INFLUENCE OF CORPORATE DISCLOSURES ON FINANCIAL PERFORMANCE OF COMPANIES LISTED IN SECURITIES EXCHANGES IN EAST AFRICA

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Influence of Corporate Disclosures on Financial Performance of Companies Listed in Securities Exchanges in East Africa

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

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This thesis has been submitted for examination with our approval as University Supervisors

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DEDICATION

I dedicate this thesis to my kids Natalie, Union and Laleti, wife, parents and family members.

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LIST OF ABBREVIATIONS AND ACRONYMS

CEO	Chief Executive Officer
CMA	Capital Market Authority
CSR	Corporate Social Responsibility
DSE	Daresaalam Securities Exchange
EBDIT	Earnings before Depreciation Interest and Taxation.
EBDT	Earnings before Depreciation and Taxation
EBIT	Earnings before Interest and Tax
EVA	Economic Value Added
FD	Financial Disclosure
FS	Firm Size
GD	Governance Disclosure
ISE	Istanbul Stock Exchange
MASR	Market Adjusted Stock Return
MTBV	Market to Book Value
NSE	Nairobi Securities Exchange
PE	Price Earnings Ratio
PTCF	Price to cash flow
RD	Risk Disclosure
ROA	Return on Assets
ROCE	Return on Capital Employed
RONW	Return on Net worth

ROS	Return on Sales
SD	Social Disclosure
SPSS	Statistical Packages for Social Sciences
TA	Total Assets
USE	Uganda Securities Exchange

DEFINITION OF KEY TERMS

East Africa: East Africa is composed of Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan. Burundi and South Sudan were excluded since their stock markets are not fully developed

Financial Disclosure: This entails full disclosure of the financial information to reduce information asymmetry between the companies. Any firm will be deemed financially transparent if they report on financial policy, investment policy and financial liquidity policy. The tenet of any corporate governance system is based on the goal of good financial reporting which complies with the complex accounting standards in conjunction with other regulatory requirements around the world (Fung, 2014).

Firm Size This refers to change in firms' net assets (Pervan & Visic, 2012)

Governance Disclosure: This refers to the levels of reporting in regard to adherence to corporate governance principles as stipulated in corporate governance manuals of a particular regulatory authority. Listed companies are expected to disclose the annual expenditure on board member's remuneration, identification of the board members and share ownership held by the board

members (Tarus & Omandi, 2013).

Risk Disclosure: This refers to the disclosure in the financial report of any circumstance or events whether general or specific with potential to change the assets and /or liabilities' value of organizations. Any listed company should report their levels of operational risk exposure, market risk and liquidity risk. (Hassan, 2008).

Social Disclosure: This entails company disclosure on financial information regarding the company involvement in corporate social responsibility, environmental protection and conservation activities and work force health details disclosure. The firm is socially transparent if it discloses the employee data, environmental contribution and charitable donations (Tarus & Omandi, 2013).

ABSTRACT

With the decline in the financial performance of listed companies in East Africa and the rising trend of corporate failure in both global and local perspective. Stakeholders are increasingly becoming more concerned of the financial performance of their firms. This study aimed to find out whether corporate disclosure can be used to address the decline in financial performance and corporate failures. Therefore, this study sought to examine the influence of corporate disclosure on financial performance among companies listed in East Africa. Specifically, the study sought to examine the influence of financial disclosure, risk disclosure, social disclosure and governance disclosure on financial performance of companies listed in East Africa. The study was hinged on agency, stewardship, legitimacy and signalling hypothesis theories. The study adopted both descriptive and correlation design. Purposive sampling was used to select the 51 listed companies in Nairobi securities exchange in Kenya, 11 companies quoted in Uganda securities exchange, 3 companies which are quoted in Rwanda Securities Exchange as well as 15 companies listed in Daresaalam securities exchange from 2006 to 2015. Secondary data was collected through the use of document check index retrieved from annual audited financial statements. Regression diagnostic and panel data diagnostic tests were carried out, correlation analysis was used to show the strength of the relationship and regression analysis showed the nature of the relationship between independent and dependent variables. Results of the study revealed that there was a positive and significant relationship between financial disclosure, governance disclosure, risk disclosure, social disclosure and financial performance of listed companies in East Africa. It was concluded that there is need for listed companies to enhance their level of information disclosure so as to minimize monitoring and agency cost and ultimately steer superior performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Disclosure is an essential component of a robust corporate governance framework as they provide the base for informed decision making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring. The importance of disclosure has been widely recognized by both academics and market regulators, resulting in numerous rules and regulations being introduced over time to ensure timely and reliable disclosure of financial information, creating standards to which companies must adhere. Today, disclosure is taking on a new meaning of more comprehensive and proactive disclosures instead of the release of corporate governance details or policies in a reactive fashion. The new concept of disclosure putting more responsibilities on the corporation not only let the truth be available to the public but imposes to disclose it to every stakeholder and different stakeholder groups (Fung, 2014).

Scholars of corporate governance give different definitions as legal systems, rules and historical development of different countries are also varied. Corporate governance is defined as the system by which business corporations are directed and controlled (Cadbury, 1992). Ruin (2001) defines corporate governance as a collective group of people united as one body with the power and authority to direct, control and rule an organization. In this definition, group of people may mean all stakeholders of company. Craig (2005) stated that corporate governance is defined and practiced in different ways globally depending upon the relative power of owners, managers and provider of capital. It entails the procedures, customs, laws and policies that affect the way corporations are directed, administered or controlled.

An important objective of corporate governance is to ensure accountability and disclosure for those who are involved in the policy implementation of organizations through mechanisms that will reduce principal agent conflict. Corporate governance is the system by which companies are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures

for making decisions on corporate affairs. It also provides the structure through which company objectives are set and monitoring performance attained (OECD, 1999).

Murongo (2013) defined corporate governance as “auditing, accountability, separation of powers, managerial decisions, company objectives, corporate responsibility and compliance, financial disclosure and information disclosure. A narrower definition of corporate governance is the system of rules and institutions that determine the control and direction of the corporation and that define relations among the corporation’s primary participants whereby.

Any firm that has gained market confidence in the past and current time can in one way or the other attribute its success to the system of direction and control in the firm. Failure alike could also have emanated from the poor system as well. Recently, firms have experienced scandals of firm losing lots of money mischievously that could have been protected if they worked as per the expectation. The practices and rules that guides the interaction between the agents (managers) and the principals (shareholders or owners) as well as other stakeholders of a corporation is termed as the principle of corporate governance (Otman, 2014) which usually differ from one country to another due to divergence in legal systems, culture and historical developments (Ramon, 2001). As Tarus and Omandi (2013) observed that in today’s world there is increased widening of the gap on the interest between the agent and the principal. With agency and stakeholder theory, the emerging issue on interests are mitigated where more keen approach on the relationship is addressed and the need for full disclosure of information is emphasized to enable decision making (Jensen & Mecklin, 1976; Freeman, 1984).

Disclosure and disclosure have been instrumental in investigating the practices carried by the corporate governors transnationally explains disclosure to mean ease of access to company’s transactions, economics and non-financial aspects by any outsider with interest to make meaningful analysis pertaining the business, (Olayiwola ,2010). Absence of corporate disclosure has resulted to mega collapse and scandals of companies as witnessed recently. Problem of information asymmetry has persistently affected many firm’s performance as decision are made post prevention time leading to unresolved conflicts that has continued to influence firm valuation (Chi & Lin, 2000). In incidences where corporates release all the required information, makes it easier for shareholders

and other stakeholders in monitoring decisions carried out by the management that would influence firm performance.

Despite the attention that has been given to corporate governance in both developed and developing countries, studies have shown that these countries continue to suffer from lack of adequate governance (Ekanaakey, Perera & Perera, 2010). There have been numerous academic studies in line with corporate governance being conducted (Mulili & Wong, 2011; Olayiwola, 2010; Baydoun et al., 2013).

However there a relatively limited studies in the area of disclosure in corporate governance in developed and developing nations and the impact thereof on firm performance (Tarus& Omandi, 2013). Countries diversity in legal and development in organizations necessitate the need to investigate more keenly on the trends in in the corporate disclosure especially in the emerging economies.

There are dozens of rules and regulations pertaining disclosure that have been set due to the increasing need to ensure timely and reliable disclosures of information that companies must meet. With recent collapse of companies and fall in market value of companies, corporate disclosure is emphasized to curb corruption that inevitably happens when only a chosen few have access to important information. In transparent management efforts are made to ensure information is available candidly, accurately and timely in both the audit data and also in general reports and press releases (Alo, 2008). Disclosure in corporate governance, in the current study will be viewed in four aspects, namely financial disclosure, risk disclosure, governance disclosure and social disclosure and its influence on firm performance.

Financial disclosure entails full disclosure of the financial information to reduce information asymmetry between the companies. The tenet of any corporate governance system is based on the goal of good financial reporting which compliance with the complex accounting standards in conjunction with other regulatory requirements around the world (Fung, 2014). Financial reports full and prompt disclosure help shareholders goal of maximization of wealth to be pursued by managers since any unlawful pursuit is properly scrutinized to limit the top managers' discretion of following their own interest. With more financial disclosure, investors are able to invest wisely since they will be well

informed as to the right choice of capital which as result reduces cost of financing through the decreased liquidity premium.

Any company undertaking involve some degree of risk and risk disclosure comes in handy to instill investors' confidence. Hassan (2008) defines risk disclosure as the disclosure in the financial report of any circumstance or events whether general or specific with potential to change the assets and or liabilities' value of organizations. This gives a degree of assurance that in case of adverse or favorable economic circumstances the firm will be able to meet its financial obligations when due thereby building a confident image to the willing investors. By using the risk disclosure, firms that perform above the industry average is able to attract more investors in the securities thus lowering cost of financing its operations, this goes hand to boost the performance of the firm.

Empirical evidence shows that a firm that utilizes the principle of the corporate social responsibility usually achieves significant benefits in terms of its managerial skills and competency in conducting business affair (Jensen 2001). In response to public pressure companies come in handy to solve some social problems, and by disclosing the social responsibility they are undertaking they legitimize their activities. KPMG (2005) argues that these undertakings benefit the company for a long duration through the improvement in corporate relationship and initiative toward stakeholders. This may increase the esteem of the investors toward the company.

Governance disclosure as explained by Tarus and Omandi (2013) is the disclosure that discloses key information in regard to process of making decision, implementing procedures and observing functionality of the firm. When financial disclosure is low, governance disclosure is important since it will serve to explain any financial forecast by analyst. Shareholders are usually well informed and protected when they receive timely and relevant information such as the composition and competence of the board, size of the board, frequency of the meeting held, plans of compensation etc. which are part of disclosure in governance. Donaldson, (2003) notes that governance disclosure is increases market liquidity and investor confidence which eventually may result into good performance of the firm.

In the past years there has been major amendments of law on corporate and securities in several different countries (Bhat, Hope & Kang, 2005) all meant to formalize on good and principled disclosure and to addressing issues in the corporate governance.

1.1.1 Nairobi Securities Exchange

The Nairobi Securities Exchange can be traced back to the 1920s when it started trading shares while still a British colony. At the time transactions were conducted in an informal market with no rules and regulations to govern trading activities. Participation of local citizens was limited accounting for about 5 per cent mainly due to their low income and statutory restrictions during the precolonial period. In 1954 it was constituted as an association of stock brokers registered under the Societies Act (NSE, 1997). To facilitate registration, stock brokers obtained clearance from London Stock Exchange (LSE), which recognized the NSE as an overseas stock exchange enabling it gain value and credibility.

In 1990 the Capital Market Authority (CMA) was established with the responsibility of promoting and facilitating development of an orderly and efficient capital market in Kenya. It targets to protect investors interest by operating a comprehensive fund to cushion investors from financial losses arising from the failure of a licensed broker or dealer to meet contractual obligation. In 2000 there was the installation of the Central Depository System (CDS) with the aim of speeding up share transaction and trading (NSE, 2013).

On July 6 2011 the Nairobi Stock Exchange changed its name to Nairobi Securities Exchange as a strategic plan to progress into full service securities exchange which supports clearing, trading and settlement of equities, debt, derivatives and other associated instruments (NSE, 2013). Some of the functions of NSE includes; enabling mobilization of savings for investment in productive enterprises as an alternative to putting savings in bank deposits, real-estate investment or outright consumption. It gives room for the growth of related financial services sector, facilitates equity finance and enables public flotation of private companies which in turn allows greater growth (NSE, 2015).

1.1.2 Uganda Securities Exchange

Although the Uganda Securities Exchange (USE) was licensed in 1997 by Uganda Capital Market authority formal trading commenced in January 1998 following the listing of its maiden instrument and East Africa Development Bank (EADB) bond. Since 2000 several companies have cross listed such as Equity bank limited, Kenya commercial bank limited, Stanbic Bond, Nation media group and Centum limited (http://www.use.or.ug/)

1.1.3 Dar-eesaalam Securities Exchange

The securities exchange in Tanzania traces its history in 1996 after the incorporation of Dar es Salaam securities exchange. In 1998 the exchange's operations commenced its operations with the first listing and trading of equity. In 1999 the central depository system was deployed and the first corporate debt was listed. In 2002 the first listing of Treasury bond was listed. In 2004 the first cross border listing was carried and an Airline Company was listed. In 2006 an automated trading system was linked with a new three tier central depository system. In 2008 the first commercial bank was listed; first mining company was listed in 2011 while an enterprise growth market (EGM) was launched in 2013 and the first EGM company was listed. (http://www.dse.co.tz/)

1.1.4 Rwanda Securities Exchange

In the Rwandan stock exchange Rwanda is a developing country which is hungry for investments through setting up of new businesses and expanding already existing businesses in the country. Capital markets act as a good source of business funding if they are well developed. The equity market in the country is still young having seen their first equity listing in 2010 and 2011 (RSE, 2013). There are only four firms in the country that have sought financing from the equity market in Rwanda. Two of these organizations are foreign owned i.e. Kenya commercial bank, and Nation media group. These firms seem not to have performed well on the country's equity market. This presupposes that the equity market in Rwanda is so small and unattractive for investors and this in a way could retard the economic development of the country due to poor access to equity markets.

1.2 Statement of the Problem

The importance of disclosure has been widely recognized by both academics and market regulators, resulting in numerous rules and regulations being introduced over time to

ensure timely and reliable disclosure of financial information and creating standards to which companies must adhere to. Disclosure is taking on a new meaning of more comprehensive and proactive disclosures instead of the release of corporate governance details or policies in a reactive fashion. The new concept of disclosure is putting more responsibilities on the corporation not only let the truth be available to the public but imposes to disclose it to every stakeholder and different stakeholder groups (Fung, 2014).

However, past studies on corporate governance and financial performance of listed firms have revealed scandals, collapse and frauds in major corporations like Enron, Tyco, WorldCom and Bank of Credit and Commerce International inn the UK and US which has led to a lot of worldwide interest in issues of corporate governance (http://www.scu.edu) In East Africa listed firms questions have been raised on the governance since listed firms have been characterized with increased cases of corruption, mismanagement and government bailouts or subsidization on the failing enterprises like the Kenya Airways, Mumias Sugar Company in Kenya, Uchumi company limited in Kenya, Stanbic bank in Uganda and Tanzania had corruption related cases, just to name a few which has been in the media for all wrong reasons. This can be attributed to lack of disclosure and inadequate disclosure of company results.

Huge efforts to revive the falling companies to profitability have focused on financial restructuring. However, managers and practitioners still lack adequate guidance for attaining optimal financing decisions (Kibet, Tenei & Mutwol, 2011)

This situation has led to loss of investors' wealth and confidence in the stock market. Corporate disclosure has not been addressed leading to re-collapse of companies like Uchumi, Mumias sugar, Kenya airways, Eveready and National bank in Kenya. State reports reveal that low financial performances of listed companies is a major hindrance of the realization of vision 2030 leading to lower economic development and loss of jobs in Kenya and East Africa (R.O.K, 2014).

Past empirical studies have shown contrasting results for example Khalid and Amjad (2012), Tarus and Omandi (2013), Jahanshad, Heidarpoor & Valizadeh (2014) and Edogbaya and Kamardin (2015); found positive and significant influence of corporate disclosure on financial performance while Bushman, Piotroski & Smith (2003), Aksu and

Kosedag (2006), Ozbay (2009, Varshney, Kaul &Vasal (2012) found a negative relationship.

Many scholars in the past have investigated effects of corporate governance on financial performance for the listed firms, but only a few have considered in particular the disclosure in corporate governance and its influence on financial performance of firms. Again, most of the studies had not focused on listed companies in East Africa securities exchanges in particular. This study therefore aimed to fill this gap by focusing specifically on the four major securities: Uganda, Rwanda, Tanzania and Kenya. Moreover, most of the studies undertaken had been on corporate governance only. These studies had mostly used primary data and those which had used secondary data they have used multiple regression analysis while the most appropriate modelling would have been panel data approach. Therefore, the study examined the influence of corporate disclosure on financial performances among companies listed in east Africa securities exchanges and in addition tested the moderating effect of firm size on this influence.

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The study sought to examine the influence of corporate disclosure on financial performance among companies listed in East Africa securities exchange.

1.3.2 Specific Objective of the Study

Specifically, the study sought to:

i. To examine the influence of financial disclosure on financial performance in companies listed in East Africa.
ii. To establish the influence of risk disclosure on financial performance in companies listed in East Africa.
iii. To establish the influence of governance disclosure on financial performance in companies listed in East Africa.
iv. To find out the influence of social disclosure on financial performance among companies listed in East Africa.

v. To establish the moderating effect of firm size on the influence of corporate disclosure on financial performance of companies listed in East Africa.

1.4 Hypotheses of the Study

The study tested the following hypotheses:

i. Ho: Financial disclosure has no significant influence on financial performance among companies listed in East Africa securities exchanges.
ii. Ho: Risk disclosure has no significant influence on financial performance among companies listed in East Africa securities exchanges.
iii. Ho: Governance disclosure has no significant influence on financial performance among companies listed in East Africa securities exchanges.
iv. Ho: Social disclosure has no significant influence on financial performance among companies listed in East Africa securities exchanges.
v. Ho: Firm size has no significant moderating on the influence of corporate disclosure on financial performance among companies listed in East Africa securities exchange.

1.5 Significance of the Study

Listed companies in East Africa are guided and regulated by their respective country's capital markets acts. There is need for listed companies to be transparent so as to minimize the both agency and monitoring costs. In the study listed companies will have a yardstick against which listed companies can evaluate the causal effects of disclosure on financial performance among listed companies in East Africa.

The current study benefits the regulatory agencies from which they will identify the areas where listed companies are falling short of the expected level of disclosure and in return the level of investors return will be increased and this in turn will promote financial performance.

The study contributes to empirical findings and from the recommendations future research may be carried out. Future students will benefit since the documented evidence of listed companies' corporate disclosure among listed companies in East Africa will be document.

1.6 Scope of the Study

The study was limited to 65 companies listed in Nairobi securities exchange (NSE), 16 companies listed in Uganda securities exchange (USE), 24 companies listed in Daresaalam securities exchange (DSE) and 7 companies listed in Rwanda securities exchange (RSE). The study used secondary data which was collected through the use of audited financial statement which were readily available in the websites as well as physical visit to CMA library to retrieve information for all quoted companies.

1.7 Limitations of the Study

The study employed use of secondary data retrieved from audited annual financial statements. Although, the quality of these reports is reliable and expected to meet international financial reporting standards requirements, there are chances of undetected errors which may lead to inherited limitations in case of error of original entries. Secondly, the study drew its firms from those listed in East Africa; this implies data collected was from un-similar sources which required conversion into singular currencies which may not be very accurate especially when conversion rate was not available. Although, the choice of this region was guided by budgetary constraints facing the researcher, the applicability of the findings should be limited to the small region. To eliminate biased application of the findings an African or sub Saharan study should be undertaken to eliminate sampling bias.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The most relevant literature by various scholars pertaining the research objectives as shown in chapter one is reviewed here. The chapter has three parts: Theoretical review, empirical review and conceptual framework. In theoretical review, it shows a detailed discussion of various theories pertinent to the subject matter of the research. The empirical review highlights the findings and information currently available and the historical background of the topic. Finally, the conceptual framework shows the relationship between the independent variables and the dependent variable of the study.

2.2 Theoretical Review

The study was guided by agency theory, stewardship theory, legitimacy theory and signalling hypothesis.

2.2.1 Agency Theory

Agency theory was brought forth by Jensen and Meckling (1976). They argued that there exists principal agent relationship. The theory proposed that corporation's management are recruited by shareholders to run corporations on their behalf. This is mainly geared towards minimization of operational costs and optimization of corporation resources. Further, the theory argues that there exist information gaps which increases monitoring and agency costs. This situation amplifies conflict between principal and agents and the former ought to incur more costs so as to gather more information.

According to Jensen and Meckling (1976) there a positive and significant relationship between ownership control and agency conflicts since there are high chances of management pursuing their own self-interests at the expense of the shareholders. More so the attitude of management triggers the capital structure choice and if they are risk averse they may maintain lower gearing levels while risk seekers increases the financial risk. William, Ginter and Shewchuk (2006) argued that the primary purpose for studies on agency theory is to minimize the chances of information asymmetry. Similar studies such as Conyon and Schwalbach (2000) revealed positive relationship between corporate

governance and elimination of agency costs. This precipitates the need for better corporate governance practices as such to eliminate the possibilities of information asymmetry.

Consequently, information gathering costs may hinder healthy relationship and this will ultimately be incurred through monitoring, contractual and residual costs. Voluntary information disclosure is one of measures adopted by corporations to minimize monitoring costs. Since most investors are geared towards wealth and profit maximization there is need for listed companies to consistently disclose financial information in simple and clear forms.

There are chances of information asymmetry between the shareholders and the choice of management who will be involved in the management of companies. A wise choice ought to be made as such to minimize the agency costs and save on monitoring costs which will trigger positive financial performance. In this study both shareholders and management have a relationship and those delegated with the day to day management of listed companies. The management should share the information which is important for decision making more so publicly shared information ought to be timely and accurate and reduce conflicts associated with investors' confidence. The theory is appropriate since there is need for dissemination of financial information to aid in decision making and consequently enhance financial performance of listed companies.

2.2.2 Stewardship Theory

Stewardship theory argues that human beings have social needs which make them relate well, thus there are chances of improving performance due to management aggressiveness because they have the same vision and mission for their firm. Through, sharing of similar vision and mission in an organization the management will undertake projects which expose them to the same risk level as capital contributors. The protagonists of this theory argued that the management has a major role of spearheading and promoting adherence to corporate governance principles (Donaldson & Davis, 2008). Since governance promotes organization firm performance, there is need for listed companies to be transparent on the level of adherence of corporate governance principles.

Therefore, listed companies should foster governance disclosure and increase their financial performance.

The theory is appropriate for the study since there is need to disclose board membership composition within listed companies this would enhance linking of professional skills to responsibilities bestowed on board members. Moreover, this would enable an organization to plan adequately as on recruitment of new board members.

2.2.3 Legitimacy Theory

The theory postulates that every organization is run and coordinated as entity whose primary purpose is to generate value for the owners. Dowling and Pfeffer (2005) argued that in case of conflicting interest between shareholders and management then financial performance will be inhibited. Moreover, the organization is anticipated to be run according to internationally accepted standards which can be attained through the adherence to corporate governance principles. There is need for all companies to report their levels of involved in community-based activities (Deegan, 2002). Through this reporting the members of the public can be made to understand the contracting levels of an organization on social contracts.

In order for a profit-making cooperation to survive effectively it must receive positive reception from the members of the public. Deegan (2002) found a significant relationship between survival chances and involvement in corporate social responsibilities, an organization which has positive reception from the public will increase its financial performance since there we no need of new rules to regulate operations and if introduced they will promote social contracts, fast response to social needs by listed companies whenever called upon to participate. Therefore, all companies listed in East Africa ought to continuously update their social contracts as such to promote financial performance.

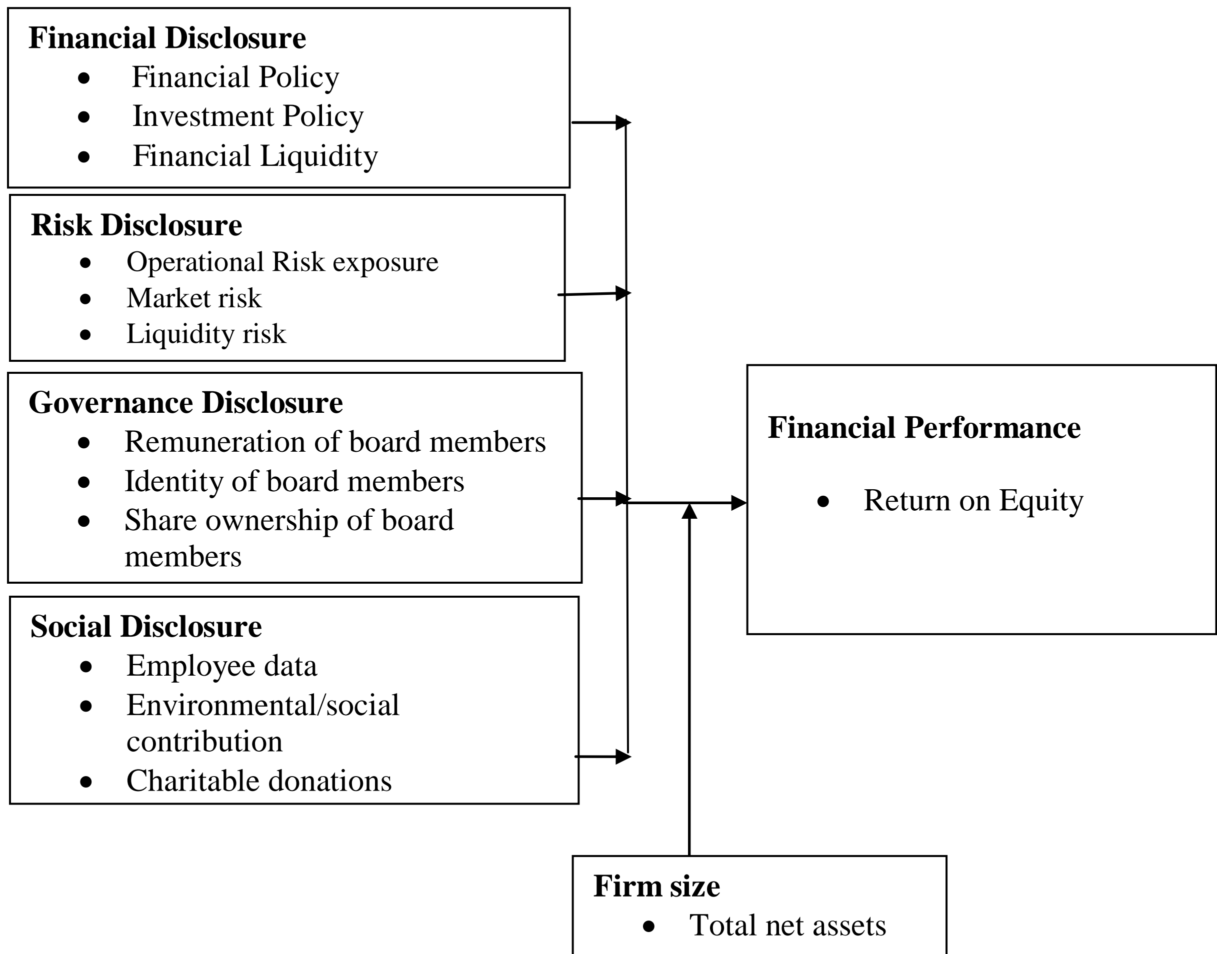
2.2.4 Signalling Theory

Signalling hypothesis was developed to explain the relationship between two parties with different levels of information access. Past studies have shown that good corporate governance signals better firm performance (Chiang, 2005). Chiang showed that there is significant positive relationship between superior information disclosure and firm performance.

According to Spence (2007) there exist some levels of information asymmetry between firm management and ordinary shareholders. Company stakeholders do not have full access to all company operations details and they rely on publicly available information to make investment decisions (Ravid & Sudit, 1994). In practice companies which consistently share positive information with members of the public always attains superior performance. The theory was appropriate in the study where investors rely on the publicly available information to decide on the best investment decision to undertake.

2.3 Conceptual Framework

A conceptual framework is the diagrammatic presentation of variables, showing the relationship between the independent variable and dependent variables. In this study, the independent variables were; financial disclosure, risk disclosure, governance disclosure and social disclosure. The study sought to study how these independent variables influences financial performance among companies listed in East Africa. The relationship between the independent variables and dependent variable is presented schematically in the conceptual framework in Figure 2.1



Independent Variables **Moderating Variable** **Dependent Variable**

Figure 2.1: Conceptual Framework

Table 2.1: Operationalization of Variables

Variables	Measures
Financial Performance (Y)	· Return on Equity
Financial Disclosure (X_1)	· Information on financial policy · Information on investment policy · Information on financial liquidity policy
Risk Disclosure (X_2)	· Operational Risk exposure · Market risk · Liquidity risk
Governance Disclosure (X_3)	· Remuneration of board members · Identity of board members · Share ownership of board members
Social Disclosure (X_4)	· Employee data · Environmental/social contribution · Charitable donations
Firm size (Z)	·Total net assets

Source: (Tarus & Omandi, 2013; Fung, 2014; Hassan, 2008; Dogan, 2013)

2.3.1 Financial Performance

Financial performance has been an area of concern for many theorists due to the significant role played by the performance onto the investors' confidence. Many researches have been conducted in line to corporate governance and financial performance, nonetheless a few have been done in Kenyan context despite several companies been placed under receivership reason be inability to pay part or all of their dues. Collapse of companies has rendered many jobless while destroying the economic development (RoK, 2014). Such are the issues that makes corporate governance disclosure and financial performance a relevant study for discussions.

Financial performance is normally viewed as how best managers have been able to utilize the resources available to the firm to enhance value. The main goal of shareholders in any company is to maximize their wealth which is enabling when a firm is performing well from time to time. Financial performance is reflected in the securities of company that is trading shares and debts. Though an increase in the value of securities is not always as result of improved performance but studies have shown a positive relationship between the financial performance and securities (Fung 2014; Jahanshad et.al, 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.

2.3.2 Financial Disclosure

Any good corporate governance system requires financial disclosure as fundamental objectives of financial reporting. Making the management accountable of their action is an element of a good system with high level of disclosure. Tarus and Omandi (2013) conducted a study to examine business case for corporate disclosure from Kenyan market. They hypothesized financial disclosure to have a positive and significant effect on firm performance. Financial disclosure was assessed using corporate disclosure index while firm performance was measured using the Return on Asset (ROA). Regression analysis supported the hypothesis of positive relationship though the correlation analysis showed this relationship to be weak.

2.3.3 Risk Disclosure

Iatridis (2008) examined accounting disclosure and financial attributes in the UK market. Among the key accounting attributes is risk exposure disclosure. Firms ought to disclosure for assurance that they are still in line with the accounting regulation. Iatridis(2008) argues that for a firm to raise capital in the debt markets an extensive risk disclosure is necessary since it improves companies' image as well as communicating to stakeholders how best manager are in managing risks.

2.3.4 Governance Disclosure

Bhat, Hope and Kang (2006) investigated whether governance disclosure affect forecasting accuracy by analyst. A sample of non-US firm cross-listed in the New York Stock Exchange as American Depositary Receipts was used covering period of 10 years. Governance disclosure was found to be positively related to the accuracy of earning forecasts by analysts. Also, it's worth noting that governance disclosure serves to explain forecasts when the financial disclosure is low.

2.3.5 Social Disclosure

KPMG (2005) in a survey by KPMG discussed the social disclosure benefits. It was seen that innovation, customized to help the stakeholders and enhanced corporate relationship made firm to enjoy long term benefits. A firm that engage in corporate social

responsibility and discloses the same in their reports they are deemed to raise the esteem of the firms. Such firms are found to have a competitive advantage over other firms as they are considered to be social, friendly and thus the firms will able to meet their long term and short-term goals.

2.3.6 Firm Size

In a study done on companies listed on the Tehran Stock Exchange (TSE) on the relationship between ownership structure and firm performance (Talebnia, Salehi, Valipour & Shafiee, 2010) controlled firm size as variable. The logarithm of the total sales measured the size of the company while firm performance was measured using Tobin q. After carrying out a random sample and applying correlation and multiple regression analysis, results indicated size of firm does not have an effect on Tobin q. However, (Talebnia et al). stated that the only companies to be selected in the analysis should be only those companies with a profit disregarding those with zero or loss which are also possible performance for the firm. Instead (Talebnia et al). should have included them and checked the impact of the firm performance.

2.4 Empirical literature Review

2.4.1 Financial Disclosure and Financial Performance

A similar study by Ozbay (2009) was conducted to examine the relationship between corporate financial disclosure and company performance in the Istanbul Stock Exchange (ISE) in Turkey. Secondary data for a total of 27 companies were sampled from annual reports for a period of 11years. These companies were selected since they were thought to be the largest and the most liquid companies in ISE. Company performance was assessed using market to book value (MTBV), price to cash flow (PTCF), price earnings ratio (PE) and market adjusted stock returns (MASR). Financial disclosure was cross-checked with 36 attributes referring to accounting policies and standards, audit fees and efficiency indicators. Panel data analysis was applied and result of the finding showed that there was inverse relationship between MTBV, PTCF, MASR and financial disclosure confirming Aksu and Kosedag (2006) findings. However, PE ratio showed a direct relationship with financial disclosure.

Edogbaya and Kamardin (2015) also examined the impact of financial disclosure and firm performance in Nigeria listed companies. Secondary data was collected from the listed firms and panel data analysis was used to analyse the data. Firm performance was measured by Tobin's Q and ROA and financial disclosure was checked against 17 attributes based on disclosure and disclosure rules and one (1) was awarded when a firm meet the said criteria and zero otherwise. It was hypothesized that financial disclosure and information disclosure had a positive relationship with firm performance which supported after the analysis.

Banerjee, Mauslis and Pal (2014), used panel data analysis to test the relationship between the disclosure and disclosure on performance of companies listed in Russian stock market. Firm performance was measured by Tobin's Q and Earnings before interest and Tax to asset (EBIT/TA) while disclosure and disclosure was observed and cross-check with the disclosure list. There result of this study showed a significant and strong negative impact of financial disclosure and firm performance agreeing with Hermalin and Weisbach (2012) findings.

In addition, Jahanshad, Heidarpoor and Valizadeh (2014) documented the relationship between financial information disclosure (FIT) and financial performance of Tehran Stock Exchange. The study covered a period of 6 years ending 2011 with 94 listed firms being analysed. Financial disclosure was assessed by comparing disclosed information against Standard and Poor's model where information was classified according to reporting standards; that is based on structure of ownership and shareholders (consisting 28 items), board structure and management (35 items) and financial disclosure and information disclosure (35 items) while financial performance was assessed by multiple indicators, market to book value, Price Earnings ratio and market adjusted stock return. A significant relationship between the FIT and financial performance was revealed.

Fung (2014) in a study of demand and need for disclosure and disclosure in Hong Kong reveals that financial disclosure is important in capturing the attention of the investors since with information they can monitors the management governance process and behaviour. Fung further notes that with increased disclosure, a company is able to defer

embezzlement and scandals thereby fostering efficiency of the company way of allocating resources and making decisions.

Jahanshad, Heidarpoor & Valizadeh (2014) examined the relationship between financial information disclosure and firm performance among Tehran securities exchange listed companies. Panel data was collected among 94 companies which are listed in 2006 to 2011. Financial disclosure measure was adapted from Standard and Poor's model 35 items on financial disclosure and information disclosure. Financial disclosure was measured using market to book value, price to cash flow, price earnings ratio, market adjusted stock return. Panel regression analysis was used to analyse the data and the study found positive and significant relationship between market to book value, price earnings ratio, market adjusted returns and firm performance. Although, price to cash flow had an inverse relationship it was not significant. Jahanshad *et al.,* further argued an increased information disclosure increased firm performance

All listed companies should strive to increase the level of information disclosure and minimize the chances of information asymmetry which will trigger positive financial performance. Through, increased level of information disclosure financial analysts, current and potential investors can gather the required information which can influence their decision making and if the information is positive then performance may increase.

2.4.2 Risk Disclosure and Financial Performance

Linsmeier, Thornton, Venkatachalam & Welker (2002) in a study of the impact of risk disclosure on trading volume sensitivity to interest and exchange rate observed that stock prices and risk disclosure have got a positive correlation. This can probably be explained due to shareholders being aware of the inherent risks and therefore coming up with mitigating mechanisms. According to stakeholder theory, companies with high degree risk should disclose the most amount of risk related information and explain the cause in an effort to reassure stakeholder that managers are prepared to address these risks (Abraham & Cox, 2007).

Financial sector is faced by several risks and since the primary goal of all sectors in an economy is to maximize profits. Risk management is a crucial facet in the banking sectors so as to increase the chances of maximizing the shareholders wealth (Khalid &

Amjad, 2012). In a comparative study on the commercial banks risk mitigation strategies between public and private Tunisian banks showed that interest rate risk was most ranked by commercial as the risk in which they are prepared to cater for while liquidity was ranked least (Salma & Rajha, 2012).

2.4.3 Governance Disclosure and Financial Performance

Stiglbauer (2010) investigated the disclosure and disclosure of corporate governance in determining Germany companies' success. 100 Germany firms listed in the Prime Standard segment were sampled. Secondary data from compliance statement, annual report, compensation report, shareholder meetings, code of conduct and companies' websites were used. Firm performance was assessed using market to book value of equity and total shareholder return. Governance disclosure and disclosure was indicated by disclosure index prepared as per the Germany regulation. It was established that there exists a significant positive relationship between corporate governance disclosure and disclosure with firm performance using content analysis.

Aksu and Kosedag (2006) examined the relationship between disclosure and disclosure on firm performance for 52 Turkish firms. Firm performance of the sample was measured by the ROA, ROE and market excess return while disclosure and disclosure was assessed by checking against the prepared check list. The result of the study showed a negative, but significant relationship between the two variables.

Denis and McConell (2002) explored the international corporate governance where the scholars show that there exists a strong relationship between governance system and firm performance. Timely, accurate and relevant information on governance enables any willing investors to make right investment decisions in the company, thereby enhancing market values in the share of the firm during that a management period. Bushman, Piotroski & Smith (2003) further found that governance disclosure is related to countries legal systems and serves to eliminate any benefit (s) that may be received from being an insider. In addition, governance disclosure has been found to have a negative and significant relationship with bank financing relative to external equity financing.

Leblanc and Gilles (2003) examined the impact of governance disclosure and firm performance. The governance's disclosure was determined by the composition of the

board that is board size, independence, separation of chair and CEO and outside directors. In their conclusion, these scholars found that the governance disclosure reduces agency costs and therefore in line with firm good performance.

Varshney, Kaul and Vasal (2012), examined a case of corporate governance index and firm performance in India. Corporate governance index was composed of both internal and external mechanisms. The internal mechanism was composed of board structure and ownership structure. The external mechanism was composed of market for corporate control and product market share. Board structure was operationalized as "Proportion of outside directors, board size, number of board size, CEO duality" and ownership structure was categorized as the proportional of ownership structure owned by individual, institutional ownership, employee ownership schemes. Firm performance was measured using economic value added (EVA) though related measures such as Tobin's Q, RONW and ROCE were also considered. Purposive sampling technique was used to select 105 listed companies. Two stage least squares regression analysis was used to analyse the data. There was a positive and significant relationship between governance and firm performance. There was no significant relationship between governance and (Tobin's Q, RONW and ROCE). The choice of panel data analysis methods was appropriate since the data had both time series and cross-sectional characteristics.

In the same spirit, Fisher and Abdo (2007) conducted an empirical study on reported corporate governance disclosure and financial performance for the firms listed in Johannesburg stock exchange. Governance disclosure scorecard was developed from the basic principle of good corporate governance, namely disclosure, independence, accountability, responsibility, discipline, fairness and social responsibility. Financial performance was assessed by market to book value, average share price returns and Price Earnings ratio (PE). After selecting 9 sectors for the study of three years, the result showed supported a growing literature that governance disclosure had a positive impact on financial performance. This implies that majority of the investors in South African put much emphasis on the good corporate governance in Kenya.

Javaid and Saboor (2015) studied impact of corporate governance on manufacturing firm performance in Pakistan. Panel secondary data was collected from annual financial

statement of 58 manufacturing firms through use of purposive sampling technique and only firms which had complete data in 2009 to 2013 were considered in the study. Governance was operationalized to be composed of twenty-one items which were grouped into board structure, ownership structure and disclosure. Board structure governance disclosure was composed of board size, percentage of non-executive directors, percentage of executive directors, CEO duality; number of board meetings, board meetings effectiveness and existence of chief finance officers, ownership disclosure was composed of percentage of block shareholders, ownership concentration, managerial ownership, directors' ownership, institutional ownership and percentage of voting shares with controlling shareholders. Governance disclosure was determined by, Disclosure of Corporate Governance practices, Disclosure of remuneration, Audit related committee, Disclosure of shareholding categories, Disclosure of Executive member Ownership, Availability of financial report on websites, Audit Related Committee. Panel regression analysis showed a positive and significant relationship between governance disclosure and firm performance. They concluded that governance disclosure had positive contribution towards firm's performance among listed manufacturing firms thus it contributed towards shareholders wealth maximization.

Brown and Caylor (2004) examined the influence of corporate governance on firm performance. The governance score was operationalized to be composed of 51 items which are grouped into eight categories drawn from "audit, board of directors, charter/bylaws, director education, executive and director compensation, ownership, progressive practices, and state of incorporation". Performance was operationalized to be measured by six measures which included; operational performance which composed of return on equity, net profit margin and sales growth, valuation (Tobin's Q) and shareholders payout (dividend yield, share repurchases). Secondary data was collected from annual financial statements. Results of the study showed an inverse significant relationship between return on equity/ net profit margin and audit and charter/by laws. Moreover, there was a positive and significant relationship between return on equity/ net profit margin and board of directors, director of education, executive and director compensation, ownership and progressive practices. Charter and state incorporation had a positive and significant relationship with Tobin's Q.

Okougbo (2011) investigated the empirical evidence of corporate governance on firm performance on selected listed companies. Governance was operationalized as CEO duality, audit committee independence and ownership, the firm performance was measured using return on assets, profit margin and return on equity. Secondary data was collected from annual financial statements of 52 listed companies which actively traded in 2003 to 2008. Generalized least squares regression analysis, the results showed a significant relationship between governance and return on assets and profit margin. The study recommended that there is need for development of governance measures which are customized to a specific industry or sector. Moreover, there is need for continued evaluation of corporate governance measures as such to ascertain their status and effects they have on firm performance.

2.4.4 Social Disclosure and Financial Performance

Tarus and Omandi (2013) also studied the relationship between social disclosure and firm performance. Secondary data was selected from audited annual reports and NSE bulletins. The study used a content analysis approach. Firm performance measures were adopted from Kato & Long (2006) that is ROA and EBIT/TA while social disclosure was determined by the disclosure index predefined. Data was analysed using correlation and regression analysis method. Results of the study revealed that it was beneficial for a firm that engages in corporate social responsibility which gives a company reputation and social capital that important for increased performance.

Tsoutsoura (2004) studied the impact of corporate social responsibility disclosure and financial performance of S&P 500 firms for a period of 5 years. Financial performance was measured using accounting variables for profitability that is ROA, ROE and Return on Sales (ROS) and social disclosure was cross checked with the prepared list of corporate social indices. By applying regression for panel data, results indicated positive and significant relationships, confirming the view that social responsibility can be associated with a series of bottom line benefits. The choice of the regression analysis was inappropriate for a time series data and in this case panel data should have been analysed by time series or path analysis.

Abiodun (2012) investigated the relationship of corporate social responsibility (CSR) on profitability among companies listed in Nigeria. Random sampling technique was used to select 10 companies which were listed and actively trading in 1999 to 2008. Results of the study revealed a positive and significant relationship between social responsibility and firm profitability. Although CSR enhances firm performance listed companies in Nigeria have embraced the act and there is need for sensitization on use of CSR as medium for improving firm performance.

Mujahid and Abdallah (2014) examined the influence of CSR on firm performance and shareholders wealth. A comparative analysis was carried out between 10 firms which are complaint in relation to CSR and non-complaints. Firm performance was operationalized as return on equity, return on assets. There was a positive and significant relationship between CSR and ROE, ROA and shareholders wealth.

Kanwal, et al., (2013) studied the impact of CSR on firm performance in Pakistan. Purposive sampling technique was used to select 15 listed companies in Karachi securities exchange. They argued that through CSR an organization understands its societal role. Regression analysis showed a positive and significant relationship between CSR and firm performance. More so continued firm participation in CSR enhances long term company sustainability. The choice of ordinary least squares regression model was not appropriate since the data was panel it was good to use panel regression analysis.

Murtaza, et al., (2014), examined the impact of corporate social responsibility on firm performance in Pakistan. They argued that CSR is an ethical necessity which can improve the public rating of a particular company. Purposive sampling was used to draw respondents among companies listed in the food sector. Both qualitative and quantitative data was collected and analysed. Results of the study showed that they were a positive and significant relationship between CSR and firm performance. They concluded that continued participation in social activities improves retention of company's image by members of the public.

Cornett, Erhemjamts, and Tehranian (2014) examined the impact of corporate social responsibility on financial performance of US based commercial banks. The findings of their study revealed there was a positive and significant relationship between CSR and

commercial banks performance. Moreover, the commercial banks which were located in regions with minority communities were involved in CSR and registered increased growth on their performance.

2.4.5 Corporate Disclosure, Firm Size and Financial Performance

A study conducted Dogan (2013) to examine whether there exists a relationship between firm size and firm performance as indicated by profitability on the companies listed in Istanbul Stock Exchange (ISE). The study covered a period of four years and a total of 200 active companies were investigated from the online data that was available on the ISE. Profitability of the firm was assessed by use of Return on Asset (ROA) while the total sales, Total assets and the number of employees measured the size of the firm. Dogan using multiple regression and correlation analysis found that there exists a direct relationship between firms' indicators of size and profitability.

Al-Matari, Al-Swidi, Fadzil and Al-Matari (2012) when studying the effect of board characteristics on firm performance from 136 non-financial listed companies in Kuwaiti Stock Market held firm size as control variable. This study adopted correlation research design approach. Secondary data from the annual reports of year 2009 were analysed using multiple regressions. The result of the study revealed firm size to have insignificant, but a direct relationship effect on ROA which assessed the firm performance supporting findings from Lehn et al. (2003) who contended that firm size has a positive relationship on growth opportunities which has effects on firm performance.

Pervan and Visic (2012) investigated the influence of firm size on the success of the Croatian medium-size and large enterprises. Online data for 1722 firms from Croatian Financial Agency and Amadeus database was gathered from year 2002 to 2010. Firm's success was measured in the perspective of profitability and hence profitability ratio such as ROE, ROA, profit margin, EBITDA margin, EBIT margin was used. Firm size was assessed using the logarithm of firm assets and number of employees. Analysis of the data showed that there was significant and weak positive relationship between firm size and profitability of the firm.

By using fixed effect mechanisms on panel data from 7000 US sampled public companies, Lee (2009) studied the role played by firm size on the firm's profitability. Analysis of the data revealed the importance of firm size in determining the profit made by a company, though the relationship was non- linear.

Amato and Burson (2007) test of firm in the financial services sector for the relationship of size and profit indicated negative but significant impact on the relationship which further proved to be linear and in cubic relationship with ROA and firm size. Similarly, a study of electrical contractors of small, medium and large firms by Ammar et al., (2003) had shown an inverse relationship between size and profits using the financial data collected for 12 years starting 1985. Further, Ammar first order autoregressive model of analysis showed that for firms that had grown with more than US $50 million in sales, there was a significant fall in the firm's profitability.

2.5 Critique of the Literature

From the review of the literature above, firms need to enhance corporate disclosure in their bid to enhance the value and performance for the owners. Several factors have been cited as the indicator of firm performance in the different studies but the most in summary it can be said that Tobin's Q, Return on Equity (ROE) and Return on Assets (ROA). Some studies show that there exists a positive relationship (Tarus & Omandi, 2013; Edogbaya & Kamardin, 2015) between the financial disclosure and firm performance even though others revealed an inverse relationship (Banerjee, Mauslis & Pal, 2014; Ozbay, 2009; Jahanshad et al, 2014).

Information disclosure shows openness, caring and accountability between the management and the stakeholders which works to influence the choice of firms' performance in both developed and developing economies which may have similar influence in east Africa securities exchange and no documented evidence have been done amongst the four securities exchanges. For companies to operate as per the expectation of the investor there is need for full disclosure over and above to ensure that the goal of wealth maximization is enhanced.

2.6 Summary of the Literature

There exist several ways of measuring performance both in financial and non-financial measures. To get the complete picture of how firms are performing for a certain duration the two measure are necessary however financial measures according to (Santos & Brito, 2012) are sufficient and are as well influenced by the non-financial measures. According to Damodaran (2008) the three important decisions that a firm has to make are on investment, financing and dividend which explains all about firm performance. Managers of a firm ought not to compromise any of these decisions since performance is in 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.

Pagach and Warr (2008) posits that firm performance can be assessed by financial and operation efficiency in using resources. Tobin's q measure of financial 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 on the firm; also serves to explain the different policies such as financing, compensation and dividend policies. Benchmarking as form of performance checks and balances helps compare companies' performance with others in the same industry. Market share as an indicator for benchmarking will ensure company achieve greater scale in the operations and increase profitability of the firm (Santos & Brito, 2012).

2.7 Research Gaps

Some studies have disregarded the fact that the data they used was panel and ended up applying inappropriate analysis methods such as OLS, instead of applying panel data analysis method for cross sectional and time series data. Also, most of the studies used a purely descriptive approach and therefore have omitted testing the relationship between the dependent and independent variable.

Many scholars in the past have investigated effects of corporate governance on financial performance for the listed firms, though only a few have considered in particular the disclosure in corporate governance and its influence on financial performance of firms. Again, very few studies have focused on East Africa securities exchanges listed

companies in particular. This study therefore aims to fill this gap by focusing specifically on the four major securities: Uganda, Rwanda Tanzania and Kenya.

Moreover, most of the studies undertaken have been on corporate governance and firm performance and these studies have mostly used primary data and those which have used secondary data they have used multiple regression analysis while the most appropriate modelling would have been panel data approach. It would have been appropriate for past studies to use standardized measure of financial performance though Tarus and Omandi (2013) normalized the dependent variable. In addition, past studies should have used natural logarithm of the variables though they used the accounting estimates. Since listed companies operate in different sectors which exposes them to different risk levels it would have been appropriate to test the moderating effect of different industrial sectors, the number of branches, nature of the industry whether service or manufacturing oriented. Therefore, the study looked on the influence of corporate disclosure on financial performance of companies listed in East Africa and in addition test the moderating effect firm size on this relationship.

Lastly, most studies have been conducted in America, Asia and Europe. Very few studies have considered the developing nations like Kenya and other Sub-Saharan African countries. The systems of governance, risk, financing options and social aspects differ significantly between the developed and developing nations hence the need for a study in such countries to be able to make conclusive decisions on disclosure.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the procedures which were followed in the study. It covers research design, determination and identification of the population size, sampling procedure and sample size, the instruments of data collection, data collection procedures pilot testing and methods of analysing the data.

3.2 Research Philosophy

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analysed and used (Saunders, Lewis & Thornhill, 2014). In this study positivism research philosophy was adopted. This approach is based on an experiment and observations which guides the research process (Saunders et al., 2014).

It was very important for the study to have a clear understanding of the research philosophy to enable the research to examine the assumptions about the way we view the world, which are contained in the research philosophy we choose, knowing that whether they are appropriate or not. According to Saunders, et al*.,* (2014), three major ways of thinking about research philosophy are ontology, epistemology and axiology. This research used the positivism research paradigm by utilizing an empirical setting to investigate the theoretical relational paths drawn from literature and test them through hypotheses. The conceptual framework quantified the data for the purposes of explaining the underlying associations. The concept of positivist perspective was directly associated with the idea of objectivism. In this kind of philosophical approach, scientists give their viewpoint to evaluate social world with the help of objectivity in place of subjectivity (Cooper & Schindler, 2014).

The positivist position was derived from that of natural science and was characterized by the testing of hypothesis developed from existing theory through measurement of observable social realities. Positivism is said to be in the realm of theory, where the data is theory driven and design to test the accuracy of the theory (Cooper & Schindler, 2014). This philosophy (positivist perspective) enabled the researcher to make predictions and generalizations of the study on the basis of the previously observed and explained realities and their inter-relationships of the variables.

3.3 Research Design

Kombo and Tromp (2006) defined a research design as a step by step procedure on how the research objectives were attained with minimum deviation from the expected results. In this study both descriptive and correlation research design were applied. Kothari (2011) argued that through descriptive survey design the research described the situation as it was. It was appropriate for the current study since the researcher described the level of corporate disclosure among companies listed in East Africa. Correlation design is used to explain the causal relationship between the dependent and independent variables (Oso & Onen, 2009; Mugenda & Mugenda, 2009; Kothari, 2011).

Correlation design was appropriate for the study since the study explained the influence of corporate disclosure on financial performance among companies listed in East Africa. Past studies such as Tarus and Omandi (2013), Ndili and Muturi (2015), Wangechi and Nasieku (2015) applied the same design to examine business corporate governance a Kenyan perspective, relationship between financial decisions and firm performance on companies listed in Kenya. Although, these studies considered a five-year period the current study collected data for ten years.

3.4 Target Population

According to Kothari (2007) a study target population refers to a complete enumeration of all the individuals under consideration. In the current study the target population consist of 65 firms listed in Nairobi securities exchange, 16 firms listed in Uganda securities exchange, 24 firms listed in Daresaalam securities exchange, and 7 companies listed in Rwanda Securities Exchange which had been listed from 2006-2015 were considered. Any cross listed firm were considered only in its home country to avoid duplication of the study variables.

Table 3.1: Distribution of Companies per Country

Country	Number of companies
Kenya	65
Rwanda	7
Tanzania	24
Uganda	16
Total	**112**

3.5 Sample Procedure and Sample Size

According to Oso and Onen (2009) sampling is the processing a subset of the target population to be its true representative in the study. In the current study non-probabilistic sampling technique was used to select the companies to be included in the study. Mugenda and Mugenda (2008) argued that non-probabilistic sampling techniques are used to select individual through subjectively defined methods whereby the researcher defines the minimum inclusion criteria in a given study.

In this study purposive sampling was used select companies which have been quoted for last 10 years in the east African stock exchanges among 65 companies which have been quoted in Nairobi securities exchange, 16 companies quoted in Uganda securities exchange, 7 companies which has been quoted in Rwanda Securities Exchange and 24 companies listed in Daresaalam securities exchange between 2006 to 2015. In total 80 listed companies were considered yielding 70% of the target population. Mugenda and Mugenda (2008) argued that in social science a sample size of 10% is sufficient for the study.

Table 3.2: Sample Size

Country	Number of companies
Kenya	51
Rwanda	3
Tanzania	15
Uganda	11
Total	**80**

3.6 Data Collection Instrument

The study used secondary data drawn from financial report of listed firms. To collect data, the researcher used the Nairobi Securities Exchange hand books and website, Uganda Securities Exchange website, Daresaalam Stock Exchange and Rwanda Stock Exchange website and companies' annual reports accessed through their offices. Where the researcher had no access the required information in the stated medium personally visited the specific company office. Therefore, the main data collection instrument for the secondary data was document disclosure check index on the specific study variables. Scoring approach was used on all the items as provided in the disclosure index from

which an overall score was calculated, if a company has provided the information it gets one (1) otherwise it was awarded zero (0). Level of disclosure for every item was calculated as:

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

3.6 Data processing and Analysis

This section is composed of four steps: data preparation through cleaning, data analysis, interpretation and report writing. Microsoft Excel in combination with E views and STATA statistical packages was used to analyze the data. In order to answer the research questions both descriptive and inferential statistics was carried.

The main inferential statistics carried out in the study was correlation analysis which will show the strength of the relationship between variables under investigation. Moreover, regression analysis was carried out to show the nature of the relationship between dependent and independent variables (Kothari, 2011). The level of significance was tested at 5 per cent whereby if the p value was less than 0.05 then there was enough evidence to reject the null hypothesis and accept the alternative hypothesis (Kothari, 2011). A multivariate regression model was used to link the independent variables to the dependent variable as follows;

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{it} \quad \text{..................................} (3.1)$$

$$Y_{it} = \beta_0 + \beta_1 X_{1it+} \beta_2 X_2 it_+ \beta_3 X_3 it_+ \beta_4 X_{4it} + \beta_5 Z_{it} + Z_{it} (\beta_6 X_{1it+} \beta_7 X_{2it+} \beta_8 X_{3it+} \beta_9 X_{4it})_+ \varepsilon \text{ it}$$

$$\text{...} (3.2)$$

Where; Y_{it} represent financial performance

X_{1it} represent financial disclosure for firm i in period t

X_{2it} represent Risk disclosure for firm i in period t

X_{3it} represent Governance disclosure for firm i in period t

X_{4it} represent Social disclosure for firm i in period t

Z_{it} represent firm size for firm i in period t

X_{it} Z_{it} represent interaction between respective independent variable with Firm size for firm i in period t

In the model, β_0 = the constant term while the coefficient β_i = 1…5 will be used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. ε is the error term which captures the unexplained variations in the model. To address the first objective which sought to estimate the influence of financial disclosure on financial performance, regression analysis was carried out to show the nature of the relationship between dependent and independent variables (Kothari, 2011). The equation 3.1 was estimated and the coefficient of financial disclosure interpreted to show the nature of the relationship. Correlation coefficient was estimated and used to show the strength of the relationship. The level of significance was tested at 5 per cent whereby if the p value was less than 0.05 then there will be enough evidence to reject the null hypothesis and accept the alternative hypothesis (Kothari, 2011).

To address the second objective which sought to investigate the influence of risk disclosure on financial performance, regression analysis was carried out to show the nature of the relationship between dependent and independent variables (Kothari, 2011). Equation 3.1 was estimated and the coefficient of risk disclosure was interpreted to show the nature of the relationship. The correlation coefficient was used to show the strength of the relationship. The level of significance was tested at 5 percent whereby if the p value was less than 0.05 then there was enough evidence to reject the null hypothesis and accept the alternative hypothesis (Kothari, 2011)

To address the third objective which sought to investigate the influence of social disclosure on financial performance, regression analysis was carried out to show the nature of the relationship between dependent and independent variables (Kothari, 2011). Equation 3.1 was estimated and the coefficient of social disclosure interpreted to show the nature of the relationship. The correlation coefficient will be used to show the strength of the relationship. The level of significance was tested at 5 percent whereby if the p value will be less than 0.05 then there was enough evidence to reject the null hypothesis and accept the alternative hypothesis (Kothari, 2011)

To address the fourth objective which sought to investigate the influence of governance disclosure on financial performance, regression analysis was carried out to show the nature of the relationship between dependent and independent variables (Kothari, 2011). Equation 3.1 was estimated and the coefficient of governance disclosure interpreted to show the nature of the relationship. The correlation coefficient was used to show the strength of the relationship. The level of significance will be tested at 5 per cent whereby

if the p value was less than 0.05 then there was enough evidence to reject the null hypothesis and accept the alternative hypothesis (Kothari, 2011)

To address moderating variable which sought to investigate the moderating effect on the influence of corporate governance disclosure on financial performance, regression analysis was carried out (Kothari, 2011). First, the coefficient of firm size was evaluated to show whether as an independent variable, firm size was significant relationship. If firm size is significant or not, equation 3.2 was regressed and the coefficients of the interactive terms was interpreted to assess whether firm size has a moderating effect and the channel(s) through which it moderates the relationship between various disclosure variables and financial performance The level of significance was tested at 5 per cent whereby if the p value was less than 0.05 then there was enough evidence to reject the null hypothesis and accept the alternative hypothesis (Kothari, 2011).

3.6.1 Secondary Data Analysis

Fixed Effects or Random Effects Model

Hausman test was carried out to decide on the mutually exclusive model to apply between FEM and REM (Wooldridge, 2013; Baltagi, 2005). If the Hausman test fails to reject the null hypothesis, the random effects model is the one that is the most appropriate to use to estimate the regression. A failure to reject the null hypothesis means that the sampling variation in the fixed effects estimates is to large, it would not be possible to conclude any differences that are statistically significant. Another reason can be that the estimates are so close that it does not matter which one to use.

Heteroskedasticity

Heteroscedasticity was tested using Breusch-Pagan-Godfrey; if heteroscedasticity was present in the model, the estimators of the OLS parameters are unbiased and consistent, but the standard errors are not efficient. If the standard errors are not adjusted for heteroscedasticity, the usual t statistics or F statistics for testing our hypothesis cannot be used. When heteroscedasticity is present, robust standard errors tend to be trust worthier. However, the use of robust standard errors does not change coefficient estimates, but the test statistics gives reasonably accurate p-values. To demonstrate if the models we have estimated suffer from heteroscedasticity. This test can evaluate whether the variance of the error process appears to be independent of the explanatory variables. If the null

hypothesis is rejected, the statistical evidence implies that heteroscedasticity is present (Wooldridge 2013; Baltagi, 2005).

Auto Correlation

The relationship of error terms in different time periods is known as the autocorrelation (Woodridge, 2013). Consequently, standard errors affected the efficiency of estimators since they were distorted (Woodridge, 2013). Autocorrelation was tested using Wooldridge F-test and the null hypotheses there was no serial correlation against the alternative of the presence of serial correlation. The null hypotheses will be rejected if the p value will be less than 0.05.

Multicollinearity

There are chances of independent variables being correlated if so then multicollinearity will be present (Baltagi, 2005). Due to this there are chances of deflating or inflating regression coefficients and this will ultimately invalidate the test statistics (Woodridge, 2005). In the current study multicollinearity was tested using Eigen values for correlation matrix and condition index, the small the eigen values or the big the condition indexes the higher the chances of multicollinearity (Baltagi, 2005). Moreover, correlation analysis was applied and if there are some variables with correlation coefficient greater than 0.8 then there will be collinearity.

Stationarity

Since the data also having time series characteristics, there was need to determine whether the variables in question are stationary or non-stationary. Stationary series have finite variance, transitory innovations from the mean and a tendency to return to its mean value as opposed to non-stationary series (Baltagi, 2005). Therefore, there was need to ensure that the variables to be estimated have constant mean and variance over time or the data is stationary. Any regression analysis carried out on non-stationary data leads to spurious and inconsistent regression modelling. Fitting of spurious regression may lead to rejecting of null hypotheses which ought not to have been rejected.

In the current study Levin-Lin-Chu, Augmented Dickey Fuller and Phillips Perrons root tests will be applied for stationarity analysis. These two tests also accounted for autocorrelation in the error process (Wooldrige, 2013; Baltagi, 2005). The left-hand side variables are lagged (ΔXt) as additional explanatory variables so as to approximate the autocorrelation (augmentation). This improves the statistical fit of the equation and r is

more efficient with added information. The basic equation used in the PP test remains the same as the one used in the ADF test. The number of lags (K) for ΔX_{t-1} should be relatively small to save the degrees of freedom, but large enough to allow the existence of autocorrelation in the error term.

Granger Causality

Granger causality is a test used to examine whether there is a nexus between two study variables (Granger, 1988). In the current study granger causality assumes reverse effect between corporate disclosure and financial performance. The null hypothesis was tested at 5% level of significance and if the p value were greater than 0.05 then corporate disclosure does not granger cause financial performance.

Panel regression analysis diagnostic test for fixed effects, Heteroskedasticity and serial correlation was tested. Panel analysis method was appropriate since the secondary data had both cross sectional and time series effects.

Table 3.3: Panel Data Diagnostic Tests

Test	Test Used	Conclusion
Use of pooled or random effects model	Poolability- test	If P value >0.05, use pooled regression model.
Random or fixed effects	Hausman test	If p value>0.05, use random effects model. .
Heteroskedasticity	Breusch-Pagan Godfrey test	If P value <0.05, presence of non-uniform variance
Serial correlation	Durbin-Watson	If P>0.05, no serial correlation

Source: (Baltagi, 2005)

CHAPTER FOUR
RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research results and discussions in line with the objectives of the study as guided by techniques discussed in chapter three. It commences with a presentation of descriptive statistics, then diagnostic tests to validate the use the inferential statistics as well to warrant drawing of conclusions.

As explained in the research methodology section, the target population was all 112 listed companies and a sample of 80 companies that have traded for at least ten years at NSE, RSE, DSE and USE for the period from December 2006 to 2015. Out of 80 companies target the available information was for 73 companies since some companies were either suspended or delisted during the period under investigation. This translated to a response rate of 91.25% of the study sample; this was a good representation as argued by Sekaran and Bougie (2013) that 20% of the small target population with at least 1000 units is adequate and appropriate for subsequent analysis.

4.2 Descriptive Statistics

As shown in Table 4.1 the average return on asset was 9.9% with a minimum loss of 70% and maximum profit of 58%. Further the distribution was skewed to the right since the skewness coefficient was 0.196, the data was not normally distributed because the p value for Jarque Berra was less than 0.05. Although, there were fluctuations on the return on investment as accounted for by standard deviation of 0.127, the ventures were generally profitable and they gave returns to investors.

Concerning the level of financial disclosure, it averaged at 78%, with a minimum of 1% and maximum of 100%. A scrutiny in the normality of depicted that the financial disclosure was not normally distributed since the p value for Jarque Berra test was less than 0.05. The data was skewed to the negative tail of the normal distribution. On average listed companies in East Africa voluntarily disclosed 52% of the risk related information with the highest companies elaborated on their risk exposure to the tune of 98%. Thirdly, the average level of governance disclosure was 66.4%, with a minimum of 2% and a maximum of 98%. The average disclosure of social disclosure was 32% with a minimum of 3% and a maximum of 100%. Social disclosure was skewed to the right. The average firm size was 11.533, with negative skewness and non-normally distributed.

Table 4.1: Descriptive Statistics

	Return on Asset	Financial Disclosure	Risk Disclosure	Governance Disclosure	Social Disclosure	Firm Size
Mean	0.099	0.776	0.520	0.664	0.319	11.533
Median	0.060	0.820	0.550	0.730	0.260	11.560
Maximum	0.580	1.000	0.980	0.970	1.000	20.740
Minimum	-0.700	0.010	0.040	0.020	0.030	2.600
Std. Dev.	0.127	0.191	0.184	0.201	0.228	2.433
Skewness	0.196	-2.336	-0.782	-1.113	1.759	-0.282
Kurtosis	8.066	8.829	2.887	3.791	5.060	5.194
Jarque-Bera	785.264	1697.326	74.702	169.653	505.670	156.067
Probability	0.000	0.000	0.000	0.000	0.000	0.000
Sum	72.550	566.770	379.840	484.740	232.970	8418.890
Sum Sq. Dev.	11.781	26.565	24.620	29.528	38.041	4316.406
Observations	730	730	730	730	730	730

4.3 Diagnostic Tests Results

These are tests which were performed on data variables to ensure conformity with multiple regression analysis assumptions and consequently make the results more robust and valid. Notably with this study was the use of the secondary data over several years while the rest of have relied on the primary data to make their conclusion. Because of this reason, it was necessary to perform diagnostic test for regression analysis

4.3.1 Multicollinearity

Results shown in Table 4.2 all the VIFs were less than 10, tolerance level greater than 0.1 and none of the correlation coefficient in absolute form was greater than 0.8, therefore there was no multicollinearity (Baltagi, 2005). According to El-Dereny and Rashwan (2011) VIF indicate how variance in the variables is inflated by multicollinearity. Hair,

Ringle, and Sarstedt (2013) also states that a VIF larger than five indicate poor estimates. Pair wise correlation was carried to identify the strength of the relationship between variables. There was a positive and significant relationship between financial disclosure and financial performance (rho= 0.402, p value <0.05). Secondly, there was a positive and significant relationship between risk disclosure and financial performance (rho= 0.249, p value <0.05). Thirdly, there was a positive and significant relationship between governance disclosure and financial performance (rho = 0.402, p value <0.05). Further, there was a positive and significant relationship between social disclosure and financial performance (rho = 0.714, p value <0.05). There was an inverse and significant relationship between firm size and financial performance (rho= -0.223, p value <0.05).

Table 4.2: Correlation Coefficients, Tolerance and Variance Inflation Factors

							Collinearity Statistics	
	ROE	**FD**	**RD**	**GD**	**SD**	**FS**	**Tolerance**	**VIF**
ROE	1							
FD	.402**	1					0.57	1.77
RD	.249**	.623**	1				0.59	1.70
GD	.402**	.407**	.371**	1			0.78	1.29
SD	.714**	.175**	.106**	.256**	1		0.90	1.12
FS	-.223**	0.048	-0.044	0.015	-.16**	1	0.96	1.05

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

4.3.2 Serial Autocorrelation

Test for the auto correlation was tested by use of Durbin-Watson statistics. As shown in Table 4.3, F statistics for the models without and with moderation of firm size were (F=27.408, p value >0.05) and (F= 54.219, p value > 0.05). Serial autocorrelation test was not significant and its signified absence of first order autocorrelation. Consistent with the early studies of Ntim et al., (2012) and Mathuva (2016), serial correlation was found not to pose problem.

Table 4.3: Serial Autocorrelation

Dependent Variable	**Model**	**F value**	**P value**
ROE	Without Moderation	2.408	0.056
	With Moderation	4.219	0.064

4.3.3 Heteroskedasticity Test Statistics

Further heteroscedasticity test was done by use Breusch-Pagan-Godfrey (Chi) test. According to Baltagi (2005) a good regression model should not have heteroscedasticity. Results in Table 4.4 test the null hypotheses that there was no heteroscedasticity for model with and without moderation, the test result yielded a chi-square value of 2.483 and p value > 0.05 for model without moderation while the model with moderation had a chi square of 2.228 and p value > 0.05. In both cases the p values were greater than 0.05 and not significant thus we did not reject the null hypotheses and concluded that heteroscedasticity was not present.

Table 4.4: Heteroskedasticity Test Statistics

Dependent Variable	Model	χ^2–Value	P value
ROE	Without Moderation	2.483	0.065
	With Moderation	2.528	0.075

4.3.4 Testing for Random Effects: Breusch-Pagan Lagrange Multiplier (LM)

In order to choose the appropriate model to fit between pooled ordinary least squares and random effects regression model, LM test was used to test the null hypotheses which states that there is uniform variance across entities under consideration against the alternative which argues that there is no uniform variance across entities. Since the p value in the current study was less than 0.05 there was enough evidence to warrant rejection of the null hypotheses therefore there were panel effects and the most appropriate model to fit the data was either random effects or fixed effects regression model.

Table 4.5: Testing for Random Effects: Breusch-Pagan Lagrange Multiplier (LM)

Dependent Variable	Model	χ^2–Value	P value
ROE	Without Moderation	225.68	0.000
	With Moderation	220.25	0.000

4.3.5 Testing for Time-Fixed Effects

To see if time fixed effects are needed when running a FE model used testparm. It is a joint test to see if the dummies for all years are equal to 0, if they are then no time fixed effects are needed. Results of the study revealed that there was no need to introduce dummy variables or use two analysis since the p value was greater than 0.05.

Table 4.6: Testing for Time Fixed Effects

Dependent Variable	Model	F Value	P value
ROE	Without Moderation	.601	0.526
	With Moderation	.581	0.612

4.3.6 Stationarity Tests

As shown in Table 4.7, the null hypotheses that all panels had unit roots for all variables was rejected at 5% level of significance since the p values were less than 5%. This therefore implied that all variables were stationary and robust regression models would be fitted without lags (at levels).

Table 4.7: Stationarity Tests

	Method	Statistic	Prob.**
ROE	Levin, Lin & Chu t*	-37.253	0.000
	Im, Pesaran and Shin W-stat	-11.147	0.000
	ADF - Fisher Chi-square	273.374	0.000
	PP - Fisher Chi-square	307.054	0.000
FD	Levin, Lin & Chu t*	-14.264	0.000
	Im, Pesaran and Shin W-stat	-7.330	0.000
	ADF - Fisher Chi-square	312.907	0.000
	PP - Fisher Chi-square	323.357	0.000
RD	Levin, Lin & Chu t*	-4.413	0.000
	Im, Pesaran and Shin W-stat	-4.282	0.000
	ADF - Fisher Chi-square	227.853	0.000
	PP - Fisher Chi-square	168.060	0.002
GD	Levin, Lin & Chu t*	-15.389	0.000
	Im, Pesaran and Shin W-stat	-8.070	0.000
	ADF - Fisher Chi-square	321.287	0.000
	PP - Fisher Chi-square	334.643	0.000
SD	Levin, Lin & Chu t*	-14.148	0.000
	Im, Pesaran and Shin W-stat	-7.927	0.000
	ADF - Fisher Chi-square	329.803	0.000
	PP - Fisher Chi-square	363.908	0.000
FS	Levin, Lin & Chu t*	-5.127	0.000
	Im, Pesaran and Shin W-stat	-0.460	0.003
	ADF - Fisher Chi-square	232.441	0.000
	PP - Fisher Chi-square	326.431	0.000

4.3.7 Hausman Specifications

As shown in Table 4.8 for models with and without moderations, the null was rejected at 5% level of significance since the p values were less than 0.05. This implies that the most preferred models were fixed effects and this agreed with (Baltagi, 2005) who recommended it.

Table 4.8: Hausman Specifications

Without moderation	Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
			69.891	4	0.00
	Variable	**Fixed**	**Random**	**Var (Diff.)**	**Prob.**
	FD	0.170	0.167	0.000	0.5428
	RD	-0.008	-0.011	0.000	0.3205
	GD	0.080	0.085	0.000	0.1668
	SD	0.245	0.286	0.000	0.00
With Moderation	**Test Summary**		**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
			77.003	9	0.000
	Variable	**Fixed**	**Random**	**Var (Diff.)**	**Prob.**
	FD	0.169	0.181	0.001	0.606
	RD	0.000	-0.004	0.000	0.708
	GD	0.121	0.112	0.001	0.706
	SD	0.279	0.265	0.001	0.551
	FS	-0.009	-0.007	0.000	0.438
	FD*FS	0.000	-0.001	0.000	0.664
	RD*FS	-0.002	-0.002	0.000	0.513
	GD*FS	-0.004	-0.002	0.000	0.490
	SD*FS	-0.003	0.001	0.000	0.025

4.4 Granger Causality Test

As shown in Table 4.9 the study revealed that most of the p values of the lagged corporate disclosure against financial performance were greater than 0.05 level of significance implying that corporate disclosure does not granger because financial performance is not rejected. Moreover, the approach was appropriate to examine whether one time can be used to forecast another period time series. Although, the study revealed that a single component of corporate disclosure does not granger cause financial performance a mixture of corporate disclosure granger causes financial performance. Thus, the reason for unidirectional and directional causality though the results the nature of the relationship between variables was not disclosed.

Table 4.9: Granger Causality Test

Null Hypothesis:	F-Statistic	Prob.	Conclusion
FD does not Granger Cause ROE	3.788	0.052	Directional causality
ROE does not Granger Cause FD	4.358	0.037	running from FD to ROE
RD does not Granger Cause ROE	4.319	0.038	Un-directional causality
ROE does not Granger Cause RS	0.171	0.679	from RD to ROE
GD does not Granger Cause ROE	1.420	0.234	Un-directional causality
ROE does not Granger Cause GD	6.988	0.008	from ROE to GD
SD does not Granger Cause ROE	0.815	0.367	Un-directional causality
ROE does not Granger Cause SD	28.551	0.000	from ROE to SD
FD does not Granger Cause ROE	4.158	0.042	Directional causality
ROE does not Granger Cause FD	3.763	0.053	running from FS to ROE
RD does not Granger Cause FD	0.111	0.739	No Causality
FD does not Granger Cause RD	2.322	0.128	
GD does not Granger Cause FD	0.554	0.457	
FD does not Granger Cause GD	0.371	0.543	
SD does not Granger Cause FD	1.062	0.303	
FD does not Granger Cause SD	0.065	0.799	
FS does not Granger Cause FD	2.978	0.085	
FD does not Granger Cause FS	3.599	0.058	
GD does not Granger Cause RD	0.301	0.583	
RD does not Granger Cause GD	0.029	0.865	
SD does not Granger Cause RD	0.000	0.985	
RD does not Granger Cause SD	1.634	0.202	
FS does not Granger Cause RD	0.805	0.370	
RD does not Granger Cause FS	6.482	0.011	Directional causality from
SD does not Granger Cause GD	3.185	0.075	RD to FS
GD does not Granger Cause SD	0.592	0.442	
FS does not Granger Cause GD	1.802	0.180	No Causality
GD does not Granger Cause FS	1.412	0.235	
FS does not Granger Cause SD	5.465	0.020	
SD does not Granger Cause FS	0.236	0.627	

4.5 Regression Statistics

In the following section, several regression models were run in line with the study objectives.

4.5.1 Influence of Financial Disclosure on Financial Performance

The first objective sought to examine the influence of financial disclosure on financial performance. Financial disclosure was assessed by type of information released on financial policy, investment policy and liquidity policy as previous used by Fung (2014)

while financial performance was checked in by the information on return on equity as applied in Tarus and Omandi (2013) study. Results of the study revealed that 60% of the variations in financial performance was influenced by financial policy, investment policy and financial liquidity. Indeed, there was a positive and significant influence between financial policy, investment policy, financial liquidity and financial performance amongst firms listed in East Africa securities exchange.

Table 4.10: Financial Disclosure and Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.08	0.02	4.012	0.000
Financial Policy	0.234	0.066	3.563	0.000
Investment Policy	0.216	0.076	2.845	0.000
Financial Liquidity	0.228	0.078	2.912	0.000
R-squared	0.60	Mean dependent var		0.099
Adjusted R-squared	0.594	S.D. dependent var		0.127
S.E. of regression	0.092	Akaike info criterion		-2.025
Sum squared residuals	7.425	Schwarz criterion		-1.039
Log likelihood	1027.76	Hannan-Quinn criterion.		-1.005
F-statistic	24.36	Durbin-Watson stat		1.684
Prob(F-statistic)	0.00			

The results of the study revealed a positive and significant influence of financial disclosure on financial performance ($\beta = 0.241$, p value <0.05). This implies that a unit change in financial disclosure increases financial performance by 0.241 units. Moreover, an R squared of 0.624 reveals that 62.4% of the variation in financial performance can be accounted for by financial disclosure.

Financial Performance = -0.0288 + 0.241* Financial Disclosure……………. ….. (4.1)

These findings corroborated with Tarus and Omandi (2013) who reported positive and significant relationship between financial disclosure and financial performance of listed companies in NSE. The findings agreed with Edogabaya and Kamardin (2015) who also reported positive and significant relationship between financial disclosure and financial performance in Nigeria securities exchange. However, these findings conflicted studies by Ozbay (2009) in Istanbul securities exchange and Banerjee et al. (2014) in Russia whose studies registered inverse and significant relationship between financial disclosure and financial performance.

In Taiwan study by Chiang (2005) found a direct relationship between corporate financial information disclosure and performance, clear communication without secrecy and disclosure gives a good reputation to such companies that embraces transparent transaction. Creating website that provide extra information is perceived to reflect the health of the companies now that website can be accessed everywhere at a small cost.

Furthermore, Hsiu (2006) investigation on the role played by information disclosure in the rise of investment in securities exchange, found that financial information influenced the investors behaviour in the exchange market. This truly relates to the finding from this study. To a greater extent accuracy of information has also been cited to be reason for increased funding for the companies that rely on external funding (Chebbi, 2006). Debt ratio too has been seen to correlate quality of the released information.

Puatter and Dulas (2002) explain the positive and significant relationship between financial disclosure and performance to come about owing to fact that disclosure minimizes the information asymmetry which is more likely to reduce the cost of capital and eventually increasing the firm performance. Jahanshad et al., (2014) too in Tehran observed a significant relationship between in financial information disclosure and financial performance even though the study did not analyse the nature of the relationship. Fung (2014) asserts that financial disclosure helps to mitigate embezzlement of funds and scandals of many nature which would alter allocation of financial resources. This can then be used to avert the failure observed with many companies in East Africa due to corrupt related scandals.

The findings were consistent with the previous studies depending on levels of legal and technological development since those in support had low levels of regulatory and technological development as compared to those contrasting the findings. These results mirrored signalling hypotheses which purports that there is need to disclose more information so as to reduce the level of information asymmetry across different parties.

Table 4.11: Fixed Effects Model on the Influence of Financial Disclosure on Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.088	0.014	-6.124	0.00
Financial Disclosure	0.241	0.018	13.348	0.00
R-squared	0.624	Mean dependent var		0.099
Adjusted R-squared	0.583	S.D. dependent var		0.127
S.E. of regression	0.082	Akaike info criterion		-2.065
Sum squared residual	4.425	Schwarz criterion		-1.599
Log likelihood	827.759	Hannan-Quinn criterion.		-1.885
F-statistic	14.937	Durbin-Watson stat		1.584
Prob(F-statistic)	0.000			

4.5.2 Risk Disclosure and Financial Performance

The second objective of the study sought to establish the effect of risk disclosure on financial performance. Results of the study revealed that there was positive and significant influence of operational risk exposure, market risk exposure, liquidity risk exposure and financial performance of listed companies in East Africa.

Table 4.12: Risk Disclosure and Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.09	0.028	3.256	0.000
Operational Risk Exposure	0.335	0.096	3.489	0.000
Market Risk Exposure	0.219	0.091	2.412	0.000
Liquidity Risk Exposure	0.321	0.122	2.615	0.000
R-squared	0.54	Mean dependent var		0.099
Adjusted R-squared	0.53	S.D. dependent var		0.127
S.E. of regression	0.082	Akaike info criterion		-2.023
Sum squared residual	8.542	Schwarz criterion		-1.045
Log likelihood	922.523	Hannan-Quinn criterion.		-1.006
F-statistic	28.35	Durbin-Watson stat		1.845
Prob(F-statistic)	0.00			

Further, the three measures of risk exposure were combined and results of the study revealed a positive and significant influence of risk disclosure on financial performance ($\beta = 0.142$, p value <0.05). This implies that a unit change in risk disclosure increases financial performance by 0.142 units. Further, an R squared of 0.56 revealed that 56% of the variation in financial performance can be accounted for by risk disclosure.

Financial Performance = 0.025 + 142*Risk Disclosure …………….………….. (4.2)

The findings were in support of Iatridis (2008) who purported that UK based companies disclosed their levels of risk exposure to improve their corporate image positively. Further, disclosure of risky information serves to bridge the knowledge and information gap between the principal and agent. Verrechia (2001) noted that since investors usually use the cost of equity to discount their expected earnings, then risk disclosure would help them to lower cost of capital and by so doing firms' performance will be enhanced. Investors also need to understand the risk, especially be able to distinguish those that are “unintended or unanticipated” and those that are “consciously borne.” To enable this full disclosure of details related to risk need to be emphasized so that investors are able to make rightful decisions.

Also, Linsmeier et al., (2002) study of risk disclosure and change in volume of share trading found a positive correlation. This could be explained by the fact that when investors are made aware of the inherent risks they are assisted in one way on how to

make their decision regarding the shares. As seen in banking sectors exposure of the risk especially liquidity and interest rate risk are two vital facets that shareholders and banks customers are interested in for the building of trust (Salma & Rajha, 2012). In fact, as Salma and Rajha observed in Tunisia disclosure of interest rate risk is ranked highly than any other risk in commercial banks.

Further, these results were in support of agency theory, since the management minimized agency costs associated with information access increasing the chances of superior financial performance. Companies that report on risk disclosure are sensitive to the need of the stakeholders as explained by stakeholder theory (Linsmeier, 2002). When a company minds its own stakeholder then they are likely to generate cohesion that would further translate to improved performance. Kasiva (2012) pointed that effective risk-based audit is necessary for firm performance but it is also demanded that company employ risk disclosure when reporting especially for the sake of improving financial performance.

Table 4.13: Fixed Effects Model on Influence of Risk Disclosure on Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.025	0.010	2.419	0.016
Risk Disclosure	0.142	0.019	7.482	0.000
R-squared	0.560	Mean dependent var		0.0994
Adjusted R-squared	0.511	S.D. dependent var		0.1271
S.E. of regression	0.089	Akaike info criterion		-1.9067
Sum squared residual	5.185	Schwarz criterion		-1.4411
Log likelihood	769.946	Hannan-Quinn criterion.		-1.7271
F-statistic	11.432	Durbin-Watson stat		1.4432
Prob(F-statistic)	0.000			

4.5.3 Governance Disclosure and Financial Performance

The third objective of the study sought to find out the influence of governance disclosure and financial performance. Results of the study revealed that remuneration of board compensation disclosure, identity of board members disclosure, share ownership of board

members disclosure had positive and significant influence on financial performance of listed companies within East Africa.

Table 4.14: Governance Disclosure and Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.12	0.053	2.256	0.000
Remuneration of board members	0.435	0.177	2.456	0.000
Identity of board members	0.216	0.1	2.146	0.000
Share ownership of board members	0.123	0.044	2.789	0.000
R-squared	0.58	Mean dependent var		0.099
Adjusted R-squared	0.57	S.D. dependent var		0.127
S.E. of regression	0.092	Akaike info criterion		-3.021
Sum squared residual	7.845	Schwarz criterion		-2.056
Log likelihood	923.456	Hannan-Quinn criterion.		-1.023
F-statistic	30.21	Durbin-Watson stat		1.952
Prob(F-statistic)	0.00			

Further, an overall combined index of governance voluntary disclosure was formed and result in Table 4.15 indicate that 59.4% of the variations in financial performance can be accounted for by governance disclosure. Further, there was a positive and significant relationship between governance disclosure and financial performance (β=0.192, p value <0.05). This implies that a unit change in governance disclosure increases financial performance by 0.192 units.

Financial Performance = -0.028 +0.192 * Governance Disclosure………………... (4.3)

These results were in support of Brown and Caylor (2004) who reported positive and significant relationship. Also, a Pakistan study by Javid and Sabour (2015) reported positive and significant relationship amongst manufacturing companies and Okougbo (2011) reported similar findings from selected companies listed in Nigeria. Even though, they did not report the nature of the relationship between governance disclosure and financial performance as measured by market value. Denis and McConell (2002) recorded a very strong relationship between these variables and they explained is due to environment created when governance embraces openness, it enables investors to make right investment decisions thus enhancing market values.

In tandem with these findings, Fisher and Abdo (2007) study in South Africa stock market points that good corporate governance encourages investors to give in more

capital and enables control of whatever is happening. This is so because governance disclosure is based on several primary principles that include being discipline, acting accountability, treating with fairness, taking up responsibility, engaging in social responsibility and so forth. This serves in the greater interest of firm which responds positively in terms of financial performance.

In India, Varshney et al., (2012) support the findings after constructing a corporate governance index that includes external and internal mechanisms against economic added value. It worth noting that issue of corporate governance keeps on emerging now and then and therefore continued study over time will help reveal its dynamics. As per the highlighted studies most scholars seem to agree on the same findings even after assessing financial performance with varying indicators. In East African need for good corporate governance cannot be dispensed now that they are opening up to investors to other region who are willing and able to invest their funds in companies listed on these markets.

Against all odds, Aksu and Kosedag (2006) contrasted these findings where a significant negative relationship was established amongst Turkey firms. This could have been caused by the choice of sample which included companies that have not been listed. Bearing in mind that those companies that are not listed are not compelled to disclosure their governance and also most companies are run by families whose management skills can be put into questions.

These findings mirror the provisions of agency theory since the management seeks to minimize the level of information disclosure and ultimately minimize agency conflicts which can be caused by agency costs. Due to the support of agency theory there will be minimization in monitoring costs and consequently minimize agency conflicts which will ultimately promote investors' confidence. It is imperative to note that these studies were based in developed economies where the level of regulatory development may necessitate the adherence to highest level of financial reporting. Further, there are heterogeneous cultural aspects on most of the East African based companies which may have influence in the adoption of International Financial reporting standards (IFRS) which would have influence in the quality of financial statements prepared as well as in the level of disclosure. Moreover, these findings levels of governance disclosure displayed in East Africa may trigger inflow of capital in their respective capital markets since the level of information asymmetry will be minimized and consequently trigger investors' confidence and attract local and international investors.

Table 4.15: Fixed Effects Model on Influence of Governance Disclosure on Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.028	0.012	-2.317	0.021
Governance Disclosure	0.192	0.018	10.791	0.000
R-squared	0.594	Mean dependent var		0.099
Adjusted R-squared	0.549	S.D. dependent var		0.127
S.E. of regression	0.085	Akaike info criterion		-1.988
Sum squared residual	4.779	Schwarz criterion		-1.523
Log likelihood	799.702	Hannan-Quinn criterion.		-1.809
F-statistic	13.167	Durbin-Watson stat		1.525
Prob(F-statistic)	0.000			

4.5.4 Social Disclosure and Financial Performance

The fourth objective of the study sought to examine the influence of social disclosure on financial performance. Results of the study revealed that employee data disclosure, environmental contribution disclosure and charitable donations disclosure all have positive and significant influence on financial performance of listed companies in East Africa.

Table 4.16: Social Disclosure and Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.13	0.052	2.489	0.000
Employee Data Disclosure	0.326	0.138	2.356	0.000
Environmental Contribution Disclosure	0.223	0.108	2.058	0.000
Charitable Donations Disclosure	0.318	0.111.	2.864	0.000
R-squared	0.67	Mean dependent var		0.099
Adjusted R-squared	0.65	S.D. dependent var		0.127
S.E. of regression	0.082	Akaike info criterion		-1.081
Sum squared residuals	6.215	Schwarz criterion		-1.044
Log likelihood	236.456	Hannan-Quinn criterion.		-1.015
F-statistic	33.25	Durbin-Watson stat		2.032
Prob(F-statistic)	0.00			

Further, a combined index of social disclosure was formed and results in Table 4.17 indicate an R squared 68.7% which implies that 68.7% of the changes in financial performance can be accounted by social disclosure. Moreover, there was a positive and significant relationship between social disclosure and financial performance (β=0.287, p value <0.05). This implies that a unit change in social disclosure increases financial performance by 0.287 units.

Financial Performance = 0.008+ 0.287*Social Disclosure ……………………. (4.4)

These results were in support of signalling hypothesis since an involvement in corporate social responsibility signifies that the corporation has made more resources more so the events can be used as advertising and promotion avenues through which corporation can reach to wider clientele. According to signalling theory consistent sharing of information with the investors and member of the public will be followed by superior performance and especially where investor relies on public information (Ravid & Sudit, 1994).

The finding on social disclosure and financial performance come in handy with KPMG (2005) who found that social disclosure was a show of innovativeness and customized way in which stakeholders enjoy benefits for a long term. This is due to the increase in esteem created by the shared reports which further gives company a competitive advantage over the rest thus increasing their performance. Similarly, Tsoutsoura (2004) investigation of standard and poor's 500 firms, reported that corporate social responsibility disclosure gave one bottom line of benefits to the stakeholders and may act as an attractive package that would push many to consume the companies' products or services.

Moreover, Brammer and Millington (2008) observed that companies stood to gain non-financial benefits like managerial benefits, once they employ their resources to socially responsible activities to serve the stakeholders. Despite this, other studies rooted in neoclassical economics argue that firm's costs are raised unnecessarily when a firm engages in corporate social responsibility (Tarus & Omandi, 2013). Further, the study mirrored the sentiments on the examination of corporate environmental disclosure by Lyon and Maxwell (2007) found that firms that are likely to engage in social disclosure will have long term advantages in enhancement of company image and loyalty of the customer. In performance, this can be considered a powerful strategy of finding solutions to social problems. Lyon and Maxwell argued that firms that are likely to have partial

disclosure produce positive environmental and social outcomes. When a firm engages in social disclosure, benefits include bringing the market closer to state of common knowledge that improves market efficiency, rewards through indirect tax allowances and maintenance of the goodwill of stakeholders.

Further, the results of the study connect well with a study conducted in Nigeria on CSR disclosure and profitability by Abiodun (2012). Abiodun warned that there was need for sensitization in the use of CSR aimed at improving performance since relationship does not necessarily imply causation. This view was also upheld by Mujahid and Abdallah (2014) who averred that CSR has direct relationship with the shareholders wealth. This would be achieved effectively when the CSR are suited to fit societal needs that in future would create a greater impact. Murtaza et al., (2014) in Pakistan adds that study of this kind needs to be so frequent since ethical issues continue emerging and most company are judge by the public by the way they engage in CSR which can only be recognized when communicated as and when they happen. Continued focus on CSR creates an importance and more will be sought from companies. So, the earlier the companies embrace them the better place the stand to gain much even financially.

Table 4.17: Fixed Effects Model on Influence of Social Disclosure on Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008	0.006	1.374	0.170
Social Disclosure	0.287	0.015	18.619	0.000
R-squared	0.687	Mean dependent var		0.099
Adjusted R-squared	0.653	S.D. dependent var		0.127
S.E. of regression	0.075	Akaike info criterion		-2.249
Sum squared residual	3.682	Schwarz criterion		-1.783
Log likelihood	894.917	Hannan-Quinn criterion.		-2.069
F-statistic	19.769	Durbin-Watson stat		1.503
Prob (F-statistic)	0.000			

Results in Table 4.18 shows the full model of the study as conceptualized in the conceptual framework. As shown, the findings indicate an R squared of 0.763, which

indicates that 76.3% of the variation in financial performance can be explained jointly by financial disclosure, risk disclosure, governance disclosure and social disclosure while the remaining percentage can be accounted by other factors. An F-statistic of 27.657 with a p value of 0.000, indicate a joint significant contribution of the study variables.

There was a positive and significant relationship between financial disclosure and financial performance ($\beta=0.170$, p value <0.05). This implies that while holding risk disclosure, governance disclosure and social disclosure constant a unit change in financial disclosure increases financial performance by 0.170 units. In line with this finding, Francis, Huang, Khurana and Pereira (2009) also established that financial disclosure gives the markets more considerations and that more information with regard to agency relationship tends to lower the agency cost which consequently translate to better firm performance.

Secondly, there was a positive and non-significant relationship between risk disclosure and financial performance ($\beta=0.008$, p value <0.05). In tandem with Cebenoyan and Strahan (2004) the positive relationship could be as result of the articulation of the future risk profiles to affect the state of the capital structure thus developing the cost of capital. As per Tarus and Omandi (2013) when a firm encompasses way of diversifying the risk exposed, it actually tells more about the quality of the management which is later translated to more confidence being created to the investors.

Thirdly, there was a positive and significant relationship between governance disclosure and financial performance ($\beta=0.08$, p value <0.05). This implies that holding financial disclosure, risk disclosure and social disclosure constant a unit change in governance disclosure increases financial performance by 0.08 units. As argued by Donaldson (2003) disclosure on governance encourages corporate accountability which further builds business reputation and images on the faces of the interested parties and groups.

Finally, there was a positive and significant relationship between social disclosure and financial performance ($\beta=0.245$, p value <0.05). This implies that while holding financial disclosure, risk disclosure and governance disclosure constant a unit change in social disclosure increases financial performance by 0.245 units. The presumed insignificant relationship was confirmed to be actually false. As for the KPMG (2005) disclosure on social responsibility communicates the benefits received by stakeholders hence this disclosure tends to increase the connection between the firm and stakeholder. This further corroborates with stakeholder theory which avers that an attention to stakeholders will

make a firm more successful than those that are not oriented to the need of the stakeholders.

Financial Performance = -0.160 + 0.17*Financial disclosure + 0.008*Risk Disclosure +0.08*Governance Disclosure +0.245*Social Disclosure……… (4.5)

Table 4.18: Full Model without Moderation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.160	0.013	-12.641	0.000
Financial Disclosure	0.170	0.019	9.108	0.000
Risk Disclosure	0.008	0.018	0.455	0.649
Governance Disclosure	0.080	0.015	5.223	0.000
Social Disclosure	0.245	0.014	17.706	0.000
R-squared	0.763	Mean dependent var		0.099
Adjusted R-squared	0.735	S.D. dependent var		0.127
S.E. of regression	0.065	Akaike info criterion		-2.517
Sum squared residual	2.792	Schwarz criterion		-2.033
Log likelihood	995.813	Hannan-Quinn criterion.		-2.330
F-statistic	27.657	Durbin-Watson stat		1.650
Prob(F-statistic)	0.000			

4.5.5 Firm Size Moderating Effect

The fifth objective of the study sought to examine the moderating effect of firm size on the relationship between corporate disclosure and financial performance of listed companies in East Africa. The coefficient of determination was 0.772, which showed that 77.2% of the variation in financial performance was accounted for by corporate governance disclosure, firm size and moderated corporate governance disclosure. The trio had joint significant contribution since an F-statistics was 27.061 and a p value of 0.000.

Results of the study indicated an inverse and non-significant relationship between firm size and financial performance of listed companies in East Africa (β=-0.009, p value>0.05). A close scrutiny of the firm size moderating effect revealed that it had no significant moderating effect on financial disclosure, risk disclosure, social disclosure and governance disclosure. Moreover, apart from the financial disclosure firm size changed the nature of the relationship between social, risk and governance disclosure changed

from positive to negative signifying negative moderating effect though it was not significant.

FP =-0.048 + 0.169*FD +0.001*RD +0.121*GD+0.279*SD-0.009*FS+ 0.001* FD*FS-0.002* RD*FS-0.004* GD*FS-0.003* SD*FS……………………………………… (4.6)

Though there are few studies on moderating effect of firm size on financial performance, present study supports an insignificant moderating effect unlike Dogan (2013) research in Instabul stock exchange which found that direct relationship between firm size indicators and profitability. Dogan study has been echoed by Al-Matari et al., (2012) whose Kuwait Market financial performance responded to firm size positively even though the relationship was insignificant. Lee (2009) study of firm profitability as influenced by firm size realized that the relationship was not linear contending to US firms' study by Pervan and Visic (2012) which established a weak positive non-linear relationship.

Conversely, other studies (Ammar et al., 2003; Amato & Burson, 2007) have demonstrated inverse relationship between firm size and profitability measures. This could be explained by researcher's selection of most companies that offer services which have a small asset base in their dealing unlike those firms that assets intensive and those that call for huge investment in capital. In a study that controlled firm size to study ownership structure and firm performance found that size of the firm did not have a significant effect on Tobin Q as a measure of firm performance.

Table 4.19: Firm Size Moderating Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.048	0.066	-0.738	0.461
Financial Disclosure	0.169	0.097	1.740	0.082
Risk Disclosure	0.001	0.088	0.003	0.997
Governance Disclosure	0.121	0.082	1.478	0.140
Social Disclosure	0.279	0.059	4.750	0.000
Firm Size	-0.009	0.006	-1.512	0.131
FD*FS	0.001	0.008	0.010	0.992
RD*FS	-0.002	0.007	-0.332	0.740
GD*FS	-0.004	0.007	-0.510	0.611
SD*FS	-0.003	0.005	-0.628	0.530
R-squared	0.772	Mean dependent var		0.099
Adjusted R-squared	0.743	S.D. dependent var		0.127
S.E. of regression	0.064	Akaike info criterion		-2.542
Sum squared residuals	2.688	Schwarz criterion		-2.026
Log likelihood	1009.715	Hannan-Quinn criterion.		-2.343
F-statistic	27.061	Durbin-Watson stat		1.660
Prob(F-statistic)	0.000			

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study and draw conclusions which form the basis of recommendations. It further provides suggestions for further study in line with the shortcomings identified in the study. The conclusions as discussed are aligned to the five study objectives with their corresponding hypotheses.

5.2 Summary of the Findings

Based on the study findings it is worth concluding that corporate disclosure has effect on financial performance of firms listed at EASE, though the effect has different magnitude depending on the type of disclosure. Moreover, the results support signalling hypotheses, agency theory, stewardship theory and legitimacy theory. The huge effects of financial disclosure, risk disclosure, social disclosure and governance disclosure could signify tremendous trends and development in the adoption of IFRS within EASE though all the countries were formally colonized by British hence they had high chances of adopting IFRS. By virtue of adopting IFRS there are better chances of attracting foreign direct investment which would improve the level of capital and economic development.

5.2.1 Financial Disclosure and Financial Performance

The first objective sought to examine the influence of financial disclosure on financial performance in EASE. The study found positive and significant relationship between financial disclosure and financial performance. These findings supported agency theory and they point towards chances of having minimal levels of conflicts between the stakeholders and management since the level of information asymmetry will be mitigated through sharing more information.

5.2.2 Risk Disclosure and Financial Performance

The second objective of the study sought to establish the influence of risk disclosure on financial performance in companies listed in East Africa. Fixed effects regression analysis revealed a positive and significant relationship between risk disclosure and financial performance. These results were in support of signalling hypothesis since risk disclosure could have signified the elaborate risk management strategies adopted by the listed company to mitigate any future related challenge emanating from the specific level of risk exposure.

5.2.3 Governance Disclosure and Financial Performance

Thirdly the study sought to establish the influence of governance disclosure and financial performance. Fixed effects regression analysis revealed a positive and significant relationship between governance disclosure and financial performance. These results mirrored stewardship theory, signalling hypotheses and agency theory. From the findings both current and potential investors are better placed on desired information to evaluate level of agency conflict which may be caused by information asymmetry related issues which may create speculative rooms and promote costs inform of monitoring and auditing fees.

5.2.4 Social Disclosure and Financial Performance

The fourth objective sought to find out the influence of social disclosure and financial performance among companies listed in East Africa. Results of the study revealed a positive and significant relationship between social disclosure and financial performance. These findings support legitimacy theory as companies make social contracts through their corporate social activities

5.2.5 Firm Size Moderating Effect

The fifth objective of the study sought to establish the moderating effect of firm size on the relationship between corporate disclosure and financial performance. There was a negative and insignificant relationship between firm size and financial performance of companies listed in East Africa. Further, firm size had no significant moderating effect on financial disclosure, risk disclosure, governance disclosure and social disclosure. Indeed, with exception of financial disclosure, firm size changed the nature of the relationship of governance, risk and social disclosures to negative after moderation. Despite of this change none of the moderated relationship was significant.

5.3 Conclusion

Based on the study findings it is imperative to conclude that corporate disclosure has influence on financial performance of listed companies in East Africa. Results of the study revealed that there was almost 80% of financial disclosure, it can be implied that listed companies in East Africa are more willing to disclosure information to members of the public as such to mitigate agency conflicts and minimize the asymmetric information levels. Since there was a positive and significant relationship this implies as performance was increasing the level of disclosure also increased within the period under investigation, it can therefore be concluded that an increased level of disclosure enhanced financial performance and efficiency. Generally, it’s prudent for listed companies to

disclose as much information as possible so as to minimize the level of information asymmetry and consequently stimulate financial performance.

Secondly, risk disclosure mirrored the existing literature by having positive and significant relationship with financial performance. It can be concluded that risk disclosure gives a yardstick against which future outlook of a specific organization can be evaluated and a clear strategy can develop in order to protect investor's interest. Indeed, a clear road map on future risk profile will provide a good credit evaluation tool and will impact the future capital composition within listed and non-listed companies. Therefore, it is imperative for the management to disclose risk exposure information as much to boost investor confidence and minimize issues related to low levels of information disclosure.

Thirdly, governance disclosure had positive and significant relationship with financial performance. These findings were in conformity with theoretical stipulations since coherent governance principles should harmonize expectations of all stakeholders more so management and shareholders. Through this increased level of information sharing shareholders value is anticipated to increase because investors have a yardstick against which to monitor the management. Indeed, through this listed companies' accountability and reputation are enhanced to rhyme with interest of both current and potential investors as well as debt providers. Because of enhanced level of governance there will be reduction in agency conflicts, boost of investor confidence and consequently enhanced financial performance.

Further, there was a positive and significant relationship between social disclosure and financial performance of listed companies in East Africa. Therefore, it can be concluded that those firms which are consistently involved in corporate social responsibilities benefits from engaging stakeholders in other issues beyond normal lines of their business. Indeed, social activities increases company's reputation through social capital development and ultimately fosters financial performance. Thus, it can be concluded that engagement in social activities enhances stakeholders bonding and ultimately enhances performance.

Finally, there was an inverse relationship between firm size and financial performance. This calls for evaluation of the company's asset base as such to minimize asset increase opportunity cost which may hamper firm's profitability. Although, firm size had inverse moderating effect on facets of corporate disclosure it can be concluded an increase in firm

size altered the level of corporate disclosure, this may impede the going concern of a corporation more so when investors perceive large firms to register inferior performance.

5.4 Recommendations

The Kenya vision 2030 anticipates full access of capital for all investment needs; this can be achieved if many companies are listed. To achieve full benefits upon listing there is need for listed companies to share information freely to current and potential investors. This can only be achieved if companies adhere to provisions as stipulated by international financial reporting standards. The ability of listed companies to provide information freely will boost investor confidence and consequently attract both local and international investors.

To the East African securities exchanges as they endeavour to formation of a regional capital market there is need to foster on the need for listed companies to be as transparent as possible this will boost capital flight to local markets and ultimately promote investment culture and foster economic development.

Since all the four facets of corporate disclosure had positive significant relationship there is need for more clear guidelines to be customized to enhance the level of disclosure in every sector in which companies are listed. It will be paramount for the incumbent management of all listed companies to evaluate their levels of disclosure and in areas where they are void they increase as such to minimize agency conflict.

To the East African community secretariat, it is recommended that they lobby aggressively for regulatory and technological advancement which would enhance cross border listing and trading to be enacted and adopted by all EAC members swiftly. Moreover, the measures should be in tandem in enhancing corporate disclosure and this will ultimately strengthen the growth of East Africa securities exchanges through coherent and streamlined networking platforms.

5.5 Suggestions for Further Studies

The study drew respondents from East Africa for a period of ten years, there is need for a similar study to be carried out in Africa, Europe, America or Asia. This will necessitate comparison of the study findings and minimize possibilities of generalizing the current findings. Secondly, there is need to carry out a study for each independent country securities market and consider other facets of corporate disclosures beyond risk, social, financial and governance. There is need to adopt an alternative moderator such as any other firm characteristics beyond firms' size and examine its moderating effect. The study considered balanced data, there is need for future studies to consider unbalanced data.

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APPENDICIES

Appendix I: Letter of Introduction

Boniface Muriithi Wanjau,

P.O. Box, 12188-00400

Nairobi.

Date

Name of Respondent-------------------------

Company Name and address-----------------

Dear Sir/ Madam,

RE: REQUEST FOR RESEARCH DATA

I am a Doctor of Philosophy student at Jomo Kenyatta University of Agriculture and Technology, undertaking a Research Project on the "influence of Corporate Disclosure on Financial Performance among Companies Listed in East Africa"

The research is being carried out as part of the requirements of obtaining the degree. You have been selected to form part of this study and are kindly requested to assist in data collection by responding to questions in the accompanying disclosure check index. The information provided will exclusively be used for academic purposes only and will be treated with utmost confidentiality. As a participant, you are free to request for a soft copy which can be sent to you via email. Your cooperation and assistance will be highly appreciated.

Yours faithfully,

____________________ ____________________

Boniface Muriithi Wanjau Prof Willy Muturi

(PhD. Candidate) (Supervisor)

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Prof Patrick Ngumi

(Supervisor)

Appendix II: Document Check Index

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
A	**FINANCIAL DISCLOSURE**										
	Information related to Financial policy disclosure										
1	Statement of the financial objectives										
2	Dividend policy										
3	Earnings per share										
4	Effect of inflation on results										
5	Effect of inflation on assets										
6	Transfer Pricing policy										
7	Estimates of capital increase										
8	Performance indicators										
9	Analysis of financial ratio										
10	Trend in share price										
11	Size of shareholding										
12	Market capitalization										
13	Trend of market capitalization										
14	Review of operation										
	Information related to Investment policy disclosure										
15	Geographical distribution of invested capital and net assets										
16	Changes on Ownership structure due to investments										
17	Company investment profile										
18	Amount invested in training programs for employees										
19	Investment in production										
	Information related to financial liquidity disclosure										
20	Quantitative and Qualitative forecast of profits										
21	Assumptions underlying the forecasts										
22	Earnings and cash flows estimates										
23	Effects of inflation on future operation										

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
24	Effects of currency fluctuations and interest rates on future operations										
25	Estimate of capital increase										
26	Long-term and short–term debt by currency										
27	Estimates of currency fluctuations										
28	Financial risk assessments										
29	Exchange rates used in accounting										
B	**RISK DISCLOSURE**										
1	Operational risk exposure										
2	Market risk										
3	Liquidity risk										
4	Interest rate risk										
5	Risk mitigation										
6	Enterprise risk management										
7	Risk training and sensitization										
C	**GOVERNANCE DISCLOSURE**										
1	Ownership structure										
2	Organizational chart on the composition of the board of directors										
3	Personal profiles										
4	Descriptions of the positions occupied										
5	Length of time belonging to the company										
6	Number of shareholders sitting on the board of directors										
7	Academic profile of the directors										
8	Presence of an Internal Audit Committee										
9	Age of the executives										
10	Profile of the executives										
11	Individual remuneration										

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
D	**SOCIAL DISCLOSURE**										
1	Geographical distribution of employees										
2	Number of employees by gender										
3	Number of employees by age										
4	Categories of employees by function										
5	Number of employees for two or more years										
6	Average compensation per employee										
7	Safety policy										
8	Cost of safety measures										
9	Data on accidents										
10	Policy on communication										
11	Redundancy information										
12	Reason for changes in employee numbers or categories over time										
13	Recruitment problems and related policy										
14	Amount spent in training programs										
15	Nature of training										
16	Policy on training										
17	Categories of employees trained										
18	Safety of products										
19	Program of environmental protection										
20	Charitable donations										
21	Community programs										
22	Qualitative value-added information										
E	**FINANCIAL PERFORMANCE**										
	EAT/ Equity										

Appendix III: Companies Listed in Nairobi Securities Exchange (NSE)

Company
Eaagads Ltd
Kakuzi Ltd
Kapchorua Tea Co. Ltd
Williamson Tea
The Limuru Tea Co. Ltd
Rea Vipingo Plantations Ltd
Sasini Ltd
Car & General (K) Ltd
Marshalls (E.A.) Ltd
Sameer Africa Ltd
Barclays Bank of Kenya Ltd
CFC Stanbic of Kenya Holdings Ltd
Diamond Trust Bank Kenya Ltd
Equity Bank Ltd
Housing Finance Co.Kenya Ltd
I&M Holdings Ltd
Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
NIC Bank Ltd
Standard Chartered Bank Kenya Ltd
The Co-operative Bank of Kenya Ltd
Express Kenya Ltd
Hutchings Biemer Ltd
Kenya Airways Ltd
Longhorn Kenya Ltd
Nation Media Group Ltd
Scan group Ltd
Standard Group Ltd
TPS Eastern Africa Ltd
Atlas Development
Uchumi Supermarket Ltd
ARM Cement Ltd
Bamburi Cement Ltd
Crown Berger Ltd
E.A.Cables Ltd
E.A.Portland Cement Co. Ltd
KenGen Co. Ltd
KenolKobil Ltd
Kenya Power & Lighting Co Ltd
Total Kenya Ltd
Umeme Ltd
British-American Investments Co. (Kenya) Ltd
CIC Insurance Group Ltd

Jubilee Holdings Ltd
Kenya Re Insurance Corporation Ltd
Liberty Kenya Holdings Ltd
Pan Africa Insurance Holdings Ltd
Centum Investment Co Ltd
Olympia Capital Holdings Ltd
Trans-Century Ltd
Nairobi Securities Exchange Ltd Ord 4.00
A.Baumann & Co Ltd
B.O.C Kenya Ltd
British American Tobacco Kenya Ltd
Carbacid Investments Ltd
East African Breweries Ltd
Eveready East Africa Ltd
Kenya Orchards Ltd
Mumias Sugar Co. Ltd
Unga Group Ltd
Safaricom Ltd
Flame Tree Group Holdings Ltd Ord 0.825
Home Afrika Ltd
Kurwitu ventures
Stanlib Fahari

Appendix IV: Companies Listed in Uganda Securities Exchange (USE)

Company name
British American Tobacco Uganda
Bank of Baroda Uganda
Development Finance Company of Uganda Ltd
East African Breweries Limited
Jubilee Holdings Limited
Kenya Airways
New Vision Printing and Publishing Company Ltd
Stanbic Bank Uganda
Uganda Clays Limited
Equity Bank Limited
KCB Group
National Insurance Corporation
Nation Media Group
Centum Investment Company Ltd
Umeme limited
Uchumi

Appendix V: Companies Listed in Dar-salaam Securities Exchange (DSE)

CRDB Bank
DCB Commercial Bank
East African Breweries
KCB Group
Kenya Airways
Maendeleo Bank
Mkombozi Commercial Bank
Mucoba Bank
Mwalimu Commercial Bank
Nation Media Group
National Investments Company (NICOL)
NMB Bank Plc
Precision Air Services
Swala Oil and Gas (Tanzania)
Swissport Tanzania
Tanga Cement Company
Tanzania Breweries
Tanzania Cigarette Company
Tanzania Portland Cement Company
Tanzania Tea Packers (TATEPA)
TCCIA Investment
TOL Gases
Uchumi Supermarket
Yetu Microfinance

Appendix VI: Companies Listed in Rwanda Stock Exchange (RSE)

Company
Bank of Kigali limited
Bralirwa limited
Crystal Telecom limited
Equity group holdings limited
Kenya commercial banks limited
Nation media group
Uchumi supermarket limited