EFFECTS OF RISK DISCLOSURE ON KENYA'S LISTED COMPANIES' FINANCIAL PERFORMANCE

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university or institution.

Sign: ……………………………………….. Date: ………………………

JOSHUA ATANDI MOTARI

D63/68101/2013

This research project has been submitted for examination with my approval as Student's University Supervisor

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ACKNOWLEDGEMENTS

I would like to pass my deepest gratitude to God who gave me the strength and gift of life to enable me complete this project.

To my supervisor for the support and guidance

My family for their patience and encouragement and financial support throughout my studies.

DEDICATION

I dedicate this project to my parents who have been the pillar on which I lay my studies on. Your sacrifice and selflessness was out of this world. May God bless you abundantly?

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DEFINITION OF TERMS

Risk disclosure - revealing/releasing all fundamental risk information belonging to a company which may affect investment decisions

Financial performance -the extent to which objectives of the firm and in this case financial objectives will be met.

ABBREVIATIONS

SEC	Securities Exchange Commission
NSE	Nairobi Securities Exchange
GAAP	Generally Accepted Accounting Principles
IPSAS	International Public-Sector Accounting Standards
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
ROA	Return on assets
ROE	Return on Equity

ABSTRACT

Corporate risk disclosure has been used by various stakeholders in decision-making. The ultimate object of the information from the accounting report is to assist the users of the information to predict the returns on their investment and make informed decisions regarding the expected financial performance of the firm. The study aimed at determining the effects of risk disclosure on Kenya's listed companies' financial performance. The study was based on the signalling theory and stakeholder theory. The study engaged a descriptive design. This study used the 64 firms listed in the Nairobi Stock Exchange as by the year ended 2016. The research utilized both secondary and primary data sources of data. The secondary data source were the financial statements of listed companies in NSE. The primary source of data was self-administered questionnaires which had both closed and open-ended questions. The study results indicated that operational risk disclosure had a positive coefficient when used as a predictor of financial performance ($= .463; p < 0.05$). Study findings also showed that financial risk disclosure had a significant positive effect on financial performance of the firms listed in the NSE ($= .143; p < 0.05$). Strategic risk disclosure had a positive effect on financial performance of the firms listed in the NSE ($= .323; p < 0.05$). The study makes the following recommendations. First, listed companies should exhibit high standards and propensity to disclose risks that the firms face in their financial statements. Secondly, management should adopt and entrench an organization culture of effective and open communication. They should reduce their power distance and encourage preparers of financial statements not to disclose about the organization's risks just as a matter of compliance but adopt the practice as a way of informing and creating trust. Lastly, the study recommends that all listed companies should aim at not just attaining the minimum of disclosure requirements set by the NSE and CMA but should also aim at providing adequate information content, increase ease of access of the information and have parsimonious presentation and also ensure that their information is more understandable and comparable.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Although disclosure and transparency are amongst the pillars of corporate governance, improper or lack or corporate disclosures have been linked with the numerous corporate scandals worldwide. Corporate disclosure has been used by various stakeholders in decision-making. All decision makers have a framework of what information they need to accomplish some purpose, depending on their mental abilities and experience. The ultimate object of the information from the accounting report is to assist the users of the information to predict the returns on their investment and make informed decisions. The stock returns of an investor’s investment in the securities market are affected by the financial information provided by the administration and further, financiers use the financial data to approximate the financial performance of a firm (Asava, 2013).

According to Verrecchia (2001), most of literature in accounting on risk disclosure contemplate economic-based approaches in creating a link between financial reporting with economic consequences. ‘Good’ businesses will always attract investments from debt-holders, investors, and shareholders. Regardless, the complexity in businesses information sharing has been spurred by information asymmetry since business owners understand their businesses better than corporate shareholders. Thus, this generates to an agency problem: when prospective investors spend in businesses, often they assign their decision-making responsibility to directors and the management; this means that, shareholders are not directly involved in the management of a company.

Zareian (2012) argues that there is some level of complexity in disclosing accounting information. But investors can invest in any unit of the business as long as they have sufficient information. Management policies should achieve succinct levels of information disclosure in capital markets that can effectively communicate to investors and also leverage their knowledge about their firm's financial performance.

1.1.1 Risk Disclosure

In 2005, the Securities Exchange Commission of the United States asked participating firms to reveal all information on risk factors and their timely filing. Further, it insisted on the preciseness of the factors to the companies. There are different factors for consideration in this regard, namely, operation risk, technological risk, economic risks and regulatory risks. The financial statement should indicate the possible consequences from each of the underlined risks. There have been trends in the disclosure of risks; stakeholders have demanded more transparency, and regulations have been more strengthened and refined. Internal controls may be a reflection of disclosures not to mention that risk management is more at the board and operational level. With improved information, disclosure can be simplified (SEC, 2005).

Owusu-Ansah (1998), defines disclosure as an accounting literature aimed at educating the public about a firm's financial status and among other economic information, whether nonfinancial or financial, qualitative or quantitative regarding a firm's fiscal performance and position. It could also be attributed to the art of releasing vital information about a company, and is internationally accepted and a requirement. For instance, the

International Public-Sector Accounting Standards (IPSAS), on accrual accounting requires an admission of financial statements for contractual contingent liabilities. Under cash accounting, disclosure on accruals is recommended. Risk disclosure refers to revealing/releasing all fundamental risk information belonging to a company which may affect its investment decisions. Countries with major stock exchanges are required to adhere to disclosure regulations and requirements. The information disclosed may be either positive or negative. According to the IMF's Fiscal Affairs Department, fiscal risk disclosure leads to higher sovereign bond ratings and improved access to international capital markets.

Asava's (2013) research is directed to the disclosure of risk information about a firm up-and-beyond the statutory requirements. The practice of risk disclosure has attracted lots of consideration from researchers. While disposing potential threats, a company's management holds a sole responsibility to avail accounting and any other data it deems relevant to the needs of users on the annual reports. Moreover, they could categorize risk disclosures as financial, non-financial or strategic. They label the disclosures depending on their intended purpose and the elements within the disclosed information. Since the management know more about the company than the shareholders, customers, suppliers, creditors, and government regulators including capital market authorities, it is hence appropriate for management to inform the outsiders what they know about the company.

Disclosing monetary information is fundamental to investors such that they can assess their options of investments and allocating their scarce resources. Organizations normally

report based on two overriding standards that are the IFRs (International Financial Reporting Standards) and GAAPs (Generally Accepted Accounting Principles). From an investor's standpoint, the underlying standards may not offer all basic information which could lead to some deficiencies. Risk disclosures, generates a decreased asymmetry and increased transparency. Agency expenses are consequence from information asymmetry and usually arise when the company's investors underestimate a firm because of lack of enough information while on the other end, increased transparency indicates the real value, and which persuades the investors willingness to invest. In also worst cases of a firm making losses and facing a closure threat, the stakeholders with such information can come to secure the firm through seeking the right decisions and maybe contributing for the firm to pass its hard financial crisis. This can only happen when the management discloses the financial threats through their financial statements (Guillaume, 2007).

The main aim of providing risk disclosures is so that the public gets more informed about an organization's financial performance and its potential risks and in return, the management receives alternatives in their decision making. In return, the management projects a favorable response from the company's stakeholders. Whether non-financial, strategic, or financial risk disclosures, most companies attains some gains by disclosing exceedingly of what is anticipated when issued with an information which is strategically crafted to important parties that are prospectively expected to project in the company's favor. Sometimes the disclosures are neither periodic whereas others could be periodically generated including the annual reports released together with risk disclosures about a firm. The trading clients should have the information on derivatives contracts,

shares and all instruments traded at the market. The financial instruments have different elements of risk and hence individuals with limited investment options and low risk tolerance find disclosure to be appropriate and helpful (Asava, 2013).

1.1.2 Financial Performance

Muteti (2012) argues that there are several ways a firm may determine if its performing well. One of the ways is use of a Key Performance Indicator (KPI) which shows how efficiently and effectively a firm has achieved key objectives. There are different types of KPI in every division of a company. Profitability is measured by the ROA (return on assets) rate, rate of ROE (return on equity), net income, and the operational profit margin which creates a linkage between a company's expenditures and incomes. Also, financial performances could be measured through solvency, financial efficiency, and liquidity ratios.

According to Yahaya & Lamidi (2015), financial performance is the extent to which objectives of the firm and in this case financial objectives will be met or have been met. A company's financial performance is subject to how effectively a firm uses its assets from its principal role of conducting business and its subsequent generation of revenues. Financial performance can also refer to the general well-being of a firm as far as finance is concerned over a certain period of time. Financial performance can as well be used to gauge or measure firms from the same industry or across different industries for comparison purposes. In summary, financial performance is a crucial objective that firms especially the profit oriented firms desire or aim at to achieve. It focuses on more items

that affect the financial statements or reports of a firm directly. The financial performance analysis can deal with items such as dividend growth, sales turnover, capital employed, asset base among others about the firm. The financial performance is a crucial indicator or measure of some economic units' success for example on achievement of set goals and objectives. Firms stakeholders are mostly interested in the firm's performance as far as finance is concerned (Nyamita, 2014).

1.1.3 Risk disclosure and financial performance

According to Walter (2006), a firm that does regular disclosures has better financial forecasting which minimizes volatility and losses. More findings indicate that companies with voluntary disclosures enjoyed lower capital cost while deducting asymmetry and financing costs. The result is increased participants in the stock market and by extension a firm enjoys success. Further, the bid-ask spread as the transactional costs reduces, both the capital and debt issuing cost will remain low and eventually the rating to other financial investors would be improved. Enhanced management of liquidity needs can be done through reduced instability in cash flows or earnings and prevention of losses. The result is maintaining financially liquidity and mitigating period losses with special attention to the actual financial situation of the company.

1.1.4 Firms Listed on the Nairobi Securities Exchange

The Nairobi Securities Exchange, until recently was referred to as the Nairobi Stock Exchange and has been providing stock market indexes since its formation in 1953. The NSE 20-share index was developed to provide a review of weighted movement in price

of major counters. The index was revised in the year 2007 with an aim to ensure that it was a true barometer of the market since it was felt that the stocks which used to comprise the index had since lost their prominence in the market and that some sectors such as telecommunication market segments were not represented. Further NASI was introduced in the year 2008 as an alternative index which was an overall indicator of the market performance since it includes all the shares quoted in the market provided there was activity in the specific stock for the day. NASI has not gained prominence since its launch and therefore the NSE 20-share index still remains as the main market index. Market liquidity takes the center stage of the Exchange enhanced through the fostering of transformational and utmost ethical codes amongst participants so that more investors are assured of free and fair information for their trade related decision making (Ngugi, 2013).

Therefore, the Kenyan Government's initiated reforms like the NSE are aimed at transforming the transaction system to be vehicles domestic savings mobilization and more so attract foreign financing investments. Consequently, corporate financial reporting and especially enhanced financial disclosures is an important ingredient of enhancing confidence and trust of the market by both local and foreign investors. Since 2008, the capital exchanges have adversely emphasized on good corporate governance, some players have even punished for their contradiction with standard market regulations. With its emphasis on attracting more investors, NSE has to encourage all the participants in the market to provide as much information as is practically possible with the level of risk disclosures including voluntary disclosures amongst the participants in the NSE has increased over the years (Barako, 2007).

1.2 Statement of the Problem

The main aim of risk disclosure is providing a framework to stakeholders on the business' lasting sustainability, to reduce agency conflict amongst investors and managers, and reduce information asymmetry. Managers mas provide disclosure so as to satisfy the needs of various stakeholders (Healy and Palepu, 2001). Financial reporting is largely based on the corporate relationship between the management and the shareholders. The managers who manage the organizations on behalf of the shareholders have to report to the shareholders. The stakeholders all make decisions which either effect the organization or they themselves are affected by the organizations, since the value of their decision is pegged on the position of the organization presently and its decisions thereafter (Karamanou and Vafeas, 2005).

Investors get information regarding the organizations trading in NSE through their annual reports and other announcements. It is the dire need of information so that stock prices in the NSE reflect the most current information, that the NSE, like any other exchange market encourages the firms to disclose as much information as is possible. This is advantageous since literatures reveal that organizations with good corporate governance, more so in corporate reporting are able to raise capital from the markets relatively cheap leading to a good financial performance. Furthermore, the greater the risk disclosures, the greater the extent to which the stock prices reflect the whole truth hence obeying the market fundamentals. This helps the investors to rightfully choose the securities to invest in (Asava, 2013).

Mwirichia (2008) research on corporate governance identifies Kenyan firms listed at the Nairobi stock exchange. Mwirichia's findings revealed that financial sectors are more intensive in terms of corporate disclosures compared to non-financial sector. Barako (2007) study on determinants for voluntary disclosures among Kenyan Companies observes that companies could not associate their disclosures with financial performances.

Sing and Desay (1971) and Dedman and Stephen (2006) carried out a research in USA titled "an experimental quality analysis of monetary disclosure by firms" identified that quality disclosure is superior in big firms in comparison to the smaller ones. The research noted that, high reported earnings of D and R expenditures companies would prospectively convey information which is less valuable or irrelevant to investors compared to those in a lesser research concentrated firm. In his post event data correlational analysis research, aimed at establishing the major relationship between stock return and information disclosure quality. Zareian (2012) explains that there were correlations over some years. Hail (2001) review on the risk effects from corporate disclosure, reveals the quality from disclosure to be integrally subjective similar with the equity capital cost and also difficult evaluations. Lwangu (2009) studied on the linkages between company size, corporate governance, and company disclosure compliance announcements as listed at the NSE. Lwangu notes of a positive correlation between a company's compliance and size, and a negative projection on company's announcements. Wesonga (2008) researched on the application of financial disclosures in investors'

decision making in Kenya, and revealed that, most institutional investors have adopted financial disclosures to be a vital information source for investment conclusions.

Many theorists have underpinned the importance of financial information in educating the users on the importance of financial information in their decision making. Since the users of the financial information are many and have diverse needs, theorists suggest that organizations can either offer a common financial information or a tailor-made annual report for the financial users' needs to be met. They all agree that the level of disclosure is not possible to be met notwithstanding the diverse needs of the financial information users. Furthermore, the cost of disclosure is most of the times uncompensated for. It is the general costs of information disclosures that call for organizations to decide the extent to which to disclose. Executives' key question is for what value are the voluntary disclosures. The research gap was whether risk information disclosures by the companies listed in Nairobi Securities Exchange had effects on the financial performance of the particular organizations.

1.3 The Study's Objectives

The study was mainly aimed at determining the effects of risk disclosure on Kenya's listed companies' financial performance.

1.4 Significance of the Study

The study's findings will be supportive to the following groups;-

It will assist stock market players and potential investors in understanding the implications from risk disclosures in terms of companies' fiscal performances more so the ones listed under the NSE.

The statutory regulators in the Kenyan financial markets will use this information to indicate the extent to which company provide adequate information and comply with the set regulations. It will also indicate gaps in the existing regulations on disclosure requirements.

Specifically, the research can help stock traders, in determining on how best to make decisions i.e. to buy, sell or to hold on various company securities listed on the NSE.

The body of literature and future researchers will be enriched with findings on the effects of risk disclosures and firms' financial performance and related fields since there is insufficient literature on it.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents previous studies which had focused on disclosure risks in published financial statements. It presents theoretical review which discusses the related theories on the variables under study. It also presents empirical review which is the relevant literature discussing the objectives. Conceptual framework is also presented which shows the relationship of the variables under study.

2.2 Theoretical Review

2.2.1 Signaling Theory

The Signaling theory submits that companies which are of high quality should draw upon their competitive edge at the marketplace. Additionally, the theory encourages other stakeholders including investors to constantly revaluate companies' value, before deriving on a more favorable decision making to the firm company. The favors from several stakeholders strategically places to obtain more financing and hence reduces the expenses incurred in raising capital. There are several ways by which companies could signal more information on themselves (Gray & Chau, 2002).

Based on Marston and Watson (2002), the signaling theory is largely concerned on addressing problems emanating from the information symmetry within any social setting. Additionally, the duo suggests that for parties who hold more information to effectively and efficiently transact data the asymmetry in information should be reduced. Signals

could mean anything including observable actions or structure, used to point out hidden traits of qualities by the signaler. Sending of signals often is built on the fallacy of its favorability to signaler. The model of classic signaling happen sat a market set up between buyers and sellers. Primarily, a seller holds an informational advantage to the buyers on their productions. Though most buyers do not hold a substantial data on specific goods, occasionally they could have basic knowledge to purchasing (e.g. the production's percentage (p %) could be faulty, and the faulty productions should be sold at an x price while normal products should be sold at a price.

Hence, buyers will have to value the production with equal pricing as per the average weighted general perceptions. As a consequence, a seller possessing the productions with the above underlined average quality may either incur a loss or an opportunity, since their products should retail at a more high price in the event that buyers have a knowledge on the quality superiority of the products. An under average quality could generate another opportunity or gain. Thus, the sellers of quality goods and services hold the signaling incentive for their product's quality to buyer so as to explain on the high pricing. To attain efficiency, signals should be established in a manner difficult for imitation by low quality sellers. Nevertheless, signaling could exist as an iterative practice which continues provided the higher pricing obtained remain exceeding the costs of signaling. In the event that the classic model is engaged in general business set ups, then it could be interpreted as.

Cheng and Courtenay (2006) uphold that the management of a company normally has critical information compare to investors regarding the company's operation (e.g. the expected profits, viability of a project, or risk exposure). Because of asymmetric information, most investors don't understand firm's quality, and hence they may not be able to make a distinguish on quality in various firms. Therefore, a firm that has above average quality could incur a loss or an owing to the fallacy superior quality are not oftenly perceived by investors as a loss, while a firm, that produces lower quality production could regain an opportunity gain. In the underlined circumstances, higher quality firms have incentives advantage to highpoint their quality superiority for investors' attraction.

2.2.2 Stakeholder Theory

Fort, (2007) explains a stakeholder as any individual or group that can either be affected or could affect the normally operations of a firm. As such stakeholders would include customers, suppliers, customers, employees, stockholders, political action groups, the media, the government and communities. A more specific view point on stakeholders would entail suppliers, employees, financial institutions, customers, and the local communities with the geographic of a corporate entity's business operation. Corporate conscience claims considerably are imperatively greater than the actual financial return's maximization to stockholders.

Based on the Friedman (2000) understanding, stakeholders could represent a larger constituent on corporate responsibility. Corporations have social responsibilities to

provide profits to their owner's stands directly contrary to the aggressors who perceive organizational responsibilities to exceed to the interests of non-stockholder. Firstly in 1963, the concept of stakeholders would be deduced as "those groups without whose support the organization would cease to exist." As a management theory or practices, the theory of stakeholder could take different forms. Descriptively, some of researches portends that managers would adopt an extensive interest of stakeholders so as to increase their company's potential. The assumption provides a number of findings as to how firms, managers, and stakeholders would interact. Normatively, some studies in management and theories will seek to explain as to how organizations should to engage with their various stakeholders.

Preston and Donaldson (2005) complements that the approach of stakeholder could help assist managers through promoting an assessment on how fit a company is to operate in a larger environment, its standard procedures of operations effects on stakeholders inside the firm (managers, employees, stockholders) direct and indirect the company (suppliers, customers, financiers). Further, the duo provides that every firm should engage a "generic stakeholder map" of specific stakeholders. Other general such as financial community, owners, activist groups, government, suppliers, customers, political groups, employees, unions, competitors, and trade associations, are perceived as more definite stakeholders. In turn, a rational manager put into consideration the effects of the effects of their actions to each stakeholder before making a major organizational decision. As the organization environment shifts over time, consequently other issues in decision change, with varying specific stakeholder map.

Lerner (2007) relates that corporate pursuit for profit may inevitably generate to social gains. During first century in the United States, it was commonly presumed that corporate forms would only be engaged for public purposes. As a matter of right, the legislature failed to give out Charters, unless on circumstances of necessity and public convenience. About a proportionate of the states in US have passed the "corporate constituency statutes" law which makes it acceptable thou not mandatory for managers to consider non-stockholder constituencies in decision making. The legal impacts from such laws could be insulating to directors and officers with the liability of failing to maximize stakeholder's profits. Furthermore, statutes such as underlined are fairly open-ended, they don't stipulate on the specific weight managers are required to ascribe to while engaging several corporate stakeholders. In this regard, corporate stakeholder' statutes are more alike to the stakeholder's theory: past basic insights, corporations need to contemplate onwards non-shareholder's interests, competing priorities and claims in distinct constituencies are rarely prioritized or defined.

Fort (2007) generalizes various studies and proposals in reinventing corporations which requires statutory charters for companies, or an additional of the social responsibility amendment. The U.S.A Constitution provides that corporations should prove their activities to serve for a common good. Lawfully, proposals as such would deliver a little momentum so long as the corporate undertakings are viewed to work for a social goods (useful and new products, and jobs) with lack of extreme social harms (harmful products, socially suspect messages, and pollution). The ethics in public perceptions or business generally and in particular corporations have undergone via numerous cycles in the U.S.

history, more so, more restrictions to the American corporations would unlikely occur provided that most of Americans contributes in the economic gains.

2.3 Financial performance determinants

Based on Husni (2011), the elements in the banking's financial performances are generally consistent of the aggressors within the commercial bank's control. The factors also affect bank's expenditures and revenues. Particular review segments them in two categories of non-financial statement variables and financial statements variables. External factors linked to influences which are beyond the management's control in commercial banks.

As per Ameyaw and Karkrah (2010), commercial bank's external determinants on profitability are mostly indirect and uncontrollable, thou they have enormous implication on the profitability of bank's whereas macroeconomic variables could also act as major external components on external profits determinants. Commonly, external elements have in most studies been presented to entail market share\competitions\ a firm's size, GDP growth, inflation, and rates of interest.

2.4 Empirical Review

2.4.1 A firm's performance and the Risk disclosure

Mohobbot (2005) demonstrates the signaling theory with an illustration of companies that are placed better in managing risk and thus have high levels in relative profitability, hence with the use of the signaling concept they may realize their market superiority

abilities in risk through risk management at the market place through the disclosure of annual reports. The disclosure of risky information about the management shows the management's efficiency to exercise attitude of transparent with the stakeholders by exploiting the underlined opportunity, though it can be challenging to understand the main attitude from the management in a profit situation or position whatever the actual intentions for disclosure of the risk information the more the profitable a firm is the more they would expand their risk disclosures by providing information of high quality to the public so as to create a positive impression regarding their output (Wang et al., 2008).

Wagner and Helbok (2006) research reveals that most of profitable companies could present a incentive to approve a good policy of disclosure for the risks profitable the firms so as to engage a signal to the stakeholders who have increased confidence in businesses. Additionally, some profitable companies could portray enough and available resources in systems investments, assessments and the management of such risks that supports its orientation onwards high quality in risk disclosure policies. Based on the theories of political costs, it is anticipated for majority of profitable firms with interests of improving quality of risks disclosures aimed at reducing any form of political expenditures. Contrary, particular authors partake the organization of companies with low performances they could face the pressure to provide their comprehensive and extensive risks disclosures. The fallacy is based on the need for performance risks and engines performance disclosures.

Oorschot (2009) review revealed that there is positive relationship in risk disclosure quality and profitability levels. Present researches predict of a significant relationship in levels of levels of a firm's performances or profitability and risk disclosure thou both the negative and positive nature of the relationships have neither been determined. The more profitable the firm the more interested they get on improving risk disclosures comparative to other less profitable firms. Firms with lower profitability may cede to the pressure of disclosing their risk information so as to disclose the data about the engines in such risks, whereas justifying their profitability or lower performance.

According to Francis et al. (2007) there is massive positivity in the correlations between businesses performances and risk disclosure. Even so, empirical results vary concerning a general relationship between the two variables. Gleaner and Berger (2006) on their research did not capitalize on the extensive relationship between disclosure quality risks and businesses profitability. Expanded disclosures could project the enhancement of management in understanding the process of value creation a company's level.

2.4.2 Firm Size and Risk disclosure

A corporation's size is would determine what accounting literatures provided most support in relationship on behaviors of disclosure in accounting. Bigger companies could incur much information production costs and distribution and pay extra attention to boosting the quality of what is being disclosed compared to the smaller organizations due to their monetary resources which enables them to extend the disclosure (Francis et al., 2007).

Bigger firms would easily afford their expenditures generated from competitive harms which could result through the disclosure expansion contrary to smaller firms. The event may project to the smaller firms' reluctance to engage in quality improvement or expansion of disclosure as opposed to larger firms working within the same industry so as to evade any resultant from competitive harms. Because bigger companies do attract attentions from many distinctive classes among stake holders, it might persuade them to be susceptible on higher political focusing, for instance the authorities overseeing them in social responsibility and price controls. Bigger firms could also be susceptible in the event of increased problems related to asymmetry in information and agency expenditures. This could validate it's onwards strife aimed at providing quality risk information in problems alleviations. Thou most researches examined the linkages between risk disclosures and business sizes; the findings outcomes were mixed. There is a significant positive relationship between market correlations, capitalization, and risk disclosures, as a variable for businesses sizes (Oorschot, 2009).

Nonetheless, a research by Abraham, et.al, (2007) identified a weaker positive linkage amid the variables whereas Hanetseder (2011) and Chandiramani (2009) found out there were no significant implications from the size of an organization onwards the risk disclosure. Similarly, Francis, et al. (2007) deduced of a negative correlation between a firm's size, financial statements, and risk disclosure.

2.5 Conceptual framework

The conceptual framework that guided the study is provided in Figure 2.1 which indicates that operational risk disclosure, financial risk disclosure and strategic risk disclosure can have an effect on financial performance of a firm.

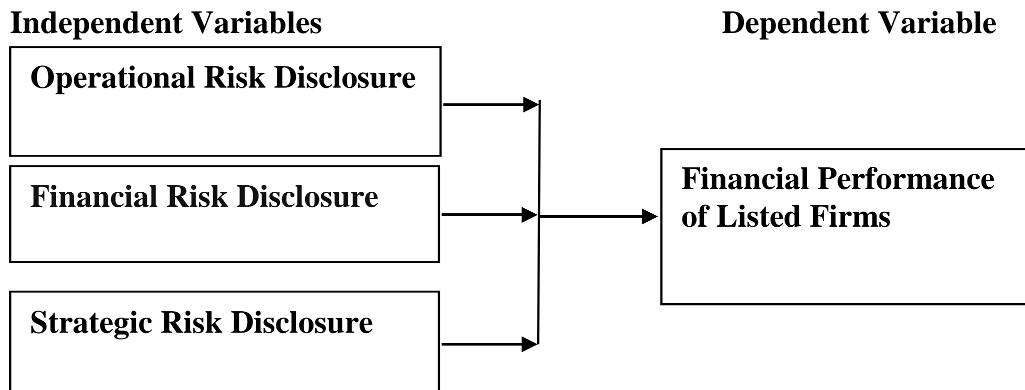

Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review

Firms with high quality are at a competitive edge within the market share whereas the signaling encourages amongst other stakeholders the investors in the reassessing and valuing of a company, and before making more favorable decisions regarding a business. Thus, the goodwill from several stakeholders could boost the company's investment sourcing hence cutting on the cost of generating capital. Companies can adopt various approaches in information signaling regarding themselves (An et al., 2011).

The concept of stakeholders could support managers through analysis promotions on how companies fits within their larger environment, how operational standards and procedures impacts on the stakeholders beyond and within an organization. Several financial performances determinants factors could be categorised into two clusters of non-financial

financial statements variables. External elements are considered to be factors which are beyond the management's control in commercial banks.

External commercial banks profitability determinants are indirect, uncontrollable, but with huge impact to bank's profitability. The variables in macroeconomic have been main drivers of external profit determinants across common studies. Major external elements as presented in common studies encompass market share/competition/firm size, GDP growth, inflation, and interest rate.

Wang et al. (2008) indicated that the more profitable a firm the more they may expand their disclosures and as well provide information of high quality with a view of creating positive impressions from the public on the company's performance. The signaling theory explains that, more profitable companies have a motivation advantage to distinguish themselves from the lesser profitable, and hence they're likely to be engaged in better policies in risk disclosures earlier compared to the lesser profitable companies. Signaling could also encourage the confidences of stakeholders to businesses. Profitable organizations could manage and hedge the risks because of available resources (Neri, 2010).

Bigger firms could possess abilities of affording the costs incurred during competitive shortfalls that may project from expansion disclosures comparative to smaller companies of which could limit smaller firm's expansions in disclosure and the improvement of quality in risk disclosures as opposed to larger companies operating within the industry

so as to evade the resultant from competitive harms. In the other end, considering that major firms could attract the diverse attentions from the distinct classes amongst stake holders like the authorities in a political focus tasked with social responsibility and price controls compared to smaller organizations. Larger companies could also be susceptible in the increased challenges relating with the information asymmetry and the cost of agency as opposed to smaller ones. Thus, this can validate its advancements at giving more quality of risk information in a bid try and eliminate problems. Thou most studies have investigated on the relationships between businesses size and the risks of disclosure; dominantly their findings were varied (Oorschot, 2009).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The segment engages on the description of methods to be used in carrying out the research. Thus, it encompasses the research population, design, sampling techniques, instruments, the procedures of data collection and data analysis method.

3.2 Research Design

Orodho (2003) explains a research design to be an outline scheme or plan which is used in the generation of responses to research problems while (Robson, 2002) indicates that research design is the overall scheme or program of the research. The study engaged a descriptive design. Kothari, (2004) defines the descriptive form of research to include surveys and fact-finding examinations arguing that the principle focus of descriptive research is to offer description of issues in their presence existence. Descriptive researches would establish and report things the way they are and also it attempts to make observations on things such as possible attitudes, behavior, characteristics and values. Additionally, causal study approaches were also engaged in this research. Descriptive design of research provides for a causal linkage among variables through making observations on the existing phenomenon and before conducting a background check to validate a plausible causal relationship.

3.3 Target Population

Mugenda and Mugenda (2003) describe a target population to be the total number of items to be engaged during the study and as well all objects and individuals who can scientifically generalize a variable. Further, Mugenda and Mugenda observes that targeted populations should at least possess some identifiable characteristics, of which researchers would gauge their results generalization to. This study used the 64 firms listed in the Nairobi Stock Exchange as by the year ended 2016. The target group included the firms listed on the NSE. This will be the target population for the study.

3.4 Data Collection

The research utilized both secondary and primary data sources of data. The secondary data source were the financial statements of listed companies in NSE. The secondary data collection had the advantage of time saving, being easily accessible and saving on resources (Ghauri, 2005). The period of study was 2010-16. The primary source of data was self-administered questionnaires which had both close and open-ended questions.

3.5 Sampling Methods

Donald and Theresa (2009) defines a sampling frame as the set of all the available sample units from which a researcher can choose and should contain only the elements of the population which are eligible for selection. It should be unbiased to yield the knowledge about the population of concern which will then generalize the results.

The sample size of the study was all the 64 listed firms in the NSE. Mixed techniques of sampling were employed; both simple and random stratified sampling. The approach of the random stratified sampling was appropriate because; the sampled population was heterogenous and hence was segmented into several segments as per the traits varied as per important measured indicators. This approach supported they study's flexibility, and precision in making sample designs amongst the varied and more so, it boosted the researcher's ability to ascertain the final estimates for every stratum additional to the ultimate population sample size (Kothari, 2004).

3.6 The Data Processing Analysis

The study used the following conceptual model and analytical model for purposes of analysis.

3.6.1 The Conceptual Model

This research was based on the following conceptual model

$Y = 0 + 1X1 + 2X2 + 3X3 + e$

Where:

i. Y = the value of the dependent variable

ii. { i; i=1, 2, 3} = the coefficients representing the various independent variables.

iii. {Xi; i=1, 2 3} = Values of the various independent (covariates) variables.

iv. e is the error term which was assumed to be normally distributed with mean zero and constant variance.

Y = Performance

X1 = Operational Risks Disclosure

$X2$ = Financial Risks Disclosure

$X3$ = Strategic Risks Disclosure

e denoted the error term

3.6.2 The Analytical Model

Based on the conceptual model above, the model was tested using the following computation:

$Y = \ 0+ \ 1X1+ \ 2X2+ \ 3X3+ e$

Rewriting it to include a dummy variable

$Y = \ 0+ \ 1X1+ \ 2X2+ \ 3X3 + e$

The data was analyzed using descriptive analysis and multiple regression analysis using SPSS+ version 23.

The respondent's questionnaires with their responses was classified, edited, coded and tabulated for the quantitative analysis. Charts and Tables were adopted in the presentation so as to generate easier interpretation or understanding. SPSS version 23 was used in the analysis of data such that, there were inferential application of statistics encompassing the multiple regression assessment. The relationship amongst the risk disclosure of financial statements and firm size & leverage for the listed companies in Kenya, a logical regression model was used.

3.7 Reliability and Validity

To establish the reliability and validity of the study's data collection instruments a pilot testing was conducted. Through validity the researcher was able to identify the degree at which data collection instrument varied with the constructs being investigated (Mugenda

and Mugenda, 2003). Three forms of validity testing exist including the criterion, content, and other linked validity constructs. More so, the research adopted the content validity in measuring the extent at which the content contextualized the study's sample and objectives. Through a pilot study, the researcher was able to detect gaps such as questions which required editing and also those which were ambiguous. Finally, the ultimate questionnaire was produced in hard copy for administering to the research respondents before being used for analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study that involved collection of secondary and primary data from a target population of the 64 firms listed in the NSE. The study sought to assess determining the effects of risk disclosure on Kenya's listed companies' financial performance. This chapter presents the results from the analysis and discussed the findings in relation to the theories and empirical studies.

4.2 Response Rate

The study targeted finance directors of the 64 firms listed in the NSE to respond to the questionnaire. The managers who responded and returned the questionnaires were 57 which translated to 89% response rate. This response rate was adequate according to Babbie (2011) who indicated that a response rate of 50% and above for paper based questionnaire survey is considered adequate.

4.3 Firm's Financial Performance

The study sought to understand the effect of risk disclosure on Kenya's listed companies' financial performance. In the questionnaire there were statements that were used to assess financial performance of the firms. The responding finance managers were expected to indicate their level of agreement in relation to the statements provided about financial performance. Mean scores and percentages were used to analyze the responses. Results of the analysis is presented in Table 4.1.

Table 4.1: Financial Performance of Listed Firms

Statement	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
The company's profitability has increased over the last three years	0.6%	6.2%	4.5%	38.4%	50.3%	4.32
There is increased number of investors over the last three years	0.0%	5.1%	2.3%	38.4%	54.2%	4.42
The company has a large market share	0.0%	0.6%	2.8%	52.5%	44.1%	4.4
The company has increased number of employees over the last three years	5.1%	6.2%	7.9%	41.8%	39.0%	4.03
The company has experienced a significant increase in capital base	6.2%	7.3%	7.9%	49.2%	29.4%	3.88
Grand mean						**4.21**

The results presented in Table 4.1 indicate that 54.2 percent of the respondents strongly agreed that their firms had experienced an increased number of investors over the last three years (mean = 4.42) while 52.5 percent agreed that their companies had a large market share (mean = 4.42). Moreover, study results revealed that 50.3 percent of the respondents also strongly agreed that the company's profitability had increased over the last three years (mean = 4.32). Similarly, 41.8 percent of the respondents agreed that their company had increased number of employees over the last three years (mean = 4.03). Additionally, 49.2% of the respondents agreed that their company had experienced a significant increase in capital base (mean = 3.88). The grand mean for financial performance was 4.21 indicating that most of the firms listed in the NSE experienced good financial performance over the preceding three years.

4.4 Operational Risk Disclosure

The first objective of the study was to establish how the listed firms in the NSE conducted operational risks disclosure in the financial statements. Statements were provided to the respondents regarding operational risks disclosures in the financial statements and respondents were required to indicate their level of agreement or disagreement to the statements. The responses were analyzed through percentages and means. The results from the analysis are presented in Table 4.2.

Table 4.2: Operational Risk Disclosure

Statement	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
The company reveals human resource risks such as incompetent staff, employment practices and workplace safety	1.7%	4.5%	5.6%	45.8%	42.4%	4.23
The company reveals policies and procedures to manage its operational risks	3.4%	10.7%	3.4%	53.1%	29.4%	3.94
The company reveals risk management issues associated with the organization	3.4%	3.4%	6.8%	31.6%	54.8%	4.31
The company reveals cyber Security risk such as business disruption and system failures and external fraud risk events.	0.0%	3.4%	2.8%	41.2%	52.5%	4.43
The company reveals the operational risks such as lack of internal control systems	2.8%	3.4%	7.3%	34.5%	52.0%	4.29
Grand mean						**4.24**

The findings presented in Table 4.2 indicate that 52.5 percent of the respondents strongly agreed that their companies revealed cyber security risk such as business disruption and system failures (mean = 4.43). The results further indicated that 54.8 percent of the respondents strongly agreed that their companies revealed risk management issues associated with the organization external fraud risk events (mean = 4.31). Additionally, study results showed that 52 percent of the respondents strongly agreed that their companies revealed the operational risks such as lack of internal control systems (mean = 4.29). Further results indicated that 45.8 percent of the respondents agreed that their firms revealed human resource risks such as incompetent staff, employment practices and workplace safety (mean = 4.23) while 53.1 percent agreed that the companies revealed policies and procedures to manage their operational risks (mean = 3.94). The grand mean for operational risk exposure was 4.24 indicating that the firms had high levels of operational risk exposure in their financial reports.

4.5 Financial Risk Disclosure

The study had an objective of establishing how the listed firms in the NSE conducted financial risks disclosure in the financial statements. Statements were provided to the respondents regarding financial risks disclosures in the financial statements and respondents were required to indicate their level of agreement or disagreement to the statements. The responses were analyzed through percentages and means. The results from the analysis are presented in Table 4.3.

Table 4.3: Financial Risk Disclosure

Statement	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
The company reveals the financial management risks such as budget control safeguards	4.0%	7.9%	16.9%	26.6%	44.6%	4.16
The company reveals statement of Directors responsibilities towards preparation and presentation of financial statements	2.3%	8.5%	11.9%	23.2%	54.2%	4.33
The company reveals the treatment given to foreign exchange gains and losses	3.4%	11.3%	15.8%	20.9%	48.6%	4.2
The company reveals the credit risk such as collateral issues and Improved disaggregation of maximum credit exposure	3.4%	11.3%	4.0%	16.4%	65.0%	4.48
The company reveals market risks such as interest rate; foreign currency; and commodity price	2.8%	3.4%	0.0%	46.3%	47.5%	4.42
Grand mean						**4.32**

The results presented in Table 4.3 indicate that 65 percent of the respondents strongly agreed that the companies revealed the credit risk such as collateral issues and improved disaggregation of maximum credit exposure (mean = 4.48). Results also indicated that 47.5 percent of the respondents strongly agreed that the company revealed market risks such as interest rate, foreign currency and commodity price (mean = 4.42) while 54.2 percent strongly agreed that the company revealed statement of directors' responsibilities towards preparation and presentation of financial statements (mean = 4.33). Study

findings also showed that 48.6 percent of the respondents strongly agreed that the company reveals the treatment given to foreign exchange gains and losses (mean = 4.2) while 44.6 percent of the respondents also strongly agreed that the company reveals the financial management risks such as budget control safeguards (Mean = 4.16). The grand mean for financial risk exposure was 4.32 indicating that the companies listed in the NSE had high levels of financial risk exposure in the financial statements.

4.6 Strategic Risk Disclosure

The third objective of the study was to establish the strategic risk exposure practices adopted by the listed firms in the NSE and establish the effect of these disclosures on their financial performance. Statements were provided to the respondents regarding strategic risks disclosures in the financial statements and respondents were required to indicate their level of agreement or disagreement to the statements. The responses were analyzed through percentages and means. The results from the analysis are presented in Table 4.3.

The results indicate that 49.2 percent of the respondents strongly agreed that the company discloses the number of board members in the financial reports (mean = 4.34) and 47.5 percent strongly agreed that the company reveals policies and procedures to manage its operational risks (mean = 4.30). Findings also indicated that 52 percent of the respondents strongly agreed that the company reveals the number of board meetings held during the year (mean score = 4.30) while 50.3 percent also strongly agreed that the company discloses the board members and their profiles and positions in the board (mean

score = 4.29). Study results further indicated that 45.8 percent of the respondents strongly agreed that the company reveals the number of various board and /or management committees (mean = 4.25). The grand mean for strategic risk disclosure was 4,30 which indicated that the listed firms in the NSE adopted high levels of strategic risk disclosure in their financial statements.

Table 4.4: Strategic Risk Disclosure

Statement	**Strongly disagree**	**Disagree**	**Not Sure**	**Agree**	**Strongly Agree**	**Mean**
The company discloses the number of board members	1.1%	5.1%	1.1%	43.5%	49.2%	4.34
The company reveals policies and procedures to manage its operational risks	1.1%	5.6%	2.8%	42.9%	47.5%	4.30
The company reveals the number of various board and /or management committees	1.1%	6.8%	3.4%	42.9%	45.8%	4.25
The company reveals the number of board meetings held during the year	0.0%	9.6%	2.8%	35.6%	52.0%	4.30
The company discloses the board members and their profiles and positions in the Board.	1.1%	7.3%	2.8%	38.4%	50.3%	4.29
Grand mean						**4.30**

4.7 Regression Analysis

The study performed regression analysis to establish the statistical significance of operational risk disclosure, financial risk disclosure and strategic risk disclosure on financial performance of Kenya’s listed firms. Before the regression analysis was conducted, pretest assessments relating to multicollinearity was performed. Moreover,

after the model was run, posttest assessments were conducted which included testing of normality of residuals, heteroscedasticity and omitted variables. Test for multicollinearity (Table 4.5) indicated that all the independent variables were not highly correlated with each other as indicated by the Variance Inflation Factors (VIF) of below five. The mean VIF was 1.088 indicating that there was no multicollinearity among the three independent variables.

Table 4.5: Test for Multicollinearity

	Collinearity Statistics	
Variables	Tolerance	VIF
Operational Risk disclosure	.901	1.110
Financial Risk disclosure	.894	1.119
Strategic Risk disclosure	.952	1.051
Mean VIF		1.088

The other tests that were conducted were testing of normality of residuals and outliers. The results in Figure 4.2 indicate that the residuals were almost normally distributed after regression of the three independent variables on financial performance. The residuals were hence considered to be normally distributed. Moreover, the histogram does not indicate any outliers that were materially different and far away from the rest. This also indicated that there was no problem of outliers.

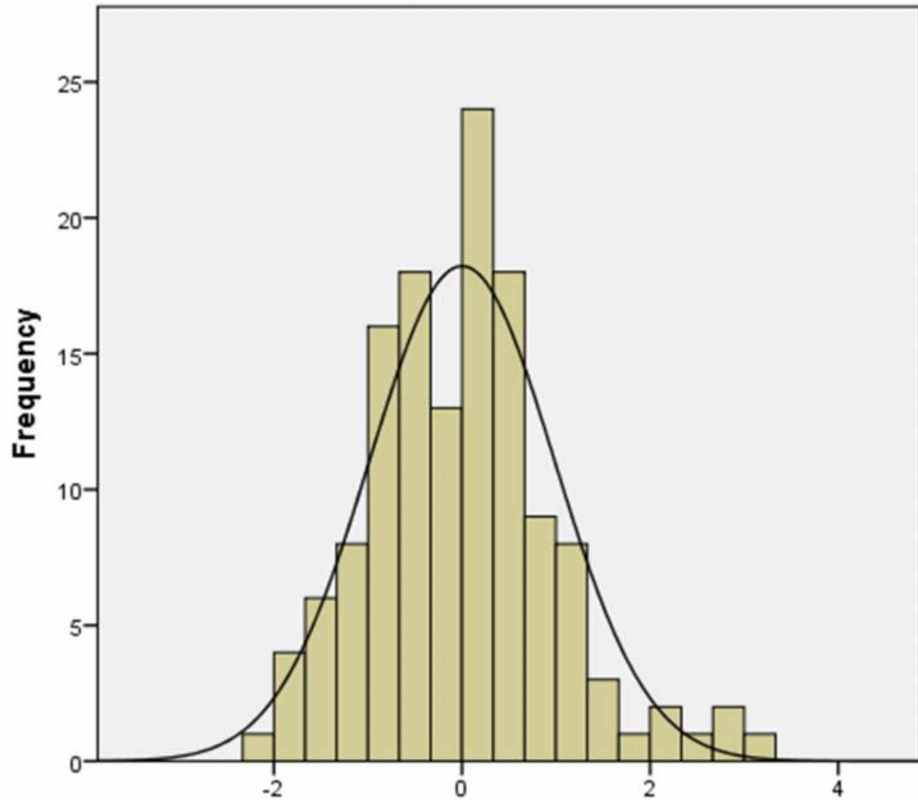

Figure 4.1: Histogram of Residuals

Another post test conducted was whether the errors were independent. This was tested using the plots of the standardized residuals against the standardized predicted values. Figure 4.2 presents the plots. The plot in Figure 4.2 shows no relationship between the predicted values with the standardized residuals. This was hence interpreted to mean that the residuals were independent.

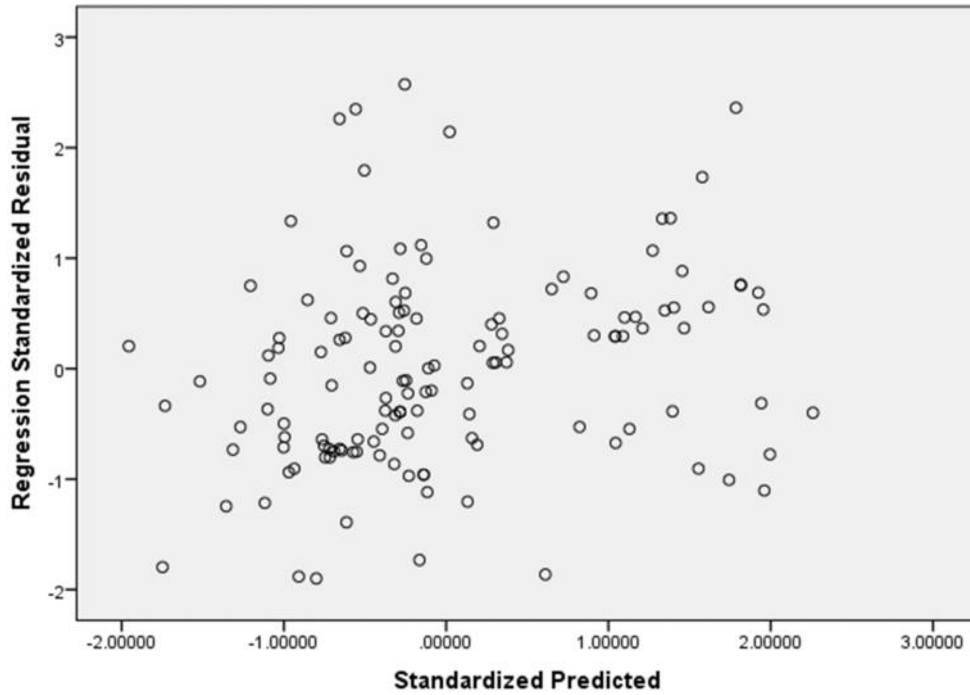

Figure 4.2: Standardized Residuals Against Standardized Predicted

Similarly, the test for heteroscedasticity was conducted. This was tested using the white test. Results are presented in Table 4.6. The test results indicated that the chi square statistic was not significant (^{2} = 10.09; $p > 0.05$). This was interpreted to mean that there was homoscedasticity.

Table 4.6: Test for Heteroscedasticity

```
White's test for Ho: homoskedasticity
         against Ha: unrestricted heteroskedasticity

         chi2(14)      =     10.09
         Prob > chi2   =    0.7559

Cameron & Trivedi's decomposition of IM-test
```

Source	chi2	df	p
Heteroskedasticity	10.09	14	0.7559
Skewness	16.06	4	0.0029
Kurtosis	2.83	1	0.0925
Total	28.97	19	0.0664

After the posttests results indicated that the model was well specified, the regression results are presented. Results are presented in Tables 4.7, 4.8 and 4.9. The adjusted r-squared for the regression model was 0.655 as indicated in Table 4.7. The model therefore is explaining 65.5 percent of the change in financial performance of the listed companies using the three independent variables. These findings indicate that the three independent variables selected can explain 65.5 percent of the variation in financial performance and also indicates that 34.5 percent of financial performance is explained by other factors that were not included in the model.

Table 4.7: Coefficient of Determination

R	R Square	Adjusted R Square	Std. Error of the Estimate
.809	.655	.603	0.34924

The analysis of variance indicating the significance of the overall model (model fit) was performed. Results in Table 4.8 indicate that the model was statistically significant (F =

33.5397; $p < 0.05$). This indicates that the model could provide predictive power where the three risk disclosure variables could be used to explain financial performance.

Table 4.8: Analysis of Variance

Source of Variance	Sum of Squares	df	Mean Square	F	Sig.
Regression	72.023	3	24.008	33.5397	.000
Residual	37.936	53	.7158		
Total	109.959	56			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Operational risk disclosure, Financial risk disclosure, Strategic risk disclosure

Lastly, the study tested the significance of the independent variables (operational, financial and strategic risk disclosure) in explaining financial performance. The test of the statistical significance of the independent variables in the model was done using t-tests. Results are presented in Table 4.9.

Table 4.9: Test of Significance of Independent Variables

	Unstandardized Coefficients		Standardized Coefficients		
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	0.243	0.233		1.043	0.298
Operational risk disclosure	0.463	0.046	0.482	10.085	0.000
Financial risk disclosure	0.143	0.043	0.267	3.365	0.001
Strategic risk disclosure	0.323	0.038	0.396	8.467	0.000

The results in Table 4.9 indicates that the regression model was of the form;

$Y = 0.463X_1 + 0.143X_2 + 0.323X_3$

Y = Performance

X_1 = Operational Risks Disclosure

X_2 = Financial Risks Disclosure

X_3 = Strategic Risks Disclosure

The study results indicate that operational risk disclosure had a positive coefficient when used as a predictor of financial performance (= .463; $p < 0.05$). This indicates that operational risk disclosure is a significant factor in determining financial performance of the listed firms in NSE. A unit increase in operational risk disclosure would result to 0.463 increase in financial performance of the listed firms.

Results on financial risk disclosure indicated that it had a significant positive effect on financial performance of the firms listed in the NSE (= .143; $p < 0.05$). These results show that increasing financial risk exposure by one unit could results in 0.143 increase in financial performance.

Lastly, the study established that strategic risk disclosure had a positive effect on financial performance of the firms listed in the NSE (= .323; $p < 0.05$). This implies that increasing strategic risk exposure by one unit could lead to an increase in financial performance of the listed firms by 0.323.

CHAPTER FIVE SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study had the purpose of assessing the effect of risk disclosures on the financial performance of listed firms in Kenya. The study had the specific objectives of establishing the influence of operational risk disclosure, financial risk disclosure and strategic risk disclosure on financial performance of the listed firms in Kenya. This chapter presents the summary of findings, conclusions, and recommendations made in the study. The study further makes suggestions for further research in the area.

5.2 Summary of Findings

The study results indicated that operational risk disclosure had a positive coefficient when used as a predictor of financial performance (= .463; $p < 0.05$). This indicates that operational risk disclosure is a significant factor in determining financial performance of the listed firms in NSE. The results further indicated that 52.5 percent of the respondents strongly agreed that their companies revealed cyber security risk such as business disruption and system failures. The results further indicated that 54.8 percent of the respondents strongly agreed that their companies revealed risk management issues associated with the organization external fraud risk events. Additionally, study results showed that 52 percent of the respondents strongly agreed that their companies revealed the operational risks such as lack of internal control systems. Further results indicated that 45.8 percent of the respondents agreed that their firms revealed human resource risks such as incompetent staff, employment practices and workplace safety while 53.1 percent

agreed that the companies revealed policies and procedures to manage their operational risks. The grand mean for operational risk exposure was 4.24 indicating that the firms had high levels of operational risk exposure in their financial reports.

Study findings showed that financial risk disclosure had a significant positive effect on financial performance of the firms listed in the NSE (= .143; $p < 0.05$). These results imply that increasing financial risk exposure by one unit could results in 0.143 increase in financial performance. The results further indicated that 65 percent of the respondents strongly agreed that the companies revealed the credit risk such as collateral issues and improved disaggregation of maximum credit exposure. Results also indicated that 47.5 percent of the respondents strongly agreed that the company revealed market risks such as interest rate, foreign currency and commodity price while 54.2 percent strongly agreed that the company revealed statement of directors' responsibilities towards preparation and presentation of financial statements. Study findings also showed that 48.6 percent of the respondents strongly agreed that the company reveals the treatment given to foreign exchange gains and losses while 44.6 percent of the respondents also strongly agreed that the company reveals the financial management risks such as budget control safeguards. The grand mean for financial risk exposure was 4.32 indicating that the companies listed in the NSE had high levels of financial risk exposure in the financial statements.

Lastly, the study established that strategic risk disclosure had a positive effect on financial performance of the firms listed in the NSE (= .323; $p < 0.05$). This implies that increasing strategic risk exposure by one unit could lead to an increase in financial

performance of the listed firms by 0.323. Moreover, study results indicate that 49.2 percent of the respondents strongly agreed that the company discloses the number of board members in the financial reports and 47.5 percent strongly agreed that the company reveals policies and procedures to manage its operational risks. Findings also indicated that 52 percent of the respondents strongly agreed that the company reveals the number of board meetings held during the year while 50.3 percent also strongly agreed that the company discloses the board members and their profiles and positions in the board. Study results further indicated that 45.8 percent of the respondents strongly agreed that the company reveals the number of various board and /or management committees. The grand mean for strategic risk disclosure was 4,30 which indicated that the listed firms in the NSE adopted high levels of strategic risk disclosure in their financial statements.

5.2 Conclusions

Based on the findings of the study, the following conclusions are made. First, operational risk disclosure positively affected financial performance of the firms listed in the NSE. Most of the firms surveyed had high levels of exposure of operational risks. The operational risks that the firms mostly disclosed included cyber security risk such as business disruption and system failures, risk management issues associated with the organization external fraud risk events, adequacy of internal control systems and the policies and procedures to manage the operational risks.

Secondly, the study concludes that financial risk disclosure positively and significantly affected financial performance of the firms listed in the NSE. The listed companies

exhibited high levels of financial risks disclosure. The risk mostly disclosed by the firms included credit risk, market risks such as interest rate, foreign currency and commodity prices, statement of directors' responsibilities towards preparation and presentation of financial statements, treatment given to foreign exchange gains and losses, and budget control safeguards.

Lastly, the study concludes that strategic risk disclosure had a positive effect on financial performance of the firms listed in the NSE. The firms exhibited a high intensity of disclosing their strategic risks. The mostly disclosed strategic risks included the number of board members, policies and procedures to manage its operational risks, number of board meetings held during the year, board members and their profiles and positions in the board and the number of various board and /or management committees.

5.2 Recommendations

The study makes the following recommendations. First, listed companies should exhibit high standards and propensity to disclose risks that the firms face in their financial statements. This would provide existing and potential investors with the information they need to make effective and timely decisions. Moreover, such disclosure would reduce information asymmetry between the outsiders and the insiders.

Secondly, management should adopt and entrench an organization culture of effective and open communication. They should reduce their power distance and encourage preparers of financial statements not to disclose about the organization's risks just as a

matter of compliance but adopt the practice as a way of informing and creating trust. The firms should have a paradigm shift to adopt an approach for disclosure that is principle-based. This is expected to enhance the corporate image and create value for the firm.

Lastly, the study recommends that all listed companies should aim at not just attaining the minimum of disclosure requirements set by the NSE and CMA but should also aim at providing adequate information content, increase ease of access of the information and have parsimonious presentation and also ensure that their information is more understandable and comparable. CMA and NSE should be at the frontline in ensuring that There are effective enforcement programmes to ensure that requisite information id available to serve the interest of the different user groups.

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APPENDICES

Appendix 1: Questionnaire

SECTION A: GENERAL INFORMATION

Name of the company…………………………………………

The respondent's Job Title …………………………………………

3) Education level of respondent

Diploma

Undergraduate degree

Masters / Post Graduate Degree

4) Current number of employees in the organization

100-500

500-1000

Above 1000

5) How long has the organization been in operation (no. of years)?……...

Part B: Firm's Financial Performance

Please indicate how much you agree or disagree on the statement below about your organization's performance.

Statement	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree
The company's profitability has increased over the last three years					
There is increased number of investors over the last three years					
The company has a large market share					
The company has increased number of employees over the last three years					
The company has experienced a significant increase in capital base					

Part C: Risk Disclosure in the financial statements

Please indicate the extent to which you agree/disagree regard the disclosure of the following information in your company's financial statements.

(i) Operational Risk Disclosure

Statement	**Strongly disagree**	**Disagree**	**Not Sure**	**Agree**	**Strongly Agree**
The company reveals human resource risks such as incompetent staff, employment practices and workplace safety					
The company reveals policies and procedures to manage its operational risks					
The company reveals risk management issues associated with the organization					
The company reveals					

Cyber Security risk such as business disruption and system failures and External fraud risk events.					
The company reveals the operational risks such as lack of internal control systems					

Part C (ii) Financial Risk Disclosure

Statement	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree
The company reveals the financial management risks such as budget control safeguards					
The company reveals statement of Directors responsibilities towards preparation and presentation of financial statements					
The company reveals the treatment given to foreign exchange gains and losses					
The company reveals the credit risk such as collateral issues and improved disaggregation of maximum credit exposure					
The company reveals market risks such as interest rate; foreign					

currency; and commodity price					

Part C (iii) Strategic Risk Disclosure

Statement	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree
The company discloses the number of board members					
The company reveals policies and procedures to manage its operational risks					
The company reveals the number of Various board and /or management committees					
The company reveals the number of board meetings held during the year					
The company discloses the board members and their profiles and positions in the Board.					

……………………Thank you for your contribution…………………………..

Appendix 2: List of companies listed on the Nairobi Stock Exchange

1	A.Baumann & Co Ltd	33	KenolKobil Ltd
2	ARM Cement Ltd	34	Kenya Airways Ltd
3	Atlas African Industries Ltd	35	Kenya Orchards Ltd
4	B.O.C Kenya Ltd	36	Kenya Power & Lighting Co Ltd
5	Bamburi Cement Ltd	37	Trans-Century Ltd
6	Barclays Bank of Kenya Ltd	38	British American Investments Co.Ltd
7	Britam Holdings Ltd	39	Kenya Re Insurance Corporation Ltd
8	British American Tobacco Kenya Ltd	40	Kurwitu Ventures Ltd
9	Car & General (K) Ltd	41	Liberty Kenya Holdings Ltd
10	Carbacid Investments Ltd	42	Longhorn Publishers Ltd
11	Centum Investment Co Ltd	43	Marshalls (E.A.) Ltd
12	CFC Stanbic of Kenya Holdings Ltd	44	Mumias Sugar Co. Ltd
13	CIC Insurance Group Ltd	45	Nairobi Business Ventures Ltd
14	Crown Paints Kenya Ltd	46	Nairobi Securities Exchange Ltd
15	Diamond Trust Bank Kenya Ltd	47	Nation Media Group Ltd
16	E.A.Cables Ltd	48	National Bank of Kenya Ltd
17	E.A.Portland Cement Co. Ltd	49	NIC Bank Ltd

18 Eaagads Ltd

19 East African Breweries Ltd

20 Equity Group Holdings Ltd

21 Eveready East Africa Ltd

22 Express Kenya Ltd

23 Flame Tree Group Holdings Ltd

24 Home Afrika Ltd

25 Housing Finance Group Ltd

26 Hutchings Biemer Ltd

27 I&M Holdings Ltd

28 Jubilee Holdings Ltd

29 Kakuzi Ltd

30 Kapchorua Tea Co. Ltd

31 KCB Group Ltd Ord

32 KenGen Co. Ltd

33 WPP Scangroup Ltd

50 Olympia Capital Holdings Ltd

51 Pan Africa Insurance Holdings Ltd

52 Safaricom Ltd

53 Sameer Africa Ltd

54 Sasini Ltd

55 Standard Chartered Bank Kenya Ltd

56 Standard Group Ltd

57 The Co-operative Bank of Kenya Ltd

58 The Limuru Tea Co. Ltd

59 Total Kenya Ltd

60 TPS Eastern Africa Ltd

61 Uchumi Supermarket Ltd

62 Umeme Ltd

63 Unga Group Ltd

64 Williamson Tea Kenya Ltd