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Full Length Research Paper

Determinants of voluntary disclosures in Kenyan companies annual reports

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In recent years, the Kenyan Government has initiated reforms at the Nairobi Stock Exchange aimed at transforming the exchange into a vehicle for mobilising domestic savings and attracting foreign capital investments. Consequently, the corporate financial reporting, and in particular, the level of voluntary disclosure is a vital part of the process for building investor confidence (local and foreign) and trust. Drawing on prior corporate disclosure research, this study examines factors associated with voluntary disclosure of four types of information: general and strategic, financial, forward-looking, and social and board information in the annual reports of Kenyan companies. This study provides longitudinal examination of voluntary disclosure practices in the annual reports of listed companies in Kenya from 1992 to 2001. The study investigates the extent to which corporate governance attributes, ownership structure and company characteristics influence voluntary disclosure of various types of information. Due to the panel nature of our data, to estimate the determinants of voluntary disclosure of various types of information, we use pooled Ordinary Least Square (OLS) with Panel-Corrected Standard Errors (PCSEs). Our results indicate that, disclosures of all types of information are influenced by corporate governance attributes, ownership structure and corporate characteristics. In particular, the results also suggest that size and companies in the agricultural sector are significantly associated with the voluntary disclosure of all four types of information disclosures.

Keywords: Voluntary disclosures, companies' annual reports, Kenya

INTRODUCTION

Corporate financial reporting, and in particular, annual reports are important avenues for communicating companies financial and non-financial information. This study has two main aims. The first is to examine level of voluntary information disclosure through annual reports by Kenya listed companies over a ten year period (1992 – 2001). Secondly, examine factors (governance, ownership and company characteristics) associated with disclosure of various types of information. In the recent years, there is substantial increase in trading activities at the Nairobi Stock Exchange (NSE) especially through Initial Public Offers (IPO) and private placements. For example, it is reported that by 1996, the Kenyan government had sold 114 state owned-enterprises (Africa Financing Review, 1996). By 2004 (Financial Standard, 2004), the successful privatization of 188 state corporations earned the Kenyan government 18 billion Kenya Shillings (equivalent to US$ 238 million). In addition to past incentives such as relaxation of restrictions on foreign ownership, allowing up to 40% institutional ownership and 5% individual ownership, the Kenyan government in 2005 lowered corporation tax to 20% for newly listed companies that sell 40% of equity to the Kenyan public.

In light of the increasing amount of focus on the Nairobi Stock Exchange as an important avenue for attracting foreign investments and to encourage local residents to invest in shares, Kenyan companies may engage in voluntary disclosure as a means to enhance the value of their stocks. Moreover, there is empirical evidence suggesting that increased information disclosure reduces a firm's cost of capital by reducing information asymmetry (Botosan, 1997, 2000). Thus, information disclosure in

itself is a strategic tool, which enhances a company's ability to raise capital at the lowest cost possible (Healy and Palepu, 1993; Lev, 1992). Consistent with this view, in the Kenyan context, in an attitudinal survey of why companies list on the NSE, Wagacha (2001) noted: "The predominant reason for listing was identified as access to cheaper resources of financing…firms that list look to the access of non-bank finances as a principal motivation for listing".

In recent years, there has been an increasing research focus on companies' voluntary disclosure practices (Chau and Gray, 2002; Meek et al., 1995). However, most of the research attention is on the industrialised Western[i] countries. In contrast, a limited number of research studies examined disclosure practices of companies in developing[ii] economies. In line with this assertion, Needles (1997), conducting a 32 year (1965 - 1996) review of 768 international accounting research articles published in the international accounting research noted that, "most attention was given to the United States (319 articles), followed by the United Kingdom (123 articles), Canada (58 articles)…over the entire period, the developing countries percentages decreased from 18 to 15%".

The motivation for this study was to examine whether the variables that researchers have found to be significant in explaining voluntary disclosure practices of companies in developed countries apply in a developing country like Kenya. This study also adds to the literature on voluntary disclosure in developing countries and extends that literature by including corporate governance variables as possible explanatory variables for voluntary disclosure. Consistent with international trend, in recent years, in a number of African countries there are major corporate governance reforms, culminating in national codes of principles of best practices (Rossouw, 2005). Also unlike most previous studies (see studies mentioned in footnotes 1 and 2 below), this paper investigates factors that influence the voluntary disclosure of four particular types of information rather than a single aggregate disclosure index. Generally, there is a dearth of empirical research studies on disclosure practices of Kenyan companies (Barako et al., 2006), and within the African context, Okeahalam (2004) emphasis that "the relationship between firms' voluntary disclosure and corporate governance needs to examined". This paper, therefore, fill this research gap by investigating corporate reporting practices of the Kenyan listed companies.

The paper is organised as follows. In section 2, we provide a brief review of the theoretical framework, an outline of the Kenyan institutional setting and an overview of the literature. The development of specific hypotheses is discussed in section 3, followed by a discussion of the construction of the disclosure index and sample selection in section 4. The results are detailed and discussed in section 5 and in the final section we present a summary and conclusions of the research.

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Agency theory

Agency theory models the relationship between the principal and the agent. Jensen and Meckling (1976) defined an agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". In the context of the firm, the agent (manager) acts on behalf of the principal (shareholder)[iii] (Eisenhardt, 1989; Fox, 1984; Jensen and Meckling, 1976; Ross, 1973).

In the context of the firm, a major issue is the information asymmetry between managers and shareholders. In this agency relationship, insiders (managers) have an information advantage. Owners therefore face moral dilemmas because they cannot accurately evaluate and determine the value of decisions made. The agent therefore takes advantage of the lack of observability of his actions to engage in activities to enhance his personal goals. Formal contracts are thus negotiated and written as a way of addressing agent–shareholder conflicts.

In this research, voluntary disclosure presents an excellent opportunity to apply agency theory, in the sense that managers who have better access to a firms' private information can make credible and reliable communication to the market to optimise the value of the firm. These disclosures include investment opportunities and the financing policies of the firm. Conversely, managers may, because of their own interests, fail to make proper disclosure or nondisclosure of important information to the market. Such practices may not be in the interests of shareholders. This may result in a higher cost of capital and, consequently, shareholders may suffer a lower value for their investments.

Corporate financial reporting and regulation and corporate governance in Kenya

Like most Commonwealth countries, the Kenyan Companies Act[iv] (Chapter 486, Laws of Kenya), is based on and is substantially the same as the UK Companies Act of 1948 (Ogola, 2000). The Kenyan Companies Act sets the general framework for financial accounting and reporting by all registered companies in Kenya, and stipulates the basic minimum requirements with regard to financial reporting. Because of the limited details of the Act, financial reporting and regulation is supplemented by pronouncements of the Institute of Certified Public Accountants Kenya (ICPAK), extensively manifested in the adopted International Financial Reporting Standards.

In fulfilment of its mandate as per the Accountants Act,

the ICPAK is responsible for the development and implementation of accounting and auditing standards. The ICPAK has been engaged in the setting of Kenyan Accounting Standards (KASs) since the early 1980s. In order to enforce adherence to the highest standards of financial reporting, the ICPAK maintains a close working relationship with regulatory institutions such as the Central Bank of Kenya, and the Capital Markets Authority. Also, the ICPAK is represented on the Disclosure and Standards Committee of the Capital Markets Authority.

With respect to corporate governance, the Kenyan Centre for Corporate Governance (CCG), an affiliate of the Commonwealth Association for Corporate Governance (CACG) is the key institution that drives the corporate governance reforms. As a consequence, in 2002 the Kenyan Capital Markets Authority (CMA) issued a mandatory Corporate Governance code for public listed companies, modelled on the CCG principles for corporate governance in Kenya compiled in 1999. In 2005, CCG issued a draft guideline on reporting and disclosures in Kenya. The emphasis of the draft is on non-financial disclosure such as ownership structure, board composition and corporate social responsibility.

Literature review

A number of prior studies have investigated various determinants of companies' voluntary disclosure practices. A consistent finding is that size is an important predictor of corporate reporting behaviour. Ahmed and Courtis (1999) conducted a meta-analysis of 29 disclosure studies, and found that size, listing status and financial leverage have a significant impact on disclosure level. Other company attributes associated with corporate disclosure include, multinationality (Raffournier, 1995; Owusu-Ansah, 1998), performance (Singh and Desai, 1971), industry type (Cooke, 1989, 1992) and country of origin (Meek et al., 1995). With the exception of size, findings concerning association between company characteristics and corporate disclosure practices are mixed. Craswell and Taylor (1992) and Inchautsi (1997) found a significant positive relationship between type of audit firm and disclosure practices, where as, Raffournier (1995), Depoers (2000) and Haniffa and Cooke (2002) found no significant association. Similarly, Hossain et al. (1995) and Wallace and Naser (1995) observed a positive association between leverage and the level of disclosure. Wallace et al. (1994) and Bradbury (1992) found no significant association between leverage and the extent of voluntary disclosure.

The influence of ownership structure on corporate disclosure practices has also been extensively studied. Chau and Gray (2002) investigated the relationship between ownership structure and voluntary corporate disclosure practices of listed companies in Hong Kong and Singapore. They found the extent of voluntary disclosure is negatively associated with the level of family ownership. Ho and Wong (2001) observed a similar finding using a sample of Hong Kong listed companies. Hossain et al. (1994) found a significant negative relationship between ownership dispersion and the extent of disclosure by Malaysian listed companies, and to the contrary, Haniffa and Cooke (2002) reported a negative relationship between ownership dispersion and level of disclosure by Malaysian listed companies. McKinnon and Dalimunthe (1993) found weak support for the relationship between ownership diffusion and the extent of voluntary disclosure by Australian diversified companies. Apart from ownership concentration, foreign ownership has been a significant determinant of corporate disclosure practices. Haniffa and Cooke (2002) documented strong support for the hypothesis that foreign ownership is positively associated with the level of voluntary disclosure. Singhvi and Desai (1968) reported a similar finding that foreign ownership influences companies' corporate reporting practices.

Forker (1992) examined the relationship between corporate governance and corporate disclosure. The focus of his study was the disclosure of share options. The results indicated that CEO dominance (defined as combined roles of CEO and the board chair) has a negative impact on the level of disclosure. Ho and Wong (2001) provide empirical evidence of a positive association between corporate disclosure practices and the existence of an audit committee. Chen and Jaggi (2000) observed a positive relationship between the proportion of independent non-executive directors and comprehendsiveness of financial disclosures, and the relationship is weaker for family controlled firms. Similarly, Ho and Wong (2001), and Haniffa and Cooke (2002) document evidence of a negative association between voluntary corporate disclosure and the proportion of family members on the board.

We draw on previous studies to investigate factors that may influence voluntary disclosure practices of listed companies. These factors include corporate governance attributes, ownership structure and firm-specific characteristics.

HYPOTHESES DEVELOPMENT

Corporate governance characteristics

The corporate governance characteristics studied in this research are: board composition, board leadership structure and audit committee formation. Board composition refers to the number of non-executive directors to the total number of directors. According to Fama (1983a), non-executive directors act as a reliable mechanism to diffuse agency conflicts between managers and owners. They are viewed as providing the necessary checks and balances needed to enhance board effectiveness (Franks

et al., 2001). Evidence of the relationship between the proportion of non-executive directors on the board and corporate disclosure has been provided by Chen and Jaggi (2000) and Haniffa and Cooke (2002).

The importance of non-executive directors has also been demonstrated in other settings: positive share price reactions to specific critical events when the firm's board is dominated by outside (non-executive) directors have been documented. Examples of these events include tender offer bids (Byrd and Hickman, 1992; Cotter et al., 1997), the adoption of poison pills (Brickley et al., 1994) and management buyout announcements (Lee et al., 1992). These empirical research findings verify the relevance of non-executive directors as a governance mechanism that enhances the board's capacity to ameliorate agency conflict between owners and managers, which may occur in the decision to voluntarily disclose information in the annual reports. Based on these earlier findings the following hypothesis is examined:

H1: The higher the proportion of non-executive directors, the higher the level of voluntary disclosure.

Within the context of corporate governance, the central issue often discussed is whether the chair of the board of directors and CEO positions should be held by different persons (dual leadership structure) or by one person (unitary leadership structure). According to agency theory, the combined functions (unitary leadership structure) can significantly impair the boards' most important function of monitoring, disciplining and compensating senior managers. It also enables the CEO to engage in opportunistic behaviour, because of his/her dominance over the board. Forker (1992) empirically studied the relationship between corporate governance and disclosure quality, and presented evidence of a negative relationship between disclosure quality and 'dominant personality' (measured as CEO and board chair combined). Hence, to the extent that the combined chair/CEO positions "signals the absence of separation of decision management and decision control" (Fama and Jensen, 1983), the following hypothesis is examined:

H2: The extent of voluntary disclosure is higher for firms with a dual leadership structure.

Previous research provides evidence of a positive association between the presence of an audit committee and corporate disclosure practices (Ho and Wong, 2001). Similarly, McMullen (1996) reported that the presence of an audit committee is associated with reliable financial reporting, such as, reduced incidence of errors, irregularities, and other indicators of unreliable reporting. In addition, Bradbury (1990) argued that: "audit committees are commonly viewed as monitoring mechanisms that enhance the audit attestation function of external financial reporting". The board usually delegates responsibility for the oversight of financial reporting to the audit committee to enhance the breadth of relevance and reliability of annual report (DeZoort, 1997; Wolnizer, 1995). Thus, audit committees can be a monitoring mechanism that improves the quality of information flow between firm owners (shareholders and potential shareholders) and managers, especially in the financial reporting environment where the two have disparate information levels. Given the influence of audit committees on the context and content of corporate annual reports, the following hypothesis is tested

H3: The level of voluntary disclosure is higher for firms that have an audit committee

Ownership structure

Various aspects of ownership structures have been studied in previous research (e.g. ownership concentration, family ownership, government ownership, foreign ownership, institutional ownership and managerial ownership). This study examines three aspects of a firm's ownership structure, namely, ownership concentration, foreign ownership and institutional ownership.

Agency theory suggests that in a modern corporation, due to the separation of ownership and control, there is a likelihood of agency conflicts (Jensen and Meckling, 1976), with the potential for conflict to be greater where shares are widely held than when it is in the hands of a few (Fama and Jensen, 1983). Thus, discretionary disclosure provides managers with an avenue to demonstrate that they act in the best interests of the owners (Craswell and Taylor, 1992; McKinnon and Dalimunthe, 1993). Managers may therefore, voluntarily disclose information as a means to reduce agency conflicts with the owners. An alternative view is that a dispersed ownership structure implies a lack of monitoring capacity due to low ownership stake of individual shareholders (Zeckhauser and Pound, 1990). Due to ownership diffusion, shareholders may not be a formidable force to influence a company's reporting practices.

Empirical results of the relationship between ownership concentration and corporate disclosure are mixed. Using a sample of Malaysian listed companies, Hossain et al. (1994) found a negative relationship, whereas Haniffa and Cooke (2002) noted a positive relationship. McKinnon and Dalimunthe (1993) observed a weak relationship between ownership structure and voluntary disclosure of segment information, whilst Craswell and Taylor (1992) found no relationship between ownership structure and voluntary corporate disclosure. The following hypothesis is tested in this study:

H4: The higher the proportion of shares held by the top 20 shareholders, the higher the extent of voluntary disclosure.

Haniffa and Cooke (2002) found a significant positive relationship between the proportion of foreign ownership and the level of voluntary disclosure by listed companies in Malaysia. They argued that there is a greater need for disclosure as a means to monitor the actions of management by foreign owners. Similarly, Singhvi (1968) found that companies, in which foreigners owned a majority of stocks, present higher quality disclosure than locally Indian owned companies. He further established that the difference between the mean disclosure scores of foreign owned (40.66) and locally owned (34.82) companies were significant at the 1 per cent level. This is an indication of the foreign owners' influence on corporate governance practices, which impacts significantly on firms' corporate reporting practices. Moreover, most of these companies are multinational subsidiaries, and the presence of foreigners on boards may significantly influence their approach to corporate financial reporting in order to meet foreign reporting requirements. Consistent with previous research findings, it is possible that this group of investors can influence the corporate disclosure practices of listed companies in Kenya. Given the geographical separation of owners and management, company management may be inclined to voluntarily provide more information in the annual reports. Thus, ownership by foreigners can be a significant determinant of the level of corporate disclosure. Based on the discussion above, the following hypothesis is tested:

H5: The higher the percentage of shares held by foreigners, the higher the level of voluntary disclosure.

Due to the large ownership stake, institutional investors have strong incentives to monitor corporate disclosure practices. Thus, managers may voluntarily disclose information to meet the expectations of large shareholders. Carson and Simnett (1997) found that there is a significant positive relationship between the percentage ownership by institutional investors and voluntary disclosure of corporate governance practices by listed companies in Australia. Similarly, Bushee and Noe (2000) documented a significant positive association between institutional shareholdings and corporate disclosure practices, as measured by the Association for Investment Management and Research (AIMR). Given shareholder activism and the monitoring potential of institutional shareholders, the following hypothesis is tested:

H6: The higher the percentage of shares held by institutional shareholders, the higher the extent of voluntary disclosure.

Company characteristics

The company characteristics examined in this research are: size, leverage, type of audit firm, profitability and liquidity. Industry type is a control variable.

In almost all disclosure studies, company size has featured as an important determinant of disclosure levels (Belkaoui-Riahi, 2001; Chow and Wong-Boren, 1987; Lang and Lundholm, 1993; Owusu-Ansah, 1998; Singhvi and Desai, 1971; Wallace and Naser, 1995; Wallace et al., 1994). Larger firms have more resources and Chow and Wong-Boren (1987) argued that agency costs increase with firm size.

Based on the above discussion, the following hypothesis is tested:

H7: The larger the firm, the higher the extent of voluntary disclosure.

Jensen and Meckling (1976) argued that agency conflicts are exacerbated by the presence of bondholders in a firm's capital structure. To cater for this, agency theory predicts that restrictive covenants may be included in written debt contracts. In their corporate disclosure study of Bangladesh listed companies, Ahmed (1994) argued, that in countries where financial institutions are a primary source of company funds, a priori there is an expectation that companies, which have large sums of debt on their balance sheet, will disclose more information in their annual reports. Moreover, such firms tend to prepare detailed information to enhance their chance of getting funds from financial institutions. This is similar to the Kenyan environment in which financial institutions play an active part in the provision of funds to corporate borrowers, some of which are the listed firms. Empirical results are mixed. Various studies have found a positive association between leverage and the extent of disclosure (Bradbury, 1992; Malone et al., 1993; Naser, 1998). However, others did not establish a significant relationship between leverage and disclosure (Carson and Simnett, 1997; Hossain et al., 1994; Malone et al., 1993; McKinnon and Dalimunthe, 1993). The following hypothesis is examined:

H8: The higher the firm's leverage, the higher the extent of voluntary disclosure.

Although it is entirely management's responsibility to prepare annual accounts, an external audit firm can significantly influence the amount of information disclosed in their normal course of duty. DeAngelo (1981b) argued that large audit firms invest more to maintain their reputation as providers of quality audit than smaller audit firms. In the case of damage to reputation, large firms stand to lose more than the small firms. It is also suggested that big audit firms have many clients, and, are therefore, likely to be less dependent on individual clients, which may compromise the quality of their work to a greater degree than the small audit firms (Owusu-Ansah, 1998). The independence enjoyed by large audit

firms enables them to influence corporate financial reports to satisfy the external users' needs for reports, since their value as auditors, in part, depends on how users of annual report perceive the auditors' report (DeAngelo, 1981a). A number of previous studies have documented a relationship between audit firm size and corporate disclosure e.g. Ahmed and Nicholls (1994), DeAngelo (1981b), McNally et al. (1982), and Singhvi and Desai (1971). Based on the above discussion, the following hypothesis is examined:

H9: The extent of voluntary disclosure is higher for firms that are audited by the big four audit firms.

Prior empirical studies have shown that profitability influences the extent of disclosure in annual reports (Wallace and Naser, 1995; Inchausti, 1997; Owusu-Ansah, 1998). Inchausti (1997) argued from the perspective of agency theory, that management of a very profitable firm will use information in order to obtain personal advantages. Therefore, they will disclose detailed information as a means of justifying their position and compensation package (Singhvi and Desai, 1971). It may also be argued, that poorly performing firms may disclose less information to conceal the poor performance, presumably from the shareholders. Wallace et al. 1994 found no relationship between profitability and disclosure, and Lang and Lundholm (1993) suggested that the direction of the relationship is not clear. However, it is more likely that the management of a profitable enterprise will voluntarily disclose more to the market to enhance the value of the firm, as this also determines their compensation as well as the value of their human capital in a competitive labour market. In light of the above discussion, the following hypothesis is examined:

H10: The extent of voluntary disclosure is higher, the higher the level of the firm's profitability.

Wallace and Naser (1995) argued that regulatory institutions, as well as investors and lenders, are concerned with the going concern status of companies. Hence a firm's ability to honour its short-term obligations as they fall due, without recourse to selling other assets-in-place is expected. Belkaoui and Kahl (1978) and Cooke (1989) suggested that the soundness of the firm as portrayed by high liquidity is associated with greater levels of disclosure. On the other hand, Wallace et al. (1994) argued, that firms with a low liquidity position might disclose more information to justify their liquidity status. The empirical findings are inconclusive. Whereas Belkaoui-Riahi (1978) found no relationship between liquidity and disclosure. Wallace et al. (1994) documented a significant negative association between liquidity and disclosure for listed and unlisted Spanish companies. In this study, the following hypothesis is tested:

H11: The higher the level of a firm's liquidity, the higher the extent of voluntary disclosure.

Industry type is included as a control variable. Wallace et al. (1994) suggested that firms in a specific industry might face particular circumstances that may influence their disclosure practice. For example, there are significant differences in the operations and reporting practices of a firm in the manufacturing industry and another in the financial services industry. In addition, Owusu-Ansah (1998) suggested that firms that operate in a highly regulated industry, might be subjected to serious rigorous controls that can significantly impact on their corporate disclosure practices. Empirical findings on this relationship are mixed. While Stanga (1976) reported a positive relationship between industry type and the extent of corporate disclosure, Wallace et al. (1994), and Owusu-Ansah (1998), found no significant relationship between industry type and extent of corporate disclosure.

RESEARCH DESIGN AND METHODOLOGY

Disclosure index construction and application

Since the pioneering work of Cerf (1961), several different approaches have been adopted to measure disclosure quality and quantity, but there is no general theory that offers guidance on the selection of items to measure the extent of voluntary disclosure (Marston and Shrives, 1991). Disclosure, by its very nature, is an abstract construct that does not possess inherent characteristics by which one can determine its intensity or quality (Wallace and Naser, 1995). For this research study it was necessary for a disclosure index to be constructed.

Of primary importance is the definition of voluntary disclosure. For the purpose of this research, voluntary disclosure is defined as the discretionary release of financial and non-financial information through annual reports over and above the mandatory requirements, either with regard to the Kenyan company laws, professional accounting standards or any other relevant regulatory requirements.

An extensive review of prior studies was undertaken to develop a list of items that may be voluntarily disclosed by a company. The main aim was to check for commonalities across the studies and to isolate those items that have been consistently identified as relevant and which may be disclosed by companies. For an item to be included, it must have been used in more than one previously published study. Such an approach was applied in prior studies by (Buckland et al., 2000; Firer and Meth, 1986; Hossain et al., 1994) in Jordanian, South African and Malaysian studies respectively, all of which are based on disclosure by companies in developing countries. In the initial stage of this research, a broad and comprehensive list of items that may be voluntarily disclosed by companies in their annual reports was identified. The list of disclosure items included both financial and non-financial items that may be relevant to investment decision-making, and which listed companies may disclose. This step culminated in the generation of 106 items.

Since the focus of this research is voluntary disclosures, the preliminary list of 106 items was subjected to a thorough screening to eliminate those that are mandated. This list was sent to various experts for screening and as a result of their feedback, the initial list of 106 items was reduced to 47 items[v]. The disclosure items are classified into five categories: general and strategic information,

financial data, forward looking disclosure, corporate social disclosure (employee, environmental and social information) and board and senior management information. A list of the final 47 items is included in Table 1.

Two important and contentious issues are often debated in the literature on the construction of disclosure indices. The first issue is whether some items should be weighted more heavily than others. The second is whether the weights should be externally generated (for example, with the aid of a user group such as financial analysts and bank loan officers), or researcher generated.

In the accounting research, both weighted (Botosan, 1997; Buzby, 1974b; Choi, 1973; Chow and Wong-Boren, 1987; Eng et al., 2001; Firer and Meth, 1986; Firth, 1984; McNally et al., 1982; Singhvi and Desai, 1971; Stanga, 1976) and unweighted (Cooke, 1991; Cooke, 1989; Hossain et al., 1994; Owusu-Ansah, 1998; Raffournier, 1995) disclosure indexes have been used. Both approaches have shortcomings. The use of a weighted disclosure index has been criticised because it may introduce a bias towards a particular user-orientation, and the use of an unweighted disclosure index has been criticised on its fundamental assumption that all items are equally important. Notwithstanding the subjectivity in weighting, all items cannot be of equal importance. In this research therefore, a weighted disclosure index is adopted on the premise that all items disclosed in firms' annual reports are not of equal importance. However, the tests were also conducted for an unweighted index and the results were consistent with those obtained for the weighted index.

Kenyan bank loan officers were asked to rate the importance of the items on a scale of 0-4. The values attached to the points are 0 (unimportant), 1(slightly important), 2 (moderately important), 3 (very important) and 4 (essential). The use of bank loan officers is relevant to Kenya for two reasons: there are far fewer corporate financial analysts in Kenya as in industrialised countries and as a prudential measure, the Central Bank of Kenya require banks to seek annual reports of borrowers (at least for the past three years) prior to making a lending decision. The mean of the loan officers' responses was applied as the weight for each item.

It is difficult in practice to establish the applicability of the disclosure items to every company in advance. At the item-selection stage, to control for this effect, the guiding principle was to ensure that the selection process was devoid of industry inclination. However important disclosure items may still be inapplicable to an industry. For example, Research and Development disclosure may not be applicable to the banking industry as it is to agriculture or manufacturing industry. Thus, companies in this industry should not be penalised for non-disclosure of Research and Development information.

An independent evaluator was recruited to verify the company voluntary disclosure scores through annual accounts. The independent assessor was an auditor with a local auditing firm. His local corporate financial-reporting experience was important in controlling for subjectivity in interpreting annual reports. The independent evaluator controlled errors, such as inadvertently awarding or failing to award scores to a company for items disclosed. The disclosure-scoring process followed a systematic procedure.

Sample selection and data sources

Due to the relatively small number of companies listed on the NSE (54), all companies were considered for inclusion in the survey. The list of companies is contained in the NSE market fact file (2002). The main criteria used for sampling the firms were:

(i) Annual reports must be available at the stock exchange.

(ii) The firm must have been listed for the entire period of the study 1992–2001. Firms that did not meet these criteria were excluded. Eight companies were excluded because they were listed after 1991 and three were excluded because their annual reports were not available. The companies listed on the NSE are classified into four main sectors: agriculture; commercial and services; finance and investments; and industrial and allied. Table 2 summarises the distribution of sample firms by sectors. At least 70% of companies in each of the four sectors are represented in the survey. Such a cohesive representation enables the research findings to be generalisable to companies listed on the NSE (Table 2).

Corporate-governance attributes and company characteristics were collected from the annual reports, while ownership information was collected from shareholders' monthly returns submitted by listed companies to the NSE. Table 3 provides a summary of the operational definition of variables and their sources.

RESULTS AND DISCUSSION

Descriptive statistics

Table 4 presents a summary of the company's voluntary disclosure scores for selected years for each category of information. The level of voluntary disclosure is generally low. However, in all categories, there is evidence of some improvement over the study period, but there is still potential for further improvement. On aggregate, there is a substantial increase in the level of voluntary disclosure of the general and strategic information. Conversely, voluntary disclosure of forward-looking and social and board information is very low (Table 4).

Table 5 presents sample characteristics. In 1992, only 9 (21%) of companies had an audit committee, and this number substantially increased to 23 (52%) over the ten-year study period. Similarly, most (75%) companies voluntarily adopted the dual board leadership structure by 2001, and utilised the services of the big international audit firms. Most companies had a majority of non-executive directors on the board. However, whether the non-executive directors are truly independent as defined in the Corporate Governance Practices for Publicly Listed Companies Guidelines draft (2000) is difficult to determine. The board size ranged from 3 to 14 in 1992 and 3 to 15 in 2001. The company with the largest board of 15 members in 2001 belongs to the manufacturing industry (industrial and allied sector), and the smallest board with 3 members is in the agricultural sector (Table 5). In 1992, the size of sample companies ranged from 35 million to 25,866 million Kenya shillings.

Over the years this had increased markedly – in 2001, company size ranged from 47 million to 102,018 million Kenya shillings. Performance of the listed companies measured as the return on equity had been on the decline, reflecting the general decline in economic performance of Kenya over the 10-year period.

Although a smaller proportion (33%) of companies utilised the services of the big international audit firms in the early years, there was a noticeable increase in the number of companies with auditors from the big-four audit firms. By 2001, an overwhelming 91% of the companies used audit services of international audit firms

Table 1. Items in the voluntary disclosure categories

General and strategic information
Information relating to the general outlook of the economy Company's mission statement Brief history of the company Organisational structure/chart Description of major goods/services produced Description of marketing networks for finished goods/services
Company's contribution to the national economy
Company's current business strategy
Likely effect of business strategy on current performance
Market share analysis
Disclosure relating to competition in the industry
Discussion about major regional economic developments Information about regional political stability
Financial data
Historical summary of financial data for the last 6 years or over
Review of current financial results and discussion of major factors underlying performance
Statement concerning wealth created e.g. value added statement
Supplementary inflation adjusted financial statement
Return on assets
Return on shareholders' funds Liquidity ratios
Gearing ratios
Forward-looking information
Factors that may affect future performance
Likely effect of business strategy on future performance
New product/service development
Planned capital expenditure
planned research and development expenditure Planned advertising and publicity expenditure
Earnings per share forecast
Sales revenue forecast Profit forecast
Social and Board Disclosure
Number of employees for the last two or more years
Reasons for change in employee number
Productivity per employee
Other productivity indicators
Indication of employee morale e.g. turnover, strikes and absenteeism
Information about employee workplace safety
Data on workplace accidents
Statement of corporate social responsibility
Statement of environmental policy
Environmental projects/activities undertaken
Information on community involvement/participation
Names of directors
Age of directors
Academic and professional qualification of directors
Business experience of directors
Directors' shareholding in the company and other related interests (e.g. stock options)
Disclosure concerning senior management responsibilities, experience and background

Table 2. Sector representation

Sector	Number of companies Listed	Number included in sample	Percentage included
Agriculture	9	7	77.8
Commercial and Services	12	10	83.3
Finance and investments	12	11	91.7
Industrial and allied	21	15	71.4
Total	54	43	

Table 3. Operational definitions of variables.

Independent variables	Operational definition	Source of information
Corporate governance		
Board composition	Ratio of non-executive directors to total number of directors on the board	Company annual reports and NSE records i.e. annual fact book
Board leadership structure	Dichotomous, 1 or 0	Company annual reports
Board size	Total number of directors	Company annual reports
Board audit committee	Dichotomous, 1 or 0	Company annual reports
Ownership Structure		
Shareholder concentration	Percentage of shares owned by top twenty shareholders to total number of shares issued	NSE company filing
Foreign ownership	Percentage of shares owned by foreigners to total number of shares issued	NSE company filing
Institutional ownership	Percentage of shares owned by institutional investors to total number of shares issued	NSE company filing
Firm characteristics		
Firm size	Total assets	Company annual reports
Leverage	Debt ratio defined as total debt to total assets	Company annual reports
External auditor Firm	Big four vs. Non-Big four i.e. 1 for Big four 0 otherwise	Company annual reports
Profitability	Return on equity defined as net profit to total shareholders' funds	Company annual reports
Liquidity	Current asset to current liabilities	Company annual reports
Control		
Industry type	Agriculture, Commercial and Services, Finance and Investments, and Industrial and Allied	NSE Handbook 2002

(PricewaterhouseCoopers, Ernest and Young, Deloitte and Touch and KPMG Peat Marwick). Finally, we note that there was a high concentration among the top twenty shareholders, institutional investors and foreign ownership.

RESULTS

Table 6 provides the Pearson Product-moment correlation coefficients of the continuous explanatory variables as well as the dependent variable included in the survey.

Table 4A. Voluntary disclosure score: general and strategic information.

Disclosure score (%)	1992	1996	2001
<= 10	13 (30.2%)	10 (23.3%)	6 (14.0%)
11-20	16 (37.3%)	15 (34.9%)	12 (27.9%)
21-30	5 (11.6%)	6 (14.0%)	10 (23.3%)
31-40	4 (9.3%)	5 (11.6%)	7 (16.3%)
41-50	4 (9.3%)	3 (7.0%)	4 (9.3%)
51-60	1 (2.3%)	2 (4.6%)	2 (4.6%)
61-70	0 (0.0%)	2 (4.6%)	0 (0.0%)
71-80	0 (0.0%)	0 (0.0%)	1 (2.3%)
81-90	0 (0.0%)	0 (0.0%)	1 (2.3%)
>90	0 (0.0%)	0 (0.0%)	0 (0.0%)

The Table shows the number and percentages (in parentheses) of companies whose disclosure score is within the specified range.

Table 4B. Voluntary disclosure score: financial information

Disclosure score (%)	1992	1996	2001
<= 10	1 (2.3%)	1 (2.3%)	0 (0.0)
11-20	31 (72.1%)	20 (46.5%)	16 (37.2%)
21-30	7 (16.4%)	14 (32.7%)	13 (30.4%)
31-40	2 (4.6%)	3 (7.0%)	5 (11.6%)
41-50	1 (2.3%)	1 (2.3%)	3 (7.0%)
51-60	1 (2.3%)	2 (4.6%)	4 (9.2%)
61-70	0 (0.0%)	1 (2.3%)	1 (2.3%)
71-80	0 (0.0%)	1 (2.3%)	1 (2.3%)
81-90	0 (0.0%)	0 (0.0%)	0.0
>90	0 (0.0%)	0 (0.0%)	0.0

The Table shows the number and percentages (in parentheses) of compa-nies whose disclosure score is within the specified range.

Table 4C. Voluntary disclosure score: forward-looking disclosure

Disclosure score (%)	1992	1996	2001
<= 10	37 (86.0%)	33 (76.7%)	20 (46.5%)
11-20	4 (9.3)	7 (16.3%)	10 (23.3%)
21-30	2 (4.7)	3 (7.0)	9 (20.9%)
31-40	0 (0.0)	0 (0.0)	3 (7.0%)
41-50	0 (0.0)	0 (0.0)	1 (2.3%)
51-60	0 (0.0)	0 (0.0)	0 (0.0)
61-70	0 (0.0)	0 (0.0)	0 (0.0)
71-80	0 (0.0)	0 (0.0)	0 (0.0)
81-90	0 (0.0)	0 (0.0)	0 (0.0)
>90	0 (0.0)	0 (0.0)	0 (0.0)

The Table shows the number and percentages (in parentheses) of companies whose disclosure score is within the specified range.

The results of Pearson product-moment correlation revealed that total assets, debt–asset ratio, shareholder concentration, proportion of foreign ownership, and institutional shareholding, are positively related with voluntary disclosure ($\rho < 0.01$, two-tailed). Liquidity and the proportion of non-executive directors are negatively related to

Table 4D. Voluntary disclosure score: social and board disclosure.

Disclosure score (%)	1992	1996	2001
<= 10	23 (53.5%)	20 (46.5%)	11 (25.6%)
11-20	15 (34.9%)	17 (39.5%)	21 (48.8%)
21-30	4 (9.3%)	3 (7.0%)	6 (14.0%)
31-40	1 (2.3%)	2 (4.7%)	3 (7.0%)
41-50	0 (0.0%)	1 (2.3%)	1 (2.3%)
51-60	0 (0.0%)	0 (0.0%)	1 (2.3%)
61-70	0 (0.0%)	0 (0.0%)	0 (0.0%)
71-80	0 (0.0%)	0 (0.0%)	0 (0.0%)
81-90	0 (0.0%)	0 (0.0%)	0 (0.0%)
>90	0 (0.0%)	0 (0.0%)	0 (0.0%)

The Table shows the number and percentages (in parentheses) of companies whose disclosure score is within the specified range.

Table 5. Sample characteristics

Independent variables	Max	Min	Mean	Median	Std. Dev.
Board size					
1992	14	3	7.8	8.0	2.7
2001	15	3	8.2	8.0	2.6
Board composition					
1992	100	11	66.7	70.5	21.2
2001	90	11	68.0	71.5	20.5
Board Audit Committee					
1992	21%				
2001	52%				
Dual Board Leadership					
1992	21%				
2001	75%				
Big-Four auditor					
1992	33%				
2001	99%				
Total Assets (Kenya Shillings)					
1992	25866	35	1883	721	5968
2001	102018	47	7440	2259	17024
Return on equity (%)					
1992	72.38	-4.68	18.52	14.93	15.77
2001	41.80	-45.4	0.50	4.85	21.27
Liquidity (times)					
1992	33.25	0.64	2.18	1.22	4.89
2001	13.88	0.91	2.14	1.27	2.14
Debt-asset ratio (%)					
1992	27.09	0.00	3.05	0.05	5.63
2001	66.80	0.00	9.03	2.40	14.21
Shareholder concentration					
1992	95.13	42.1	71.5	74.8	15.2
2001	99.8	42.2	72.0	75.3	15.6
Foreign ownership					
1992	87.1	0	28.1	13.4	30.1
2001	87.5	0	28.3	13.5	30.2
Institutional Ownership					
1992	91.5	7.2	60.1	65.3	23.2
2001	91.5	7.1	58.4	63.6	23.4

Table 6. Pearson product–moment correlation coefficients: 1992–2001

Variables	VDISC	TAS	ROEQ	LIQ	DEB	SHCO	PFRO	ISHS	NEDS
Dependent									
VDISC	1								
Predictors									
TASS	.25**	1							
ROEQ	-.09*	.08	1						
LIQRT	-.13**	-.11*	.11*	1					
DEBASS	.23**	-.06	-.25**	.03	1				
SHCO	.13**	-.16**	-.06	.05	.22**	1			
PFRO	.29**	.048	-.04	-.09	.070	.26**	1		
ISHS	.26**	.061	.02	-.26**	.059	.48**	.06	1	
NEDS	-.22**	-.040	-.11*	-.20**	.12*	-.18**	-.28**	.17**	1

* Correlation is significant at the 0.05 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed); TASS=Total Assets; REOQ=Return on Equity; LIQRT= Liquidity Ratio; DEBASS = Debt/Asset Ratio; SHCO = Top 20 Ownership; PFRO = Foreign Ownership; ISH = Institutional Ownership; NEDS = Proportion of Non-executive Directors.

the level of voluntary disclosure ($\rho < 0.01$, two-tailed). Return on equity is marginally negatively related with voluntary disclosure at a significance level of 0.05. The signs of correlation with regard to proportion of non-executive directors, liquidity and return on equity are inconsistent with predictions (Table 6).

The results of the multivariate test of the hypotheses developed in section 3 are documented in Table 7. In conducting the test, we pooled our cross-section and time series data. To accommodate the panel data, we have included year dummies in each of the regression equations. In addition, due to the panel nature of our data, we estimated regression coefficients by performing pooled Ordinary Least Square (OLS) with Panel-Corrected Standard Errors (PCSEs) (Table 7).

The results indicate that the independent variables of board leadership structure, foreign ownership, institutional ownership, firm size and the control variable of agriculture industry are significant for all four categories of disclosures. Apart from the board leadership structure the direction of the relationship for all variables is in the predicted direction. For board leadership, the results for the general and strategic, financial and social and board information were positive when a negative relationship was predicted. A possible explanation for this may be that, at least for the general and strategic category, the disclosure is mainly contained in the narrative section of the chairman's statement, and as Lennox (2001) observed in a firm with the chair and CEO positions combined such disclosures may be used to blame exogenous factors rather than managerial incompetence for poor performance. Of course another explanation is that the negative concern about duality of leadership is not supported by these results apart from the disclosure of forward-looking information.

The variables of audit committee, shareholder concentration and external auditor type were significant for three of the four categories of disclosures. Interestingly, the audit committee was not significant for the forward-looking disclosures but the external auditor type was and in a negative direction. With hindsight, it is probably not so surprising that the external auditor type has a negative relationship with forward-looking disclosures as this is possibly due to the auditor's concern with increased risks involved with this type of disclosure. The audit committee variable was significant for the general and strategic information disclosures while the external auditor type was insignificant.

The results for the shareholder concentration variable are mixed with a significant negative relationship for the general and strategic, and financial disclosures but positive for the social and board disclosures. These mixed results are somewhat consistent with previous research results are also inconclusive in terms of the direction of the relationship.

The variables of board composition and profitability were only significant for two of the four disclosure categories. For financial and forward-looking disclosures, there was a positive and significant relationship with a firm's profitability. Board composition on the other hand was significantly negatively associated with the disclosure of general and strategic and financial information. This result is contrary to the hypothesised positive relationship but is consistent with Eng and Mak (2002) who found a similar result with respect to Singapore listed companies.

The leverage and liquidity variables were only significant on one occasion with leverage significant for financial disclosures and liquidity for forward-looking disclosures. It is not surprising that leverage has an influence on the disclosure of financial information and it is in the

Table 7. Pooled regression estimates: 1992-2001 (Dependent variable: general and strategic information disclosure score)

Independent Variables	General & Strategic	Financial	Forward-looking	Social & Board
Test Variables Board composition	-0.17 (-9.43)*	-0.05 (-3.05)*	-0.01 (0.38)	0.01 (1.90)
Board Leadership structure	4.49 (4.11)*	3.84 (4.36)*	-1.10 (10.65)*	1.75 (3.28)*
Board audit committee	8.46 (6.22)*	10.22 (11.81)*	0.14 (0.18)	1.83 (6.25)*
Shareholder concentration	-0.29 (-12.05)*	-0.12 (-3.85)*	-0.02 (3.76)	0.06 (6.18)*
Foreign ownership	0.10 (5.87)*	0.04 (4.16)*	0.02 (18.06)*	0.02 (5.24)*
Institutional ownership	0.28 (20.27)*	0.10 (6.54)*	0.02 (6.43)*	0.02 (3.71)*
Firm size	0.00 (4.57)*	0.00 (5.60)*	0.00 (9.42)*	0.00 (10.31)*
Leverage	0.10 (2.16)	0.13 (4.14)*	-0.01 (1.23)	0.02 (2.06)
External auditor type	-0.70 -0.50	2.63 (3.36)*	-1.02 (10.16)*	1.49 (3.44)*
Profitability	0.00 (0.03)	0.02 (1.92)*	0.04 (20.45)*	0.02 (1.97)
Liquidity	0.19 (1.84)	-0.08 (-1.13)	-0.39 (6.44)*	-0.04 -2.46
Constant	27.62 (14.32)*	13.94 (6.65)*	0.41 (0.15)	5.94 10.22
Control variables				
Agriculture industry	2.68 (2.76)*	14.39 (10.56)*	1.23 (7.99)*	3.28 (12.62)*
Finance and Investment	-2.84 (-2.83)*	3.88 (5.92)*	-1.23 (8.04)*	-0.02 (-0.07)
Industrial and allied	-1.78 (-1.65)	-0.56 (-1.02)	0.48 (1.48)	0.39 (1.68)

* Significant at less than 1% confidence level; + Based on Panel-adjusted standard errors.

predicted direction. The variable liquidity was only significant in respect of forward-looking disclosures and the negative relationship is not in the predicted direction but it is consistent with the results of Wallace et al. (1994) who found a significant negative association between liquidity and disclosure for listed and unlisted Spanish companies. With the control variables, the agricultural sector was significantly positively associated with all four categories. This is perhaps not surprising given the size of this sector in the Kenyan economy. For example, Cooke (1991) noted that Japan's manufacturing sector discloses more information than all other sectors, because it is a major sector of that economy. In the Kenyan context, agriculture is the most important sector contributing 25% of the GDP, and the high level of disclosure may be attributable to its role in the Kenyan economy. More importantly, agricultural activities are highly labour-intensive, and therefore companies in this sector have more reasons to disclose information concerning employees. In addition, there is a significant interaction between agricultural companies that primarily engage in commercial farming and local communities who practice subsistence farming. Hence, companies in this sector are more likely to disclose information that affects employees such as employees' workplace safety as well as information relevant to the wider society such as corporate social respon-

sibility and participation of communities in companies' environmental programs.

There was a significant positive relationship with firms in the finance and investment industry and the disclosure of financial information. However, similar to the result for the external auditor type there was a significant negative relationship with the disclosure of forward-looking information. This may be due to similar concerns about the risks involved with this type of disclosure and the reflection of a more conservative approach.

On aggregate, the findings show that a company's governance, ownership and corporate characteristics influence decisions about the voluntary disclosure of information.

Summary and Conclusions

Generally, the voluntary disclosure scores show that the level of disclosure by Kenyan companies for all categories of information is low. In all categories there isevidence of increase in the level of disclosure over the study period. The change in the level of disclosure of each category of information is not consistent across all categories. For example, while there is an increase in the level of disclosure of general and strategic information over the ten-year period, there seems to be a decrease in the disclosure of financial and social and board information. However, a further analysis of this finding indicates that disclosure of a particular type of information is mainly determined by the industry to which a company belongs. Interestingly, whereas a company discloses less of a particular type of information in a given year, it often discloses more of another type of information, thus either maintaining or increasing its overall composite disclosure score. For example, companies in the manufacturing sector disclose less of financial information, and instead disclosed more on general and strategic information to explain in detail factors affecting their poor financial performance not only in the Kenya context, but also in the East and Central Africa region. In fact, though the general economic indicator variables have not been examined in this research, the events in the Kenyan and regional country economies, indicate that such important external factors may influence companies' disclosure practices, and in particular, the type of information companies in an industry disclose. On aggregate, the increase in the overall level of voluntary disclosure (not reported in this paper) is mainly driven by improved disclosure of the general and strategic information. This is the only category that has displayed a steady rise in the extent of disclosure.

Overall, a consistent finding of the pooled regression analyses is that all types of information disclosures are influenced by corporate governance attributes, corporate characteristics and ownership structure. Hence, irrespective of the type of information, various aspects of a company's governance, corporate and ownership characteristics collectively influence a company's voluntary corporate disclosure decision. The board leadership, the levels of foreign and institutional ownership and firm size are key variables in the disclosure decision across all four categories of information. The presence of an audit committee, external auditor type and shareholder concentration are also key variables that influence the voluntary release of almost all types of information. The industry in which a firm operates is a significant variable with firms in the agriculture industry voluntarily providing more information across all the four categories than firms in other industries with the exception of the finance and investment firms in the financial and forward-looking information categories.

The individual factors that influence the disclosure of a particular type of information are not the same for all categories of information. Thus, the results indicate that different factors determine voluntary disclosure of the various information categories. For instance, the identity of the external audit firm is a significant predictor of financial information disclosure, but not a significant determinant of general and strategic information. In summary, the specific factors that explain voluntary release of different information types are not the same for all categories of information. This finding is similar to that of Meek et al. (1995) who examined voluntary disclosure of multinational corporations in the US, UK and continental Europe and noted that: "factors explaining voluntary annual report disclosures differ by information type" (567).

Company size consistently appears to be a very significant predictor of disclosure of all categories of information. This is consistent with the finding of a meta-analytical study by Ahmed and Courtis (1999) that showed that size was significantly and positively associated with corporate disclosure. Finally, results in this chapter suggest that size is not only important in predictting aggregate corporate disclosure, but it is a significant determinant of the disclosure decision for various categories of information.

Finally, this study focused on one avenue of company disclosure, namely corporate annual reports and the extent to which companies voluntarily release information through other means such as the media and the internet, represent a limitation of this study. An equally important extension is to examine cultural variables as predictors of corporate reporting practices.

Endnotes

i These studies include: US; (Belkaoui-Riahi, 2001, Buzby, 1975, Buzby, 1974a, Buzby, 1974b, Cerf, 1961, Imhoff, 1992, Lang & Lundholm, 1993, Malone, Fries, & Jones, 1993, Salamon & Dhaliwal, 1980, Singhvi & Desai

1971, Stanga, 1976) Australia; (Bazley, Brown, & Izan, 1985, Craswell & Taylor, 1992, Hossain & Adams, 1995) UK; (Firth, 1979, Forker, 1992, Gray, Meek, & Roberts, 1992, Spero, 1979) New Zealand; (Bradbury, 1991, Bradbury, 1992, Hossain, Perera, & Rahman, 1995, McNally, Eng, & Hasseldine, 1982) Japan; (Cooke, 1991, Cooke, 1992) Canada; (Amernic & Maiocco, 1981) Sweden; (Cooke, 1989) Switzerland; (Raffournier, 1995) Netherland; (Camfferman, 1997) Spain (Inchausti, 1997, Wallace, Naser, & Mora, 1994)

ii . Studies on disclosure by companies in developing countries include: India; (Singhvi, 1968) Mexico; (Chow & Wong-Boren, 1987) Nigeria; (Wallace, 1988) Malaysia; (Hossain, Tan, & Adams, 1994) Bangladesh; (Ahmed & Nicholls, 1994) Zimbabwe (Owusu-Ansah, 1998)

iii . For a detailed discussion of the agency theory view of a firm, see Jensen and Meckling (1976) Eisenhardt (1989) presented an overview of applications of agency theory in empirical research, while Fox (1984) described and illustrated agency theory in a sequence of contracts events between owners and managers.

iv. For details concerning statutory requirements about corporate financial reporting in Kenya, refer to The Companies Act, Chapter 486, Laws of Kenya, 1978 pp. 109-126.

v. The list were sent to: the head of internal audits of NSE, the head of internal audit of CMA, five registered stockbrokers, three certified public accountants who work for CBK. They screened the list with reference to: the International Financial Reporting Standards (IFRS), the Kenya companies' act 1978, the Banking Act 2000, CMA disclosure guidelines, NSE listing requirements and any other relevant statutes or pronouncements that may be mandated in Kenya to isolate voluntary items. Responses were also received from one stockbroker and the three CPAs. These responses were in agreement as to which items were voluntary in the Kenyan context.

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