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The Relationship between Voluntary Disclosure and Financial Performance of Companies Quoted At the Nairobi Securities Exchange

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Abstract: *In the last few decades, the problem of voluntary disclosure of financial or non-financial information has been in the attention of many researchers. Shareholders, investors and other stakeholders make their investment and financial decisions on the basis of the information they get from annual reports. These annual reports may contain both mandatory and voluntary information. These voluntary disclosures are done by managers in the spirit of openness and transparency and may contain vital information that may assist all interested parties to make wise decisions. This paper sought out to examine empirically the relationship between voluntary disclosures and financial performance measure, Return on Investment (ROI), of companies quoted at the Nairobi Securities Exchange. Annual reports of 10 listed companies from the NSE 20-share index were investigated from the year 2011-2013. A disclosure checklist consisting of 49 voluntary disclosure items of information was used. A regression analysis was conducted on the data set using Excel 2007. Findings revealed that the individual predictor variables produced mixed results when regressed against ROI. However, the multivariate regression analysis depicted a strong positive relationship between voluntary disclosure and financial performance measure, as evidenced by a Pearson Product Moment Correlation Coefficient (R) of 0.6235. As such, only 38.9% of the data points will appear on the linear plot. Since voluntary disclosure comes with a cost, this study recommends that managers in organizations disclose more information voluntarily not only for the purposes of obtaining cheaper capital but also it increases transparency and accountability in annual reporting and this boosts the confidence of investors as they make investment and financial decisions.*

Keywords: *Voluntary disclosure; annual reports; financial performance; information asymmetry; cost of capital; return on investment; Nairobi Securities Exchange.*

1. Introduction

1.1. Background of the Study

One of the reasons why organizations are in existence is to create value to the consumer, often referred to as external value creation, which subsequently translates to surplus revenue for the shareholders (referred to as internal value addition). Stewart (1994) asserted that a firm that is able to create value to the customer is rewarded by the market through generation of greater cash flows which accrue to the shareholder.

Corporate voluntary disclosure is the additional information provided by managers over and above the statutory requirements stipulated in the accounting standards. Li and McConomy (1999) found out that firms in better financial conditions are more likely to voluntarily adopt new International Financial Reporting Standards (IFRS) environmental disclosures and hence become more profitable and reduce the cost of compliance.

Over the years researchers have developed a keen interest in the voluntary disclosure practices of organizations the world over. A case example is that of Botosan (2000) who observed that firms which disclosed more information in their annual reports enjoyed the benefits of lower cost of capital. As such, disclosure can be viewed as a tool that aids in communicating information to different market players in an industry.

1.1.1. Concept of Voluntary Disclosure

The Business Reporting Research Project (BRRP) issued a steering committee report titled "Improving Business Reporting: Insights into Enhancing Voluntary Disclosure". According to this report voluntary disclosure refers to information surplus to the mandatory financial statements required by GAAP (FASB, 2001).Voluntary disclosure increases transparency and accountability in annual financial reporting hence attracting prospective investors and enabling all other users of these reports to make informed decisions. Companies that voluntarily disclose information enjoy the benefits of cheaper funds from capital markets which in turn translate to better investment appraisals by managers.

Disclosure plays a crucial role in mitigating capital market incentive problems (Healy & Palepu, 2001). Voluntary disclosure of financial information is also a vital component of the corporate governance framework and is regarded as an important indicator of earnings quality and hence good performance. Boesso and Kumar (2007) claimed that one of the determinants that led to the emergence of voluntary disclosure was the inadequacy of financial reporting, as perceived by investors and shareholders. Consequently, stockholders increasingly demanded openness and voluntary disclosure of information relating to performance and long range strategies.

In the opinion of Ross (1997) companies that provided more information disclosures reduced the occurrence of information asymmetry between the owners and managers and subsequently get to enjoy low costs of capital. For purposes of this study, information considered to be voluntary disclosures will be categorized as: General Corporate and strategic, Forward-looking, Financial and finally Socio-Environmental and Board disclosures.

1.1.2. Concept of Financial Performance

Performance measures are either quantitative or qualitative ways to characterize and describe performance. They are an apparatus used by organizations to manage progress towards achieving preset goals and in the process identify the key indicators of organizational performance and customer satisfaction. A good performance measure should be able to adequately describe the population to be measured, the mode of the measurement, and the data source and time period for the measurement.

With increasing pressure on a firm's performance to deliver adequate returns on investment for shareholders, managers have been devising ways of improving corporate financial performance to increase shareholders wealth. This is a worldwide phenomena being practiced in U.S.A, U.K, Australia, Canada, Brazil, Germany and closer home South Africa. It has trickled down the Kenyan market to be practiced by Standard Chartered, Barclays Bank, Coca-Cola and Unilever (Dalborg, 1999).

A major economic objective to be achieved by managers in organizations is wealth maximization for shareholders. This can be done through efficient allocation of resources. To achieve this goal, shareholders wealth is substituted by profit or cash flows or financial statements ratios. Shareholders, managers and other interested parties use the information provided by financial statements to forecast performance (Worthington & Tracey, 2004).

Investors recognize the potentials of a company, both current and future, through its market valuation. Thus, they always expect managers to increase the market value of the firm in anticipation of high returns on their investments. This is because a rise in the market value of a company's shares is considered an increase in wealth for the company. Poor growth prospects adversely affect firm value; therefore, an effective performance measure is one that reflects the extent of the growth (Gikonyo, 2008).

Shareholder value has traditionally been measured by such indicators as return on equities (ROE), return on investments (ROI) and net income. Subsequently, the introduction of Economic Value Added (EVA) benchmarks a company's income against its cost of capital, which its promoters believe is a better indicator of both year-after-year growth and the adequacy of capital replacement. Accordingly, while the traditional measures are morally concerned with accounting returns, EVA leans towards economic returns to the extent that it deals with discounting the replacement cost of capital to arrive at the returns. However, it is difficult to obtain the requisite data which is indispensable to the calculation of the measure especially taking into consideration the privacy of such data as interest on debts (Kariuki, 2008). Therefore, this study measured the financial performance of a company by the use of ROI owing to its simplicity, comparability and that it is a basic tool in measuring both profitability and performance.

1.1.3. Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) came into existence in the early 1920’s when Kenya was under British colony. It was an informal market for local securities. By 1954, a true stock exchange was created after the NSE had officially been recognized by the London Stock Exchange (LSE) as an overseas stock exchange (NSE, 2011). After Kenya gained independence, the stock exchange continued to grow and became a major financial institution. In 2006, the facilities restructured from the original "handshake over coffee" mode of trading to an automated trading system.

The NSE is the fourth largest stock exchange in Africa when it comes to trading volumes. The Exchange has a memorandum of understanding with East African Securities Exchanges in Uganda and Tanzania. When the NSE became operational in 1954, a self-regulatory framework was adopted whose main responsibility was to develop the stock market. The self-regulatory framework, which borrows heavily from the LSE, is embodied in the Rules and Regulations of NSE 1954 (NSE, 2011). Through coordination with other authorities such as Central Depository System (CDS) and the Capital Markets Authority (CMA), the NSE provides clear guidelines on trading activities in the Kenyan market (NSE, 2011).

CMA is a regulatory body that controls all capital market factors in Kenya. It has the responsibility of licensing, supervising and monitoring the activities in the stock exchange and CDS. Through onsite and offsite market surveillance, CMA fosters investor’s confidence by ensuring rules, regulations and requirements for trade are complied with and market integrity is sustained. This results in orderly, fair and efficient markets in Kenya. CMA also plays a crucial role in mobilization and allocation of capital resources in an economy in order to provide enough incentives for long term investments (NSE, 2011).

Listed companies in Kenya are required to produce quarterly and semi-annual financial statements as well as audited annual reports. Financial statements are to be prepared according to International Financial Reporting Standards (IFRS) and audited using International Standards on Auditing (ISA). The Institute of Certified Public Accountants (ICPAK) together with the CMA and NSE has also established the Financial Reporting Award (FiRe) that reviews the annual reports of participating companies and gives awards to the statements that most comply with IFRS. The CMA Guidelines additionally encourage companies to disclose additional information on director and management remuneration.

1.2. Statement of the Problem

Corporate financial reporting, specifically annual reports, are a crucial tool in communicating vital information about a company, both financial and non-financial information (Barako, 2007). Potential investors in Kenya obtain vital information on trading activities of listed companies at the NSE through their annual reports and other bulletins from the CMA. These reports are available and easily accessible publicly. The NSE encourages firms to disclose more information so as to raise capital relatively cheaply. Managers, therefore, tend to provide voluntary disclosures and forecasts to show investors that they are aware of the firm's economic environment and are able to quickly respond to changes.

Over the years, a growing interest in voluntary disclosure practices has been exhibited by many researchers. Some have tested the association between voluntary disclosure and several aspects such as profitability (Verrecchia & Weber, 2006), cost of equity capital (Botosan, 2000) and stock liquidity. These studies, however, were centered in industrialized economies with very few studies done in the context of developing nations. More importantly, most of these literatures are leaning more on factors that influence the extent of voluntary disclosure.

In Nigeria, Salawu (2012) sought out to determine the extent and forms of voluntary disclosure of financial information on internet reporting. She based her study on the Nigerian Stock Exchange.

Findings revealed that out of the total of 139 companies with websites, only 77 of them disclosed financial information on their web pages while the remaining 62 did not. Studies done in the Kenyan context include a study by Lopokoiyit (2012) who investigated the effect of corporate governance practices on share prices of companies listed at the NSE. He found a direct relationship between corporate governance practices and share price. Also, Asava (2013) looked at the effect of voluntary disclosure on stock returns of companies listed at the NSE. Her study revealed that there was no relationship between voluntary disclosure and stock returns.

Given that voluntary disclosure of information comes with a cost, it is imperative to find out whether or not there is a corresponding benefit in the form of good earnings reports. The question that begs therefore is whether there is a relationship between voluntary disclosure and financial performance of companies quoted at the Nairobi Securities Exchange.

1.3. Objectives

1.3.1. General Objective

This primary objective of this study was to examine empirically the relationship between voluntary disclosure and financial performance measure of ROI for companies listed at the NSE.

1.3.2. Specific Objectives

These included:

- The effect of voluntary disclosure of general corporate and strategic information on financial performance.
- The effect of voluntary disclosure of financial information on financial performance.
- The effect of voluntary disclosure of forward-looking information on financial performance.
- The effect of voluntary disclosure of socio-environmental and board disclosures on financial performance.

1.4. Research Questions

- What is the effect of voluntary disclosure of general corporate and strategic information on financial performance?
- What is the effect of voluntary disclosure of financial information on financial performance?
- What is the effect of voluntary disclosure of forward-looking information on financial performance?
- What is the effect of voluntary disclosure of socio-environmental and board disclosures on financial performance?

1.5. Research Hypothesis

For purposes of this research, both a null and an alternative hypothesis were developed to test the nature and significance of the relationship between the various items of voluntary disclosure and the measure of financial performance ROI for the listed companies selected from the NSE.

1.5.1. General Corporate and Strategic Information and Financial Performance

General and strategic information comprises of information about the size of a company, its economic outlook, the mission statement, historical data and background, business strategies, market share analysis, competition and also a description of major goods and services. There are no studies conducted on this broad category of disclosure. However several aspects included in this category have been tested. For example, Amir and Lev (1996) found that by disclosing information on market share analysis, firms in the wireless communication industry increased their firm value. Also, Jensen and Meckling (1976) noted that larger firms incur higher agency costs due to the fact that they employ heavy investments in capital. Marston and Polei (2004) support this claim by asserting that higher disclosure levels reduces agency costs that may be brought up by a conflict of interest between managers and owners of finance. The following hypothesis was developed:

Null: There is no link between disclosure of general corporate and strategic information and ROI for firms quoted at the NSE. ($H_0 : \beta_1 = 0$)

Alternative: There is a link between disclosure of general corporate and strategic information and ROI for quoted firms ($H_1 : \beta_1 \neq 0$).

1.5.2. Financial Information and Financial Performance

Investors are interested in information relating to liquidity ratios, gearing ratios, return on shareholders' funds and value added statements. Financing decisions are affected by the optimal capital structure that a firm maintains. Wallace and Naser (1995) and Hossain, Perera and Rahman (1995) noticed that there exists a positive link between leverage and the level of disclosure. Likewise, by providing a historical analysis, disclosure helps to improve the capability of investors to assess future earnings by making better earnings forecasts (Barron, Kile & O'keefe, 1999). Hence, the following hypotheses were stated:

Null: There is no link between disclosure of financial information and ROI for quoted firms ($H_0 : \beta_2 = 0$).

Alternative: There is a link between disclosure of financial information and ROI for quoted firms ($H_1 : \beta_2 \neq 0$).

1.5.3. Forward-Looking Information and Financial Performance

According to Celik, Ecer and Karabacak (2006) forward- looking information helps to forecast the future of a company in terms of performance and strength of the management in place. Information on profit forecasts, sales revenue forecast and earnings per share forecasts is included in this category of disclosure. If management generates inaccurate predictions over and over again, the credibility of any future forecasts may be dismissed, which may result in a potential increase in the cost of capital especially to investors. Regardless of whether managers are motivated by possible litigation costs or the need to guard their reputation, Skinner (1994) argues that management earnings forecasts may reduce expected legal costs by reducing the likelihood that an imminent mandatory disclosure will result in a large negative stock price response. Companies that wish to obtain external sources of finance may be inclined to disclose more forward-looking information in order to gain the confidence of the providers of these funds. Clarkson, Kao and Richardson (1994) stated that firms in search of external sources of finance are more likely to provide voluntary forward-looking information relating to estimated future earnings irrespective of the existing competition in the industry. Hence, the following hypotheses were developed:

Null: There is no link between disclosure of forward-looking information and ROI for quoted firms ($H_0 : \beta_3 = 0$).

Alternative: There is a link between disclosure of forward-looking information and ROI for quoted firms ($H_1 : \beta_3 \neq 0$).

1.5.4. Socio-Environmental and Board Disclosures and Financial Performance

One way in which stakeholders and other interested parties can assess the effects of an organization on its environment and hence form an opinion about the reputation of the company is through an analysis of the company's Corporate Social Responsibility (CSR) practices. According to Fama and Jensen (1983a), nonexecutive members of the board act as a reliable means to minimizing the impact of agency conflicts between managers and owners. Franks, Mayer, and Renneboog (2001) argued that these nonexecutive members are considered important in ensuring that the essential mechanisms needed to enhance the effectiveness of the board are in place. In their study, Haniffa and Cooke (2002) established that a significant positive relationship exists between percentage of ownership attributed to foreigners and the level of voluntary disclosure. This lead to the development of the following hypotheses:

Null: There is no link between socio-environmental and board discourses and ROI for quoted firms ($H_0 : \beta_4 = 0$).

Alternative: There is a link between socio-environmental and board discourses and ROI for quoted firms ($H_1 : \beta_4 \neq 0$).

1.6. Significance of the Study

Voluntary disclosures provide an extra way for investors to judge a company's performance. This study will, therefore, enable the investors to make better investment decisions and better capital allocations. It will also emphasize on increased transparency which reduces information asymmetry that may exist between the investors and the management team. Moreover, managers will be in a position to make out the extent to which they should disclose particularly considering the cost accompanying disclosure so that it does not outweigh the benefits of cheaper capital. This study will likewise extend the literature on voluntary disclosure hence posing an eye opener to academicians to conduct further research on this area.

2. Literature Review

This section presents the concept of voluntary disclosure and its relationship with a firm's financial performance at the NSE. It developed a theoretical framework that analyzed several theories which had been developed to explain the significance of voluntary disclosure with respect to business entities and investors. These were Agency, Signaling, Legitimacy and Stakeholder theories. It also looked into the empirical evidence in relation to voluntary disclosures. Moreover, it identified the different categories of items considered voluntary disclosures and their relationship to financial performance. Further, it examined the various measures of financial performance, looking at which measure would best be suited for the purposes of this research. Finally, this chapter critiqued the literature relevant to this study and identified any research gaps that other researchers capitalized on in the quest to study the effects of voluntary disclosures of various aspects of a firm.

2.1. Theoretical Framework

The theory of Voluntary Disclosure was first instigated by Verrecchia (2001) when he identified three elements of disclosure. These are explained in Table1 below.

Table1. *Elements of Voluntary Disclosure (Verrecchia, 2001)*

Association-Based Disclosure	Looks at how disclosure is related to the activities of investors seeking to maximize their wealth in the capital market environment
Discretionary-Based Disclosure	Looks at the level of discretion that managers exercise when it comes to disclosure that aids in firm valuation.
Efficiency-Based Disclosure	Examines the efficiency of disclosures.

Investors, particularly in public companies, were removed from the management of their assets and therefore required financial disclosure to make rational decisions on how their resources were managed (Masita, 1978). Several theories had been fronted to relate voluntary disclosure with business entities and investors. These are Agency, Signaling, Legitimacy and Stakeholder theories.

2.1.1. Agency theory

Agency theory sets out to explore the relationship between a principal and an agent. Jensen and Meckling (1976) depict an agency relationship as one whereby a principal(s) appoints an agent and delegates authority to the agent to act on his behalf.

Managers are often empowered by the owners of the firm to make decisions on their behalf. A potential agency problem arises where shareholders are not kept in the loop with respect to some important information that managers have access to, consequently causing information asymmetry among them. The agent, who is the manager, usually has an information advantage over the principal, who is the shareholder. This in turn creates a conflict of interest, which ultimately results in agency costs. Hence the principal needs to be keen to ensure that he is not exploited by the agent.

Voluntary disclosure is one way of ensuring agency problem is minimized especially if managers who possess confidential information about a firm are able to use their informational advantage to make dependable communication to interested parties in order to maximize firm value (Barako, 2007). Healy and Palepu (2001) considered that disclosure of non-mandatory information is expected to reduce agency costs.

In view of the fact that organizations constantly strive to obtain additional funds from capital markets at as low a cost as possible, managers are motivated to provide more reliable information. This helps to reduce the monitoring costs incurred by shareholders in an attempt to prevent exploitations by management.

2.1.2. Signaling Theory

A signal is a movement, action or sound that is used to communicate instructions or information. For instance, in a recruitment exercise, prospective job applicants strive to 'signal' their capabilities through well written curriculum vitae's that clearly outline their strengths in terms of work experience, educational background and even mental and physical abilities.

In like manner, signaling theory as advanced by Ross (1977) suggests that if investors are not able to effectively differentiate with certainty between two firms which they perceive to be performing equally well, the firm that performs better will ensure that they provide a 'signal' so as to catch the attention of these investors and enjoy a positive company reputation. They may do this by disclosing additional information unbeknown to investors and which will positively affect the outlook of the company. Similarly, it should be noted that not disclosing any information at all is also a signal.

Ross (1977) asserts that managers prefer to signal in the form of disclosures so that they can mitigate against problems associated with lack of disclosures. In line with signaling theory, managers will settle for disclosure over non-disclosure. However, it should be noted that the costs of disclosure should outweigh the benefits. Signaling theory advocates that firms considered "healthy" in terms of better earnings and performance will probably disclose more information than "distressed" firms. Distressed firms are those whose performance is spiraling down probably due to economic recession and poor management strategies (Wruck, 1990).

2.1.3. Legitimacy Theory

Legitimacy theory has widely been used in relation to socio-economic and environmental disclosures. It stems from the fact that business organizations have a moral obligation to operate within the norms of the society at large. According to Dowling and Pfeffer (1975) legitimacy theory is a condition whereby the value systems of an organization are in harmony with those of the society. Organizations do not only work in the interest of their investors, but they also ensure that their actions do not negatively affect the environment in which they conduct their business by avoiding pollution and other illegal activities. Hence, if managers make out that the operations of their organizations are contrary to what society expects of them, then there is need to immediately reinforce legitimacy (Dowling and Pfeffer, 1975).

Society normally permits entities to continue with their operations for as long as they meet their expectations. For that reason, there exists a 'social contract' between an organization and the society in which it operates (Deegan, 2002). If a company's activities are not carried out with the societal norms in mind, the community will work to ensure the company ceases its operations. This amounts to threats to organizational legitimacy and adversely affects the company's corporate image and reputation. This is the reason why most companies would prefer to disclose their efforts towards Corporate Social Responsibility (CSR) in their annual reports to communicate their legitimacy to the community.

2.1.4. Stakeholder Theory

Stakeholder theory looks at how managers strive to create value and their responsibility to a company's stakeholders. No matter what a company's ultimate goal is, managers are expected to always work towards satisfying the interests of the people or groups that are affected by their actions and inactions. According to Gray and Owen (1987) stakeholders exercise a considerable amount of control over an organization's resources and hence, managers are obligated to provide them with the necessary information that may aid them in decision making, even if it is environmental in nature.

One of the economic objectives of business organizations is to maximize shareholders wealth. This can be achieved through creation of superior products of high quality and offering top notch services for customers. This value creation process can be evident through efficient operational processes, repeat purchases from customers and an improved corporate image. Managers are aware that failure to create such value may result in withdrawal of support and investment from the stakeholders. Thus, for an organization to continue existing in its full operational capacity, the support of stakeholders was necessary. This was the reason why managers will choose to disclose information voluntarily to their stakeholders so as to enable them to make better investment, financial and social responsibility decisions.

The greater the influence that stakeholders have on a company, the more the company must work to their advantage. Literature hints that companies provide disclosures voluntarily for various reasons most of which could be related to satisfying various stakeholder groups including adversarial stakeholders (Gray & Bebbington, 2001).

2.2. Empirical Studies on Voluntary Disclosure

Cerf (1961) investigated the relationship between voluntary disclosure of information and its level of profitability as well as the size of the firm and its shareholders in the U.S Market. The purpose was to find out the connection between voluntary disclosure of information and its level of profitability. The methodology used was a descriptive approach and that he analyzed annual reports of 25 different companies that were listed on the New York Stock Exchange (NYSE). He noted a positive link between the above mentioned variables.

Leuz and Verrechia (2000) scrutinized 102 annual reports of German firms listed in the DAX 100 stock index over the course of 1998 to find out the economic consequences of increased disclosure. They used event study design as their methodology of research. Their finding suggested that firms that commit to either International Accounting Standards (IAS) or the U.S GAAP exhibit a higher turnover in terms of shares as compared to firms using German GAAP.

Botosan (1997) examined 122 manufacturing firms situated in America in a quest to establish whether there existed any association between disclosure and cost of equity capital. The methodology of the study was a descriptive study coupled with correlation analysis based on the voluntary disclosures available in the annual reports for the year 1990. The findings were that firms that attracted lesser following by analysts proved that a higher level of disclosure is associated with lower cost of equity capital. On the other hand firms with a high analyst following depicted no association between the two measures probably because the disclosure measure is limited to the annual reports.

Likewise, Kristandl and Bontis (2007) investigated the relationship between the level of voluntary disclosure and cost of equity capital. They centered on 95 listed companies from Germany, Sweden, Denmark and Austria. Findings of the study revealed that an anticipated negative relationship existed between the cost of equity capital and the level of forward-looking information and an unforeseen positive relationship was noted between cost of equity capital and the level of historical information.

2.3. Conceptual Framework

This section will deal with the Operationalization of the variables of the study, that is, measures of voluntary disclosures and measures of financial performance.

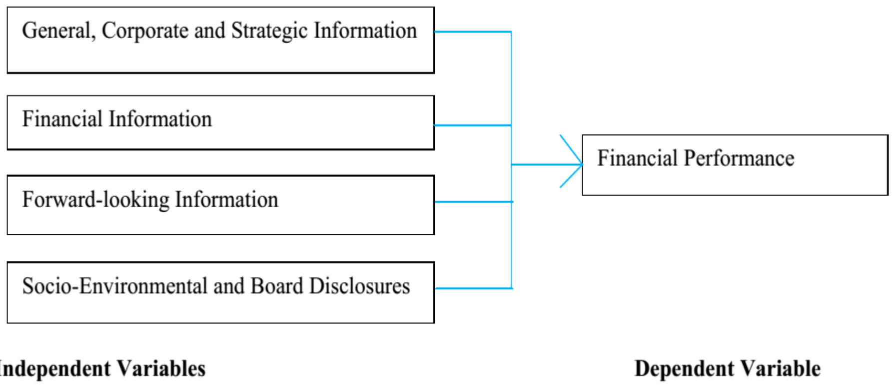

Fig1. *Conceptual Framework*

Voluntary disclosure items can be summarized into four categories: General corporate and strategic information disclosure, Socio-Environmental and Board disclosures, Forward-looking disclosures, Financial Information disclosures.

2.3.1. General Corporate and Strategic Information

The General company information relates to information that outlines the activities of managers in the organization which includes company size, company policies, procedures, brief historical background, the vision and mission statements, organization structures, description of major goods or services, description of market, and marketing networks for finished goods and services.

Strategic information on the other hand relates to a company's current business strategies, the effects of these strategies and how the organization achieves competitive advantage using its strategic position. Such information includes disclosures relating to competition in the industry. The importance of disclosing these strategic elements of an organization in annual reports is highly recommended by CICA (2001).

Company size is one factor to be considered in this category. According to the study conducted by Ahmed and Court is (1999) firm size is seen to have a positive and significant relationship with disclosure. Likewise, Papadognas (2007) observed that the size of a firm is key to determining its profitability. Another factor is market share analysis. This involves an analysis of the market growth, penetration and dominance. Most companies with a larger market share exhibit higher profit margins hence better financial performance. According to Amir and Lev (1996) disclosing information that is not financial in nature increased firm value in the wireless communications industry.

2.3.2. Financial Information

Financial information is derived from the financial reports prepared from the books of accounts and analyzed in various categories to include income statements, balance sheet, statement of cash flows and statement of changes in equity. These reports are presented to the stakeholders in annual general meetings where auditors read and explain their contents. Voluntary disclosure items in the financial information category include: liquidity ratios, gearing ratios, return on assets, value added statements and a historical summary of financial statements for at least three years.

Companies are expected to fulfill their financial obligations; both short-term and long-term, when they arise. This is because investors and other lenders of funds will always look at the risk of default before putting money into the business. It is therefore prudent for firms to ensure that they protect their going concern status. Firms with high liquidity are often seen as being financially stable and will exhibit more disclosures (Belkaoui & Kahl, 1978; Cooke, 1989). Wallace, Naser and Mora (1994) however defended a low liquidity position by suggesting that firms of that nature might disclose more information to give an explanation for their status.

Financial results released are the foundation of an organization's budget and performances. The analysis involves comparing a firm's performance with that of other firms in the same industry and evaluating trends over time. Financial analysis involves the use of simple mathematical techniques, an understanding and appreciation of business strategy and future prospects through an examination of financial statements. Financial ratios are a vital analytical tool. Debt management ratios play a key role in financial management. The extent to which a firm uses debt financing is what is called financial leverage. Ahmed and Nicholls (1994) argued that in countries where most funds are sourced through financial institutions, companies are likely to make more information disclosures in their annual reports in the event that they are servicing huge debts in their books.

The gearing ratio shows how much the borrowed amount from creditors is used to generate profit for the organization. $\text{Gearing ratio} = {}^{\text{Debtcapital}}/_{\text{Equitycapital}}$. On the other hand, total assets turnover ratio measures the utilization of all the firms operating assets in relation to turnover. $\text{Total asset turnover ratio} = {}^{\text{sales}}/_{\text{total assets}}$. Profitability ratios show the combined effect of liquidity, assets management and debt on a firm's operating results. Without profit a firm would be unable to attract outside capital. Owners, creditors, and management pay closer attention to boosting profits because of the great importance placed on earnings in market place.

2.3.3. Forward-looking Information

According to Celik, Ecer and Karabacak (2006) forward- looking information helps to forecast the future of a company in terms of performance and strength of the management in place. Information on profit forecasts, sales revenue forecast and earnings per share forecasts is included in this category of disclosure. If management generates inaccurate predictions over and over again, the credibility of any future forecasts may be dismissed, which may result in a potential increase in the cost of capital especially to investors.

Forward-looking information is considered an important topic in a firm's disclosure because of its capability to convey value-relevant information to external users (Amir & Lev, 1996). More attention has been devoted to forward-looking disclosure by professional and .regulatory bodies. The Jenkins Committee (AICPA, 1994) suggests that forward-looking information is essential in order to meet the needs of various users of annual reports. Skinner (1994) argues that management earnings forecasts may reduce expected legal costs by reducing the likelihood that an imminent mandatory disclosure will result in a large negative stock price response. Following Baginski, Conrad and Hassell (1993) it is evident that analysts' forecasts can be improved by forward-looking information that is of superior quality hence attracting more investors which translates to better financial prospects for a company.

2.3.4. Socio-Environmental and Board Disclosure

The Kenyan Centre for Corporate Governance (KCCG) issued a guideline on disclosures and corporate reporting in 2005. This draft emphasized on corporate social responsibility and board and ownership structure. These constitute the social and board disclosures. Other items in this category include information about employees; the number of employees, their productivity and morale levels and also workplace safety.

Most stakeholders assess a company's reputation by its Corporate Social Responsibility (CSR) practices (Fombrun & Shanley, 1990).A practical approach to CSR helps firms to obtain huge sums of capital that might ordinarily be difficult to get. According to Investor Digest (2003) firms actively engage in social responsibility stand a greater chance of attracting the attention of blue chip export supply firms in the global supply chain.

Disclosures of employees, their productivity and participation, and employee turnover are not common in annual reports. This is due to the fact that the human resources element in organizations is quite unpredictable and difficult to control. That could be the reason why Brennan (2001) noted in his study that some companies provided very little and others no information at all about their employees.

Of greater importance in board disclosures is the information on the composition of the directors, their academic and professional qualifications, share ownership, the numbers, age, business and managerial experiences, and any other interests they might have in the company. Needless to say, the efforts of managers who contribute immensely towards improved performances in the firm is revealed thorough voluntary disclosures and this serves to reduce agency conflict between them and directors of the firms. Recognizing manager's efforts in management and towards increasing social responsibility provides a balance and increases efficiency in productivity.

Haniffa and Cooke (2002) asserted that there was indeed a need for foreigners to closely monitor actions undertaken by management. Also, Singhvi (1968) found that in India, companies dominated by foreign owners provided higher quality disclosures than local companies. Furthermore, since most of the companies were multinationals, the existence of foreigners in the board structure greatly influenced the approach of management in corporate financial reporting.

2.3.5. Measures of Financial Performance

Measures of financial performance can be categorized into traditional measures and modern measures. Traditional measures include Return on Equity employed, Profit Margin on Sales, Earnings per Share and Return on Investment whereas, an example of a modern performance measurement is Economic Value Added.

Profit margin on sales (PMS): Profit margin on sales is a profitability ratio that measures how much a company actually retains for every shilling of sales. It is computed by dividing net income by sales.

$$Profit\ Margin\ on\ Sales = \frac{Net\ Income}{Sales}$$

This ratio helps to ensure cost control in companies. It is mostly used for inter-departmental comparison. It is not appropriate for comparing performances of two different companies in the same industry owing to the fact that these companies incur different types of expenses in their operations and financing activities and hence their profit margin ratios may differ due to differing expenses. This ultimately rules out the appropriateness of this ratio for use in this study.

Earnings per Share (EPS): The firm's earnings per share is quite important to the present or prospective shareholders and managers. This ratio measures profitability from the shareholder's viewpoint. Earnings per share represents the amount in shillings earned during the period on behalf of each outstanding ordinary share. It can be computed as follows:

$$Earnings\ Per\ Share = \frac{Earnings\ Available\ for\ Ordinary\ Shareholders}{Number\ of\ ordinary\ shares\ outstanding}$$

This ratio enables investors and shareholders to establish how much the company is making and earning on their behalf. Comparison of a company's EPS over the years can also enable investors to gauge the effectiveness and efficiency of management. However, EPS is easy to manipulate and can be affected by accounting policies hence is not a suitable measure for this study.

Return on Equity (ROE): This is the ratio of net profit or income after interest and taxes to ordinary equity. It relates net income to the amount invested by the shareholders.

$$Return\ on\ Equity = \frac{Net\ Income}{Equity\ emploled}$$

Shareholders invest in companies so that they can be able to obtain a return on their money and this ratio tells how well they are doing. If a company has a high ROE, it implies that the company is generating more cash internally which makes it more marketable as compared to other companies in the same industry. Since it considers earnings retained in previous years, it communicates to investors how their money is being invested and the effectiveness of management. However, this measure only looks at shareholders equity and gives no consideration to debt. This may mislead investors especially if the company is servicing huge amounts of debt but has a high ROE.

Economic Value Added (EVA): As the name suggests, it is a measure of economic performance of companies, both internally and externally. It proposes that the equity capital used to earn profits must eventually be paid for. The profits accrued must be more than the initial capital invested. Companies which do not make profits operate at a loss, and since the return does not match the cost of capital invested, then, no wealth is created (Ivancevich, Konopaske & Matteson, 2002).

EVA applies the principal in the Weighted Average Cost of Capital (WACC) to adjust for no-cash expenses. WACC should be computed for preference share capital, bonds and other long term debt, and ordinary share capital.

$$Economic\ Value\ Added = NOPAT - (WACC \times Capital\ employed)$$

$$WACC = K_{eg}\left(\frac{E}{E+D}\right) + K_d(1-T)\left(\frac{D}{E+D}\right)$$

Where:

NOPAT is the Net Operating Profit after Tax.

K_{eg} is the cost of equity.

K_d is the cost of debt.

E is the market value of equity in the firm.

D is the market value of debt in the firm.

T is the tax rate.

Given that EVA is the best measure of economic performance it operates on premise that operational and capital costs are covered to give a credible impression to stakeholders. The shortfall exhibited by EVA is that it does not focus on the future; it deals with the present period. However, even though EVA is a modern financial performance measure, has immense benefits, and outweighs the other traditional measures of performance such as ROI and ROE (in that it considers the shareholders value and cost of equity capital), it is hard to get the requisite data which is indispensable to the calculation of the measure especially taking into consideration the privacy of such data as interest on debts. It is also difficult to estimate the WACC at a given time.

Return on investment (ROI): This is the most popular financial performance measure. The ratio measures the profitability of a firm in relation to its assets employed. It is computed by dividing earnings by total assets.

$$Return\ on\ investment = \frac{Net\ income}{Total\ assets}$$

The ratio measures the overall effectiveness of management in generating profits with the available assets. It helps the company to realize more income in form of return on investment, and gives information about a firm's effectiveness. It also is aids in decision making and profit maximization.

ROI is widely used because of its simplicity and adaptability. It is not only simple to calculate but it can also be used by creditors and owners to evaluate a company's ability to make an adequate return. It can be used for comparison and benchmarking purposes for companies in a similar industry. ROI aids in determining the financial strengths of a company. An additional benefit of ROI is that it enables one to judge the efficiency and effectiveness of the management team. Thus, ROI is a versatile tool for determining both profitability and financial performance.

Nevertheless, the flexibility of ROI has a downside as asserted by Ross, Wester field and Jordan, (2001) in that it can be influenced to satisfy a certain group of users. According to Harvard Professor Clayton Christensen managers will under-invest in high-return units and over-invest in poorly performing units if the measures of return affect their bonuses.

Given the above analysis, I settled for the use of ROI as the measure of financial performance of the firms listed on NSE owing mostly to its simplicity, comparability and that it is a basic tool in measuring both profitability and performance.

2.4. Critique of Literature Relevant to the Study

Whereas several studies have been undertaken to examine the likely effects of voluntary disclosure on a number of aspects of a firm, it is important to critically analyze their significance and relevance. For example, in my opinion, the study conducted by Cerf (1961) is very relevant to this research. Cerf examined the connection between voluntary disclosure and its profitability level in the United States Market. This study is relevant because it was conducted on the New York Stock Exchange where companies are expected to provide disclosures of information in their annual reports and are likewise given an incentive to voluntarily disclose so as to gain a competitive advantage. My research likewise intends to focus its population on the Nairobi Securities Exchange for similar reasons. Also, the methodology used in Cerf's study is very practical. Cerf used a descriptive approach, which is suitable since it can be able to gather, organize, tabulate and describe data more reliably. What's more, it makes use of graphs and tables for easy interpretation. There is thus a high likelihood that the findings from Cerf's study depicting a positive link could hold true.

Leuz and Verrechia (2000) in their study examined 102 annual reports of German firms listed in the DAX 100 stock index over the course of 1998 to find out the economic consequences of increased disclosure. According to their study, if a firm sets out to increase disclosures in their annual reports, information asymmetry is greatly reduced leading to lower cost of capital for the firm. This is because adverse selection is likely to occur given that there is information asymmetry between buyers and sellers in a transaction. Hence, I agree that incorporating more disclosures in annual reports reduces the chances of occurrence of information asymmetry between organizations and their shareholders or among prospective buyers and sellers. In their study, German firms decided to adopt International Accounting Standards (IAS) or the U.S GAAP for their annual financial reporting to the capital markets. This switch was thought to increase firm's dedication to disclosing more and enabled the firms to derive measurable economic benefits in form of lower capital.

I find the switch particularly relevant today for firms not using an international reporting regime since much discussion on high quality standards that are accepted world-wide is based on the assumption that higher disclosure standards reduce firms cost of equity. However, I find their methodology to be unsuitable. They used event study design which is more demanding in its data requirements, reduces the number of observations and hence limits the tests that can be performed. Even though it was difficult to document evidence of economic theory compelling commitment of firms, their finding suggested that firms that commit to either International Accounting Standards (IAS) or the U.S GAAP exhibit a higher turnover in terms of shares as compared to firms using German GAAP. This study is therefore important to this research as it outlines the economic benefits that firms stand to gain by increased disclosure practices.

2.5. Summary

This section has thoroughly discussed the theories that have been developed to expound on the significance of voluntary disclosure in the relationship between business entities and investors. These are Agency, Signaling, Legitimacy and Stakeholder theories. It has shown how the various items considered voluntary disclosures affect financial performance. Likewise it has discussed the different measures of financial performance and highlighted the best possible measure that could be used to ascertain whether there is a link between voluntary disclosure and financial performance of firms. This measure of performance is Return on Investment (ROI). Finally, by critically analyzing relevant literature pertaining to this study, it is evident that a study on voluntary disclosure practices of firms is very relevant to the Kenyan companies today.

2.6. Research Gap

While existing studies done in Kenya examine the relationship of voluntary disclosure to corporate governance (Lopokoiyit, 2012), CSR (Oyenje, 2012) or Stock Returns (Asava, 2013) there is still a dire need to dig deeper and conduct an in-depth analysis of the relationship between Voluntary Disclosure and the Financial Performance of firms in Kenya. This is because, the cost of voluntary disclosure initiatives are complex and may not be quantifiable. This study therefore will focus on establishing whether there exists a relationship between the voluntary disclosure and the firms' financial performance of quoted companies at NSE in order to fill this research gap.

3. Research Methodology

The section considers the research design, population of the study, sampling design, data collection and analysis techniques that were used during the study. The population of interest consisted of all the companies quoted on the NSE. These companies are closely monitored by investors and their measures of performance are likely to be related to those considered in firm valuation.

3.1. Research Design

The study made use of a descriptive research design. This approach was suitable because it involves gathering data, organizing, tabulating, depicting, and describing the data. It can also be used for both qualitative and quantitative data. Moreover, it makes use of visual aids such as graphs and tables to assist the readers in understanding and interpreting the data. For purposes of this study, the dependent variable was the firm's financial performance, measured by ROI, while the independent variables were the four categories of voluntary disclosure namely: General Corporate and strategic information, financial information, Forward-looking information and Socio-Environmental and Board disclosures.

3.2. Population of the Study

Population is the total of all items under consideration in the study. The population was drawn from the 61 companies quoted at NSE as at December, 2013. The companies are subdivided into 11 sectors namely: banking, insurance, agricultural, commercial and services, automobiles and accessories, investment, manufacturing and allied telecommunication and technology, construction and allied energy and petroleum, growth and enterprise market segment.

3.3. Sampling and Sample of the Study

The sample consisted of 10 listed companies which were consistently listed and were relatively stable and best performing as measured by the NSE 20-share index from the year 2011 to the year 2013. These companies were chosen on the basis of average Market Capitalization as at Quarter 4 of 2013. Annual reports, which were the major source of data for this study, were readily available in full for the selected period.

3.4. Data Collection

Secondary data was used in the study. This was because secondary data is easily available, accessible and saves time. Published annual reports of quoted companies from NSE were obtained from NSE handbooks, Capital Markets Authority website and also from the company's website. This consisted of annual reports of the companies in the sample from the year 2011 to 2013. The financial statements for each company were subjected to the voluntary disclosure checklist shown in Appendix A. Each item disclosed was given a score of '1' and those items not disclosed '0'. The scores for each category were summed up for each of the years the company has disclosed and recorded to facilitate the process of data analysis.

3.5. Data Analysis and Presentation

The data collected was analyzed using both descriptive and statistical analysis tools with the help of Excel 2007. The values in respect of Net Income and Total Assets of the sampled companies for the period 2011-2013 were used to calculate ROI for each period. These values for ROI together with the voluntary disclosure scores for each of the companies in the sample were then presented in tables in their respective years. A regression analysis was conducted on the data obtained from the annual reports. To determine the relationship between voluntary disclosure and the financial performance of firms, a coefficient of correlation (R) was computed on the scores of voluntary disclosure against the firm's financial performance using the Pearson Product Moment coefficient of correlation.

The hypotheses developed in Chapter one was also tested for both the individual predictor variables and for the combined model (using p-value approach) to see whether the regression relation is significant. A t-test was used for the Univariate analysis. This is because the number of observations was less than thirty i.e. $n < 30$. The equation for the t-test of the slope at $n - 2$ degrees of freedom for the significance of β was as follows:

$$t = \frac{b - \beta}{S_b}\ , where\ \beta = b \pm t \times S_b$$

Given that the combined model had four independent variables (General Corporate and Strategic information x_1, Financial Informationx_2, Forward-looking information x_3 and Socio-Environmental and board disclosures x_4) the regression equation was given as:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e$$

Where: $y\ =\ dependent\ variable\ (ROI)$

$x_1 = independent\ variable\ (General\ Corporate\ and\ Strategic\ informaton)$

$x_2 = independent\ variable\ (Financial\ Information)$

$x_3 = independent\ variable\ (Forward - looking\ informaton)$

$x_4 = independent\ variable\ (Socio - Environmental\ and\ board\ disclosures)$

$e = error\ term$

A significance test for β_0 was conducted at a 5% level of significance (95% confidence interval). The test for significance of regression is a test to determine whether a linear relationship exists between the response variable y and a subset of the regression variablesx_1, $x_{2\,,}$……,x_n. Given that; $H_0 = \beta_1 = \beta_2 = \cdots \beta_k = 0$, the null hypothesis was subjected to a test statistic i.e.

$$F = \frac{SSR/_{k}}{SSE/_{n-p}} = \frac{MSR}{MSE}$$

Where; $k = p - 1$

The critical value $F_\beta; k, n - p$ is the tabular value of F distribution, based on the chosen β_0 level and the degrees of freedom $p - 1$ $(or\ k)$ and $n - p$. Thus in the above equation, if the test statistic $F > F_\beta, k, n - p$ then H_0 will be rejected meaning there is a significant relationship between the dependent and independent variables. The findings were then organized, summarized and presented in tables after which inferences and conclusions were made based on the data analyzed.

4. RESEARCH FINDINGS AND DISCUSSION

This section presents the research findings, analysis and discussion on the relationship between voluntary disclosure and financial performance of companies quoted on Nairobi Security Exchange. The data in this study was derived from the analysis of annual reports of 10 companies at the NSE 20 index chosen on the basis of market capitalization for Q4 of 2013.

4.1. Descriptive Statistics

Analysis of the reports from the year 2011 to 2013 revealed that the Return on Investment had a mean of 0.1527 and a standard deviation of 0.1227 indicating that the values of ROI obtained from the data over the three years were closer to the mean. These findings are summarized in Table 2.

Table2. *Descriptive Statistics*

Variable	N	Mean	Std. Deviation
ROI	30	0.1527	0.1293
General Corporate and Strategic Information	30	8.8000	1.0770
Financial Information	30	4.7667	0.9551
Forward-looking Information	30	5.7000	1.0693
Socio-Environmental and Board Disclosures	30	11.2000	1.1944

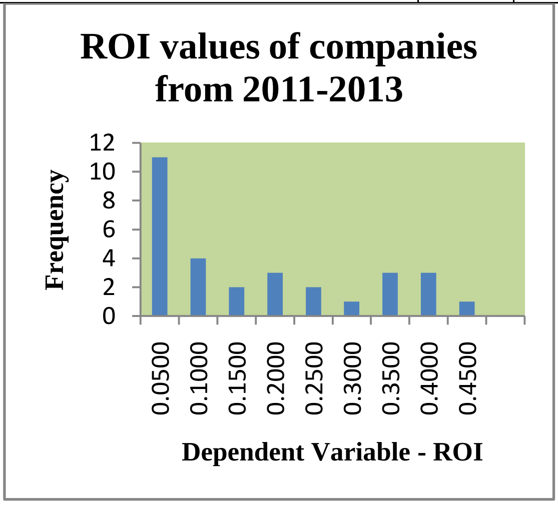

Fig2. *Histogram showing distribution of ROI*

4.2. Univariate Analysis

This analysis sought out to examine whether there exists a relationship between each of the individual predictor variables of voluntary disclosure with Return on Investment.

4.2.1. General Corporate and Strategic Information and Financial Performance-ROI

The analysis sought to establish the effect of General Corporate and Strategic information on ROI for the three years. The scatter graph in Figure 2 depicts a negative linear relationship of the form $Y = 0.3841 - 0.0263X1$ with a coefficient of determination R² of 0.048 and a coefficient of variation R of 0.2191 indicating that there is a relationship between voluntary disclosure of General Corporate and Strategic Information and ROI. The test of the slope at 5% level of significance showed that the value obtained from the t-test 1.190<2.048 hence the null hypothesis $H_0: \beta_1 = 0$ was rejected .These findings are summarized in Table 3 and Figure 3.

Table3. *General Corporate and Strategic Information and ROI*

Equation	Parameter Estimates		Model Summary			
	Constant	B1	R²	R	Se_y	Df
Linear	0.3841	-0.0263	0.0480	0.2191	0.1305	28

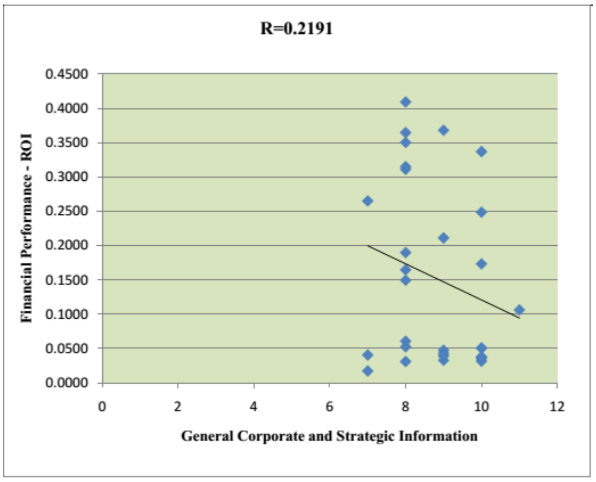

Fig3. *General Corporate and Strategic Information and ROI*

4.2.2. Financial Information and Financial Performance-ROI

A regression analysis on voluntary disclosure of Financial Information and ROI established that there was a negative relationship between the two variables. In particular, the data set produces a coefficient of Determination R^2 of 0.3173 and correlation coefficient R of 0.5633. This is because the t-statistic is greater that the t-value from the tables implying that slope at 5% level of significance, 3.611>2.048 hence resulting in the rejection of the null hypothesis$H_0: \beta_2 = 0$. Table 4 and figure 4 below present a summary of these statistics and the scatter graph showing the relationship between these two variables.

Table4. *Financial Information and ROI*

Equation	Parameter Estimates		Model Summary			
	Constant	B1	R^2	R	Se_y	Df
Linear	0.5160	-0.0762	0.3173	0.5633	0.1	28

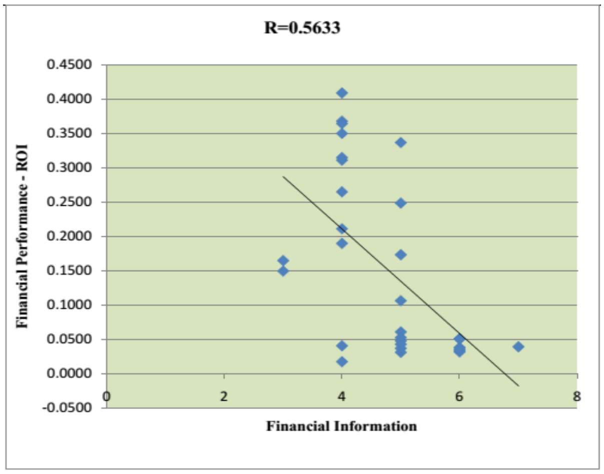

Fig4. *Financial Information and ROI*

4.2.3. Forward-Looking Information and Financial Performance-ROI

A regression analysis of the relationship between voluntary disclosure of forward looking information and ROI resulted in a Pearson Product Moment correlation coefficient of 0.0984(close to 0.00) signifying a weak positive relationship between the two variables. This relationship is illustrated in the scatter graph on Figure 5. A test of the slope at 5% level of significance revealed a t-value of 0.524<2.048 hence indicating that the null hypothesis $H_0: \beta_3 = 0$ can be rejected, thereby confirming that there is a link between the two variables.

Table5. *Below presents a summary of these statistics.*

Equation	Parameter Estimates		Model Summary			
	Constant	B1	R^2	R	Se_y	Df
Linear	0.0847	0.0119	0.0097	0.0984	0.1331	28

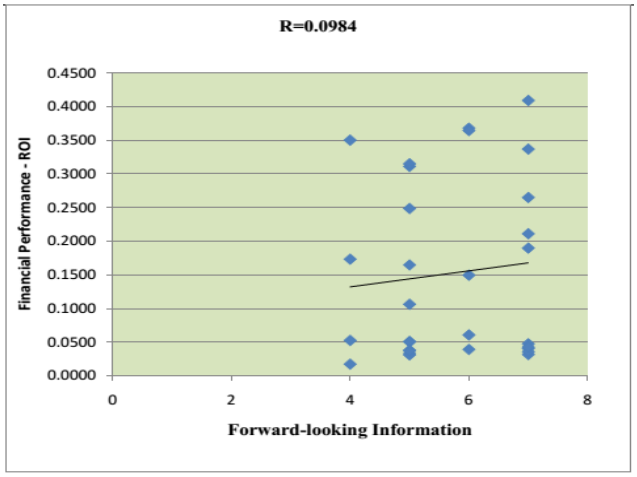

Fig5. *Forward-looking Information and ROI*

4.2.4. Socio-Environmental and Board Disclosure and Forward-Look Financial Performance-ROI

On regressing the Socio-Environmental and Board disclosures scores with the ROI obtained from the companies, it was established that there exists a weak negative relationship between the two variables as evidenced by a Pearson Product Moment Correlation Coefficient, R, of 0.1349. The test for the slope at 5% significance level showed a t-value 0.719<2.048 indicating that the null hypothesis was rejected because Table 4.5 and figure 4.4 below illustrate these observations.

Table6. *Socio-Environmental and Board disclosures and ROI*

Equation	Parameter Estimates		Model Summary			
	Constant	B1	R^2	R	Se_y	Df
Linear	0.3163	-0.0146	0.0182	0.1349	0.1326	28

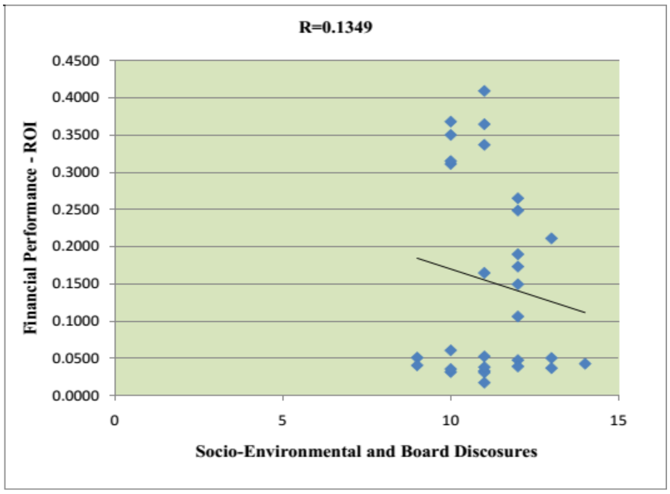

Fig6. *Socio-Environmental and Board Disclosures and ROI*

4.3. Multiple Regression Analysis

This analysis involved a regression analysis on ROI against all the four variables, namely:

X1= General Corporate and Strategic Information

X2= Financial Information

X3= Forward-looking Information

X4= Socio-Environmental and Board Disclosures

The multiple linear regression model was of the form:

$$y = 0.4660 + 0.0365x_1 - 0.1008x_2 + 0.0129x_3 - 0.0203x_4$$

A summary of the regression output is shown in Table 4.6 below.

Table7. *Summary of Multiple Regression Output*

Variables	**Coefficients**		**Standard Error**
Intercept	β_0	0.4660	0.2484
General Corporate and Strategic Information	β_1	0.0365	0.0253
Financial Information	β_2	-0.1008	0.0277
Forward-looking Information	β_3	0.0129	0.0191
Socio-Environmental and Board Disclosures	β_4	-0.0203	0.0177
ROI	y	N/A	0.1107

Findings from the regression analysis depicted a coefficient of determination, R^2 of 0.3888 and a Pearson Product moment Correlation Coefficient, R, of 0.6235 implying that the model is a significant good fit since there is a strong relationship between ROI and the four predictor variables of voluntary disclosure i.e. General Corporate and Strategic Information, Financial Information, Forward-looking Information and Socio-Environmental and Board Disclosures. Table 8 summarizes these statistics.

Table8. *Multiple Regression Statistics*

Model	Multiple R	R Squared	Adjusted R Squared	Standard Error	Degrees of Freedom	Observations
Multiple Linear	0.6235	0.3888	-3.4312	0.1107	25	30

Using the ANOVA table shown below, a significance test for the slope β_0 conducted at a 5% level of significance revealed an f-statistic of 3.9758. This value was greater than the F-critical value obtained from the F distribution table hence leading to the rejection of the null hypothesis meaning there is a significant relationship between ROI and the four predictor variables of the study.

Table9. *ANOVA table*

Cause of Variation	**Df**	**SS**	**MS**	**F**	**Significance F**
Regression	25	0.1948	0.0078	3.9758	2.76
Residual	4	0.3063	0.0767		
Total	29	0.5011	0.0845		

4.4. Discussion

This research sought to explore the relationship between voluntary disclosure and financial performance of companies quoted at the NSE. In particular, an analysis on the effect of the individual predictor variables on ROI indicated mixed results. The Univariate regression analysis revealed that General Corporate and Strategic Information and Socio-Environmental and Board disclosures depicted a weak negative linear relationship with ROI evidenced by Pearson's Product Moment coefficient of correlation of 0.2191 and 0.1349 respectively. On the other hand, Financial Information portrayed a negative linear relationship with ROI with a correlation coefficient of 0.5633 whereas Forward-looking information depicted a weak positive linear relation with correlation coefficient of 0.0984.

Further, a multivariate regression analysis on the combined model indicated that the four predictor variables put together established a strong linear relationship with financial performance measure, ROI, as shown by a Pearson Product Moment correlation coefficient of 0.6235. The test on the slope of the multiple linear regression models additionally confirmed the significance of this relationship.

By adopting a descriptive study approach, Cerf (1961) who investigated the relationship between voluntary disclosure of information and its level of profitability noted that there exists a positive link between the two variables. Verrecchia and Weber (2006) also found a positive connection between profitability and voluntary disclosure. On the other hand, Asava (2013), who used the same approach coupled with content analysis, examined the effect of voluntary disclosure on stock returns of companies listed at the NSE from 2008-2012. Her findings revealed that there was no relationship between voluntary disclosure and stock returns for both the individual predictor variables and the combined model.

This study analyzed 10 companies at the NSE 20 share index and findings were consistent with studies from past researchers like Ahmed and Courtis (1999). In their meta-analysis study of the relationship between profitability and voluntary disclosures, they found out that the results using financial performance measures are rather mixed and conflicting making it difficult to come up with satisfactory conclusions. Findings from this study proved that the relationship between the individual predictor variables with ROI produced mixed results.

This study is also consistent with a research done by Kristandl and Bontis (2007) whereby different voluntary disclosure items produced different results such that there was a negative relationship between cost of equity capital and the level of forward-looking information and a positive relationship between cost of equity capital and the level of historical information.

5. Summary, Conclusions and Recommendations

This section provides a summary of the findings obtained in Chapter four above on the relationship between voluntary disclosure and financial performance of companies quoted at the Nairobi Securities Exchange. The section also presents conclusions, limitations and recommendations of the study.

5.1. Summary of Findings

This study sought out to examine empirically the relationship between voluntary disclosure and financial performance of companies quoted at the Nairobi Securities Exchange from the year 2011 to 2013. The analysis involved identifying the items voluntarily disclosed by 10 companies chosen from the NSE 20 share index based on market capitalization as at Quarter 4 of 2013. A disclosure index containing four categories of voluntary disclosures was used to determine the voluntary disclosure scores for each company. The four categories are; General Corporate and Strategic Information, Financial Information, Forward-looking Information and Socio-Environmental and Board Disclosures. These four categories formed the four predictor variables of the study, with the independent variable being the financial performance measure, ROI.

Using Excel 2007, a regression analysis on the multivariate model of these four predictor variables and ROI resulted in a multiple linear regression model of the form:

$$y = 0.4660 + 0.0365x_1 - 0.1008x_2 + 0.0129x_3 + 0.0203x_4$$

Where; x_1 = General Corporate and Strategic Information, x_2 = Financial Information, x_3 = Forward-looking Information and x_4 = Socio-Environmental and Board Disclosures.

The analysis obtained a Coefficient of Determination R^2 of 0.3888 and a Pearson Product Moment Coefficient of correlation R of 0.6235, implying that there is a strong positive relationship between voluntary disclosure and financial performance measure ROI. As such, only 38.9% of the data points will appear on the linear plot. Further, an F-test conducted on the slope of the data set at 5% level of significance resulted in the rejection of the null hypothesis; $H_0 = \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$, such that there is a significant relationship between voluntary disclosure and Return on Investment.

Additionally, a test of the relationship between the individual predictor variables and ROI showed mixed results with General corporate and strategic information and Socio-Environmental and Board disclosure depicting a weak linear relationship with ROI, Financial information portraying a negative linear relationship with ROI and forward looking information depicting a weak positive linear relationship with Return on investment.

5.2. Conclusions

The findings of this study revealed that there is a significant positive relationship between voluntary disclosure and financial performance measure, Return on investment for the companies quoted at the NSE, when combined with Pearson Product Moment Correlation Coefficient of 0.6235. As such, 38.9% of the variations in financial performance measure ROI can be explained by variations in voluntary disclosure whereas 61.1% of the variations in financial performance measure (Return on investment) are explained by other factors outside of the multiple regression models developed.

Analysis of General corporate and strategic information and Return on Investment indicated that there is a relationship between the two hence rejecting the hypothesis. The scatter graph in figure 4.1 below depicted a negative linear relationship of the form $Y = 0.3841 - 0.0263X1$ with a coefficient of determination R^2 of 0.048 and a coefficient of variation R of 0.2191 indicating that there is a relationship between voluntary disclosure of General Corporate and Strategic Information and ROI, rejecting the hypothesis

A regression analysis on voluntary disclosure of Financial Information and ROI established that there was a negative relationship between the two variables. In particular, the data set produces a coefficient of Determination R^2 of 0.3173 and correlation coefficient R of 0.5633 This is because the t-statistic is greater that the t-value from the tables implying that slope at 5% level of significance, 3.611>2.048 hence resulting in the rejection of the null hypothesis $H_0: \beta_2 = 0$

A regression analysis of the relationship between voluntary disclosure of forward looking information and ROI resulted in a Pearson Product Moment correlation coefficient of 0.0984(close to 0.00) signifying a weak positive relationship between the two variables. This relationship is illustrated in the scatter graph on figure 4.3 shown below. A test of the slope at 5% level of significance revealed a t-value of 0.524<2.048 hence indicating that the null hypothesis $H_0: \beta_3 = 0$ can be rejected,

On the Socio-Environmental and Board disclosures scores with the ROI obtained from the companies, it was established that there exists a weak negative relationship between the two variables as evidenced by a Pearson Product Moment Correlation Coefficient, R, of 0.1349. The test for the slope at 5% significance level showed a t-value 0.719<2.048 indicating that the null hypothesis was rejected

5.3. Recommendations

This research report recommends that since there is significant relationship between voluntary disclosure and financial performance, managers in organizations should disclose information voluntarily not only for the purposes of obtaining cheaper capital but also because voluntary disclosure of information increases transparency and accountability in annual reporting.

The prospective shareholders get to learn more from the additional disclosure and this motivates them to invest in the companies listed on the NSE because they have more information relating to the companies.

There is a direct relationship between corporate governance and share prices of companies listed at the NSE, and that corporate governance practices improved ratios like EPS and ROA this has a big impact on the company's return on investments in terms of more dividends to shareholders.

Given that voluntary disclosure comes with a cost, firms would do well to voluntarily disclose so as to 'signal' to potential investors and enjoy a positive reputation, thus maximizing firm value.

5.4. Limitations of the Study

Due to time constraints, the study sampled only 10 companies from the NSE 20 share index, representing 16% of the population of the study. This raises further uncertainty about the extent to which the results are generalizable owing to the fact that the sample may be small in an emerging market that is relatively volatile. If more companies were examined, the results could have been more representative. Also, due to time constraints, the study could only analyze reports for these companies for three years only. If the period was relatively longer, more conclusive results would have been realized.

Moreover, since measurement of voluntary disclosures is a subjective exercise, different researchers will definitely have different ratings of voluntary disclosure items. The voluntary disclosure index in this study consisted of 49 items grouped into four categories. The results would probably change if more or less items were included. Additionally, since there is no universal index that measures voluntary disclosure, researchers with different indices may obtain the same or different results given the same population of study.

5.5. Suggestions for Further Research

Given that researchers are increasingly exploring the concept of voluntary disclosure, this study recommends that an extension of this study be done in other jurisdictions in developing economies to see whether the findings support those in this study.

Also, if research was centered on specific industries like Banking, Telecommunications and Manufacturing, there could possibly be more focused results since different industries respond differently to information disclosures.

Moreover, if the relationship between voluntary disclosure and financial information was investigated as soon as the annual reports were released, probably the outcomes could have been more effective in predicting the relationship.

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APPENDICES

Appendix A: *Voluntary Disclosure Checklist*

	General Corporate and strategic information	**Disclosed ('1'), Not Disclosed ('0')**
1	Historical background of the company	
2	Corporate, business and marketing strategies	
3	Mission and vision statements	
4	Description of major goods and services	
5	Market analysis i.e. market share, market growth	
6	Corporate goals and objectives	
7	Corporate governance	
8	Organization structure	
9	Identification of major competitors	
10	Regional economic and political stability	
11	Effect of business strategies on current performance	
12	Industry competitive analysis	
	Socio-Environmental and Board disclosures	
13	Corporate social responsibility statement	
14	Environmental policy	
15	Environmental activities undertaken	
16	Involvement in community projects	
17	Categories of employees by age, gender and qualifications	
18	Reasons for changes in employee numbers	
19	Disclosure of welfare policy of workers	
20	Work place safety policies	
21	Redundancy policies	
22	Information about employee turnover, absenteeism and strikes	
23	Names of directors	
24	Ages of directors	
25	Professional qualifications of directors	
26	Directors shareholding	
27	Board of Directors meetings held and their attendance	
28	Senior management responsibilities	
	Financial Information	
29	Summary of financial statements for the last three years or over	
30	Brief description and analysis of financial position	
31	Share price information i.e. market price, par value	
32	Earnings per share	
33	Return on equity	
34	Debt to equity ratio	
35	Value added statements	
36	Supplementary inflation adjusted financial statements	
37	Liquidity ratios	
38	Return on assets	
	Forward-Looking Information	
39	Investments forecasts	
40	Effect of business strategies on future performance of the co.	
41	Information about new product and service development	
42	Research and development expenditure	
43	Advertising and publicity expenditures	
44	Planning and capital expenditures	

45	Sales forecasts	
46	Cash flow forecast	
47	Profit forecast	
48	Information on dividend policy	
49	Risk management policy for future investments	
	TOTAL	

Source: *Researcher (2014)*

Appendix B: *Top 10 Companies by Market Capitalization in Kshs Billion for Q4/2013*

Listed Companies	**Oct/2013**	**Nov/2013**	**Dec/2013**	**Q4/2013 Average**
SAFCOM	378.34	432.39	434.48	415.07
EABL	252.26	257.00	229.32	246.19
KCB	144.73	143.24	141.00	142.99
EQUITY	131.45	131.45	113.86	125.59
BARCLAYS	101.30	95.05	95.60	97.32
STAN-CHART	93.68	97.69	93.98	95.12
BAMBURI	77.67	76.22	76.22	76.71
CO-OP	74.81	77.11	74.39	75.44
NMG	60.14	60.33	59.20	59.89
BAT(K)	57.40	57.90	60.00	58.43
Top 10 Co.s Mkt Cap.	1,371.78	1,428.38	1,378.05	
End-month total Mkt. Cap	1,873.66	1,975.00	1,920.72	
Mkt Concentration	73.22%	72.32%	71.75%	

Source: *NSE*

Appendix C: *Financial Performance, ROI (y) and Voluntary Disclosure Item (x_n)*

COMPANY	**YEAR**	y	x_1	x_2	x_3	x_4
SAFARICOM	**2011**	0.1650	8	3	5	11
	2012	0.1498	8	3	6	12
	2013	0.1901	8	4	7	12
EABL	**2011**	0.2653	7	4	7	12
	2012	0.3372	10	5	7	11
	2013	0.2114	9	4	7	13
KCB	**2011**	0.0332	9	6	5	11
	2012	0.0408	7	4	7	9
	2013	0.0359	10	6	7	10
EQUITY	**2011**	0.0512	10	6	5	9
	2012	0.0507	10	6	5	13
	2013	0.0478	9	5	7	12
BARCLAYS	**2011**	0.0313	8	5	5	11
	2012	0.0610	8	5	6	10
	2013	0.0371	10	5	5	13
STAN-CHART	**2011**	0.0176	7	4	4	11
	2012	0.0528	8	5	4	11
	2013	0.0430	9	5	7	14
BAMBURI	**2011**	0.1736	10	5	4	12
	2012	0.2489	10	5	5	12
	2013	0.1065	11	5	5	12
CO-OP	**2011**	0.0319	10	6	7	10
	2012	0.0384	10	6	5	11
	2013	0.0394	9	4	5	10
NMG	**2011**	0.3114	8	4	5	10
	2012	0.3505	8	4	4	10
	2013	0.3153	8	4	5	10
BAT (K)	**2011**	0.3683	9	4	6	10
	2012	0.4095	8	4	7	11
	2013	0.3649	8	4	6	11
TOTAL		4.5798	264	143	171	336

Source: *Researcher (2014)*

APPENDIX D: *Companies Listed at the NSE as at December 2013*

AGRICULTURAL	COMMERCIAL & SERVICES	Liberty Kenya Holdings Ltd
Eaagads Ltd	Express Kenya Ltd	Pan African Insurance Holding Ltd
Kakuzi Ltd	Hutchings Biemer Ltd	Jubilee Holdings Ltd
Kapchorua Tea Co. Ltd	Kenya Airways Ltd	Kenya Re Insurance Corporation Ltd
The Limuru Tea Co. Ltd	Longhorn Kenya Ltd	INVESTMENT
Rea Vipingo Plantations Ltd	Nation Media Group Ltd	Centum Investment Co Ltd
Sasini Ltd	Scangroup Ltd	Olympia Capital Holdings Ltd
Williamson Tea Kenya Ltd	Standard Group Ltd	Trans-Century Ltd
AUTOMOBILE & ACCESSORIES	TPS Eastern Africa Ltd	MANUFACTURING & ALLIED
Car &General (K) Ltd	Uchumi Supermarket Ltd	A. Baumann & Co. Ltd
CMC Holdings Ltd	CONSTRUCTION & ALLIED	B.O.C Kenya Ltd
Marshalls(E.A.) Ltd	ARM Cement Ltd	British American Tobacco Kenya Ltd
Sameer Africa Ltd	Bamburi Cement Ltd	Carbacid Investment Ltd
BANKING	Crown Paints Kenya Ltd	East African Breweries Ltd
Barclays Bank of Kenya Ltd	E.A. Cables Ltd	Eveready East Africa Ltd
CFC Stanbic of Kenya Holdings Ltd	E.A. Portland Cement Co. Ltd	Kenya Orchards Ltd
Diamond Trust Bank Kenya Ltd	ENERGY & PETROLEUM	Mumias Sugar Co Ltd
Equity Bank Ltd	KenGen Co. Ltd	Unga Group Ltd
Housing Finance Co .Kenya	KenolKobil Ltd	TELECOMMUNICATION & TECHNOLOGY
I &M Holdings Ltd	KPCL	Safaricom Ltd
Kenya Commercial Bank Ltd	Umeme Ltd	GROWTH ENTERPRISE MARKET SEGMENT (GEMS)
National Bank of Kenya Ltd	Total Kenya Ltd	Home Afrika Ltd
NIC Bank Ltd	INSURANCE	
Standard Chartered Bank Kenya Ltd	British American Investment Co. Ltd	
The Co-operative Bank of Kenya Ltd	CIC Insurance Group Ltd	

Source: *NSE*

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