EFFECT OF VOLUNTARY DISCLOSURE ON FINANCIAL PERFORMANCE OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I declare that the work in this dissertation has not been previously published or submitted elsewhere for award of a degree. I also declare that this is my own original work and contains no material written or published by other people except where due reference is made and author duly acknowledged.

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Signature…………………………. Date……………………………………

I do hereby confirm that I have examined the master's dissertation of

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and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

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

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DEDICATION

This work is dedicated to my parents, for the love and support and to my brother for the encouragement. My supervisor Dr. Gladys Bunyasi for the advice and support she accorded me, not forgetting all my friends for their support.

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ABSTRACT

Lack of full disclosure on the activities of the company has left shareholder at risk of manipulated earnings as recently witnessed in with rising cases of scandals, frauds, suspension and even delisting. This study seeks to examine the effect of voluntary disclosure on financial performance of listed companies in Nairobi securities exchange. To achieve this, the study sought to examine the effect of financial policy, investment policy, sales growth, financial liquidity and research and development on financial performance. The study was based on agency theory, signaling theory, stakeholder's theory and theory of capital needs. Correlation research design was applied to attain the study objective. The target population was 64 companies currently listed in Nairobi Securities Exchange. Purposive sampling was used to select 43 companies which have been actively trading between 2006- 2015. Data was analyzed through the use STATA. Results of the study revealed that there was a positive and significant relationship between disclosures on financial policy, investment policy, sales growth, financial liquidity, research and development and firm performance. Moreover, these voluntary disclosures explained 63% of the variations in firm performance.

Keywords: Financial policy disclosure, Investment policy disclosure, sales growth disclosure, financial liquidity disclosure, research and development disclosure, firm performance.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

CMA	Capital Market Authority
DCI	Document Check Index
EBIT	Earnings before Interest and Tax
EPS	Earnings per Share
FASB	Financial Accounting Standard Board
IFRS	International Financial Reporting Standard
NSE	Nairobi Securities Exchange
OLS	Ordinary Least Squares
PER	Price Earnings ratio
R&D	Research and Development
ROA	Return on Assets
ROE	Return on Equity

OPERATIONAL DEFINITION OF TERMS

Financial Performance: This is the change in firm value which is attributed to the levels of voluntary disclosure (Wangari, 2014). It is also the annual unit change in shareholders' equity (Salawu et al., 2012; Hamrouni *et al.*, 2015).

Financial Policy: This is the disclosure of financial objectives, dividend policy, earnings per share, how the company has been affected by inflation, analysis of financial rations and trend of market capitalization (Oyerogba, 2014; Hamrouni *et al.*, 2015; Wanjau, 2015).

Investment policy: This is the disclosure in relation to company geographical distribution of capital and net assets, ownership structure, participation in community programs, investment on production and total employees training costs (Asava, 2013; Harmouni *et al.*, 2015).

Sales growth: This is annual disclosure on sales, revenue per business line, business environment analysis and changes in sales (Jullobol & Sartmool, 2014; Hamrouni *et al.*, 2015).

Financial liquidity: This is the disclosure on profit estimates and net income, short term and long term debt per currency, estimate of profit increase, estimates of interest rate changes and financial risk assessment (Cormier & Ledoux, 2012; Hamrouni *et al.*, 2015).

Research and development: This is the disclosure of continuous expenditure, corporate policy and schedule, collaboration and funding on research and development (Merkley, 2010; Hamrouni *et al.*, 2015).

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Information asymmetry has been blamed to be one of the key problems affecting the principal–agent relationship (Melis, 2004). Management is deemed to be much aware of the company due to their role in running the firm affairs. Principal or the owners rely on the disclosed information to know how the firm performing including their primary objective of the wealth maximization (Tarus & Omandi, 2013). The main aim of the disclosure is to inform the investor / owner and analysts about the quality and value of the firm (Hamrouni, Miloudi & Benkareim, 2015). Information needed must not only to be accurate, but also timely for it to benefit the decision maker appropriately (Mugo, 2014). Disclosure therefore can be termed as provision of timely and relevant information aimed to ensure full transparency and accurate picture of the corporate actions like in governance and financial performance.

Annual reports are essential in updating investors, shareholders and other stakeholder on the whereabouts of the company more importantly the financial position and performance (Mugo, 2014) aimed to aid decision making. Information contained in the reports produced by the company for a given period like quarterly, semi-annually or annually, is required to meet certain minimum criteria as well any other deemed benefits. Basically, there is the compulsory/mandatory disclosure and voluntary disclosure in periodic reports produced.

The two types of corporate disclosure should not be confused. According to Oyerogba (2014) Mandatory disclosure is the information that has to be disclosed according to the expectation of a given regulatory authority in the firms' country, for example the Security and Exchange authority, Companies and Allied Issues Act, proxy statements, among others. Simply put, mandatory or compulsory disclosure meets the basic demand of the market as ruled out by a professional body or government authority (Mugo, 2014).

1.1.1 Voluntary Disclosure

Disclosures are revelations how well or bad the management and directors have performed in relation to investments. There are two distinct types of disclosure, compulsory and voluntary disclosure. Scholars such as Polinsky and Shavell, (2006) feels that compulsory disclosure (also known as mandatory disclosure) is superior to voluntary disclosure while others (Tian and Chen, 2009) argues that the two types are of equal importance in their own dimension. Compulsory disclosures are "those aspects and information which must be published as a consequence of the existence of some legal or statutory stipulations, capital markets, stock-exchanges commissions or accounting authorities regulations," (Adina & Ion, 2010, pg. 15). This ensures that the user's need for the information are satisfied and also ensure that the quality of the production is controlled by the set laws and standards (Tian & Chen, 2009). Categorically, mandatory disclosure is determined by: issuer or company, stakeholders, regulations, standards, disclosure period and dissemination means like a web site, printed among others. Compulsory disclosure includes disclosure of: assets, liabilities, income, expenditure, contributions by and distributed to the owners, cash flow, equity among others.

Voluntary disclosure is defined as the information that is disclosed regarding the organization up and beyond the statutory requirements (Asava, 2013). Barako, et al., (2006) emphasis that voluntary disclosure is based on the free will and discretion of the management to disclose information either financial or non-financial over and above the compulsory requirements. This information can be used for different purposes by management. And as

Zechman (2008) observed that the information contained in voluntary disclosure may be meant influence the interpretation of the financial reporting which may affect the activity choice.

The strategic change from the traditional reports that only carried the compulsory information in reporting has been necessitated by the many benefits that come with voluntary disclosure. Financial Accounting Standard Board (FASB) report of 2001, identified potential benefits to include: reduction of incidences of misallocation of capital by investors; company benefit from lower cost of capital that come from increased credibility and confidence relations coming as a result of better investment decisions and lesser danger of litigation alleging inadequate information disclosure. Chau & Gray (2002) also noted voluntary disclosure reduces conflict of interest in especially in large organizations.

More attention has been given on the disclosure recently as a way of trying to bridge the information gap between the management and owners in fact Dye, Pearche & Doh (2005) refer to it as a business dialogue with the public. Public outcry over high profile corporate scandals has led to a call for increased disclosure for the firms to try and minimize these incidences (Mugo, 2014). With commitments in comprehensiveness and quality, voluntary disclosure, scandals can be eliminated. An all-inclusive firm's voluntary disclosure would entail disclosing information about the financial policy, investment policy, sales growth, financial liquidity and research and development (Harmouni et al., 2015).

Firms must make the three vital decisions in the course of their existences that is, investment, dividend and financing decision that help investors' welfare to be optimized. Financial policy relates to how the financing decision is carried. A firm is financed by both internal funds (generated profits and depreciation) and external funds (equity & debt) (Rindu, 2015). These financing options do carry different advantages and different levels of risk and therefore the optimum mix should be sought following a firm's financial policy. The disclosure of such financial policies in the company reports will enhance the analysis of full performance by the investors and other interested parties (Oyerogba, 2014).

Investment is also an important element of a company aim to grow. Apart from revealing the investment opportunity to the investors, any value of the investment expected to be added thereof need to be updated to the investor forming basis of the disclosure requirement. Investment decisions should incorporate the input of the company investor. Sales growth represents a vital indicator of the progress of the company and therefore coverage of the details should be disclosed to enable assessment of the progress.

Being in a position to manage the cash flow is considered as one of the propelling force of any business. Financial liquidity shows how best a company manages its free cash flow and utilizing the available resources. According to Basel Committee of 2014, liquidity disclosure is meant to improve the transparency of regulatory liquidity requirements, reinforce the sound principles, and enhance market discipline and reducing uncertainty in the markets. International Financial Reporting Standard (IFRS) does not require firms to itemize research and development (R&D) but big expenditure should be revealed in annual reports (Stein, 2014). Voluntary disclosure on R & D help market participants understands the economics underlying firm's operations (Merkley, 2010).

1.1.2 Voluntary Disclosure and Financial Performance

A study was conducted by Hossain (2008) on the extent of disclosures in annual reports of banking companies in India. The results showed that banks were compliant with the rules regarding compulsory disclosure, though they still lag behind in voluntary disclosure. It was also established that size, profitability and board composition and market discipline had a significant impact on the level of disclosure while age of a firm, complexity of the firm and assets in place were insignificant.

Nigeria listed companies study on financial policy disclosure on corporate performance by Salawu, Asaolu & Yinusa (2012) found that there was a positive relationship between firm performance as measured by return on assets and the stock market development in disclosure. This study concurred with Oyerogba (2014) who also found that voluntary disclosure was satisfactorily explaining performance and investor decision making of the firms listed in Nigeria exchange that is a high level of voluntary disclosure result in high performance.

In Kenya, Barako (2006) observed that profitable enterprise offers to volunteer in disclosing more information so as to enhance value of firm subsequently giving it a competitive advantage. Baraka found that voluntary disclosure has a positive relationship with firm performance. In this study, researcher will seek to establish whether there exists a relationship on the different proxies of voluntary disclosure and firm performance.

1.1.3 Nairobi Securities Exchange

In 1954, voluntary association of stockbrokers was rebranded to Nairobi Stock Exchange and was registered under the Societies Act. A lot of transformations have taken place since then. At the heart of the Exchange is market liquidity enhancement by fostering transformational and utmost ethical practices amongst the participants so that more investors are assured of free and fair information for their trade related decision making (Ngugi, 2003).

The Kenyan Government agitated the reforms at the NSE aimed to transform Nairobi Securities Exchange (NSE) to be the vehicle for mobilizing local savings as well as expand market to attract foreign capital investments (Barako, 2006). Consequently, corporate financial reporting on voluntary disclosures is an important ingredient of enhancing confidence and trust of the market by both local and foreign investors (Ngugi, 2003). From year 2008, the Exchange has greatly accentuated on corporate governance where some participants have been punished for faulting market regulations as outlined.

Amongst other changes are enhanced communications by and within the NSE itself. In November 2011, the exchange launched the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices, as a result of an extensive market consultation with local asset owners and fund managers. The launch of the indices reveals the interest of growth into the domestic investment and diversification opportunities in the East African region. Another remarkable reform that shows investors being provided reliable and current information on the equity market performance was the use of the indices in NSE website and phone applications notify any news in company of interest. Since then, NSE has continued to encourage participants in this market to provide more information as is practically possible.

1.2 Statement of the Problem

As the agency theory by Jensen and Meckling (1976) posits the principle (shareholders) and agents (managers) do have different kind of information. Managers are in charge of running the daily affairs of the investment made by the shareholders in expectation of pay while on other hand shareholder provide finance and expected return on their investment. In pursuit of these goals, conflict of interest may arise and since managers possession more information about the company they are at advantage (Tarus & Omandi, 2013). Lack of full disclosure on the activities of the company has left shareholder at risk of manipulated earnings as recently witnessed in with rising cases of scandals, frauds, suspension and even delisting (Tarus & Omandi, 2013).

In Kenya, statistics from Capital Market Authority (CMA) have indicated poor performance of the companies listed in NSE recently such as, Kenya flag carrier (Kenya Airways) reported a loss of Ksh 25.7 billion alleged due to operational inefficiencies (Okoth, 2015), Mumias Sugar company a total reported a loss of Ksh 3.4 billion (Gibendi, 2015), Uchumi supermarket creditors have sued for billions that have gone unpaid for the years

(Michira, 2016), Eveready East Africa limited lost Ksh 248million lost and is almost exiting the Kenya markets, NSE has suspended CMC holding for years and later delisted that companies due to malpractices (Aderibigbe, 2015) and so on. According Rezaee (2012) financial reporting have been window dressed due to corruption, frauds, and ineffective regulations that not conveying the true value of the companies. According to World Economic Forum (WEF), Kenya was ranked position 106 out of 144 due to mega corporation scandals. Shareholders who are the owners of the companies have thus requested for a more inclusivity in the running of business matters. Further, it has been observed that a lot of emphasis has been put on reporting the financial performance, ignoring the importance of non-financial information that in the long run has impacted on the financial performance (Rundi, 2015).

In past studies, many scholars have examined the effects of voluntary disclosure on firm performances (Cormier & Ledoux, 2012; Asava, 2013; Mugo, 2014; Oyerogba, 2014; Maina, 2015). These studies give different results on the nature of the relationship between the voluntary disclosure and firm performance, for example, Asava (2013), Mugo (2014) and Maina (2015) found a positive relationship while Cormier & Ledoux, 2012 and Jullobol & Sartmool (2014) saw a negative relationship hence, the need for further research to ascertain proof the nature of the relationship. There have been conflicting choice on the method of data analysis some studies have used ordinary least squares regression analysis while others have used panel data analysis though the data is panel.

Despite these studies recognizing the data used is a panel, methods of panel analysis have been omitted, and therefore, the present study will aim to harmonize the choice of methodology applied. Again, some study have been delimited to only the NSE 20 index companies, thereby ignoring the other listed company. In spite of all these conflicting results none of the study has purposed to cover the period 2006-2015, as such to increase the sample size as stated by Tarus and Omandi (2013) who argued that the use of a five year period minimizes the sample size. Therefore, the current study will fill this gap by studying the effects of voluntary disclosure on financial performance for the firms listed in the Nairobi Securities Exchange.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to examine the effect of voluntary disclosure on financial performance of firms listed in Nairobi Securities Exchange.

1.3.2 Specific Objective

To achieve this, the study specifically sought:

1. To determine the effect of financial policy disclosure on financial performance of firms listed in the Nairobi Securities Exchange.
2. To evaluate the effect of investment policy disclosure on financial performance of firms listed in the Nairobi Securities Exchange.
3. To examine the effect of sales growth disclosure on financial performance of firms listed in the Nairobi Securities Exchange.
4. To determine the effect of financial liquidity disclosure on financial performance of firms listed in the Nairobi Securities Exchange.
5. To evaluate the effects of research and development disclosure on financial performance of firms listed in the Nairobi Securities Exchange.

1.4 Hypotheses of the study

This study was guided by the following hypothesis:

H_{o1}: Financial policy disclosure has no significant effect on financial performance on the firm listed in Nairobi Securities Exchange.

H_{o2}: Investment policy disclosure has no significant effect on financial performance the firm listed in Nairobi Securities Exchange.

H_{o3}: Sales growth disclosure has no significant effect on financial performance on the firm listed in Nairobi Securities Exchange.

H_{o4}: Financial liquidity disclosure has no significant effect on financial performance on the firm listed in Nairobi Securities Exchange.

H_{o5}: Research and development disclosure has no significant effect on financial performance on the firm listed in Nairobi Securities Exchange.

1.5 Significance of the Study

With the expansion of the market and market products prior knowledge is advisable for investment. Information on corporate governance is now critical for subsequent investments. This study is aimed to help the following people and subject: First, to the stock market partakers, this study will be of great importance since they will understand the implications of voluntary disclosure on companies' performance. The companies' executives will now make an informed decision when publishing or reporting on the disclosures.

Secondly, the investors in stock will benefit from taking a good plan of action and hence earning a better return on their investments. This comes as result of invaluable information which can be referred to analysts who can advise informatively.

Thirdly, to the government this might help in assessment of the revenue generated and can be used to determine the rated of payment of loans by governments. Government policy maker will find this research important in setting the new policies on the voluntary disclosure. Finally, the study will contribute to body of literature and basis for further studies on voluntary disclosure and financial performance.

1.6 Scope of the Study

This study was carried on the listed companies in Nairobi Securities Exchange which have been trading continuously since 2006 with no suspension or delisting. Companies which have been listed during this period, delisted or suspended will excluded from the study. The study will concentrate only the companies' annual reports for a period of 9 years starting from 2006 to 2015. In addition, only the five corporate finance concepts were considered that is financial policy, investment policy, sales growth, financial liquidity and research and development.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the past empirical studies and theory related to the variables under study. Empirical studies have been identified with regard to the study's objective and they are detailing the procedures, sample taken and location, analysis method used and discussion of the results. Theory discussed, particularly pertains the voluntary disclosure and financial performance perspective.

2.2 Theoretical Framework

There have been several theories underpinning information aligned to explain the voluntary disclosure that lead changes in financial performance and aid in effective decision making. Those discussed herein are: Agency Theory, Signaling Theory and Theory of Capital Need.

2.2.1 Agency Theory

The agency theory argues that due to the fact that most managers are not the owner of the business, there exists a cost in managing the business affair where the principals (owners) appoint agents (managers) to run the business on their behalf (Jensen and Meckling, 1976). Barako, et al., (2006) adds that whenever the shareholding of the managers' change, either an increase or decrease, there is a correspondence change of interest. As manager increases shareholding level, it can be taken to mean they trust and have forecasted growth in the firm A decrease in the number of shares for the manager will tend to necessitate an avenue to gain more interest and by so doing manager may avoid search of new growth opportunities which after would benefit the firm as whole. When this problem persists the shareholder may be forced commit their firm's resource to monitor the management so as to align the interest of the manager. In order to monitor, the manager, audit procedure, budget preparation and enhanced control, and good remuneration package need to be provided for the management. All these mechanisms increase the cost of the conducting the business, hence their reason Jensen and Meckling (1976) referred to them as agency costs.

2.2.2 Signaling Theory

Contrary to the pecking order and agency theories, Bhattacharya (1970) as cited in Rindu (2015) argued that companies that have more tangible assets to intangible assets have an added advantage when it comes to payment of dividend. With the high amount in tangible assets a company ought to pay less dividends since the assets themselves minimize the risk and there is no need to increase dividend payment. On the other hand, those companies with low tangible asset bases have to increase the payment of dividend as a signal of improved or good chance for an investment to the investors. Bird and Smith (2005:1) ethnographic study of the signaling theory in the form of "unconditional generosity, substance behaviour and artistic or craft traditions" observed that signaling theory was likely to generate a novel and powerful insights into the investment and has ethnographic realm. And as Spence (1973) proposed signaling was relevant in disclosure of any information that may be asymmetric. More importantly, this depends on the trust displayed by a principal on the signal and the time, the type of the information released and money spent to send the signal that further leads to more disclosure. Myres (1989) allude that signaling indirectly improves the firm performance via encouraging more investment. Myres argues that full disclosure on the pure cashflow protects shareholders from underinvestment that comes when manager aims to serve their own interests.

2.2.3 Theory of Capital Need

In a world where capital is dwindling, there is increased competition on what is available. In order to achieve this, companies are adopting all measure of minimizing the cost associated with capital such through the voluntary disclosure. And as FASB (2001) noted the uncertainty among investors is cleared when they are able to interpret companies' economic forecasts gotten through the voluntary or addition disclosure. Shehata (2014) empirically found there is a positive connection with the voluntary disclosure and the cost of capital. Choi (1973) while discussing the theory of capital need points that voluntary disclosure enables companies to raise more funds at low cost. This can be attributed to the low premium that is expected by investors when they are made aware of adequacy and accurate information available about the company (Shehata, 2014). Contrary to underscore the benefits of voluntary disclosure, Botosan (2006) evaluation of stream of research observed information can also be used against the company's benefits. However, Cheynel (2009: 2) concluded that a high level of disclosure leads to overinvestment since "as the disclosure friction continues to increase, the equilibrium switches to overinvestment and further increases in the disclosure friction improve risk-sharing."

2.2.4 Stakeholders Theory

Stakeholder theory basically advocates for the purpose of the organization to be aligned with the group of stakeholders in the organization so that they can best manage different interests, needs and viewpoints (Friedman, 2006). According to Fontaine, Haarman and Schmid (2006) management should take it as their responsibilities to strike a balance in managing stakeholders' benefits including involving them in decision making and acting as agents to stockholders that overseeing the survival of the firm in the long term. To manage stakeholders Freeman (2004) suggest one need to know their boundaries and going by his definition of stakeholder to mean "those groups who are vital to the survival and the success of the corporation".

Approach to stakeholder concepts takes three forms: normative stakeholder theory, descriptive stakeholder theory and instrumental stakeholder theory. Friedman (2006) describes the normative stakeholder theory as theory where managers or stakeholder learn how to act and view the role of the corporation base on ethics. Descriptive stakeholder theory deals with behaviour and views on actions and roles of managers and stakeholders. Instrumental stakeholder theory deals with how managers should act if they want to flavor and work for their own interests (Fontaine *et al.*, 2006).

This theory tends to explain the reason why most firms need to engage in an act of disclosing more information voluntarily. To gain support from stakeholders, who includes managers, shareholders, creditors, customers, suppliers, government, trade unions, and the public (Uyar & Kılıç, 2012a), companies ought to convey information relevant to stakeholders (Smith, Adhikari & Tondkar, 2005). Demand for more information from stakeholders to reduce information asymmetry explain the reason why it must put clear all the activities engaged by the companies which can only be achieved through additional information.

This theory, even after being so elaborate in some ways it remains ambiguous, especially on its foundations, thereby presenting a given number of limitations. On one side this theory suggests a relational representation of the organization based on complete contracts, which suppose that the conflicts of interests can be solved by ensuring a maximization of each group interests while on the other side this theory builds a reduced representation of the social and environmental responsibility of the company (Fontaine, 2006). Apart from this ambiguity, one is also left wondering how the interests of those parties who are too weak are represented. Another possible question for this theory, is whether we can reduce the general interest to the sum of each group of stakeholder interests? Again, many theorists come up with different definition of stakeholder thus leaving a question which is the most appropriate?

There are different stakeholders in an organization which creates differing levels of integration which will ultimately influence the amount of information which will be availed to members of the public especially if it not mandatory. These stakeholders can provide the requisite skills which will be paramount in development of new products which can steer positive growth and this can be achieved through research and development.

2.3 Empirical Review

This section reviews the literature related to the specific objectives of the study that a firm need to voluntarily disclose, namely financial policy, investment policy, sales growth, financial liquidity and research and development expenditure. It also contains the concept of financial performance.

2.3.1 Voluntary Disclosure on Financial policy and Financial Performance

Salawu, Asaolu and Yinusa (2012) examined the financial policy and corporate performance in firms listed in the Nigeria listed companies from year 1990 to 2006. Secondary dataset of 70 firms Salawu et al. were explored where the different policies adopted by companies on long-term debts, the tangibility of assets, corporate tax rate, dividend policy size of the firm, growth opportunity, stock market development and macroeconomics (inflation, trade openness, and foreign direct investment) were sorted and arranged for analysis. Performance measure used was Return on Asset (ROA). Data was analyzed using pooled OLS, fixed effect model and generalized model. The results of the study showed a negative relationship between growth, size and foreign direct investment and firm performance even though the rest of the variable showed a positive relationship with firm performance. In this study the choice the method was appropriate since data was panel and/or time series and sample taken was large enough to give a reliable result.

Using data sets of total of ninety companies listed on the Tehran Stock Exchange from year 2006 to 2010, Heydari, Razeghi and Sharifi (2015) investigated the relationship between institutional ownership with financial policies and firm performance. Firm performance was assessed using ROE, ROA and Tobin Q. Correlation and multiple regression analysis showed an institutional ownership has positive and significant relationship with dividend policy and negative and significant relationship with financial leverage. Institutional ownership showed a positive relation with firm performance. The choice of regression analysis was inappropriate for this study since the data were time series and cross section in nature, hence it would have been correct to apply panel data analysis method such as the fixed random effect. Again, this study did not test relation between the specific policy like the leverage and dividend policy with firm performance. The current study will try to follow the correct method of analysis and test for specific policies.

Simona (2015) examines what influence capital structure has on financial performance specifically the impact of debt on the total assets. The study was conducted in pharmaceutical companies from five countries: Romania, Bulgaria, Hungary, Ukraine and Poland. Secondary data from Thomson Reuters were collected for a period 13 years ending 2013. Firm performance was assessed using ROA, ROE and PER while financial policy was measured by leverage, total debt to total assets, cost of debt, distribution rate of dividend, dividend yield. Contrary to previous studies, using panel data regression model, it was found increased debt had an adverse impact on performance or tended to lower profitability of the firm.

2.3.2 Voluntary Disclosure on Investment policy and Financial Performance

Taimisto (2010) conducted a cross sectional analysis on the impact of voluntary disclosure on investment and financial policy on the value of cash for the firm in the U.K. The study made use of dataset from 1193 listed firms for a period of twelve years ending 2008. Both financial policy and investment policy were found to have no impact on the value of firm's cash holdings position even though firms characterized by constrained by finances in times of good investment opportunities were found to value cash holding highly.

Mwangi, Makau and Kosimbei (2014) examine the effect of working capital management on performance on non-financial firms listed in NSE majorly focusing on financial and investment policy. Applying explanatory non-experimental research design in forty two non-financial firms for a period of 2006 to 2012, it was found that companies need to employ an aggressive financial policy and conservative investment policy. These policies were seen to have a positive impact on firm performance as measured by ROA and ROE. It was appropriate for this study, which analyzed this data using panel data model and generalized linear models as the data was time series and cross sectional.

Delaney and Thijssen (2015) studied the effect of voluntary disclosure on a firm's investment policy. The two argued that manager chooses a time to invest in a project and a time to disclose the investment return in order to maximize his monetary payoff. This payoff was linked to the level of the firm's stock price. George and Hwang (2011) explained on investment disclosure is double edged as it can also to explain the poor performance of an organization as the differences in disclosure policies for item like investment usually have their effect realized in the future.

2.3.3 Voluntary Disclosure on Sales Growth and Financial Performance

Lynch, Pownall and Simko (2011) studied disclosure on components of revenue growth from U.S. firms from year 2002 until 2006. In this study, a sample 1,933 firms was taken and their annual and quarterly reports scrutinized for the kind of the information appearing related to revenue growth. Empirical results showed that larger firms were more likely to give particulars about revenue growth as results of increased disclosure and transparency demands from the shareholders. Lynch *et al.* also found that investors viewing the internal growth component of revenues were more persistent than the external component of growth.

Hamrouni, *et al.,* (2015) carried a research on the signaling firm performance by the use of voluntary disclosure by 179 firms quoted on Euronext Paris Stock Exchange in a period starting from 2004 to 2009. ROE and Tobin's Q were the proxies for firm performance and voluntary disclosure was determined by the firm values that are widely used in corporate finance like financial policy, R&D, operating profitability and sales growth. Since the data was panel, the researcher applied logit model. Using data envelopment analysis, the results of the study showed that there was a direct and significant relationship between disclosure indexes and performances.

Burns and Walker (2001) discuss the importance of sale and sales forecasts in financial planning for smaller manufacturing firms. Sales cuts across all activities of the business and are a great determinant of the cash flow estimation, capital budgeting, structure analysis, cash budgeting, company valuation among others. Turnover is the center stage of working capital management. Sales and debtor management are complex and differ significantly between firms depending on industry, firm size, season of the year, government legislation and so on. Ernst and Young limited (2014) advises companies disclosure critical accounting measure used for analysis and also reveal the details (if any) on whether the measure is susceptible to change, especially with sales and profit computation, and any assumption made thereof.

2.3.4 Voluntary Disclosure on Financial Liquidity and Financial Performance

Frasca and Tucker (2005) reviewed the needs and practices related to financial risk by looking at the financial statement disclosure of the twenty-five major insurance companies in the U.S for the period 1999 ending 2004. Among these practices under consideration was the act of maintaining liquidity in the company and foretelling any liquidity risk likely to affect the company adversely. There were tremendous improvements that were realized as a result of increased disclosure of financial risk over the period as assessed by amount of quantitative and forward looking disclosure. However, it was established that there were variations in depth and quality of disclosure.

As the FASB (2012) added firms need to disclose information of any intended risks or uncertainty that would hinder the firm to meet its intended obligation. Firms are ought to disclose their associated classes of financial liabilities and assets separate out with their respective contractual agreements. Balakrishnan, Billings, Kelly and Ljungqvist (2014) studied the causal effects of voluntary disclosure supplied to public information. In response to reduce information asymmetries between manager and stockholders more disclosure of liquidity was found necessary. Balakrishnan, et al. Observed that as financial liquidity improves the firms' value increases, which supposedly influence the cost of capital through the voluntary disclosure.

2.3.5 Voluntary Disclosure on Research and Development (R&D) and Financial Performance

Merkley (2010) examined links between R&D related disclosure and firm performance with a sample of 20, 990 firms. Contrary to previous findings, qualitative disclosure on R & D was found to have a negative relationship with the current performance, especially for firms that value R & D more importantly. Merkley concludes that disclosures influences performance in many different ways. Brown and Hillegeist (2009) suggest that current performance must have been generated by past successful investments in R&D that lessen the concerns of that amount and uncertainty of future firm cash flows for the investors. These researchers further observed that good performance highly reduces information asymmetry and create confidence to the investors who in turn decreases their information searches.

Majella (2000) investigated the discretionary choice of R&D expenditure which the research felt could be explained with reduced information asymmetry and agency costs. All the 152 firms listed Australia firm and those that conducted R&D in 1993 financial statements were sampled. Secondary data from any of the available firm reports was scrutinized for data. A cross sectional analysis was adopted. The specific items measuring R&D were the research intensity, usage of R&D financing arrangement and the percentage of subsidiaries wholly owned. These items were found significant in explaining the voluntary disclosure of R&D.

A recent study in Israel science-based and technology firms by Chen, Gavious and Lev (2015) focused on externalities on R&D extensive voluntary disclosure. Chen, et al. (2015) observes that investors have got a value attached to the information voluntarily disclosed on R&D over and above the value put on the earnings and books. This has further been argued to have an impact on the information supplied to revalue share price higher. The researcher concludes that there exists positive externality of specific accounting regulation.

2.3.6 Financial Performance

Eshna (2016) defines financial performance is degree into which financial objectives has been met that is assessing firms policies and operations in monetary terms. Financial performance is concerned with the financial health company and is normally used to compare firms from one industry to the other. Financial performance can be used measure whether shareholders goals of maximizing their returns is being met or not (Tarus & Omandi, 2013). Increase in share price and dividend distribution is the two main ways of ensuring shareholder goals is fulfilled. Though an increase in the value of securities is not always as a result of improved performance but studies have shown a positive relationship between the financial performance and securities (Aderibigbe, 2015; Kosack & Fung, 2014). Good reputation which is enhanced in one way by the consistency of the company's performance explains the change in the market value of securities.

Financial ratios are usually indicating the financial health of a firm. Financial measures according to Santos & Brito, (2012) are sufficient and are as well influenced by the non-financial measures. According to Demodaran (2008) as cited in (Yegon, 2015) the three important decisions that a firm has to make on investment, financing and dividend explain all about firm performance. Managers of a firm ought not to compromise any of these decisions since performance is on these fronts. Investment in assets should offer return, a good principle on financing should balance the debt and equity finances and in firm ought to return some returns made to the shareholders as dividends (Yegon, 2015).

Pagach and Warr (2008) posit that firm performance can be assessed by financial and operational efficiency in using resources. Tobin's q measure of firm performance explains different corporate phenomena: over a given period of time, it tells a change made investment and diversification decisions; assess the management equity ownership and value of the firm; also serves to explain the different policies such as financing, compensation and dividend policies (Wolfe & Sauaia, 2003). Tobin's Q measure performance by considering the ratio of market value of assets to replacement cost of the firm's assets. According to Giacomini, Catapan, Santos, Santos and Catapan (2012) profitability measure; ROA, ROE, Earnings before Interest and Tax (EBIT) strong impact the value of Tobin q therefore, by assessing of firm performance using Tobin's q it inclusive of the profit and loss, balance sheet indicators and security market values unlike to only use the ROE and ROA profitability measure. For a more inclusive financial measure this study will adopt profitability measure ROE as applied in Harmouni, et al., (2015) and Asava's (2013) studies.

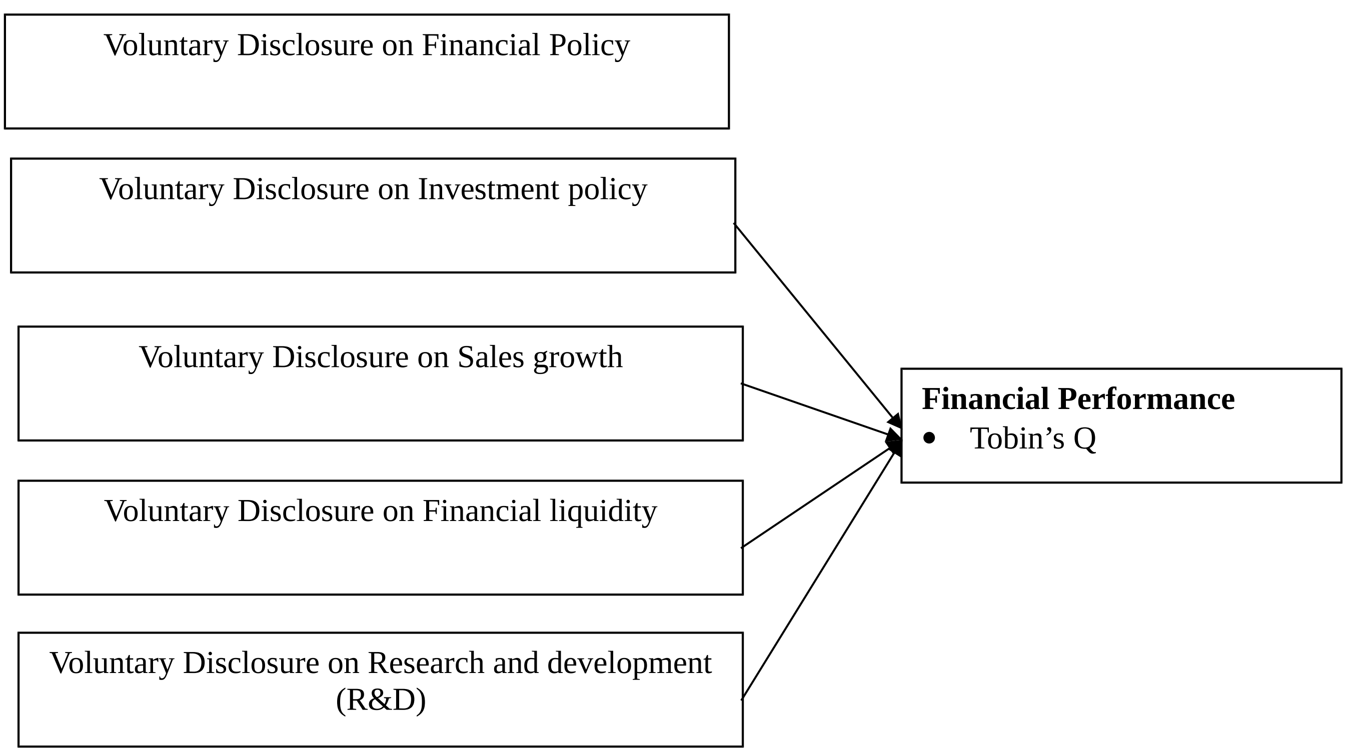
2.4 Conceptual Framework

A conceptual framework is the diagrammatic presentation of variables, showing the connection between the independent variables and a dependent variable (Mugenda and Mugenda, 2003). Particularly, financial policy, investment policy, sales growth, financial liquidity and research and development are the independent variables and financial performance will be dependent variable. The study seeks to establish the relationship between these variables as presented schematically in the conceptual framework in Figure 1

FIGURE 1

Conceptual Framework

Independent Variables **Dependent Variable**



Source: Author (2016)

2.5 Operationalization of Variables

TABLE 1

Operationalization of Variables

Variables	**Measures**	**Scale**	**Reference**
Financial performance(Y)	Tobin's Q = Market value of stock + Accounting value of the total debt / Total assets	Continuous	Wangari (2014); Salawu *et al.*, (2012); Hamrouni, et al., (2015);
Financial policy (X_1)	-Financial objectives -Dividend policy -EPS -impact of inflation -Transfer pricing policy -Analysis of financial ratio -size of shareholding -Trend of market capitalization	Continuous	Oyerogba (2014); Hamrouni, *et al.*, (2015); Wanjau (2015);
Investment policy (X_2)	-Geographical distribution of invested capital and net assets -Ownership structure -Community programs -Investment on production -Employees training costs	Continuous	Asava (2013); Hamrouni, *et al.*, (2015);
Sales growth(X_3)	-Reports on the sales -Revenue by business line -Competitive environment and analysis - changes in cost of sales	Continuous	Jullobol & Sartmool (2014); Hamrouni, *et al.*, (2015);
Financial liquidity (X_4)	-Estimates of profits or net income -Short and long-term debt by currency -Estimate of capital increase -Estimate of rate changes -Financial risk assessment	Continuous	Cormier and Ledoux, (2012); Hamrouni, *et al.*, (2015);
Research and development (X_5)	-Description of R&D including the expenses and location -Corporate policy and schedule on R&D -R&D progress, collaboration and funding. -Future development channels -Expenditure on business line -Protections R&D innovations -Distinctions of expenditure in phases	Continuous	Merkley (2010); Hamrouni, *et al.*, (2015);

Source: Author (2016)

2.6 Summary of the Literature and Research gap

The review of the literature is centered on the key concepts of corporate finance that is financial policy, investment policy, sales growth, financial liquidity and research and development which are a major concern for investors when investing in the company. These concepts are related to firm's financial performance have been studied from the empirical evidence that support specific objectives of this research. Theories stemming from the voluntary disclosure are reviewed: agency theory, signal theory and the theory of capital need.

In the empirical review above, some studies have failed in the choice of the method of analysis where despite of using or recognizing the data was panel they have opted for alternative methods which do not consider the time series and cross sectional effects of the data for example in case (Mutisya, 2014; Heydari, Razeghi and Sharifi, 2015). This study aims to correct by applying a suitable method. Again, most studies have concentrated on the impact of voluntary disclosure of stock market returns (Asava, 2013; Mwiti, 2014; Maina, 2015). However a limited study has focused on firm performance and hence this study wishes to document this evidence in Kenya market. Further, many of past studies have tried to establish the connection between the selected characteristics of corporate governance, namely board of director's size, number, gender, frequency of meeting, ownership structure and so on (Lim, Matolcsy & Chow, 2007; Yanesari, Gerayli, Ma'atoofi & Abadi, 2012). Nonetheless, no single study known to the researcher has tried to relate financial performance to alternative measures in line with the corporate disclosure policy performance in Kenya. This study, therefore, proposes to investigate the connection between the level of corporate disclosure policies by use of indices and multidimensional financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The current chapter discusses the methodology that was employed in the study. The key aspects being discussed in the current chapter are research design, determination and identification of the sample population size, sampling procedure and sample size, the instruments for data collection, data collection instruments and data analysis.

3.2 Research Design

Research design is a guideline showing how the study objective will be attained (Kombo and Tromp, 2006). In this study correlation research design was adopted, (Oso and Onen, 2009) argued that this design is appropriate if the study seeks to show the causal relationship between the study variables. The design was appropriate since the study sought to examine the effects of voluntary disclosure on financial performance of listed companies in Nairobi Securities Exchange.

3.3 Target Population

A complete enumeration of all individuals under consideration is known as the target population (Kothari, 2011). In this study, the target population consisted of 64 firms listed in NSE (Appendix I) however, consideration was only be given to those been trading continuously since 2006 with no suspension or delisting.

3.4 Sampling Procedure and Sample Size

According to Mugenda and Mugenda (2009) sampling is the process of selecting a subset of the target population to be its true representative on the study. In this study non-probabilistic sampling technique was used to select the companies to be included in the study. Kothari (2011) stated that through non-probabilistic sampling techniques an individual is selected through subjectively defined methods whereby the researcher defines the minimum inclusion criteria in a given study. In this study a sample of 43 listed companies which have been consistently trading in NSE in the period 2006 to 2015 was be considered for the study. Due to limited time for this research and reliability of historical data, this study was conducted for 10year period. As Nasieku and Wanjiku (2015) argues 10 years period is sufficient to observe the trends of given study factors. In addition, as the study wishes to involve more companies listed on the NSE, and a close check reveals most companies were quoted during this period hence the choice of 10 years.

3.5 Data Collection Instruments

Creswell (2008) argues that prior to research a researcher ought to develop a data collection instrument which is purely meant to measure, quantify or observe the data under investigation. In this study a Disclosure Check Index (DCI) was be used as a principal instrument for data collection. Past studies such as (Ndili and Muturi, 2015; Wangechi and Nasieku, 2015; Nduta and Muturi, 2015) adopted the same instrument to collect secondary data from NSE and in East Africa Securities Exchanges. The DCI consisted of five sections financial policy, investment policy, sales growth, financial liquidity and research and development. The dependent variable (financial performance) was assessed by Tobin's Q and Return on Equity as this measure were adopted by (Drobetz *et al.*, 2004; Salawu *et al.*, 2012; Heydari *et al*., 2015; Simona, 2015).

All the items disclosed according to the DCI shown in Appendix II was treated to have equal importance even though the study acknowledged that there could be variability in the content. This was help to avoid subjectivity as suggested by Hamrouni (2015). A value of 1 was entered when the disclosed item was present and 0 when absent. Finally, the total score was computed as the un-weighted score sum of all index items. Level of voluntary disclosure for every item was calculated as

$$\text{Level of disclosure} = \frac{\text{Actual items disclosed}}{\text{Total possible items in the index}}$$

A succinct content analysis of the annual reports for the 61 listed firms was used. The choice of annual reports to provide voluntary disclosure indices was due to numerous reasons: One reason was because it contained both the mandatory and voluntary disclosure and preparation of such reports have the analyst and investors in mind (Hamrouni *et al.,* 2015). The second reason, is documented Zarb (2007) that annual reports provide the best firm disclosure of due to the information contained therein. Another reason is that, it has been established in the past studies that there is a high positive correlation between corporate disclosure in annual reports and other forms of disclosure, Holland (1998) as cited in Hamrouni *et al.,* (2015). More specifically, the study covers non-mandatory disclosures related to the five concepts of corporate finance as aforementioned.

3.6 Data Analysis and Model specification

Data analysis composed of four steps: data preparation through cleaning, data analysis, interpretation and report writing. Microsoft Excel and STATA statistical packages were used to analyze the data. Graphical methods were used to explore the data. The data collected in the study was panel with forty three entities over 10 years (2006-2015). This will hence required application of a panel data analysis model. Maddala (2001) argues that when data is in panel form, it requires a panel regression analysis model so as to consider both the time series and cross sectional properties of the data.

The panel model analysis has two options: fixed effects (FE) and random effects (RE) models. The FE model is suitable where the researcher is interested in analyzing the effects of variables that vary over time. The FE model assumes that each entity has unique characteristics that may or may not relate with the independent variables. Moreover, FE model is based on the assumption that some factors within the entity may influence or bias the independent variables and hence this needs to be controlled. The FE hence regards the error terms of the entities and the independent variables to be correlated. The FE model hence eliminates the influence of those time-invariant features to enable assessment of the net effect of the independent variables on the dependent variable. However, if the error terms of entities are correlated with the independent variables, then FE is not appropriate (Hsiao et al., 2009). The FE model in the study was as follows;

$Y_{it} = \beta_i X_{it} + \alpha_i + u_{it}$ ……………………………………………………………. (i)

Where

α_i (i=1….3) = intercept for each company.

Y_{it}= the dependent variable (Financial Performance) where i = company and t = time.

X_{it}= Independent variables (financial policy, investment policy, sales growth, financial liquidity, research and development)

β_i = this is the slope coefficient and it shows the change in dependent variable per unit change in independent variables after holding other factors constant.

u_{it} = The error term

The logic behind RE model is that the differences between the entities are uncorrelated and random. This implies that entity error terms are not associated with the independent variables considered in the study (Green, 2008). This makes the time-invariant variables to play a role in the model as independent variables. Therefore, when a researcher believes that differences among the entities have an effect on the response variable, then RE should be applied. RE model hence RE allows to generalize the inferences beyond the sample used in the model. The equation for the RE model is;

$Y_{it} = \alpha + \beta X_{it} + u_{it} + \varepsilon_{it}$ ……………………………………………………… (ii)

Where

α = Unknown intercept for the companies

Y_{it}= Income inequality where i = company and t = time.

X_{it}= represents independent variables (financial policy, investment policy, sales growth, financial liquidity, research and development)

βi = this is the slope coefficient and it shows the change in dependent variable per unit change in independent variables after holding other factors constant.

u_{it}= The between-entity error

ε_{it}= The within-entity error

Hausman test was not applied to determine which of the two models (FE or RE) was appropriate (Hsiao et al., 2009) was since the most appropriate model according to LM test was pooled effects regression. Other tests that was conducted in the study include test for serial correlation (Wooldridge Drukker test), heteroscedasticity (Modified Wald Test), Time Fixed Effects (F statistics) and while Breusch Pagan LM test was used to determine use of pooled or random effects model (Gujrati, 2004).

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 Introduction

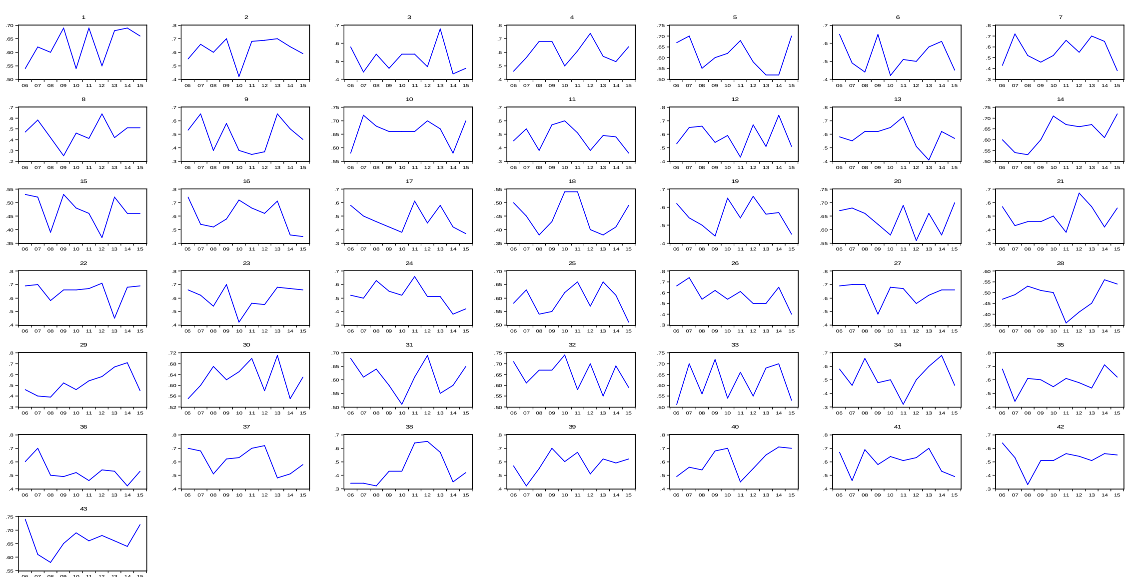
In the current chapter secondary data collected from annual audited financial statements among 43 listed companies in 2006-2015. In the chapter exploratory data analysis is carried out, followed by panel data diagnostic test as well as multicollinearity analysis using the correlation matrix and finally the conceptualized model in chapter 2 is presented. Both graphs and tables are used to present the data.

4.2 Exploratory Data Analysis

Both linear graphs and overlain graphs were used to present the data as shown in Figure 2 and 3 respectively.

FIGURE 2

Tobin's Q Trend Analysis

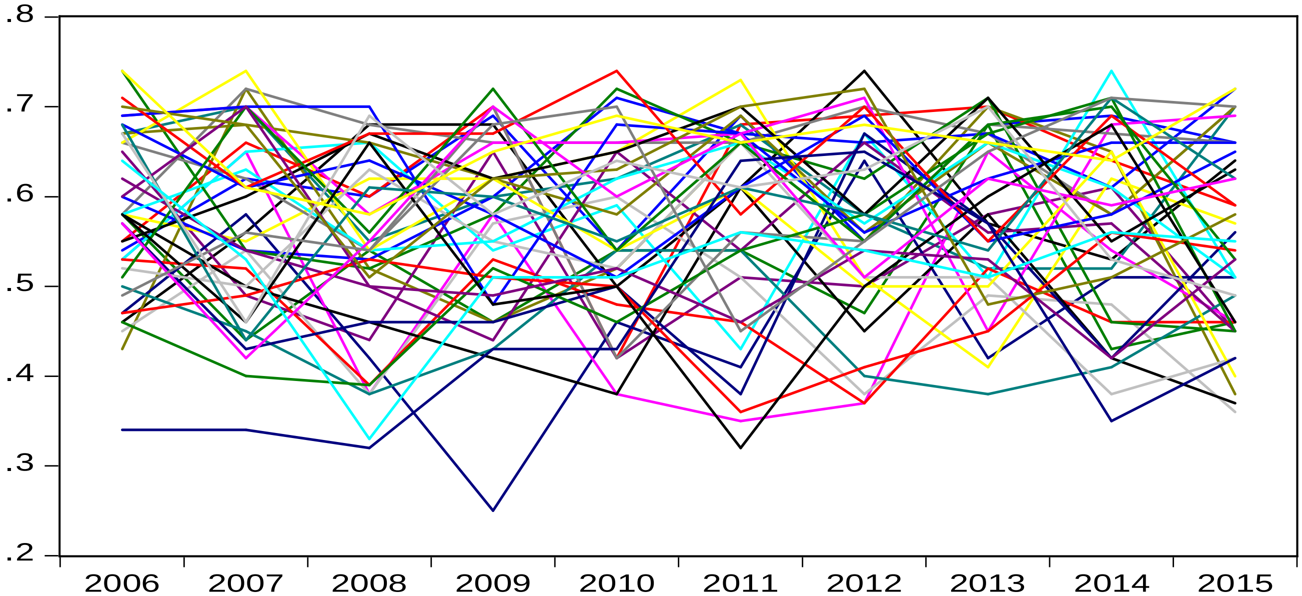


Source: Author (2016)

Figure 2 showed that there was an upward and downward trend on listed company's performance as depicted by Tobin's Q.

FIGURE 3

Tobin's Q Overlay Graph



Source: Author (2016)

The pictorial presentation revealed that the 43 listed companies had different intercept and they had differentiated slopes coefficients with some companies having higher slope coefficients as compared to others.

4.2.1 Multicollinearity Analysis

Independent variables are assumed to have no correlation with each other. In this study correlation analysis was used to examine the strength of the relationship between variables under investigation and the results were tabulated as shown in Table 3. There was a positive and significant relationship between Tobin' Q and financial policy (rho= 0.347, p value <0.05).

Secondly, there was a positive and significant relationship between investment policy and firm performance (rho = 0.097, p value = 0.044).

In addition, there was a positive and significant relationship between sales growth disclosure and firm performance (rho = 0.311, p value = 0.000). Moreover, there was a positive and significant relationship between financial liquidity disclosure and firm performance (rho = 0.677, p value = 0.000). Finally, there was a positive and significant relationship between research and development disclosures and firm performance (rho = 0.547, p value = 0.00). Since none of the independent variables had a correlation coefficient greater than 0.8 then there was no multicollinearity.

TABLE 2

Correlation Analysis

	Tobin's Q	**Financial policy disclosure**	**Investment policy disclosure**	**Sales growth disclosure**	**Financial liquidity disclosure**	**Research and development disclosure**
Tobin's Q	1					
Financial policy disclosure	.347**	1				
	0.000					
Investment policy disclosure	.097*	-0.052	1			
	0.044	0.28				
Sales growth disclosure	.311**	.325**	.295**	1		
	0.000	0.000	0.000			
Financial liquidity disclosure	.677**	.355**	0.048	.308**	1	
	0.000	0.000	0.322	0.000		
Research and development disclosure	.547**	.157**	-0.027	0.088	.259**	1
	0.000	0.001	0.573	0.067	0.000	

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

Source: Author (2016)

4.3 Panel Data Diagnostic Analysis

Breusch Pagan test aims at helping the researcher to choose the most appropriate model to fit the data between ordinary least squares (OLS) and random effects model. In the current study the most appropriate model to fit was OLS since the p value was greater than 0.05 thus there was enough. LM tests the null hypotheses that there is uniform variance across the companies under consideration against the alternative which states that there is no uniform variance across entities.

TABLE 3

Chi-Square values for the Breusch –Pagan LM Test

Model	**Dependent variable**	**χ^2-value**	**p-value**
1	Tobin's Q	0.31	0.574

Source: Author (2016)

Testparm was used to test whether time fixed effects were necessary prior to fit fixed effects model. The test assumes that all the dummies variables are equal to zero. Since the p value was greater than 0.05, there was no enough evidence to warrant rejection of the null hypotheses. Hence, in the current study it was not appropriate to introduce dummy variables or use two way analyses.

TABLE 4

Test Results for Time Fixed Effects

Model	**Dependent variable**	**F-value**	**p-value**
1	Tobin's Q	0.83	0.5913

Source: Author (2016)

Results in table 5 shows the test for uniformity of variance and the serial correlation of the error term. Since both heteroskedasticity and serial correlation had p values greater than 0.05, then there was no enough evidence to support rejection of the null hypotheses and we conclude that there was uniform variance across the error terms and there was no serial correlation amongst the variables.

TABLE 5

Result for Heteroskedasticity and Serial Correlation Test

		Test for heteroskedasticity		Serial Correlation	
Model	**Dependent variable**	**χ^2-value**	**p-value**	**F-value**	**p-value**
1	Tobin's Q	18.94	0.0410	1.346	0.569

Source: Author (2016)

4.3.1 Panel Descriptive Analysis for Tobin's Q

Results in table 6 shows that an average performance of the company's listed was 56.8%, with an average deviation of 10.1% and the minimum return was 25% with a maximum of 74%.

TABLE 6

Descriptive Statistics for Dependent Variables

Variable		**Mean**	**Std. Dev.**	**Min**	**Max**
Tobin's Q	overall	0.568	.101	.25	.74
	between		.0143	.541	.584
	within		.100	.249	.748

Source: Author (2016)

Since the LM test revealed that the most appropriate model was pooled effects and not random effects. Pooled effects model was fitted in the study to examine the effect of voluntary disclosure on firm performance among companies listed in NSE. An R squared of 0.63, shows that 63% of the variation in firm performance can be explained by financial policy disclosure, investment policy disclosure, sales growth disclosure, financial liquidity disclosures and research development disclosure while the remaining percentage can be accounted for by other factors which are excluded in the model. An F statistic of 141.99 and p value of 0.00 shows that financial policy; investment policy, sales growth, financial liquidity and research and development disclosure had a joint significance on firm performance.

The first hypotheses of the study stated that financial policy disclosure had no significant effect on firm performance among companies listed in NSE. Results of the study revealed that there was a positive and significant relationship between financial policy disclosure and firm performance ($\beta = 0.10$, p value <0.05). This implies a unit change in financial policy disclosure while holding other factors constant increases firm performance by .10 units.

These results are in agreement with Mutisya (2014) who examined effect of financial policy on dividend as a critical issue in business that has to be disclosed fully to the shareholders because it has an impact on the liquidity position of the firm. Simply put, it can be said to be the pivot that all the other policies rotate especially with quoted firms. For this reason, Mutisya (2014) examine the dividend policy and financial performance on a company listed in NSE. The results of the findings showed dividend policy as proxied by the ratios, Dividend per share and Earnings per share had a significant relationship with firm performance as proxied by ROA. Similarly, in a study by Uwuigbe, Jafaru and Ajayi (2012) in Nigeria it concurred with the discussed results.

The second hypotheses of the study stated that investment policy disclosure had no significant effect on firm performance among companies listed in NSE. The findings revealed that there was a positive and significant relationship between investment policy and firm performance among companies which are listed in NSE (β=0.09, p value <0.05). Therefore, it can be implied that a unit change in investment policy disclosure increases firm performance by 0.09 units.

These results are agreement with Ohl (2010) who argued that the need to disclose information is necessary to protect portfolio from impromptu alterations of adequate long-term policy. This enhances consistency, prudency and sound investment decisions to be made by investors as investors' expectations, guidelines and objectives can be counterchecked. Peloza (2009) in the examination of impacts of finance on investments found there was fragmentation as the field of investment as the relationship could only be correct depending on the discipline of the researchers.

The third hypotheses of the study stated that sales growth had no significant effect on firm performance among companies listed in NSE. Regression analysis revealed that there was a positive and significant relationship between sales growth and firm performance among companies listed in NSE (β = 0.10, p value = 0.05). Therefore, it can be implied that a unit change in sales growth voluntary disclosure increases firm performance by 0.10 units.

There results were in agreement with Ganna (2013) observed that major innovation in new products had positive impact on the net profit made by the companies even though minor innovations in ways of increasing sales had the opposite effect. Increase in structural innovation meant for the new products also showed no statistically significant effect on Return on Asset (ROA). Ganna (2013) pinpointed that since the major innovations involves new products to the market is followed by advertisement, many consumers are attracted by the new awareness and hence results in increased sale that continues to grow till maturity. Further this improves the value of the company for the investors and thus such information being disclosed is absolutely necessary. As Ernst and Young report of 2014 shows when information regarding the company growth is communicated, investors' confidence is enhanced.

The fourth hypotheses of the study stated that financial liquidity disclosure had no significant effect on firm performance among companies listed in NSE. Results of the study revealed that there was a positive and significant relationship between financial liquidity disclosure and firm performance ($\beta=0.72$, p value <0.05). This implies that a unit change in financial liquidity disclosure increases firm performance by 0.72 units.

Kleymenova (2014) examined the consequence of bank in US Federal Reserve liquidity disclosures during crisis. The results of this research show liquidity disclosure indicator have positive incremental market information since they reduce banks' cost of capital. This is an example of price efficiency not directly translating into economic efficiency, as banks respond to disclosures by changing their ex ante behavior (Bond, Edmans & Goldstein, 2012; Goldstein & Sapra, 2013).

The fifth hypotheses of the study stated that research and development disclosure had no significant effect on firm performance among companies listed in NSE. The results showed that there was positive and significant relationship between research and development disclosure and firm performance among companies listed in NSE ($\beta=0.67$, p value <0.05). This implies that a unit change in research and development disclosure increases firm performance by 0.67 units while holding other factors constant.

These findings were in support of Nekhili, Boubaker and Lakhal (2012) studied voluntary R&D disclosure and the market value of firms using a sample of 84 firms listed in French. The period under investigation was conducted between year 2000 and 2004 where the R&D disclosure index was composed of 32 items from the companies' annual report. It was proven that R&D disclosure improved the market value of equity despite the higher proprietary costs associated with these disclosures. However, this study argued that the information disclosed may be used at the advantage of the competitors. Institutional investors considered R&D more than the individual investors. Nekhili, *et al.,* (2012) also observed that companies that had laid more capital on R&D tended to disseminate more R&D information.

The resultant regression model is;

$Y = -0.35 + 0.10X_1 + 0.09\ X_2 + 0.10\ X_3 + 0.72\ X_4 + 0.67X_5$

Y = Firm performance, X_1 = Financial Policy, X_2 = Investment Policy, X_3 = Sales Growth, X_4 = Financial Liquidity, X_5 = Research and Development

TABLE 7

Pooled Effects Regression Analysis

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Financial Policy disclosure	0.10	0.04	2.43	0.02
Investment Policy disclosure	0.09	0.04	2.17	0.03
Sales Growth disclosure	0.10	0.05	1.98	0.05
Financial Liquidity disclosure	0.72	0.05	15.80	0.00
Research and Development disclosure	0.67	0.05	12.73	0.00
C	-0.35	0.04	-8.93	0.00
R-squared	0.63	Mean dependent variable		0.57
Adjusted R-squared	0.62	S.D. dependent variable		0.10
S.E. of regression	0.06	Akaike info criterion		-2.71
Sum squared residual	1.63	Schwarz criterion		-2.65
Log likelihood	588.02	Hannan-Quinn criterion		-2.68
F-statistic	141.99	Durbin-Watson stat		1.86
Prob (F-statistic)	0.00			

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In the current section the study presents the summary, conclusion and recommendations. In this chapter all sections are arranged according to the study hypothesis.

5.2 Summary

The current study sought to examine the effect of voluntary disclosure on firm performance among companies which are listed in NSE. The study adopted correlation design and panel data was collected from annual financial statements of companies which were listed between 2006-2015. Panel diagnostic tests revealed that the most appropriate model to adopt in the study was pooled effects regression model.

The results of the study revealed that 63% of the variations in firm performance can be explained by financial policy disclosure, investment policy disclosure, sales growth disclosure, financial liquidity disclosure and research and development disclosure while the remaining percentage can be explained by other factors excluded in the model.

5.3 Conclusion

The results of the study reveled that there was a positive and significant relationship between financial voluntary disclosure and firm performance. There is need for all listed companies to continuously share information in regard to financial objectives, the dividend policy adopted by a company, earnings per share, transfer pricing and also the effect of transfer pricing. Through sharing of this information there will be reduction on agency cost which will in turn reduce the level of information asymmetry within the companies listed in NSE. Through this information investors will make decision with minimal levels of floatation costs.

Secondly, the study found that there was a positive and significant relationship between investment policy and firm performance among companies listed in NSE. Listed companies should continuously report all information regarding investment which they invested in different localities, the ownership of investment among private, individual, local, foreign and institutional, also companies should disclose their community based projects and categories of investment made on employee skills. Through this disclose investors can align themselves with companies which have invested in areas which the specific investors have interest.

Thirdly, the study found a positive and significant relationship between sales growth disclosure and firm performance among companies listed in NSE. Through reporting on competitiveness of the environment in which the company operates, qualitative and quantitative aspect of sales and competitor analysis in regard to qualitative and quantitative aspects, investors can be in a position to evaluate the sustainability of the company's market share as well as potential for new markets.

Moreover, the results revealed that there was a positive and significant relationship between financial liquidity disclosure and firm performance among companies listed in NSE. Hence all listed companies should continuously report all aspects which regards company's liquidity position to ensure that both the current and potential investors and consequently boost investors confidence.

Finally, there was a positive and significant relationship between research and development disclosure and firm performance among companies listed in NSE. All listed companies must inform the investors and members of the public the kind research and development activities which will be involved in and consequently foster feature growth in a firm. More so the management should evaluate the cost benefit analysis of a particular research and development the company is will to undertake.

5.4 Recommendation

Based on the study findings the researcher recommends that listed companies should continuously examine the level of voluntary disclosure they have attained and the motives prior to disclosing the information.

All listed companies should disclosure financial policies information so that investors can evaluate the cost of capital, opportunity cost of foregoing the receipts of dividend in regard to dividend policies adopted by a particular company.

Secondly, all listed companies should disclose the investment opportunities available in place and evaluate how they will benefit the company. Moreover, the companies ought to invest in regions which will maximize the shareholders wealth. The companies should maximize on corporate social responsibilities investment and employees skills development so that they can reap from the skills and talents acquired amongst them.

Thirdly, all listed companies should devise innovative strategies aimed at increasing sales. These strategies ought to be communicated to all stakeholders so as to evaluate and maximize on company’s competitive strategies and devise means to enter into new markets and minimize possibilities of customers’ cannibalization.

In addition, there is need to increase the level of voluntary disclosure in regard to financial liquidity so as to foster positive firm performance. These can be achieved by examining the various indicators of financial liquidly and making the information more clearly to the common investor with no financial knowledge.

Finally, all listed companies should continuously engage in research and development activities through this the companies can devise more environmental and economical methods of increasing companies efficiency and consequently improve firm performance.

5.5 Suggestion for Further Studies

The current study examined the effect of voluntary disclosure on financial performance of firms among companies listed in NSE. Future studies should seek to examine the moderating effect of firm size, industry sector on firm performance among companies which are listed in NSE. Since there are different industries sectors in which the companies are listed there is need to examine the effect of voluntary disclosure on specific companies listed in NSE. Since there are advanced stages of integrating East Africa community market there is need for a comparative analysis seeking to examine the effect of voluntary disclosure on firm performance among companies listed in securities exchanges in East Africa.

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APPENDICIES

Appendix I Sample of Listed Companies in Nairobi Securities Exchange

AGRICULTURAL	**TELECOMMUNICATION AND**
Eaagads Ltd	**TECHNOLOGY**
Kapchorua Tea Co. Ltd	Access Kenya Group Ltd
Kakuzi	Safaricom Ltd
Limuru Tea Co. Ltd	**AUTOMOBILESN AND ACCESSORIES**
Rea Vipingo Plantations Ltd	Car and General (K) Ltd
Sasini Ltd	Sameer Africa Ltd
Williamson Tea Kenya Ltd	Marshalls (E.A.) Ltd
COMMERCIAL AND SERVICES	
Express Ltd	**BANKING**
Kenya Airways Ltd	Barclays Bank Ltd
Nation Media Group	CFC Stanbic Holdings Ltd
Standard Group Ltd	Diamond Trust Bank Kenya Ltd
TPS Eastern Africa (Serena) Ltd	Housing Finance Co Ltd
Scangroup Ltd	Kenya Commercial Bank Ltd
Uchumi Supermarket Ltd	National Bank of Kenya Ltd
Hutchings Biemer Ltd	NIC Bank Ltd
Longhorn Kenya Ltd	Standard Chartered Bank Ltd
INSURANCE	Equity Bank Ltd
Jubilee Holdings Ltd	The Co-operative Bank of Kenya Ltd
Pan Africa Insurance Holdings Ltd	**MANUFACTURING AND ALLIED**
Kenya Re-Insurance Corporation Ltd	B.O.C Kenya Ltd
CFC Insurance Holdings	British American Tobacco Kenya Ltd
British-American Investments Company (Kenya)	Carbacid Investments Ltd
Ltd	East African Breweries Ltd
CIC Insurance Group Ltd	Mumias Sugar Co. Ltd
INVESTMENT	Unga Group Ltd
City Trust Ltd	Eveready East Africa Ltd
Olympia Capital Holdings ltd	Kenya Orchards Ltd
Centum Investment Co Ltd	A.Baumann CO Ltd
Trans-Century Ltd	**ENERGY AND PETROLEUM**
CONSTRUCTION AND ALLIED	Kenol Kobil Ltd
Athi River Mining	Total Kenya Ltd
Bamburi Cement Ltd	KenGen Ltd
Crown Berger Ltd	Kenya Power & Lighting Co Ltd
E.A.Cables Ltd	
E.A.Portland Cement Ltd	

Source; *www.nse.co.ke*

Appendix II Voluntary Disclosure Checklist

Disclosure Check Index	Year									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Information related to Financial policy disclosure										
Statement of the financial objectives										
Dividend policy										
Earnings per share										
Effect of inflation on results										
Effect of inflation on assets										
Transfer Pricing policy										
Estimates of capital increase										
Performance indicators										

(not included in fin. Statements)										
Analysis of financial ratio										
Trend in share price										
Size of shareholding										
Market capitalization										
Trend of market capitalization										
review of operation										
Information related to Investment policy disclosure										
Geographical distribution of invested capital and net assets										
Ownership structure										
Company investment profile										
community programs										
program of environmental protection										
Amount invested in training employing for programs										
Categories of employees trained										
Investment in production										
Information related to sales growth disclosure										
Reports on the sales/ revenue activity										
competitive environment										
change in cost of gold sold										
Revenue by business line										
Qualitative and quantitative forecast of sales										
Review of sales forecast										
Explanation of assumptions underlying the forecasts										
Competitor analysis- Quantitative and qualitative										

Information related to financial liquidity disclosure										
Quantitative and Qualitative forecast of profits										
Assumptions underlying the forecasts										
Earnings and cash flows estimates										
Effects of inflation, currency fluctuations on future operation										
Effects of currency fluctuations of interest rates on future operations										
Estimate of capital increase										
Long-term and short–term debt by currency										
Estimates of currency fluctuations										
financial risk assessments										
Exchange rates used in accounting										
Information related to R & D activities disclosure										
Description of R&D projects including expense, location										
Corporate policy on R&D										
Number employed in R&D										
Future development channels										
Expenditure on the business line										
R &D progress, collaboration and funding										
R&D targeting new knowledge and new products										
Distinction of expenditure is made on each phase										

Protection on R&D innovations (e.g., through patents, licenses, trademarks, intellectual properties										
The number of production or similar units expected to be obtained from the product										
Financial Performance										
Total Assets										
Closing value of Market stock										
Total Debts										
PBIT or Net benefit										
Ownership Equity										
Tobin's Q										