DEMOGRAPHIC DIVERSITY IN TOP MANAGEMENT TEAM, CORPORATE VOLUNTARY DISCLOSURE, DISCRETIONARY ACCOUNTING CHOICES AND FINANCIAL REPORTING QUALITY IN COMMERCIAL STATE CORPORATIONS IN KENYA

BY

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DECLARATION

I hereby declare that the work contained in this Doctoral Thesis is my original work, and has not previously in part or in its entirety been presented at any other university towards the award of the degree. All materials referred to have been dully acknowledged.

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DEDICATION

To the Father, son and Holy Spirit

This thesis is dedicated first to the Holy Spirit, the untaught Teacher who teaches all.

You are my teacher, comforter, helper and my all in all.

To everyone who sacrificed in prayers, time, finances and understanding

My wonderful family (Faith, Gloria, Terry and Dip) thank you for always being there for me. My Dad and Mum (Mr. Hazor Omoro and Mrs. Priscah Omoro) for encouragements and understanding during my times of need. My Brothers (Denish, Jerimy, Felix and Califf) and my sisters (Doyle, Penrine and Lucy), you are all special persons as you played significant roles in this achievement.

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ABBREVIATIONS AND ACRONYMS

BoDs - Board of Directors

CEO - Chief Executive Officer

CFO - Chief Financial Officer

CAG - Controller and Auditor General

CGD - Centre for Governance and Development

CSCs - Commercial State Corporations

CVD - Corporate Voluntary Disclosure

DAC - Discretionary Accounting Choices

FASB - Financial Accounting Standard Board

FRQ - Financial Reporting Quality

FIFO - First In First Out

FiRE - Financial Reporting Award

GoK - Government of Kenya

GOEs - Government Owned Enterprises

IASB - International Accounting Standard Board

ICPAK - Institute of Certified Public Accountant of Kenya

IFAC - International Financial Committee

IFRSs - International Financial Reporting Standards

IPSASs - International Public Sector Accounting Standards

KENAO - Kenya National Audit Office

LIFO - Last In Last Out

NPM - New public Management

PAC - Public Accounting Committee

PEFA - Public Expenditure and Financial Accountability

PIC	-	Public Investment Committee
PFMR	-	Public Financial Management Reform Programme
PTPRS	-	The Presidential Taskforce on Parastals Reforms
ROE	-	Return on Equity
SOCEs	-	State Owned Commercial Enterprises
TMT	-	Top Management Team
UET	-	Upper Echelons Theory

ABSTRACT

There is very little known about the role of demographic diversity in TMT in terms of it's an ability to explain the level of financial reporting quality in commercial state corporations in Kenya. Most of the evidence on FRQ is obtained from listed companies or international studies. This contextual gap motivated the research work. Hence, this study sought to establish the effect of demographic diversity of top management team, corporate voluntary disclosure discretionary accounting choices and financial reporting quality in commercial state corporations in Kenya. Specifically, the study sought to establish the influence of TMT personal characteristics on financial reporting quality required to provide various users with timely, relevance and reliable information useful for making prudent, effective and efficient decisions. The study examines the effect of TMTs from the perspective of demographic diversity, corporate voluntary disclosure, discretionary accounting choices and financial reporting quality elements measured by disclosure quality, fundamental qualitative characteristics of accounting information and timeliness reporting. The study used correlational and longitudinal research design to achieve the sought objectives. The study used secondary data for a period of ten years (2004 to 2013) to build a pooled data on the eleven study variables; gender, education, tenure, functional background, age, corporate voluntary disclosure, discretionary accounting policies, earnings management, disclosure quality, timeliness quality and qualitative characteristics. The diversity of the TMT was measured using the blau index and coefficient of variation. Multiple stepwise regression analysis and correlations analysis were used as tools for testing the study hypotheses. The results reveal that age, tenure, functional background diversity in TMT and corporate voluntary disclosure are statistically significant and positively associated with fundamental qualitative characteristics of accounting information at 5% level of significant. Gender and education diversity of the TMT are statistically significant and negatively associated with fundamental qualitative characteristics at 5% level of significant. There were minimal significant effects of demographic diversity amongst TMTs on earnings quality and timeliness reporting elements of financial reporting quality but reveals insignificant relationship with disclosure quality. This indicates that demographic diversity of TMTs in commercial state corporation in Kenya influences the level of financial reporting quality, while education and gender are inversely related to FRQ.Therefore it is recommended that stakeholders in commercial state corporations should ensure that all the five demographic characteristics and corporate voluntary disclosure is improved to decrease manipulations of accounting information in order to increase the quality of reporting.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The primary objective of financial reporting is to provide high quality financial information concerning the economic activities of entities useful for economic decision making. Annual reports can never be completely free from bias, given conditions under which the accounting information is measured. This has made management and accounting scholars to persistently search for specific determinants of financial reporting quality (FRQ) in the wake of the financial scandals of early 2000 (Cheng et al., 2010; Fracois and Kyle 2011; Ge et al., 2011). Going by this postulation, companies today are increasingly under pressure to provide accurate and reliable information faster and more efficiently. This has generated more research work on most parsimonious predictors of FRQ other than corporate governance, ownership structures and company characteristics. However, not much consensus has been achieved on how top management team diversity affect quality reporting since other factors such as management integrity, accounting choices, local regulations, international standard settings and supervision mechanisms also affect FRQ of firms. Some of these factors are attributed in one way or the other to managers' specific effects.

Hambrick and Manson (1984) used upper echelons theory to explain how demographic diversity of top management teams (TMTs) influence firm's outcomes. This puts the behaviour and personal characteristics of TMTs as potential determinants of financial quality reporting, and given that managers have some discretion in which information they want disclosed and withheld also creates interest

into how these discretionary accounting choices may have influence on FRQ. The background of TMTs' specific effect and discretionary accounting choices on FRQ is not only explained by positive accounting theories which seek to predict accounting practices managers' use, but there are other management and finance theories which explain the happenings, motivations and choices in financial reporting.

The studies that indicate much of the variations in FRQ is not explained fully by firm level characteristics, measures of corporate governance and executive compensation (Bertrand and Schoar 2003; Bamber et al., 2010; Francis et al., 2008). This calls for more research on other factors, given that accounting information quality is multi-dimensional. Managers' demographic effect has been used in other studies to explain changes in discretionary accruals, earning smoothing, voluntary disclosures (Bamber et al., 2010). The effects of the changes are explained by a number of theories such as; agency theory, stakeholder theory, discretionary based disclosure theory and upper echelons theory (Hambrick and Manson, 1984; Watt and Zimmerman, 1986; Frankel and Li, 2004; Verrecchia, 2001). The theory of information asymmetry between managers and external users allow managers to use their discretion in preparing accounting information which influence the quality of financial reporting and therefore the question arises, whether discretionary accounting choices and top management team demographic diversity have influence on FRQ.

The commercial state corporations (CSCs) are distinguished from the rest of the government owned enterprises as they are formed for commercial purposes. It is therefore expected that their quality reporting should be like those of the listed companies in Kenya. This is on the pretext that financial reporting practices are perceived to have improved significantly after ICPAK's decision to implement IFRSs.

Since then, the quality of reporting in Kenyan companies has generated discussions from various stakeholders (Barako 2007). According to the World Bank Report 2001 in Kenya on observance of standards and codes (ROSC, 2001) reveals gaps between applicable standards and accounting practices in many companies. The study by Center for Governance and Development (CGD 2005) in Kenya on audited accounts of state corporations reveals in-accuracy on most accounts of state corporations. IFAC (2005) confirmed that requirements for adopting International Financial Reporting Standards (IFRSs) have been legalized in Kenya for enterprises of all types. This therefore confirms that the IFRSs are in use and applicable in commercial state corporations in Kenya to enhance quality reporting.

1.1.1 Financial Reporting Quality

Financial reporting quality is a subtle concept in accounting literature, hence, there is no consensus so far among researchers on how best to define and measure it. McDermott (2011); Biddle et al., (2009); Nasser and Nuseibeh (2003); Robinson and Munter (2004) define financial reporting quality as the precision with which financial reporting conveys information about the firm's operations or compliance of accounting standards of a particular country, or the extent to which the published financial statements and related disclosures capture the essence of the operations and financial position of the reporting entity. However, IASB (2008) defines FRQ in-terms of the fundamental and enhancing qualitative characteristics underlying decision usefulness. These definitions are consistent with Financial Accounting Standard Board (FASB) since they are all concerned with accounting information. In a broader perspective FRQ may be regarded as a rational approach of an individual user of financial statements since different user groups have dissimilar preferences, therefore perceived quality will deviate from each user group.

Financial reports play the main medium of the information discrete to outside user). FASB (2008 p.13) states that, 'the objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors, lenders and other creditors in making decisions in their capacity as capital providers. Meyer (2007 p.2)'finds that accounting plays significant role within the concept of generating and communicating wealth of companies.'

Biddle and Hillary (2006) and Lambert et al. (2007) suggest that financial reporting quality is determined from a number of perspectives namely; earning persistence, timeliness, disclosure quality, audit fee charged, compliance with international financial reporting standards and earning management These measures of FRQ only focus on attributes believed to influence quality of financial information, hence indirectly measure the level of FRQ. Going by literature on measures of financial reporting quality there is evidence that some models are not comprehensive measures of reporting quality. Vantendeloo &Vansstrealen (2005) argue that accrual models only use financial information; hence exclude non-financial information from annual reports of firms.

IASB (2010 paragraph QC4) states that, 'if financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of the financial information is enhanced if it is comparable, verifiable and understandable.' The previous studies have not provided the best measure (s) for FRQ despite a number of studies on this area, making it impossible to comprehensively assess the quality of financial statements. However, quality information means that information meets the requirements and specifications given to it, or exceeds the expectations of users (IASB 2008). Thus FRQ depends on measurement used and

objectives of financial reporting. The aforementioned studies confirm that financial statements still remain the most important source of externally feasible information on companies. Nevertheless, in the wave of recent scandals and loss of billions of shillings of investments in state corporations in Kenya, the very integrity and representation of value relevance, timeliness in reporting and disclosure quality has been called to question.

1.1.2 Demographic Diversity of Top Management Team

Harrison and Klein (2007) define diversity as seperation, variability and disperity among unit members. Thus diversity as seperation refers to differences in position or opinion among unit members reflecting values and attitudes. Diversity as a variety represent differences in kind or category, basically on information, knowledge, experience among unit members and finally diversity as disperity indicates differences in social assets of resources such as status. Jackson et al. (2003) define diversity as distributions of personal attribute among interderdependent members of work unit. The studies on diversity can be viewed in two perspectives; demographic diversity and cognitive diversity. The study adopts diversity to mean variability in demographic factors or characteristics of top management.

Demographic diversity includes variables such as gender, age, background, race, disability, religion, personality, work style among others and cognitive diversity includes variables such as education, tenure, functional and professional background (Hambrick & Mason 1984). Most research work on demographic diversity and its effects, focus on observable diversity such as age, gender and ethnicity in explaining the variability in the top management team. Building on the Upper echelons theory, Finkelstein et al (2008) and Hambrick and Manson (1984) point out that

organizational outcomes and performance are reflections of attributes of senior management. In this study FRQ is seen as an organizational out come determined by TMT characteristics. Recent studies in accounting research have relied on this theory to show how managerial effects have significant explanatory power for accounting choices and outcomes (Bamber et al 2010 ; Ge et al 2011). This study focuses on demographic diversity as the variation of TMT in age, gender, education, tenure and functional background.

The definition of TMT in most studies of upper echelons have not been consistent (Finkelstein and Hambrick 1996). Miller et al, (1998) define top management team as a group of executives who report to the Chief Executive Officer (CEO) or a dominant coalition of individuals responsible for setting firm's direction and /or incharge of interpreting relevant information in the organization. TMT can also refer to top level management and board of directors (Mariamuthu and Indraa 2009). TMTs are highly ranking executives within the organization who make decisions that affect everyone in an organization or oversee the management process and are held responsible for the success or failure of an enterprise. TMT is used in this study to refer to both top level management and board of directors involved in accounting work.

In order to investigate the effect of demographic diversity of top management team on accounting choices and FRQ, it is necessary to only consider a team of officers who are actually involved in preparation of accounting and financial statements or overseeing financial management process in their firms. This arguement is consistent with Roberto (2003) that, top management teams are comprised of a stable core and dynamic periphery that changes with the decision making situation. Carpenter, Galetkenycs and Sander (2004) further notes that the top management team size

differs considerably over many studies and most studies do not report the size of the TMT as opposed to studies on the board of directors. The definition and size of top management is an important aspect of TMT composition that clearly has an impact on empirical findings of diversity studies. Given the above arguement, this study will adopt top management team to include CEOs, CFOs, internal auditors and audit committee members from each corporation as they are the most key stakeholders involved in the preparation of financial statements and reporting decisions.

1.1.3 Corporate Voluntary Disclosure

Corporate voluntary disclosure is the excess of requirements which represent free choices on that part of the managers to provide information to the users of annual reports (Yuen et al. 2009). Many companies disclose the information to satisfy the users' needs, where mandatory (disclosure quality) seem to be inadequatly supplied. Singhui and Desai (1971) argued that corporate quality disclosure in annual reports considerably influence the extent of financial reporting quality. Corporate voluntary disclosure is not abasic requirements by law or requirements but free choice made by top management to enhance FRQ in their entities.

Barako et al. (2006) defines corporate voluntary disclosure as the financial and non financial information through which annual reports over and above the mandatory requirements, with regard to the Kenyan company laws, professional accounting standards or any other relevant regulatory requirements. The research adopt Barako et al. 2006 as the working definition for corporate voluntary disclosure.

Corporate voluntary disclosure (CVD) is used by TMTs as astrategy of which they merely disclose positive news or negative news. All this is done to influence quality of information disclosed. Douglas(2007) notes that voluntary disclosure aims at

introducing and explaining companies potentials to the investors during the fluidity of capital markets, enhancing the image of the company and characteristics of top management team. Therefore with CVD managers can influence the expected interpretation of financial reporting components of the trade off, which can hereby affect the activity choice. The activity choice is influence by the manager specific characteristics.

1.1.4 Discretionary Accounting Choices

An accounting choice is defined as any decision whose primary purpose is to influence (either in form or substance) the output of accounting system in a particular way, including not only financial statements published in accordance with Generally Accepted Accounting Principles(GAAP), but also tax return and regulatory filings (Fields et al, 2001). Accounting choice is explained by positive accounting theory (Watts and Zimmerman 1978) and institutional accounting theory (Wysocki, 2011). The accounting choices may broadly be classified as; those that measure the effect of accounting choices; those that examine the choices per se but not effects; those that examine voluntary accounting choices and those that examine mandatory accounting choices (Iatridis and Alexakis 2012).

This study focuses on discretionary accounting choices which involve the discretion of managers in selection and evaluation of the best course of action in preparing financial statements (FASB, 2008). Discretionary accounting choices (DAC) allow managers to exercise discretion when choosing from accounting alternatives, accounting estimates and practices (depreciation methods, inventory valuation methods and levels of earnings. The discretionary accounting choices may lead to opportunistic decision making in manipulating profits, income-smoothing, disclosure

policies and timeliness reporting lag which affect the quality of financial statements and management reports. Whether managers exercise such discretion in an opportunistic or efficient manner remains a long debate in positive accounting research (Watts and Zimmerman, 1978).

Hambrick & Mason (1984) argue that degree of discretion is dependent on regulatory environment; but, there is no regulatory environment that prohibits all managerial discretion. Therefore, managers can use discretionary accounting choices to provide additional information or withhold some information about their company. This behaviour of the TMTs may be associated with their personal characteristics). The discretionary accounting policy can either be aggressive or conservative in nature, voluntary or mandatory disclosure. Therefore, this study focuses on the effect of voluntary disclosures and discretionary accounting policies and methods on FRQ. For example, IAS 16 permits the use of variety of depreciation methods. The selection of depreciation methods has the largest effect on reported profit or loss, but the choice should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity (IAS 8 paragraph 32 to 38).

1.1.5 Commercial State Corporations in Kenya

The origin of state commercial corporations in Kenya according to sessional paper of 1965 can be traced back to 1963 when Kenya attained political independence. The establishment of the state commercial enterprises in Kenya was driven by a number of objectives such as; desire to accelerate economic, social development, redress economic imbalances and promote foreign investments.

In Kenya, Government Owned Enterprises (GOEs) are established to play several roles namely; accelerate economic growth and development; improve delivery of public services, create of employment and build international partnership. The available data on GOEs shows that the output of state corporations to GDP in nominal terms has been increasing from 9.54% in 2009/2010 to 11.64% in 2010/ 2011 based on internally generated income. As a way of improving the financial management and reporting quality, PTPR, 2013 have reclassified Kenyan state corporations into five distinct classes; commercial state corporations, commercial state corporations with strategic roles; executive agencies, independent regulatory agencies and research institutions, public universities, tertiary education and training institutions.

A commercial state corporation is defined as an entity incorporated, solely or majority owned by the government or its agents for commercial purposes. Or corporate body established by Act of parliament, licensed under banking Act or incorporated under company Act, of Kenya, formed to meet commercial goals (PTPR 2013; OECD 2005a:36; Wamalwa 2003). The commercial state corporations can further be categorized as state commercial with strategic functions or commercial state corporations. The term commercial state corporations will be used in the study to refer to the two groups of commercial corporations in Kenya.

The commercial state corporations (CSCs) are distinguished from the rest of the government owned enterprises (GOEs) since their revenues come from the sales of goods and services and pursue financial objectives with returns on their investment. They are answerable to the respective parent ministries under which they fall and the state control may be determined by shareholders rights and established regulatory bodies. The CSCs have been selected for this study because of, their enormous role in

economic development in Kenya. Secondly, they are characterized by low enforcement of standards, incentives for manipulation of financial statements, high political influence, unstable financial markets and poor governance standards. Thirdly, there is a growing public interest in earnings, accountability, efficiency and investment interests in the CSCs. Fourthly, most CSCs are performing poorly and anumber of them are currently earmarked for privatization and restructuring. Finally, most of the empirical studies have concentrated on the listed companies, hence CSCs is well suited for this study.

In Kenya, the Institute of certified Public Accountants of Kenya (ICPAK) introduced FiRE award in 2002 to help enhance quality reporting in all organizations that prepare annual financial reports. The award is a voluntary annual event sponsored by various stakeholders and financial regulatory bodies in Kenya but available report from organizers show that very few commercial state corporations participate in the annual event. However, the quality of financial reporting in GOEs in Kenya is receiving much attention in the local media and public debates with stakeholders showing interest in financial reporting excellence. This is evident from revelations by Public Account Committee (PAC) and Public Investment Committee (PIC) Reports in Kenya (1999-2003; 2011/2012 etc.) on the auditor's reports which raise issues on financial integrity, accountability, transparency and the competence of top level managers in the SOEs (CGD 2005).

1.2 Research Problem

Financial reporting quality is a reflection of characteristics and action in a team of top managers central to firm's management. Most researchers have identified managers' specific effects on accounting characteristics and firm's out come in

commercial enterprises. Although, this has not been the case, in commercial state corporations where the wide spread failure in the financial reporting quality is attributed to weak controls and firm ownership structures. The action of top management in corporate disclosure and freedom in accounting choices have equaly been identified as some of the contributing factors in enhancing or compromising FRQ. Bamber et al, (2010) find that on averaged, top managers do have impact on voluntary disclosure and financial reporting. Empirical studies on effect of both team and individual managers' characteristics diversity on financial reporting quality are much concentrated on the listed companies (Barua et al. 2010 ; Marimuthu and Indraa 2009 ; Teets 2002 and Ling 2012).

Financial reporting quality does not only means earnings or stock price changes, but is a multi-dimentional term that requires comprehensive measure (IASB, 2008). Most of the empirical studies show that, demographic diversity of TMTs have an impact on discretionary accounting choices, voluntary disclosures and FRQ (Bamber et al. 2010 ; Ge et al. 2011). Premised on the upper echelons perspective the diverse TMT can facilitate two contradictious behaviours at the same time, either improve the financial reporting quality or compromise the financial reporting quality. Top management use flexibility within the accounting standards to choose accounting methods, policies and estimates in financial reporting process which influence positively or negatively the firm 's financial reporting quality. But from the public domain FRQ in commercial state corporations in Kenya remains questionnable as compared to other listed companies. TMTs in commercial state corporations use the available flexibility in accounting policies to either distort or improve the financial information in order to maximize their own utility, given operations in market imperfections. This creates the need to examine the extent to financial statement of

commercial state corporations in Kenya remain relevant and faithfully representative to what it purport to represent.

In the recent years, there has been a major push for commercial state corporations in Kenya to be privatized as a result of failure to report good results. This failure of most commercial state corporations in Kenya has elicited debate on whether the top management provides quality reporting for their corporations. Common complaint from public sector stakeholders in Kenya is that financial information about CSCs is either unavailable or if provided, lacks reliability and this has affected the entire quality rating in Kenya. As cited in Outa (2011) two business indices used in Kenya in 2009; business indicator index (KIBII) ranked Kenya at 71 out of 100 countries with a score of 6.48 out of full score of 12. E-standards forum index ranked Kenya at 72 out of 100. These two indices clearly show that Kenya's compliance with IFRSs is quite low. The two measures are used to monitor a country's economic, financial and political performance so as to provide stakeholders with viable information for prudent decision making. However, according to rating survey of public sector agencies and ministries in Kenya by PEFA assessment of 2008 and 2012 on accounting, recording, reporting quality and timeliness of annual financial statements, the rating remained very low with no changes over time. ROSC (2010) indicates lack of studies in state commercial corporations but recognizes their significance to the public interest and economic development.

Financial reporting quality has become a global concern for the public and private sectors in the economy. Researchers have conducted studies on the relationship between characteristics of TMTs, BoDs, audit committees on FRQ in the listed companies and local governments. However, these studies have provided mixed

findings as regards the effect of TMT demographic diversity on FRQ in the listed companies (Bamber et al; 2010; and Ge et al., 2011; Steccolini 2004; Fawzi et al. 2001). The findings provide both positive relationship and negative relationships with various FRQ proxies.

A number of studies conducted in Kenya on FRQ and complexity are based on listed companies and commercial banks (Barako 2007; McFie 2009; Outa 2011; Mutiso and Kamau 2013). These studies have not considered the TMTs' characteristics as one of the determinant of FRQ. Researchers typically rely on firm level, industry level and market level characteristics to explain accounting practices and reporting and little consideration has been given to the effect of individual and TMT's characteristics. A few studies in CSCs are based on the relationship between corporate governance, investment decisions and financial performance (Ongo'nge, 2012; Miring'u and Muoria 2011; Wamalwa 2003). The aforementioned local studies have not linked FRQ with the personal characteristics of the team of managers central to firm's management, corporate voluntary disclosure and discretionary accounting choices. The principal limitations of the aforementioned studies are that they focus on listed companies and use earnings management, value relevance, compliance with IFRSs and as proxies in measuring FRQ, lack consensus on best accepted indices in measuring financial reporting quality and have several shortcomings in terms of research design and sample size. The current study sought to bribge this knowledge and contextual gap by integrating the four variables namely demographic diversity of TMT, corporate voluntary disclosure, discretionary accounting choices and financial reporting quality on commercial state corporations in Kenya. How does demographic diversity of top management team, corporate voluntary disclosure, and discretionary

accounting choices influence financial reporting quality in commercial state corporations in Kenya?

1.3 Research Objectives

The main objective of this study is to investigate the effect of demographic diversity of top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in Kenyan commercial state corporations. The specific objectives were to:

(i) Establish the effect of demographic diversity of top management team on financial reporting quality in commercial state corporations in Kenya.

(ii) Establish the effect of demographic diversity of top management team on discretionary accounting choices in commercial state corporations in Kenya.

(iii) Determine the relationship between discretionary accounting decisions and financial reporting quality in commercial state corporations in Kenya.

(iv) Establish the influence of discretionary accounting choices on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.

(v) Determine the influence of corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.

(vi) Establish the joint effect of demographic diversity of top management team corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya.

1.4 Value of the Study

Financial reporting quality in commercial state corporations has not reached the required level as in the listed companies due to lack of accessibility to capital markets and financial information. Many commercial state corporations lack accessibility of vital information and financial services due to concentration of ownership by the state. The study is expected to contribute significantly to positive accounting theory and discretionary based disclosure theory surrounding financial reporting in the commercial state corporations by affirming how individual CEOs, CFOs and Audit committees demographic diversity matter in shaping organizations' financial reporting quality. This is achieved through enhancing the bonus plan and debt contract hypotheses for the management.

The study is expected to make policy recommendations aimed at strengthening quality reporting in GOEs. This will enable the regulators such as ICPAK to formulate policies that would improve financial management and reporting quality in the GOEs so as to make them competitive as the listed companies. In the restructuring process in the state corporations, the restructuring policies will be developed to help in sustainable performance in the commercial state corporations.

The study will contribute significantly in enhancing the policy issues in financial reporting by equipping top management with appropriate skills: thus provide a broad management practice in appointing top level managers, selection of sound discretionary accounting choices and setting a high quality benchmark composite index for quality reporting to strengthen the reporting quality in CSCs. Above all the research is anticipated to inform top management on future policies in enhancing high quality in financial reporting.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the existing theories and empirical evidence on financial reporting quality, corporate voluntary disclosure, discretionary accounting choices and the demographic diversity of top managers. The theories and the underlying assumptions create the framework on which top management demographics, corporate voluntary disclosure, discretionary accounting choices and financial reporting quality can be defined and explained. The chapter ends with, summary of the study gaps conceptual model based on the four study variables and study hypotheses derived from the specific study objectives.

2.2. Theoretical Literature Review

The section introduces the underlying theoretical foundations which forms the basis for the rest of the thesis. The study is anchored on positive accounting theory, agency theory, stakeholder theory, discretionary based disclosure theory and upper echelons theory. The theories are used with emphasis of explaining the concept of diversity on TMTs' personal characteristics, voluntary disclosure, discretionary accounting choices and financial reporting quality.

2.2.1 The Upper Echelons Theory

Theoretically, upper echelons theory was introduced by Hambrick and Mason (1984), with an intention of explaining how personality characteristics of top executives affect performance of organizations. Their basic idea in upper echelons was to focus on characteristics of TMT rather than on individual top executive in order to inform better understanding of the organization outcomes. This sentiment is shared by Goel

and Thakor (2008) document that personality characteristics of top management influence their decisions. Secondly, demographic profile of executives of TMTs is highly presumed to relate the organization performance outcomes. Group heterogeneity is manifested by diversity of personal background and leadership experiences.

The upper echelons theory states that organizational outcomes, strategic choices and performance levels are partially predicted by managerial background characteristics (Hambrick and Mason, 1984). The central idea and the core of this theory, is that, executives act on the basis of their personalized interpretations of the strategic situations they face, and this personalized construal is a function of the executives' experiences, values, and personalities (Hambrick 2007). Early empirical research on UET investigated the effects of top management team's heterogeneity in observable background characteristics, such as age, functional track, career experiences and education level on various organizational outcomes. Therefore the theory is used as a theoretical foundation on the demographic factors of TMTs in which the diversity in groups and teams is seen as a positive force to effective functioning of a team.

Upper echelons theory describes the role of individual factors and team processes on executive decision-making (Nielsen 2010). It blends with other theories such as; agency theory and positive accounting theory. Hence, a variety of theoretical perspectives can be applied together with upper echelons theory to explain the antecedents and consequences of top management demographic diversity on FRQ and discretionary accounting choices. Hambrick and Manson (1984) identify six specific observable characteristics (age, functional background, other career experiences, formal education, socio-economic status and financial position) that contribute to

either an individual personal background or leadership experience considered sufficient for heterogeneity.

On the practical end, scholars focus on precise definition of TMTs. Most often the top management team is identified based on top executives' formal titles listed in publicly available documents or responses provided by the firm CEO in an interview (Finkelstein and Hambrick, 1996). However, Pitcher and Smith (2001) observe that actual decision making authority does not necessarily always lie in formal defined TMT. This inconsistency in the definition of TMTs may be contributing factor in inconsistency of the empirical results. Carpenter et al (2004) argue that TMT size differs considerably over studies. However, based on the structural features of TMTs can create paradoxical cognitive frames which may in turn work against the organization's outcomes. Hambrick and Manson (1984) distinguish two types of characteristics that influence the decisions taken by top executives: the psychological characteristics that are difficult to quantify and the observable characteristics. The current study focuses on the observable TMTs' characteristics.

2.2.2 Positive Accounting Theory

The positive accounting theory (PAT), developed by Watts and Zimmerman (1986), tries to explain and predict accounting practices. It is used in accounting studies to explain and predict firm choices on accounting practices. The theory hypothesizes that, in imperfect markets, accounting choice may be determined by managers seeking to influence reported earnings and capital structure (Watts and Zimmerman, 1986). The state commercial enterprises are percieved to be operating in an imperfect markets since they lack capital markets settings for raising funds. The theory is based on the idea that, management is self interested, has information advantage and that

there are conflicts of interest between the principal and the agent. This self interest may be a function of management fixed effects and accounting choices. The PAT focuses on the relationship between the various individuals involved in providing resources to an organisations.

In making discretionary choices in accounting, conservatism continues to be found in financial reports dispite FASB/ IASB considering it un-desirable quality of financial reporting information (IASB 2008). Positive accounting theory is used in this study to explain management's motive for making accounting choices when markets are inefficient and accounting standard are not providing full direction on applicability .
Positive accounting theory, attempts to explain managers' choices of accounting methods in terms of self interests and the relationship between stakeholders. The assumption is that all individual' action is derived by self interest and that the individual will act in an opportunistic manner to the extent that, the action will influence quality of financial statements. However, in most accounting choice, studies attempts to explain the choice of a single accounting method (e.g the choice of depreciation) instead of the choice of the combination of accounting Policies and describes the existence of incentives and opportunity for top management team to use in improving FRQ. It is prudent to use the combination of accounting methods and Policies in order to test how the choice of the methods and Policies affect the quality of financial statements. The study majorly build on this theory and concept gap to contribute to theory building on how a combination of choices relate to FRQ.

Deegan and Unerman (2006 p.207) explain how accounting choices can be used to assist the functioning of the relationship. 'Managers make accounting choices through their decisions about what, how, and when to apply certain accounting principles'.

This influences the perceived performance (the consequences of accounting choices on FRQ) of an organization. The theory seeks to explain and predict accounting practice more than just describing practice. This theory is also crucial in determining the effect of accounting choice variables on level of FRQ. The objective of the theory is to explain and predict accounting practices (Watts and Zimmerman 1986). However, it does not provide CFOs with best practices to apply in preparation of financial statements. The functioning of the theory is based on three hypothesis ; the bonus plan, the debt/equity and political cost hypothesis. These three hypothesis are used to explain and predict how firms make choices on particular accounting methods and earnings management which is used many times as a proxy of FRQ). However, the theory is sillent on the role of audit committee, which play an oversight role in achieving high quality in financial reporting. It is prudent to discuss the three hypotheses briefly.

The Bonus Hypothesis

Healey (1985) attempts to explain and predict managers choice of accounting theory based on firms compensation plans. His hypothesis was that managers would find opportunities in which they would manage net income in an attempt to maximize their bonus if income tends to be between the bogey and the cap. Under these two conditions then managers would find an incentive to acquire accounting policies that increase net income, and thus increase a managers bonus. This kind of scenario is purely lacking in companies that do not base their compensations plan on income. Top management team in commercial state corporations are on fixed salaries by the public commision as for the case of Kenya. Watts and Zimmerman (1990 p.38) 'argue that managers of firms with bonus plans are more likely to use accounting methods that increases or maximises current period reported income

Contractual Motivation Hypothesis

Healey (1985) also hypothesizes on how debt contract can triger the selection of discretionary accounting policies. Sweeney (1994) observed that a sample of firms defying covenants obligations actually took measures to implemet income increasing accounting changes, Hence, managers tend to be motivate to change to new policies, as they felt an obligation to inflate reported net income. Watts and Zimmerman (1986) note that managers with high debt equity ratio are more likely to exercise discretion by choosing income increasing accounting methods'.

The debt covenant hypothesis states that the closer a firm is to compromising their debt covenants, the more likely management is to use accounting policies that shift reported earnings from future period to the current period. This is because higher net earnings will reduce the probability of technical default on the debts.

Political Motivations Hypothesis

To the extent that firms are politically visible, that is, they are often in the public eye or subject to governmental scrutiny, firms will use earnings measurement to reduce reported net income. This will circumvent external bodies from forcing a politically visible firm to lower its profitability. These findings are supported by empirical evidence from Jones (1991) and Cahan (1992). Political hypothesis assumption, given the cost of information and monitoring, managers have the incentive to exercise discretion over accounting profits. The arguement here falls sort of how to adress firms with bonus plans and where the management do not have control and the source of financing as in most GOEs in Kenya.

2.2.3 Agency Theory

This theory was advanced by Jensen and Meckling (1976). According to this theory, TMTs are considered as stockholders' agents and are responsible for maximizing of shareholders wealth, although, wealth is not the only primary concern of all TMTs. Agency theory provides a necessary explanation of why the selection of particular accounting methods might matter, and focuses on the relationship between principals and agents, a relationship which, due to various information asymmetries, create much uncertainty. Thus a key to explaining manager's choice of particular accounting method comes from agency theory. Jensen and Meckling (1976) argue that financial reporting quality can be explained using the agency theory where several attempts have been made to provide positive accounting research on financial reporting. The principal agency theory recognizes that because of seperation of ownership and control, information asymmetry arises.

The theory views the firm as an interrelated set of contracting relationships among individuals. Watts and Zimmerman (1986) note that firms with higher information asymmetry between managers and outside investors are committed to greater conservatism in financial reporting, which in turn impact on FRQ. However, conservatism is an accounting choice influenced by the managers' specific characteristics (CFOs) and GAAPs (Ge et al., 2011). Deegan and Unerman (2006 p.215) argue that, organizations will always try to put in place mechanisms that have to align the interests of the agents and principals, due to the opportunistic behaviour of individuals. But these mechanisms may not be effective in controlling earnings management by managers, timeliness in reporting, corporate voluntary disclosure and discretionary accounting choices. Most of the CSCs in Kenya are perceived to have inadequate financial information (CGD 2005). This forms the basis to build on this

theory in order to reduce information asymmetry, leading to compromised quality information.

Most of accounting literature point out that financial reporting quality is essentially meant to reduce information asymmetry between corporate managers and parties contracting with the firms (Watts and Zimmerman, 1986; Frankel and Li 2004). However, the levels of discretion managers have in selection of accounting policies and methods may increase the level of information asymmetry in financial reporting. The argument applies to the CSCs where voluntary provision of information is seen as a way of reducing agency conflict and enhancing FRQ (Steccolini 2004; Fawzi et al 2001). The theory becomes relevant in the study by explaining the existence of the incentives for management to use earnings management through discretionary accounting choices.

The agency theory becomes relevant to this study in understanding the interest of the agents and their principals in accounting information quality in the CSCs, where the citizens who are the principals in the public sector tend to advance their interest through intermediaries referred to as 'interest groups'. However, due to information asymmetry the CEOs or CFOs of CSCs may transfer wealth from the principals through the use of discretionary accounting choices available to them, hence, influence FRQ of firm statements. But, the presence of audit committee should oversee this to ensure annual financial reports are of high quality.

2.2.4 Stakeholders Theory

The organization's effectiveness is measured by its ability to satisfy not only the shareholders, but also other agents who have stake in the organization (Freeman 1984). Thus, the appropriateness of stakeholders decisions is at least partly a function

of the quality of financial reports published. The application of the stakeholder theory in the CSCs seem to be in accordance with the wave of 'New Public Management. The study uses the managerial stakeholder theory which emphasizes that company management is expected to meet the expectations of powerful stakeholder groups (Zimmerman 1990). This can be attained through full disclosure of all information required.

The stakeholder theory is intended to explain the structure and operations of established corporations in preparing accounting information to meet the needs of stakeholders. This theory is used to explain corporate disclosures, explore more on the pattern of information disclosure, qualitative characteristics (one of the proxies for FRQ) and the behaviour of top executives in providing timely information. However, the assumption in many accounting research is that managers make choices or decisions that affect the accounting system of the company by influencing the stakeholders or contractual outcomes. In order to influence the stakeholders the accounting choices or decisions need to have impact on the accounting system of the corporation, hence, influence the reporting quality of the statements.

2.2.5 The Discretionary Based Disclosure Theory

The discretionary-based disclosure theory provides the conceptual and theoretical framework which can be used to examine the incentives that motivate corporate voluntary disclosure (Verrecchia, 2001). This theory evaluates under which circumstances companies choose to disclose or not disclose certain kinds of information in their financial statements.

Zimmerman (1990) point out that management incentives and characteristics significantly explain variations in the quality reporting in corporations depending on the level of disclosure. Dobler (2005) note that the theory help in analyzing the conditions in which information is voluntarily disclosed by companies due to the strategic interaction with external agents (stakeholders). Hence, voluntary disclosure can be explained by characteristics related to the corporations and form the foundation of disclosure index used in measuring quality reporting. It also energizes the TMTs of various companies in improving the FRQ.

2.3. Empirical Literature Review

This section reviews studies on the relationship between discretionary accounting choices, top management demographic diversity and financial reporting quality. The major concern is to determine the relationship among these variables.

2.3.1 Demographic Diversity of Top Management Team and Financial Reporting Quality

Identifying the personality characteristics of top management team is one of the important issues in corporate management. According to researchers, TMTs in each organization are significant and have an effective role in determining major goals and outcomes of their organizations. The motivation to examine the demographic diversity in TMTs has been on the premise of gains from a diverse working team. Hambrick et al, (2008) attributes quality reporting to top executives' personal characteristics but, Varman et.al (2010) argue that there is a significant difference between the effectiveness of TMTs and effectiveness of contextual factors. This is consistent with findings of Mackey (2008) who finds strong evidence in favour of the effectiveness of TMTs' characteristics on performance. The main focus of the review

is to idenfy and confirms the relationship between demographic diversity and FRQ. Hillery and Hsu (2011) provides evidence that top executive directors influence the output of accounting information.

Collins et al (2009) argue that the results of many studies show that income is manipulated by top executives. This forms the basis why many researchers measure FRQ using earnings management quality, compliance with legal requirements, timely loss recognition, value relevance and qualitative characteristics (Bamber, 2010; Ling, 2012; Francois and Kyle, 2011; Outa, 2011; Barako, 2007 ; Steccolini, 2004). The second motivation into the study is that top management team is known to be putting more pressure on financial officers into manipulation of earnings for better image of the company (Hermalin et al. 2004). None of these studies has proposed an alternative measure (s) for FRQ, given that the studies are conducted on companies listed in the stock exchange markets. Most of the literatures on financial reporting quality suffer from lack of a common bench mark for measuring accounting quality information. The accounting literature on financial reporting quality shows that, quality reporting is basically measured using earnings quality and compliance with IFRSs (Outa 2011; Mutiso and Kamau 2013; Bamber 2010). However, Mahdavikhou and Khatanlou (2011) have faulted the use of IFRSs compliance as the only measure of FRQ, while acknowledges earnings quality as a critical issue in financial reporting of every registered firm; most of the regulators only concentrate on the financial reporting quality of the listed firms. The use of earning quality as a mesure has raised a number of issues in terms of its reliability, since some TMTs use the measure opportunistically to meet their own utility.

Cohen et al. (2004); Graham et al., (2005) and Hambrick, (2007) suggest that management demographic diversity influence the quality of firm's statements. This variation in top managers' characteristics is perceived to have an impact on firm's financial reporting quality if linked with agency theory (Francois and Kyle, 2011; Ling, 2012). The management team is associated with BoDs, audit committees, internal auditors and external auditors' demographic characteristics. Other research on demographic diversity of TMTs have also provided support for gender, knowledge and professional differences in explaining the level of FRQ in firms (Bertand and Schoar, 2003; Boyatzis, 2004; Barua et al., 2010; Mahdavikhou and Khatanlou 2011). However, most research work has concentrated on BoDs characteristics and governance mechanism. A few empirical studies done on demographic characteristics on top management are discussed below.

Gender Diversity

Gender is found to be effective on ethical works of TMT which stresses that men and women have unique interests and different tendencies in doing unethical behaviour in business (Betz 1998). Huang et al. (2011) argues that women are more sensitive to establishing communications and helping others, hence, are less likely to do unethical actions such manipulation of earnings, timeliness lag in reporting financial information, withholding vital information and reporting over ambitious income. These two studies can be used as a pointer to the influence of women on FRQ. Goul et al, (2011) argue that women should form part of the TMT because of their moral judgment and maintenance of expected shareholders value. Beramer et al, (2009) believes that presence of women in TMT increases sense on interaction in the firm before decisions are taken; the opposite is for a male dominated TMT that leads to financial crisis. Guol et al, (2011) indicate that the presence of women in TMT

increases qualitative level of reported incomes. Gervais and Odean (2001) document that gender diversity in TMT dealing in accounting matters improves FRQ.

Barua et al. (2010) finds a significant relationship with female CFOs and financial reporting quality. Their argument is that female CFOs are likely to be less aggressive in making judgment related to discretionary accruals. Thus, firms with female CFOs would be more likely to have higher accrual quality. The findings show that companies with female CFOs have lower performance matched absolute discretionary accruals and estimation error. This is an indication of high- financial reporting quality. However, the study only used one variable, gender on FRQ (measured using accrual estimate error and performance matched abnormal accruals). This gap is bridged in the current study by introducing four other indipendent variables namely, age, tenure, education and functional background of the TMTs in commercial state corporations. On the measurement of FRQ the study also introduces other measurement namely, fundamental qualitative characteristics, disclosure quality and timeliness reporting of accounting information.

A team of female CFOs produce high quality financial information. But most of these studies have not looked at gender diversity in a team or a group of top management, which is the main focus of the present study. Marimuthu and Indraa (2009) examine the demographic diversity of BoDs and TMTs on firm financial performance in the non-financial listed companies in Malaysia and found no relationship with TMTs' diversity but a significant relationship with BoDs characteristics. However, financial performance is a function of top management. The study uses two TMT diversity variables (ethnicity and gender) measured using a ratio scale and financial performance was measured using return on equity (ROE). The limitation to the study

could be   attributed to the number of TMTs' variables used (gender and ethnicity) and the scope of the study. This gap is bridged in the current study by introducing other four variables and focusing on commercial state corporations in Kenya rather than listed companies. If other TMTs' variables are included, the findings could be different.

Tenure Diversity

Tenure is one of the important personal characteristics which give rise to distinct patterns of decision makers' cognitive process, attention and financial decisions (Wiersema and Bental 1992). Hambrick and Fukutomi (1991) argue that long tenured executives generally increase the commitment to a paradigm, decrease open mindedness, information diversity and task interest, while they increase their knowledge and task. Ali and Zhang (2012) show that CEOs have greater incentives to overstate earnings in early years than later years of their service. Bedard et al. (2004) and Liu and Sun (2010) find negative relationship between top managers and their tenure in service. They argue that directors with long tenure have much experience and task knowledge resulting in effective monitoring, hence improved FRQ.

There is a contradiction to these findings; Kim et al. (2013) find that the absolute value of discretionary accruals decreases when tenure of top management team increases. They measured FRQ using three proxies namely; discretionary accruals, earnings persistence and earnings response coefficient (ERC) for companies listed. The study improved and filled the gaps ignored by other studies such as Deschow et al. (2010) who do not consider the demographic characteristics of TMTs or decision makers as a factor affecting FRQ. The current study further improves the gap by

introducing other measures of FRQ namely, fundamental qualitative characteristics, disclosure quality and timeliness in reporting accounting information.

Functional Background

Francois and Kyle (2011); Hua-wei et al (2012) examine the role of top executive's (CEOs, CFOs) functional background on financial reporting choice and found a significant explanatory factor. Their argument was that top executive's functional background is a significant determinant of accounting decisions and financial reporting quality. This argument is supported by Upper echelons theory which suggests that manager's age cohort, tenure and education can affect TMTs' values, cognitive styles, and thus decisions (Hambrick and Mason 1984). The studies used longitudinal design focusing on listed firms. Krishan et al. (2011) find that the presence of directors with legal background on audit committee is associated with high quality financial reporting. The FRQ is measured using earnings quality and financial restatements. This leaves room for other TMTs demographic variables to be examined against disclosure quality, qualitative characteristics and timelines (FRQ) to confirm the same.

Mahdavikhou and Khatanlou (2011) in their study point out that professionalism in accounting promotes the quality of financial reporting. Their study focused on impact of professional ethics of financial managers in the listed firms on Tehran stock exchange and found significant relationship between professional ethics and FRQ. However, the study did not explore on professional diversity. The study measured the level of FRQ using qualitative characteristics of financial reporting based on IFAC and IASB.

Age Diversity

The principle underlying assumption in diversity studies is that, there is direct relationship between individual characteristics of CEO and risk facing FRQ. The theory of upper echelon (Hambrick and Manson 1984) document that the characteristics of top executives influence their discretion and the outcomes of their firms. By nature, younger persons are different from the older, physically and ethically. Gibbons and Murphy (1992) document that person's behaviour and incentives are conditioned by age. Hambrick and Manson (1984) ; Joos et al. 2003) and Davidson et al.(2007) note that younger managers are likely to engage in earnings management, while older managers mostly concentrate on future security, hence, have less ability to generate new ideas and more concerned about future security.

Sundaram and Yermack (2007) find a positive relationship between age and ethical behaviour on financial reporting quality. Mudrack (1989) in his study about determinant component of ethical behaviour finds older persons are more exposed to traditional customs and culture, hence more ethical. Financial reporting quality is all about ethics of the accounting profession. Talbi (2014) conducts an empirical study on a sample of US listed firms (S&P1500) from 2000 to 2009 on the relationship between CEO age and financial reporting quality. The study measures FRQ using earnings management based on operating activities manipulations, abnormal cash flows and abnormal discretionary expenses. The CEO's age was regressed against earnings management and the results were robust. The study finds positive relationship between CEO age and real earnings management. The nature of the relationship was not monotonic but had a U –shaped with inflaxion point equal 48 years. This was interpreted to mean that, real earnings increase when TMTs is

composed of young managers. Thus our assumption is that real earnings management increases when the manager is young and decreases when manager is old. This is consistent with Graham et al. (2005) confirms that CFOs are willing to engage in earnings manipulation in order to meet the threshold. The 80% of his respondents were willing to reduce their discretionary spending in R&D, advertising and maintenance expenses. Therefore, with the use of different proxies for FRQ, and demographic diversity variables on each study reviewed, it becomes difficult to compare FRQ across different firms, hence the preposition that: Demographic diversity of top management team has no significant influence on financial reporting quality in commercial state corporations.

2.3.2 Demographic Diversity of Top Management Team and Discretionary Accounting Choices

The level of accounting choices made by team central to management is influenced by agency costs, information asymmetries and externalities affecting non contracting parties (Fields et al 2001). However, these factors are functions of TMTs' characteristics. Zimmerman (1990) finds that accounting choice matters for managers since they affect how firms organize their accounting methods and policies. Accounting choices are the essence of the accounting system of the firm, by influencing choices the management is able to influence quality of financial reporting. IAS 8 deals with accounting policies, changes in accounting estimates and errors, but it fails to provide the extent to which an entity's management documents its choice. Instead judgment about accounting choices of policies are a matter left to entity's management and auditors.

Bertrand and Schoar (2003) document that managers exert a significant individual – specific influence over accounting choices through which to influence quality reporting. They find the level of significant to be decreasing when more specific characteristics of CFOs are examined. Thus the level of significance diminishes with a diverse team of managers. Hribar and Yang (2007) find that over confidence managers are more likely to use more of income increasing accounting policies. Francis et al. (2008) find a negative relationship between CEOs characteristics and earnings quality. The justification of the findings is that more of accounting policies are closely associated with the CFOs who undertake the preparations of annual statements. Most CEOs undertake strategic decisions overall to the firm performance. However, there is need to test the effect of the heterogeneity in TMT within the firm so as to establish their contribution towards firm outcomes.

Wang et al., (2009) point out that accounting conservative policies is measured using, dichotomous variables, and market to book value, earning based measures. The measures may be based on the management influence and position. Eng and Mark (2004); Ball and Shivakumar (2005) measured ddiscretionary disclosures using dichotomous variables and disclosure index. Barako (2007) argues that most companies in Kenya engage in voluntary disclosure as a means to enhance the value of their stocks. Commercial state corporations do not enjoy some freedom of making choices. Measuring the level may be difficult due to restrictions in obtaining funds and making voluntary disclosures. However, Healey and Pelepu (1993) argue that voluntary disclosure is used as a strategic tool for enhancing company's ability to raise capital at the lowest cost possible. The question that remains to be addressed by the current research is whether commercial state corporations also voluntarily disclose for enhancing their performance. Hambrick and Manson (1984) using upper echelons

theory suggests that managers' demographic characteristics are the appropriate starting point for exploring effect on differences in individual top management team on discretionary accounting choices. Gore et al. (2008) argued that within the TMTs, CFO typically oversees the firm's financial reporting process and is likely to have the most direct impact on the accounting related choices. However, the CEOs may actually set the tone from the top which would dominate CFO's style of accounting choices.

A number of studies document an association between CFOs incentives and quality of financial reporting (Ling 2012; Bamber et al., 2010; Gore, Matsunaga and Yeung 2007). Ling (2012) conducted a study on effect of managers' style on accounting choices and quality in the listed companies and found a significant relationship with earnings forecast. Ge et al., (2011) examined how manager specific factors (age, gender, and education background) impact on accounting choices (voluntary disclosure strategies, discretionary accruals, operating leases, expected rate of return for pension assets). The study used moderating variables, discretion and job demands on CFO's style. However, Ge et al. (2011) find little evidence that CFOs background explain accounting choices but did not show which variable has the greatest impact. The study was purely based on Chief financial officers' not a team of managers. This gap is bridged in current study by bringing CEOs, CFOs, internal auditors and audit committee under one team (TMTs).

Bamber et al. (2010) find that managers' specific- effect on discretionary voluntary disclosure strategies associated with observable demographic characteristics (experience, education, professional background) of managers, CFOs, CEOs and counsels. The findings were that level of discretionary disclosure in the listed firms is

a function of managers' personal backgrounds. Lafond (2008) summarizes the whole argument by pointing out that there are two important channels through which managers could affect accounting quality information, one is choices on firm policies and second channel is accounting choices. In his study he concludes that managers use accrual estimates, choice of measurements and discretions in recognizing economic transactions that affect FRQ.

However, no studies have been conducted in the commercial state corporations in Kenya on the effect of TMTs demographic variations on discretionary accounting choices. This leads to the preposition that: Demographic diversity of top executives has no significant influence on discretionary accounting choices in commercial state corporations in Kenya.

2.3.3 Discretionary Accounting Choices and Financial Reporting Quality

Lafond (2008) finds out from his study carried out in commercial listed companies that one of the channel through which managers affect accounting accruals, is accounting choices. In line with his findings Fields et al. (2001) give a broad description of accounting Policy, where management usually adopt an aggressive Policy when they want to increase revenues, minimize tax payment or capitalize costs to smooth out losses. These companies recognize gains faster and spread losses out over time period by capitalizing them, Hence influence reporting quality. This is supported by the fact that influencing accounting choices, the management is able to influence financial reporting quality. Kieso et al. (2007) emphasize in his findings that selection of accounting policies such as depreciation is a method of cost allocation rather than asset valuation.This in-turn impact on FRQ of firms depending on the choices made by the management and how the allocation is treated.

The selection of accounting policies and voluntary disclosures can tell a lot about management characteristics whether it is being aggressive or conservative in reporting earnings (Helson 1998) or opportunistic or efficient in reporting accounting information (Watts and Zimmerman 1978). Fields et al (2001) concludes his findings that management uses their discretion to make certain accounting choices and the level of discretion which affect firm's FRQ either directly or indirectly by influencing other components of financial statements. The choices of depreciation methods have impact on quality of financial reporting. Sloan et al. (1996) argue that accelerated depreciation methods reduce the accrual components in earnings since it brings larger cost in the beginning of the year. Narayanamoorthy (2003) suggests that the earnings quality is positively affected by accounting conservatism. This assertion, allows firms to present abnormally high expenses for a given financial period. Given this degree of freedom to management in making accounting choices, there seem to be a joint effect between discretionary accounting choices and financial reporting quality.

However, research work in financial reporting quality uses different proxies in measuring FRQ which makes it difficult to determine the specific effect of discretionary accounting choices on FRQ. The use of different proxies such as earnings quality, compliance with IFRs, extent of disclosure, auditing of reports, timeliness and evaluation of other credible external bodies (Francois and Kyle, 2011; Outa, 2011; Barako, 2007) on FRQ makes it difficult to establish the intervening relationships of discretionary accounting choices (DAC). Coy et al;(2001p.14) and Healy and Pelepu (2001) note that, 'the value of the financial annual reports rest in the provision of a wide range of summarized, relevant information in a single document which enable the stakeholders to obtain a comprehensive understanding of an entity objectives and performance'. This is an indication that good financial reporting

quality cannot be determined by one measure of model. Murphy and Zimmerman's (1993) study of changes in discretionary variables (research and development, advertising, capital expenditures, and accruals) as companies change CEOs shows that: Most of the unusual behaviour in these variables was due to poor operational performance; CEOs do not maximize income as they approach retirement age and some incoming CEOs of poor performing firms "take baths" during the first years.

However, the positive accounting theory developed by watts and Zimmerman (1986) indicates that the agency conflict may tempt top executives to employ the discretionary accounting choices in achieving personal goals, hence compromising the quality of financial statements. Deschow et al. (2010) point out that managers can influence the level FRQ by managing the accrual components of earnings. The earnings quality is used as a proxy for FRQ as pointed out by Graham et al., (2005) concludes from his findings, that managers have strong incentives to show a smooth string of earnings rather than volatile earnings. However, his findings are on earning quality which is only an indicator of FRQ. Therefore, if the quality of firm's earning and disclosure is affected by the firm's choice of inventory, depreciation and capitalization and expenses methods, then deliberate choice by top management can either or not determine the company's financial reporting quality. The current study aims at establishing the relationship between discretionary accounting choices and FRQ under four proxies namely, disclosure quality, fundamental qualitative characteristics, and timeliness reporting and earnings quality. Thus making stakeholders to have a better understanding about the accounting information. This lead to preposition that: Discretionary accounting choice has no relationship with financial reporting quality in commercial state corporations.

2.3.4 Demographic Diversity of Top Management Team Corporate Voluntary Disclosure and Financial Reporting Quality

Corporate disclosure in annual reports is a key financial accounting research area. Perera (1994 p.268) describes disclosure as 'an accounting involving human and non-human resource or techniques as well as interaction of two. Botasana (2004) suggests that quantifying qualitative characteristics underlying disclosure is extra ordinarily difficult and that it would be virtually impossible to employ procedures in an empirical setting. Palepu (2001) discusses three proxies for measuring voluntary disclosure; management forecast, disclosure index self-constructed measures, which are grounded on the theory of voluntary disclosure and supported by other theories, namely; agency theory, signaling theory and political process theory. The argument is significant in establishing the interactive effect of CVD among other study variables in the current study.

Agency theory claims that conflicts are expected to arise when there is incomplete and asymmetric information. Giner (1997) notes that managers will disclose more information or detailed information associated with agency problem. Determinants of disclosure are size, leverage, profitability and listing status. Agency problem is caused by top management characteristics. Garcia –Meca- et al., (2005) argues that disclosure serves to control agency cost. Lundholm and Vanwilkle (2006) note that companies disclosure more when information is positive and less when there is friction such as information asymmetry and propriety costs. The most interesting part of the effect is on how the TMT personal characteristics would influence this disclosure in CSCs.

Signaling theory provides a pointer to why many managers would engage in corporate voluntary disclosure. This indicates that asymmetry information between a company

and the stakeholder causing adverse selection. Gibbins et al. (1992) indicate that disclosure is a managed activity which can be explained by context in which it occurs. Nalikka (2009) examined impact of gender diversity on voluntary disclosure in annual reports. The findings reveal a negative influence with different TMT groups depending of each role. Positive relationship was revealed with the CFOs who closely under take voluntary disclosures. Aishah (2012) found no significant relationship between race, ethnicity and religious tradition on FRQ in Malaysian companies.

2.3.5 Demographic Diversity of Top Management Team, Corporate Voluntary Disclosure Discretionary Accounting decisions and Financial Reporting Quality

Ling (2012) shows that individual managers play significant role in explaining how accounting accruals is influenced by accounting choices over time. But Dechow and Schrand (2004) suggest that top managers are able to exercise discretion over reported earnings along various dimensions (aggressive, conservative and smoothing reporting). Each of these dimensions has intervening effect on financial reporting quality and demographic diversity of TMT since there seem to be indirect relationship. However, audit committee serve as a bridge in the communication network between internal and external auditors and the board of directors. Audit committee help to check the activities of the auditors (both internal and external) and top management resulting to the bridging of the gap among users of financial statements (Enofe et al 2013).

Hribar and Yang (2010), suggest that individual managers have great potential to enhance understanding of how managers consequently make financial reporting choices. The prior studies (Ling 2012; Helson 1998) have used discretionary

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accounting choices as independent variable on FRQ, while Hribar and Yang (2010) have used demographic diversity of TMT as independent variable on discretionary accounting choices. Hitt et al., (2001); Cohen et al. (2004); Bamber et al., (2010) and Francois and Kyle (2011) have used demographic diversity of TMTs as independent variable on proxies of FRQ. In choosing activities, managers must often trade often tradeoff between what to disclose and the expected value to be reported. Thomas (1988) finds that incentives for transparency or opacity in reporting can influence the selection of accounting policies. Therefore corporate voluntary disclosure plays the role of trade off between the manager's incentives and the desired firm outcomes. Thus with corporate disclosure managers can influence the expected interpretation of financial reporting components.

Since none of these studies has tested the causal linkages of the three variables, this leads to the preposition that: The relationship between demographic diversity of top executives and financial reporting quality is not mediated by discretionary accounting choices.

2.4 Financial Reporting in Kenyan Commercial State Corporations

Accounting and Financial reporting requirements of Kenyan commercial state corporations are regulated by a multiplicity of laws and regulatory bodies. These include the companies Act cap 486, Nairobi Securities Exchange Act, central Bank of Kenya Act, the capital markets authority Act and state corporations Act. The Kenyan Companies Act sets the general framework for financial accounting and reporting by all registered companies in Kenya, and stipulates the basic minimum requirements with regard to financial reporting. Barako (2007). The regulatory framework governing reporting in Kenya comprise statutory framework governing the

accountancy profession and financial reporting in Kenya. This precisely includes the companies Act (CAP 486), industry specific legislations governing financial reporting (CDG 2006).

 Financial reporting practices are perceived to have improved significantly in Kenya since ICPAK's decision to implement international standards in accounting and auditing. Therefore corporate financial reporting becomes an important avenue for communicating company's financial and non-financial information. Commercial state corporations have not been doing well in terms of financial reporting. Kariuki and Jagango (2013) argue that quality financial information should be reflected in the security prices, but this should only be applicable to the listed companies. Wagacha (2001) notes that predominant reason for listing is to access cheaper funds from the financial markets. Zairi and Letza (1994) make different assertion on why companies should practice financial quality reporting. The intention of financial reporting quality is to show what is actually happening to an entity, expressing the silent facts as far as practicable in financial terms. The major focus of the study is to examine the FRQ in the commercial state corporations which are generally not listed. But it is reported that by 1996, the Kenyan had started selling state owned enterprises (African Financial Review, 1996). The major question is how was the financial reporting quality of these state owned enterprises determined?

 Outa (2011) found out that the level of FRQ in listed companies was generally low using both quality disclosure and compliance with IFRSs, but showed an improvement over the study period. The studies used longitudinal research design. Mutiso and Kamau (2013) examined how disclosure, adaptation of IFRSs, regulations and lack of competence by preparers contribute to the complexity of preparing

financial statements. The study adopted descriptive study design focusing on the registered banks. The major findings revealed a number of variables contributing to complexity in preparation of statements of firms. Management interference was a major contribution to complexity in financial reporting. However, the study failed to explore on which management characteristics contributes to the interference with quality of financial reporting.

The reviewed local studies reveal that most studies basically rely on IFRSs in explaining the level of FRQ in listed companies but are quite silent about commercial state corporations. A survey conducted in Kenya by (ROSC 2010) attributes the low FRQ to reluctance of top management to comply with the full disclosure and transparency requirements of IFRSs. However, the report noted that non- listed entities including commercial state corporations have significant public interests, but no study has been done. It is on this account that the current study intends to address other proxies of FRQ and determinants such as demographic diversity of top executives and discretionary accounting. However, Miringu and Muoria (2010) conducted a study in CSCs examining how corporate governance affects performance in CSCs. The study used descriptive survey with a study population of 41 CSCs. The findings revealed a positive relationship between ROE and board size and board composition of all CSCs. The current study will build on this study to examine the effect of demographic diversity of TMT on FRQ in all commercial state corporations.

2.5 Summary of Previous Studies and Research Gaps

The empirical and theoretical review present mixed findings on the relationship among demographic diversity of top management team, corporate voluntary disclosure discretionary accounting choices and FRQ. The studies have much

concentrated on publicly quoted companies with limited number of studies carried out in the local government agencies (Barako 2007; McFie 2009; Bamber et al., 2010; Ge et al., 2011). This shows there is a contextual gap that needs to be filled by taking a study in the commercial state corporations. Most of the empirical studies measure FRQ using earnings management. This has generated a very common model Jones (1991) model that has been modified to meeting the challenges in measurement over time. This over-emphasis in earnings management has resulted to the perception of many researchers that income is manipulated by top management. But the questions which still remain unanswered are how is manipulation done? What other measures other than earning should be used? And finally, are the measures comprehensive and inclusive of all the accounting information users?

The application of the positive accounting theories has not been used to ensure that managerial behaviour can be tapped for better quality reporting. This is clearly seen from the discussions advanced by Healey (1995) that there is need to explain and predict manager's choice of accounting policies.

The current study uses five demographic diversity variables team in top management central to preparing financial statements in determining the most parsimonious set of predictors that are most effective in predicting FRQ. The studies reviewed concentrated much on the effect of individual CEOs, CFOs and BoDs demographic characteristics on financial reporting quality. Ling (2012) looked at CFOs and CEOs fixed effect on accounting choices. Francois and Kyele (2011) researched on CFOs and CEOs functional background on accounting choices. This justifies that much work has been on individual managers. There is need to establish the relationships

between demographic characteristics of TMTs, hence, the knowledge gap exist which the current study intends to fulfill.

Empirical review indicates that financial reporting quality is a multi-dimensional term. This is evident from various proxies used to measure quality. This is an indication for more research work into different proxies for FRQ. Most of the empirical studies base earnings quality to mean better information. FRQ is multi-dimensional and needs holistic approach in measuring quality. Other measures should also be used to determine better quality. Accounting theories advocate for current reporting timeline after the end of a financial year. Although each corporation has its own reporting period, the National treasury needs accountability within a period of six months. This is agap to be filled through other proxies other than earnings management.

Local studies in Kenya have solely relied on IFRSs as the main measure of FRQ, and or basically rely on survey studies. This study intends to fill the knowledge gap and contextual gap by increasing number of demographic characteristics to five, introducing intervening variable (DAC) and using four proxies to determining FRQ in the state commercial corporations. The available empirical studies in Kenya tend to concentrate on corporate governance and firm base characteristics; hence inclusion of TMTs' characteristics would be necessary in bridging the knowledge gap.

Most of the studies reviewed concentrated on companies listed in the exchanges. This has put more pressure on earnings and stock prices, and forgetting other accounting variables which may also affect quality. This creates a scope gap.it is not only listed companies that require quality statements. There is need to exploit other sectors to improve on the quality reports.

Research work is meant to generate new knowledge, but from the literature it is noted that despite a lot of research work in quality reporting, from the literature reviewed none of the researchers have come up with a bench mark for measuring financial reporting quality. Conflicting results on demographic characteristics still indicate that most of the research needs to be undertaken to reduce the level of frictions in this area of study.

The studies reviewed have indicated the existence in the methodological gap. This is confirmed by Hambrick (2007) why most results of demographic diversity are not robust. He argues that most studies are conducted on cross sectional basis resulting to causal issues. This is confirmed in the following studies, Aishah (2012) found no significant relationship between race, ethnicity and religious tradition on FRQ in Malaysian companies. Liu and Sun (2010) argue that, there exist negative relationships between long- tenured top management team and earnings quality.

Table 2.1 Summary of Research Gaps

Researchers	Focus of the Study	Study model/variables	Methodology	Findings	Research Gaps	How to adress the gaps in the current Study.
Ling (2012)	Effects on accounting decision that cannot be explained by firm characteristics with data from 1992 to 2008	CFOs&CEOs fixed effects/style	Manager-firm matched panel data set as sample of S&P 1500 firms Longitudinal &cross sectional design Descriptive statistics	Establishes that managers' financial reporting style affect the credibility of earnings forecast.	The study fails to explain the individual characteristics associated with the manager's style. Knowledge gap identified.	The study determines the effect of TMTs characteristics on discretionary accounting decisions and FRQ. Use panel data
Fracois and Kyle (2011)	The role of executive functional background &financial reporting choice in corporate firms. information obtained from 1990 to 2009.	CEOs and CFOs functional backgrounds. Good will model and CFO and CEOs functional background was measured using Fiscal year effects.	Longitudinal design Logistic models Sample size of 2,168 listed companies Panel data approach	The executive functional background is significant explanatory factor of financial reporting discretion.	The study only looks at reporting but not quality in relation to one variable. Both knowledge and contextual gap is identified.	The current study uses discretionary accounting decisions in financial reporting between five demographic diversity of TMTs & FRQ in CSCs.
Outa (2011)	Examine the adoption of IFRSs by listed companies in Kenya and the quality of financial reporting. Study period 1995-2004.	Study used earnings management, timely Loss recognition and value relevance in the adoption period btw pre- and post adoption	Comparative study Study sample drawn from listed 54 firm on NSE, resulting to 320 firm year observations. Matched sample panel data for pre & post adoption of IFRSs Quantitative method used to collect secondary data	There were mixed results with some of the metrics in FRQ level. The level of quality sought was based on IASB framework	The study didnot focus on TMT diversity. FRQ was purely based on compliance with the adoption of IFRSs by listed companies. FRQ goes beyond the adoption of IFRSs	The current study assessed FRQ in CSCs and complemented quality reporting with other proxies such as disclosures and Timeliness. Use both correlational and longitudinal design

Researchers	Focus of the Study	Study model/variables	Methodology	Findings	Research Gaps	How to adress the gaps in the current Study.
Ge et al. (2011)	The effect of CFOs individual style on corporate financial reporting practices.	The CFO-firm year level and CFO-firm level.	CFO- Firm Matched Longitudinal panel data set/ cross sectional analysis Descriptive statistics Used F –test for joint effect	CEO's- specific factors explain a significant portion of the heterogeneity in financial reporting practices.	The study failed to explore reasons for CFOs particular style and was only limited to three observable characteristics. Knowledge gap	The study will treat accounting decisions of a firm as intervening variable in order to determine the strength of relationship.
Bamber et al. (2010)	The relationship between individual managers diversity and firm voluntary financial disclosure choices. The study period was 1995 to 2005.	Manager's personal backgrounds, management earnings forecast -frequency, precision, news, actual earnings and accuracy.	Longitudinal design Study sample drawn from S&P 1500 firms Descriptive statistics used	Top executives exert unique and economically significant influence on their firms' voluntary disclosure.	The study used a reliable research design and enough control variables except it based the findings only on one demographic variable-individual personal backgrounds	The current study used five demographic factors and the voluntary disclosure choice as intervening variable in the study.
Miringu &Muoria(2010)	Examining how corporate governance affects commercial state corporations in Kenya	Board size and composition	Descriptive survey, study population of 41CSCs, study sample of 30 Descriptive statistics and multilinear regression	Findings reveal positive relationship between ROE and board size and composition	Knowledge gap on FRQ Corporate governance is an element of quality reporting.	The current study used the same context of the study to determine FRQ with TMTs demographic diversity.
McFie (2009)	Examine financial reporting disclosure by listed companies in Kenya. Study period 2002- 2003	The study used exploratory design. Quality was measured using : FiRE award scores, IFRSs compliance & S&P's transparency and disclosure scores	Cross-sectional review of financial reporting disclosure of firms listed in NSE	Primary data collected from CFOs reveals disclosures as of high quality whereas the secondary data-reports are found not to be of high quality.	The primary data is perceived to be subjective and may not reveal the correct status of FRQ of the firms. The study ignored the CEOs and CFOs characteristics in determining the FRQ.	The study period was be increased from 2004 to 2013 and included TMTs demographic diversity. The study used panel data for all the study variables.

Marimuthu and Indraa (2009)	The effect of Demographic diversity of top management team &BoDs with regard to financial performance of listed companies from 2000 to 2006	The study used non-probability approach. Diversity variables-ethnicity &gender measured using a ratio scale. Study used PLS	OLS based on the cross-sectional data Sample drawn from Malaysia listed companies Financial data base and companies annual reports were used	Indicate that demographic diversity has some significant impact on BoDs with regard to firm performance. But not with TMT.	The sampling size was got through judgmental sampling The study only used two variables Both knowledge gap and methodological gap is identified.	The current study intends to focus on CSCs in Kenya. The study will use five variables to help make informed jugements.
Barako (2007)	Level of voluntary disclosure through annual reports of listed companies in Kenya.1992-2001	Study variables governance, ownership & company characteristics and CEO, BoDs.	Longitudinal design Pooled ordinary least square(OLS) with panel-corrected errors	The level of disclosure was generally low. But with improvement with years of study.	Looked at one avenue of FRQ-disclosure. Individual CEOs characteristics were ignored.	The current study looked at TMTs characteristics, discretionary decisions and FRQ.
Steccolini (2004)	Focuses on financial voluntary disclosure in local government units in Italy.	Local government units and financial statements, legal requirements.	Cross sectional survey Content analysis Qualitative data used	Showed that annual reports comply with legal requirements but low FRQ	The annual reports are too legalistic and lack quality content. Both knowledge and contextual gaps identified.	The study determined quality using four proxies for FRQ. Use demographic of TMT. Use canonical analysis to determine the relationship
Fawzi et al. (2001)	Managerial influence on quality financial disclosure in the public sector on their website of local authorities in New Zealand.	voluntary disclosures, size, type of local authority, surplus/profitability, leverage and press visibility.	Cross sectional survey Content analysis Qualitative data used	On quality reporting findings indicate that only size and type of Council influence type of financial disclosure on the internet.	The study fails to include other demographic variable of the managers-, qualification, tenure Timeliness of reporting was not considered on internet reporting.	The study used timeliness to determine quality reporting in SOEs. The study was based on Kenyan commercial state practices. Use longitudinal design

Source: from the literature review of the study (2014)

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2.6 Conceptual Framework

The conceptual model intends to determine the extent to which top management executives demographic diversity may affect the financial reporting quality in the state commercial enterprises. Previous studies have reported mixed findings with the same variables. While some variables of demographic diversity have reported positive significant relationships with earnings quality management. The discussion of independent, dependent, moderating and intervening variables is used in explaining the conceptual model. The causal factors are the demographic diversity of top managers, corporate voluntary disclosure and discretionary accounting choices. The causal factors are part of composition of top management team with diversity in gender, education, tenure, age and functional background in accounting, finance, management, military, banking, insurance, consultancy and marketing, engineering, public service, politics, medicine and other careers not identified. Financial reporting quality is the predicted variable. It is measured under four study variables namely; quality disclosures, quality earnings, timeliness and fundamental qualitative characteristics. Financial reporting quality is boosted by various intermediating factors such discretionary accounting policies and moderating variables corporate voluntary disclosures in annual financial reports. The existing literature discussed show that financial reporting quality depends on managerial motives, incentives and opportunism. The model is used to establish the effect of demographic diversity of top management team, corporate voluntary disclosure, discretionary accounting policies and financial reporting quality.

Figure 2.1: The Conceptual Model

Moderating variables

H$_5$

Corporate Voluntary Disclosure

1. Strategic information
2. Financial Data
3. Forward Looking Information
4. Social & Board Disclosure

Demographic diversity of Top management team

1. Gender
2. Age
3. Tenure
4. Education
5. Functionalbackground

Financial Reporting Quality

1. Disclosure Quality
2. Fundamental Qualitative characteristics
3. Earnings quality
4. Timeless in reporting

H$_6$

Independent Variables

Discretionary Accounting choices

- Revenue recognition
- Inventory valuation
- Depreciation of fixed assets
- Reserves, allowances and bad debts
- Contingent liabilities

H$_2$

H$_3$

H$_4$

Dependent Variables

Mediating

H$_1$

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The hypotheses to be tested flows from the objectives of the study and are anchored on literature and the conceptual framework of the study in Figure 2.1.

Based on the first objective, this study sought to establish the effect of demographic diversity of top management team on financial reporting quality in commercial state corporations in Kenya. Hence the following hypotheses were tested:

Hypothesis 1

H_{01}: Demographic diversity of top management team has no significant effect on financial reporting quality in the commercial state corporations in Kenya.

Given that the study measures financial reporting quality using four distinct variables, the following four sub hypothesis were derived from the hypothesis one.

H01a: Demographic diversity of top management team has no significant effect on disclosure quality in commercial state corporations in Kenya.

H01b: Demographic diversity of top management team has no significant effect on fundamental qualitative characteristics in the commercial state corporations in Kenya.

H01c: Demographic diversity of top management team has no significant effect on earnings quality in commercial state corporations in Kenya.

H01d: Demographic diversity of top management team has no significant effect on timeliness quality in commercial state corporations in Kenya.

Hypothesis 2

Based on the second objective, this study established how demographic diversity of top management team effects on discretionary accounting choices in commercial state corporations in Kenya. Hence the following hypothesis was tested;

H₀₂: Demographic diversity of top management team has no significant effect on discretionary accounting choices in the commercial state corporations in Kenya.

Based on the third objective, this study investigates the relationship between discretionary accounting choices and financial reporting quality in commercial state corporations' .Hence the following hypotheses were tested:

Hypothesis 3

H03: Discretionary accounting choices have no significant relationship with financial reporting quality in commercial state commercial corporations in Kenya.

Given that financial reporting quality is measured using four distinct variables (disclosure quality, fundamental qualitative characteristics, earnings quality and timeliness reporting); the following four sub hypotheses were derived from hypothesis three.

H03a: Discretionary accounting choices have no significant relationship with disclosure quality in commercial state corporations in Kenya.

H03b: Discretionary accounting choices have no significant relationship with fundamental qualitative characteristics in commercial state corporations in Kenya.

H03c: Discretionary accounting choices have no significant relationship with earnings quality in commercial state corporations in Kenya.

H03d: Discretionary accounting choices have no significant relationship with timeliness quality in commercial state corporations in Kenya.

Hypothesis 4

Based on the fourth objective, this study establishes the mediating effect of discretionary accounting choices on the relationship between demographic

diversity of top management team and financial reporting quality in commercial state corporations in Kenya. Hence, the following hypotheses were tested:

H_{04}: The effect of demographic diversity of top management team on financial reporting quality is not mediated by discretionary accounting choices.

Given the use of distinct measures for financial reporting quality, the following two sub hypotheses were generated from hypothesis four. This was done in order to check whether discretionary accounting choices moderates the relationship between demographic diversity of TMTs and financial reporting quality in commercial state corporations in Kenya.

H 04a: The relationship between demographic diversity of top management team and fundamental qualitative characteristics is not mediated by discretionary accounting choices

H 04b: The relationship between demographic diversity of top management team and timelines reporting quality is not mediated by discretionary accounting choices

Hypothesis 5

Based on the fifth objective, this study determined the influence of corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.

H_{05}: The influence of demographic diversity of top management team on financial reporting quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya.

Hypothesis five was then sub divided into four sub hypotheses as follows:

H05a: The influence of demographic diversity of top management team on disclosure quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya.

H05b: The influence of demographic diversity of top management team on fundamental qualitative characteristics is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya

H05c: The influence of demographic diversity of top management team on earnings quality is not moderated by voluntary disclosure in commercial state corporations in Kenya

H05d: The influence of demographic diversity of top management team on timeliness reporting quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya

Hypothesis 6

H_{06}: There is no significant joint effect of demographic diversity in top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenyan.

H 06a: Demographic diversity, corporate voluntary disclosure and discretionary accounting choices do not jointly affect disclosure quality in commercial state corporations in Kenya.

H 06b: Demographic diversity, corporate voluntary disclosure and discretionary accounting choices do not jointly affect fundamental qualitative characteristics in commercial state corporations in Kenya.

H 06c: Demographic diversity, corporate voluntary disclosure and discretionary

accounting choices do not jointly affect earnings quality in commercial state

corporations in Kenya.

H 06d: Demographic diversity, corporate voluntary disclosure and discretionary

accounting choices do not jointly affect timeliness reporting quality in

commercial state corporations in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the methods and approaches applied in carrying the research. These included; research philosophy, research design, study population, data collection methods, reliability and validity of the research instrument for data collection, models, operationalization of study variables and techniques of data analysis.

3.2 Research Philosophy

A research philosophy is abelief about the way in which data about aphenomenon should be gathered, analysed and used. It is the foundation of knowledge and nature of that knowledge. Two major research philosophies have been identified in the Western tradition of science, namely positivist (sometimes called scientific) and phenomenology (also known as anti- positivist) (Galliers, 1991). In developing these knowledge researchers need to make quite a number of assumption concerning the two sources of knowledge. The assumption are based on sociological dimension and scientific dimension.

Positivism presumes that the social world exists objectively and externally, that knowledge is valid only if it is based on observations of external reality and that the universal and general laws exit or that theoretical models can be developed to generalize and explain cause and effect relationships which lend themselves to predicting outcomes (Saunders et al., 2007).

The phenomenology approach to knowledge development holds that social world, individuals and groups make sense of situations based upon their individual experience, memories and expectations. Thus, meanings are constructed and reconstructed through experience, resulting in many differing interpretations (Saunder et al 2007). Since all knowledge is relative to the knower, phenomenology work a long others as they make sense of, draw meaning from and create their realities in order to understand their points of view; and to interpret these experiences in the context of the researchers academic experiences. Interpretivists contend that only through the subjective interpretation of and intervention in reality can that reality be fully understood. They admit that there may be many interpretations of reality, but maintain that these interpretations are in themselves a part of the scientific knowledge they are pursuing.

This study is anchored on positivism research philosophy since it is based on existing theory and formulates quantitative hypotheses to be tested. This philosophy approach makes it possible to explain the cause and effect relationship among demographic diversity of top management team, corporate voluntary disclosure, discretionary accounting decisions and financial reporting quality. The positivist position is grounded in the theoretical belief that there is an objective reality that can be known to the researcher. Since the reality is stable it can be observed, accurately described and explained from an objective view point (Cohen and Crabtree 2006; Levin 1988) without interfering with phenomena being studied.

3.3 Research Design

The study adopted both correlational research design and longitudinal research design. Correlational research design suits this kind of study since it attempts to

establish the existence of relationships among variables. It is used to describe the statistical association between two or more variables and ensures that all cross sectional variations are included in the model. This research design is deemed most appropriate due to a number of factors that could not easily be controlled. The design helps in determining the extent to which the variables of the study are related. However, it does not 'prove' a relationship; it only indicates an association between the variables (Creswell, 2008 and Ludica et al, 2006). The weakness of correlational design can be strengthened by the use of longitudinal study design.

The longitudinal research design has strong controls for the firm specific effects to avoid misattributing firm effects to TMT (Bertrand and Schoar 2003). The longitudinal research design helps to detect the changes in the characteristics of target population at both group and the individual level. The longitudinal research design fits in this study in tracking changes in demographic diversity of TMTs over time and relates them to other variables in the study. The design is quite useful in describing patterns of changes in the study variables, hence makes it possible in establishing the direction and magnitude of causal relationships. It allows researcher to differentiate between change over time in aggregate data and in individual (Rutter, 1988). This study is based on eleven variables measured over time. Longitudinal research design allow measurement to be taken on each variable over two or more distinct time periods before drawing conclusion on their joint effect. The variables comprise seven independent and four dependent variables.

3.4 Population and Sample of the Study

The target population of this study comprised all the commercial state corporations in Kenya. There were a total of fifty five (55) commercial state corporations in Kenya as

presented by Inspectorate of state corporation 2014.The population was purely drawn from commercial state corporations in Kenya, which were categorized as; commercial state corporations or commercial state corporations with strategic functions. All the 55 commercial state corporations were included in the study, hence a census study.

Due to the scope of the study and the nature of data collected, some commercial state corporations were excluded from the study due to lack of sufficient or incomplete data, after filtering the population a total of 30 commercial state corporations with complete data were selected. Since a sample size of thirty is deemed fit for an analysis, the sample size of thirty was deemed ideal for this study. The study sampled firm's yield firm year observations of 248 individual TMTs and 241 annual financial statements. The firm year observation was use as the sample size for the study. The commercial state corporations were preferred for the study as they have well defined financial reporting framework and defined procedures for appointment of top management.

3.5 Data Collection

The study used pooled data mainly drawn from secondary sources. The data was extracted from audited financial statements and management reports (MD&A) specifically chairman's report, Managing director's report and auditor's general reports obtained from the individual state commercial corporations and the relevant parent ministries using secondary data capture form for the period 2004 to 2013. The data collected were used to provide information on corporate voluntary disclosure, discretionary accounting choices, financial reporting disclosure, and items of financial statements and timeliness of the reports.

Pooled data was also developed to capture the demographic characteristics of TMTs from commercial state corporations. The information sought was obtained as shown in Table 3.1 below. The study used panel data where each CSCs (or CEO, CFO, internal auditor, audit committee members) year in the study sample become an observation. This enabled the researcher to utilize the study sample from each firm with at least five observations.

3.6 Operationalization of Variables

Operationalization of the study variables was done according to empirical studies reviewed and the conceptual model. This was done to enable the researcher measure the study variables quantitatively and test the six hypotheses of the study.

The independent variable comprises five indicators of TMT; age, education, gender, tenure and functional background. These variables were observed among the TMT (CEO, CFO, internal auditors and audit committee members). The dependent variable FRQ was measured using four proxies: disclosure quality, fundamental qualitative characteristics, timeliness quality and earnings quality. The intervening variable in the study – discretionary accounting choices was measured under five indicators, namely revenue recognition, inventory valuation, depreciation of fixed assets, reserves, allowance, bad debts and contigent liabilities. Moderating variable in the study corporate voluntary disclosure was measured using four indicators namely, general and strategic information, and financial data of the firm, forward looking information and social and board disclosure. The four main study variables have been operationalized as shown in Table 3.1 below:

Table 3.1: Operationalization of Variables

TYPES OF VARIABLES	PROXY FOR VARIABLES	MEASUREMENT DESCRIPTIONS	SOURCE OF DATA
Independent variables Demographic diversity of CFOs/CEOs : Gen, Edu, Ten, age, FBG	Gender(Gen)/Education (Edu) and Functional Background(FBG). The variables are used to measure the variability in gender, education and functional experience	Blau index $$BI = 1 - \Sigma p^2$$ Education level categorized as : PhD /Masters Degree/Bachelor Degree/Diploma/ Cert, 'O'/A' & others Functional Background is categorized into 12 major orientation ; military, banking, insurance, accounting and finance, cosultancyand marketing, engineering, Economist, law, management, civil service and politics, medicine& Others. Gender categorized into male/female	CEOs/ CFOs/audit committee panel data from each SOCMEs
	Tenure (Ten) and Age	Number of years/ coefficient of variation. Age is used to measure number of years in birth. Tenure is used to refer to number of years in management position	CEOs/CFOs Pooled data from each state corporation
Discretionary Accounting choices	Accounting Methods /Accounting Policies (AP)	This variables is measured under five accounting Policies and methods namely, revenue recognition, inventory valuation, depreciation methods, reserves, allowance and bad debts and contigent liabilities. The items are measured using dummy variables/ dichotomous variables/ under the two Policies - aggressive or conservative Policies.	Financial statements from each SOCME
	Voluntary disclosures (Vdc)	This is composed of four items namely, general and strategic information, financial data, forward looking information and social & board disclosure. The four items are measured using dummy/dichotomous variables. Barako et al. 2007/ Eng &Mark 2004 Content analysis	FS from SOCMES

2. Dependent Variables Financial Reporting Quality(FRQ)	1. Qualitative characteristics (FQCH)	Measured under three variables- Relevance (R1, R2, R3, R4). Faithful representation- F1, F2, F3, F4 & F5 Understandability- measured under- U1, U2, U3, U4 &U5 R, F and U are measured using a five rating point scale (adopted from Jonas &Blanchet, 2000) and content analysis (Stecolini 2004)	Financial Statements/MD&A from SOCMES. Financial & non- financial information will be used.
	2. Quality disclosure(d)	Disclosure Index $$DQBS = \sum_{k=1}^{n}\left(\frac{\#Non-mis\sin g\ items}{Total\#Items}\right)_{k}$$ $X \frac{Sh.1_{k}}{Sh.T_{I}} k \div 2$ amount in shilling attributed to each item disclosed. / dividend by 2	Financial statements from 2004 to 2013 MD&A in annual reports
	3. Timeliness of reports(t) in days	Ln of number of days Cohean et al. (2004)	Financial statements
	4. Earnings quality(Shs)	Discretionary accruals $TACC_{i,\ t} = \blacktriangle C_{it} - \blacktriangle CL_{it} - \blacktriangle CASH_{it} + \blacktriangle STD_{it} - DEP_{it}$ or $TACC_{i,\ t} = \beta_0 + \beta_1(\blacktriangle Sales_{i,\ t} - \blacktriangle REC_{i,\ t}) + \beta_2 PPE_{i,\ t} + \varepsilon_{i,\ t}$	Balance sheet and cash-flow statements 2004/2013

3.7 Reliability and Validity

The reliability test was conducted on measures of fundamental qualitative characteristics and corporate voluntary disclosure instruments. Fundamental qualitative characteristics were measured using constructed fourteen questions (items) made up of a five point scale and corporate voluntary disclosure was measured using fourty four items. Reliability of the research instrument was checked to determine if the scale consistently reflects the construct it was measuring. The study used inter-item consistency reliability, (the cronbach's alpha coefficient) to test for qualitative

standard scores. This was used to measure the extent of correlation of all the items in the measure, the items is expected to assess (Sekaran, 1992).

The concern of the reliability test was to estimate the consistency of scores across repeated observations. Cronchbach alpha at or above 0.8 is often considered sufficiently reliable to make decisions about individuals based on their observed scores (Cronchbach 2004). The Cronchbach alpha coefficient was appropriate for this study since it estimates test scores reliability from a single test administration using information from relationship among test items. It further provides an estimate of reliability based on the covariation among items internal to the test (Shavelson 2004).

A pilot study involving eight CSCs was carried out to test for the validity. To increase likelihood of external validity, the sample was stratified by selecting each CSC under various sectors. This was done to test for correlation coefficient. A correlation coefficient is a Statistical Summary of the relation between two variables. According to Cronbach (1990), a good validity coefficient is "the best you can get", and it is unusual for a validity coefficient to rise above 0.60, though that is far from perfect prediction. The results in Table 3.2a and 3.2b shows that the reliability test is very reliable (0.984 and 0.915 respectively).

Table 3.2a: Reliability Test for Qualitative Characteristics Measurement scale

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.983	.984	14

Table 3.2b: Result of test of reliability for corporate voluntary disclosure

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.918	.915	44

3.8 Data Analysis

Descriptive statistics was used to analyze the data especially measures of central tendency (mean, mode, median) among the variables of the study such as qualitative characteristics and timeliness. Correlation analysis was used to establish relationships among the study variables. Correlation helped reveal the direction and magnitude of the relationship, the bigger the coefficient the stronger the relationship. Stepwise multiple regression analysis was used to determine the relationship among five demographic diversity variables of TMTs on discretionary accounting choices and financial reporting quality. This was done to find the most parsimonious set of predictors that are most effective in predicting FRQ.

Multicollinearity of the regression models was tested to ensure that the coefficients of independent variables are statistically significant. The absence of Multicollinearity in the models made it easier to reject the null hypotheses. The variance inflation factor (VIF) for all the variables fitted in the regression models were smaller than 2 for each case of the variables tested. This was an indication that there is no Multicolliniarity among the study variables. However, Gujarati (2003) suggests that Multicolliniarity exists when the correlation exceeds 0.80 and when VIF value for each independent variable is greater than 10. The study concluded that there was no Multicolliniarity problem within the study variables.

The following models were used to test for the five hypotheses as shown in Table 3.3.

$$\text{FRQ} = \beta 0 + \beta_1 \text{Gen} + \beta_2 \text{Edu} + \beta_3 \text{Age} + \beta_4 \text{Ten} + \beta_5 \text{FBG} + \varepsilon \qquad (3.1)$$

$$\text{DAC} = \beta_0 + \beta_1 \text{Gen} + \beta_2 \text{Edu} + \beta_3 \text{Age} + \beta_4 \text{Ten} + \beta_5 \text{FBG} + \varepsilon \qquad (3.2)$$

$$\text{FRQ} = \beta_0 + \beta_1 \text{Gen} + \beta_2 \text{Edu} + \beta_3 \text{Age} + \beta_4 \text{Ten} + \beta_5 \text{FBG} + \beta_6 \text{Vdc} + \beta_7 \text{AP} + \varepsilon \qquad (3.3)$$

Where:

FRQ =Financial reporting quality. It is measured using four different proxies namely; fundamental qualitative characteristics of accounting information, quality disclosures in annual reports, timeliness of reports and earnings quality).

Gen = Gender diversity of top management team

Edu =Education Background diversity of top management team

Age = Age diversity of top management team

Ten = Tenure diversity of top management team

FBG = Functional background diversity of top management team

Vdc = Corporate Voluntary disclosure

ACPL = Discretionary Accounting policies and methods

Table 3.3 Summary Of Research Objectives, Hypotheses, Analytical Methods, Statistical Test And Interpretation

Objective	Hypotheses	Analytical Model	Interpretation
1. To determine the effect of demographic diversity of top management team on financial reporting quality in commercial state corporations in Kenya.	**Hypothesis1:**Demographic diversity of top management team has no significant influence on financial reporting quality in kenyan commercial state corporations.	Multivariate Regression Equation: FRQ= f (gender, age, education, tenure and functional background). $FRQ = \beta0 + \beta_1 Gen + \beta_2 Edu + \beta_3 Age + \beta_4 Ten + \beta_5 FBG$	If the F- test yields a significant level less than 5% then null hypothesis will be rejected. If there is a positive coefficient of TLEs on the two variables, then null hypothesis is rejected. Or $\beta0 = 0$
2. To establish the effect of demographic diversity in TMT on discretionary accounting choices in commercial state corporations in Kenya.	**Hypothesis 2: D**emographic diversity of top executives has no significant effect on discretionary accounting choices in kenyan commercial state corporations.	Multivariate Regression Equation: Discretionary accounting choice (DAC) = f(gender,age,education, tenure and professional orientation) $DAC = \beta_0 + \beta_1 Gen + \beta_2 Edu + \beta_3 Age + \beta_4 Ten + \beta_5 FBG$	F –statistics test will be used to test for the significant at less than 5% level. Null hypothesis will be rejected if the level of discretionary accounting decision is zero.
3. To determine the relationship between discretionary accounting choices and financial reporting quality in commercial state corporations in Kenya.	**Hypothesis 3:** Discretionary Accounting choices have no significant relationship with financial reporting quality in kenyan commercial state corporations.	Multiple Regression Equation: FRQ = f (accounting policies, methods &voluntary disclosure). $FRQ = \beta_0 + \beta_6 Vdc + \beta_7 AP + \varepsilon$	If the F- test yields a significant level less than 5% then null hypothesis will be rejected. This is an indication that there is no relationship between accounting decisions variables and financial reporting quality variables.
4. Establish the influence of discretionary accounting choices on the relationships between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya	**Hypothesis 4:**The relationship between demographic diversity of top management team and financial reporting quality is not Mediated by discretionary accounting choices.	Step wise Multivariate Analysis $FRQ = \beta_0 + \beta_1 Gen + \beta_2 Edu + \beta_3 Age + \beta_4 Ten + \beta_5 FBG + \beta_6 Acm + \beta_7 Vdc + \beta_8 AP + \varepsilon$	Stepwise multivariate analysis and use the Baron and Kenny approach to test for the indirect effect of intervening variable(DAC). If the four condition are not fulfiled then reject the null hypothesis.

5. Determine the influence of corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.	**H05: The** influence of demographic diversity of top management team on financial reporting quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya.	Step wise regression analysis $FRQ = \beta_0 + \beta_1 Gen + \beta_2 Edu + \beta_3 Age + \beta_4 Ten + \beta_5 FBG + \beta_6 Acm + \beta_7 Vdc + \beta_8 AP + \varepsilon$	Use product coefficient to test for the moderating effect of corporate voluntary disclosure. If the indirect coefficient is zero the reject the null hypothesis. If zero order correlation between demographic diversity and FRQ is insignificant
6. Establish the joint effect of demographic diversity of top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya.	**H$_{06}$:** Demographic diversity of top executives and discretionary accounting choices do not jointly affect financial reporting quality in commercial state corporations in Kenya.	Stepwise regression Analysis $FRQ = \beta_0 + \beta_1 Gen + \beta_2 Edu + \beta_3 Age + \beta_4 Ten + \beta_5 FBG + \beta_6 Acm + \beta_7 Vdc + \beta_8 AP + \varepsilon$	Reject the null hypothesis when the level correlation coefficient is statistically above 0.05.

Source : Author 2014

3.8.1 Analysis of Financial Reporting Quality

A number of studies have used different measures for quality reporting. However, to measure the financial reporting quality comprehensively in the CSCs, four proxies were used to measure FRQ since there is no universally accepted measure(s) of FRQ (Deschow, Ge and Schrand, 2010). Secondly the use of a single proxy was unlikely to cover all facets of FRQ and to generalize results and test for robustness of the research results. This study used four models to assess the quality of financial and non-financial reporting information in the annual reports considering all dimensions. The study models used were: disclosure quality index, timeliness quality index, fundamental qualitative characteristics model and the earnings quality model.

Disclosure Quality Model

Chen et al., (2013) define disclosure quality (DQ) as account of numbers of non-missing items in firms' financial reports. It uses value weighted scheme to give more weight to items that presumably are more important to firm operations and thus to other stakeholders. The determination of this measure is based on the requirements of the statutes in the form of laws, professional regulations inform of international accounting standards and listing rules of stock exchanges (Graham, Harvey and Ragopal 2005). This measure allows for the determination of inclusive disclosure within the financial statements and help in assessing the level of compliance with mandatory disclosures. The model determines the extent of quality through disclosure quality index (Lang and Lundholm 2003).

 In order to measure FRQ, the study used disclosure quality index to test for the extent and the frequency of the overall quality disclosures based on all balance sheet and

income statement line items either reported in the financial statements or in the foot notes using disclosure quality model. Disclosure quality (DQ) model is an overall measure of fineness of financial statement information. It captures the level of details of accounting data items included in the annual reports. DQ Balance sheet (DQBS) index and DQ income statement (DQIS) index varies between 0 and 1 and is determined as:

$$DQ\ IS\ /DOBS = \sum_{k=1}^{n} \left(\frac{\# \text{ non} - \text{missing items}}{\text{Total } \# \text{ Items}} \right)_k X\ \frac{\text{Sh. I}_k}{\text{Sh.T.I}} \div 2 \qquad (3.5)$$

DQ IS uses an equal weighting to arrive at the Income Statement disclosure scores. A ratio of non-missing items in each group is determined, and then used to compute an equal- weighted DQ score for the income statement by averaging the ratio of non-missing items over the groups. DQ_{it} index is then computed by simple average of DQ BS and DQ IS indices which is then used as a measure of disclosure quality. The index used ranges from 'zero' to 'one', where 'index of one' is high quality disclosure and 'zero' is no disclosure. The study identified major accounts(noncurrent assets, current assets, current liabilities, non-current liabilities and equity) from statement of financial positions across all the firms presumed to be important for the stakeholders, namely; non-current assets 20 accounts, current assets 14 accounts, current liabilities 10 accounts, long-term liabilities and equity capital account 8 each. The missing items were drawn through screening mechanism of CSCs annual financial statement using leading Commercial state corporations (listed at NSE) due to lack of sufficient data for the targeted populations. Chen et al., (2013) suggest that well developed markets provide sufficient missing items with ease. This is arrived at after grouping the corporation into a cluster of sameness.

Timeliness of Financial Statements

Timeliness means having information available to decision makers before it loses its capacity to influence decisions' (IASB, 2008: 40). Timeliness is also used to measure financial reporting quality of firms. It is measured using the natural logarithm of amount of days between year-end and the signature on the auditors' report after year end.

Timeliness of financial reporting is operationalized as the number of days between fiscal year end of each commercial state corporation and the date of the audit report for each year examined. However, each commercial state corporation has its own reporting date but should be within the period not more than 3- 6 months after the end of a financial year. Ahmed (2003) timeliness of financial reports is useful for decision making before that information loose capacity to influence those decisions.

Fundamental Qualitative Characteristics

The qualitative characteristics have been used in many studies to proxy FRQ. The characteristics are divided into fundamental and enhancing characteristics. This study adopted faithful representation, relevance and understandability characteristics as measures of quality reporting. Relevance, faithfulness representation and understandability variables were analyzed using a five point rating scale to assess the scores on the items presented and disclosed in the financial statements of commercial state corporations and as used in IASB (2008) and Mahdavikhou &Khatanlou (2011). The characteristics were based on fourteen questions cutting across on both financial and nonfinancial accounting information. The points awarded to each question are used to compute standardized scores on each qualitative characteristic. The

standardized scores are added together then averaged, to ensure that both the characteristics are weighted equally. The scores range from 1 to 5; where 1 indicate poor quality and 5 implies excellence.

Jonas and Blanchet (2000) and Lee et al, (2002) developed questions referring to separate qualitative characteristics in order to assess information quality. The qualitative characteristics are divided into two major aspects, namely, the fundamental qualitative characteristics which are used to determine the content of financial reporting information and the enhancing qualitative characteristics used to enhance the fundamental characteristics. Beest et al. (2009) who used a 21- item index in determining FRQ in the listed companies in the US and UK confirms the reliability of the measures.

Discretionary Accruals

Dechow and Dichev (2002) suggest that a high quality accrual is eventually realized as cash flows. However, accruals that are made due to errors in estimations or earnings management will not be realized as cash flows. The Jones model of discretionary accrual (1991) has been identified as one of the best estimates of earnings management. The earnings quality is used to proxy FRQ of the commercial state corporations. The earnings are said to be of higher quality when they exhibit persistence, unbiased and sustainable to forecast future cash flows. Earnings management   is measured using discretionary accruals, either balance sheet or cash flow statement approach. The two approaches are meant to detect unusual figures associated with the reported amounts from the two financial statements.

The accrual based accounting is specified into, discretionary accruals and non-discretionary accruals. Bauwhede (2003, p.198) describes 'discretionary accruals as

that portion of the firm's accrual that cannot be explained by the company's normal operating activities. Non-discretionary accruals are accruals that lie in the line of expectations when looking at normal operating activities.' The difference between the two types of accrual depends on the influence the manager has to adjust the particular accrual. Discretionary accruals include managers' impact on accounting choices. The discretionary accrual (DACC) has to be determined from total accruals (TACC) of the firm at a particular period since it represent the greater degree of subjectivity and are open to manipulations. The firm's total accruals are defined as the change in non-cash current assets minus the change in current liabilities excluding the current portion of debts, minus depreciation and amortization, scaled by lagged total assets.

$$TACC_{i,t} = \Delta CA_{it} - \Delta CL_{it} - \Delta CASH_{it} + \Delta STD_{it} - DEP_{it} \quad\quad (3.6a)$$

Where: $TACC_{it}$ – is firm i's total accruals in year t, Δ is change in year firm i's, in year$_t$, CA is current asset, CL – is current liabilities, STD – is debt included in current liabilities from t-1 to year t. and CASH –is cash equivalent form t-1 to year t.

The total earnings quality is calculated using Collins and Hribar (2002) model as follows:

$$TACC_{i,t}/TA_{it-1} = \beta_1(1/TA_{it-1}) + \beta_2(\Delta Sales_{i,t} - \Delta REC_{i,t}/TA_{it-1}) + \beta_3(PPE_{i,t}/TA_{it-1})$$

$$+ \varepsilon_{i,t} \quad\quad (3.6b)$$

Where:

TACC = Total accruals of a given firm in year t (total accruals equal income before extraordinary items less operating cash flows); **TA** = Total assets; $\Delta Sales_{it}$- is change in firm i's Sales from year t-1 to year t, $\Delta REC_{i,t}$- is change in accounts receivable from year t-1 to year t, $PPE_{i,t}$- is firm i's gross property, plant & equipment at year t.

The estimates of β_1, β_2 and β_3 obtained from these regressions are then used to estimate discretionary accruals using modified jones model (1991) as follows:

$$DACC_{it} = TACC_{it}/TA_{it-1} - [\beta_1(1/TA_{it-1}) + \beta_2(\Delta Sales_{i,t} - \Delta RECi,t/TA_{it-1}) +$$

$$\beta_3 \frac{PPE_{it-1}}{TA_{it-1}} + \varepsilon i,t \qquad\qquad (3.6c)$$

Where**: DACC**= Discretionary accruals

Interpretation of discretionary accrual as a measure of quality is important. High amount of discretionary accruals indicate lower quality earnings and should be a red flag that management may be using an aggressive accounting to overstate earnings. However, high accruals may not always mean manipulation of earnings. Earning management may either increase the corporation's current earnings or defer the current earnings to the future accounting period.

3.8.2 Analysis of Demographic Diversity of Top Management Team

The study employed standard deviation, coefficient of variation and blau index to measure the maximum diversity of particular demographic attributes and heterogeneity. The minimum value of the blau and coefficient of variation indices equals (0) for all the diversity and maximum value equals (1). Other, Studies dealing with demographic characteristics such as gender, age, and ethnicity that have adopted the analysis techniques are (Krishnan and Park 2005; Harrison and Klein 2007) where the findings have been robust. Since gender, education and functional background are categorical variables; blau index was constructed to measure the variables. Frequencies were used to summarize the variables before determining blau heterogeneity index of TMTs across CSCs. TMTs' education heterogeneity was classified into six categories and TMT functional background heterogeneity into twelve categories using information from the pooled data. Blau index was then used to test for heterogeneity across the teams' gender, education background and functional background of the team of top management.

$$BI = \quad 1 - \Sigma p_{ij}^2 \qquad\qquad\qquad (3.7)$$

Where: BI is the blau index for state commercial corporations; P_i will be proportion of individuals in each category of diversity; j is the number of different categories or features across all the groups. Since age and tenure are continuous variables will be measured using number of years, however, top level management heterogeneity along this dimensions will be measured as coefficient of variation defined as:

$$CV = \delta / u \qquad\qquad\qquad (3.8)$$

Where: CV is coefficient of variation, δ is standard deviation of TMTs and u is the mean of TMT's age and tenure.

The focus of this study was to make comparison of demographic diversity of TMTs across commercial corporations. In order to make the comparison, the indices were normalized to allow comparisons among the groups by reducing the inflating effects on group size. Within the group size. The maximum value of a group diversity measurement is a function of the group size and distribution of members. All normalized indices range from (0 to 1).

3.8.3 Analysis of Discretionary Accounting Choices

Discretionary accounting measurement policies were measured using dummy variables to determine the level of accounting aggressive choices in the discretionary accounting policies. If accounting choice in $year_t$ is coded '1' if the aggressive policies are chosen by management or zero (0) is conservative accounting policies is selected.

Discretionary accounting policies or methods portfolio was formed after determining the standard scores. Each commercial state corporation annual report for the period 2004 to 2013 were reviewed and the accounting methods and policies employed by

each corporation recorded. The data collection process catalogued information related to each firm management choice of accounting methods in the following areas; revenue recognition, inventory valuation, depreciation of fixed assets, reserves and allowances and contigent liabilities. A score card approach was used to place each firm year into two groups as, conservative, aggressive, then use dichotomous or dummy variables to score the presence of each category. The dummy variables were then transformed into ratios for easy analysis to avoid constant variables.

This study measures corporate voluntary disclosure using disclosure index following Eng and Mark (2004). Each sample firm's annual report is scored based on aggregate of the points scored by the sample firm.

$$TI = \Sigma^m_{t=1} d_i \, / \, \Sigma^n_{t=1} d_i \qquad\qquad (3.9)$$

Where :

TI = is the voluntary disclosure index

$\Sigma^m_{t=1}$ = Total score for actual disclosure

$\Sigma^n_{t=1}$ = Total scores of expected voluntary disclosure

D = Disclosure item i.

m = the number of items which the company actually disclosed.

N = the maximum number of items which the company can disclose (or expected to disclose).

The model by Mark(2004) and Barako et al. (2007) are appropriate for this study following the items disclosed by commercial state corporations and in line with the definition of voluntary disclosure by Barako et al. (2007 pp. 118). He defined

disclosure as ' the release of financial and non-financial information through annual reports over and above the mandatory requirements either with regards to the Kenyan company law, professional accounting standards or any other relevant regulatory requirements'. Barako et al(2007) Model was used to identify the list of 44 voluntary items common in most commercial state corporations in Kenya. The items identified were categorized into four ; voluntary disclosures on general and strategic information, voluntary disclosure on financial data, forward-looking information and social and board disclosure information.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND PRESENTATIONS

4.1 Introduction

This chapter presents the results of data analysis, results and presentations, with an effort to interpret the findings and link them with other related studies. The chapter is structured according to the five hypotheses of the study. Section 4.2 outlines the descriptive statistics for the study variables, section 4.3 discusses the measurement of demographic diversity of top management team, section 4.4 discusses measurement of FRQ, section 4.5 discusses measurement of discretionary accounting choices, section 4.6 discusses measurement of corporate voluntary disclosure and section 4.7 discusses the chapter summary.

4.2 Descriptive Statistics

This section presents the general descriptive statistics of the results of the study variables, demographic diversity of TMTs, financial reporting quality, corporate voluntary disclosure and discretionary accounting choices in commercial state corporations in Kenya. The section summarizes the eleven study variables. The TMTs' demographic diversity is based on the management age, education level, tenure, gender and functional background. The five independent variables of the TMTs are summarized into two categories namely; continuous variables and categorical variables as shown in Table 4.1.

4.2.1 Descriptive Statistics for Continuous Variables

Table 4.1 Distribution of Top Management Tenure and Age Across the firms

	TMT- TENURE	TMT-AGE
Mean	3.2	52.7
Median	2.0	54.0
Mode	2.0	57.0
Std. Deviation	3.1	9.40
Variance	9.4	88.3
Skewness	1.3	-.137
Range	12.9	36.00
Minimum	.08	34.00
Maximum	13.0	70.00

Source: Research Data, 2014

Table 4.1 reports the descriptive results of the continuous independent variables; age and tenure. The most prominent results are the mode for top management teams' tenure (2 years) and age (57 years) and the range statistics of (12.9 years) and (36 years) respectively. This is an indication that majority of the top management teams are in the age bracket of 57 years and have at least served in the management position for a period not less than two years. The mode indicates that, the two variables, age and tenure can be relied on to determine the effect on dependent variables. The results of the range statistics is used in the study to show the difference between the maximum and minimum year of TMTs with respect to tenure and age. The results indicate that awide range exist in the two continuous independent variables. The range for tenure is (12.9 years) and age (36 years) is higher and this is supported with the minimum statistics (0.08 years, 34 years and maximum 13 years and 70 years respectively) results. This is an indication of higher variation in tenure and age across the commercial state corporations in Kenya. The variation is clearly supported by the standard deviation of the TMT tenure and age (3.1 years and 9.4 years) respectively. The variation is so close to the mean.

4.2.2 Descriptive Statistics for Independent Categorical Variables

The section summarizes the three independent variables namely; education, gender and functional background of TMT in commercial state corporations in Kenya. The summary of the statistics is shown in Table 4.2, 4.3 and 4.4.

Education background of top management team is considered as the most important factor in constituting a competent TMT in the corporate firms. 52.3% of the top management had bachelor's degree from various disciplines, 24% of the TMTs had master degree from various discipline, 5% of the TMTs had PhD degree and diploma certificate respectively. 1.2 % of the TMTs' had O/ A-level / Certificates. The results also indicate that (11.6%) of the TMTs' education background could not be established accurately from the historical data, hence was referred to as others. The distribution of the categories of TMTs education qualification is summarized in Table 4.2 as shown below:

Table 4.2 Distribution of Education Diversity Across the Commercial Corporations in Kenya

Highest Education Level	Frequency	Percentage
PhD	12	5.00
Master's Degree	58	24.00
Bachelor Degree	115	52.30
Diploma	12	5.00
O/A- Level/ certificate	3	1.20
Others	28	11.60
Total	**248**	**100.00**

Source: Research Data, 2014

4.2.2.1 Distribution of Top Management by Gender Across Corporations

The distribution of top management by gender within commercial state corporations in Kenya is summarized in table 4.3.

Table 4.3 Gender Distribution Across the Corporations

Gender	Frequency	Percent
Male	197	79.4
Female	51	20.6
Total	248	100.0

Source: Research Data, 2014

The descriptive results indicate that majority of top management team comprises 79.4 percent of male and 20.6 percent of female. The analysis clearly shows the existence of gender disparity in commercial state corporations in Kenya. Most of the top level management team in the commercial state corporations comprise more male than female. The result becomes significant for this study in determining whether the presence of male dominated management position or few female managers may have effect on the quality of annual financial reports. The results in Table 4.3 were used to determine how the variability in gender may affect the results in financial reporting quality.

4.2.2.2 Functional Background of Top Management Team

The study categorized the variable into twelve major functional areas namely; banking, civil service, politics, marketing and consultancy, accounting and finance, economics, engineering, law, medicine, military and other functional background that could not be traced or had general functional orientation. The study sought to use the variables in determining functional diversity within and across the commercial state corporations. TMTs' functional background is summarized as shown in Table 4.4.

Table 4.4 Distribution of Functional Background of Top Management Team

Functional Background	Frequencies	Percentage
Accounting and Finance	77	31.04
Engineering	24	9.68
General Management	22	8.87
Civil Service	18	7.26
Economists	17	6.85
Banking	17	6.85
Politics	15	6.05
Law	6	2.42
Consultancy &Marketing	6	2.42
Insurance	3	1.21
Military	4	1.21
Others not specified	39	15.72
Total	248	100.00

Source: Research Data, 2014

As shown in the Table 4.4, the majority of TMTs from commercial state corporations in Kenya have a functional background in accounting and finance (31.04%, 77). This means that most of the TMTs had both finance and accounting background or had worked either as chief finance officers, internal auditors, finance officers or chief accountants. The second prominent result shows that 16% of the TMTs functional background could not be determined. This group of the TMTs was grouped under the category of others since their functional and past orientation could not be established accurately from the historical data available. The other prominent results from the top management team with functional background in engineering, general management and civil service (9.68%, 8.87% and 7.26%). This is an indication that the commercial state corporations have diversified functional background in the top management team. The results justifies the inclusion of the variable in the study model.

4.2.3 Discretionary Accounting Choices and Voluntary Disclosure

These variables were summarized using mean index of aggressive accounting policies and estimates namely; inventory valuation, depreciation, revenue recognition, allowances, provisions and contingent liabilities. The study also summarized the level of corporate voluntary disclosures in the commercial state corporations in Kenya. Table 4.5 presents the summary of descriptive statistics of discretionary accounting policies (ACPL) and voluntary disclosure (VOLDC). The discretionary accounting choices are used in the study as mediating variable and voluntary disclosure as the moderating variable.

Table 4.5 Descriptive statistics of Discretionary Accounting Choices Indices

	Accounting Policies	Voluntary Disclosure
N	241	241
Mean	.596	.56154
Median	.600	.54545
Mode	.6	.54545
Std. Deviation	.1680	.32074
Variance	.045	.103
Skewness	3.072	3.347
Std. Error of Skewness	.157	.157
Kurtosis	1.004	24.132
Std. Error of Kurtosis	.312	.312
Range	0.8	2.9545
Minimum	.00	.00
Maximum	0.8	2.9545

Source: Research Data, 2014

The most prominent results between the two variables are in their mean. Discretionary accounting policies had mean index (0.596) with minimum value index (0.00) and maximum value index of (0.8). The standard deviation was not closer to the mean (0.1680). The voluntary disclosure mean index was (0.5154) with minimum value

index of (0.00) and maximum index of (2.9545). The two variables have the same standard error of Skewness (0.157) and standard error of kurtosis (0.312). This justifies the use of the measures in the model.

4.2.4 Financial Reporting Quality Variables

Financial reporting quality was measured using four distinct variables namely; disclosure quality, fundamental qualitative characteristics, earnings quality and timeliness quality. The descriptive statistics of the four variables indices are presented in Table 4.6.

Table 4.6 Descriptive statistics for financial reporting quality

Variable	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Disclosure quality	.000	1.00	.6215	0.2246	-0.555	0.750
Qualitative characteristics	.000	3.9	2.6	0.6712	-1.08	4.04
Earning quality	.0019	18.38	1.38	3.22	3.99	15.34
Timeliness	7.28	30.69	1.3	5.08	1.66	4.11

Source: Research Data, 2014

Table 4.6 reports the descriptive statistics of dependent variables, disclosure quality, fundamental qualitative characteristics, earnings quality and timeliness reporting. The most prominent results were the higher standard deviations of timeliness reporting of (5.08) and that of earnings quality (3.22) with minimum (7.28, 0.0019) and maximum (30.69, 18.38 respectively) days relative to other variable used for measuring FRQ as fundamental qualitative characteristics(0.6712) and disclosure quality (0.2246). This high standard deviation of timeliness reporting quality and earnings quality may indicate that our sample of commercial state corporations is of

different sizes and reporting dates. The standard deviation indicates how the FRQ values vary from the sample mean. Earnings quality is positively skewed (3.99) and timeliness reporting quality is also positively skewed (1.66). This is interpreted to mean that the mean index of earnings quality and timeliness reporting quality is greater than the median and the most frequent score than the mean. Disclosure quality and qualitative characteristics are negatively skewed from the mean. This is interpreted to mean that the mean is less than the median. Fundamental qualitatively has a mean (2.6) while earnings quality has a mean index of (1.38).The four measure of FRQ have a positive kurtosis each, an indication that the distribution of the variables are more peaked than the normal distribution. This shows that the variables did not meet the normal distribution curve symmetry requirement. The result justified why standardization and normalization of the variables are necessary and these were done before testing for the hypothesis in chapter five. To reduce the variation in t variables and outliers, the study transformed the raw data using square root transformation since the data collected were accounting in nature.

4.3 Demographic Diversity of Top Management Team in Commercial State Corporations

The study sought to determine the top management team demographic diversity based on five independent variables; age, tenure, education, gender and functional background. Pearson correlation was used to determine the relationship among the independent variables. The Pearson correlation was selected since it is a measure of linear relationship for continuous random variables and it does assume finite variance and finite covariance. The results are summarized in Table 4.7 below.

Table 4.7 Correlations of demographic diversity of TMTs

		Functional background	Education	Gender	Tenure	Age
Functional background	Pearson Correlation	1	.313[**]	.009	.121	.094
	Sig. (2-tailed)		.000	.893	.062	.145
	N	241	239	240	241	240
Education	Pearson Correlation	.313[**]	1	-.013	.042	.203[**]
	Sig. (2-tailed)	.000		.843	.515	.002
	N	239	239	239	239	238
Gender	Pearson Correlation	.009	-.013	1	-.079	-.140[*]
	Sig. (2-tailed)	.893	.843		.224	.030
	N	240	239	240	240	239
Tenure	Pearson Correlation	.121	.042	-.079	1	.036
	Sig. (2-tailed)	.062	.515	.224		.578
	N	241	239	240	241	240
Age	Pearson Correlation	.094	.203[**]	-.140[*]	.036	1
	Sig. (2-Zaq tailed)	.145	.002	.030	.578	
	N	240	238	239	240	240

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

The gender diversity variable and age diversity variable are inversely correlated (-0.140) at the 0.05 level of significant. The correlation is perfectly weak and cannot affect the use of the variables in the model since the correlation does not exceed 0.80(Gujarati (2003). This is an indication that the two variables can be used in the model to explain the changes in dependent variables.

The functional background and education diversity variables are positively correlated (0.313) at the level of significant 0.01. The correlation is a weak one that cannot affect the two variables in explaining changes in the dependent variables since the correlation does not exceed the limit of 0.80. Education diversity , gender and tenure have positive correlation but insignificant at the $p > 0.05$. The correlation among tenure

deversity, functional background and gender diversity are positively correlated (0.121, 0.42 and 0.036) but insignificant at the $p > 0.05$. In the absence of a strong positive correlation among the independent variables, it is therefore confirmed that independent variables are statistically significant due to the absence of Multicolliniarity in the independent model. This further means that the independent variables can be used to explain variations on financial reporting quality in commercial state corporations in Kenya.

4.3.1 Demographic Diversity Across Commercial State Corporations

The five demographic diversity variables among CSCs top management team namely; gender, education, functional background, age and tenure were measured using blau index for categorical variables (gender, education and functional background). The continuous variables were measured using coefficient of variation. The results of the measurements are summarized in Table 4.8.

Table 4.8: Age diversity of top management team of CSCs

Variation	d.f.	s.s.	m.s.	v.r.	F pr.
Firm	29	8.14143	0.28074	12.37	<.001
d.f.	s.e.	cv%	Grand mean	minimum std eror of difference	maximum error of difference
210	0.15063	57.6	0.26165	0.06736	0.13045

Source: Research Data, 2014

From the results obtained using cross-sectional analysis in the commercial state corporations in Kenya, the analysis of the variance results indicate that, age diversity is significant at the $p < 0.001$. This is supported with the variance ratio of 12.37 and mean squared of 0.28074. We therefore conclude that there is significance difference on age diversity across the commercial state corporations. Age diversity being a

continuous variable was measured using coefficient of variation at 57.6%. The age diversity mean is reported as 0.26165 with a minimum standard error of difference 0.15063 and maximum standard eror of difference (0.13045).

The tenure diversity among TMT of commercial State Corporation is shown in Table 4.9 below.

Table 4.9: Tenure diversity among TMT of commercial state corporations

.Variation	d.f.	s.s.	m.s.	v.r.	F pr.
Firm	29	5.34702	0.18438	4.04	<.001

s.e.	cv%	Grand mean	mini std error of difference	maxim std error of difference
0.2135	40.3	0.5303	0.0955	0.1849

Source: Genstat output

In examining the tenure diversity among TMTs across commercial state corporations, tenure was measured using covariance of variation. The across- sectional analysis revealed that tenure diversity exists at the P<0.001 supported with a variance ratio of (4.04). This is presented in table 4.7. The conclusion from the analysis was that there is significance difference on tenure diversity among TMTs across the commercial state corporations. The analysis provides standard eror (S.E.) of the mean 0.2135 and coefficient of variation of 40.3% and overall mean index of 0.5303. This is an indication of an average diversity of tenure across TMTs. However figure 4.2 shows that there is no significant difference between commercial state corporations that are listed in the Nairobi securities exchange and the non-listed commercial state corporations in Kenya. The highest commercial state corporation reported a mean diversity index (0.8298) and the lowest mean index (0.1854).

Table 4.10 Gender diversity among TMTs of commercial state corporations

Variation	d.f.	s.s.	m.s.	v.r.	F pr.	
Firm	29	4.00389	0.13807	5.71	<.001	
N	210	5.07687	0.02418			
Overall mean 0.28284 across firms						0.28284
Minimum standard error of difference						0.06954
Average standard error of difference						0.08217
Maximum standard error of difference						0.13465
standard error of the mean						0.1555
Minimum least significant difference						0.1371
Average least significant difference						0.162
Maximum least significant difference						0.2654

Source: Research Data, 2014

The study sought to determine gender diversity among TMTs of CSCs. The diversity was measured using blau index since gender is a categorical variable where the higher the index, the higher the diversity. After conducting cross sectional analysis using Genstat, the results in Table 4.8 shows the overall mean diversity index of gender among TMTs (0.28284) with a standard error of the mean (0.1555). This is an indication of low gender diversity since the index is less than one (1). This is supported by the minimum least significant difference (0.1371) and maximum least significant difference (0.2654) at the p- value <0.001. The level of diversity across the firms was almost the same for both the listed and non-listed commercial state corporations.

Table 4.11 Education background diversity among TMTs

Variation	d.f.	s.s.	m.s.	v.r.	F pr.	
Firm	29	6.02298	0.20769	12.65	<.001	
N	209	3.43094	0.01642			
Overall mean across firms						0.828
Minimum standard error of difference						0.0573
Average standard error of difference						0.06807
Maximum standard error of difference						0.11096
standard error of the mean						0.12812
Minimum least significant difference						0.113
Average least significant difference						0.1342
Maximum least significant difference						0.2187

Source: Research Data, 2014

In examining the level of education diversity among the TMTs, the researcher categorized education variable into six major categories, ranging from the highest level (PhD) to the lowest level (O/A- Level with certificate). A new category of education emerged and was categorized others. The variable became so important for this study since they scored substantial index within the TMTs. The findings in Table 4.9 show that, the standard error of the mean is 0.12812 and a grand mean diversity index across the firms of 0.82800 this indicates that the sample size was representative of the overall study population since the standard error of the mean was relatively smaller. This is interpreted to mean that the variable may be used to explain more on financial reporting quality proxied by earnings, qualitative characteristic, and timeliness reporting and disclosure quality.

The average standard error of difference (0.06807) and average least significance difference across the commercial state corporations are quite minimal. This implies that most of the firms had almost the same education diversity within the average least significance difference of 0.6807. The commercial state corporations reported a mean index of (0.828). The analysis of the variable using Genstat, indicates that the education diversity across the CSCs is significant at p value <0.001, supported by variance ratio (12.65).

Table 4.12 Functional background among TMTs in CSCs

Variation	d.f.	s.s.	m.s.	v.r.	F pr.
Firm	29	3.17264	0.1094	5.92	<.001
N	211	3.89807	0.01847		
Grand mean 0.85370					0.8537
Minimum standard error of difference					0.06079
Average standard error of difference					0.07173
Maximum standard error of difference					0.11771
standard error of the mean					0.13592
Minimum least significant difference					0.1198
Average least significant difference					0.1414
Maximum least significant difference					0.232

Source: Research Data, 2014

In measuring functional background diversity (FBG) among the TMTs across the CSCs, the researcher categorized TMTs' functional background into twelve categories. The blau index was applied to measure the level of diversity. The highest diversity of FBG is attained at (1) indicating the existence of heterogeneity and (0) as an indication of homogeneity. To test for the FBG diversity among the TMTs, the study employed a blau index to determine the diversity index among the TMTs within the twelve categories across the firms with results showing a standard error of 0.13592, coefficient of variation of 15.5 percent and mean diversity index of 0.85370. The standard error of 0.13592 describes the deviation from the sampling mean index of FBG diversity. The mean FBG index across the firms is >0 and$1 <$. This is an indication of functional background heterogeneity among the TMT. Using P-value to determine the diversity significance level among the TMTs, since p-value is less than 0.001, we conclude that there is significance difference on functional background deversity of TMTs across firms.

4.3.2 Heterogeneity Diversity Test for Demographic Diversity

Demographic diversity of the individual five indipendent variables were tested to determine the degree of heterogeneity across the firms (gender, age, education, tenure and functional background) after which a composite index was constructed for the two categories of five variables as summarized in section 4.2.1and 4.2.2. The composite index was basically used to test for the interactive effect of the mediating variables on dependent variable in chapter five. The degree of heterogeneity was calculated using blau index (1977) and coefficient of variation (CV). In the case of a perfectly homogeneous team, the team would have a diversity index of zero (0) and heterogeneity group would have the highest index of one (1). The strength of heterogeneity is described therefore between (0) and (1) assuming infinite categories

with equal representation in each category. As the number of categories increases, the maximum value of diversity index score also increases. For robustness of the result, control variable team size was considered; each team across the firms was set at eight members (5-audit committee members, CEO, CFO and internal Auditor). The diversity index of individual variables was then compared across the Kenyan commercial state corporations to determine the degree of heterogeneity of diversity as shown in Table 4.13.

Table 4.13: Degree of demographic diversity of TMT

Variable	Mean	Standard Error	Variance ratio
FBG Diversity	0.85370	0.15063	5.92
Educ Diversity	0.82800	0.2135	12.65
Tenure Diversity	0.5305	0.1555	4.04
Gender Diversity	0.28284	0.12812	5.71
Age Diversity	0.26165	0.13592	12.37
Overall Mean	0.5513	0.156734	

Source: Research Data, 2014

Table 4.13, present the mean, standard error of the mean variance ratio of all the demographic diversity variables. The most prominent variables are functional background and education diversity with mean of (0.85370 and 0.82800) and standard error of the mean (0.15063 and 0.2135). This is an indication that the top management teams of commercial state corporations have a highly diversified educated and experienced top management. This is supported with the small standard eror of the mean. the other variables that show little diversity are gender and age with mean of (0.28284 and 0.26165) with standard error of the mean (0.12812 and 0.13592). The level of significance can be interpreted for each variable using both blau index and

coefficient of variation between '0' and '1' to demonstrate the level of heterogeneity. Gender and age diversity of TMTs in commercial state corporations is perfectly weak and that of functional background and education diversity is almost positively strong since the index is approaching '1'. Tenure diversity is average at diversity index of 0.5303. The results justify the inclusion of the variables in the study model.

The composite index for the five variables is then constructed using simple average. This give a heterogeneity mean diversity index of 0.5513 which is >0 and 1<. This is an indication of average heterogeneity among the TMT in state commercial corporations. However, the individual diversity index for each variable is used in the regression linear model in chapter five in order to identify which individual variable has the most parsimonious set of predictors that are effective in predicting the financial reporting quality.

4.4 Financial Reporting Quality

In order to examine the level of financial reporting quality the study examined four variables used to proxy FRQ namely; timeliness quality of the annual reports, earnings management quality, disclosure quality and fundamental qualitative characteristics of accounting information. Each of the four variables was analyzed with a view of determining the trend. The trend within the commercial state corporations is presented using the mean, standard error difference for each state corporation. Each proxy for FRQ was measured using different models as discussed in chapter three.

4.4.1 Qualitative Characteristics

In order to determine qualitative characteristics of financial annual reports three variables were used namely, reliability, faithful representation and understandability.

Table 4.14 shows the mean index of 2.6086, standard error of 0.4486 and coefficient of variation of 17.2 percent. Therefore using fundamental qualitative characteristics (Relevance, faithful representation & understandability) as a measure of FRQ is shown in Table 4.14.

Table 4.14: Summary of qualitative characteristic measure of FRQ

d.f.	Overall Mean	S.E	CV%	MinSED	ASED	MaxSED
210	2.6933	0.4486	17.2	0.2006	0.2371	0.3885
				MinLSD	ALSD	MaxSED
				0.3955	0.4673	0.7659

Source: Research Data, 2014

The minimum squared error of difference (0.2006) and maximum squared error of difference (0.3885) are closer to each other. This is an indication that the variations in the mean of fundamental qualitative characteristics across the commercial state corporations are not great. The result is a show that qualitative characteristics are a good measure in the model. The variable was measured using three items namely; relevance, faithful representation and understandability.

4.4.1.1 Testing for Relevance of Accounting Information

The study sought to measure FRQ using relevance of accounting information by determing the presence of the four fundamental information in the annual reports. The four indicators used in describing relevant information are namely; presence of forward looking information(RI), presence of non-financial information and the extent to which it compliment financial information (R2), the use of fair view as opposed to historical cost(R3) and the extent to which reported results provide feedback to users of annual report (R4). Relevance elements is measured using a five point rating scale, point '5' being high quality hence have predictive/ confirmatory value. Point '1' is

low quality hence information is said to be less predictive value. The Table 4.15 below shows the summary of the results.

Table 4.15 Summary of relevance measurement items

Relevance measurement Items				
	R1	R2	R3	R4
Mean	2.9065	2.9246	2.8851	2.7908
Std. Error of Mean	0.07914	0.08086	0.05263	0.05186
Median	2.8456	2.8541	2.9271	2.7463
Std. Deviation	0.25027	0.2557	0.16643	0.16399
Range	0.76	0.78	0.53	0.48
Minimum	2.48	2.62	2.6	2.62
Maximum	3.24	3.4	3.13	3.1

Source: Research Data, 2014

Table 4.15, Shows the four items of relevance namely R1-forward looking information, R2- presence of non-financial information, R3 – use of fair value in the statements and R4 – provision of feedback information. The results showed that the examined annual financial statement had averagely provided forward looking information (R1). The findings are supported with minimum score (2.48) and maximum score (3.24). The second item (R2) also reported minimum score of (2.62) and maximum score of (3.40). This is an indication that annual financial statements of commercial state corporations fairly contained useful non-financial information in terms of business opportunities and risks. The results of the third item (R3) showed that most of commercial corporations used both fair value and historical cost in their statements. This is supported by the minimum mean (2.6) and maximum mean score (3.13). The fourth item (R4) was meant to test the extent to which annual financial state corporations provide feedback to the users of the reports. The results indicate that the feedback was present from the annual statements. The findings are supported by the minimum score (2.62) and maximum score of (3.10).

The four indicators of relevance (R1, R2, R3 and R4) were used to determine if annual financial statements of commercial state corporations have predictive and confirmatory value. The findings from the mean of the four items (2.9065, 2.9246, 2.8851 and 2.7908 respectively) and the standard error of the mean (0.07914, 0.08086, 0.05263 and 0.05186) is an indication that the items can be used fairly in the study model to predict and confirm the value of information useful to the decision makers. The standard error of the mean is fairly small, an indication of accuracy. The standard error is not far from the mean, an indication of less variability in making prediction using the statements.

4.4.1.2 Testing for Faithful Representation

The study used five items/indicators to test for faithful representation nature of accounting information in the commercial state corporations. The five items tested were namely; verification of good accounting estimates (F1), basis on choosing accounting principles (F2), highlighting both positive and negative events in financial reporting(F3), the nature of the auditor's report (F4) and information on corporate governance (F5). Table 4.17 and figure 4.18 show the summary of the findings.

Table 4.16 Faithful representation across the firms for 2013

F1	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
N	30	30	30	30	30	30	30	30	30	30
Mean	2.6	2.4	2.7	2.3	2.4	2.5	2.6	2.5	2.3	2.5
Std. Error of Mean	0.18	0.15	0.15	0.17	0.16	0.15	0.16	0.17	0.16	0.32
Mode	2	2	3	2	2	3	2	2	2	2
Std. Deviation	0.97	0.86	0.83	0.93	0.89	0.82	0.89	0.94	0.88	1.78
Range	3	3	4	4	4	3	3	3	3	1
Minimum	1	1	1	1	1	1	1	1	1	1
Maximum	4	4	5	5	5	4	4	4	4	11
				Statistics						
F2	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
N	30	30	30	30	30	30	29	28	29	29
Mean	2.7	2.3	2.68	2.5	2.81	2.8	2.9	2.5	2.4	2.38
Std. Error of Mean	0.15	0.13	0.13	0.12	0.1	0.11	0.13	0.12	0.14	0.11
Mode	2	2	3	2	3	3	3	2	2	2
Std. Deviation	0.84	0.65	0.75	0.68	0.54279	0.61	0.69	0.64	0.68	0.61
Range	3	3	3	3	2	2	3	2	3	2
Minimum	1	1	1	1	2	2	2	2	1	2
Maximum	4	4	4	4	4	4	5	4	4	4
F3				Statistics						
F3	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
N	30	30	30	30	30	30	30	30	30	30
Mean	2.8	2.8	2.6	2.63	2.5	2.4	2.3	2	1.8	2
Std. Error of Mean	0.16	0.18	0.21	0.19	0.22	0.23	0.24	0.27	0.3	0.31
Mode	3	2	2	2	2	2	2	2	0	0
Std. Deviation	0.86	1	1.1	1	1.2	1.2	1.3	1.5	1.7	1.7
Range	3	3	5	5	5	5	5	5	5	5
Minimum	2	2	0	0	0	0	0	0	0	0
Maximum	5	5	5	5	5	5	5	5	5	5
F4				Statistics						
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
N	30	30	30	30	30	30	30	30	30	30
Mean	3.4	3.5	3.27	3.17	3	3.1	3.03	2.7	2.7	2.6
Std. Error of Mean	0.11	0.12	0.14	0.17	0.15	0.16	0.19	0.26	0.31	0.31
Mode	3	3	3	3	3	3	3	3	3	4
Std. Deviation	0.6	0.7	0.8	0.9	0.9	0.9	1	1.4	1.7	1.7
Range	2	2	3	3	3	3	5	5	5	5
Minimum	3	3	2	2	2	2	0	0	0	0
Maximum	5	5	5	5	5	5	5	5	5	5
F5				Statistics						
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
N	30	30	30	30	30	30	30	30	30	30
Mean	3.3548	3.5484	3.1935	3.1	2.9032	3.129	2.903	1.9677	1.807	1.7097
Std. Error of Mean	0.21021	0.2013	0.23381	0.21	0.2241	0.231	0.264	0.2199	0.238	0.2135
Mode	3	4	3	3	3	3	2	2	2	2
Std. Deviation	1.17042	1.1207	1.30178	1.19	1.2478	1.284	1.469	1.2243	1.327	1.1887
Range	4	4	5	5	5	5	5	4	4	4
Minimum	1	1	0	0	0	0	0	0	0	0
Maximum	5	5	5	5	5	5	5	4	4	4

Source: Research Data, 2014

The finding across each year is shown in table 4.16, the items F1 recorded the highest mean of 2.6 (2013) and the lowest mean of 2.3(2010, 2005). F2 recorded the highest score in 2013 (2.7) and the lowest in 2004 (2.38). The overall mean score for the study period was provided. The highest mean in fundamental qualitative characteristic was 3.548 (2012) and the lowest standardized score was 1.7097 (2004). From the analysis using descriptive statistics, the mean was steadily rising from 2008. The most frequent score was three (3). Using the mode in rating financial reporting then FRQ is said to be above average with minimum score o zero and maximum of five.

4.4.1.3 Testing Understandability of Annual Statements

The testing for the understandability of annual statements was done using a five items/ indicators (U1, U2, U3, and U5) across the commercial state corporations. The item (U1) tested (to what extent the annual report presented in a well-organized manner?),(U2) tested (to what extent the notes to the balance sheet and the income statement sufficiently clear?), Item(U3) tested (to what extent the presence of graphs and tables clarifies the presented information), (U4) tested (to what extent the use of language and technical jargon in the annual report easy to follow?), and (U5) item tested (the size of the glossary in the annual statements?). The results for each item across the CSCs are presented in Table 4.17a, 4.17b, 4.17c, 4.17d, and 4.17e.

Table 4.17a: Presentation of well-organized information

	Mean	Standard Error	Mode	Minimum	Maximum
2013	3.5	0.3	1	1	5
2012	3.6	0.3	5	1	5
2011	3	0.3	5	1	5
2010	3	0.3	5	1	5
2009	3	0.3	5	1	5
2008	3	0.3	5	1	5
2007	2.6	0.3	5	1	5
2006	2.6	0.3	2	1	5
2005	2.4	0.3	3	1	5
2004	2.4	0.3	2	1	5

  Source: Research Data, 2014

The Table 4.17a shows that annual financial reports of commercial state corporations were ordered according to subsections of financial components. This was supported by mean (3.5) 2004. The minimum value (1) and maximum value (5.00) shows that the annual statements averagely presented the statements in a way that were understandable to users. The findings are supported by the standard error of the mean (0.3) which is consistent throughout the observation periods. Understandability is enhanced by organizing annual statements in various subsections namely assets, liabilities, equity capital, revenue, expenses profits and losses.

Table 4.17b: To what extent the notes to the balance sheet and the income statement sufficiently clear?

	Mean	Standard Error	Mode	Minimum	Maximum
2013	2.9	0.16	2	2	5
2012	3.0	0.18	3	2	5
2011	2.8	0.19	2	2	5
2010	2.7	0.21	2	2	5
2009	2.6	0.20	2	2	5
2008	2.6	0.21	3	2	5
2007	2.6	0.21	2	2	5
2006	2.6	0.21	3	2	5
2005	2.3	0.22	2	2	5
2004	2.2	0.22	3	2	5

 Source: Research Data, 2014

The study determines the extent to which notes to the balance sheet and the income statement are sufficiently clear. The results of the analysis is presented in Table 4.17b,which indicates that the most score point of rating to what extent annual statements provide clear information . Many of the commercial state corporations recorded (2.00) for the item (U1) and supported with minimum score (2.00) and maximum score (5.00). This indicates that the statements exhibit very short

description difficult to understand. The findings are consistent throughout the study period as shown with the mean (2.9.3.0, 2.8, 2.7, 2.6, 2.6, 2.6, 2, 6. 2.3 and 2.2 respectively).

Table 4.17c: To what extent the presence of graphs and tables clarifies the presented information

	Mean	standard Error	Mode	minimum	Maximum
2013	2.5	0.22	3	1	5
2012	2.4	0.22	3	1	5
2011	2.4	023	3	1	5
2010	2.2	0.21	2	1	5
2009	2.2	0.22	1	1	5
2008	2.2	0.22	1	1	5
2007	2.2	0.23	1	1	5
2006	1.7	0.20	1	1	5
2005	1.6	0.20	1	1	5
2004	1.7	0.22	1	1	5

Source: Research Data, 2014

The third item used to determine understandability of annual financial statement was tested using both minimum score (1.00) and maximum score (5.00). The item tested for the presence and use of graphs and tables in the presentation of the information. The minimum score (1.00) was used to indicate no graphs used in the presentations and maximum score (5.00) indicated the use of more than 10 graphs and tables. The findings from Table 4.17c show that most of the commercial state corporations' annual financial statements lack tables and graphs. This is depicted by the mode in the study for the entire study period (3, 3, 3,2,1,1,1,1,1 and 1,) respectively. The performance of most commercial corporation in use of graphs is supported by the mean error (0.22) indicating the clarity of the measure of item (U3). This is an indication of poor quality in terms of clarity of information.

Table 4.17d: To what extent the use of language and technical jargon in the annual report easy to follow?

	Mean	standard Error	Mode	Minimum	Maximum
2013	4.4	0.20	5	1	5
2012	4.5	0.20	5	1	5
2011	4.3	0.23	5	1	5
2010	4.4	0.22	5	1	5
2009	4.0	0.30	5	1	5
2008	4.0	0.30	5	1	5
2007	3.7	0.31	5	1	5
2006	4.0	0.41	5	1	5
2005	3.3	0.34	5	1	5
2004	3.3	0.34	5	1	5

Source: Research Data, 2014

The fourth item of understandability was tested using a minimum score (1.00) and maximum score (5.00) and gave results as shown in Table 4.19d. The minimum score (1.00) indicated the use of much jargon in the statements without adequate explanations and maximum score (5.00) indicated no jargons or extra ordinary explanations. The findings of the analysis are summarized using the mode trend (5.00) in the study. This is an indication that annual financial statements use simple language that is easy to understand. No use of technical language was detected in the analysis of the statements.

Table 4.17e: The size of the glossary in the annual statements?

	Mean	Standard Error	Mode	Minimum	Maximum
2013	1.2	012	1	1	5
2012	1.2	0.14	1	1	5
2011	1.3	0.13	1	1	5
2010	1.1	0.13	1	1	5
2009	1.1	0.14	1	1	5
2008	1.1	0.14	1	1	5
2007	1.1	0.15	1	1	5
2006	1.1	0.17	1	1	5
2005	1.1	0.15	1	1	5
2004	1.1	0.15	1	1	5

Source: Research Data, 2014

The fifth item was meant to test the presence and extent of the glossary in the annual statements. The measurement was done using a minimum score (1.00) indicating no glossary and maximum score (5.00) indicating the presence of glossary of at least two pages. The findings from the trend of the mode (1.000 revealed that most annual statements of commercial state corporations lack glossary. This is supported with the trend of the mean (1.2, 1.2, 1.3, 1.1, 1.1.1.1, 1.1, 1.1, 1.1 and 1.1). This means that the understandability of the statement is decreased by lack of glossary that may be used to explain annual financial information in brief.

4.4.2 Timeliness Quality

The study sought to measure quality reporting by using timeliness quality variable to determine the period the statements take to become public document. This variable was measured using number of days it takes each corporation to officially publish the annual statements. The study observed the number of days between corporations' fiscal year end and the time auditor general signs the annual reports and gives an opinion. The analysis and findings are shown in Table 4.18. The timeliness variation across the firms was evident at standard error 105.39 and coefficient of variation of 51.7%. The mean was 203.78 days. This means the statements takes at least 6months before they are released to the public.

Table 4.18a: Variation in timelines days of reporting

Source of variation	d.f.	s.s.	m.s.	v.r.	F pr.
Firm	29	5807510	200259	18.03	<.001
Residual	211	2343679	11107		
Total	240	8151189			
Mean		Standard Error	Covariance of variation %		
203.78		105	51.7		

Source: Research Data, 2014

Table 4.18b: Variation in timeliness according to ministry of affiliations

MINISTRY	ENTRY	MEAN
National treasury	5	149
Agriculture, livestock fisheries	8	251
East African, commerce & tourism	3	241
Education science &technology	1	203
Industrialization & enterprise development	3	165
Energy and petroleum	5	183
Transport and infrastructure	3	268
Information & communication	1	356
Water & sanitation	1	306

Source: Research Data, 2014

The results in Table 4.18b Shows that commercial state corporations affiliated to National Treasury take a few days (149) to publish their annual statements as compared to the rest. Through content analysis it was revealed that most of these corporations are in the banking and insurance industries that are heavily regulated. Hence, very prompt in releasing the information timely. Commercial state corporations in information and communication ministry take longer duration to publish their statements due to the procedure involved in clearing the annual reports. The CSC affiliated to this ministry takes an average of 356 days. The reason for delay is due to the size and audit procedures. This corporation has branches across the country, hence takes no longer period to consolidate its reports.

The content analysis of the annual statement shows the trend in timeliness quality reporting across the firms. The most prominent findings are that, CSCs not listed in NSE recorded the highest average number of days (788) between the fiscal end year and the time the general auditor signed the annual reports. But CSCs listed in NSE recorded the lowest average number of days (90) between the fiscal end year and the time the auditor general signed the annual reports.

4.4.3 Earnings Quality

This variable was measured using discretionary accrual model. The measurement was done by decomposing discretionary earnings from total accruals of each firm. The figures obtained from model were transformed using natural logarithm to deal with outliers or statistical leverage values. The model measures the degree of quality earning using coefficient of the regression or the standard error of estimates.

The Table 4.19 shows the results of the analysis and the consistency of the model, across-sectional analysis was conducted across the commercial state corporations for firms in each year of observation and results are shown in table 4.19

Table 4.19: Estimated total accrual quality in commercial state corporations

Year	Intercept	1/TA-1	(SA – RE)/TA-1	(PPE/ TA-1)	P-Value
2004	0.050	-0.149	0.347	0.422	0.986
2005	-0.322	-0.919	0.208	0.033	0.000
2006	-0.024	0.084	0.453	-0.184	0.254
2007	0.428	-0.055	-0.036	-0.116	0.908
2008	-0.032	0.073	1.274	-0.585	0.000
2009	2.066	0.047	-0.077	0.014	0.908
2010	-0.126	-0.033	-0.057	0.198	0.827
2011	0.386	-0.007	0.164	0.090	0.814
2012	0.125	0.140	-0.328	-0.004	0.291
2013	0.024	-0.066	0.018	-0.002	0.989

Source: Research Data, 2014

From the results of the analysis, there is a significant result in 2005 and 2008 with value<0.001. The other years 2004, 2006, 2007, 2009, 2010, 2011, 2012 and 2013 were insignificant according to the findings this does not mean the absence of accrual but just signifies the years the earnings were extremely abnormal. The coefficients shown in table 4.19 are then used to estimate discretionary accruals in each year of

observation. The result of analysis of the data in table 4.19 indicates that there were negative accruals across the commercial state corporations from the regression estimates. This is evident from the years (2005, 2006, 2010 and 2012) yielded negative discretionary accruals (-0.288303628,-0.081396653,-0.141864385 and -0.38278977). This is an indication that a negative profit in commercial state corporations has negative relationship with negative discretionary accruals. However, for the years with positive accruals (2004, 2007, 2008, 2009, 2011, and 2013) yielded (0.467827326, 0.401961056, 0.173959422, 1.995031647, 0.571360527 and 0.07493472). These indicate high discretionary accruals with profits and low financial reporting quality. The p-values are greater than 0.001. Chen (2011) confirms that modified Jones model can be tested for accuracy using R-squared and adjusted R- squared with p value (0, 0.08).However, the model some-times give a contradictory findings with p-value of greater than 10 percent which shows a flaw in the model. From the analysis of the data across the state commercial state corporations, 2005 and 2008 give a significant indication of discretionary accruals with $R^2 = 0.851$ and 0.889 and adjusted $R^2 = 0.807$ and 0.877 respectively.

Table 4.20: Test for discretionary accrual model across the years

Year	R^2	Adjusted R^2	Standard Error of estimate
2004	0.041	-0.918	0.045186
2005	0.851	0.807	1.011008
2006	0.142	0.043	0.2355775
2007	0.027	-0.085	1.50592
2008	0.889	0.877	0.279292
2009	0.008	-0.106	5.8195564
2010	0.026	-0.087	0.28935
2011	0.037	-0.074	2.78622
2012	0.131	0.030	0.36365
2013	0.009	-0.110	0.46568

Source: Research Data, 2014

4.4.4 Disclosure Quality

Disclosure quality (DQ) is considered an appropriate measure of overall quality of financial information as reflected in the level disaggregation in financial statements of CSCs. It captures the level of details of accounting data items included in the annual reports. It both uses maximum index of one (1) and minimum index of zero (0) for comprehensive income statement and statement of financial position. The index is arrived at by computing equal weighted scores from non-missing items in the two statements. The measurement involved counting the number of non-missing items in CSCs annual financial statements. The results of disclosure quality index are summarized in Table 4.21

Table 4.21: Disclosure quality index

Commercial state corporations	Mean	Standard Error of the mean	Minimum value	Maximum value
1	0.4529	0.0603	0	1
2	0.4548	0.0674	0	1
3	0.574	0.0853	0	1
4	0.6626	0.0635	0	1
5	0.6353	0.0603	0	1
6	0.6805	0.072	0	1
7	0.8736	0.0674	0	1
8	0.5136	0.0953	0	1
9	0.7947	0.0674	0	1
10	0.7295	0.0674	0	1
11	0.5633	0.0603	0	1
12	0.6374	0.0778	0	1
13	0.4306	0.0853	0	1
14	0.6238	0.072	0	1
15	0.746	0.072	0	1
16	0.5639	0.0603	0	1
17	0.7818	0.0635	0	1
18	0.8167	0.0603	0	1
19	0.733	0.0603	0	1
20	0.6429	0.0603	0	1
21	0.6264	0.1348	0	1
22	0.6083	0.0635	0	1
23	0.5477	0.0674	0	1
24	0.7556	0.0853	0	1
25	0.4034	0.0674	0	1
26	0.517	0.0953	0	1
27	0.3026	0.0603	0	1
28	0.5001	0.0674	0	1
29	0.6632	0.0635	0	1
30	0.7115	0.0603	0	1
TOTAL	**0.6216**	**0.1906**	**0**	**1**

Source: Research Data, 2014

The analysis in Table 4.21 shows that the lowest state corporation reported disclosure quality index of (0.3026) and standard error of the mean (0.0603) with in the minimum score (0) and maximum score of one(1). The highest disclosure quality index recorded by the commercial state corporation was at (0.8736) and standard error of (0.0674) within a minimum score index of zero(0) and a maximum index of one (1). The indication is that standard error of the mean for both the highest and lowest disclosure quality index are slightly the same (0.0603 and 0.0674). This small variation justifies the inclusion of the variable in the regression model. The major conclusion from the findings is that disclosure quality index in commercial state corporations in Kenya is above average and that disclosure quality index is a reliable measure of the financial reporting quality. This is supported by the overall mean index of (0.6216) and standard error (0.1906) within the minimum score of (0) and maximum score (1). The presence of the small value of standard error (0.1906) shows the reliability of the mean index in explaining variation in the study population .

Table 4.22: summary of disclosure quality index

Category	No of Firms	Mean Index	Percentage 16.67	Overall Mean	Standard Error
A	5	0 > < 0.5639	16.67	0.6216	0.1906
B	16	0.5700≥ <0.7999	53.33		
C	9	0.800 and 1.00	30		
	30	1.00	100.00		

Source: Research Data, 2014

The study uses results of overall mean index across the firms in order to determine the robustness of the disclosure quality index. The results in table 4.23 indicate that the overall quality of financial statements is above average (0.6216) using a minimum index (0) and maximum index of (1), with standard error of the mean of 0.1906.

To test for the robustness of the disclosure quality model, the commercial state corporations were grouped into three categories as per their disclosure quality mean index as shown in table 4.25. Group 'A' comprises commercial state corporations with disclosure quality index between (0) and (0.5639). The second group comprises CSCs with disclosure quality index between (0.5700 and 0.7000). The last group comprises all CSCs with the disclosure quality index (0.800 to 1.00). using a range of quality disclosure index between minimum index (0) and maximum index (1), then 16.67 percent of the CSCs' financial reporting quality was below the quality index of '1' (below 0.5) and 30 percent of the CSCs had reporting quality index of less than '1' but above 0.7. This was supported with significance difference results across the commercial state corporations is presentented in table 4.23.

Table 4.23: Significant difference across the commercial state corporations

Firms	Level of difference	Statistic Values
30	MinStandard Error of Difference	0.0853
	MaxStandard Error of Difference	0.1681
	Minimum Least Significant Difference	0.1681
	Maximum Significant Least Diffencee	0.3255

Source: Research Data, 2014

Table 4.23, present minimum standard error of difference (0.0853) and maximum standard d error of difference (0.1681) of disclosure quality index. This is an indication of how close or wide the variation is to the mean.

4.4.5 Correlation Between the Financial Reporting Quality Measures

The study uses four proxies in determining financial reporting quality in the commercial state corporations in Kenya. Each of the proxy looks at different elements within the annual financial statements. The correlation analysis between the variables

indicates that the measures are weakly correlated, hence may not affect the study model and results of regressions. Table 4.24 shows the degree of relationship among the measures. There is a significant correlation between disclosure quality and qualitative characteristics of accounting information (0.194). This is an indication that the two proxies can be used to measure the same items within the model, but with minimal effect.

The findings also exhibit a weak negative correlation between earning management quality and qualitative characteristics of accounting information (-0.197) and timeliness quality and qualitative characteristics of accounting information (-0.373). This is an indication that the two proxies can be used in the model to measure different items since they are inversely correlated.

Table 4.24: Correlation analysis among the financial reporting measures

		BDQ	QCHARAC	EARNING	Timeliness
Disclosure Quality	Pearson Correlation	1	.194**	-0.005	0.031
	Sig.		0.003	0.938	0.634
Characteristics	Pearson Correlation	.194**	1	-.197**	-.373**
	Sig.	0.003		0.003	0
Earning Quality	Pearson Correlation	-0.005	-.197**	1	0.076
	Sig.	0.938	0.003		0.253
Timeliness Quality	Pearson Correlation	0.031	-.373**	0.076	1
	Sig.	0.634	0	0.253	

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

4.5 Discretionary Accounting Choices

Top management teams have the discretion of making choices on accounting policies while preparing annual financial statements. The study sought to determine how discretionary accounting choice of , revenue recognition, valuation methods   of

inventories, cost of sales, depreciation methods, valuation of allowances, bad debts, warranty and contingent liabilities may be influenced by top management. The study groups the five items into two accounting choices; aggressive accounting policies and conservative accounting policies. The assumption is that all smoothening policies falls under conservative accounting choices. The study employed both content analysis and dichotomous variable to measure the use of aggressive accounting policies and conservative accounting policies. In order to quantify the findings all the dichotomous values were changed into ratios, expressed out of total scored out of expected scores.

4.5.1 Discretionary Accounting Policies

The study sought to determine the extent to which commercial state corporations use aggressive accounting policies in valuation and estimation of revenues earned, cost of sales, inventories, depreciation of fixed assets, allowances and contigent liabilities.

The descriptive statistics indicate that for accounting policies across all observations had overall mean of 0.60415 which is above average. This shows that most of the firms preferred aggressive policies in the preparations of financial statements. The use of aggressive of conservative accounting policies in revenue recognition, inventory valuation, estimates of provisions, bad debts and contigent liabilities was almost consistent. Through content analysis it was clear that almost all commercial state corporations clearly elaborated on any change of accounting policies and estimates. The policies used were adequately supported by relevant IFRSs and justification for the use provided. For example the depreciation method used across the commercial state corporations was basically straight line method and on revenue recognition there were variations across the corporations.

Table 4.25 Analysis of variance on discretionary accounting policies

Source of variation	d.f.	s.s.	m.s.	Variance ratio.	Fpr.
Firm	29	4.00571	0.13813	4.3	P<0.001
Residual	211	6.77014	0.03209		
Total	240	10.77585			

d.f.	Mean	standard error	coefficient of variation
211	0.60415	0.1791	29.6

Source: Research Data, 2014

4.6 Corporate Voluntary Disclosure

The study sought to determine the level of influence on corporate voluntary disclosure in commercial state corporations, by assessing the extent of accounting information disclosure on four major categories; general and strategic information, financial data, forward looking information and social and board disclosure.

4.6.1 General and Strategic Information

Thirteen items were used to determine the extent of general and strategic information across the firms by assigning value of one (1) score for each item disclosed within the financial statements and a value of zero(0) where the item is missing. Table 4.26 is used to present the summary of the findings.

Table 4.26: disclosure of strategic information

Items	No	Yes	Total
Information related to general outlook of economy	16	221	237
	6.8%	93.2%	100.00%
mission statement	41	196	237
	17.3%	82.7%	100.0%
brief history of the company	26	211	237
	11.0%	89.0%	100.0%
organization chart	47	190	237
	19.8%	80.2%	100.0%
description of major services	38	199	237
	16.0%	84.0%	100.0%
description of marketing networks	106	128	234
	45.3%	54.7%	100.0%
contribution to national economy	45	192	237
	19.0%	81.0%	100.0%
current business strategy	61	176	237
	25.7%	74.3%	100.0%
effect of business strategy on current performance	92	142	234
	39.3%	60.7%	100.0%
market share analysis	97	139	236
	41.1%	58.9%	100.0%
disclosure related to competition in the industry	100	137	237
	42.2%	57.8%	100.0%
decision about major regional economic development	82	155	237
	34.6%	65.4%	100.0%
information on political stability	119	114	233
	51.1%	48.9%	100.0%

Source: Research Data, 2014

The major findings show that out of the thirteen items evaluated, almost all the commercial state corporations annual financial statements contained information related to general outlook of economy at 93.2% (196). From the findings , other items that had the highest disclosure included; information on brief history of the company (89%), description of major services (84%), mission statement (82.7%) and contribution to national economy (81%). The most poorly disclosed items across commercial state corporations were; information on political stability (48.9%) and

description of marketing networks (54.7%). The major finding is that commercial state corporations generally disclosed sufficient general and strategic information in their annual financial statements.

4.6.2 Disclosure of Financial Data information

The study sought to measure the level of corporate voluntary disclosure using the number of disclosure on eight items testing on the extent the management provide the information voluntarily. The items were rated on a dichotomous rating. The summary on the section for the last two years or over is presented in the table 4.27 below.

Table 4.27: Summary of financial data

	Missing items	Disclosed	Total
financial data for the last TWO years or over	74	146	220
	33.6%	66.4%	100.0%
review of current financial result & discussions	43	194	237
	18.1%	81.9%	100.0%
statement concerning wealth created	111	125	236
	47.0%	53.0%	100.0%
inflation adjusted statement	155	82	237
	65.4%	34.6%	100.0%
ROA	153	84	237
	64.6%	35.4%	100.0%
ROE	144	93	237
	60.8%	39.2%	100.0%
Liquidity ratios	133	104	237
	56.1%	43.9%	100.0%
gearing ration	130	105	235
	55.3%	44.7%	100.0%

Source: Research Data, 2014

The findings show that the most disclosed item in the financial data were the review of current financial results and discussions of the major factors underlying performance (81.9% at a score of 194) and Summary of previously financial data for at least two years or over (66.4% at a score of 146) . This is an indication that commercial state corporations review their performance periodically. This kind of

review may impact on financial reporting quality by enhancing the users needs. The least disclosed item under this category was the statement of inflation adjustments (34.6% at a score of 82). This is an indication that most commercial state corporations did not provide for the adjustments of inflations in their statements. The lack of this information within the annual statements may impact on the FRQ. Other information disclosed were below 50%, were basically financial ratios namely; ROA, ROE, liquidity and gearing ratios with the percentage disclosure of (35.4%,39.2%,43.9% and 44.7%). The Summary of the findings is that out of the eight items used to measure the disclosure on financial data, five were below 50%. This is an indication of a weak corporate voluntary disclosure.

4.6.3 Forward Looking Information

The study sought to determine the level of voluntary disclosure in providing forward looking information in the financial annual statement of commercial state corporations. The findings of the analysis is presented in table 4.28

Table 4.28 : Summary of forward looking information disclosure

Items	No of firms Not Disclosed	No of Items Disclosed	Total Disclosure
factors affecting future performance	83 (37.7%)	137(62.3%)	220 (100.00%)
business strategy	80 (33.8%)	157(66.2%)	237(100.00%)
new product/service development	91 (38.6%)	145(61.4%)	236 (100.0%)
planned capital expenditure	161(67.9%)	76 (32.1%)	237 (100.00)
planned advertising and publicity	198 (83.5%)	39 (16.5%)	237 (100.00%)
EPS	159 (67.7%)	76 (32.3%)	235 (100.00%)
Sales revenue forecast	165 (71.1%)	67(28.9%)	232(100.00)
profit forecast	189 (81.1%)	44 (18.9%	233(100.00%)

Source: Research Data, 2014

From the analysis in table 4.29 most state corporations do not undertake voluntary disclosure of forward looking information in their annual statements. Most of the commercial state corporations scored slightly above average in the ereas of business strategy (66.2%), future performance (62.3%) and development of new products and services (61.4%). But scored poorly in the ereas of planned capital expenditure (32.1%), sales revenue forecast (28.9%), profit forecast (18.9%) and finally on advertising and publicity (16.5%). This is an indication that top management is not aggressive in providing more forward looking information to the stakeholders for decision making process.

4.6.4 Social and Board Disclosures Information

The study sought to determine the level of social and board disclosure in the annual financial statements of commercial state corporations in Kenya. The findings from analysis is presented in table 4.29

Table 4.29 : Summary of social and board disclosure

Items disclosure	Number of disclosures across the firms in %
number of employees	40.6%
change in employment numbers	34.0%
productivity per employee	7.2%
indication of employee morale	50.0%
workplace safety	32.2%
data on work place accident	13.6%
statement on CSR	74.2%
statement on environmental policy	76.6%
environmental projects	64.4%
community involvement	59.3%
name of directors	70.3%
academic and professional qualification of directors	61.9%
age of directors business experience of directors	59.3%
directors shareholding	33.1%
disclosure on senior management	89.8%

Source: Research Data, 2014

The findings in table 4.29 indicate   that most of the commercial state corporations do well in Corporate voluntary disclosures in the areas of senior management , environmental Policy, corporate social responsibility, name of directors and environmental project (89.8%, 76.6% and 74.2%, 70.3% and 64.4%) respectively. However, the commercial state corporations scored badly in the area of productivity per employee (7.2%). This should be a core area to address, given the commercial nature of the corporations. Figure 4.8 present the overall distribution of voluntary disclosure across the commercial state corporations in Kenya.

From content analysis of the annual statement of CSCs, the generally lower rate of corporate voluntary disclosure was mostly reported in commercial state corporations' affliated to the Ministry of Agriculture, Live stock and Fisheries. The tranformed data was then analyzed accross the CSCs using ANOVA as shown in Table 4.30.

Table 4.30 significance of corporate voluntary disclosure

Source of variation	d.f.	s.s.	m.s.	v.r.	F pr.
Firm	29	9.67133	0.33349	4.69	<.001
Residual	211	15.01883	0.07118		
Total	240	24.69017			
Mean	s.e.	cv%			
0.5615	0.2668	47.5			

Source: Research Data, 2014

Table 4.30 present the aggregate mean index of corporate voluntary disclosure for the commercial state corporations is (0.5615) with a standard error of 0.2668. The corporate voluntary disclosure is significant with variance ratio (4.69) and value <0.001. This justified the inclusion of the variable in the model. The variable can be used to explain the variation in the study model. This is also supported by the coefficient of variation of (47.5%). The variable is able to explain the variation up to a level of 47.5%.

4.6.5 Summary of Overall Study Variables

Table 4.31: Summary of Overall study variables

Variables	N	Grand Mean	Minimum Standard Error of difference	Average Standard Error of difference	Maximum standard Error of difference	Minimum Least Sig	Average least Sig	Max Least Sig
Age Div.	210	0.26165	0.06736	0.0796	0.13045	0.1328	0.1569	0.2572
Tenure	211	0.5303	0.0955	0.1127	0.1849	0.1882	0.2221	0.3645
Gender	210	0.28284	0.06954	0.08217	0.13465	0.1371	0.162	0.2654
Education	209	0.82800	0.0573	0.06807	0.11096	0.113	0.1342	0.2187
FBG	211	0.85370	0.06079	0.07173	0.11771	0.1198	0.1414	0.232
ACP	211	0.6045	0.0801	0.0945	0.1551	0.1579	0.863	0.3058
VOLD	211	0.5615	0.1193	0.1408	0.2311	0.2352	0.2775	0.4555
DQS	204	0.6216	0.0853	0.102	0.1651	0.1681	0.2012	0.3255
Earning mgt	207	1.382	1.32	1.616	2.556	2.603	3.187	5.041
Timelines	211	203.78	47.13	55.62	91.27	92.9	109.6	179.9
QCHR	210	2.6086	0.2006	0.2371	0.3885	0.3955	0.4673	0.7659

Source: Research Data, 2014

The most prominent variables in the model are timeliness quality, fundamental qualitative characteristics and earnings management quality which have reported high mean (203.78, 2.6 and 1.382 respectively) and maximum least significant difference (179.9, 5.041, 0.7659 respectively). Other variables, functional background, education, disclosure quality, accounting policies and voluntary disclosure have reported mean slightly above average (0.85370, 0.82800, 0.6216, 0.6045 and 0.5615 respectively) as compared to the other variables in the model. Age diversity and gender diversity reported mean of (0.28284, 0.26165) with the average standard error (0.08217 and0.0796) respectively. The results justify the inclusion of the variables in the study model. The diversity in age and gender seem to be weak the commercial state corporations given a minimum standard error of difference (0.06954, 0.06736) and maximum standard error of difference (0.13465, 0.13045).

4.7 Summary of the Chapter

The chapter presented the results of the data analysis, results and presentations on the analysis. The analysis done was based on four major variables in the study namely ; indipendent variables, moderating variable, intervening variables and dependent variables.

The analysis results categorized each variable according to the study objectives and hypothesis. The descriptive statistics used to summarize the SPSS and Genstat outputs. To ensure that the study variables fit the study models and provide reliable outcomes, data was normalized using natural logarithm to standardize the data, then the level of significant tested using variance ratio and p value statistics.

The study main focus was to determine the effect of demographic diversity of TMTs in commercial state corporation in Kenya. The diversity of the TMTs comprised five measures namely ; gender, education, functional background, age and tenure. The five variables were grouped into two major Categories- continuous variables (age and tenure) which was measured using coefficient of variation, within the range of zero to one. The second category included three variable referred to as categorical variables (gender, education and functional background). Variable under this category was measured using blau index. The values ranges from zero to one. The summary of the findings showed the level of heterogeneity of the entire set of five variables. Age diversity had an index of 0.26165 out of total index one(1) meaning the mojority of TMT were in their late fifties. This results become crtical in determining the contribution towards FRQ. Tenure of the TMT was average (0.5303 out maximum index of 1) and this become critical in determining the effect of tenure.

Categorical variables also provided robust results used for determining the effects. Gender had a little bit lower index as compared to the other variables in the same category (0.28284 out of the maximum index of 1). This was interpreted to mean that women were very few in the management team in commercial state corporations in Kenya. The distribution of female manager across the CSCs was expressed as 20.6% of the proportion of men. Thus further reveal that TMTs in CSCs are male dominated at 79. 4% at an average age of fifty and above. Education and functional background diversity in TMT were expressed at (0.82800 and 0.85370 out of maximum of 1). The index almost one which is highly heterogeneity which is the major focus for this study.

The financial reporting quality of the CSCs was measured using four variables namely, qualitative characteristics of accounting information, timeliness reporting, disclosure quality and earnings management. All the four Indicators showed that FRQ in commercial state corporations are below average. Timeliness reporting showed that on average firms take 204 or more days to release information to the public as compared to listed corporations in the heavily regulated industries which take an average of 90 day. Earnings management was evidence in 2005 and 2008, an indication of low quality reporting and manipulations of accounting figures. In terms of relevance and representation of faithful information, an average standard score of (2.6 out of maximum 5 score) was reported. This means information in commercial state corporations' statements are not highly predictive and confirmatory to the users.

In terms of corporate voluntary disclosure in commercial state corporations, four measures were used namely, general strategic information, financial data of the previous annual reports, forward looking information from MDA and chairmans reports and social and board disclosures. The summary of these measures were

averaged at (0.5615) out of maximum of 1). Discretionary accounting choices for five variables was averaged at o.6045 out of maximum of one(1). The index was showing the proportion of aggressive accounting policies adopted by the firms from one accounting period to the other. The findings are consistent with the study done by Barako (2007) in kenyan companies for Categories of information. His findings reveals low level of corporate disclosure.

Data used to test the six null hypotheses were collected using secondary data capture form in Appendix I, II, III and IV. The raw data was then tranformed, normalized and standardized as discussed in chapter four to remove the outliers Demographic diversity of TMT comprised five variables namely, age, gender, tenure, education and functional background. These variables were measured using blau index for the categorical variables (education, gender and functional background) and coefficient of variation for continuos variables (age and tenure). The measures used an index with minimum score of zero (0), meaning non existence of diversity and maximum score of one (1) meaning higher variability.

 As discribed in Table 4.39, the pearson's correlation was used to test for the linear relationship among the study variables. The results showed significant relationship between demographic diversity variables (age, tenure, gender and functional background) and financial reporting quality indicators (fundamental qualitative characteristics (r= 0.178,0.184, 0.230, p<0.01) and tenure had negative relationship with timeliness reporting (r= -0.231, p< 0.01) but no correlation with disclosure quality, earnings quality.

Finally the values of these four variables were fitted into the study models to determine the effect on FRQ as discussed in chapter five.

CHAPTER FIVE

DATA INTERPRETATION AND FINDINGS

5.1 Introduction

This chapter is built from chapter three, four and present the results on data presentation and findings on both theoretical and empirical studies in order to achieve the six study objectives. The first section focuses on testing of the hypotheses using correlation analysis, ordinary regression least square analysis and stepwise regression. The tests were done at 5% significant level ($\alpha = 0.05$). The study hypothesis were derived from the study objectives.

The second section deals with findings on both theoretical studies and empirical studies. This is done to support the findings with other ralated previous studies. The third section provides the summary of the research hypotheses.

5.2. Effect of Demographic Diversity on Financial Reporting Quality

The first objective of this study was designed to determine the effect of demogeraphic diversity in top management team on financial reporting quality in commercial state corporations in Kenya. This objective informed the formulation of hypothesis one that, demographic diversity of top management team has no significant effect on financial reporting quality in commercial state corporations in Kenya. The information came after the literature review and theoretical reasoning based on Hambrick and manson (1984) that associated demographic diversity in age, tenure, education, gender and functional background of top management with firms outcomes.

The demographic diversity refers to differences in position, opinion, human observable and cognitive characteristics. These différences are believed to be diverse and may impact on the composition of the TMTs. The diversity may be a seperation, variability or disperity. This study focuses on the diversity as variability in TMTs within age, gender, education, tenure and functional background. Indication from both empirical and theoretical literature show that the demographic diversity in top level managers should lead to a significant firm outcomes and high financial reporting quality. In contrast to this arguement, some findings show insignificant results with some demographic characteristics of top management. The current findings can be used in enhancing financial reporting quality in commercial state corporations and to put in place a well diversified team of top management and board of directors and audit committee. It was anticipated, therefore, that demographic diversity of TMTs would have no significant effect on financial reporting quality in commercial state corporations. The following null hypotheses were tested.

H01: Demographic diversity of top management team has no significant effect on financial reporting quality in the commercial state corporations in Kenya.

In order to test the effect, hypothesis one was dividend into four sub-hypotheses so at to test the effect of demographic diversity variable on each dependent variable. The following four sub hypotheses were derived from the hypothesis one.

H01a : Demographic diversity of top management team has no significant effect on disclosure quality in commercial state corporations in Kenya.

H01b : Demographic diversity of top management team has no significant effect on fundamental qualitative characteristics in commercial state corporations in Kenya.

H01c : Demographic diversity of top management team has no significant effect on earnings quality in commercial state corporations in Kenya.

H01d : Demographic diversity of top management team has no significant effect on timeliness quality in commercial state corporations in Kenya.

H01a : Demographic diversity of top management team has no significant effect on disclosure quality in commercial state corporations in Kenya.

In testing the first sub- hypothesis, the five demographic diversity variables were entered into the model against the response variable disclosure quality using stepwise regression. The results of the regression coefficients show that, tenure diversity, education diversity and functional diversity are positively related to disclosure quality but insignificant in explaining the effect. Age and gender diversity are inversely associated with disclosure quality and are insignificant in explaining the effect on disclosure quality.

The multiple regression stepwise analysis generated five regression models as presented inTable 5.1a, 5.1b, 5.1c and 5.1d below.

Table 5.1a (i): Regression results of demographic diversity effect on disclosure quality

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.018[a]	.000	-.004	.225310845432
2	.033[b]	.001	-.008	.225720296626
3	.093[c]	.009	-.005	.225362268553
4	.101[d]	.010	-.007	.225668134390
5	.155[e]	.024	.002	.224605616224

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.004	1	.004	.073	.787[a]
	Residual	11.625	229	.051		
	Total	11.629	230			
2	Regression	.012	2	.006	.121	.886[b]
	Residual	11.617	228	.051		
	Total	11.629	230			
3	Regression	.100	3	.033	.656	.580[c]
	Residual	11.529	227	.051		
	Total	11.629	230			
4	Regression	.120	4	.030	.587	.672[d]
	Residual	11.509	226	.051		
	Total	11.629	230			
5	Regression	.278	5	.056	1.103	.360[e]
	Residual	11.351	225	.050		
	Total	11.629	230			

a. Predictors: (Constant), Age
b. Predictors: (Constant), Age, Tenure
c. Predictors: (Constant), Age, Tenure, Gender
d. Predictors: (Constant), Age, Tenure, Gender, Education
e. Predictors: (Constant), Age, Tenure, Gender, Education, Functional Background

From the stepwise regression results in Table 5.1a above, five models have been generated using stepwise approach. The stepwise multiple regression model number five is the most insignificant model since it has the inclusion of all the demographic diversity ; the results are insignificant at the set confidence level of 95%.

Also from the model it can be observed that as one moves from the stepwise model number one to five, the standard error of the estimate keeps decreasing and increasing

thus not stable. So does the F values. The Adjusted R-squared also keeps improving from (-0.004) to (0.002). Model five indicates that the effect on disclosure quality is insignificant at p= 0.360.Model five shows a weak relationship between demographic diversity of TMT and disclosure quality, implying that the demographic diversity of TMTs only explain 2.0% of change in the CSCs disclosure quality.

Further analysis from correlations indicate that there is no significant relationship between demographic diversity and disclosure quality. The model therefore is unfit to explain the effect of demographic diversity on FRQ using the disclosure quality. . Since the test for significant ($P < 0.001$) is not attained with all independent variables, the proposition that demographic diversity of TMT has no significant effect on (financial reporting quality) disclosure quality is therefore confirmed.

Table 5.1a (ii) : Pearson correlation between demographic diversity and disclosure quality

Variables		
		Disclosure Quality
Disclosure Quality	Pearson Correlation	1
	Sig. (2-tailed)	
AGE	Pearson Correlation	0.013
	Sig. (2-tailed)	0.841
TENURE	Pearson Correlation	0.028
	Sig. (2-tailed)	0.666
GENDER	Pearson Correlation	-0.087
	Sig. (2-tailed)	0.186
EDUCATION	Pearson Correlation	0.04
	Sig. (2-tailed)	0.547
FBG	Pearson Correlation	0.126
	Sig. (2-tailed)	0.054[*]
*. Correlation is significant at the 0.05 level (2-tailed).		
**. Correlation is significant at the 0.01 level (2-tailed).		

H01b : *Demographic diversity of top management team has no significant effect on fundamental qualitative characteristics in commercial state corporations in Kenya.*

In testing sub-hypothesis ($H0_{1b}$), stepwise regression was used and the regression model results show significant effect of all the demographic diversity variables (age diversity, tenure diversity, gender diversity, education diversity and functional diversity) on FRQ proxied by fundamental qualitative characteristics. The fundamental qualitative characteristics were measured using three items (relevance, faithful representation and understandability). The three items were measured using standardized scores. The minimum score was one (1) and the maximum score was five (5). The three items were then combined together to get a standardized scores used in the regression model. The information on the measures were collected through secondary data capture form in Appendix I, II and IV. Table 5.1b(i) below presents the results of the five demographic diversity variables and fundamental qualitative characteristics.

Table 5.1b(i) : Regression results of demographic effect on fundamental qualitative characteristics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.181[a]	.033	.029	.66160372418
2	.254[b]	.064	.056	.65211867164
3	.287[c]	.082	.071	.64716751312
4	.305[d]	.093	.077	.64483947177
5	.384[e]	.147	.129	.62659314162

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.492	1	3.492	7.977	.005[a]
	Residual	102.864	235	.438		
	Total	106.356	236			
2	Regression	6.845	2	3.423	8.048	.000[b]
	Residual	99.511	234	.425		
	Total	106.356	236			
3	Regression	8.769	3	2.923	6.979	.000[c]
	Residual	97.586	233	.419		
	Total	106.356	236			
4	Regression	9.886	4	2.471	5.944	.000[d]
	Residual	96.470	232	.416		
	Total	106.356	236			
5	Regression	15.661	5	3.132	7.978	.000[e]
	Residual	90.695	231	.393		
	Total	106.356	236			

a. Predictors: (Constant), Age
b. Predictors: (Constant), Age, Tenure
c. Predictors: (Constant), Age, Tenure, Gender
d. Predictors: (Constant), Age, Tenure, Gender, Education
e. Predictors: (Constant), Age, Tenure, Gender, Education, Functional background
f. Dependent Variable: Qualitative Characteristics

From the regression results in Table 5.1b(i) above, five models have been generated using stepwise approach. The stepwise multiple regression model number five is the most significant model since it has the inclusion of all the five demographic diversity variables of TMTs ; the results are significant at the set confidence level of 95%.

Also from the model it can be observed that as one moves from the stepwise model number one to five, the standard error of the estimate keeps decreasing from (0.66160372418) to (0.62659314162) as so does the F values. The adjusted R-squared also keeps improving from (0.029) to (0.129).This implies that 12.9 % of change in

fundamental qualitative characteristics of accounting information is explained by the five demographic diversity variables of TMTs in commercial state corporations in Kenya.

In order to determine which variable is the most parsimonious in explaining the change in financial reporting quality as proxied by fundamental qualitative characteristics. Table 5.1b (ii) shows the contribution of each demographic diversity variable of TMTs in commercial state corporations.

Table 5.1b (ii) : Beta coefficients results of demographic diversity effect on qualitative characteristics

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
5	(Constant)	2.020	.273		7.398	.000		
	AGE	.498	.180	.173	2.760	.005	.942	1.061
	TENURE	.394	.165	.146	2.386	.018	.985	1.016
	GENDER	-.476	.213	-.138	-2.235	.026	.970	1.030
	EDUCATION	-.567	.222	-.162	-2.548	.011	.908	1.101
	FBG	.991	.258	.241	3.835	.000	.933	1.072

The findings of the relationship is confirmed by the results of regression coefficients (0.173, 0.146,- 0.138, -0.162, and 0.241). The regression coefficients reveal the level of contribution at level of significant of 5% with all the variables. The most demographic diversity variables contributing positively to the change in financial reporting quality are ; functional background, age and tenure. (B= 0.241, 0.173 and 0,146). The three variables are positively related to FRQ using fundamental qualitative characteristics.

Further findings reveal that gender and education are significant at p= < 0.05 but negatively associated with FRQ. They contribute to the study inversely, where a unit

change in education diversity and gender diversity will results into enhancement of financial reporting quality in commercial state corporations by (16.2% and 13.8%). the interpretation is that demographic diversity has effect on financial reporting quality. The five variables used in measuring demographic diversity of TMT exhibit both negative and positive coefficient. Model five being the most significant model indicates that the effect on fundamental qualitative characteristics is significant at p= 0.000 and has weak positive relationship between demographic diversity of TMT and fundamental qualitative characteristics. Hence sub hypothesis H01b is rejected.

H01c : Demographic diversity of top management team has no significant effect on earnings quality in commercial state corporations in Kenya.

In testing the sub-hypothesis ($H0_{1c}$), multi-linear regression analysis was used. The linear regression results indicate significant effect with functional background diversity and age diversity in TMT. The results of the regression is shown in Table 5.1c, The adjusted coefficient of determination is (0.070) and F-statistics of 4.389.The relationship between demographic diversity and earnings quality is positive. This implies that only 7% of the variance in earnings quality is explained by the two variables. The remaining 93% is explained by other factors not in this model.

Further results of the regression analysis show that three demographic diversity variables (gender, education and tenure) have insignificant effect with earnings management quality. The results only show significant effect between TMTs' functional background, age on earnings quality. The functional diversity and age are inversely related to earnings quality (b=-0.235, -0.118 t=-3.529, -1.769). This is interpreted to mean that earnings quality improves inversely with functional diversity and age diversity. Good financial reporting improves with the reduction of diversity in

age and functional background of the TMTs in commercial state corporations. The effect is described as negative relationship. Table 5.1c represent the out come of the model.

Table 5.1c : Beta coefficients results of demographic diversity effect on earnings   management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.302a	0.091	0.07	0.7657609		
			ANOVA(b)			
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.868	5	2.574	4.389	.001
	Residual	128.419	219	0.586		
	Total	141.287	224			
			Coefficients(a)			
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.835	0.346		5.299	0
	AGE	-0.405	0.229	-0.118	-1.769	0.045
	TENURE	-0.325	0.214	-0.098	-1.519	0.13
	GENDER	0.258	0.271	0.063	0.951	0.343
	EDUCATION	0.09	0.275	0.022	0.327	0.744
	FBG	-1.162	0.329	-0.235	-3.529	0.001

a. Predictors: (Constant), Functional Background, Gender, Tenure, Age, Education

b. Dependent Variable: Earning Management

The interpretation of the findings is that a unit change in functional background diversity, would result in a reduction of financial reporting quality by -0.235(23.5%). The implication is that appointement in top management a long functional background and age is critical and has impact on FRQ in state commercial state corporations. The two variables give the size of the effect of indipendent variables on the predicted variable.

Since two out of five variable within the model are significant with earnings quality management. The interpretation is that functional background and age diversity

influences the level of financial quality. The sub-hypothesis is not confirmed, thus the nul hypothesis is rejected.

H01d : Demographic diversity of top management team has no significant effect on timeliness quality in commercial state corporations in Kenya in Kenya.

In testing the sub-hypothesis ($H0_{1d}$), the results of regression showed significant effect with timeliness quality variables. Table 5.1d (i) and (ii) present the effect of demographic diversity of TMTs on timeliness reporting. The result from model summary shows that adjusted R-square is 0.053 implying that 5.3% of the variation in FRQ in commercial state corporations is explained by age and tenure of TMT. The relationship between demographic diversity and timeliness in reporting is positive.

The beta values for tenure diversity and age were significant at p= 0.05 level of significant. F- statistics is 3.668 and p =0.003. The beta coefficients in Table 5.1d (ii) indicate that out of five demographic variables of TMT namely ; age, gender, tenure, education and functional background, only age diversity and tenure diversity have significant effect on FRQ. Tenure diversity is inversely associated with FRQ (B= -0.236, t= -3.741). This implies that a unit change in tenure diversity would result to reduction in FRQ by 0.239 (23.9%). Using timeliness reporting quality would mean that FRQ would improves as number of days to release financial statement improves. Age diversity has a positive coefficient (B= 0.120, t= 1.842). The implication of this result is that a change in age diversity by a unit (index) will result into an increase in FRQ by 0.120 (12%). This means that the number of days will increase resulting to reduction in FRQ. It therefore means it will take CSCs longer days to provide information to the public. Age diversity becomes a factor in determining timeliness in reporting in CSCs in Kenya. Since the two variables reveal significant effect on

timeliness and adjusted R^2 account for 5.3% variability in timeliness in reporting at 5% level of significant, thus the sub-hypothesis two (d) is rejected.

Table 5.1d (i) Regression model summary for demographic diversity and timeliness

Model Summary	R	R-Square	Adjusted R^2	Std. Error of Estimate
	0.271	0.073	0.053	4.9677845235

Table 5.1d: Demographic effect on timeliness reporting quality

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	452.552	5	90.510	3.668	0.003
	Residual	5725.501	232	24.679		
	Total	6178.053	237			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	13.537	1.985		6.820	.000		
	AGE	2.635	1.430	.120	1.842	.046	.938	1.066
	TENURE	-4.863	1.300	-.239	-3.741	.000	.979	1.022
	GENDER	.604	1.678	.023	.360	.719	.974	1.027
	EDUCATION	-.617	1.733	-.024	-.356	.722	.871	1.148
	FBG	2.421	1.986	.082	1.219	.224	.890	1.123

a. Predictors: (Constant), functional Background, gender, tenure, age, education

b. Dependent Variable: Timeliness in Days

The test for the hypothesis one shows that demographic diversity variables (functional background, education diversity, gender diversity, age and tenure diversity) are statistically significant with fundamental qualitative characteristics, earnings quality management and timeliness quality. The results only had insignificant effect on disclosure quality. The overall findings show that, out of the four dependent

indicators namely ; disclosure quality, qualitative characteristics, earnings quality and timeliness reporting, at-least three indicators (fundamental qualitative characteristics, earnings quality and timeliness quality) are statistically significant with group of demographic diversity variables namely age, gender, education, tenure and functional background as shown in the regression results in Table 5.1a- 5.1d above . The hypothesis one is therefore rejected.

5.3 The Influence of Demographic Diversity on Discretionary Accounting Choices

The second objective of this study was to examine how discretionary accounting choices are influenced by demographic diversity of top management team in Kenyan commercial state corporations. From the theory and empirical findings, demographic diversity of top management have provided mixed results with accounting choices. Most studies have looked at the effect of diversity across CFOs, CEOs, BoDs and audit committee. The accounting choices have also varied accross each study. The findings are mixed with some demographic factors providing significant positive relationship on discretionary accounting choices and other studies providing negative relationship with varied discretionary accounting choices. The focus of this study was on the five discretionary accounting choices namely ; revenue recognition policies, inventory and cost of sales methods, depreciation methods, provisions and bad debts and contigent liabilities. It would be expected, therefore that, demographic diversity would not have significant effect on discretionary accounting choices made by top management team in commercial state corporations in Kenya. Hence, the following hypothesis.

H $_{02}$: Demographic diversity of top management team has no significance influence on discretionary accounting choices in commercial state corporations in Kenya.

In order to test hypothesis two multiple linear regression and correlation analysis were used. Standardized indices of five demographic diversity variables and DAC scores were entered into the model. The results from regression analysis is presented in Table 5.2a below.

Table 5.2a : Regression results for demographic diversity and discretionary accounting choices

Model	Unstandardized Coefficients		Standardized Coefficients	T	F	R	R^2	AdjR^2	Sig.
	B	Std. Error	Beta						
1 (Constant)	.447	.063		7.082	7.172	0.366	0.134	0.115	.000
AGE	.044	.046	.061	.963					.337
TENURE	.085	.041	.127	2.053					.041
GENDER	-.040	.053	-.046	-.740					.460
EDUCATION	.282	.055	.335	5.114					.000
FBG	-.153	.063	-.157	-2.418					.016

a. Predictors: (Constant), Functional Background, Gender, Tenure, Age, Education

b. Dependent Variable: Accounting policies

The linear regression results (beta = 0.61, 0.127, 0.335 and -0.157, t= 0.963,2.053, 5.114 and -2.4.418 respectively with, p < 0.05).The findings presented in Table 5.2a shows that adjusted R^2 is (0.115) meaning   only 11.5% of the variation in discretionary accounting choices is explained by the combination of three demographic diversity variables, namely ; tenure, education and functional background. This is an indication that education diversity is positively (B=0.334) associated with discretionary accounting choices made by top management, hence, has the highest contributing coefficient factor then followed by tenure diversity (B= 0.127). The implication is that a unit change in education diversity and tenure

diversity would result to an increase in the use of discretionary accounting policies by 33.4% and 12.7% respectively. Functional background of the TMTs is inversely related to discretionary accounting choices made by top management (beta= -0.157). Meaning a change in the functional diversity will result into a decrease in the use of aggressive accounting policies. The finding is consistent with past empirical findings and theoretical understandings. For example Bamber (2010).

The pearson's product moment correlation coefficient for demographic diversity(age and education) of top management was (r= 0.127 $p<0.05$ and 0.307 $p<0.01$ respectively) in Table 4.41 in chapter four shows that atleast two variables (age diversity and education diversity is positive and significantly related to discretionary accounting choices made by TMTs in commercial state corporations in Kenya. This leads to the rejection of the null hypothesis that there is no significant effect of demographic diversity of TMTs on discretionary accounting choices.

Table 5.2b : Correlation between demographic diversity and discretionary accounting choices

				Correlations				
		AGE	TENURE	GENDER	EDUCA	FBG	ACPL	VOLDC
AGE		1	0.024	-.136*	.207**	0.09	.127*	-0.125
	Sig.		0.714	0.035	0.001	0.166	0.049	0.053
TENURE		0.024	1	-0.079	0.042	0.121	0.122	0.104
	Sig.	0.714		0.224	0.515	0.062	0.059	0.108
GENDER		-.136*	-0.079	1	-0.013	0.009	-0.076	0.035
	Sig.	0.035	0.224		0.843	0.893	0.24	0.586
EDUCA		.207**	0.042	-0.013	1	.313**	.307**	-0.023
	Sig.	0.001	0.515	0.843		0	0	0.724
FBG		0.09	0.121	0.009	.313**	1	-0.03	-0.012
	Sig.	0.166	0.062	0.893	0		0.646	0.853
ACPL		.127*	0.122	-0.076	.307**	-0.03	1	0.113
	Sig.	0.049	0.059	0.24	0	0.646		0.08
VOLDC		-0.125	0.104	0.035	-0.023	-0.012	0.113	1
	Sig.	0.053	0.108	0.586	0.724	0.853	0.08	
*. Correlation is significant at the 0.05 level (2-tailed).								
**. Correlation is significant at the 0.01 level (2-tailed).								

The Table 5.2b shows that discretionary accounting policies are positively (0.127, p< 0.05) associated with age diversity. This signifies that the more diverse the age of TMT, the more the agggressive accounting policies will be selected. It also shows that education diversity has apositive relationship with discretionary accounting policies (0.307, p<0.01). This implies that the selection of aggressive accounting policies will increase with the diversity in education.

5.4 Relationship Between Discretionary Accounting Choices and Financial Reporting Quality

The third objective of this study was to determine the relationship between discretionary accounting choices and financial reporting quality in commercial state corporations in Kenya. From empirical studies and theoretical understandings is that accounting choices are channels through which managers affect financial reporting quality. Most of the studies reviewed have so much concentrated in measuring FRQ using earnings management, but this is not the only measure for FRQ, there are other measures namely ; disclosure quality, fundamental qualitative characteristics and timeliness in reporting. The use of earnings management as a measure of FRQ has given mixed results with different independent variables. Therefore, it is anticipated in this study that the use of discretionary accounting choices would not have any significant relationship with other FRQ proxies. Hence, the following hypothesis.

H_{03}: Discretionary accounting choices have no significance relationship with financial reporting quality in commercial state corporations in Kenya.

Hypothesis three was subdivided into four sub-hypotheses in order to test for the effect of discretionary accounting choices on the four proxies of financial reporting quality.

H 03a : Discretionary accounting choices have no significance relationship with disclosure quality in commercial state corporations in Kenya.

H 03b : Discretionary accounting choices have no significance relationship with fundamental qualitative characteristics in commercial state corporations in Kenya.

H 03c : Discretionary accounting choices have no significance relationship with earnings management quality in commercial state corporations in Kenya.

H 03d : Discretionary accounting choices have no significance relationship with timeliness quality in commercial state corporations in Kenya.

Multiple linear regression analysis and correlations analysis were conducted on the four proxies of FRQ indipendently to test for the level of significance within the relationship.

5.4.1 Relationship Between Discretionary Accounting Choices and Disclosure Quality

From the third objective of the study, the third hypothesis has to be tested using sub hypothesis other than combining the four proxies of financial reporting quality. It is therefore expected that discretionary accounting policies would provide different results with the four proxies of quality namely ; disclosure quality. Hence, the following sub hypothesis was tested :

H 03a : Discretionary accounting choices have no significance relationship with disclosure quality in commercial state corporations in Kenya.

The result of Pearson correlations discribed in chapter four Table 4.46 shows a correlation coefficient of r=0.016, p > 0.05. This was an indication of no relationship

in the model. To confirm whether there is a relationship between discretionary accounting choices and disclosure quality, ordinary least square analysis was conducted and results presented in Table 5.3a :

Table 5.3a: Regression results on the effect of discretionary accounting policies on disclosure quality.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.016a	0	-0.004	0.225033636	0.059	0.808(a)

Source : research Data

Based on the results in Table 5.3a, R^2 of (0.00) and adjusted R^2 is (-0.004) which confirms that the variation in disclosure quality is not explained by discretionary accounting choices. The implication is that discretionary accounting policies are one of the mandatory components of overall disclosure quality. Therefore with R-square of 0.0, the F value of 0,059 is insignificant (Sig. =0.808) the discretionary accounting choices made in commercial state corporations, thus, the model is not a good predictor of disclosure quality in CSCs in Kenya, hence, $H0_{3a}$ is confirmed.

5.4.2 Relationship Between Discretionary Accounting Choices and fundamental Qualitative characteristics

The second sub hypothesis was then tested :

H 03b : Discretionary accounting choices have no significance relationship with fundamental qualitative characteristics in commercial state corporations in Kenya.

In order to determine the relationship between discretionary accounting choices and fundamental qualitative characteristics, Pearson correlation was used as discussed in chapter four Table 4. 46. The results from Table 4.46 shows a correlation coefficient of r= 0.045, p> 0.01. This means there is no significant relationship between the two

variables. In order to confirm the effect of discretionary accounting policies on fundamental qualitative characteristics, OLS was conducted and results of the findings are indicated in Table 5.3b below :

Table 5.3b: Regression results on the relationship between discretionary accounting policies and fundamental qualitative characteristics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig
1	.045 a	0.002	-0.002	0.671942265	0.489	0.489(a)

a. Predictors: (constant), accounting policies, voluntary disclosure

b. Dependent variable: fundamental qualitative characteristics

The results from Table 5.3b shows that R^2 =0.002 and adjusted R^2 -0.002, this implies that the model is not a good predictor, at p value =0.485. Hence $H0_{3b}$ is confirmed.

5.4.3 Relationship Between Discretionary Accounting Choices and Earnings Quality

The empirical studies and theoretical understandings is that discretionary accounting choices may be used to manage earnings, therefore many researchers suggest that financial reporting quality is affected by choice of accounting policies. Most of the empirical studies have been conducted in listed companies that are open to the market information as opposed to commercial state corporations that may lack incentives to mange earnings due to concentrated ownership by the state. Thus sub hypothesis three is tested :

H 03c : Discretionary accounting choices have no significance relationship with earnings management quality in commercial state corporations in Kenya

The pearson's correlation results on the relationship between discretionary accounting policies and earnings quality was described in chapter four Table 4.46 showed r= 0.051, p= 0.441, the implication of the result was that discretionary accounting choices showed no significant relationship. The Pearson correlation analysis confirms that, there is no significant relationship on between discretionary accounting Policies and earnings quality in CSCs in Kenya.

The results of OLS also showed no significant effect on earnings quality. This is shown in Table 5.3 c below. The R-squared = 0.003 and adjusted R^2 = -0.002 is insignificant in explaining any variation in earnings quality in commercial state corporations. Hence, the null hypothesis 3c was confirmed.

Table 5.3c : Regression results of the relationship between discretionary

accounting choices and earnings quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.051	0.003	-0.002	3.2227229	0.596	0.441

a. Predictors: (Constant), Accounting policies,

b. Dependent Variable: Earnings management quality

5.4.4 Relationship Between Discretionary Accounting Choices and timelines reporting Quality

The effect of timely reporting of annual financial information has been discussed in the empirical literature as one of the qualities of good accounting information. Not much has been done to confirm the relationship between discretionary accounting choices and timeliness in reporting. Commercial state corporations take longer durations before the annual statements are published. This arguement inform the sub hypothesis thus :

H03d : Discretionary accounting choices have no significance relationship with timeliness reporting quality in commercial state corporations in Kenya.

The Pearson correlation results between discretionary accounting policies and timeliness reporting quality showed no significant relationship between DAC and timeliness reporting but have negative correlations (r =-0.113, p= 0.08). The regression analysis also confirms that there is no significant effect between the two study variables. The results of the regression is shown in Table 5.3d below :

Table 5.3d : Regression results of the relationship between discretionary accounting choices and timelines reporting quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.113a	0.013	0.009	5.06E+00	3.096	0.080

Predictors: constant), accounting policies
Dependent variables: timeliness quality

Thus Hypothesis three is confirmed since the findings showed no significant effect between discretionary accounting choices (accounting policies) with timeliness reporting quality.

Since the study was to determine the relationship between the discretionary accounting choices and financial reporting quality under, timeliness quality, regression coefficients show no significant positive relationship with timeliness quality and significant effect at 0.05 level of significant, the hypothesis is confirmed.

5.5 Influence of Discretionary Accounting choices on the Relationship Between Demographic Diversity and Financial Reporting Quality

The fourth objective of the study was to establish the influence of discretionary accounting choices on the relationship between demographic diversity of TMTs and

financial reporting quality. The fourth hypothesis was then formulated within the stated objective.

H $_{04}$: The relationship between demographic diversity of top management team and financial reporting quality is not mediated by discretionary accounting choices.

 The study sought to probe the intervening role played by discretionary accounting choices through the use of   Stepwise Multivariate Analysis. In order to establish the mediation effect, the Baron and Kenny approach (1986) was used. For the mediation effect to hold, four conditions should be fulfiled :

1.   The indipendent variables should be significantly related to dependent variables in the absence of mediating variables.

2.   The indipendent variables should be significantly related to the mediating variables.

3.   The mediating variable is significantly related to the dependent variables.

4.   When controlling for the effect of mediating variables on dependent variables, the effect of the indipendent variables on dependent variables become insignificant in the presence of the mediating variables.

The two measures of FRQ namely, disclosure quality do not meet first and second condition that is required for mediating effect. Therefore, two measures namely ; fundamental qualitative characteristics and timeliness are tested for the mediating effect of discretionary accounting choices between the relationship of demographic diversity and financial reporting quality. Hypothesis four is therefore sub- divided into two sub hypotheses :

H 04a : The relationship between demographic diversity of top management team and fundamental qualitative characteristics is not mediated by discretionary accounting choices

H 04b : The relationship between demographic diversity of top management team and timelines reporting quality is not mediated by discretionary accounting choices

Table 5.4a (i) Regression results of the mediating effect of discretionary accounting choices and fundamental qualitative characteristics

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.020	.273		7.398	.000
	AGE	.498	.180	.173	2.760	.006
	TENURE	.394	.165	.146	2.386	.018
	GENDER	-.476	.213	-.138	-2.235	.026
	EDUCATION	-.567	.222	-.162	-2.548	.011
	FBG	.991	.258	.241	3.835	.000

a. Predictors: (Constant), FunctionalBackground, Gender, Tenure, Age, Education
b. Dependent Variable: Fundamental qualitative characteristics

Table 5.4a (ii) Regression results of the mediating effect of discretionary accounting choices and fundamental qualitative characteristics

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.767	.082		9.350	.000
	AGE	.031	.059	.034	.517	.605
	TENURE	.029	.054	.035	.548	.584
	GENDER	-.109	.069	-.100	-1.576	.116
	EDUCATION	.162	.072	.153	2.269	.024
	FBG	-.340	.082	-.275	-4.140	.000

a. Predictors: (Constant), functional background, gender, tenure, age, education

b. Dependent Variable: accounting policies

Table 5.4a(iii) Regression results of the mediating effect of discretionary

accounting choices and fundamental qualitative characteristics

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.063	0.276		7.474	0
	TENURE	0.391	0.167	0.145	2.341	0.02
	GENDER	-0.573	0.213	-0.166	-2.694	0.008
	EDUCATION	-0.45	0.222	-0.129	-2.032	0.043
	FBG	1.018	0.262	0.247	3.89	0
2	(Constant)	1.929	0.297		6.49	0
	TENURE	0.363	0.169	0.134	2.152	0.032
	GENDER	-0.558	0.213	-0.162	-2.624	0.009
	EDUCATION	-0.548	0.235	-0.157	-2.327	0.021
	FBG	1.06	0.264	0.258	4.02	0
	ACPL	0.319	0.263	0.08	1.215	0.225

The results of the findings in Table 5.5a (i) to (iii) shows that there is no mediation effect with discretionary accounting choices. The first two steps are fulfilled in Table 5.5 (i)-(ii). The result shows no intervening effect in Table 5.5(iii) The B= 0.08 t= 1.215 at p=0.225. We therefore conclude there is no mediating effect; hence, the hypothesis H04a is confirmed.

5.5.1 Mediating effect of Discretionary Accounting Choices on Demographic

Diversity and Timeliness

Table 5.4b(i) Regression results of the mediating effect of discretionary
accounting choices and timeliness reporting quality (Step One)

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	13.537	1.985		6.820	.000
	AGE	2.635	1.430	.120	1.842	.067
	TENURE	-4.863	1.300	-.239	-3.741	.000
	GENDER	.604	1.678	.023	.360	.719
	EDUCATION	-.617	1.733	-.024	-.356	.722
	FBG	2.421	1.986	.082	1.219	.224

a. Dependent Variable: Timeliness quality

The findings reveal no mediating role from Table 5.5b (i) in the first step of the test. There is no significant results with coefficients of age, tenure, gender, education and functional background (FBG) B= 0.120. -0.239, 0.023,-0.024 and 0.082, t=1.842, -3.741, 0.360, -0.356 and 1.219 with p = 0.067. 000, 0.719, 0.722 and 0.224. The hypothesis is therefore rejected since the four steps of Baron and Kenny is not fulfilled.

Table 5.4b (ii): Influence of discretionary accounting choices on demographic diversity of TMTand financial reporting quality (Step Two)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.036	2	.018	.396	.673[a]
	Residual	10.702	237	.045		
	Total	10.737	239			

a. Predictors: (Constant), tenure, age
b. Dependent Variable: accounting policies

The findings reveal that discretionary accounting choices (voluntary disclosure) has insignificance influence on the relationship between demographic diversity of TMT and FRQ. In order to confirm that discretionary accounting choices has an intervening role, the variables fitted in the regression model showed that none of the variables are significant in explaining the discretionary accounting choices., The variable is used as either indipendent variable or dependent variable with demographic diversity of TMT and FRQ indipendently. Therefore, the fourth hypothesis is confirmed.

5.6 Moderating Effect of Voluntary Disclosure on Demographic Diversity and Financial Reporting Quality

Empirical and theoretical findings point out that voluntary disclosures can tell a lot about management characteristics whether it is being aggressive or conservative. At

the same time some researchers suggest that individual managers have great potential to enhance their financial reporting quality through corporate voluntary disclosures. It noted from the empirical studies that voluntary disclosure in commercial enterprises is a function of managers personal backgrounds. With these mixed assertions, it is anticipated in this study that, voluntary disclosure would not moderated the effect of demographic diversity on financial reporting quality. Hence, the following hypotheses :

H05: The influence of demographic diversity of top management team on financial reporting quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya.

Hypothesis five was then sub divided into four sub hypotheses as follows :

H05a: The influence of demographic diversity of top management team on disclosure quality is not moderated by voluntary disclosure in commercial state corporations in Kenya.

H05b: The influence of demographic diversity of top management team on fundamental qualitative characteristics is not moderated by voluntary disclosure in commercial state corporations in Kenya

H05c: The influence of demographic diversity of top management team on earnings quality is not moderated by voluntary disclosure in commercial state corporations in Kenya

H05d: The influence of demographic diversity of top management team on timeliness reporting quality is not moderated by voluntary disclosure in commercial state corporations in Kenya

5.6.1 The influence of Demographic Diversity of Top Management Team on Disclosure Quality Moderated by Corporate Voluntary Disclosure

In order to test for the interactive effect of corporate voluntary disclosure on demographic diversity of TMTs in CSCs in Kenya. The demographic diversity of TMT was categorized into categorical and continuous variable, then the product of the two were determined (demographic diversity and Voluntary disclosure). Stepwise regression analysis was used in determining the moderating effect of corporate voluntary disclosure on FRQ indicators.

Table 5.6a : Moderating effect of corporate voluntary disclosure on demographic diversity of TMT and disclosure quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.034a	0.001	-0.003	0.225218
2	.045b	0.002	-0.007	0.225614
3	.051c	0.003	-0.011	0.22604

a. Predictors: (Constant), BLAUINDEX

The results of stepwise regression indicates that adjusted R-square is negative for the three models (R^2 =-0.003. -0.007 and -0.011) meaning the model is not fit in explaining the total variation in the model. Voluntary disclosure does not moderate demographic diversity on the effect of disclosure quality. Hence H05a is confirmed.

5.6.2 Moderating effect of Voluntary Disclosure on Demographic Diversity of TMT and Fundamental Qualitative Characteristics

The sub hypothesis (H05b) was set to determine the effect of the moderating effect of corporate voluntary disclosure on demographic diversity and fundamental qualitative characteristics.

H05b: The influence of demographic diversity of top management team on fundamental qualitative characteristics is not moderated by voluntary disclosure in commercial state corporations in Kenya.

Table 5.6b(i) Moderating effect of corporate voluntary effect on fundamental qualitative characteristics

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.027a	0.001	-0.004	0.672497
2	.256b	0.066	0.058	0.651706
3	.268c	0.072	0.06	0.650925

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.076	1	0.076	0.169	.682a
	Residual	106.279	235	0.452		
	Total	106.356	236			
2	Regression	6.971	2	3.485	8.206	.000b
	Residual	99.385	234	0.425		
	Total	106.356	236			
3	Regression	7.633	3	2.544	6.005	.001c
	Residual	98.723	233	0.424		
	Total	106.356	236			

a. Predictors: (Constant), BLAUINDEX
b. Predictors: (Constant), BLAUINDEX, COVINDEX
c. Predictors: (Constant), BLAUINDEX, COVINDEX, DEMOVOLC
d. Dependent Variable: QCHARAC

The results of the stepwise indicate that there exist a moderating effect in model two and three. Model three is the most inclusive model with all the variables used in explaining the moderating effect. Adjusted R^2 =0.06 (6.0%) explaining the moderating effect of voluntary disclosure on demographic diversity variable. The remaining 94% of the variation may be explained by other factors not in the model. However, using the regression coefficients, it is clearly that, no moderating effect exist. The result of the interactive term variable DEMOVOLC is insignificant with fundamental qualitative characteristics.

Table 5.6b (ii) : Regression coefficients of moderating effect of voluntary disclosure on demographic diversity and fundamental qualitative characteristics

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.708	0.26		10.408	0
	BLAUINDEX	-0.053	0.13	-0.027	-0.411	0.682
2	(Constant)	2.347	0.268		8.768	0
	BLAUINDEX	-0.071	0.126	-0.036	-0.562	0.574
	COVINDEX	0.498	0.124	0.255	4.029	0
3	(Constant)	2.504	0.295		8.477	0
	BLAUINDEX	-0.143	0.139	-0.072	-1.032	0.303
	COVINDEX	0.431	0.135	0.22	3.2	0.002
	DEMOVOLC	2.741	2.193	0.094	1.25	0.213

a. Dependent Variable: QCHARAC

Table 5.6b (ii) above shows that model three with the inclusion of the interaction variable (voluntary disclosure, the level of significance deminishes to p = 0.213.Hence H05b is confirmed.

Table 5.6c : Regression coefficients of moderating effect of voluntary disclosure on composite demographic diversity index and earnings quality

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.857	1.291		1.438	0.152
	BLAUINDEX	-0.237	0.647	-0.025	-0.367	0.714
2	(Constant)	2.69	1.376		1.955	0.052
	BLAUINDEX	-0.219	0.644	-0.023	-0.34	0.734
	COVINDEX	-1.082	0.637	-0.113	-1.697	0.091
3	(Constant)	3.263	1.535		2.126	0.035
	BLAUINDEX	-0.48	0.715	-0.05	-0.671	0.503
	COVINDEX	-1.321	0.698	-0.138	-1.893	0.054
	DEMOVOLC	9.335	11.053	0.067	0.845	0.399

a. Dependent Variable: EARNING

The conclusion from the coefficient is that there is no moderating effect between demographic diversity and earnings quality. The beta coefficient in model 3 shows that combination of demographic diversity variable with gender, education and functional background are insignificant in explaining the variation in earnings management.

Table 5.6d Regression coefficient of moderating effect on demographic diversity and timeliness reporting quality

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	11.965	1.844		6.488	0
	BLAUINDEX	0.72	0.924	0.051	0.78	0.436
2	(Constant)	12.842	1.937		6.63	0
	BLAUINDEX	0.834	0.925	0.059	0.901	0.368
	COVINDEX	-1.389	0.958	-0.094	-1.449	0.149
3	(Constant)	10.276	2.067		4.971	0
	BLAUINDEX	2.023	0.983	0.142	2.059	0.041
	COVINDEX	-0.172	1.016	-0.012	-0.17	0.865
	DEMOVOLC	-52.402	16.592	-0.235	-3.158	0.002

a. Dependent Variable: Timeliness reporting quality.

The beta coefficients of the three variables in model three after the interaction indicates negative (B= -0.012 and -235 with t =-0.17 and -3.158). Demographic blau index variable is positive (B= 0.142, t=2.059) and is significant at p= 0.042. Demographic covariance index variables were insignificant at p = 0.865. The interaction between demographic diversity variables and voluntary disclosure is significant at p = 0.002 and indication of moderating effect. The implication is that with the introduction of voluntary disclosure in the model, a unit change in the combination of the variables will results into a decrease in timeliness reporting by 23.5%.

5.7 Joint effect of Demographic Diversity of Top Management Team and

Discretionary Accounting Choices on Financial Reporting Quality

The sixth objective of the study was designed to establish the joint effect of demographic diversity of top management team, voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya.

The literature review and theoretical understandings led to the belief that demographic diversity of TMTs, voluntary disclosure and discretionary accounting choices jointly affect financial reporting quality. This led to the formulation of the sixth hypothesis.

H $_{06}$: Demographic diversity and discretionary accounting choices do not jointly effect financial reporting quality in commercial state corporations in Kenya.

The model was developed to test the proposed hypothesis and fitted with the three variables. Multivariate Analysis was conducted to test for the joint effect.

FRQ = β0 +β1 Gen +β2 Edu +β3 Age +β4Ten+β5 Fbg + β6 Vdc+β8 ACP+ε

To test this hypothesis each of the five measures of demographic diversity, discretionary accounting choices, voluntary disclosures were regressed on each measure of financial reporting quality, using stepwise regression model. This resulted to four sub hypothesis tested :

H $_{06a}$: Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly effect disclosure quality in commercial state corporations in Kenya.

H *06b* : Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly effect fundamental qualitative characteristics in commercial state corporations in Kenya.

H *06c* : Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly effect earnings quality in commercial state corporations in Kenya.

H *06d* : Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly effect timeliness reporting quality in commercial state corporations in Kenya.

5.7.1 Joint effect of Demographic Diversity of Top Management Team and Discretionary Accounting Choices on Disclosure Quality

Empirical and theoretical studies indicate that financial reporting quality is influenced by various factors both within the firm and management characteristics. Researchers have not reached a consensus on which factors impact of FRQ. Audit committee, BoDs, individual CEOs and CFOs, characteristics have been used to determing FRQ using a number of proxies. Different results have been reported with each proxy. This study anticipated that there is no joint effect of demographic diversity, voluntary disclosure and discretionary choices on disclosure quality. Hence,

H 06a : Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly effect disclosure quality in commercial state corporations in Kenya.

To test this hypothesis, stepwise regression was used to determine the joint effect of demographic diversity, moderating variable (voluntary disclosure) and mediating

variable (discretionary accounting choices). Table 5.7a(i) shows the results of the stepwise regression.

Table 5.7a : Joint effect of demographic diversity in TMT and discretionary accounting choice on disclosure quality

	Model 1	model 2	model 3	model 4	model 5	model 6	model 7
Constant	0.616	0.603	0.639	0.603	0.510	0.498	0.366
Age	0.18	0.017	0.005	-0.005	-0.008	- .009	0.035
Tenure	-	0.027	0.020	0.019	0.006	0.003	-0.021
Gender	-	-	- 0.088	-0.089	0.005	-0.092	-0.095
Education	-	-	- -	0.042	0.005	0.127	-0.029
FBG	-	-	-		0.124	0.127	0.125*
ACPL			-			0.019	-0.029
VOLD		0.001					0.313*
R^2	0.00	-0.008	0.009	0.010	0.024	0.024	0.117
Adj. R^2	0.004	0.170	-0.005	-0.007	0.002	-0.002	0.090
F	0.073		1.725	0.385	3.143	0.072	23.530

* - Significant at 5% (P value < 0.05)

From the regression results model seven shows that $R^2 = 0.117$ (11.7%) and adjusted R-Square (0.090) from model one with one predictor $R^2 = 0.00$ (0%). This resulted to R-square change of 0.93 (9.3) significant at p= 0.000. The inclusion of voluntary disclosure resulted into a greater change. Model one to model six were insignificant in explaining the change this is supported by negative adjusted R^2. The implication is that there are only two variable namely functional background and voluntary disclosure that is statistically significant. From the regression results, it is concluded that the set of indipendent variables (age, gender, tenure and education), moderating variable voluntary disclosure (comprising general strategic information, financial data and board and social information) and discretionary accounting policies have no

complimentary influence on disclosure quality of the balance-sheet and income statements in commercial state corporations. The only variables which have significant effect on disclosure quality are corporate voluntary disclosure and functional background diversity. The coefficients in model seven indicate that only two variables are significant namely ; voluntary disclosure (B = 0.300 p <0.05) and functional background of TMT (B= 0.125 p< 0.05). From the foregoing hypothesis 5a on the joint effect of demographic diversity, voluntary disclosure, discretionary accounting policies on disclosure quality is rejected.

5.7.2 Joint effect of Demographic Diversity of Top Management Team and Discretionary Accounting Choices on Fundamental Qualitative Characteristics

To test for the second hypothesis generated form the main hypothesis six :

H 06b : Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly effect fundamental qualitative characteristics in commercial state corporations in Kenya.

Stepwise regression was conducted for the seven variables to determine the extent of the joint effect on fundamental characteristics. The results of the stepwise is shown on table 5.7b.

Table 5.7b : Joint effect of demographic diversity of top management team, voluntary disclosure and discretionary accounting choices on Fundamental qualitative characteristics

	Model 1	model 2	model 3	model 4	model 5	model 6	model 7
Constant	2.466	2.213	2.380	2.668	2.020	1.911	1.691
Age	0.181*	0.178*	0.159*	0.179*	0.173*	0.169*	0.195*
Tenure		0.178*	0.165*	0.165*	0.146*	0.137*	0.116*
Gender			-0.137*	-0.13*	-0.138*	-0.135*	-0.143*
Education	-			0.104	-0.162*	-0.185*	-0.181*
FBG					0.241*	0.250*	0.242*
ACPL						0.066	0.036
VOLD							0.210*
R^2	0.033	0.064	0.082	0.093	0.147	0.151	0.193
Adj. R^2	-0.029	0.056	0.071	0.077	0.129	0.29	0.168
F	7.977	7.886	4.594	2.685	14.708	1.010	11.906

* - Significant at 5% (P value < 0.05)

The joint effect is determine in Table 5.7b in all the seven model indicate a significant change in both adjusted R^2 and F change with p< 0.05. results from the seven models indicate that only two models namely ; model four (adjusted R^2= 0.077, p= >0.05) and model six(adjusted R^2 =0.129, p=> 0.05) showed level of significant has the seven variables were included in the model one at a time. This changes occurred after introducing functional background in model four and discretionary accounting policies in model six. Model seven still remain the most significant since the inclusion of all the seven variables result to change in R-squared by (0.042) and F change of (11.906) significant p= < 0.05. In order to determine the extent to which each variable contribute to the joint effect, regression coefficients show the results.

The results from Table 5.7b indicate existence of a joint effect on financial reporting quality as proxied by fundamental qualitative characteristics. Model seven being the most significant with the inclusion of the seven variables. However, the most effective combination comprises ; age, tenure, gender, education, functional background and voluntary disclosure. As shown in Table 5.7b (ii), two of the variables namely, gender and education were negative but significant (B= -0.143 and -0.181 with t= -2.377 and -2.746 respectively). These results imply that a unit change in gender diversity and education diversity results into 14.3% and 18.1% of reduction respectively in financial reporting quality at 0.05 level of significant.

The results on age diversity, tenure diversity, functional diversity and voluntary disclosure were positive and significant with beta coefficient of 0.195, 0.116, 0.242 and 0.210 with t- value of 3.163, 1.913, 3.905 and 3.450 respectively which implies that a unit change in age diversity, tenure diversity, functional background and voluntary disclosure results into 19.5%, 11.6%, 24.2% and 21% increase in financial reporting quality in commercial state corporations in Kenya at 0.05 level of significant. From the foregoing sub hypothesis (H06b) is rejected.

5.7.3 Joint effect of Demographic Diversity of Top Management Team and Discretionary Accounting Choices on Earnings Quality

Empirical and theoretical literature show how individual managers play significant role influencing accounting choices, voluntary disclosure and how they use accounting policies and voluntary disclosure to influence financial reporting quality. Most researchers have concentrated on BoDs characteristics and individual managers, little work has been reported on top management team effect on FRQ. Thus sub hypothesis (H06c) was set and tested.

H 06c **:** Demographic diversity, corporate voluntary disclosure and discretionary accounting choices do not jointly effect earnings quality in commercial state corporations in Kenya.

Stepwise regression analysis was used to test for the joint effect of demographic diversity variable, corporate voluntary disclosure and discretionary accounting choices on earnings quality. The results of the regression analysis is presented in Table 5.7c below.

Table 5.7c : Joint effect of demographic diversity corporate volutnary disclousre and discretionary accounting choices on earnings quality

	Model 1	model 2	model 3	model 4	model 5	model 6	model 7
R^2	0.010	0.014	0.015	0.019	0.019	0.030	0.031
Adj. R^2	0.006	0.005	0.002	0.002	-0.003	0.003	0.000
F	2.242	.840	.365	934	.000	2.252	0.393

[*] - Significant at 5% (P value < 0.05)

As shown in Table 5.7c above, all the seven models are insignificant in explaining total effect on variations in earnings quality. Model seven that has all the seven predictors has R-squared = 0.031(3.1%) but when adjusted (0.000) , implies all the predictors cannot be used to explain the variation in earnings management in commercial state corporations. From the results, hypothesis H06c is not rejected.

5.7.4 Joint effect of Demographic Diversity of Top Management Team and

Discretionary Accounting Choices on Timeliness Reporting Quality

From the sixth objective of the study, the sub hypothesis H06(d) was hypothesized and tested :

H06d : Demographic diversity, corporate voluntary disclosure and discretionary accounting   choices do not jointly effect timeliness reporting quality in commercial state   corporations in Kenya.

The hypothesis was tested using stepwise regression to ensure that all the included variables contribute to the overall effect on timeliness reporting quality. The results of the regression model is shown in Table 5.7d below.

Table 5.7d : Regression result of joint effect of demographic diversity, voluntary disclosure and discretionary accounting choices on timeliness reporting quality

	Model 1	model 2	model 3	model 4	model 5	model 6	model 7
Constant	12.725	15.190	14.960	14.952	13.537	14.929	17.932
Age	0.114*	0.120*	0.123	0.123*	0.120*	0.126*	0.085
Tenure		- 0.232*	- 0.230*	- 0.230*	-0.239*	-0.226*	-0.198*
Gender			0.025	.025	0.23	0.018	0.027
Education	-			.000	-0.024	0.010	-0.004
FBG					0.082	0.066	0.068
ACPL						- 0.102	-0.055
VOLD							- 0.320*
R^2	0.013	0.067	0.067	0.067	0.073	0.082	0.180
Adj. R^2	0.009	0.059	0.055	0.051	0.53	0.58	0.155
F	3.082	13.544	0.159	0.00	1.486	2.286	27.513

* - Significant at 5% (P value < 0.05)

The results of the regression show joint effect of demographic diversity of top management team, corporate   voluntary disclosure and discretionary accounting choices on timeliness reporting quality. Model seven is the most significant model, although the other models seem not to be significant when other variables are added stepwise. Model two had two predictors ; age and tenure with adjusted R-squared

=0.059(5.9%) of the total variation is explained by tenure and gender at 0.05 level of significant. Model three, four, five and six also indicate some effect on timeliness quality though insignificant. This is seen through the constant slight change in adjusted R^2 from 0.009 to 0.155.From the regression model it is evident that there is a joint effect of demographic diversity of TMTs and discretionary accounting choices on FRQ, given that the model seven has an adjusted $R^2 = 0.155$ (15.5%) of total variation in timeliness quality can be explained using the model. Since there is evidence of joint effect from model seven with p value = 0.00 after combining tenure diversity and voluntary disclosure, the sub hypothesis H06(d) is then rejected.

The findings is supported Ge et al, (2010) that managers specific characteristics and discretionary disclosures affects the interpretation of quality reporting. The findings are also consistent with previous studies such as Ling (2012) ; Hribar and (Yang 2010) and Cohen et al. (2004). However, they did not test for the joint effect but used the variables interchangeable as either independent or dependent variables. With these confirmation, hypothesis six is rejected.

5.8 Chapter Summary

This section discuses the findings of both the literature and empirical studies in order to achieve the six objectives that gave rise to the six hypotheses. The results from the study have demonstrated the effect of demographic diversity in top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations. The results of the analysis have shown that some demographic diversity of TMTs are significant in explaining the variations in financial reporting quality as proxied by four measures namely ; disclosure quality, fundamental qualitative characteristics, earnings quality and

timeliness in reporting. Other variables in the study namely ; corporate voluntary disclosure measured by four variables namely ; general strategic information, financial data, forward looking information and social and board of directors information and discretionary accounting Policies moderated the effect of top management action on both discretionary accounting policies and financial reporting quality.

The six hypotheses of the study were tested using correlation, ordinary least square and stepwise regression analysis. Based on the results of the analysis, hypothesis, one, two, five and six were not confirmed while hypotheses, three and four were confirmed. The interpretation of data and findings have been done using Statistical knowledge and existing body of knowledge.

The major findings from data analysis show that, having a well diversified top management teams in terms of age, gender, tenure, education and functional background enhance financial reporting quality in commercial state corporations in Kenya. However, not all the demographic diversity variables namely age, gender, tenure, education and functional background fitted all at once in one model. The findings indicated that the five demographic diversity variables took different directions with the four measures of quality. There are six mains results from the analysis of the data employed in this study.

First, demographic diversity variables have effect on financial reporting quality using three distinct measures of financial reporting quality namely, fundamental qualitative characteristics, earnings quality and timeliness reporting quality. Demographic diversity of TMTs comprised five measures of which provided different findings with the three measure. The only financial reporting quality measure which utilises all the

five set of demographic diversity variable is fundamental qualitative characteristics. This is supported by IASB (2008) which expressed the disirability in constructing a comprehensive measurement tool to assess FRQ considering all dimensions of decision usefulness. The findings is also consistent with Beest et al. (2009) who used a 21- item index in determining FRQ in the listed companies in the United States and United Kingdom. The reliability of the fundamental qualitative characteristics in measuring FRQ is also in line with the request from IASB and FASB (2008) to have fundamental qualitative characteristics as a measure of comprehesive FRQ. The findings indicate very little effect of demographic diversity on disclosure quality, earnings quality and timeliness in commercial state corporations. These findings are also consistent with empirical studies investigating the influence of demographic diversity on FRQ. Marimuthu and Indiraa (2009) found no relationship between demographic diversity of TMTs on financial performance in the listed firms. Aishah (2012) found no significant relationship between race, ethnicity and religious tradition on FRQ in malasyian companies. Liu and Sun (2010) argue that, there exist negative relationship between long- tenured top management team and earnings quality. The inconsistency of the study results is as a result of indirect measures of FRQ used Focusing on specific attributes of financial reporting namely, earnings quality, timeliness and disclosure quality in annual statements. These measures may only be attributed to specific top managers, CEOs, CFOs, and audit committee, but not the entire TMTs.

The earnings quality and timeliness reporting quality used ut- Most two variables within the set. Disclosure quality shows no relationship with the five set of demographic variables.

Secondly, discretionary accounting choices measured by five discretionary policies namely, revenue recognition, inventory valuation, depreciation methods, provision for bad debts and contigent liabilities showed significant relationship with demographic diversity in TMTs in commercial state corporations. The findings are consistent with Ge et al. (2011) who note that manager specific characteristics impact positively on the accounting choices namely ; operating leases, expected rate of return on pension assets.

Thirdly, the results show that there is no relationship between discretionary accounting policies with financial reporting quality in commercial state corporations under the four measures of FRQ. The findings are inconsistent with empirical and theoretical understandings based on the behaviour of TMTs under agency theory. Iatridis (2010) argues that exercising the professional jugement, combined with the flexibility of financial reporting that allows freedom in choosing accounting policies and regulations lead to the section of policies that affect FRQ (earnings) management.

These findings are not in line with Lafond (2008) who finds a significant effect between discretionary accounting policies and earnings management. The findings contradicts Fields et al (2001) that management uses their discretion to make choice in accounting policies which may influence earnings management quality. But the findings can still be supported by François and Kyle (2011) and Barako (2007) who have used other measures of financial reporting quality (qualitative characteristics and timeliness quality) and finds no relationship between discretionary accounting choices with qualitative characteristics, timeliness and disclosure quality. After all Fields et al. (2007) indicates that discretionary accounting choices may influence FRQ indirectly by influencing other components of financial statements such as revenue, account

receivables, amortization, depreciation, research and development expenses, inventories etc.

Fourthly, the discretionary accounting policies were found not to mediatiate between the relationship of demographic diversity in TMTs and FRQ in commercial state corporations . The relationship among the variables are indipendent of discretionary choices made by the top mangement. This is clear from the composition of the TMTs. The findings are inconsistent with empirical literature. Ling (2012) found that accounting choices are positively related with FRQ (earnings quality). Sloan et al (1996) shows that discretionary accounting choices reduce the accruals components in earnings. This is confirmed by Narayamoorthy (2003) that earnings quality is positivelty affected by accounting conservatism.

Fifthly, the moderating effect of voluntary disclosure between the relationship between demographic diversity and financial reporting quality in commercial state corporations in Kenya were reported with fundamental characteristics of accounting information and timeliness reporting quality. This is an indication that voluntary disclosure can be combined with demographic variables namely ; gender, education and functional background influences financial reporting quality as measured by timeliness. Thus the number of days each commercial state corporations take to publish annual financial statement is explained by the diversity in gender, education and functional background, plus voluntary disclosure in general information, financial data, forward looking information and BoDs information. The findings are consistent with Bamber et al. (2010) point out that voluntary disclosure influences the managers decision to disclose more information above the basic mandatory disclosure. The mandatory disclosure becomes a free choice on managers part to include in annual reports (Yuen et al, (2009). Since most top management would prefer to make

voluntary disclosure on some accounting information to satisfy the users needs where disclosure quality seem to be inadiquate, is therefore considerably influence the extent of FRQ. It is clear from the findings that TMTs' can influence the expected interpretation of financial reporting components there by affecting the FRQ. Francis et al.(2008) note that voluntary disclosure plays moderating role between firm and management characteristics in explaining quality reporting. Ahmed(1994) suggests that disclosure levels in the balance sheet, income statements and notes for accounting policies are of relative high level because of the securities and echange rules. This may not be in line with the findings since most of the commercial state corporations are not listed.

Sixthly, the joint effect of the demographic diversity, voluntary disclosure on financial reporting quality was determined. A good set of variables that jointly affect FRQ were established with three proxies of FRQ namely ; fundamental qualitative characteristics, disclosure quality and timeliness in reporting. However, the only model that has picked all the variables, is that measuring FRQ using fundamental qualitative characteristics.

The study had six objectives to achieve, in order to achieve the objectives the study derived six hypotheses from the six objectives. The six objectives were tested and data interpreted according to the existing body of knowledge. The summary of the hypotheses tested is summarized in table 5.8 :

Table 5.8: Summary of Research Objectives, Hypotheses and Test Results

Specific Objectives	Hypothesis Description	Results	Interpretation and Remarks
(i)Establish the effect of demographic diversity of top management team on financial reporting quality in commercial state corporations in Kenya.	H01: Demographic diversity of top management team has no significant effect on financial reporting quality in the commercial state corporations in Kenya.	H01a P>0.05, H01b p<0.05, H01c p<0.05 and H01d p<0.05	The results indicate that H01b, H01c and H01d have significant effect of FRQ. H01is therefore rejected.
	H01a: Demographic diversity of top management team has no significant effect on disclosure quality in the Kenyan commercial state corporations.	R =0.155, R^2 =0,024, Adj R^2= 0.002, F =1.103 F≥ 5% OR P>0.05	The results indicate that demographic diversity variables are insignificant predictor of disclosure quality
	H01b: Demographic diversity of top management team has no significant effect on fundamental qualitative characteristics in the Kenyan commercial state corporations.	R=0.384, R2 =0.147, F= 7.978 F≥ 5% OR P<0.05. β=0.498, 0.394,-0.479, -0.567 and0. 991, t=2.760, 2.386,-2.235,-2.548 and 3.835.	The results indicate that age, tenure, gender, education and functional background are significant predictors of FRQ in commercial state corporations using fundamental qualitative characteristics.

	H01c: Demographic diversity of top management team has no significant effect on earnings quality in the Kenya commercial state corporations.	$R=0.302$, $R^2 =0.091$, $F= 4.389 \geq 5\%$ OR $p<0.05$. functional background and age had beta coefficients (β=-0.235 and -0.118, with t=-3.529 and-1.769, $p<0.05$ $F=3.668 \leq 5\%$ OR $P<0.05$ Beta for age and tenure (β=0.120 and -0.239, t=1.842 and -3.741 respectively. $P<0.05$	The results indicate that functional background and age diversity of TMTs in commercial state corporations are significant predictors of FRQ using earnings management.
	H01d: Demographic diversity of top management team has no significant effect on timeliness quality in the Kenyan commercial state corporations.	$R = 0.271$ $R^2 = 0.073$ Adj $R^2 = 0.053$ $P = 0.003$	The results indicate that age and tenure diversity of TMTs' in commercial state corporations in Kenya are significant predictors of FRQ using timeliness reporting
(ii) Establish how discretionary accounting choices are influenced by demographic diversity of top management team in commercial state corporations in Kenya.	H02: Demographic diversity of top management team has no significant effect on discretionary accounting choices in the commercial state corporations in Kenya.	$R= 0.366$, R^2=,0.134, adj R^2=0.115 $F= 7.172$ at $p<0.05$ Beta coefficient for tenure, education & functional background (β=0.127, 0.335 and – 0.157, t=2.053, 5.114 and-2.418 respectively.	These results indicate that demographic variables, tenure, education and functional background are good predictors of discretionary accounting choices made by TMTs' in commercial state corporations. The hypothesis is then rejected.

(iii) Determine the relationship between discretionary accounting decisions and financial reporting quality in commercial state corporations in Kenya.	H03: Discretionary accounting choices have no significant relationship with financial reporting quality in commercial state commercial corporations in Kenya.	The correlations coefficient for H03a, H03b, H03c and H03d (r=0.016, 0.045,0.051 and -0. 113, p= 0.808,0.045, 0.441 and 0.08 respectively)	These results indicate that there is no significant relationship between discretionary accounting choices. Therefore hypothesis three is confirmed.
	H 03a: Discretionary accounting choices have no significance relationship with disclosure quality in commercial state corporations in Kenya.	R =0.016, R^2 =0, F= 0.059, P=0.808 Correlation coefficient (r= 0.016 p= 0.808).	These results indicate that discretionary accounting choices are insignificant in explaining the variation in disclosure quality. The relationship is positive but insignificant. Hence, the hypothesis is confirmed.
	H 03b: Discretionary accounting choices have no significance relationship with fundamental qualitative characteristics in commercial state corporations in Kenya.	The correlation coefficient (r= 0.045, p=0.485), R= 0.045, R^2 =0.002, F= 0.489 P= 0.489	These results indicate that discretionary accounting policies are not good predictors of fundamental qualitative characteristics. There is no significant relationship between DAC and fundamental qualitative characteristics.
	H 03c: Discretionary accounting choices have no significance relationship with earnings management quality in commercial state corporations in Kenya.	R= 0.051, R^2 =0.003, F= 0.596 P= 0.441 The correlation coefficient (r= 0.051, p= 0.441)	These results indicate that there is no significant relationship between DAC and earnings management.

	H 03d: Discretionary accounting choices have no significance relationship with timeliness quality in commercial state corporations in Kenya.	$R = 0.113$, $R^2 = 0.013$, F= 3.096 and $p = 0.080$. The correlations coefficient (- 0.113).	These results indicate that there is no significant relationship between DAC and timeliness reporting in commercial state corporations in Kenya.
(iv)Establish the influence of discretionary accounting choices on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.	H04: The effect of demographic diversity of top management team on financial reporting quality is not mediated by discretionary accounting choices.	Regression coefficients for discretionary accounting choice(ACPL) β= 0.08, t=1.215 and p= 0.225	The results indicate that there is no intervening effect of discretionary accounting choices. Hence, Hypothesis four(H04) is confirmed.
	H 04a : The relationship between demographic diversity of top management team and fundamental qualitative characteristics is not mediated by discretionary accounting choices	Age, Tenur, gender, education and FBG coefficients are as follows : B=0.134,-0.162, 0.157,-0.258 and 0.008, t=2.152, -2.624, -2.327, 4.02, 1.215 p = 0.032, 0.009, 0.225	These results indicate that there is no mediating influence of discretionary accounting choice on relationship between demographic diversity and FRQ
	H 04b : The relationship between demographic diversity of top management team and timelines reporting quality is not mediated by discretionary accounting choices	Age, Tenur, gender, education and FBG coefficients are as follows : B = 0.120, -0.239, 0.023, -0.024 , 0.082 t = 1.842, -3.741, 0.3630, -0.356, 1.215 p = 0.0067, 0.00, 0.719, 0.722, 0.224 respectively	These findings show that there is no mediating effect between the independent variables; age, tenure, gender, education and functional background and FRQ element timeliness. The hypothesis 4 is hence, confirmed.

(v) Determine the influence of corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.	H05: The influence of demographic diversity of top management team on financial reporting quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya.	R=0.051, R^2 =0.003, F=6.005 P=0.709 R=0.268, R2 =0.072, p=0.001 R =0.129, R^2=0.017 P=0.399 R = 0.228, R2 = 0.0252 P=0.002	These results show that H05a, H05b, H05c are insignificant in explaining the moderating effect of corporate voluntary disclosure on demographic diversity and FRQ. Hence are confirmed. However, H05d is significant in explaining the moderating effect of voluntary disclosure, hence, H05d is rejected. Given that only sub hypothesis H05d is rejected, the study partially reject H05.
	H05a: The influence of demographic diversity of top management team on disclosure quality is not moderated by voluntary disclosure in commercial state corporations in Kenya.	categorical variables B=0.042, t=0.581, p=0.562 continuous independent variables, B=0.581, t=0.553, p=0.581 moderating effect in the product of moderating variable and independent variables, B= - 0.029, t=-0.375, p=0.709	These results indicate that there is no moderating effect among the variables. Hence, H05a is confirmed.

	H05b: The influence of demographic diversity of top management team on fundamental qualitative characteristics is not moderated by voluntary disclosure in commercial state corporations in Kenya		These findings reveal none existence of moderating effect among the variables. Hence, the H05b is confirmed
	H05c: The influence of demographic diversity of top management team on earnings quality is not moderated by voluntary disclosure in commercial state corporations in Kenya	$R = 0.129$, $R^2 = 0.017$ $P = 0.399$	The results show that there is no moderating effect of corporate voluntary disclosure on earnings quality. Hence, H05c is confirmed.
	H05d: The influence of demographic diversity of top management team on timeliness reporting quality is not moderated by voluntary disclosure in commercial state corporations in Kenya.	$R = 0.228$, $R2 = 0.0252$ $P = 0.002$	The results show that there is moderating effect with corporate voluntary disclosure on timeliness. Hence, the hypothesis is not confirmed
(vi) Establish the joint effect of demographic diversity of top management team and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya.	H06: There is no significant joint effect of demographic diversity in top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenyan.		There is moderating effect in H06 b and H06d therefodre, the hypothesis is rejected

	H 06a: Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly affect disclosure quality in commercial state corporations in Kenya.	R= 0.343, R^2 =0.117, R change =0.093, F change =23.530 and p=.000 β=0.195,0.116, -0.143,-0.181, 0.242,0.036 and 0.210, t=3.163,1.913,-2.377,-2.746, 3.905,0.562 and 3.450 respectively=0.002,0.054, 0.018,0.007, 0.00	The results show that there is no moderating effect with corporate voluntary disclosure. Hence, the hypothesis is confirmed. The result show that there is joint effect, hence, H06a is not confirmed. The results indicate the presence of a significant joint effect in the model. Hence, the hypothesis is rejected.
	H 06b: Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly affect fundamental qualitative characteristics in commercial state corporations in Kenya.	R= 0.439 R2 = 0.193 Adj R2= 0.168 Sig F = 0.001	The results indicate the presence of joint effect, hence, H06b is rejected
	H 06c: Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly affect earnings quality in commercial state corporations in Kenya.	R=0.177, R^2=0.031, F change =0.393, Sig. F change =0.531	There is no moderating effect in the model. H06c is confirmed

	H 06d: Demographic diversity, voluntary disclosure and discretionary accounting choices do not jointly affect timeliness reporting quality in commercial state corporations in Kenya.	R=0.425, Squared= 0.18, adjusted R-squared =0.155 Sig. F change = 0.00	The results indicate the presence of joint effect, hence, H06d is rejected

CHAPTER SIX

SUMMARY, CONCLUSSIONS AND RECOMMENDATIONS

6.1 Summary

The main objective of this study was to investigate the effect of demographic diversity on TMTs, voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya. To achieve this objective, five study variables were used ; explanatory, moderating, mediating and dependent variables; the explanatory variable included demographic diversity which consist of five indicators namely ; age, tenure, gender, education and functional background. Moderating variable which was measured by four item- index namely ; general and strategic information, financial data, forward looking information and social and board disclosure. Discretionary accounting choices was measured using dummy variables to determine the level of discretionary aggressive accounting Policies and conservative Policies on the following ; revenue recognition, cost of goods sold/ inventory valuation method, depreciation of fixed assets, reserves allowance, bad debts and contigent liabilities. Financial reporting quality was evaluated using four indicators namely ; disclosure quality in both the balance sheet and comprehensive income statements, fundamental qualitative characteristics, earnings quality and timeliness in reporting of accounting information.

This study was guided by the six specific objectives which informed the formulation of the six hypotheses. The hypotheses were tested for the effect of demographic diversity in TMTs, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations. The hypotheses were in line with the study gaps identified in the theoretical and empirical

review in an effort to contribute to the current literature in filling in the existing study gaps .

The major findings of the study is based on the identified study gaps identified in chapter one and chapter two of the current study. The gaps are summarized in table 2.1 ranging from the theoretical gap to methodological gaps. The major theoretical gaps identified in the reviewed studies were insuficient application of positive accounting theories in commercial state corporations, where the three hypotheses were not well utilized in the commercial state corporations namely, the bonus plan, debt-equity and political cost hypotheses. The three hypotheses become a motivating factor to the TMTs towards attaining high financial reporting quality. The hypotheses become contradictions   if not properly applied, or leads to compromised annual statements   if used for personal motives. Gaps in application of theories in commercial state corporations has also contributed to limited studies in the sector. The theoretical gap clearly demonstrates the effect of demographic diversity in TMT on earnings quality and timeliness in reporting accounting information, which reported contrary results to the empirical findings. The findings on earnings quality specifically   in commercial state corporations gave   contradictory results with demographic diversity variables of TMTs and discretionary accounting choices with the commercial listed companies. The findings can be attributed to lack of a well developed theory a bout the complexity in measuring FRQ in most of the institutions reporting accounting information. Most empirical studies aim at assessing information quality by use of quantitative measures that only focus on specific attribute of FRQ such as earnings quality and value relevance. However, FRQ is multidimensional concept that cannot be measured by earnings quality alone but rather require a simultaneous and well balanced measures of both financial and non-financial

measures, mandatory and voluntary disclosures in the corporate reports. IASB (2010) and FASB (2010) provide qualitative characteristics as an underlying factors of good FRQ measures.

It was evident from empirical findings that discretionary accounting policies have positive impact on earnings quality management. This arguement is supported by Narayanamoorthy (2003) findings that discretionary accounting choices affect quality earnings of firms. However, the current study failed to show any relationship between discretionary accounting choices based on (revenue recognition, depreciation on fixed assets, valuation of inventory and expenses on bad debts and contigent liabilities) and financial reporting quality measured under the four distinct measures. The only issue or alternative to these contradictions in findings, is lack of autonomy in operations of the commercial state corporations in Kenya. This may be supported by Bergstresser and Phillippon (2006) who found out that, the use of discretionary accounting Policies in commercial enterprises in general is more pronounced where top management team potential total compensation is more closely tied to the value of stock and option holdings. This option is lacking in almost all the commercial state corporations in Kenya. Most of the top management lacks the motivation and will to make discretionary accounting choices that enhances the value of the firm.

The composition of TMTs becomes critical in enhancing financial reporting quality in commercial entities. This has been a missing out policy and practice in commercial state corporations. The understandings from theoretical and empirical research work is that individual specific characteristics have impact on financial reporting quality, although most of the studies reviewed only present the effect of demographic diversity on individual CEOs, CFOs, BoDs and audit committee on financial reporting quality measured by earnings management and audit quality. This gap has

been bridged by having the current study looking at the effect of demographic diversity on TMTs (which is a composition of CEOs, CFOs, internal Auditor and members of the audit committee as operationalized in chapter three) on disclosure quality, fundamental qualitative characteristics, earnings quality and timeliness in reporting. The study sets good presidence on enhancing governance towards high quality reporting in commercial state corporations in Kenya. One of the most challenges to modern managers, adminiatrators and stakeholders of modern companies today is an establishment of an optimal mix within the TMTs, BoDs and audit committee in terms of gender, age, race, education, functional background and culture. Although much has been written and even legalized in the constitution of Kenya (the current new constitution in Kenya 2010), little has been done to findout the best demographic diversity composition on TMTs for commercial state corporations which can create value for money for the entire stakeholders in the public sector. The stakeholder theory in the public sector tend to be weak or is not properly applied to enhance value creation by motivating stakeholders of CSCs demand high financial reporting quality. Non of the empirical studies are available in the CSCs in Kenya.

Financial reporting quality is very important for the stakeholders in reducing information asymmetry between the management and the stakeholders. The reduction of the vital information increased financial reporting quality in the reporting companies. The importance of this is revealed in the current study findings that most TMTs provide corporate voluntary disclosure at will to their stakeholder. However, most of the empirical studies reviewed have much concentreted on the listed companies, hence, not much has been given on how long commercial state corporations in Kenya take to publish their statement. This makes the current study

unique with other studies listed companies in the stock exchange. In Kenya for example, listed commercial state corporations takes an average of ninety (90) day to release annual financial statements after each year end. From the findings of the study, though not a comparative study, the findings is contrary to commercial state corporations not listed, which take an average of 203.78 days or more to release the annual statement to the general public. What happens to this information that is held for these periods ? This gap has been bridged by using timeliness reporting as a proxy of FRQ. The indicators has shown how long the financial reporting takes long. It shows how potentials of the commercial state corporations are destroyed and how inefficient the information is released to the potential investors.

 Empirical studies have concentreted on assessing FRQ in companies listed on stock exchanges for a simple reason, availability of data and ownership dispersion or large commercial manufacturings firms simply because of their sizes and huge profits made. The over reliance of empirical studies on listed companies has resulted to a contextual gap in the public sector. This contextual gap motivated the researcher to bridge the gap by estabilishing the effect of demographic diversity in TMTs on FRQ more specifically in commercial state corporations in Kenya.

 The six study hypotheses were tested using stepwise regression, ordinary least square and correlation analysis based on the following six objectives :

(i)   Establish the effect of demographic diversity of top management team on financial reporting quality in commercial state corporations in Kenya.

(ii)   Establish the influence of demographic diversity of top management team on discretionary accounting choices in commercial state corporations in Kenya.

(iii)   Determine the relationship between discretionary accounting choices and financial reporting quality in commercial state corporations in Kenya.

(iv)   Establish the influence of discretionary accounting choices on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya.

v)   Establish the moderating effect on corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality.

(vi)   Establish the joint effect of demographic diversity of top management   team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya.

Specific findings from the study are based on each of the six specific objectives of the study :

6.1.1 Demographic Diversity of Top Management Team and Financial Reporting Quality

The first objective of the study was to determine the effect of demographic diversity in top management team on financial reporting quality in commercial state corporations in Kenya. It was hypothesized that demographic diversity in top management has no significant effect on financial reporting quality in commercial state corporations. The study derived four sub hypothesis from hypothesis one and the findings summarized in Table 5.8 in chapter five. The results from these analysis and interpretation from chapter four and five indicate the presence of significant effect of gender, age education, tenure and functional background diversity in TMT on

fundamental qualitative characteristics, earnings quality and timeliness reporting of accounting information. However, the relationship or effect is not so much on earnings quality and timeliness reporting, since not all the five indipendent variables moved in the same direction with the FRQ indicators. Demographic diversity variables (age and functional background) were statistically significant in explaining earnings quality in commercial state corporations in Kenya and the variance in timeliness reporting quality in commercial state corporations in Kenya could only be explained by two demographic diversity variables (gender and tenure).

 Theoretical and past research evidence provide some support to these findings. From theoretical point of view the role of individual factors and team processes have significant effect on firms out comes. This is in line with the upper echelon theory by Hambrick and Manson(1984) whose focus is on characteristics of TMT rather than individual managers in order to have better outcome for the organization. In the modern companies today, the philosophy of team work is gateway to success and quality out come of any corporation. The theory becomes critical in understandings how TMT characteristics influences the outcomes of organisations namely ; performance, quality of financial reporting, corporate voluntary disclosure and accounting choices. Although the major assumption of the UET is that human limitations influence the perception, evaluation and decision about organization problems, but it still provides a general guideline on management influence on choices and behaviour and constitute their board and committee.

The partial effect experienced by demographic variables on financial quality under different measurement are also in line with the upper echelons theory. Table 5.1c in chapter five presented results on demographic diversity effect on earnings quality. Out of five indipendent variables, only two were statistically significant. This partial effect

and low adjusted R^2 can be explained by UET. The theory clearly state that organizational out comes, strategic choice either in management, finance or accounting and performance levels are partially predicted by Managerial background characteristics (Hambrick and Manson 1984). Other factors not in the model can be explained by the remaining percentages.

The findings from Table 5.1a and b in chapter five indicate that age, gender, tenure, education and functional background have no statistically significant effect on disclosure quality in annual statements of commercial state corporations in Kenya. This led to the confirmation of the null hypothesis. The findings are consistent with Chen et al. (2013) who find that well developed markets provide sufficient missing items with ease that may not call for the intervention of the TMTs' influencing the process. The measure is more of mandatory than voluntary, hence very little effect may be expected from top management team.

The second sub- hypothesis (H01b) was rejected since the findings indicated that ; age, gender, tenure, education and functional background of TMTs have statistically significant effect on FRQ (fundamental qualitative characteristics). The third sub hypothesis one confirms that only age and functional background of TMTs have a significant effect on FRQ (earnings quality) in commercial state corporations in Kenya. These findings are consistent with Aier et al. (2005) who find that CFOs with financial experts are less likely to manage earnings. The same findings are confirmed by Bamber et al. (2010), provide evidence on association between earnings management and functional background of the top management. Although some of the empirical studies are based on CEOs, CFOs and Audit committee, the concept of

the current study is built on the studies. The direction and the effect may be different but the implication is the same.

 The fourth sub hypothesis one reveals that tenure and age of TMT have significant effect on FRQ (timeliness in reporting) in commercial state corporations in Kenya. All these findings are consistent with empirical studies. For example, Bertrad and Schoar(2003) document that managers fixed effects explain a significant portion of the cross-sectional variation in corporate outcomes .The outcomes may be varied depending on the objective of each study. For the current study the outcome are described as financial reporting quality, corporate voluntary disclosure and discretionary accounting choices in commercial state corporations. The demographic diversity variables of TMTs have explained aportion of variation in FRQ under different proxies namely disclosure quality, earnings quality and timeliness reporting. The effect of demographic diversity of TMT on financial reporting quality on earnings quality, fundamental qualitative characteristics, earnings quality and timeliness in reporting were summarized using coefficient of determination, Beta values and t statistics.

Bamber et al. (2010) used demographic diversity in explaining the out come of financial disclosure in the listed companies. They found significant influence of top executives characteristics on corporate voluntary disclosure. Their study only explained the portion of how corporate voluntary disclosure is influenced by top executives characteristics. Ge et al. (2011) Investigated the effect of CFOs individual characteristics on financial reporting practices in the listed firms. Their findings show significant portion of the variation in financial reporting practices as explained by CFOs' characteristics.

The overarching conclusion is that demographic diversity of top management team has distinct characteristics which affect their corporations outputs. Although it is difficult from the findings of the study to conclusively attribute all the five demographic diversity variables to financial reporting quality per se given that financial reporting quality is multi dimentional and requires comprehensive measures. The only measure that meet this test is fundamental qualitative characteristics of accounting information (IASB 2010 and FASB 2010).

6.1.2 Demographic diversity and Discretionary Accounting Choices

The second objective of the study was to establish the effect of demographic diversity of top management team on discretionary accounting choices in commercial state corporations in Kenya. In order to achieve this objective, it was hypothesized that demographic diversity of top management team has no significant effect on discretionary accounting choices in commercial state corporations in Kenya. The findings summarized in chapter five show the rejection of the hypothesis, giving the implication that TMT demographic diversity have statistically significant effect on DAC.

The findings reveal that out of five measures of TMT demographic diversity namely ; age, gender, education, tenure and functional background, only a combination of three variables, namely ; education, tenure and functional background are found to have significant effect on discretionary accounting choices on discretionary accounting choices (revenue recognition, inventory valuation, depreciation on corporations' fixed assets, reserves, bad debts, allowance and contigent liabilities). The results therefore does not support the null hypothesis since three out of five demographic variables have positive significant effect on discretionary accounting choices. The

findings contrast with Francis et al, (2008) who find negative relationship between CEOs personal characteristics with earnings quality. The findings are consistent with Ge et al (2011) and Ling 2012) who find TMTs personal characteristics to be significant in explaining variance in accounting choices. The findings are also supported by Lafond (2008) who points out that there are two major channels through which TMTs can influence quality of accounting information, namely, choice of firm Policies and accounting Policies. However, the inconsistency of the study can be attributed to the context of the study and size of the indipendent variables.

6.1.3 Discretionary Accounting Choices and Financial Reporting Quality

objective three of the study set to determine the relationship between discretionary accounting choices and financial reporting quality in Kenyan commercial state corporations. Four sub hypotheses were derived from objective three and tested. The four sub-hypothesis were confirmed as discussed in chapter five. There was no relationship between DAC and FRQ indicators in CSCs in Kenya.

The findings under the four measures of financial reporting quality showed no relationship with discretionary accounting choices. The study examined discretionary accounting choices using five items namely ; revenue recognition, inventory valuation, depreciation of assets, reserves, allowance and contigent liabilities.

The findings seem to go against the theoretical and empirical understandings. The theoretical understandings is that discretionary accounting choices are indirectly or direct associated with earnings management, disclosure quality and the nature of information expected from the annual reports. Smith and Watts (1992) find that inventory write downs, write off of receivables and depreciation methods used on fixed assets potentially lower earnings reported. Guay, Kothari and Watts (1996) uses

discretionary accounting choices to explain the quality of earnings forecast in listed companies. However, the context of the current study is different, but still the results raise questions why no relationship. The findings in chapter four indicates that the five Policies used in the study only account for 29.6% variations.

The theoretical understandings on the relationship between discretionary accounting choices is that the existence of pressure from shareholders, bondholders and regulators have greater influence on the choices made by TMTs. Healey 2005 argues that the choice of accounting Policies to use result from pressure of compensation, debt contract and political expectations. With freedom in accounting choices of policies and increase in information asymmetry there is need to enhance monitoring (Jensen and Meckling 1976). However, it is not clear whether the freedom of choice may be influence by other factors other than top management.

6.1.4 Demographic Diversity in Top Management Team, Discretionary
Accounting Choices and Financial Reporting Quality

Objective four of the study sought to establish the influence of discretionary accounting choices on the relationship between demographic diversity of top management team and financial reporting quality in commercial state corporations in Kenya. Hypothesis four was therefore sub- divided into four sub hypotheses and tested to achieve this objective. It was anticipated that discretionary accounting choices would have significant influence on demographic diversity in TMTs and financial reporting quality. All the four sub hypothesis were confirmed. This is contrary to the expectations.

Ling (2012) finds that individual managers characteristics significantly influence accounting choices over time. His findings is consistent with the current findings

where education, tenure and functional background of the TMT in commercial state corporation significantly affect discretionary accounting policies. Helsen (1998) finds significant relationship between discretionary accounting choices and earnings quality management and disclosure quality. Hribar and Yang (2010) find significant relationship between demographic characteristics of TMTs and accounting choices. Davidson et.al (2007) examined the relationship of top management age and functional career background on earnings quality. The findings showed that older managers are rarely associated with aggressive accounting policies that would increase earnings. All these studies point to a relationship between TMT characteristics and FRQ (earnings management), relationship between accounting Policies to FRQ (earnings management). Therefore the formulation of the hypothesis was informed by the literature. However, no literature linked of the literature to the other proxies for FRQ (disclosure quality, timeliness and fundamental characteristics).

The literature has provided alternaves to why other measures namely ; disclosure quality, timeliness and fundamental qualitative characteristics are not popular in literature. Benish (2001) argues that most studies prefer using earnings quality as proxy FRQ because it is easier to determine firms value from earnings. Jiang et al. (2008) note that accounting earnings are the most widely used measures of FRQ, given that accounting rules and standards provide TMTs of firms with considerable opportunities for earnings management. Hence much attention has been devoted to earnings management. While Matsunaga and Yuen (2008) put it clear that FRQ dépends on Managerial motives and characteristics, Hence the most appropriate measure is earnings management.

Therefore the conclusion is that discretionary accounting choices do not mediate the relationship between demographic diversity and FRQ in commercial state

corporations in Kenya. The failure of the mediation may be attributed to mode of measurement of the variables. The use of dummy variable result into sidelining one effect of the variable. The second reason would be the accounting Policies used were limited to five, and currently the level of discretion by the management might have been reduced through the adoption of international accounting standards in line with IAS (2008) FASB (2008).

6.1.5 Demographic Diversity, Corporate Voluntary Disclosure and Financial Reporting Quality

Objective five of the study sought to establish the moderating effect of Corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality. It was hypothesized that : The influence of demographic diversity of top management team on financial reporting quality is not moderated by corporate voluntary disclosure in commercial state corporations in Kenya. Four sub hypotheses were derived from the main hypothesis and tested. Three of the sub hypotheses were confirmed (H05a, H05b and H05c) as discussed in chapter five. The sub hypothesis (H05d) was rejected, this means there was moderating effect with demographic diversity variables on FRQ (timeliness reporting).This is an indication that the reporting lag is a pivotal issue, since there are increasing demand from stakeholders in commercial state corporations in Kenya. The findings are supported by a few studies such as Sengupta (2004) and Verrechia (2001). However, most of the financial research explores effect off various discretionary management practices such as opportunistic accounting choices and disclosure Policies (Healey and Pelepu 2001 ; Verrchia 2001). This has resulted to less focus on timeliness reporting especially in the non-listed companies.

The study finds that corporate voluntary disclosure is influenced by some of the demographic diversity of top management. The tenure and education diversity of the top management team influence the extent of information disclosure in commercial state corporations in Kenya. Cheng (1992) argues that corporate disclosure is one of the tools that mangers use to communicate information to the stakeholders and mandatory disclosures (disclosure quality) is the responsibility of the regulatory organizations (IASB, FASB, ICPAK etc.). To show how important CVD is Li(2008) measures financial disclosure transparency using Fog index which is highly computerized model measuring the readability of the information disclosed.

6.1.6 Demographic Diversity of Top Management, Corporate Disclosure and Discretionary Accounting Policies and Financial Reporting Quality

The sixth objective of the study sought to establish the joint effect of demographic diversity of top management team and discretionary accounting choices on financial reporting quality in Kenyan commercial state corporations. In order to achieve this objective, the sixth hypothesis was sub-divided into four sub hypotheses as discussed in chapter five. The findings show joint effect of demographic diversity of TMTs, corporate voluntary disclosure, discretionary accounting choices on financial reporting quality. Financial reporting quality was measure using disclosure quality, fundamental qualitative characteristics and timeliness reporting. This was evident from the stepwise results discussed in chapter five. The adjusted R^2 for joint effect under FRQ Measures namely ; disclosure quality, fundamental qualitative characteristics and timeliness were (0.090, 0.168 and 0.155, p =0.00, 0.001 and 0.00 respectively). The combination of variables with joint effect in explaining financial reporting quality in commercial state corporations in Kenya were grouped into three :Joint variables explaining FRQ using fundamental qualitative characteristics

were ; age diversity, tenure diversity, education diversity, functional diversity and corporate voluntary disclosure ; joint effect variables explaining FRQ measured as timeliness in reporting were only two variables, tenure diversity and corporate voluntary disclosure and finally joint effect variables explaining FRQ measured as disclosure quality was only one variable corporate voluntary disclosure. This showed it moderating effect with demographic variables in the study.

From the findings it is evident that fundamental qualitative characteristics was a good measure of FRQ in the commercial state corporations (adjusted R^2 = 0.168). The findings are supported by Bertrad and Schoar(2003) that managers fixed effects explain significant portion of cross sectional variations in corporate outcomes. The out comes in commercial states corporations can be explained by a combination of TMTs' demographic factors namely ; age, tenure, gender, education and functional background. The top management team characteristics are moderated by corporate voluntary disclosure.

6.2 Conclusions

This study lays a broad foundation for the future research work into the theory and practice of financial reporting quality in commercial state corporations in Kenya. The main objective of the study was to investigate the effect of demographic diversity of top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in commercial state corporations in Kenya. To achieve this objective, the researcher first, tested the effect of demographic diversity in TMT on financial reporting quality under four measures namely ; disclosure quality, fundamental qualitative characteristics, earnings quality and timeliness in reporting. Secondly, established how discretionary accounting choices are influenced

by demographic diversity of TMTs. Thirdly, the study tested the relationship between discretionary accounting choices and financial reporting quality, then tested for the influence of discretionary accounting choices on the relationship between demographic diversity of top management team and financial reporting quality. The study also tested for the moderating effect of corporate voluntary disclosure on the relationship between demographic diversity of top management team and financial reporting quality. Finally the researcher, tested for the joint effect of demographic diversity of top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality.

It is established from the study findings that demographic diversity variables of TMTs in commercial state corporations in Kenya were statistically significant with financial reporting quality measured as earnings quality, qualitative characteristics and timeliness reporting. The demographic variables that were statistically significant in explaining FRQ were ; age, education, tenure, gender and functional background diversity.

The study findings also reveal that demographic diversity of TMTs in commercial state corporations in Kenya has significant influence over the discretionary accounting choices made. The choices tested in the study were limited to ; revenue recognition, inventory valuation methods, depreciation of assets, expensing reserves, allowance, bad debts and contigent liabilities. The most parsimonious demographic variables in explaining the model were ; tenure diversity, education diversity and functional background of TMTs. The other two variables age and gender were insignificant in explaining the variation in discretionary accounting choices but exhibit significant positive relationship with discretionary accounting choices.

Thirdly, there exist both positive and negative relationship between discretionary accounting choices and financial reporting quality. The relationship differs with each financial reporting quality measures. This makes it difficult to have composite index for the four measures of financial reporting quality. However, the relationship that exist between the variables is likely to enhance financial quality reporting in state commercial corporations in Kenya.

Fourthly, the study confirms that discretionary accounting choices are influenced by demographic diversity of top management team in kenyan commercial corporations, However, there was no much influence on voluntary disclosures. This could be attributed to the concentreted ownership by the state which fails to motivate the top management team to make much corporate voluntary disclosures. Many commercial enterprises in Kenya, mostly listed companies are motivated to engage in voluntary disclosures as a way of enhancing the value of there stocks and ability to raise capital at the lowest cost possible. This was evident from a few kenyan commercial state enterprises that are listed at Nairobi securities exchange. Commercial state corporations not listed reported very minimal disclosures due to lack of the motivation of raising finances on their own and non issuance of stocks.

Fifthly, the study confirms the existence of a joint effect of demographic diversity in top management team, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in kenyan commercial state corporations. However, the joint effect was not great going by the adjusted coefficient of determination reported from each model but can still be used to explain variations in financial reporting quality in commercial state corporations. It is therefore expected that TMTs to have greater demographic diversity with respect to financial reporting quality.

6.3 Contribution of the Study Findings

Dispite reporting Varied results on the effect and relationship on the current study variables, the study findings contribute to both knowledge and management Policies. Any study guided by empirical testable hypothesis serve the purpose of either validating the theory or falsifying the theory. The current study is just strethening the theories used in the study since most of the theories contribute to understandings the link among demographic diversity of TMTs, discretionary accounting choices and financial reporting quality in the Kenyan commercial state corporations.

The upper echelon theory in particular is emphatic on the effect of managers characteristics on financial decisions and how discretionary accounting choices create conflicting motives among stakeholders by restricting the choices available to decision makers. However other theories used in the study try to bring out the balancing act in enhancing corporate voluntary disclosure along the mandatory disclosures and discretionary accounting choices made by commercial state corporations.

The findings reveal a weak financial reporting quality in commercial state corporations in Kenya as a result of asymmetric information between commercial state corporations and the stakeholders and the indicators used in measuring FRQ. Disclosure serves to control agency cost that appear when ownership is more dispersed. (Garcia- Meci et al.2005). However, the state corporations have concentrated ownership that needs to be dispersed through voluntary disclosures. With enhancement of voluntary disclosure, managers can influence the expected interpretation of financial reporting quality components since financial reporting

quality is considered positively associated with low level of earnings management and more voluntary disclosure.

The study investigated the demographic diversity of top management team, discretionary accounting choices and shows empirically that demographic diversity is afactor that influences the financial reporting quality mediated by discretionary accounting choices.

6.3.1Contribution to Knowledge

The study has contributed to knowledge in several ways ; firstly, this study sets pace for studying financial reporting in state corporations which have been neglected for non profit making. Secondly, the study has contributed to methodological contribution that help advanced financial reporting quality in the future to other non profit making organizations. Most of this institutions have not been considered as viable due to their nature of doing business. The study has also provided some level of validity for the theoretical models, however, accrual quality model did not provide a robust results with CSCs. The models used in the study have been tested and hence, can be used in future studies and those that had weakenesses can be modified in the future studies. While recent studies have concentrated on individual characteristics to establish how Managerial characteristics matter in explaining corporate voluntary disclosure, discretionary accounting choices and financial reporting quality in the listed companies in the stocks exchanges, we provide Novell findings on how demographic diversity of TMTs in commercial state corporations in Kenya influence financial reporting quality.

Fourthly, contribution to empirical, this involves testing the extent to which demographic diversity of top management team affect financial reporting quality

under four measure namely disclosure quality, fundamental qualitative characteristics, earnings management and timeliness reporting quality in commercial state corporations in Kenya. The current study adds to academic knowledge by providing empirical evidence to academic knowledge on evidence pointing towards the significance of top management personal characteristics. The study has established that demographic diversity in TMT matter, hence more of the diversity characteristics should be explored with an intention of determining an optimal number of characteristics a manager should possess.

The current study has also added to knowledge on measures of determining financial reporting quality in the commercial state corporations which may not list in the stock exchanges. The fundamental qualitative characteristics measures both financial and non financial attributes of the firm whether listed or not listed, hence, a robust measure for corporations that do not list in stock exchanges. Timeliness reporting quality has been introduced in measuring financial reporting quality by examining how first the annual statements are released to the general public and other stakeholders. The results were not as robust as that of fundamental qualitative characteristics. But the findings were significant with some demographic variables.

The research extends the emerging academic literature on demographic diversity of top management team on financial reporting quality in kenyan commercial corporations. This introduces important insights from accounting literature on quality reporting and voluntary disclosure in the commercial state corporations.

The adopted financial reporting quality measurement models in the study can explain the quality of financial reporting commercial state corporations in Kenya. This can provides an exploratory schemes which state agencies decision makers can use to

generate informed decisions and Policies in constitution the top management team. The results can further help researcher explore the role of team members in explaining financial reporting quality and control the for top executives level characteristics when determining discretionary accounting choices.

6.3.2 Contribution to Managerial Policy and Practice

The study contributes to development of Policies relevant in enhancing voluntary disclosure Policy given that it is not mandatory to disclose them. Since accounting choices applied vary from organization to organization. The institutionalization of the disclosure policies will help in enhancing Uniform and comprehesive disclosures across the firms. Practioners will use the findings in enhancing the BoDs, audit committee and top management composition towards enhancing value of the firm. The study is more significant in the composition of top management team. Upper echelons theory suggests cross-sectional differences in managers' demographic characteristics (functional background, age, education, values and cognitive bases) enhance firms out comes. This should be used by top management to enhance their performance.

Top management team is crucial in attaining high quality reporting. The Policy will help in enhancing good manager characteristics in attaining high quality reports. Financial statements are used to show the results of management accountability for resources entrusted to them. Financial reporting quality should posses high degree of excellence in terms of information disclosed.

Commercial state corporations in Kenya have been performing poorly for the last decades. With current restructuring in commercial state corporations, the findings

have greater implications on manager compensation Policy, performance record, corporate governance issues and measurement of FRQ.

6.4 Limitations of Study

The major limitation to the study was the scope of the study. This study was limited to commercial state corporations in Kenya. In the background to the study, it was stated that state corporation in Kenya are categorized into five distinct classes. The current study was limited to two classes only namely ; commercial state corporations and commercial state corporations with strategic role. Since the study was limited to the two types only, much could not be got from the other three types. It is assumed that with the inclusion of the other three state corporations the result could be different. The scope of the study also limits the level of comparision. The generalization of the findings may be limited to commercial state corporations only. This may hinder the theory building in these sector.

Secondly, Kenya is going global and this is seen through, various international participations, the cross listing within the East African community, issuance of the Euro bonds among others.therfore, with the exclusion of other commercial state corporations within East African Community set ups from the study, pose a greater challenge. The scope of the study was only within Kenya. There is agreat belief that, if other commercial state corporations were included in this study, then different result could be obtained. Extendeding the scope of the study would have probalbly increase the level of generalization on the impact of other variables like culture, commitments racial and ethnicity.

Thirdly, the study could not axhaust all the statistical methods available for studies like this one. There were quite a number of models available for a study like this,

given that each model or statistical method has its merit and demerit. The use of other statistical techniques may give different findings that may enhance empirical studies in this area. The study basically relied on regression analysis and correlation analysis for justifying various effects and relationship, other methods like path analysis SEM may be used to confirm the effect. The study relied on observable demographic characteristics, hence limitation in other non observable characteristics.

Fourthly, lack of many studies in the commercial state corporations, made it difficult to make some comparision. Most of the studies reviewed were from the context of listed companies. Given other studies in this area, the study could have utilized the context of commercial state corporation to create more impact on financial reporting quality. However, the best was made out of the empirical studies to make comparision since all firms are commercial in nature.

The other major limitation of the study was source of secondary information. Most of the secondary date on state corporations are not ready available, and there are a lot of beauracracy in obtaining such data. This has been a major limitation in advancing research in these institutions. However, for this research there was a lot of support.

The regression model used in the study assumes there is linear relationship between demographic diversity in TMTs, corporate voluntary disclosure, discretionary accounting choices and financial reporting quality. The relationship may even be a curvilinear which may give adverse effect on financial reporting quality.

6.5 Suggestions for Further Studies

The research work examines demographic diversity of TMT, corporate voluntary disclosure and discretionary accounting choices on financial reporting quality in

commercial state corporations and has pave way for future research in the following areas :

Future research work should be done in other non commercial state corporations and public benefit organizations. This will enhance the scope of the findings and level of generalization. Thus, future research could be replicated to examine the demographic diversity of top management team and quality reporting in other regulatory and state agencies, listed companies, non governmental organizations.

The same research can be carried out by bringing in other demographic characteristics like, ethnicity, culture, religion, over-confidence, etc. This will help in explaining how reporting choices and corporate voluntary disclosure affect public institutions when constituiting top executives and management board.

The future research could measure quality reporting using other indices of reporting quality and tracking specific fixed effect of top management team over time, since top executives background is an actionable variable for corporate board, better understandings of top management role is crucial for financial quality reporting.

The current research used only five variables for measuring discretionary accounting choices namely ; revenue recognition, inventory valuation, di. The five used in the study did not show significant relationship with dependent variables namely ; earnings quality, timeliness reporting, disclosure quality and fundamental qualitative characteristics. The use of other discretionary policies would report different results.

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APPENDICES
APPENDIX I : SECONDARY DATA CAPTURE FORM « A »

NAME OF COMPANY………………………………………….. YEAR INCOPORATED…………………………….

YEAR	CEO/MD/CFO/ACs	AGE	EDUCATION	TENURE	GENDER	PROFESSION	FIRM SIZE	AGE OF FIRM	SIZE OF TLE
2003									
2004									
2005									
2006									
2007									
2008									
2009									
2010									
2011									
2012									
2013									

APPENDIX II : SECONDARY DATA CAPTURE FORM « B »

NAME OF COMPANY………………………………………….. YEAR INCOPORATED………………………….

YEAR	NUMBER OF DICLOSURE VOLUNTARY	NUMBER OF DICLOSURE MANDATORY	TACC/EARNING QUALITY	AMT OF DAYS TAKEN TO RELEASE STM		STOCK VALUATION USED	DEPRECIATION USED	EARNINGS MANAGEMENTUSED
				End Yr	Audit Sig			
2004								
2005								
2006								
2007								
2008								
2009								
2010								
2011								
2012								
2013								

DATA CAPTURE FORM : DISCLOSURE QUALITY ITEM BY ITEM   SERIAL NO 003/2014

NAME OF COMPANY…………………………………….. YEAR INCOPORATED………………………….

NO	BALANCESHEET ITEMS DISCLOSED		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	FIXED ASSETS		Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.
1.	Property, Plants&Equipment											
2.	Intangible Assets											
3.	Prepaid Operating` leases											
4	Investment Property											
5	Investment in market Securities (equity & corporate bonds)											
6	Un quoted Equity instruments											
7	Government Securities											
8	Premium and Loss Reserve											
9	Investment in other venture											
10	Loan swap assets											
11	Restricted Deposits											
12	Deposits due from other financial institutions											
12	Morgage loans											
	CURRENT ASSETS											
14	Inventories											
15	Inventory -WIP)											
16	Inventory –Raw materials											
17	Trade and other Receivables											
18	Tax recoverables											
19	Short Term Deposits											
20	Prepayments											
21	Bank balance and Cash											
22	Prepaid Operating Leases											
	TOTAL ASSETS	22										

	EQUITY													
22	Share Capital													
23	Share Premium													
24	Assets revaluation reserves													
25	Translation Reserves													
26	Fair value Reserves													
27	Stututory Reserves													
28	Retained Earnings													
29	Foreign Currency Reserves													
30	Capital Grants													
31	Proposed Dividend													
32	Other Resserves													
	NON CURRENT LIABILITIES													
33	Retirement benefit liability/defined benefit liability													
34	Long Term loans													
35	Other													
36	Long Term insurance contract													
	CURRENT LIABILITIES													
37	Bank overdrafts													
38	Trade payables													
39	Other payables and accruals													
40	Obligations under leases													
41	Leave pay provisions													
42	Dividend payables													
43	Differred tax liability													
44	Other money market Deposits													
45	Unearned Premiums													
46	Short Term contract liability													

DISCLOSURE QUALITY COMPREHENSIVE INCOME STATEMENT ITEM DISCLOSURE

	INCOME STATEMENT	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	INCOME/REVENUE	Shs	Shs	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.
1	Sales										
2	Cost of sales										
3	Gross profit/Loss										
4	Other income/surplus										
	Admin Operating expenses :										
5	Depreciation										
6	Salaries and wages										
7	Staff welfare										
8	Insurance										
9	Bank charges										
10	Directors emoluments/fees										
11	Auditors fees										
12	Other administrative expenses										
	Selling and distribution Expenses										
13	Commissions										
14	Advertisement and Publications										
15	Provision for Bad debts										
16	Repair and Maintenance										
17	Training										
18	Financial cost										
	Other Costs :										
19	Tax charges										
20	Extra ordinary items										
21	Discontinued operationd										
22	Net Income/Loss										

APPENDIX III: ITEMS IN THE VOLUNTARY DISCLOSURE CATEGORIES

VOLUNTARY DISCLOSURE	Award "1' if item is disclosed	Award "0" if not
A. General and Strategic Information		
1. Information relating to the general outlook of the economy		
2. Company's mission statement		
3. Brief history of the company		
4. Organizational structure/chart		
5. Description of major goods/services produced		
6. Description of marketing networks for finished goods/services		
7. Company's contribution to the national economy		
8. Company's current business strategy		
9. Likely effect of business strategy on current performance		
10. Market share analysis		
11. Disclosure relating to competition in the industry		
12. Discussion about major regional economic developments		
13. Information about regional political stability		
B. Financial Data		
14. Historical summary of financial data for the last 6 years or over		
15. Review of current financial results and discussion of major factors underlying performance		
16. Statement concerning wealth created e.g. value added statement		
17. Supplementary inflation adjusted financial statement		
18. Return on assets		
19. Return on shareholders' funds		
20. Liquidity ratios		
21. Gearing ratios		
C. Forward-looking Information		
22. Factors that may affect future performance		
23. Likely effect of business strategy on future performance		
24. New product/service development		
25. Planned capital expenditure		
26. planned research and development expenditure		
27. Planned advertising and publicity expenditure		
28. Earnings per share forecast		
29. Sales revenue forecast		
30. Profit forecast		

D.Social and Board Disclosure		
31. Number of employees for the last two or more years 32. Reasons for change in employee number 33. Productivity per employee 34. Information about employee workplace safety 35. Data on workplace accidents 36. Statement of corporate social responsibility 37. Statement of environmental policy 38. Environmental projects/activities undertaken 39. Information on community involvement/participation 40. Names of directors 41. Age of directors 42. Academic and professional qualification of directors 43. Directors' shareholding in the company and other related interests if any(e.g. stock options) 44. Disclosure concerning senior management responsibilities, experience and background		
TOTAL NUMBER OF DISCLOSURE		

Source : Barako (2007)

APPENDIX IV:DATA CAPTURE FORM : MEASUREMENT OF FUNDAMENTAL QUALITATIVE CHARACTERISTICS

NAME OF THE COMPANY OR INDEX...SERIAL NO/004/2014

	QUESTION-Relevance	OPERATIONALIZATION	2004	2005	006	007	008	009	010	011	012	013	TT
R1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the company?(MD&A)	1 = No forward-looking information 2 = Forward-looking information not an apart subsection 3 = Apart subsection 4 = Extensive predictions 5 = Extensive predictions useful for making expectation											
R2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	1 = No non-financial information 2 = Little non-financial information, no useful for forming expectations 3 = Useful non-financial information 4 = Useful non-financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps developing expectations											
R3	To what extent does the company use fair value instead of historical cost? (Foot notes)	1 = Only HC 2 = Most HC 3 = Balance FV/HC 4 = Most FV 5 = Only FV											

R4	To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?(FS ,MD&A)	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback												
	Faithful Representation													
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1 = Only described estimations 2 = General explanation 3 = Specific explanation of estimations 4 = Specific explanation, formulas explained etc. 5 = Comprehensive argumentation												
F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation												
F3	To what extent does the company, in the discussion of the annual results, highlight the positive events as well as the	1 = Negative events only mentioned in footnotes 2 = Emphasize on positive events 3 = Emphasize on positive events, but negative events are mentioned; no negative events occurred 4 = Balance pos/neg events												

	negative events?	5 = Impact of pos/neg events is also explained														
F4	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + internal control														
F5	To what extent does the company provide information on corporate governance?	1 = No description CG 2 = Information on CG limited, not in apart subsection 3 = Apart subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG														
	TIMELINESS	**MEASUREMENT**														
	Questions	**Operationalization**														
T1	How many days did it take for the auditor to sign the auditors' report after book year end?	Natural logarithm of amount of days 1 = 90 days 2 = 120 days 3 = 150 days 4 = 180days 5 = Above 180 days														
TI		**DATE ANNUAL REPORT SIGNED**														
U1	**Understandability**															
	To what extent is the annual report presented in a well organized manner?	Judgment based on: 1= complete table of contents 2= headings 3=order of components 4= summary/ conclusion at the end of each subsection 5= All the above														
U2	To what extent are the notes to the balance sheet and the income statement	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which														

	sufficiently clear?	assumptions etc.) 5 = Everything that might be difficult to understand is Explained												
U3	To what extent does the presence of graphs and tables clarifies the presented information?	1 = no graphs 2 = 1-2 graphs 3 = 3-5 graphs 4 = 6-10 graphs 5 = > 10 graphs												
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation 3 = Jargon is explained in text/ glossary 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation												
U5	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page 4 = 1-2 pages 5 = > 2 pages												
	TIMELINESS	**MEASUREMENT**												
	Questions	**Operationalization**		**Concept**										
T1	How many days did it take for the auditor to sign the auditors' report after book year end?	Natural logarithm of amount of days		Timeliness			IASB, 2008							
	10 – 8 words			Insuficient										

APPENDIX V: MEASUREMENT OF ACCOUNTING POLICIES

Accounting Policies	Aggressive Accounting	Conservative Accounting
Revenue Recognition	At Sales	After Sales
Cost of good sold/ valuation method	FIFO	LIFO
Depreciation of Assets	Accelarated method-faster	Straight-line method-slower
Reserves and allowance, bad debts and warranty	Low estimate- higher profit now	High estimates – higher profits later
Contigent liabilities	Foot notes only= postpone bad news	Accrue when known= take losses now
Advertising and marketing expenditures	Capitalze = write- off later	Expense = write-off now

Appendix V1: Summary of Data Sources and Institutions

Secondary Data	Sources
Demographic variables	Individual company's website, annual statements and Kenya gazette and internet.
Accounting policies	Annual financial statements of individual companies, Newspapers business columns
Voluntary disclosures	Annual statements from individual company's website, KENAO Website, NSE, CMA libraries
Qualitative characteristics	Annual statements of individual companies website, KENAO,
Quality disclosure variables	Annual statements from individual companies, websites, CMA website, KENAO
Earnings management	Individual company's annual statements, companies websites, KENAO,CMA
Timeliness	Individual company's, KENAO, CMA, NSE

Researcher (2014)

APPENDIX VII : Accumulated Analysis of Variance demographic diversity and FQR

Change	d.f.	s.s.	m.s.	v.r.	F pr.
AGE	1	0.0509	0.0509	0.74	0.39
EDUCATION	1	0.0199	0.0199	0.29	0.591
FBG	1	0.00055	0.00055	0.01	0.929
GENDER	1	0.00054	0.00054	0.01	0.929
TENURE	1	0.00028	0.00028	0	0.949
BDQ	1	0.59778	0.59778	8.71	0.004
EARNING_log	1	0.01703	0.01703	0.25	0.619
QCHARAC	1	0.35632	0.35632	5.19	0.024
TIMELINES_NO_OF_DAYS	1	1.21521	1.21521	17.71	<.001
Residual	209	14.33931	0.06861		
Total	218	16.59784	0.07614		

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	BDQ2	.197[a]	5	.039	.893	.487
	QCHARAC	8.781[b]	5	1.756	6.354	.000
	EARNING	44.506[c]	5	8.901	.827	.531
	TIMELINESNOOFDAYS	318.036[d]	5	63.607	2.788	.018
Intercept	BDQ2	1.453	1	1.453	32.841	.000
	QCHARAC	22.201	1	22.201	80.315	.000
	EARNING	37.609	1	37.609	3.496	.063
	TIMELINESNOOFDAYS	769.332	1	769.332	33.723	.000
AGE	BDQ2	5.700E-5	1	5.700E-5	.001	.971
	QCHARAC	3.942	1	3.942	14.262	.000
	EARNING	13.976	1	13.976	1.299	.256
	TIMELINESNOOFDAYS	82.468	1	82.468	3.615	.059
TENURE	BDQ2	.018	1	.018	.413	.521
	QCHARAC	.423	1	.423	1.530	.217
	EARNING	7.456	1	7.456	.693	.406
	TIMELINESNOOFDAYS	170.418	1	170.418	7.470	.007
GENDER	BDQ2	.073	1	.073	1.644	.201
	QCHARAC	.375	1	.375	1.358	.245
	EARNING	2.955	1	2.955	.275	.601
	TIMELINESNOOFDAYS	13.057	1	13.057	.572	.450
EDUCATION	BDQ2	.012	1	.012	.282	.596
	QCHARAC	.935	1	.935	3.384	.067
	EARNING	8.021	1	8.021	.746	.389
	TIMELINESNOOFDAYS	23.627	1	23.627	1.036	.310

FBG	BDQ2	.076	1	.076	1.713	.192
	QCHARAC	2.935	1	2.935	10.617	.001
	EARNING	.002	1	.002	.000	.989
	TIMELINESNOOFDAYS	62.127	1	62.127	2.723	.100
Error	BDQ2	9.423	213	.044		
	QCHARAC	58.878	213	.276		
	EARNING	2291.267	213	10.757		
	TIMELINESNOOFDAYS	4859.292	213	22.814		
Total	BDQ2	97.316	219			
	QCHARAC	1636.093	219			
	EARNING	2774.135	219			
	TIMELINESNOOFDAYS	42900.000	219			
Corrected Total	BDQ2	9.620	218			
	QCHARAC	67.660	218			
	EARNING	2335.773	218			
	TIMELINESNOOFDAYS	5177.328	218			

a. R Squared = .021 (Adjusted R Squared = -.002)

b. R Squared = .130 (Adjusted R Squared = .109)

c. R Squared = .019 (Adjusted R Squared = -.004)

d. R Squared = .061 (Adjusted R Squared = .039)

APPENDIX VIII : DEMOGRAPHIC DIVERSITY AND DISCLOSURE QUALITY

Change	d.f.	s.s.	m.s.	v.r.	F pr.
AGE	1	0.0037	0.0037	0.07	0.787
EDUCATION	1	0.01775	0.01775	0.35	0.554
GENDER	1	0.09403	0.09403	1.86	0.174
FBG	1	0.16229	0.16229	3.22	0.074
TENURE	1	0.00038	0.00038	0.01	0.931
Residual	225	11.35073	0.05045		
Total	230	11.62888	0.05056		

Timeliness in Days	
N	241
Mean	13.343031109
Std. Error of Mean	.3275397829
Median	11.135529000
Mode	10.9544520
Std. Deviation	5.0847848100
Variance	25.855
Minimum	7.2801100
Maximum	37.9736750
Sum	3215.6704972

APPENDIX IX : CORRELATIONS BETWEEN PARAMETER ESTIMATES

Correlations between parameter estimates

Parameter	ref	correlations
Constant	1	
AGE	2	
EDUCATION	3	
GENDER	4	
F&G	5	
TENURE	6	
AGE.EDUCATION	7	
AGE.GENDER	8	
EDUCATION.GENDER	9	
AGE.F&G	10	
EDUCATION.F&G	11	
GENDER.F&G	12	
AGE.TENURE	13	
EDUCATION.TENURE	14	
GENDER.TENURE	15	
F&G.TENURE	16	
AGE.EDUCATION.GENDER	17	
AGE.EDUCATION.F&G	18	
AGE.GENDER.F&G	19	
EDUCATION.GENDER.F&G	20	
AGE.EDUCATION.TENURE	21	
AGE.GENDER.TENURE	22	
EDUCATION.GENDER.TENURE	23	
AGE.F&G.TENURE	24	
EDUCATION.F&G.TENURE	25	
GENDER.F&G.TENURE	26	
AGE.EDUCATION.GENDER.F&G	27	
AGE.EDUCATION.GENDER.TENURE	28	
AGE.EDUCATION.F&G.TENURE	29	
AGE.GENDER.F&G.TENURE	30	
EDUCATION.GENDER.F&G.TENURE	31	
AGE.EDUCATION.GENDER.F&G.TENURE	32	

APPENDIX X: Tranformation of Timeliness quality

TIMELINES(NO OF DAYS)	
N	241
Mean	1.33E+01
Std. Error of Mean	0.327539783
Median	1.11E+01
Mode	10.954452
Std. Deviation	5.85E+00
Variance	25.855
Skewness	1.661
Std. Error of Skewness	0.157
Range	30.693565
Minimum	7.28011
Maximum	37.973675
Sum	3.22E+03

APPENDIX XI : MEASUREMENT OF ACCOUNTING POLICIES

PANEL DATA: CROSS- SECTIONAL ANALYSIS

Firm	AGROCHEM	CEMELIL	CONSOL	DEV BANK	EAPCL	KAA	KAC	KACA	KAM GOLF	KENGEN	KENYARE	KETRACO	KNTC	KPA	KPC	KPLC	muhorini	MUM	NBK	NCPB	NEW KCC	NOCK	NWCPC	nyayo tea	NZOIA	PCK	SONY	SUNSET	UCMI	UONBI
mean	0.17885	0.1037	0.1859	0.19919	0.09297	0.14802	0.17477	0.25514	0.19827	0.14884	0.15997	0.19627	0.17385	0.1108	0.18451	0.86092	0.66542	0.16867	0.19915	0.44069	0.17243	0.16982	0.46383	0.09994	0.34461	0.15591	0.42029	0.11785	0.44949	0.184
rep.	10	8	7	9	10	7	8	4	8	10	10	6	5	7	7	9	10	10	10	10	2	9	10	5	8	4	10	8	9	10
s.e.	0.04763	0.05325	0.05693	0.05021	0.04763	0.05693	0.05325	0.07531	0.05325	0.04763	0.04763	0.06149	0.06736	0.05693	0.05693	0.05021	0.04763	0.04763	0.04763	0.04763	0.10651	0.05021	0.04763	0.06736	0.05325	0.07531	0.04763	0.05325	0.05021	0.04763

Firm	AGROCHEM	CEMELIL	CONSOL	DEV BANK	EAPCL	KAA	KAC	KACA	KAM GOLF	KENGEN	KENYARE	KETRACO	KNTC	KPA	KPC	KPLC	muhorini	MUM	NBK	NCPB	NEW KCC	NOCK	NWCPC	nyayo tea	NZOIA	PCK	SONY	SUNSET	UCMI	UONBI
mean	0.6186	0.6874	0.7112	0.4827	0.6174	0.6528	0.631	0.4885	0.6233	0.5472	0.6485	0.3871	0.3242	0.469	0.3878	0.6124	0.525	0.4638	0.7664	0.2206	0.8298	0.4599	0.2876	0.6694	0.7085	0.6281	0.5459	0.1854	0.5005	0.4638
rep.	10	8	7	9	10	7	8	4	8	10	10	6	5	7	7	10	10	10	10	10	2	10	5	8	4	10	8	9	10	
s.e.	0.0675	0.0755	0.0807	0.0712	0.0675	0.0807	0.0755	0.1068	0.0755	0.0675	0.0675	0.0872	0.0955	0.0807	0.0807	0.0675	0.0675	0.0675	0.0675	0.0675	0.151	0.0712	0.0675	0.0955	0.0755	0.1068	0.0675	0.0755	0.0712	0.0675

Firm	AGROCHEM	CEMELIL	CONSOL	DEV BANK	EAPCL	KAA	KAC	KACA	KAM GOLF	KENGEN	KENYARE	KETRACO	KNTC	KPA	KPC	KPLC	muhorini	MUM	NBK	NCPB	NEW KCC	NOCK	NWCPC	nyayo tea	NZOIA	PCK	SONY	SUNSET	UCMI	UONBI
mean	0.13062	0.28753	0.36297	0.16266	0.12784	0.33905	0.25347	0.44758	0.45705	0.17661	0.45908	0.42985	0.32557	0.42372	0.43841	0.11033	0.075	0.26489	0.13875	0.32445	0.52778	0.24495	0.28759	0.2301	0.06946	0.45581	0.31944	0.45705	0.46071	0.28759
rep.	10	8	7	9	9	7	8	4	8	10	10	6	5	7	7	10	10	10	10	10	2	9	10	5	8	4	10	8	9	10
s.e.	0.04917	0.05497	0.05877	0.05183	0.05183	0.05877	0.05497	0.07774	0.05497	0.04917	0.04917	0.06348	0.06954	0.05877	0.05877	0.04917	0.04917	0.04917	0.04917	0.04917	0.10994	0.05183	0.04917	0.06954	0.05497	0.07774	0.04917	0.05497	0.05183	0.04917

Firm	AGROCHEM	CEMELIL	CONSOL	DEV BANK	EAPCL	KAA	KAC	KACA	KAM GOLF	KENGEN	KENYARE	KETRACO	KNTC	KPA	KPC	KPLC	muhorini	MUM	NBK	NCPB	NEW KCC	NOCK	NWCPC	nyayo tea	NZOIA	PCK	SONY	SUNSET	UCMI	UONBI
mean	0.94025	0.28753	0.9365	0.85879	0.66512	0.54717	0.93403	0.93749	0.84809	0.80596	0.87361	0.91087	0.90139	0.88343	0.366	0.86694	0.98403	0.88264	0.90764	0.92976	0.96178	0.8858	0.90695	0.90448	0.7085	0.90799	0.87708	0.72493	0.81039	0.9111
rep.	10	8	7	9	9	7	8	4	8	10	10	6	5	7	7	10	10	10	10	10	2	9	10	5	8	4	10	8	9	10
s.e.	0.04052	0.0453	0.04843	0.04271	0.04271	0.04843	0.0453	0.06406	0.0453	0.04052	0.04052	0.05231	0.0573	0.04843	0.04843	0.04052	0.04052	0.04052	0.04052	0.04052	0.0906	0.04271	0.04052	0.06406	0.0453	0.06406	0.04052	0.0453	0.04271	0.04052

Firm	AGROCHEM	CEMELIL	CONSOL	DEV BANK	EAPCL	KAA	KAC	KACA	KAM GOLF	KENGEN	KENYARE	KETRACO	KNTC	KPA	KPC	KPLC	muhorini	MUM	NBK	NCPB	NEW KCC	NOCK	NWCPC	nyayo tea	NZOIA	PCK	SONY	SUNSET	UCMI	UONBI
mean	0.93813	0.76742	0.92576	0.8449	0.77153	0.85914	0.93403	0.92014	0.86719	0.875	0.85972	0.38	0.93055	0.88343	0.92063	0.83083	0.96735	0.90069	0.92014	0.85157	0.93055	0.89892	0.90069	0.89722	0.48612	0.90625	0.90695	0.76742	0.86497	0.875
rep.	10	8	7	9	10	7	8	4	8	10	10	6	5	7	7	10	10	10	10	10	2	9	10	5	8	4	10	8	9	10
s.e.	0.04298	0.04806	0.05137	0.04531	0.04298	0.05137	0.04806	0.06796	0.04806	0.04298	0.04298	0.05549	0.06079	0.05137	0.05137	0.04298	0.04298	0.04298	0.04298	0.04298	0.09611	0.04531	0.04298	0.06079	0.04806	0.06796	0.04298	0.04806	0.04531	0.04298

APPENDIX XII :   COMMERCIAL STATE CORPORATIONS IN KENYA.

	State Corporation	Enabling Legislation	Sector
	Agro-Chemical and Food Company	Companies Act, Cap 486	Agriculture, Livestock & Fisheries
	Kenya Meat Commission	Kenya Meat Commission Act, Cap 363	Agriculture, Livestock & Fisheries
	Muhoroni Sugar Company Ltd	Companies Act, Cap 486	Agriculture, Livestock & Fisheries
	Nyayo Tea Zones Development Corporation	State Corporations Act, Cap 446	Agriculture, Livestock & Fisheries
	South Nyanza Sugar Company Limited	State Corporations Act (Cap 446)	Agriculture, Livestock & Fisheries
	Chemilil Sugar Company Ltd	Companies Act, Cap 486	Agriculture, Livestock & Fisheries
	Nzoia Sugar Company Ltd	Companies Act, Cap 486	Agriculture, Livestock & Fisheries
	Simlaw Seeds Kenya	Companies Act, Cap 486	Agriculture, Livestock & Fisheries
	Simlaw Seeds Tanzania	Companies Act	Agriculture, Livestock & Fisheries
	Simlaw Seeds Uganda	Companies Act	Agriculture, Livestock & Fisheries
	Kenya National Trading Corporation (KNTC)	CompaniesAct, Cap 486	East African Affairs, Commerce & Tourism
	Kenya Safari Lodges and Hotels Ltd. (Mombasa Beach Hotel, Ngulia Lodge, Voi Lodge)	Companies Act Cap. 486	East African Affairs, Commerce & Tourism
	Golf Hotel Kakamega	Companies Act Cap. 486	East African, Commerce & Tourism
	Kabarnet Hotel Limited	Companies Act Cap. 486	East African, Commerce & Tourism
	Mt Elgon Lodge	Companies Act Cap. 486	East African, Commerce & Tourism
	Sunset Hotel Kisumu	Companies Act	East African, Commerce

		Cap. 486	& Tourism
	Jomo Kenyatta Foundation	Companies Act, Cap. 486, Laws of Kenya (limited by guarantee)	Education, Science & Technology
	Jomo Kenyatta University Enterprises Ltd.	Companies Act Cap. 486	Education, Science & Technology
	Kenya Literature Bureau (KLB)	Kenya Literature Bureau Act, Cap 209	Education, Science & Technology
	Rivatex (East Africa) Ltd.	Companies Act Cap. 486	Education, Science & Technology
	School Equipment Production Unit		Education, Science & Technology
	University of Nairobi Enterprises Ltd.	Companies Act Cap. 486	Education, Science & Technology
	University of Nairobi Press (UONP)	Companies Act Cap. 486	Education, Science & Technology
	Development Bank of Kenya Ltd.	Companies Act, Cap 486	Industrialization & Enterprise Development
	Kenya Wine Agencies Ltd (KWAL)	Companies Act, Cap 486	Industrialization & Enterprise Development
	KWA Holdings	Companies Act, Cap 486	Industrialization & Enterprise Development
	New Kenya Co-operative Creameries	Companies Act Ca. 486	Industrialization & Enterprise Development
	Yatta Vineyards Ltd	Companies Act Cap. 486	Industrialization & Enterprise Development
	National Housing Corporation	Housing Act, Cap 117	Lands, Housing & Urban Development
	Research Development Unit Company Ltd	Companies Act Cap. 486	Lands, Housing & Urban Development
	Consolidated Bank of Kenya	Companies Act, Cap 486	National Treasury
	Kenya National Assurance Co. (2001) Ltd	Companies Act, Cap 486	National Treasury

	Kenya Reinsurance Corporation Ltd	Kenya Reinsurance Corporation Act, Cap 487	National Treasury
	Kenya National Shipping Line	Companies Act, Cap 486	Transport & Infrastructure
	Kenya Animal Genetics Resource Centre	State Corporations Act, Cap 446	Agriculture, Livestock & Fisheries
	Kenya Seed Company (KSC)	Companies Act, Cap 486	Agriculture, Livestock & Fisheries
	Kenya Veterinary Vaccine Production Institute	State Corporations Act, Cap 446 of the laws of Kenya	Agriculture, Livestock & Fisheries
	National Cereals & Produce Board (NCPB)	National Cereals and Produce Board Act, Cap 338	Agriculture, Livestock & Fisheries
	Kenyatta International Convention Centre	Tourism Act, Cap 28 of 2011	East African Affairs,Commerce & Tourism
	Geothermal Development Company (GDC)	Companies Act, Cap 486	Energy & Petroleum
	Kenya Electricity Generating Company (KENGEN	Companies Act, Cap 486	Energy & Petroleum
	Kenya Electricity Transmission Company (KETRACO)	Companies Act, Cap 486	Energy & Petroleum
	Kenya Pipeline Company (KPC	Companies Act, Cap 486	Energy & Petroleum
	Kenya Power and Lighting Company (KPLC)	Companies Act, Cap 486	Energy & Petroleum
	National Oil Corporation of Kenya	Companies Act, Cap 481	Energy & Petroleum
	National Water Conservation and Pipeline Corporation	Water Act 2002	Environment, Water & Natural Resources
	Numerical Machining Complex	Companies Act, 486	Industrialization & Enterprise Development
	Kenya Broadcasting Corporation	Kenya Broadcasting Corporation Act, Cap 221	Information, Communication & Technology

	Postal Corporation of Kenya	Postal Corporation Act, Cap 411	Information, Communication & Technology
	Kenya Development Bank	To be enacted	National Treasury
	Kenya Post Office Savings Bank	Kenya Post Office Savings Bank Act No. 493 B	National Treasury
	Kenya Airports Authority (KAA	Kenya Airports Authority Act, Cap 395	Transport & Infrastructure
	Kenya Railways Corporation (KRC)	Kenya Railways Corporation Act, Cap 397	Transport & Infrastructure
	Kenya Ports Authority (KPA)	Kenya Ports Authority Act, Cap 391	Transport & Infrastructure

Source: Inspectorate of State Corporations, October 9, 2013