	-.25*	.03	1			
ISHS	.26*	.061	.02	-.26*	.059	.06	1	
NEDS	-.22*	-.040	-.11*	-.20*	.12*	-.28*	.17*	1

* Correlation is significant at the 0.05 level (2-tailed); , TASS=Total Assets; REOQ=Return on Equity; LIQRT= Liquidity Ratio; Leverage = Debt/Asset Ratio; SHCO = Top 20 Ownership; O = Ownerships.

Table 4.7 presents the correlation matrix of the dependent and continuous variables, from which, it has been observed that the highest simple correlation between independent variables was 0.43 between log assets and assets-in-place. The results of Pearson product-moment correlation revealed that total assets, debt–asset ratio, shareholder concentration, proportion of foreign ownership, and institutional shareholding, had positive and significant correlation related with voluntary disclosure < 0.05, two-tailed. Liquidity and the proportion of non-executive directors are negatively related to voluntary disclosure.

4.5.1 Regression result Analysis and Hypothesis Testing

Table 4. 8: Regression Model Summary

R	R Square	Adjusted R Square	F-value	Sig Level	Durbin–Watson
0.835	0.697	0.617	8.73	0.0011	0.0021

a Predictors: (Constant), Ownership structure, Size of firm , Firm level of leverage , Profitability of firm and Age of the firm
Dependent: the total voluntary disclosure index score

From the results of the OLS regression in Table 6 show that the F-ratio is 8.73 (P =0.0011). The result statistically supports the significance of the model. An R^2 of 0.617, which is a good result, implies that independent variables explain 61.7% of the variance in disclosure index

4.5.2 Analysis of Variances (ANOVA)

Table 4. 9: Analysis of Variances in the Regression Model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	163.311	6	2.051	9.825	0.0012
Residual	620.431	25	1.825		
Total	783.742	31			

a Predictors: (Constant), Ownership structure, Size of firm , Firm level of leverage , Profitability of firm and Age of the firm
Dependent: the total voluntary disclosure index score

The study established that there existed a significant goodness of fit between variable as F=9.825, P=0.0012< 0.05. The calculated F=9.825 exceeds the F-critical of 3.8036.This implied there the level of variation between Ownership structure, Size of firm , Firm level of leverage , Profitability of firm and Age of the firm and the total voluntary disclosure index score was significant at 95% confidence level.

4.5.3 Coefficient OLS Summary

Table 4. 10: Coefficient OLS Summary

Model	Unstandardized Coefficients		Standardized	t	Sig.	VIF
			Coefficients			
	B	Std. Error	Beta			
Constant	−15.116	0.232	−10.116	−0.934	0.362	1.54
Board composition	-2.330	0.311	-1.830	2.031	0.0056	1.37
Board Leadership	0.135	0.126	0.118	0.824	0.420	1.55
structure	11.800	0.182	8.791	2.532	0.020	1.114
Shareholder concentration	-1.123	0.471	-1.024	2.132	0.001	1.654
Firm size	0.135	0.052	0.121	0.6754	0.003	1.231
Ownership	8.312	0.477	7.914	1.3431	0.001	2.412
Leverage	0.353	0.059	0.281	1.432	0.012	1.43
Auditor type	1.019	0.208	0.935	2.040	0.056	1.054
Liquidity	-0.105	0.879	0.101	2.592	0.003	1.54
Age	1.427	0.145	1.112	1.815	0.031	1.67
Profitability ROE	1.214	0.312	1.109	2.817	0.004	1.71

a Predictors: (Constant), Ownership structure, Size of firm , Firm level of leverage , Profitability of firm and Age of the firm
Dependent: the total voluntary disclosure index score

The resultant regression model

TVDIS = −15.116 + 8.312OWNS + 0.135SIZE + 0.353LEVG + 1.019AUDT + 1.214PRFT + 1.427AGE + €

Where:

TVDIS = the total voluntary disclosure index score (dependent variable)

OWNS = Ownership structure

SIZE = Size of firm

LVRG = Firm level of leverage

AUDT = Audit firm size

PRFT = Profitability of firm

AGE = Age of the firm

The From the regression analysis, the study revealed that voluntary disclosure would be at -15.116 holding all the factors that influence disclosure of information. The results indicate that the independent variables of ownership was positive and significant for voluntary disclosures with r=8.312, t=1.3431,P=0.001<0.05.

For board leadership, the results for the general and strategic, financial and social and board information were positive when a negative relationship was predicted.

The study established positive and significant relationship between firm size of external auditor as r= 1.427,P=0.031 <0.05, t= 1.815 implying that older firms or firms that had operated for a long period disclose more information in the annual reports for the need of gaining more competitive in the market. The study established that there existed a positive and significant relationship between voluntary disclosures and auditor type as r=1.019, T=2.040, P=0.056< 0.05 and VIF=1.054 as this is possibly due to the auditor’s concern with increased risks involved with this type of disclosure.

The results for the shareholder concentration variable were negative and significant. The study found that there existed a negative and significant relationship between shareholder concentration and disclosure of information as r=-1.123, t=2.132, P0.001<0.05 and VIF =1.114. The study established that there existed a positive significant relationship between profitability and voluntary disclosure of For financial disclosures, there was a positive and significant relationship with a firm’s profitability as r=1.214, t=2.817, P=0.004<0.05 and VIF=1.71. The study established that Board composition on the other hand was significantly negatively associated with the disclosure as r=-2.330, t=2.031.P=0056, VIF=1.54

The leverage were only significant on one occasion with leverage significant for financial disclosures for forward-looking disclosures as indicted by factors r=0.353, t=1.432, P=0.012<0.05. The empirical evidence derived from the regression model indicates that size by assets was statistically related to the level of voluntary disclosure by the sample of companies in their annual reports as r=0.135, t=0.6754, P=0.003<0.05, VIF=1.654. It is significant at a .05% level and positive. The positive sign on the coefficient suggests that size had a direct influence on level of disclosure in the companies in Quoted at Nairobi Stock Securities. Empirical evidence also confirms the hypothesized positive association between company size and level of voluntary disclosure.

4.7 Discussion of Research Findings

From the correlation matrix analysis, the study revealed a highest correlation between independent variables was 0.43 between log assets and assets-in-place. The results of Pearson product-moment correlation established that total assets, debt–asset ratio, shareholder concentration, ownership, and shareholding, had positive and significant correlation related with voluntary disclosure at 95% confidence level. The findings from OLS regression revealed that there existed a significant variation between the total voluntary disclosure index score companies characteristics, Ownership structure, Size of firm level of leverage , Audit firm size, Profitability of firm and age of the firm as F-ratio is 8.73 (P =0.0011).

From the regression analysis, the results indicate that the independent variables of ownership was positive and significant for voluntary disclosures with r=8.312, t=1.3431, P=0.001<0.05. The results indicated that there existed a positive association between ownership and the extent of voluntary disclosure. For board leadership, the

results for the general and strategic, financial and social and board information were positive when a negative relationship was predicted. A possible explanation for this may be that, at least for the general and strategic category, the disclosure is mainly contained in the narrative section of the chairman’s statement, and as Lennox (2001) observed in a firm with the chair and CEO positions combined such disclosures may be used to blame exogenous factors rather than managerial incompetence for poor performance.

The study established positive and significant relationship between firm size and voluntary disclosure. The study established that relationship with voluntary disclosures and the type of auditor was positive and significant as this was due to the auditor’s concern with increased risks involved with this type of disclosure. The presence of an audit significantly influences the magnitude of corporate disclosure (Ho and Wong 2001). The composition of auditor with insiders and outsiders was also an important factor in examining the level of disclosure.

The results for the shareholder concentration variable were negative and significant. The study found that there existed a negative and significant relationship between shareholder concentration and disclosure of information as $r=1.123$, $t=2.132$, $P0.001<0.05$ and $VIF =1.114$. The study established that there existed a positive significant relationship between profitability and voluntary disclosure of For financial disclosures, there was a positive and significant relationship with a firm’s profitability as $r=1.412$, $t=1.021$,$P=0.014<0.05$ and $VIF=1.132$. The study established that Board composition on the other hand was significantly negatively associated with the disclosure as $r=-2.330$, $t=2.031$.$P=0056$, $VIF=1.54$. This result is contrary to the hypothesized positive relationship but is consistent with Eng and Mak (2002) who

found a similar result with respect to Singapore listed companies

The leverage were only significant on one occasion with leverage significant for financial disclosures for forward-looking disclosures as indicated by factors r=0.353, t=1.432, P=0.012<0.05. It is not surprising that leverage had an influence on the disclosure of financial information and it is in the. This finding is similar to that of Meek et al. (1995) who examined voluntary disclosure of multinational corporations in the US, UK and continental Europe and noted that factors explaining voluntary annual report disclosures differ by information type.

The empirical evidence derived from the regression model indicates that size by assets was statistically related to the level of voluntary disclosure by the sample of companies in their annual reports as r=0.135, t=0.6754, P=0.003<0.05, VIF=1.654. It is significant at a .05% level and positive. The positive sign on the coefficient suggests that size had a direct influence on level of disclosure in the companies in Quoted at Nairobi Stock Securities. Empirical evidence also confirms the hypothesized positive association between company size and level of voluntary disclosure. From the regression analysis, age was found to positive and significant at 5% level which suggests that older companies would have direct influence on the level of voluntary disclosure. The variable of age was positive and significant at 5% level which suggests that older companies would have direct influence on the level of voluntary disclosure. The variable was significant and therefore this implies that more profitable companies disclose significantly more voluntary information. The result is thus consistent with other previous studies such as Singhvi and Desai (1971) and Hossain and Reaz (2007).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key findings, which are set out in line with the study themes or objectives. The objectives of the study were to determine determinant of voluntary disclosure of annual reports for companies listed at NSEs.

5.2 Summary of Findings

The study revealed that voluntary disclosure scores index show that the level of disclosure by companies listed at NSE for all categories of information had mixed results thus information was not consistent across all categories. For example, while there is an increase in the level of disclosure of general and strategic information over the period, there seems to be a decrease in the disclosure of financial and social and board information. The coefficients of firm size and assets-in-place are highly significant, whereas those for leverage, ROE, and ownership diffusion are only marginally significant. These findings are consistent with both existing theories and our hypotheses. The sign of auditor type, in contrast, is significantly negative, which is inconsistent with our prediction, prior empirical findings (Xiao et al., 2004 and Wang et al., 2008) and traditional signalling theory. It is possible that firms audited by the Big to attract more attention than other firms and release more information through other channels, such as the media, and therefore rely less on voluntary disclosure in annual reports. The coefficient of liquidity was negative and marginally significant in the general regression. These test results indicate that we can take liquidity and the proportion of non-executive directors on the board as insignificant variables in explaining voluntary disclosure levels.

On aggregate, the increase in the overall level of voluntary disclosure (not reported in this paper) is mainly driven by improved disclosure of the general and strategic information. This is the only cate-gory that has displayed a steady rise in the extent of disclosure.

Overall, a consistent finding of the pooled regression analyses is that all types of information disclosures are influenced by corporate governance attributes, corporate characteristics and ownership structure. Hence, irrespective of the type of information, various aspects of a company's governance, corporate and ownership characteristics collectively influence a company's voluntary corporate disclosure decision. The board leadership, the levels of foreign and institutional ownership and firm size are key variables in the disclosure decision across all four categories of information. The study revealed that presence of an audit committee, external auditor type and auditor firm size influence significantly the voluntary release of almost all types of information. The industry in which a company operates is a significant variable with firms in the industry voluntarily providing more information across.

The individual factors that influence the disclosure of a particular type of information are not the same for all categories of information. Thus, the results indicate that different factors determine voluntary disclosure of the various information categories. For instance, the identity of the external audit firm is a significant predictor of financial information disclosure, but not a significant determinant of general and strategic information. In summary, the specific factors that explain voluntary release of different information types are not the same for all categories of information.

Company size consistently appears to be a very significant predictor of disclosure of

all categories of information. This is consistent with the finding of a meta-analytical study by Ahmed and Courtis (1999) that showed that size was significantly and positively associated with corporate disclosure. Finally, results in this chapter suggest that size is not only important in predict-ting aggregate corporate disclosure, but it is a significant determinant of the disclosure decision for various categories of information.

The study revealed that company voluntary disclosure of information , namely corporate annual reports and the extent to which companies voluntarily release information through other means such as the media was significantly influence by company ownership, corporate governance, leverage, profitability of the company, age and size as well as quality audit.

5.3 Conclusions

The study concluded that the ownership structure was positive and significant for voluntary disclosures and that existed a positive association between ownership and the extent of voluntary disclosure. Apart from the board leadership structure the direction of the relationship for all variables was in the predicted direction. Overall, a consistent finding of the OLS regression analysis is that all types of information disclosures are influenced by corporate governance attributes, corporate characteristics and ownership structure. Hence, irrespective of the type of information, various aspects of a company’s ownership characteristics significantly influence a company’s voluntary disclosure decision. The board leadership, the levels of foreign and institutional ownership and firm size are key variables in the disclosure decision.

The study concluded that the presence of an audit committee, external auditor type and shareholder concentration were also key variables that influence the voluntary release of annual reports information. The study concluded that there existed a positive significant relationship between profitability and voluntary disclosure of for financial disclosures, there was a positive and significant relationship with a firm's profitability.

The study concluded that company leverage were significant on one occasion with leverage significant for voluntary disclosures in the annual reports. It is not surprising that leverage had an influence on the disclosure of financial information. Well Leveraged companies were more likely to disclose more information voluntarily to satisfy the information acquisition requirements of creditors and to lower the cost of raising capital. The study found that there existed positive relationship exists between firms' voluntary disclosure and the degree of leverage owing to high agency costs.

The study concluded that companies' size by assets was statistically related to the level of voluntary disclosure by the sample of companies in their annual reports. The positive sign on the coefficient suggests that size had a direct influence on level of disclosure in the companies in Quoted at Nairobi Stock Securities. It is more likely that large firms would have the resources and expertise necessary for the production and publication of more sophisticated financial statements and, therefore, exhibit more disclosure compliance and greater levels of disclosure.

The study concluded that company period of operation, age was found to positive and significant as this indicated that older companies would have direct influence on the level of voluntary disclosure. The extent of a company's disclosure may be influenced by its age, with age proxying for the form's stage of development and growth

The study concluded that more profitable companies disclose significantly more voluntary information. The study further argued that companies with larger profits are more vulnerable to regulatory intervention and hence they could be more interested in disclosing detailed information in their annual reports in order to justify their financial performance and to reduce political costs. Agency theory suggests that managers of larger profitable companies may wish to disclose more information to obtain personal advantages like continuance of their management position

5.4 Recommendations

The findings of this study will help Kenyan regulators to fine-tune the country's regulatory policies to better suit the needs of the financial market. The company should increase proportion of such ownership may require more regulation to guarantee transparency. The findings will also benefit investors by providing them with a better understanding of the credibility of the annual reports supplied by companies with certain characteristics. Ownership diffusion is a variable used to measure a firm's governance mechanism. The more diffuse its ownership is, the better able its owners would be to monitor managerial behaviour and thus require greater information disclosure.

The study recommends that companies should focus on higher ranking auditors to audit company annual reports. The Auditor type is employed as a signal to the market. Financial reports audited by higher ranking auditors are regarded as better in quality and more credible. However, the literature provides mixed evidence in this respect. This is because, company with strong performance and good audit quality have more

incentives to voluntarily disclose information to distinguish themselves from underperforming firms.

5.5 Limitations of the Study

Three limitations of the study are particularly worth mentioning. First, the study involved a one-year test. Although industry and ultimate controller biases were controlled for, it is possible that there were other year-specific influences, particularly with regard to the cost of equity.

Obtaining of data from the companies was a great challenge and the management in the institutions was uncooperative, however the researcher explained that the data that was to be obtained was for academic purpose only. In attaining its objective the study was limited to 31 companies which were registered with NSE whose data was also sourced.

The study is also limited to the degree of precision of the data obtained from the quoted firm's financial reports. To mitigate the challenge, the study accepted a confidence level of 95%.

The study also faces challenges of time resources limiting the study from collecting information for the study particularly where the firm's management delayed giving the financial reports. To mitigate this, the researcher made often follow up and enhance collection of sufficient data from the firms.

5.6 Suggestion for Further Research

The study focused on determining determinant of voluntary disclosure by firms quoted at Nairobi Stock Exchange. The study suggests that a further study should be carried to determine influence of corporate governance on voluntary disclosure in the annual reports of an emerging country. This would provide a broad analysis on whether there existed a positive or negative relationship between corporate governance and voluntary disclosure of annual reports information.

The study suggests that a further study should be carried to determine the relationship between leverage and on voluntary disclosure in the annual reports for company listed at NSE. This would lead to determination on whether there would be a significant association between financial leverage and assets in place, and the voluntary disclosure level. Although most of the regression models were statistically significant, their range of adjusted *R*-squares suggests that other potential determinants of voluntary disclosure may exist. There could be other factors that influence voluntary disclosures such as listing status, audit committee and independent non-executive directors.

The study suggested that a study should be carried out to determine the determinants of voluntary disclosure in the annual reports of companies not listed in Nairobi Securities Exchange for broad based analysis. Private Companies operate under different regulations and would be significant to determine the determinants of voluntary disclosure in the annual report to establish their significance.

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APPENDICES

Appendix I: List of companies on the Nairobi Securities Exchange

AGRICULTURAL	TELECOMMUNICATION & TECHNOLOGY
Eaagads Ltd	AccessKenya Group Ltd
Kapchorua Tea Co. Ltd	Safaricom Ltd
Kakuzi	AUTOMOBILES AND ACCESSORIES
Limuru Tea Co. Ltd	Car and General (K) Ltd
Rea Vipingo Plantations Ltd	CMC Holdings Ltd
Sasini Ltd	Sameer Africa Ltd
Williamson Tea Kenya Ltd	Marshalls (E.A.) Ltd
COMMERCIAL AND SERVICES	BANKING
Express Ltd	Barclays Bank Ltd
Kenya Airways Ltd	CFC Stanbic Holdings Ltd
Nation Media Group	Diamond Trust Bank Kenya Ltd
Standard Group Ltd	Housing Finance Co Ltd
TPS Eastern Africa (Serena) Ltd	Kenya Commercial Bank Ltd
Scangroup Ltd	National Bank of Kenya Ltd
Uchumi Supermarket Ltd	NIC Bank Ltd
Hutchings Biemer Ltd	Standard Chartered Bank Ltd
Longhorn Kenya Ltd	Equity Bank Ltd
INSURANCE	The Co-operative Bank of Kenya Ltd
Jubilee Holdings Ltd	MANUFACTURING AND ALLIED
Pan Africa Insurance Holdings Ltd	B.O.C Kenya Ltd
Kenya Re-Insurance Co Ltd	British American Tobacco Kenya Ltd
CFC Insurance Holdings	Carbacid Investments Ltd
British-American Investments Co.	East African Breweries Ltd
CIC Insurance Group Ltd	Mumias Sugar Co. Ltd
INVESTMENT	Unga Group Ltd
City Trust Ltd	Eveready East Africa Ltd
Olympia Capital Holdings ltd	Kenya Orchards Ltd
Centum Investment Co Ltd	A.Baumann Co. Ltd
Trans-Century Ltd	ENERGY AND PETROLEUM
CONSTRUCTION AND ALLIED	KenolKobil Ltd
Athi River Mining	Total Kenya Ltd
Bamburi Cement Ltd	KenGen Ltd
Crown Berger Ltd	Kenya Power & Lighting Co Ltd
E.A.Cables Ltd	
E.A.Portland Cement Ltd	

Source: www.nse.co.ke

Appendix II. Operational definitions of variables.

Independent variables	Operational definition	Source of information
Corporate governance		
Board composition	Ratio of non-executive directors to total number of directors on the board	Company annual reports and NSE records i.e. annual fact book
Board leadership structure	Dichotomous, 1 or 0	Company annual reports
Board size	Total number of directors	Company annual reports
Board audit committee	Dichotomous, 1 or 0	Company annual reports
Ownership Structure		
Shareholder concentration	Percentage of shares owned by top twenty shareholders to total number of shares issued	NSE company filing
Foreign ownership	Percentage of shares owned by foreigners to total number of shares issued	NSE company filing
Institutional ownership	Percentage of shares owned by institutional investors to total number of shares issued	NSE company filing
Firm characteristics		
Firm size	Total assets	Company annual reports
Leverage	Debt ratio defined as total debt to total assets	Company annual reports
External auditor Firm	Big four vs. Non-Big four i.e. 1 for Big four 0 otherwise	Company annual reports
Profitability	Return on equity defined as net profit to total shareholders' funds	Company annual reports
Liquidity	Current asset to current liabilities	Company annual reports
Control		
Industry type	Agriculture, Commercial and Services, Finance and Investments, and Industrial and Allied	NSE Handbook 2002

Appendix III: Voluntary Disclosure Index

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 and Information about regional political stability
Disclosure relating to competition in the industry
Discussion about major regional economic developments

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