THE EFFECTS OF CORPORATE GOVERNANCE ON TIMELINESS OF FINANCIAL REPORTING OF COMPANIES LISTED AT THE NAIROBI SCURITIES EXCHANGE

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DECLARATION

I declare that this research project is my original work and has not been submitted for an award of a degree in any other University for examination/academic purposes.

SIGNATURE:………………………………DATE: …………………………………

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This research project has been submitted for examination with my approval as the University Supervisor.

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I acknowledge my family for its patience during studies and even allowing me to use the family resources in my study. Special thanks to my Supervisor Prof. J.O Aduda for his thoroughness and undivided commitment to ensure that I complete this project professionally and in time. To the almighty God I say, “This far you have brought me and for that I am greatly indebted.

DEDICATION

To my parents who actually taught me from an early age that God is the divine giver of knowledge, skills in learning and wisdom and that God almighty is the author of my life and I give Him all the Glory and Honor.

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ABREVIATIONS AND ACRONYMS

NGOs: Non Governmental Organizations

NSE: Nairobi Securities Exchange

PSUs: Public Service Undertakings

SPSS: Statistical Package for Social Sciences

TMT: Top Management Team

ABSTRACT

Corporate governance continues to receive emphasis in practice and in academic research. The emphasis is due in part to the association between weaknesses in governance and poor financial reporting quality, earnings manipulation, financial statement fraud and weaker internal controls. Academic literature observe that it is better to disclose information sooner rather than later, although there are some tradeoffs. Timeliness of financial reporting is one of the attributes of good corporate governance because shareholders and other stakeholders need information while it is still fresh and the more time that passes between year end and disclosure, the more stale the information becomes and the less value it has. This descriptive study therefore sought to investigate the effect of corporate governance on timeliness of financial reporting of companies listed at the Nairobi Securities exchange. The census study whose target population was all companies quoted at the NSE collected secondary data from published financial statements for a five year period (2009-2014) on: date of financial report, end of financial year, and corporate governance attributes of board size, board diversity and existence of audit committe and its membership. The study finds that on average, the companies listed at the NSE take up to 107 days after end of financial year to release financial statements to the public. The findings show that 12 percent of variations in timeliness of financial reporting is explained by variations in the corporate governance mechanisms. Specifically, increased board size increases the number of days before release which negatively affects the timeliness. Audit committee and board diversity reduces the number of days before the release which improves the timeliness of financial reporting.The study recommends that Financial reporting quality should be a priority of the managers and policy makers to allow investors to make timely informed decisions on economic resources allocation. Corporate governance mechanisms to be put in place should be supportive of this endeavor. Awareness should also be created amongst the academia, practitioners and policymakers on the significance of timely financial reports. Further studies on financial reporting quality aspects especially timeliness should be replicated with a focus on sectoral differences and differences in country contexts while incorporating alternative measures of timeliness of financial reporting.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Cohen, Krishnamoorthy and Wright (2004) illustrate that one of the most important functions that corporate governance can play is in ensuring the quality of the financial reporting process. Corporate governance continues to receive emphasis in practice and in academic research. The emphasis is due in part to the association between weaknesses in governance and poor financial reporting quality, earnings manipulation, financial statement fraud and weaker internal controls documented by Beasley *et al*. (2000); Carcello and Neal (2000); Krishnan (2001) and Klein (2002).

Cohen, *et al*. (2004) identify two issues that have informed the emphasis on the need to improve corporate governance over the financial reporting process. Foremost, the perevelance of highly publicized and egregious financial reporting frauds such as Enron, WorldCom, Aldelphia, Parmalat and unprecedented number of earnings restatements cited by Wu (2002), Palmrose and Scholz (2002) and Larcker *et al*. (2004). Secondly, claims of blatant earnings manipulation by corporate management as noted by Krugman (2002).

Specifically, prior literature has examined the role of various players in the governance mosaic and the extent to which these players have either individually or collectively influenced the attainment of financial reports that are free from material misstatements and misrepresentations. The principal players identified in prior literature include the board of directors, the audit committee, the external auditor and the internal auditors

(Cohen, *et al*. 2004). As noted by Xie, Davidson and DaDalt (2003), the audit committee has the responsibility to oversee internal controls over financial reporting (ICFR), communicating with management, internal and external auditors, and the board of directors to assure that appropriate controls are in place and reporting processes are effective. In order to discharge its responsibility to restrict managers' ability to use the financial measurement system to increase their own wealth at the expense of owners, the audit committee must possess the requisite understanding of financial reporting.

1.1.1 Corporate Governance

Corporate governance is defined from the perspective of the investor by Metrick and Ishii (2002) as "both the promise to repay a fair return on capital invested and the commitment to operate a Firm, efficiently given investment". Brigham and Daves (2004) define corporate governance as the set of laws, rules and procedures that influence a company's operations and the decisions made by its managers. Most corporate governance provisions come in two forms, sticks and carrots. The primary stick is the threat of removal if managers do not maximize the value of the resources entrusted to them while the carrot is compensation that acts as an incentive for managers to maximize intrinsic stock value.

Cadbury (1992) explain that sound corporate governance mechanisms help assure investors that they will get their capital back and receive an adequate return on their investment. Firms with good corporate governance provide transparent disclosures and are investor friendly therefore are able to access capital markets on better terms. A well-developed financial system provides a market for corporate control while a strong legal system protects investors' contractual rights by minimizing the risk of loss from managerial opportunism.

1.1.2 Timeliness of Financial Reporting

McGee and Yuan (2008) explain that it is better to disclose information sooner rather than later, although there are some tradeoffs. According to Kenley and Staubus (1974), there is an inverse relationship between the quality of financial information and the timeliness with which it is reported. Atiase, Bamber and Tse (1989), Hendriksen and Van Breeda (1992) and Lawrence and Glover (1998) show that accounting information becomes less relevant with the passage of time.

Chambers and Penman (1984) provide two definitions of timeliness. Foremost, timeliness is defined as the reporting lag from the end of the fiscal period covered by the report to the date of the report. In the second definition, timeliness of earnings reports is relative to their expected dates. A report is classified as early when it is released before the date it is expected and late if it is released after that date.

1.1.3 Corporate Governance and Timeliness of Financial Reporting

McGee and Yuan (2008) explain that timeliness of financial reporting is one of the attributes of good corporate governance identified by the world bank and OECD because shareholders and other stakeholders need information while it is still fresh and the more time that passes between year end and disclosure, the more stale the information becomes and the less value it has.

As corporate governance has always attracted significant attention in all times. Its presence is like a backbone for any corporate that emphasizes its role for survival and sustainable growth in the long run. In the present condition of globalization and liberalization, governance structures are constantly evolving, and driven by the local and

the global factors. There is a debate on the issue of corporate governance, whether it should focus exclusively on protecting the interests of equity stakeholders or it should focus on nonequity stakeholders. One attribute of good corporate governance for company is maintaining transparent policies and reporting practices. In case of reporting, the foremost thing is to report the concerned information well in time, as it may be used by investors, stakeholders, regulatory authorities, decision makers, managers, professional bodies, financial analysts, and academicians. As audited financial statements in the annual report act as a reliable source of information available to the market, its publication should be made in time (Charumathi and Krishnan, 2011).

1.1.4 Nairobi Securities Exchange

Nairobi Securities Exchange (NSE) has the mandate of providing trading platform for listed securities and overseeing its member firms. It provides public offers and listing of securities traded at the exchange (NSE, 2012). Trading is carried out via the automated trading systems which were commissioned in 2006 and it marked the significant ste p in the efforts to enhance efficiency in the exchange. There are no limits to trades by foreign investors and they can acquire shares freely subject to a minimum reserve ratio of 25% for domestic in vestors in each listed company.

Currently, NSE has 64 quoted companies from different sectors of the economy. The code of corporate governance practices for public listed companies in Kenya developed by the Capital Markets Authority (CMA) provide guidelines for financial reporting which include that; there should be a structure to independently verify and safeguard the integrity of the financial reporting and the Board should put in place a structure of review and authorisation designed to ensure the truthful and factual presentation of the company’s financial position.

1.2 Research Problem

McGee and Yuan (2009) opine that one aspect of transparency in financial reporting is timeliness. Generally speaking, it is better to disclose information sooner rather than later. Transparency requirement in financial reporting is widespread and pervasive as companies are required to disclose anything that might influence the investment decision of an informed investor. In Kenya, timeliness of financial reporting is investigated and established to delay when compared to US companies and faster when compared to Chinese companies.

Muhoro and McGee (2009) while investigating timeliness of financial reporting in Kenya find that on average, the Kenyan company takes about 97 or 82 days to report financial information after year-end, depending on whether the mean or median is used. The trend seems to be toward quicker disclosure of financial results and the range seems to have narrowed. While comparing timeliness on financial reporting amongst Kenyan and US companies, Muhoro and McGee (2009) establish that it takes Kenyan companies about a month longer to report. A comparison amongst Kenyan Rusiian and Chinese companies by Muhoro, McGee, Tyler and Tarangelo (2009) establishes that the reporting differences is insignificant between Kenyan and Chinese companies but it takes longer for Russian companies when compared to Kenyan companies.

In developed economies, Alford, Jones and Zmijewski (1994) indicate that delays in filing of financial reports affect returns for listed companies. Conover, Miller and Szakmary (2008) also show that poor firm performance and longer reporting lags are strongly linked in common law countries and greater capital market scrutiny and more timely filing are related. Ball, Robin and Sadka (2008) differentiate the role of debt and

equity markets size in shaping financial reporting practice by illustrating that timely loss recognition, overall timeliness and conditional conservatism are associated with debt market and not equity market sizes. Broedel Lopes and Walker (2008) illustrate that better governed firms, present more timely earnings. In China, McGee and Yuan (2008) observe that chinese companies take significantly longer to isue their financial statements than do non– Chinese companies which indicates low levels of corporate governance. Bonsón-Ponte, Escobar-Rodríguez and Borrero-Domínguez (2008) identify two factors that determine delays in signing of audit reports as sectors and size.

Studies in Kenya by Sugut (2014) establishes that computerized accounting systems has improved quality of financial reporting especially on timeliness and accuracy. Kamwenji (2014) also establishes that adoption of IFRSs has improved quality of financial reporting including transparency, honesty and comparability. Omoro, Aduda and Okiro (2015) conclude that TMT demographic diversity are associated with financial reporting quality including timeliness.

Though the foregoing studies suggest improvements in financial reporting quality in Kenya in general, the studies have not explored other determinants of the specific quality elements which also include corporate governance. This study therefore fills the research gap by answering the question: What is the effect of corporate governance on timeliness of financial reporting in Kenya?

1.3 Research Objective

This study seeks to investigate the effect of corporate governance on timeliness of financial reporting of companies listed at the Nairobi Securities exchange.

1.4 Value of the Study

The study is of value to the persons in academia, policy makers, and the theories and body of knowledge related to the effects of corporate governance on timeliness of financial reporting. To the academia field, the study is helpful to spur further research on both aspects of corporate governance and desirable attributes of financial statements including relevance and timeliness. The findings for this study is expected to used as a point of reference during further research. Moreso, the limitations and recommendations arising from this study are useful to other scholars especially on identifying further research frontires while avoiding the limitations of the study.

The study is of value to policy makers in both corporate bodies and the financial reporting regulatory environment. The findings of this study are used by corporate policy makers on deciding on the consequence of delayed financial reporting. The regulatory bodies are able to craft polices that encourage value, quality and timeliness of financial reporting.

For theory and body of knowledge, the study findings are important especially on the development of future theories concerning corporate governance and desirable attributes of financial reports and also adds substantial knowledge to the existing theoretical knowledge on the topic.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a theoretical review where theories concerning the relationship between corporate governance attributes and timeliness of financial reporting are documented in the literature. The chapter also presents the empirical findings in different settings on the relationships pursued in the current study. Finally, a summary of the literature reviewed is provided.

2.2 Theoretical Literature Review

This study was guided by the propositions of various theories including Agency theory, Stewardship theory and Resource dependency theory that are discussed below.

2.2.1 Agency Theory

Agency theory developed by Berle and Means (1932) and expounded by Jensen and Meckling (1976) is based on the idea that in a modern corporation, there is a separation of ownership and management, resulting in agency costs associated with resolving the conflict between the owners and the agents. This implies that management cannot be trusted, thereby calling for strict monitoring by the Board in order to protect shareholders' interest.

Agency theory suggests that there are several mechanisms to reduce the agency problem in the firm. Examples highlighted by Sanda, *et al*. (2005) include managerial incentive mechanism that compensates managerial efforts to serve the owners' interests, dividend mechanisms that reduces managerial intention to make an overinvestment decision which

will be financed by internal free cash flow, bonding mechanism that reduces managerial moral hazard which potentially occurs when they are not restricted by bond contract and bankruptcy risk. Further, Sanda, *et al*. (2005) highlight other owners' efforts to reduce agency cost of equity, potentially created by moral hazard managers, include the intention of owners to choose reputable board of directors, direct intervention by shareholders, the threat of firing, and the threat of takeover

2.2.2 Stewardship Theory

Stewardship Theory as explained by Donaldson and Davis (1991) looks at directors and managers as stewards of the Firm. As stewards, they are essentially presumed to be trustworthy individuals and therefore good stewards of the resources entrusted to them, which makes monitoring redundant. The theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire.

Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorize and empower senior management. In light of this, Cornforth (2002) explain that the main function of the board is not to ensure managerial compliance or conformance but to work with management to improve organizational performance.

2.2.3 Resource Dependency Theory

This theory is based on the premise that an organization depends on its environment for its resources and as such it must establish good relations to ensure constant flow of the resources and information. Davis and Cobb (2009) mentioned three core ideas of the theory: social context matters; organizations have strategies to enhance their autonomy and pursue interests; and power (not just rationality or efficiency) is important for understanding internal and external actions of organizations. Their main emphasis was on power and they stated that if dependence of resources comes from relying on a sole-supplier, then the solution is to find and maintain alternatives.

Another solution is in the selection of the board members. Board members are selected for the important external links and knowledge they can bring to the organization and to try to co-opt potential external threat (Cornforth, 2002). The theory suggests that an organization can manage uncertainty by inviting a representative of the source of constraint onto its governing board thus trading sovereignty for support (Davis and Cobb, 2009).

2.3 Determinants of Timeliness of Financial Reports

Literature alludes that Timeliness of financial reporting by companies is influenced by firm corporate governance practices and legal systems in the country's of operation.

2.3.1 Corporate Governance

Anderson, Mansi and Reeb (2004) explain that creditor reliance on accounting based covenants suggest that debtors are potentailly concerned with board of director characteristics that influence financial accounting process. The study illustrates that cost

of debt financing is inversely related to borad independence and board size. The study also show that fully independent audit committees are associated with a significantly lower cost of debt financing and yield spreads are also negatively related to audit committee size and the number of audit committee meetings. These findings provide market-based evidence that boards and audit committees are important elements affecting the reliability of financial reports.

2.3.2 Legal Systems

Joos and Lang (1994) describe the Continental model, present in Germany, France, most of continental Europe and Japan where public reporting is not emphasized. The focus of the Continental model has traditionally been on debtholders, due in part to the large debtholdings of banks. In contrast, the Anglo-Saxon model, present in the U.K. and former colonies, focuses on equity holders and presenting a "true and fair view" of the firm's financial operations.

Ball, Kothari and Robin (2000) group countries into those with common law systems, where a shareholder governance model prevails and accounting practices are determined primarily in the private sector, and those with code law systems. The latter generally have a stakeholder governance model whereby major groups contracting with the firm (such as banks, debtholders and labor unions) are represented on corporate boards, and national governments establish and enforce accounting standards. Ball, Kothari and Robin (2000) hypothesize that there is less demand for public disclosure in code law countries because there is greater monitoring of the firm’s operations by banks and other stakeholders with close relationships with the firm.

Ali and Hwang (2000) characterize country accounting standards in five ways: whether the financial system is bank oriented or market oriented; whether the accounting standards are set by public or private bodies; whether a Continental accounting model or British-American model is present; the influence of tax rules on accounting standards; and the amount spent on external auditing services. These five factors are found to be highly interrelated.

2.4 Empirical Review

In the US, where public domestic corporations are required to file financial statements within 90 days of their fiscal year end, Alford, Jones and Zmijewski (1994) examine the timeliness of accounting disclosures and report that firms who file beyond the filing requirement have poorer performance by both accounting measures and stock returns. The late filers have lower returns on equity, smaller growth in earnings per share, higher financial leverage, and lower internal liquidity for the fiscal year in which they file late. Market-adjusted stock returns are also lower during the fiscal year in which the firm files late. Additionally, Alford, Jones and Zmijewski (1994) establish that market adjusted stock returns for late filers are lower in the post 90 day period, past the time when an investor would already be aware that a late filing firm was potentially facing financial difficulty. These returns are also lower the later a firm files past the regulatory requirement.

Conover, Miller and Szakmary (2008) examine financial reporting lags, incidence of late filing and the relationship between reporting lags, firm performance and the degree of capital market scrutiny. The study analyzes whether the incidence of late filing, and the relations between reporting days and other variables, differ systematically between

common and code law countries. Relative to US firms, the study establishes that the time taken and allowed for filing is usually longer in other countries and that the statutory requirement is more frequently violated. Timely filing is found to be less frequent in code law countries. Poor firm performance and longer reporting lags are more strongly linked in common law countries. Further, greater capital market scrutiny and more timely filing are related but there is less support for a relationship between the level of debt financing and timely filing in code law countries.

Broedel Lopes and Walker (2008) investigate the role of a broad set of firm's attributes on three financial reporting features namely; conservatism, timeliness and value relevance. The study establishes that interactions between corporate governance attributes and earnings as well as change in earnings are both positive and significant. Thus, better governed firms, present more timely earnings. Further, cross listing and corporate governance arrangements act as complements to increase timeliness of earnings.

McGee and Yuan (2008) examines the timeliness of financial reporting in the people's republic of China and compare the findings with those of non – chinese companies in developed market economies so as to determine whether there is a significant difference. Timeliness of financial reporting measured as number of days elapsed between year end and date of independent auditirs report is established to vary amongs the companies. The study observes that chinese companies take significantly longer to isue their financial statements than do non – Chinese companies and since timeliness is an attribute of good corporate governance, corporate governance in Chinese companies is not yet on the same level with that of companies in developed economies.

Ball, Robin and Sadka (2008) investigate the role of debt and equity markets in shaping financial reporting practice. Reckoning that timely financial reporting is a costly activity and the quantity of it observed in practice should depend on demand, the study regresses individual country measures of gain and loss recognition timeliness, and overall timeliness, on the sizes of the country's debt and equity markets. The measure of demand is the market size. The study establishes that the gain and loss recognition timeliness as well as the overall reporting timeliness is not associated with equity market size. However, timely loss recognition, overall timeliness and conditional conservatism are associated with debt market size.

Bonsón-Ponte, Escobar-Rodríguez and Borrero-Domínguez (2008) analyze the factors that determine delays in signing of audit reports. The study measures the delay as the number of days that elapse from the closure of the accounting period until the date when the audit report is signed. The study finds that the two factors that characterize the companies that present less audit delay are classified to sectors that are subject to regulatory pressure, such as the financial and energy sectors and the size of the company relative to its sector.

Muhoro, McGee, Tyler and Tarangelo (2009) reckon that the World Bank had conducted various studies on corporate governance in various countries including financial reporting practices and timeliness. However, Kenya was not in the studies countries. Thus the need to replicate such studies. The study examined the extent of the time delay between year-end and the issuance of the auditor's report for companies in Russia and Kenya and established that Russian companies that issue English language financial statement take significantly longer to report financial results than do Kenyan companies.

Charumathi and Krishnan (2011) analyse the compliance status of timeliness attribute in financial reporting by listed Indian companies understood as stable with good corporate governance practices. The study concludes that timely publication of results and following the best practices in corporate governance issues alone can help them to attract foreign investments and there by, they can able to assist the country's growth than ever before.

Charumathi and Krishnan (2012) examine timeliness of financial reporting by indian public sector companies that constitute the public sector undetaking index (PSUI) of Bombay stock exchange and compare their reporting patterns for the year 2006 to 2010. The study establishes that there is a significant difference among the PSUs in their financial reporting pattern. Considering that non compliance appear in all the years, the study suggests that timely publication of financial results and following best practices in corporate governance issues can help PSUs to improve themselves and assist the country's growth.

Sugut (2014) analyzes the effect of computerized accounting systems on quality of financial reports of NGOs in Nairobi county and concludes that computerized accounting systems factoring their speed, timeliness, accuracy and the possibility of producing quality data affects the quality of financial reports of the NGOs. The drivers for leadership are established to include the board and management independence, effectiveness of both the board and NGO management and the technical knowhow of the staff which enhances the quality of financial reports.

Kamwenji (2014) investigate the effect of adoption of international financial reporting standards (IFRSs) on quality of accounting information of deposit taking SACCOs in nairobi county using a descriptive research design. The study establishes that as a result of adoption of IFRSs, majority of the SACCOs are transparent and honest in disclosure and presentation of financial statements and that the presentation of accounting information is uniform with other institutions which have adopted IFRSs. Moreover, the financial statements of the SACCOs are comparable with those of other institutions that have adopted IFRSs. The study concludes that adoption of IFRSs in the SACCOs has improved the timely preparation and presentation of financial statements and related disclosures, it has also improved the relevance, reliability and understandability of accounting information provided in the financial statements and related disclosures.

Omoro, Aduda and Okiro (2015) examine the effect of demographic diversity in Top Management Team (TMT) on financial reporting quality in commercial state corporations using correlational and longitudinal research designs. The study findings provide evidence suggesting that TMT demographic diversity are associated with financial reporting quality measured by fundamental qualitative characteristics of accounting information, earnings management, timeliness in reporting and disclosure quality. The research implication is that demographic diversity in TMT - gender, age, education, tenure and functional background may have important implication for financial reporting quality under different measures.

2.5 Chapter Summary

This chapter presents that the timeliness of financial reports and quality of financial reporting is dependent on corporate governance practices and the legal environment. The effect of corporate governance on timeliness and quality of financial reporting is noted in developed financial markets. In Kenya, timeliness of financial reporting is investigated and established to delay when compared to US companies and faster when compared to Chinese companies. Though empirical literature in Kenya confirm that manager attributes, adoption of computerized accouting systems and adoption of international financial reporting standards affect quality of financial reporting, the determinants of timeliness of financial reporting is yet to be investigated.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the researcher presents the research design and methodology that was applied in carrying out the study. Specifically, it includes the following subsections; research design, population and sample, data collection and data analysis.

3.2 Research Design

Mugenda and Mugenda (2003) define a research design as the method used to carry out the research. According to Grimes and Schulz (2002), a descriptive study is one in which information is collected without changing the environment. It should answer five basic questions: who, what, why, when and where. This study therefore adopted a descriptive study design. The design was deemed appropriate because of the observational nature of data that was collected from the annual reports of listed firms.

3.3 Target Population and Sample

The study covered a target population of all companies quoted at Nairobi Securities Exchange as at 30th June 2015. In this study, as attached in appendix one, there are 64 companies listed at the NSE classified into eleven segments namely: Agricultural; Automobiles and Accessories; Banking; Commercial and Services; Construction and Allied; Energy and Petroleum; Insurance; Investment; Investment Services; Manufacturing and Allied; Telecommunication and Technology. Due to the small size of the sample, no sampling was conducted and a census of all companies listed at the NSE was studied.

3.4 Data Collection

The study was based on secondary data. The annual financial statements of listed firms for a five year period (2009-2014) was obtained from the Nairobi Securities Exchange, Capital Markets Authority and respective companies' websites. The financial data collected from the financial statements included: date of report, end of financial year, and corporate governance attributes.

3.5 Data Analyis

The study applied statistical measures such as frequency in determining the prevalent corporate governance practices in the companies listed at the NSE. To determine the correlation between corporate governance and timeliness of financial reporting, the following regression analysis model was used:

$Timeliness=\beta_0+\beta_1(BOARDSIZE)+\beta_2(BOARDCOMP)+\beta_3(BOARDMTG)+\beta_4(AUDITCOM)+\beta_5(TRANS\&DISCL) + \varepsilon$ 3.1

Where:

Timeliness: Timeliness of Financial reporting measured as lag from the end of the fiscal period covered by the report to the date of the report.

β_0: Constant Performance with zero Corporate Governance Practice.

β_{1-4} : Coefficient of Variation

BOARDCOMP: Board Size – Number of board directors

BOARDCOMP: Board Diversity – Number of male or female board directors and levels of education

BOARDMTG: Board Meeting – Frequency of board meetings

AUDITCOM: Audit Committee – Number of audit committee members

TRANS&DISCL: Transparency and Disclosure – Existence of voluntary disclosure notes on financial reports

ε: Error term (Other Factors)

The Statistical Package for Social Sciences (SPSS) will be used to analyse the data

3.6 Tests of Significance

Inferential statistics such as non parametric test which include analysis of variance (ANOVA) was used to test the significance of the overall model at 95% level of significance. Coefficient of correlation (r) was used to determine the magnitude of the relationship between the dependent and the independent variables. Coefficient of determination (r2) was used to show the percentage for which each independent variable and all independent variables combined are explaining the change in the dependent variable.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter focuses on data analysis, presentation and interpretation. It presents data analysis as per the study objectives, presentation of data by use of pie charts, tables and data interpretation. It presents the research findings on the effects of corporate governance on timeliness of financial reporting of the companies listed at the Nairobi securities exchange. Descriptive statistics were used to analyze the data. In descriptive data, relative frequencies were used in some questions.

4.2 Descriptive Statistics

Table 4.1 gives the summary statistics of the main variables that have been included in the model including: minimum, maximum, mean, standard deviation and variance.

Table 4.1: Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Directors number	228	4.00	28.00	10.8947	4.69392	1.628	.161
Male directors	228	4.00	23.00	9.0263	3.73213	1.786	.161
Female directors	228	.00	5.00	1.8947	1.50399	.510	.161
Number of board meetings	228	1.00	2.00	1.1053	.30757	2.590	.161
Time before release	228	.00	300.00	107.2368	58.27994	1.321	.161
Valid N (listwise)	228						

The results showed that directors' number had a mean of 10.894 with a minimum of 4.00 a maximum of 28.00 and standard deviation of 4.693. Comparatively, male directors had a mean of 9.026, minimum of 4.00, maximum of 3.732. Showing that on average, the firms listed have more men sitting in the board compared to female which had a mean of 1.894, with minimum of 0.000, maximum of 5.00 and standard deviation of 1.503. Number of board meetings had a mean 1.105, minimum of 1.00, maximum of 2.00. This shows that firms held board meetings once in year. Time of release had a mean of 107.236, minimum of 0, maximum of 300. This shows that while some firms made their financial reports release 300 days after the year end, some others were prompt. On average, they took 107 days to release their financial reports after financial year end.

4.3 Correlation Analysis

The correlation, presented below in table 4.2 was done to establish the linear association of the explanatory variables with the dependent variables; that is, board composition, board size, board meetings and audit composition of companies listed at the NSE. It also helped in determining the nature of linear association in the model, that is, which variable best influenced timeliness of financial reporting amongst the companies.

Table 4.2: Correlation Matrix

correlations

	Directors number	Male directors	Femal directors	Number of board meetings	Days before release
Directors number	1				
Male directors	.966**	1			
Female directors	.770**	.580**	1		
Number of board meetings	.227**	.228**	.138*	1	
days before release	-.145*	-.114	-.173**	-.184**	1

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

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

From the Table 4.2, it can be deduced that there was a positive and significant correlation between director's number and: male directors (r=0.996), female director (r=0.770) and number of board meetings (r=0.227). Thus, director's number which proxies board membership, male directors, female directors and number of board meetings were positively related to timeliness of financial reporting of the companies listed at the Nairobi Securities Exchange. However, a negative but significant association was established between time before release and number of directors of companies listed at the Nairobi securities exchange (r=0.145). Thus, timeliness of financial reporting of companies listed at the Nairobi securities exchange was negatively related to the number of members of the board.

4.4 Regression Analysis

The study also sought to determine the correlation between corporate governance and timeliness of financial reporting: The regression model was

$$Timeliness=\beta_0+\beta_1(BOARDSIZE)+\beta_2(BOARDCOMP)+\beta_3(BOARDMTG)+\beta_4(AUDITCOM)\ \varepsilon \quad \text{.......... 3.1}$$

Where:

Timeliness: Timeliness of Financial reporting measured as lag from the end of the fiscal period covered by the report to the date of the report.

β_0: Constant Performance with zero Corporate Governance Practice.

β_{1-5}: Coefficient of Variation

BOARDCOMP: Board Size – Number of board directors

BOARDCOMP:	Board Diversity – Number of male or female board directors and levels of education
BOARDMTG:	Board Meeting – Frequency of board meetings
AUDITCOM:	Audit Committee – Number of audit committee members
ε:	Error term (Other Factors)

Table 4.3: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.347[a]	.120	.104	.29106

Table 4.3 shows that there is a weak linear association between the dependent and independent variables used in the study. This is shown by a correlation (R) coefficient of 0.347. The determination coefficient as measured by the R-square presents a weak relationship between dependent and independent variables given a value of 0.120. This depicts that variations in corporate governance accounts for 12 percent of the variations in timeliness of presentation of financial reports by firms listed at the NSE.

Durbin Watson test was used as one of the preliminary test for regression which to test whether there is any autocorrelation within the model's residuals. Given that the Durbin Watson value was close to 2 (2.241), there was no autocorrelation in the model's residuals. This shows no autocorrelation in the model residual

Table 4.4: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.582	4	.646	7.621	.000[b]
	Residual	18.891	223	.085		
	Total	21.474	227			

a. Dependent Variable: Boardmeetingsnumber

b. Predictors: (Constant), Daysbeforerelease, Maledirectors, Femaledirectors, Directorsnumber

The ANOVA statistics presented in Table 4.4 was used to present the regression models significance. An f-significance value of $p < 0.001$ was established showing that the model is significant and has a probability of less than 0.1% of not being a best fit for the intended linear relationship being tested.

Table 4.5: Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.016	.069		14.629	.000
	Directorsnumber	.380	.135	5.799	2.814	.005
	Maledirectors	-.356	.133	-4.316	-2.673	.008
	Femaledirectors	-.380	.134	-1.858	-2.832	.005
	Audit Committee	-.001	.000	-.196	-3.066	.002

a. Dependent Variable: Boardmeetingsnumber

From the model in table 4.5 above, when other factors (director's number, male directors and female directors) are at zero, the timeliness on presentation of financial reporting will be 1.016. This shows that with time lines to be followed, firms listed at the Nairobi exchange would prepare they financial reporting averagely on time. The relationship is established to be statistically significant.

The study establishes that a unit increase in number of directors leads to 0.380 ($p=.005$) decline in timeliness of financial reporting. Thus number of directors improves the corporate governance of companies listed at NSE. However, large board sizes require time for deliberations and consensus building which delay decision making including issue of financial statements. The relationship is established to be statistically significant.

Holding other factors constant, a unit increase in number of male directors would lead to a decline of -0.356 ($p=0.005$) which improves the timelines of financial reporting. The findings, further, shows that, holding other factors constant, a unit increase in female directorship would lead to a decline of -0.380 ($p < 0.05$) on the timeliness of financial reporting. These findings therefore suggest that board diversity on the basis of gender improves timeliness of financial reporting. These relationships are established to be statistically significant.

From table 4.5 above, it is established that the relationship between audit committee and membership and timeliness of financial reporting is negative and is statistically significant. A unit increase in the number of audit committee members leads to a reduction in timeliness of financial reporting by up to 0.001 ($p < 0.05$). This finding therefore shows the significance of board audit committee in ensuring compliance in financial reporting.

4.5 Summary and Discussion of the Findings

On average, the study establishes that the companies listed at the NSE takes 107 days after end of financial year to release their financial statements. This is a decline when compared to the findings of Muhoro and McGee (2009) who investigated timeliness of

financial reporting in Kenya and found that on average, the Kenyan company takes about 97 or 82 days to report financial information after year-end.

From the findings, the results show that the number of female directors, male directors and board audit committee membership would jointly improve timeliness of presentation of financial reporting by firms listed in the NSE. It is therefore taken that corporate governance that includes directors' composition and diversity has greater influence in improving the timeliness in presentation of financial reports.

Board composition showed positive relationship on the timeliness on presentation of financial reporting while the number of male and female director's (Board diversity), audit committee composition had a negative relation to the timeliness on presentation of financial reporting. The relationships are statistically significant and hence the interpretation that the independent variables of corporate governance including board composition, board diversity and audit committee membership have greater influence on the dependent variable which is timeliness on presentation of financial reporting of financial reporting.

The study established that audit composition is inversely related with timeliness of presentation of financial reporting. This finding is consistent with the arguments of Kamwenji (2014) who established that adoption of IFRSs has improved the timely preparation and presentation of financial statements and related disclosures, it has also improved the relevance, reliability and understandability of accounting information provided in the financial statements and related disclosures.

The study findings showing that the number of directors and boards composition is directly related to the timeliness of presentation of financial reporting is consistent with Omoro, Aduda and Okiro (2015) arguments that demographic diversity in Top Management Team (TMT) improves financial reporting quality under different measures which includes relevance and timeliness of the information.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary findings and discussion of the study. It also covers recommendations for further studies on related issues of the current study well as recommendation on the effects of corporate governance on timeliness of financial reporting. The study finally addresses the limitations of this study.

5.2 Summary of Findings

The objective of the study was to investigate the effect of corporate governance on timeliness of financial reporting of companies listed at the Nairobi Securities exchange. Descriptive research design was used to attain this objective. Regression analysis results suggest that up to 12 percent of variations in timeliness of financial reporting is explained by variations in the corporate governance mechanisms.

The study established that on average, the companies take up to 107 days to release the financial statements afetr close of year end. An earlier study by Muhoro and McGee (2009) reported that Kenyan companies takes about 97 or 82 days to report financial information after year-end. These finding shows a decline which should be readjusted considering that while comparing timeliness on financial reporting amongst Kenyan and US companies, Muhoro and McGee (2009) established that it takes Kenyan companies about a month longer to report.

The study findings show that corporate governance attributes are statistically significant in relating to timeliness of financial reporting. Specifically, Board size increases the number of days before release of financial statements. This can be explained by the need to create consensus amongst the various board members that takes time and delays the process.

The study results also show that the number of female directors, male directors and board audit committee membership would jointly improve timeliness of presentation of financial reporting by firms listed in the NSE. It is therefore taken that corporate governance practices that includes directors' composition and board diversity have greater influence in improving the timeliness in presentation of financial reports. This finding confirms the conclusions by Omoro, Aduda and Okiro (2015) that demographic diversity in Top Management Team (TMT) improves financial reporting quality including timeliness of the information released.

The finding that existence of audit committee and audit committee composition is inversely related with timeliness of presentation of financial reporting confirms the propositions by Kamwenji (2014) that adoption of IFRSs has improved the timely preparation and presentation of financial statements and related disclosures which eventually influence the relevance, reliability and understandability of accounting information provided in the financial statements and the associated related disclosures.

5.3 Conclusions

These study findings provide evidence that corporate governance mechanisms are statistically significant in influencing timeliness of financial reporting. Thus, it can be concluded that corporate governance and controls are associated with the levels of timeliness in reporting by companies listed at NSE. The study has shown that there is a positive relationship between director's number and timeliness of financial reporting which shows that larger boards take longer to present financial statements than smaller boards. There is therefore need to ensure that the number of directors does not delay timeliness of financial reporting.

Since board diversity is established to reduce the number of days that lapse before release of financial statements. The study concludes that boards that are fairly balanced across the genders may create consensus on time and release financial statements for the general good of the users. It is therefore important to ensure that boards are fairly balanced.

The number of directors in board audit committee is established to lead to improvements in timeliness of financial reporting. The study thus concludes that organizations with board audit committees that are balanced in membership have the advantage of timely releasing financial statements which also improve corporate image especially for investor relations. The study findings are consistent with earlier propositions that IFRS adoption and TMT diversity improves quality of financial reporting. Since timeliness of financial reporting is an attribute of the quality, the study concludes that corporate governance mechanisms are a prerequisite for improvements in financial reporting in Kenya.

5.4 Recommendations

Financial reporting quality should be a priority of the managers and policy makers. For investors to make timely decisions, there is need that they get financial information on a timely manner so as to be able to make prudent investment decisions. Efforts should therefore be put to improve the lag between financial year end and release of financial statements.

The board of directors should be purposely selected to attain financial reporting quality including timeliness. The choice should look at optimum number of board members, board composition especially with regards to diversity and operationalization and empowerment of board audit committees to facilitate the process.

There is need for creating awareness amongst the board members, accountants, auditors and professional associations on the significance of ensuring that financial reporting timelines are adhered to as a means of enhancing investor relations and ensuring that resources are allocated optimally in the overall economy.

5.5 Limitations of the Study

The study was faced by various limitations. One of the limitations of this study was the time engaged in the collection, analysis and interpretation of data. The voluminous data required plenty of time to collate and check for quality. This is especially so because the required data was not available in one file, format or location and had to be collated from several different sources.

With resource constraints the researcher conducted this research under strict budget lines. The cost of obtaining some of the data was also inhibitive with each yearly data set being sold separately. For some of the inputs, the data had to be purchased on a month by month basis making the cost even more prohibitive.

Some sectors such as Investment and Telecommunications also lacked some of the required inputs, such as non-disclosures of financial statements and this inevitably led to the collapse of the descriptive analysis as far as these two sectors were concerned.

5.6 Suggestions for Further Research

From the research findings, it would be helpful to replicate the study in another setting particularly taking a longer period than what was taken. For instance a ten year period under a different set of economic circumstances could produce a surprising set of results that could point to a totally new direction as far as corporate governance is and financial reporting timeliness are concerned.

Further studies on financial reporting quality aspects especially timeliness should be replicated with a focus on sectoral differences and differences in country contexts. Other measures of timeliness other than time lapsed since financial year end would also be of significance to be incorporated in further studies.

Further studies should review the investor relation practices amongst companies listed at the Nairobi securities exchange and the capital markets authority. The studies could further explore the role of timeliness and quality of financial reports on investor confidence.

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Appendix One: Companies Listed at the NSE

AGRICULTURAL

1 Eaagads Ltd

2 Kapchorua Tea Co. Ltd

3 Kakuzi

4 Limuru Tea Co. Ltd

5 Rea Vipingo Plantations Ltd

6 Sasini Ltd

7 Williamson Tea Kenya Ltd

AUTOMOBILES AND ACCESSORIES

8 Car and General (K) Ltd

9 Sameer Africa Ltd

10 Marshalls (E.A.) Ltd

BANKING

11 Barclays Bank Ltd

12 CFC Stanbic Holdings Ltd

13 I&M Holdings Ltd

14 Diamond Trust Bank Kenya Ltd

15 Housing Finance Co Ltd

16 Kenya Commercial Bank Ltd

17 National Bank of Kenya Ltd

18 NIC Bank Ltd

19 Standard Chartered Bank Ltd

20 Equity Bank Ltd

21 The Co-operative Bank of Kenya Ltd

COMMERCIAL AND SERVICES

22 Express Ltd

23 Kenya Airways Ltd

24 Nation Media Group

25 Standard Group Ltd

26 TPS Eastern Africa (Serena) Ltd

27 Scangroup Ltd

28 Uchumi Supermarket Ltd

29 Hutchings Biemer Ltd

30 Longhorn Kenya Ltd

31 Atlas Development and Support Services

CONSTRUCTION AND ALLIED

32 Athi River Mining

33 Bamburi Cement Ltd

34 Crown Berger Ltd

35 E.A.Cables Ltd

36 E.A.Portland Cement Ltd

ENERGY AND PETROLEUM

37 KenolKobil Ltd

38 Total Kenya Ltd

39 KenGen Ltd

40 Kenya Power & Lighting Co Ltd

41 Umeme Ltd

INSURANCE

42 Jubilee Holdings Ltd

43 Pan Africa Insurance Holdings Ltd

44 Kenya Re-Insurance Corporation Ltd

45 Liberty Kenya Holdings Ltd

46 British-American Investments Company (Kenya) Ltd

47 CIC Insurance Group Ltd

INVESTMENT

48 Olympia Capital Holdings ltd

49 Centum Investment Co Ltd

50 Trans-Century Ltd

51 Home Afrika Ltd

52 Kurwitu Ventures

INVESTMENT SERVICES

53 Nairobi Securities Exchange Ltd

MANUFACTURING AND ALLIED

54 B.O.C Kenya Ltd

55 British American Tobacco Kenya Ltd

56 Carbacid Investments Ltd

57 East African Breweries Ltd

58 Mumias Sugar Co. Ltd

59 Unga Group Ltd

60 Eveready East Africa Ltd

61 Kenya Orchards Ltd

62 A.Baumann CO Ltd

63 Flame Tree Group Holdings Ltd

TELECOMMUNICATION AND TECHNOLOGY

64 Safaricom Ltd