

**THE EFFECT OF VOLUNTARY DISCLOSURE ON THE FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

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DECLARATION

I, the undersigned, declare that this research project is my own work and has never been presented in any other university or college for a degree or any other award.

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DEDICATION

I dedicate this research project to my Parents for their invaluable support both morally and financially, to my siblings for continually encouraging me throughout the research period, and to all my friends for their continued support when I was doing my project.

ABSTRACT

Good corporate governance is indispensable for the survival and performance of corporate entities and the purpose of the Capital Markets Authority's guidelines on good corporate governance is to improve governance practises in the corporate sector hence attracting and retaining investors for sustained economic growth. The objective of this study was to investigate the effect of voluntary disclosure on the financial performance of commercial banks in Kenya.

The study examined general and strategic disclosure, financial disclosure, forward looking disclosure and social and board disclosure as proxies for measuring voluntary disclosure and how they affect the financial performance of commercial banks in Kenya. Firm performance was measured using Return on Equity (ROE). The study adopted a descriptive research design with a study sample of 42 commercial banks in Kenya and the data was collected by developing a disclosure index consisting of 47 disclosure items. Secondary data was collected from annual reports of the 42 commercial banks for a period of 6 years from 2008 to 2013. Data was analyzed using a multiple linear regression model.

The study found a positive relationship between financial, forward looking and board and social disclosure and return on equity. A 1% increase in financial disclosure leads to a 54% increase in financial performance of commercial banks, while a 1% increase in forward looking disclosure leads to a 33.9% increase in return on equity and a 1% increase in board and social disclosure leads to a 50.3% increase in return on equity. On the other hand, the study found a negative relationship between general & strategic disclosure and return on equity this means that a 1% increase in strategic disclosure leads to a 20.2% decrease in return on equity of a firm. The study concluded that firms should lean towards disclosure of financial and social and board disclosure to increase their performance.

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ABBREVIATIONS

CAR: Capital Adequacy Ratio

CBK: Central Bank of Kenya

CG: Corporate Governance

CMA: Capital Markets Authority

IFRS: International Financial Reporting Standards

FAF: Financial Analyst and Federation Report

FASB: Financial Accounting Standards Board

GDP: Gross Domestic Product

NIM: Net Interest Margin

NSE: Nairobi Stock Exchange

ROA: Return on Assets

ROE: Return on Equity

SEC: Securities and Exchange Commission

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The demand for corporate voluntary disclosure of companies has increased worldwide as users of the information become more conscious. Corporate voluntary disclosure refers to information made available at the discretion of the managers in addition to regulatory requirements. Enhanced voluntary disclosure reduces the gap between management and the outside, enhances the value of stock in the capital market, increases liquidity, reduces cost of capital and so on (Karim, 1996). The extent of voluntary disclosure is influenced by firm characteristics, economic factors, changes in the attitudes in society and behavioural factors such as corporate culture.

Investor's and stakeholder's confidence depends on the smooth flow of adequate, reliable, relevant and neutral information regarding the company's operating activities. It is possible only by establishing a sound corporate disclosure system. The reporting of voluntary information can play a significant role to facilitate the proper utilization of resources in an organization. In the developed countries, it is very common phenomenon that companies disclose more information voluntarily in their annual report. The Kenya government in line with World Bank recommendations initiated a privatisation program in the 1990s, some of them through the NSE.

Given the increasing amount of focus on and the growing significance of the NSE as an important venue for attracting foreign investments and to encourage local residents to invest in shares, Kenyan companies engage in voluntary disclosure as a means to enhance the value of their stocks. Moreover, there are empirical evidences suggesting that increased information disclosure reduces a firm's cost of capital by reducing information asymmetry (Botosan, 1997, 2000). As such therefore, information disclosure in itself can be a strategic tool, which enhances a company's ability to raise capital at the lowest cost possible (Healy & Palepu 1993; Lev 1992). Corporate governance processes are used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Claessens et al. (2002) maintain that better

corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

1.1.1 Voluntary Financial Disclosure

Ho and Wong (2003) stated that, how information is shared among the participants deeply affects the function of capital markets. In business activities, investors require timely and correct information to reach effective investment decisions. This kind of information can be collected through many ways, and one of the most important resources is the corporations' annual reports. The most important role of annual reports is to provide relevant, useful and reliable financial information to investors, shareholders and other interested people about the financial position and performance of the business as well as its future prospects to help users in decision-making. The information that has been supplied by annual reports towards their stakeholders includes two types: compulsory and voluntary information and compulsory disclosure is of more importance. Mandatory disclosure is a basic market demand for information that is required by various laws and regulatory bodies and has been ruled at national or regional level through professional organizations or government authorities. On the other hand, corporate voluntary disclosure, being in excess of requirements, represents free choices on the part of managers to provide information to users of the annual reports.

The annual reports of companies have been used to communicate the activities undertaken by the companies over a period of time to various stakeholders including shareholders, financial analysts, creditors and employees. The traditional annual report mainly communicates mandatory information to stakeholders however; over the years, the reporting strategy has changed where most companies are disclosing over and above the minimum requirements and this is what is referred to as voluntary disclosure.

Understanding of financial statements by the relevant users is facilitated by the financial disclosure of such information by companies. Financial disclosure is the release of financial information to the public and generally takes the form of mandatory or voluntary disclosure. (Glautier, 1986). Financial disclosure by any company is purposely released so as to provide the relevant stakeholders with information that would enable them make investment decisions about the company. Disclosure is the timely provision of relevant information that results in a

transparent and accurate picture of a corporate operations, financial performance, and governance.

Although researchers differ on the matter, there is considerable evidence of a positive relationship between corporate disclosure and beneficial financial outcomes such as lower cost of debt capital, improved liquidity and favourable perceptions of corporate governance. Corporate disclosure is receiving considerable attention from stakeholders as part of the business dialogue (Dye, Pearce & Doh, 2005). Increased expectations for disclosure have resulted from a number of factors such as: public outcry over high profile corporate scandals.

Disclosure is regarded as a mechanism of accountability. A commitment to comprehensive and high-quality disclosure is expected to reduce information asymmetry. Several new regulations have increased the transparency of financial reporting, particularly the introduction of the International Financial Reporting Standards (IFRSs), which became mandatory for all publicly listed firms in many countries all over the world which aim at providing higher levels of transparency to investors. In their contribution, Mathews (1997) and Gray et al. (1995) indicated that voluntary disclosure is centred on the disclosure of non-traditional information by reporting entities. They explained that voluntary disclosure of social and environmental issues recorded remarkable improvement over the past decade. Cedrick and John (2008) noted that disclosure outside financial statements is still to a large extent at the discretion of management and varies widely across firms and countries. Past studies have shown that the information shortage provided by the annual reports indicated that corporate entities as a result utilized management, marketing and communication theory to construct a picture of the entities to stakeholders (Neu et al., 1998). This implies that the main purpose of voluntary disclosure for most corporate entities is to show how socially responsible they are to their stakeholders.

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

1.1.2 Overview of Commercial Banks in Kenya

The banking industry in Kenya comprises of 44 commercial banks among these 31 are locally owned and 11 are foreign owned (Central Bank of Kenya, 2012). Amongst this 11 banks are listed in the NSE (Nairobi Securities Exchange, 2012). As at the end of March 2012, there was KES 2.1 trillion held as assets in the Kenyan banking Sector with loans and advances of about KES 1.2 trillion. The deposit base stood at KES 1.6 trillion and the profit before tax of the sector in general stood at KES 24.7 billion as at 31st March 2012. As at the end of March, the number of customer deposit accounts stood at 14.36 million while the loan accounts stood at 2.032 million accounts (Central Bank of Kenya, 2012) Comparatively, the banking sector's aggregate balance sheet expanded by 5% in the quarter from KES 2 trillion in December 2011 to KES 2.1 trillion in March 2012. Gross loans and advances in the sector grew from KES 1.19 trillion in December 2011 to KES 1.24 trillion, about to 4.2% in growth. Deposits were the main source of funding for the banking sector. The deposit base rose by 4.7% from KES 1.49 trillion in December 2011 to KES 1.56 trillion in March 2012, the growth attributed to branch expansion, increased remittances and receipts from exports. The banking sector's recorded pre-tax profit of KES 24.7 billion for the quarter was a 5.4% decrease from the KES 26.1 billion recorded in the quarter ending in December 2011. Total income in the year stood at KES 88.4 billion in the first quarter of 2012, an 8.9% increase in income from the KES 81.2 billion registered in the fourth quarter of 2011 (CBK,2012).

Central Bank of Kenya expects the banking sector to sustain its growth momentum largely driven by adoption of cost effective delivery channels and increased presence of Kenyan banks in the East African Community partner states and South Sudan. The risks of inflation and the resulting high interest rates are expected to reduce in the course of the year (CBK, 2012). According to Themba (2011) the overall performance and profitability of the banking sector in Kenya has improved tremendously over the last 10 years. Despite the overall good picture a critical analysis indicates that, not all banks are profitable. The huge profitability enjoyed by the large banks vis-a-vis the small and a medium bank indicates that there are some significant factors that influence the performance of commercial banks. Flamini et al (2009) and other several studies have shown that bank profitability is determined by bank-specific factors and industry specific factors.

The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector

and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2009). Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow. Banks dominate the financial sector in Kenya and as such the process of financial intermediation in the country depends heavily on commercial banks (Kamau, 2009). Oloo (2009) describes the banking sector in Kenya as the bond that holds the country's economy together. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth. The performance of the banking industry in the Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bankfailures between 1986 and 1998 (Mwega, 2009).

1.1.3 Voluntary Disclosure and Financial Performance

Barako (2007) suggests that the management of a profitable enterprise would voluntarily disclose more information to the market to enhance the value of the firm, as this also determines their compensation as well as the value of their human capital in a competitive labour market. Therefore a positive relationship is expected between voluntary disclosure and financial performance. Stanwick (1998) and Lang (1993) showed a positive relationship between firm performance and voluntary disclosure. This is because firms have to strive to disclose good information; hence the firm's performance will increase.

The theoretical perspective of agency theory managers who have better access to a firm's private information can make credible and reliable communication to the market to optimise the value of the firm and also reduce the cost of capital of a firm. On the other hand, the signaling theory by Spence (1973), companies reduces information asymmetry by providing information. The lower the reliability, timeliness, relevance and understand ability of disclosure the higher the uncertainty of returns on capital and stronger the signal that there is hidden bad news about the company. This would increase cost of capital, reduce demand for the company's shares and reduce firm value.

Research relies on the hypothesis that greater disclosure enhances stock market liquidity, hence reducing the cost of capital (Coombs & Watson, 2001). The commitment by management to increase the level of disclosure should lower the information asymmetry between managers and shareholders therefore lower the cost of capital. As a result of a

reduced cost of capital, the firm's value will increase. If these relationships hold, greater disclosure of financial information and corporate governance topics will reduce information asymmetry and thereby lowering uncertainty and reducing the cost of capital. The main idea behind disclosure of corporate information and corporate governance is that it reduces information asymmetries between managers and shareholders and lowers its risk. Conventional wisdom on corporate governance predicts that good corporate governance increases firm valuation and firm performance and reduces the cost of capital and financial fraud.

Profitable companies have good news to share with their stakeholders, they have incentive to disclose more than would a loss making or less profitable enterprise, and thus, a positive relationship may be expected between better performing firms and corporate disclosure. However, studies in impression management (Clatworth and Jones, 2006) and signalling (Ball et al, 2003; Watson et al, 2002) also provide sufficient evidence to support a conjecture that a negative relationship could well exist between firm performance and disclosure. In other words, it is possible that poor performing companies disclose more, albeit, to disguise poor performance with 'rhetoric' and difficult expressions in the annual reports. But it is also possible that they withhold such bad news altogether (Kothari et al, 2009). This study aims to establish whether there are positive or negative effects of voluntary disclosure on the performance of banks in Kenya.

1.2 Research Problem

Corporate governance is a new area of research which is been researched on widely by scholars. This is due to the increase in application of corporate governance practices all over the world. This study incorporates one area of corporate governance in relation to financial performance of firms, which is voluntary disclosure. This study has targeted commercial banks in Kenya due to the fast growth of the sector in the recent past. As firms increase there is a need to regulate and ensure that these firms are following the corporate governance practices laid out for them by the CMA.

Barako (2007) examined the determinants of voluntary disclosure in Kenyan listed companies' annual reports and concluded that board disclosure, foreign ownership, firm size significantly affect the level of disclosure. Matengo (2008) carried out a study on the relationship between

corporate governance and financial performance of banking industry in Kenya and found that transparency significantly affect financial performance while disclosure did not show any significant relationship. Mboya and Wachudi (2009) also carried out a study on the effect of board diversity on the performance of commercial banks in Kenya and found that boards of commercial banks are male dominated and that board diversity has no effect on the performance of commercial banks in Kenya. Aksu and Kosedag (2005) investigated the relationship between transparency, disclosure and firm performance in Istanbul stock exchange with a sample of 52 firms concluded that Turkish firms have a higher financial disclosure but lower board disclosure and also that there exist a positive relationship between transparency and disclosure and financial performance of the firms.

Few studies have been carried out in the developing countries, Kenya being included. The other thing that is evident is that studies from developed countries focused on the non-financial sector with very few dealing with the financial sector. Further to this, other non-financial sector studies that have been undertaken in other countries cannot be generalized to commercial banks as they are significantly different from their non-financial counterparts (Adams and Mehran, 2003). The other reason the financial sector was picked is that majority of the studies that have been carried out mostly dealt with multi-sectoral firms and hence mixed findings established as posited by Randoy et al. (2006). In order to break away from that practice this study seeks to focus on one sector that is the financial sector. The financial sector also has been picked because the data for the study is easily available from the regulator, that is, the Central Bank of Kenya (CBK). Finally, this study has been motivated by the scanty of literature that is found in the Kenyan context.

Ngugi (2011) did a study on the relationship between corporate governance structures and the performance and found that inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies. Muriithi, (2012) investigated the relationship between corporate governance mechanisms and performance of firms and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance. Hossain (2010) studied the extent of disclosures in annual reports of banking

companies in India. The objective of the study was to investigate the level of disclosure both mandatory and voluntary done in banks. The results stated that banks were compliant with the rules regarding mandatory disclosure however are far behind in disclosing voluntary items. It was also noted that size, profitability and board composition and market discipline were significant in explaining the level of disclosure while age of a firm, complexity of the firm and assets in place were not significant in explaining level of disclosure. The study constructed a disclosure index for 23 banks annual reports.

Studies conducted locally have concentrated on how corporate governance affects financial performance of firms and less have on how voluntary disclosure affects financial performance of firms. From the above empirical evidence it can be seen that locally there has been no study done between on the effects of voluntary disclosure and financial performance of the banking sector. Hence this study will help provide evidence on the effects of voluntary disclosure on the financial performance of commercial banks in Kenya. This study intends to evaluate if there are any positive or negative effects of voluntary disclosure on the financial performance of commercial banks in Kenya. Secondly, this study intends to establish whether voluntary disclosure has any effect on the value of the firm as well as on the cost of capital.

1.3 Research Objective

The main objective of this study was to determine the effect of voluntary disclosure on the financial performance of Commercial banks in Kenya.

1.4 Value of the Study

The banking industry is the fastest growing sector in Kenya and therefore any study done on it will increase the information available to public at large. Corporate governance is an area which has increased awareness of the public towards the firms in a country hence this study might help policy makers to set new policies on corporate governance practices in relation to banks. This research may be an invaluable source of information to corporate analysts since they provide advisory services to investors as firms that generally provide more information are considered better investments. Analysis of the companies' performance can also be done by the stockbrokers or by the analysts.

Financial information in this case will be useful where the government needs to assess the revenue generated by such organizations. This information might also be used in determination of rates for payment of loans by governments. Policy makers in government can also make use of information from this study in setting new policies on voluntary disclosure in relation to commercial banks. The research findings may also provide an insight as to the regulation needed in the banking industry where the results may assist the Capital Markets Authority on knowing what items need to be disclosed. This research may form a basis for further studies in this field where it would contribute to more knowledge to future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks at theories used in corporate governance that explain the measures of voluntary disclosure as well as bringing out studies that have been carried out on the impacts of voluntary disclosure on performance of commercial banks. This chapter also highlights the various incentives behind voluntary disclosure.

2.2. Theoretical Literature Review

2.2.1 Agency Theory

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

A major issue with respect to the firm is the information asymmetry between managers and shareholders. In this agency relationship, insiders (managers) have an information advantage. Owners therefore face moral dilemmas because they cannot accurately evaluate and determine the value of decisions made. Thus, the agent takes advantage of the lack of observability of his actions to engage in activities to enhance his personal goals. To mitigate these agent-shareholder conflicts, formal contracts are thus negotiated.

Voluntary disclosure presents an excellent opportunity to apply agency theory in that managers who have better access to a firms’ private information can make credible and reliable communication to the market to optimise the value of the firm. These disclosures include investment opportunities and the financing policies of the firm. Alternatively, managers may in pursuit of their own interests, fail to make proper disclosure or nondisclosure of important information to the market. Such practices may not be in the interests of shareholders. This may result in a higher cost of capital and, consequently, shareholders may suffer a lower value for their investments. Therefore agency theory can help resolve the problem of information asymmetry and increase the level of voluntary disclosure in turn increasing the performance of a firm. Agency theory mainly outlines disclosure in terms of financial data disclosure.

2.2.2 Signaling Theory

According to signaling theory (Spence, 1973), signals are a reaction to information asymmetries between companies and stakeholders, and companies reduce the asymmetry by providing information. Companies that are characterized by increased disclosure signal to their stakeholders that they are trustworthy and are less likely to be encumbered by regulatory oversight. By using disclosure to serve these purposes, managers of better performing companies can distinguish themselves from their peers. According to this theory therefore, increase in voluntary disclosure increase public loyalty and this may lead to increase in demand of a firms shares leading to increase in financial performance. This theory posits that firms with good performance tend to make voluntary disclosures more readily, as doing so is regarded as an easy means of distinguishing themselves from others in the marketplace.

Firms' disclosures of information fall somewhere between no disclosure and full disclosure, depending on their motivations. All firms, at least partially, disclose information about their business prospects in order to signal they either are or have good investment opportunities (Bhattacharya and Ritter 1983). Managers may wish to reduce information asymmetry existing in the market regarding the firm's performance. For example, voluntary disclosures may serve as "signals" if they reflect information about unobservable attributes of a firm's decision (Morris 1989). Under such a scenario, managers of higher quality firms with private information can distinguish themselves from lower quality firms via voluntary disclosures. At the same time, managers of an underperforming firm may signal the firm is taking steps to improve performance by disclosing a decision related to outsourcing.

2.2.3 Voluntary Disclosure Theory

Voluntary disclosure is measured by the amount and detail of non-mandatory accounting and non-accounting information that is contained in the management discussion and analysis in the annual report. (Haniffa and Cooke, 2002) have defined voluntary disclosure by disclosing non-mandatory accounting and non-accounting information.

Theoretical and empirical studies in accounting focus on the informational role of voluntary disclosures for the capital markets (e.g., Healy and Palepu 2001; Verrecchia 2001). The SEC and the FASB provide guidelines for mandatory disclosures; the disclosure literature in accounting refers to voluntary and discretionary disclosures, interchangeably, as information management releases itself. The underlying assumption in the disclosure literature is the

manager possesses superior information to all outsiders. The result is managers' trade-off between making accounting choices and providing disclosures to "communicate their superior knowledge of a firm's performance to investors, and to manage reported performance for contracting, political, or corporate governance reasons" (Healy and Palepu 2001).

2.2.4 Institutional Theory

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

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

2.2.5 Capital Need Theory

The capital need theory can also help to explain the reasons behind the disclosure of voluntary information made by companies. This theory implies that companies' managers have an incentive to disclose additional information that enables them to raise capital on the best available terms (Gray et al., 1995). As pointed out by Healy and Palepu (2001) firms' managers who intend to make capital market transactions have motivations to disclose information voluntarily to decrease the information asymmetry problem and thus decrease the external financing cost. The capital need theory predicts that increased voluntary disclosure of information by the company's managers will enable them to lower the company's cost of capital through reducing investor uncertainty (Schuster and O'Connell, 2006). In this respect,

Botosan (1997) added that additional information disclosure enhances stock market liquidity thereby decreasing costs of equity capital either through reduced transactions cost or increased demand for a company's shares. Thus, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company's future performance and to assist trading in shares (Hassan et al., 2011).

According to this theory, revealing greater information in annual reports helps to attract new investors thereby helping to maintain a healthy demand for the company's shares and a share price in the market will more accurately reflect its intrinsic value (Cooke, 1989b). At the same time, companies with a higher level of disclosure should reasonably tend to gain higher stock prices over the long run (Stanga, 1976). The argument is that enhanced corporate disclosure is expected to lead to improvements in investors' capital-allocation decisions as well as investors' assessment of the return from a firm's share (Schuster and O'Connell, 2006).

There are also suggestions that disclosing more information in annual reports by company managers could lead to increased stock liquidity through decreased transaction costs and raised demand for a firm's securities, and also lessening the uncertainty surrounding the valuation of share returns (Hassan et al., 2009). In this regard, Diamond and Verrecchia (1991) assert that disclosing more information will improve upcoming liquidity of the company's shares and this can help to reduce the company's cost of equity. Additionally, disclosing more meaningful financial and non-financial information by the company management on a voluntary basis will considerably improve its credibility among market participants (Schuster and O'Connell, 2006).

More specifically, Soltani (2000) claims that a company's voluntary information disclosure can yield three types of capital market effects, which include improved liquidity for their shares in the stock market; decreases in their cost of capital; and increases in financial analysts following the firm. In particular, companies' information disclosures to capital markets will help stakeholders evaluate the companies more correctly and in turn can benefit managers learning of the capital market value, thereafter improving the company's strategic and operational decisions (Dye, 2001).

2.3 Determinants of Commercial Bank Performance

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks.

2.3.1 Bank Specific Factors or Internal Factors

The internal factors are bank specific variables which influence the profitability of specific bank. These factors are within the scope of the bank to manipulate them and that they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labor productivity, and state of information technology, risk level, management quality, bank size, ownership and the like. CAMEL framework often used by scholars to proxy the bank specific factors (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity.

2.3.1.1 Capital Adequacy

Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al. 2005). Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000). However, it is not without drawbacks that it induce weak demand for liability, the cheapest sources of fund Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's debtors. According to Dang(2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect

on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2010).

2.3.1.2 Asset Quality

The bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income. The quality of loan portfolio determines the profitability of banks. The loan portfolio quality has A direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. Different types of financial ratios used to study the performances of banks by different scholars. It is the major concern of all commercial banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the profitability of the bank. Thus, low nonperforming loans to total loans shows that the good health of the portfolio a bank. The lower the ratio the better the bank performing (Sangmi and Nazir, 2010).

2.3.1.3 Management Efficiency

Management Efficiency is one of the key internal factors that determine the bank profitability. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of this ratios used to measure management quality is operating profit to income ratio (Rahman et al. in Ilhomovich, 2009; Sangmi and Nazir, 2010). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important

ratio is that proxy management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2005).

2.3.1.4. Liquidity Management

Liquidity is another factor that determines the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said and Tumin, 2011).

2.3.2. External Factors or Macroeconomic Factors

The macroeconomic policy stability, Gross Domestic Product, Inflation, Interest Rate and Political instability are also other macroeconomic variables that affect the performances of banks. For instance, the trend of GDP affects the demand for banks asset. During the declining GDP growth the demand for credit falls which in turn negatively affect the profitability of banks. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for credit is high due to the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2005). The same authors state in relation to the Greek situation that the relationship between inflation level and banks profitability is remained to be debatable. The direction of the relationship is not clear (Vong and Chan, 2009).

2.4. Review of Empirical Studies

Matengo (2008) studied the relationship between corporate governance practices and financial performance of banking industry in Kenya. The objective of the study was to determine the relationship between corporate governance practices and performance among

commercial banks. A sample of 45 banks was taken and corporate governance determinants were measured using a questionnaire while financial performance was measured using the CAMEL model. The findings were that transparency significantly affected firm performance while disclosure and trust did not show a significant relationship.

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

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

Ngugi (2007) did a study on the relationship between corporate governance structures and the performance and found that inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies.

Barako. Hancock and Izan (2006) conducted a study on the factors influencing the voluntary corporate disclosures by 43 companies in Kenya for the period 1992 to 2001. They performed a longitudinal analysis on the voluntary disclosure practices in the annual reports of sample companies listed in Nairobi stock exchange. The study investigated the extent to which corporate governance attributes, ownership structure, and company characteristics influence the voluntary disclosure practices. The study found out that there **was** an increase in the extent to voluntary disclosure over the sample period of ten years. Results of the study also showed the existence of a relationship between the level of voluntary disclosures and

corporate governance attributes, ownership structure, and company characteristics. It was also found that large companies and companies with high debt were disclosing more voluntary information. However, board leadership structure, liquidity, profitability and type of external audit firm were not found having a significant influence on the level of voluntary disclosure in corporate annual reports of Kenya.

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

Muriithi, (2004) investigated the relationship between corporate governance mechanisms and performance of firms and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance.

Hossain (2003) studied the extent of disclosures in annual reports of banking companies in India. The objective of the study was to investigate the level of disclosure both mandatory and voluntary done in banks. The results stated that banks were compliant with the rules regarding mandatory disclosure however are far behind in disclosing voluntary items. It was also noted that size, profitability and board composition and market discipline were significant in explaining the level of disclosure while age of a firm, complexity of the firm and assets in place were not significant in explaining level of disclosure. The study constructed a disclosure index for 23 banks annual reports.

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

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

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

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

Ahmed and Courtis (1999) performed a meta-analysis on the 29 studies that had analysed associations between the corporate attributes and disclosures through the annual reports since the year 1961. The main objective of this study was to identify the underlying factors that could have moderated the apparent variation in the results reported in the past studies. The study observed that the findings in the past studies had consistently shown that size and listing status are significantly associated with the extent of disclosure, and that results had been inconsistent for leverage, profitability and size of the audit firm. The analysis confirmed significant and positive relationships between disclosure levels and corporate size, listing status and leverage. However, no significant association was found between the aggregated disclosure levels and corporate profitability, or audit firm size. The study attributed the

reasons for differences in research findings to sampling error, differences in the construction of index of disclosure and variations in the definitions of the explanatory variables.

Chow and Wong-Boren (1987)¹⁵ made an attempt to know the voluntary financial disclosure practices of 52 listed Mexican Corporations and whether the extent of disclosure was related to firm's size, financial leverage and the proportion of the assets in place. Using a questionnaire consisting of 24 informational items, he asked 106 loan officers of 16 Mexican Banks to indicate on a seven point scale, the importance they placed to each item in evaluating an average loan application. In the study, both the weighted and unweighted disclosure scores were measured and it was shown that the correlation between the two scores was statistically significant. The study concluded that the extent of disclosure was significantly associated only with the size variable. This study differs from the other studies that it has considered both the weighted and the unweighted scores in analysing the disclosure practices of companies in a non-Anglo- American country. However, it has some limitations. First, the authors asked the bank officers to give weights to various items of information. They have not considered the prime users of the annual reports, i.e., the shareholders, for this purpose. There may be difference in the items of information as perceived by shareholders and the bank officers. Second, their index of disclosure was not very comprehensive; the authors have not considered even the price level adjusted statements, human resource accounting, social accounting, etc. which are much discussed issues incorporate reporting.

2.5. Summary of Literature Review

The effect of voluntary disclosure on a firm's performance is inconclusive given the findings of various studies that have been undertaken worldwide. The asymmetric information theory or agent theory assumes that at least one party to a transaction (the manager or agent) has relevant information whereas others do not. Asymmetric information model speaks about a deviation from perfect information. Akerlof (1970) noted that in some economic transactions, inequalities in access to information upset the normal market for the exchange of goods and services. This theory provides a theoretical explanation of the burden to disclose on the directors of the banks who are better placed in the corporate structure to know the banks better and therefore release the information they have to the investors that will use same for decision making.

Ball, et al (2009) noted that audited financial statements and voluntary disclosures are complementary mechanisms for managers to communicate information. Givler and Hemmer (1998) observed that reporting independently audited financial outcomes plays a 'confirmatory role', allowing shareholders to evaluate the informativeness and truthfulness of past discretionary disclosures. In turn, this allows managers to credibly disclose value relevant information. The research conducted on firm-level data of corporate governance ratings reveals that better corporate governance is correlated with better operating performance and market valuation. Corporate governance such as voluntary disclosure mechanisms assure investors in corporations that they will receive adequate returns on their investments evidence suggests that corporate governance has a positive influence over corporate performance. The literature also establishes that good corporate governance results in a lower cost of capital. One explanation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital as well as a signal of lower agency costs. The studies cited in the literature mostly concentrate on the developed countries whose voluntary disclosure requirements are not similar to those of Kenya. Studies have also been done on other companies but very few have been done on the banking sector and especially in Kenya. This paper seeks to fill this gap by investigating the effects of voluntary disclosure on the financial performance of commercial banks in Kenya.

Management of a profitable enterprise would disclose information more voluntarily to the market in order to enhance the value of the firm, as this also determines their compensation as well as the value of their human capital in a competitive labour market. Research relies on the hypothesis that greater disclosure enhances stock market liquidity, hence reducing the cost of capital. The commitment by management to increase the level of disclosure should lower the information asymmetry between managers and shareholders therefore lower the cost of capital. As a result of a reduced cost of capital, the firm's value will increase. If these relationships hold, greater disclosure of financial information and corporate governance topics will reduce information asymmetry and thereby lowering uncertainty and reducing the cost of capital. The main idea behind disclosure of corporate information and corporate governance is that it reduces information asymmetries between managers and shareholders and lowers its risk. Conventional wisdom on corporate governance predicts that good corporate governance increases firm valuation and firm performance and reduces the cost of capital and financial fraud.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

A methodological research approach and design is a framework that binds research together so that the research questions can be analyzed effectively (Edmunson & McManus, 2007). This chapter presents the design of the research proposal and its procedure, the target population under study, and instruments and procedure for data collection

3.2 Research Design

This study used a descriptive research design based on secondary data obtained from published statements of accounts of commercial banks in Kenya and CBK. Descriptive statistics can be defined as procedures used to summarize and describe important characteristics of a set of measurements. Descriptive statistics help in ensuring the reliability and the validity of the research carried out. This study used a regression model and had a dependent and independent variables. The dependent variable is an outcome of the independent variable; hence any changes in the independent variable will affect the dependent variable. Most literature reviewed revealed the construction of a disclosure index to measure voluntary disclosure. Hence in order to carry out this study a disclosure index for commercial banks was constructed.

3.3 Population

According to Ngechu (2004), a population is a well defined set of people, services, elements, events, group of things or households that are being investigated. The target population for this study comprised the 42 commercial banks in Kenya as listed in appendix II

3.4 Sample Population

The population of this study used 42 commercial banks registered by the Central Bank of Kenya and operating in Kenya. According to the Central Bank of Kenya, there are 43 registered commercial banks.

3.5 Data Collection

The study was based on secondary data collection since they provide a more realistic conclusion to meet the objectives of the study. Data was mainly collected from the publicly available information that was the published annual reports of a sample of 20 from 44 commercial banks in Kenya. The study was carried out for a period of 6 years from 2008 to 2013.

3.6 Data Analysis

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

$$\frac{\text{Net Income}}{\text{Shareholder's equity}} * 100$$

The independent variable that is voluntary disclosure was measured by developing a proxy to measure voluntary disclosure as follows: The determinants of voluntary disclosure as identified by Barako (2007) will be used as a proxy to measure voluntary disclosure. Voluntary disclosure can be divided into financial disclosure and non financial disclosure. Financial disclosure in this study will be captured by the financial data which summarises all the data a company has to disclose in terms of financial analysis ratios. Non financial disclosure will be broken into general and strategic information, forward looking information and Social and board disclosure. General corporate information implies the information on the general overview of a company in the annual reports, forward looking information involves disclosure of future plans of a company, that is what are the companies goals in the future and how the company is going to achieve it and social and board disclosure includes information on the board of the company who controls and runs the bank. Scores will be allocated according to the level of financial information published by companies. Voluntary disclosure is measured by: financial disclosures, general and corporate disclosures and forward looking disclosures.

The study developed a disclosure index based on the explanatory variables shown in the regression model. The study was based on a multiple regression model. Analysis was based on dependent, independent and error term. SPSS software was used to analyze the data collected and to provide a sufficient conclusion. The t test and correlation study was carried out to see if there exists a significant relationship between the variables and to test whether there existed a relationship amongst the independent variables.

3.7 Data Validity and Reliability

According to Trochim and Donnelly (2006), validity refers to the best estimate of the truth of any proposition or conclusion or inference described in the research. On the other hand, reliability refers to the measurement of the quality of the data collected in any research; it's a measurement

of the consistency of the data with the research background, and is also a measurement of the suitability of the data for analysis (Behling & Law, 2006).

There are various channels through which companies can disseminate their information to the public such as annual reports, press releases, websites, company newsletters, and analysts' meetings. Among these different channels of disclosure, the annual report is regarded as one of the most important sources of information.

The annual report was chosen as the data source for the statistical analysis of this study because it was a credible attested corporate document, which has been produced regularly; therefore this could help minimize the possible bias arising from comparison of voluntary disclosures among different companies. In addition, annual reports are prepared by companies themselves, which means that the information is not affected by the interpretations of third parties. Annual reports have also been chosen as a data source for this study because they are readily available and accessible as they are prepared by companies on an annual basis. A multiple regression model was also used to test the significance of the influence of the independent variables on the dependent variable.

Disclosure, by its very nature, is an abstract construct that does not possess inherent characteristics by which one can determine its intensity or quality (Wallace and Naser, 1995). For this research study it was necessary for a disclosure index to be constructed. In this study, voluntary disclosure was defined as the discretionary release of financial and non-financial information through annual reports over and above the mandatory requirements, either with regard to the Kenyan company laws, professional accounting standards or any other relevant regulatory requirements.

An extensive review of prior studies was undertaken to develop a list of items that may be voluntarily disclosed by a company. The main aim was to check for commonalities across the studies and to isolate those items that have been consistently identified as relevant and which may be disclosed by companies. For an item to be included, it must have been used in more than one previously published study. Such an approach was applied in prior studies by (Buckland et al., 2000; Firer and Meth, 1986; Hossain et al., 1994) in Jordanian, South African and Malaysian studies respectively, all of which are based on disclosure by companies in developing countries. The list of disclosure items included both financial and non-financial items that may be relevant to investment decision-making, and which listed

companies may disclose this culminated into the adoption of 47 items. The disclosure items were classisfed into five categories: financial data disclosure, general and strategic information disclosure, forward looking disclosure and social and board disclosure. Scores were allocated to banks whose annual reports disclosed the explanatory variables, where a score of 1 was allocated for disclosure of financial and non financial information in each of the items in the five categories. On the other hand, a score of 0 was allocated for non disclosure of both financial and non financial information in each of the items in the five categories outlined in the disclosure index.

The regression model below was used in analysis of data;

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

In this case:

Y= ROE is return on equity which was the dependent variable and a proxy that was used to measure financial performance.

α , β_1 , β_2 , β_3 , β_4 are constants which measured the effect of voluntary disclosure on the financial performamce of commercial banks.

X1 - represented Financial data disclosure a proxy used to measure financial information that was voluntarily disclosed by banks.

X2 – represented General and strategic information a proxy used to measure strategic and non financial information voluntarily disclosed by banks.

X3 - represented Forward looking information a proxy used to measure non financial information voluntarily disclosed on the annual reports of commercial banks.

X4 – represented Social and board disclosure a proxy used to measure non financial information voluntarily disclosed by banks in their annual reports.

ε was the error term of the model

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis, results and discussion of the study. The data was analysed using the SPSS package where descriptive statistics were used to analyse the ROE, financial data, general and strategic information, forward looking information and social and board disclosure and presented in the form of percentages, means, standard deviation. Correlation analysis was used to measure the degree of association between the variables under consideration. Regression analysis was used to evaluate the relationship of voluntary disclosure variables on profitability, while the t-test statistics was used to ascertain whether there was a significant difference on the performance of commercial banks and voluntary disclosure. The findings in this chapter helped in fulfilling the objective of the study.

4.2 Data Presentation

4.2.1 Descriptive Statistics

Table 4.1 Summary of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
ROE (Y)	42	-0.01	38.35	14.5274	15.96778
Financial data (X1)	42	25.0	75.0	47.3452	28.0031
General and strategic information(X2)	42	23.0	62.0	48.6172	20.6671
Forward looking information (X3)	42	22.0	67.0	47.6243	22.5977
Social and board disclosure (X4)	42	35.0	71.0	55.3543	23.2419
Valid N (listwise)	42				

The table above shows that from the 42 commercial banks samples, financial data (X1) had a minimum figure of 25%. This implies that the bank with the least disclosure on financial data had a disclosure index of 25% while the maximum disclosure was 75% which implied that the bank with the highest disclosure on financial data had a disclosure index of 75% over the six year period reviewed. The mean disclosure was 47.35% with a standard deviation of 28% which means that the disclosure can deviate from the mean to both sides by 28%.

The table further revealed that general and strategic information (X2) had a minimum figure of 23% which implies that the bank with the least disclosure on general and strategic information had a minimum disclosure index of 23% while the maximum disclosure was at 62% implying that the bank with the highest disclosure index over the period of the study was at 62%. The mean disclosure was at 48.62% with a standard deviation of 20.67% implying that the disclosure can deviate from the mean to both sides by 20.67%

The table also reveals that forward looking information (X3) had a minimum figure of 22% which implies that the bank with the least disclosure index over the period of study was at 23% while the maximum figure was at 67% implying that the bank with the highest disclosure index over the period of the study was at 67%. The mean disclosure figure was at 47.62% with a standard deviation of 22.60% implying that the disclosure can deviate from the mean on both sides by 22.60%.

The table further reveals that social and board disclosure for the 42 sampled commercial banks had a minimum figure of 35% which means that the bank with the least disclosure on social and board disclosure had a minimum disclosure index of 35% while bank with the highest disclosure index is at 71%. The mean disclosure is at 55.35% with a standard deviation of 23.24% which means that the disclosure index can deviate from the mean on both sides by 23.24%

The table also reveals that from the 42 commercial banks sampled, the bank with the lowest Return on Equity(Y) was at -0.01% and the bank with the highest Return on Equity was at 38.35%. The average Return on Equity was at 14.53% with a standard deviation of 15.98%. This means that the value of Return on Equity can deviate from the mean on both sides by 15.98%.

4.2.2 Correlation Analysis

4.2. Summary of Pearson's Correlation analysis

		ROE	X1	X2	X3	X4
ROE	Pearson Correlation	1.000	.893	.635*	.657*	.775**
	Sig. (2-tailed)		.046	.029	.006	.005
	N	42	42	42	42	42
X1	Pearson Correlation	.893	1.000	.616**	.672**	.579*
	Sig. (2-tailed)	.046		.004	.041	.015
	N	42	42	42	42	42
X2	Pearson Correlation	.635*	.616**	1.000	.672**	.490**
	Sig. (2-tailed)	.029	.004		.095	.001
	N	42	42	42	42	42
X3	Pearson Correlation	.657*	.672**	.672**	1.000	.359
	Sig. (2-tailed)	.006	.004	.041		.095
	N	42	42	42	42	42
X4	Pearson Correlation	.775**	.579*	.490**	.359	1.000
	Sig. (2-tailed)	.005	.015	.001	.095	
	N	42	42	42	42	42
<p>*. Correlation is significant at the 0.05 level (2-tailed).</p> <p>** . Correlation is significant at the 0.01 level (2-tailed).</p>						

Pearson's correlation analysis was used to measure the degree of association between the disclosure variables and profitability to evaluate whether the disclosure proxies will increase profitability. Pearson's correlation analysis lies between -1 and +1. From the above it can be noted that return on equity is positively related to general and strategic disclosure, financial data disclosure, forward looking disclosure, social and board disclosure. It can also be noted that board disclosure and assets are more correlated to return on equity than the other indicators. This means that as social and board disclosure increase so does return on equity. The independent variables are correlated with each other this may not provide an accurate relationship and a variable can be dropped to provide more accurate results.

4.2.3 Summary of Regression Model

4.3 : Goodness-Of-Fit Statistics

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.739	.569	.443	.00562

Goodness-of-fit statistics help a study in evaluating a model. The results from the regression equation are shown in table 4.3. The equation used return on equity as the dependent variable while the disclosure proxies, financial data, general and strategic information, forward looking information and social and board disclosure are the independent variables. From the model, the coefficient of determination indicates that about 57% of change in Return on Equity is accounted for by the explanatory variables while the adjusted R-squared of 44% further justifies this effect. If the adjusted R-square lies near 1 then it would mean the model has a higher level of error hence not fit the study while if the value is near 0 it means the model has few errors. The table above shows how well the data fits the model. In this case the model has an adjusted R-square of 0.443 which means that the model has a smaller error of component since it ranges towards 0 and not 1.

4.2.4 Regression Model

4.4 Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.035	.012		3.016	.041
X1	-.012	.001	.540	8.125	.821
X2	.111	.029	-.202	-3.838	.155
X3	.220	.036	.339	6.048	.217
X4	.343	.225	.503	5.308	.271

The result of the regression analysis of the association between the ROE and the extent of voluntary disclosure in the annual reports of commercial banks are shown in the section above. The table shows the coefficients of the model and the significance of each coefficient. The model has a constant 0.035 of while the coefficients for the explanatory variables have

standardized betas of 0.540 for financial data, -0.202 for general and strategic information, 0.339 for forward looking data and 0.503 for social and board disclosure . The standardized coefficients of beta were used to identify the relationship between financial performance and voluntary disclosure. The t- statistics of the model are not significant at 5%, however forward looking and financial disclosures are significant at 10%.

$$\text{ROE} = 0.035 + 0.540X_1 - 0.202X_2 + 0.339X_3 + 0.503X_4 + \varepsilon$$

(0.012) (0.001) (0.029) (0.036) (0.225)

4.3 Summary and Interpretation of Findings

The study was carried out to determine the effect of voluntary disclosure on the financial performance of commercial banks in Kenya and the regression analysis in chapter four fulfils the objective of the study. The study sampled 42 commercial banks in Kenya. Financial performance was the dependent variable measured by return on equity while the independent variable voluntary disclosure was measure by financial data disclosure, general and strategic information disclosure, forward looking disclosure and social and board disclosure. The period of the study was 6 years from 2008 - 2013. Disclosure levels were measured using a checklist of 47 disclosure items a firm should disclose. The correlation result of the hypothesis two shows a strong significant positive correlation between financial disclosure followed by social and board disclosure of commercial banks. The implication of this is that there is significant relationship between directors' equity holding and financial performance of banks. This means that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well.

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

The table above shows that from the 42 commercial banks samples, financial data (X1) had a minimum figure of 25%. This implies that the bank with the least disclosure on financial data had a disclosure index of 25% while the maximum disclosure was 75% which implied that the bank with the highest disclosure on financial data had a disclosre index of 75% over the

six year period reviewed. The mean disclosure was 47.35% with a standard deviation of 28% which means that the disclosure can deviate from the mean to both sides by 28%.

The table further revealed that general and strategic information (X2) had a minimum figure of 23% which implies that the bank with the least disclosure on general and strategic information had a minimum disclosure index of 23% while the maximum disclosure was at 62% implying that the bank with the highest disclosure index over the period of the study was at 62%. The mean disclosure was at 48.62% with a standard deviation of 20.67% implying that the disclosure can deviate from the mean to both sides by 20.67%

The table also reveals that forward looking information (X3) had a minimum figure of 22% which implies that the bank with the least disclosure index over the period of study was at 23% while the maximum figure was at 67% implying that the bank with the highest disclosure index over the period of the study was at 67%. The mean disclosure figure was at 47.62% with a standard deviation of 22.60 % implying that the disclosure can deviate from the mean on both sides by 22.60%.

The table further reveals that social and board disclosure (X4) for the 42 sampled commercial banks had a minimum figure of 35% which means that the bank with the least disclosure on social and board disclosure had a minimum disclosure index of 35% while bank with the highest disclosure index is at 71%. The mean disclosure is at 55.35% with a standard deviation of 23.24% which means that the disclosure index can deviate from the mean on both sides by 23.24%

The table also reveals that from the 42 commercial banks sampled, the bank with the lowest Return on Equity(Y) was at -.001% and the bank with the highest Return on Equity was at 38.35%. The average Return on Equity was at 14.53% with a standard deviation of 15.98%. This means that the value of Return on Equity can deviate from the mean on both sides by 15.98%.

The Pearson correlation analysis shows the relationship between the variable that is both the explanatory and dependent variables. The correlation analysis shows a positive relationship between return on equity; general disclosure, financial disclosure, forward looking disclosure,

and social and board disclosure. Hence the model is expected to show a positive coefficient for the above variables.

The goodness-of-fit statistics was carried out to ensure that the data collected is fit for the model and the summary in table 4.3 justifies the model as the adjusted R statistics that is 0.443 it lies in the range of 0 and 1, more towards 0. The lower adjusted R statistics states the data will be more useful for predicting the model and R-squared in the study is 0.569 which means 56.9% of the explanatory variables explain the dependent variable.

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

Social and board composition has a significant positive relationship with Return on Equity which is similar to the hypothesised positive relationship found with respect to Singapore listed companies by Eng & Mak (2002). The study also revealed that financial data analysis had a positive relationship with Return on Equity, this is consistent with a study by Ogidefa (2008) that found a positive relationship between the level of governance items disclosed by banks and the return on equity. Unlike studies that have been conducted by Chow and Boren (1987), in Mexico, Yusoff and Hanefaf (1995) in Malaysia, Al-Sammari (2008) in Kuwait and Barako (2007) in Kenya that found the highest disclosure levels in general and strategic information disclosure and forward looking disclosure, this study found that general and strategic information disclosure had the least form of disclosure while forward looking disclosure had a slightly higher level of disclosure.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The first chapter explores the background of the study by elaborating on what financial performance is as well as defining voluntary and non voluntary disclosure among other definitions as well as outlining the objective of the study which is to examine the effect of voluntary disclosure on the performance of commercial banks in Kenya. The second chapter reviews various theories surrounding voluntary disclosure such as agency theory, signalling theory, voluntary disclosure theory, institutional theory, capital need theory. The chapter further examines the various determinants of commercial bank performance which were found to be bank specific or internal factors and external or macroeconomic factors. Internal or bank specific factors were found to be capital adequacy, asset quality, management efficiency and liquidity management while macroeconomic factors were found to be Gross domestic product (GDP), inflation, interest rate and political instability. The chapter then elaborated findings by other researchers on the study.

Chapter three detailed the research design that was applied in the study which was descriptive research design based on secondary data obtained from annual reports of commercial banks in Kenya. The target population and sample of the study comprised 42 commercial banks registered by the Central Bank of Kenya, while the method of data collection applied was secondary data. The chapter also detailed how data analysis would be performed were the variables used in the study were both dependent and independent variables. The dependent variable was return on equity which was a proxy for measuring financial performance while the independent variables voluntary disclosure were measured by developing a disclosure index with four variables namely financial data, general and strategic information, forward looking information and social and board disclosure with a total of 47 disclosure items. Data validity and reliability was also explained in this chapter.

Findings from this chapter show that the highest level of disclosure by commercial banks is financial disclosure followed by social and board disclosure while the lowest are forward looking disclosure and general and strategic information disclosure. This implies that financial performance of commercial banks will be highly affected by financial and social

disclosure. The correlation analysis shows a positive relationship between ROE and the proxies of voluntary disclosure especially financial data disclosure and social and board disclosure which implies that they positively impact on the financial performance of commercial banks.

5.2 Conclusion

Voluntary disclosure of information by organizations has become very important to decision makers in the era of today's knowledge based economy. Each organization attempts to disclose as much information to both internal and external decision makers. It is in fact becoming an integral part of company annual reports. This study has established that voluntary disclosure in annual reports of the sampled commercial banks was at a relatively moderate level. The study also established that the highest level of disclosure in the four disclosure proxies was carried out by banks listed on the Nairobi Securities Exchange. The main reason for this high level of disclosure is that companies listed in the NSE are mandated to disclose mandatory and voluntary information to all stakeholders as a corporate governance practise while the Capital Markets Authority outlines certain disclosure requirements for listed companies. Another possible reason for voluntary disclosure is that listed companies' annual reports are thoroughly analysed by the mass media, public opinion, government among other stakeholders which may motivate them to reveal a higher volume of voluntary information to uphold their market value.

The study found a positive relationship between financial, forward looking and board and social disclosure and return on equity. A 1% increase in financial disclosure leads to a 54% increase in financial performance of commercial banks, while a 1% increase in forward looking disclosure leads to a 33.9% increase in return on equity and a 1% increase in board and social disclosure leads to a 50.3% increase in return on equity. On the other hand, the study found a negative relationship between general & strategic disclosure and return on equity this means that a 1% increase in strategic disclosure leads to a 20.2% decrease in return on equity of a firm.

The study concludes that firms should lean towards disclosure of financial and social and board disclosure to increase their performance. Study done by Aksu and Kosedag (2005) in Istanbul highlights a significant relationship between financial disclosure and performance. The study conforms to the studies reviewed in terms of a positive relationship between

financial disclosure and financial performance and a positive relationship between company size and financial performance.

5.3 Recommendations to Policy and Practice

It can be concluded that over the years, corporate governance has been gaining awareness from the public and investors and there is a satisfactory level of voluntary disclosure practised by commercial banks in Kenya especially financial data disclosure and social and board disclosure. Going by the findings and conclusions drawn from this study, the following recommendations are suggested.

Firstly, it was noted that large banks disclose more information as compared to smaller banks. This is because companies listed in the NSE are mandated to disclose mandatory and voluntary information to all stakeholders as a corporate governance practise. Another possible reason for voluntary disclosure is that listed companies' annual reports are thoroughly analysed by the mass media, public opinion, government among other stakeholders which may motivate them to reveal a higher volume of voluntary information to uphold their market value. Therefore disclosure practises and requirements should apply across board no matter the size of the bank in order to provide as much information to all interested stakeholders.

Secondly, Capital Markets Authority guidelines are only mandatory for banks that are listed in the Nairobi Securities Exchange and hence banks that are not listed are not mandated to comply with the guidelines. Therefore steps should be taken to ensure mandatory compliance of Capital Markets Authority guidelines in order to reduce the disclosure gaps especially for banks that are not listed in the Nairobi Securities Exchange.

Thirdly corporate governance practises should be emphasized in all practises and disclosure levels should not be restricted to annual reports only as the figures on the annual reports may not disclose all the information that investors may require to aid in decision making. Therefore banks should ensure transparency and disclosure in all the activities undertaken during the period of operation so as to assist investor in decision making.

Lastly, efforts should be made to create a harmonized measure for voluntary disclosure as to provide a more accurate analysis for policy recommendations. This is because some items

outlined on the voluntary disclosure index may not provide as much information necessary for disclosure while items that are omitted from the disclosure index if included may provide more and necessary information for disclosure.

5.4. Limitations of the Study

Limitations are the boundaries that restrict the research scope and may cause difficulty in completing the research (Cooper & Schindler, 2002). The first limitation to the study is that since the study focused on four levels of disclosure namely financial data disclosure, general and strategic information disclosure, forward looking information disclosure and social and board disclosure, there is need to modify the check list in order to include other levels such as audit report in order to incorporate an external stakeholder's view in the information disclosed.

Secondly, from the disclosure index constructed, scores of 1 were allocated for items disclosed on the disclosure index and 0 for non disclosure, this may be biased as it may be possible that the company may not disclose a particular item, however it has information on another item which is not included in the check list. Hence there is no importance given to a particular item, each item is weighted equally, therefore weightage should be based on the importance of an item to disclosure.

Thirdly, this study focused on one avenue of bank disclosure namely the annual reports and the amount of information released therein. It is hence important to consider other avenues as they may provide more information for disclosure and in some cases unbiased information as in some cases management may want to disclose some information in order to protect their interest from stakeholders.

Lastly, the study was conducted on the banking sector alone and this may not provide adequate comparison on disclosure. It is therefore necessary to conduct a study on other sectors such as the agricultural sector, insurance, manufacturing, telecommunication, tourism, transport and construction in order to facilitate adequate comparison.

5.5 Suggestions for Further Studies

This study was conducted on the banking sector alone and this may not provide adequate comparison on disclosure. It is therefore necessary to conduct a study on other sectors such as the agricultural sector, insurance, manufacturing, telecommunication, tourism, transport and construction in order to facilitate adequate comparison.

Secondly, from the disclosure index constructed, scores of 1 were allocated for items disclosed on the disclosure index and 0 for non disclosure, this may be biased as it may be possible that the company may not disclose a particular item, however it has information on another item which is not included in the check list. Hence there is no importance given to a particular item, each item is weighted equally, therefore weightage should be based on the importance of an item to disclosure. Scholars should also develop a unified disclosure index in order to eliminate unbiased rating on important disclosure items.

Thirdly, the scope of the study can be expanded to include other corporate attributes age, board composition, liquidity, complexity of business as determinants of voluntary disclosure. Scholars should also be able to examine what effects these corporate attributes would have on the financial performance of companies.

Lastly, research should be conducted to determine factors that may influence the level of voluntary disclosure in annual reports. Since corporate governance issues have become importance in reporting, corporate governance characteristics, ownership structures and company characteristics should be considered as areas for further study.

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APPENDIXE I:DISCLOSURE INDEX

Financial data
Historical summary of financial data for the last 6 years or over
Review of current financial results and discussion of major factors underlying performance
Share price information
Statement concerning wealth created e.g. value added statement
Supplementary inflation adjusted financial statement
Return on assets
Return on shareholders' funds
Liquidity ratios
Bank loans and mortgages
General and strategic information
Information relating to the general outlook of the economy
Company's mission statement
Brief history of the company
Company's achievements or awards in the year
Description of major goods/services produced
Description of marketing networks for finished goods/services
Company's contribution to the national economy
Company's current business strategy
Likely effect of business strategy on current performance
Market share analysis
Disclosure relating to competition in the industry
Discussion about major regional economic developments
Significant issues during the year
Forward-looking information
Factors that may affect future performance
Likely effect of business strategy on future performance
New product/service development
Planned capital expenditure
Future sales forecasts
Cash flow projections
Earnings per share forecast
Sales revenue forecast
Profit forecast
Social and Board Disclosure
Number of employees for the last two or more years
Reasons for change in employee number
Category of employees by sex
Recruitment and redundancy policy
Amount of employee remuneration, remuneration policies and bonuses
Disclosure on welfare policies
Disclosure on number of meetings attended by directors
Statement of corporate social responsibility

Statement of environmental policy
Environmental projects/activities undertaken
Information on community involvement/participation
Names of directors
Age of directors
Academic and professional qualification of directors
Business experience of directors
Directors' shareholding in the company and other related interests (e.g. stock options)
Disclosure concerning senior management responsibilities, experience and background

Appendix II: Financial Disclosure

	2008	2009	2010	2011	2012	2013
1. ABC Bank Kenya	50%	50%	50%	50%	50%	50%
2. Bank of Africa	50%	50%	50%	50%	50%	50%
3. Bank of Baroda	25%	25%	25%	25%	25%	25%
4. Bank of India	38%	38%	38%	38%	38%	38%
5. Barclays Bank Kenya	75%	75%	75%	75%	75%	75%
6. CfC Stanbic Holdings	75%	75%	75%	75%	75%	75%
7. Chase Bank Kenya	63%	63%	63%	63%	63%	63%
8. Citibank	75%	75%	75%	75%	75%	75%
9. Commercial Bank of Africa	75%	75%	75%	75%	75%	75%
10. Consolidated Bank of Kenya	50%	50%	50%	50%	50%	50%
11. Cooperative Bank of Kenya	63%	63%	63%	63%	63%	63%
12. Credit Bank	38%	38%	38%	38%	38%	38%
13. Development Bank of Kenya	50%	50%	50%	50%	50%	50%
14. Diamond Trust Bank	63%	63%	63%	63%	63%	63%
15. Dubai Bank Kenya	38%	38%	38%	38%	38%	38%
16. Ecobank Kenya	38%	38%	38%	38%	38%	38%
17. Equatorial Commercial Bank	38%	38%	38%	38%	38%	38%
18. Equity Bank	50%	50%	50%	50%	50%	50%
19. Family Bank	50%	50%	50%	50%	50%	50%
20. Fidelity Commercial Bank Limited	25%	25%	25%	25%	25%	25%
21. First Community Bank	38%	38%	38%	38%	38%	38%
22. Giro Commercial Bank	50%	50%	50%	50%	50%	50%
23. Guaranty Trust Bank Kenya	50%	50%	50%	50%	50%	50%
24. Guardian Bank	38%	38%	38%	38%	38%	38%
25. Gulf African Bank	38%	38%	38%	38%	38%	38%
26. Habib Bank	25%	25%	25%	25%	25%	25%
27. Habib Bank AG Zurich	25%	25%	25%	25%	25%	25%
28. Housing Finance Company of Kenya	63%	63%	63%	63%	63%	63%
29. I&M Bank	63%	63%	63%	63%	63%	63%
30. Imperial Bank Kenya	63%	63%	63%	63%	63%	63%
31. Jamii Bora Bank	38%	38%	38%	38%	38%	38%
32. Kenya Commercial Bank	63%	63%	63%	63%	63%	63%
33. K-Rep Bank	38%	38%	38%	38%	38%	38%
34. Middle East Bank Kenya	25%	25%	25%	25%	25%	25%
35. National Bank of Kenya	50%	50%	50%	50%	50%	50%
36. NIC Bank	75%	75%	75%	75%	75%	75%
37. Oriental Commercial Bank	25%	25%	25%	25%	25%	25%
38. Paramount Universal Bank	25%	25%	25%	25%	25%	25%
39. Prime Bank (Kenya)	38%	38%	38%	38%	38%	38%
40. Standard Chartered Kenya	88%	88%	88%	88%	88%	88%
41. Trans National Bank Kenya	25%	25%	25%	25%	25%	25%
42. United Bank for Africa	25%	25%	25%	25%	25%	25%

Source: Annual Reports

Appendix III: General and Strategic Information Disclosure

	2008	2009	2010	2011	2012	2013
1. ABC Bank Kenya	54%	54%	54%	54%	54%	54%
2. Bank of Africa	46%	46%	46%	46%	46%	46%
3. Bank of Baroda	31%	31%	31%	31%	31%	31%
4. Bank of India	54%	54%	54%	54%	54%	54%
5. Barclays Bank Kenya	54%	54%	54%	54%	54%	54%
6. CfC Stanbic Holdings	54%	54%	54%	54%	54%	54%
7. Chase Bank Kenya	62%	62%	62%	62%	62%	62%
8. Citibank	62%	62%	62%	62%	62%	62%
9. Commercial Bank of Africa	54%	54%	54%	54%	54%	54%
10. Consolidated Bank of Kenya	54%	54%	54%	54%	54%	54%
11. Cooperative Bank of Kenya	46%	46%	46%	46%	46%	46%
12. Credit Bank	54%	54%	54%	54%	54%	54%
13. Development Bank of Kenya	62%	62%	62%	62%	62%	62%
14. Diamond Trust Bank	46%	46%	46%	46%	46%	46%
15. Dubai Bank Kenya	46%	46%	46%	46%	46%	46%
16. Ecobank Kenya	54%	54%	54%	54%	54%	54%
17. Equatorial Commercial Bank	46%	46%	46%	46%	46%	46%
18. Equity Bank	54%	54%	54%	54%	54%	54%
19. Family Bank	54%	54%	54%	54%	54%	54%
20. Fidelity Commercial Bank Limited	38%	38%	38%	38%	38%	38%
21. First Community Bank	46%	46%	46%	46%	46%	46%
22. Giro Commercial Bank	46%	46%	46%	46%	46%	46%
23. Guaranty Trust Bank Kenya	62%	62%	62%	62%	62%	62%
24. Guardian Bank	46%	46%	46%	46%	46%	46%
25. Gulf African Bank	46%	46%	46%	46%	46%	46%
26. Habib Bank	31%	31%	31%	31%	31%	31%
27. Habib Bank AG Zurich	23%	23%	23%	23%	23%	23%
28. Housing Finance Company of Kenya	54%	54%	54%	54%	54%	54%
29. I&M Bank	46%	46%	46%	46%	46%	46%
30. Imperial Bank Kenya	46%	46%	46%	46%	46%	46%
31. Jamii Bora Bank	46%	46%	46%	46%	46%	46%
32. Kenya Commercial Bank	57%	57%	57%	57%	57%	57%
33. K-Rep Bank	46%	46%	46%	46%	46%	46%
34. Middle East Bank Kenya	38%	38%	38%	38%	38%	38%
35. National Bank of Kenya	46%	46%	46%	46%	46%	46%
36. NIC Bank	54%	54%	54%	54%	54%	54%
37. Oriental Commercial Bank	46%	46%	46%	46%	46%	46%
38. Paramount Universal Bank	54%	54%	54%	54%	54%	54%
39. Prime Bank (Kenya)	46%	46%	46%	46%	46%	46%
40. Standard Chartered Kenya	54%	54%	54%	54%	54%	54%
41. Trans National Bank Kenya	46%	46%	46%	46%	46%	46%
42. United Bank for Africa	38%	38%	38%	38%	38%	38%

Source: Annual Reports

Appendix IV: Forward Looking Information

	2008	2009	2010	2011	2012	2013
1. ABC Bank Kenya	56%	56%	56%	56%	56%	56%
2. Bank of Africa	44%	44%	44%	44%	44%	44%
3. Bank of Baroda	22%	22%	22%	22%	22%	22%
4. Bank of India	44%	44%	44%	44%	44%	44%
5. Barclays Bank Kenya	44%	44%	44%	44%	44%	44%
6. CfC Stanbic Holdings	67%	67%	67%	67%	67%	67%
7. Chase Bank Kenya	56%	56%	56%	56%	56%	56%
8. Citibank	56%	56%	56%	56%	56%	56%
9. Commercial Bank of Africa	67%	67%	67%	67%	67%	67%
10. Consolidated Bank of Kenya	44%	44%	44%	44%	44%	44%
11. Cooperative Bank of Kenya	44%	44%	44%	44%	44%	44%
12. Credit Bank	44%	44%	44%	44%	44%	44%
13. Development Bank of Kenya	67%	67%	67%	67%	67%	67%
14. Diamond Trust Bank	56%	56%	56%	56%	56%	56%
15. Dubai Bank Kenya	44%	44%	44%	44%	44%	44%
16. Ecobank Kenya	44%	44%	44%	44%	44%	44%
17. Equatorial Commercial Bank	44%	44%	44%	44%	44%	44%
18. Equity Bank	56%	56%	56%	56%	56%	56%
19. Family Bank	44%	44%	44%	44%	44%	44%
20. Fidelity Commercial Bank Limited	33%	33%	33%	33%	33%	33%
21. First Community Bank	33%	33%	33%	33%	33%	33%
22. Giro Commercial Bank	44%	44%	44%	44%	44%	44%
23. Guaranty Trust Bank Kenya	67%	67%	67%	67%	67%	67%
24. Guardian Bank	56%	56%	56%	56%	56%	56%
25. Gulf African Bank	56%	56%	56%	56%	56%	56%
26. Habib Bank	22%	22%	22%	22%	22%	22%
27. Habib Bank AG Zurich	22%	22%	22%	22%	22%	22%
28. Housing Finance Company of Kenya	56%	56%	56%	56%	56%	56%
29. I&M Bank	56%	56%	56%	56%	56%	56%
30. Imperial Bank Kenya	56%	56%	56%	56%	56%	56%
31. Jamii Bora Bank	44%	44%	44%	44%	44%	44%
32. Kenya Commercial Bank	78%	78%	78%	78%	78%	78%
33. K-Rep Bank	33%	33%	33%	33%	33%	33%
34. Middle East Bank Kenya	44%	44%	44%	44%	44%	44%
35. National Bank of Kenya	44%	44%	44%	44%	44%	44%
36. NIC Bank	56%	56%	56%	56%	56%	56%
37. Oriental Commercial Bank	44%	44%	44%	44%	44%	44%
38. Paramount Universal Bank	44%	44%	44%	44%	44%	44%
39. Prime Bank (Kenya)	33%	33%	33%	33%	33%	33%
40. Standard Chartered Kenya	56%	56%	56%	56%	56%	56%
41. Trans National Bank Kenya	44%	44%	44%	44%	44%	44%
42. United Bank for Africa	33%	33%	33%	33%	33%	33%

Source: Annual Reports

Appendix V: Social and Board Disclosure

	2008	2009	2010	2011	2012	2013
1. ABC Bank Kenya	59%	59%	59%	59%	59%	59%
2. Bank of Africa	53%	53%	53%	53%	53%	53%
3. Bank of Baroda	41%	41%	41%	41%	41%	41%
4. Bank of India	53%	53%	53%	53%	53%	53%
5. Barclays Bank Kenya	71%	71%	71%	71%	71%	71%
6. CfC Stanbic Holdings	65%	65%	65%	65%	65%	65%
7. Chase Bank Kenya	59%	59%	59%	59%	59%	59%
8. Citibank	71%	71%	71%	71%	71%	71%
9. Commercial Bank of Africa	71%	71%	71%	71%	71%	71%
10. Consolidated Bank of Kenya	59%	59%	59%	59%	59%	59%
11. Cooperative Bank of Kenya	65%	65%	65%	65%	65%	65%
12. Credit Bank	53%	53%	53%	53%	53%	53%
13. Development Bank of Kenya	65%	65%	65%	65%	65%	65%
14. Diamond Trust Bank	71%	71%	71%	71%	71%	71%
15. Dubai Bank Kenya	47%	47%	47%	47%	47%	47%
16. Ecobank Kenya	53%	53%	53%	53%	53%	53%
17. Equatorial Commercial Bank	47%	47%	47%	47%	47%	47%
18. Equity Bank	59%	59%	59%	59%	59%	59%
19. Family Bank	65%	65%	65%	65%	65%	65%
20. Fidelity Commercial Bank Limited	47%	47%	47%	47%	47%	47%
21. First Community Bank	53%	53%	53%	53%	53%	53%
22. Giro Commercial Bank	53%	53%	53%	53%	53%	53%
23. Guaranty Trust Bank Kenya	65%	65%	65%	65%	65%	65%
24. Guardian Bank	53%	53%	53%	53%	53%	53%
25. Gulf African Bank	59%	59%	59%	59%	59%	59%
26. Habib Bank	41%	41%	41%	41%	41%	41%
27. Habib Bank AG Zurich	35%	35%	35%	35%	35%	35%
28. Housing Finance Company of Kenya	65%	65%	65%	65%	65%	65%
29. I&M Bank	59%	59%	59%	59%	59%	59%
30. Imperial Bank Kenya	53%	53%	53%	53%	53%	53%
31. Jamii Bora Bank	47%	47%	47%	47%	47%	47%
32. Kenya Commercial Bank	59%	59%	59%	59%	59%	59%
33. K-Rep Bank	47%	47%	47%	47%	47%	47%
34. Middle East Bank Kenya	41%	41%	41%	41%	41%	41%
35. National Bank of Kenya	59%	59%	59%	59%	59%	59%
36. NIC Bank	65%	65%	65%	65%	65%	65%
37. Oriental Commercial Bank	47%	47%	47%	47%	47%	47%
38. Paramount Universal Bank	53%	53%	53%	53%	53%	53%
39. Prime Bank (Kenya)	41%	41%	41%	41%	41%	41%
40. Standard Chartered Kenya	65%	65%	65%	65%	65%	65%
41. Trans National Bank Kenya	47%	47%	47%	47%	47%	47%
42. United Bank for Africa	47%	47%	47%	47%	47%	47%

Source: Annual Reports