VALUE RELEVANCE OF NON-FINANCIAL DISCLOSURES IN ANNUAL REPORTS: EVIDENCE FROM LISTED BANKS IN KENYA

JESSE ELIKANAH

DOCTOR OF PHILOSOPHY

(Accounting)

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Value Relevance of Non-Financial Disclosures in Annual Reports: Evidence from Listed Banks in Kenya

Jesse Elikanah

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DECLARATION

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

Signature .... Date ....

Jesse Elikanah

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

Signature .... Date ....

Dr. Florence Memba
JKUAT, Kenya

Signature .... Date ....

Dr. Tabitha Nasieku
JKUAT, Kenya

DEDICATION

To my family

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DEFINITION OF KEY TERMS

Accounting Conservatism: Accounting conservatism is also known as the doctrine of prudence, and it is a rule of anticipating possible future losses but not future gains. The rule tends to understate rather than overstate net assets and net income, and therefore lead entities to "play safe". When applying the rule in making a choice between two alternatives, the one that will be least likely to overstate assets and income should be selected. Fundamentally, expected losses are recognised but expected gains are not recognised (Lafond & Roychowdhury, 2008).

Accounting Information: Accounting information is a set of information extracted from a firm's annual reports to depict the firm's economic status. It can be financial or non-financial (Weygandt, Kieso & Kimmel, 2003).

Annual Reports: A publication issued by a firm to its shareholders, creditors, and regulatory organizations following the end of its fiscal year. The publication covers different aspects of a company's financial and non-financial performances. Typically, the report consists of accounting policies, financial statements, chairman's letter, auditor's report, and the company's business vision for the future and various supporting schedules that may be required by regulatory organizations (Pivac, Vuko & Cular, 2017).

Content Analysis: Any methodological measurement applied to text (or other symbolic materials) for social science purpose (Duriau, Reger & Pfarrer, 2007)

Financial Information: Information about a reporting entity presented in the basic financial statements. Financial statements include the statement of financial position, income statement, statement of changes in equity and statement of cash flows (International Accounting Standard Board (IASB), 2011).

Financial Statements: A written report of the financial condition of an entity. Financial statements include the Statement of Financial Position, income

statement, statement of changes in equity and statement of cash flows (IASB, 2011).

Market Value: The price an asset would fetch in the marketplace. Market value is also normally used mean the market capitalization of a listed company, and it is arrived at by multiplying the number of its outstanding shares by the current share price (Mocciaro Li Destri, Picone & Minà, 2012).

Non-financial Information: Any information that does not have to be included in the IAS 1 description of financial statements can be termed as non-financial information/disclosure. Such information may indicate the extent to which general economic events have changed the entity's ability to generate future cash inflows (Ronnie, 2009)

Value Relevance: The ability of accounting information to capture or summarize information that affects share value (Aboody, Hughes & Liu, 2002)

LIST OF ABBREVIATIONS

<IR>	Integrated Reporting
ACCA	Association of Chartered Certified Accountants
AICPA	American Institute of Certified Public Accountants
BIS	Bank for International Settlements
BOD	Boards of Directors
CFP	Corporate Financial Performance
CSR	Corporate Social Responsibility
EBR	Enhanced Business Reporting
ECCE	European Centre for Corporate Engagement
ERC	Earnings Response Coefficient
ESG	Environment, Social and Governance
FRMD	Financial Risk Management Disclosure
FTSE	Financial Times Stock Exchange
GRI	Global Reporting Initiative
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICGN	International Corporate Governance Network
ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
ISA	International Standards on Auditing
KPIs	Key Performance Indicators
KPMG	Klynveld Peat Marwick Goerdeler (an accounting firm)
MASB	Malaysian Accounting Standards Board
MSWG	Minority Shareholder Watchdog Group
NASDAQ	National Association of Securities Dealers Automated Quotations
NSE	Nairobi Securities Exchange
NYSE	New York Stock Exchange
R&D	Research and Development
SEO	Search Engine Optimization
UAE	United Arab Emirates

UNEP FI UNEP Finance Initiative

UNEP United Nations Environment Programme

US United States of America

VBR Value Based Reporting

VIF Variance Inflation Factor

WBCSD World Business Council for Sustainable Development

ABSTRACT

The main objective of this study was to investigate the value relevance of non-financial disclosures in annual reports, with a focus on listed banks in Kenya. To do so, the study used content analysis to quantify five non-financial disclosures, namely – risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related party disclosure included in the annual reports released by ten banks listed on the Nairobi Securities Exchange (NSE) over the entire period from year 2010 to year 2015. The study adopted a descriptive research design. Secondary data obtained from the Nairobi Securities Exchange records comprising of corporate action register and handbook, and daily market statistics, and from annual reports released by the studied banks from year 2010 to year 2015 was mainly used in this study. Content analysis program ATLAS.ti 8, Harvard IV dictionary and Ms Excel 2007 were used for content analysis process in which the non-financial disclosures were quantified. Primary data obtained through an opinion survey questionnaire administered on the respondents who were financial analysts at licensed investment banks, stock brokers, fund managers and investment advisers as at 30 April 2016 was used to triangulate the results of secondary data. Data analysis was carried out using SPSS version 20 and Stata 13. Descriptive statistics and inferential statistics were used for analysis. Statistical t-test was used to test the significance of independent variables on dependent variable. The results revealed that risk disclosure, corporate social responsibility disclosure, the chairman's statement and related party disclosure in annual reports had a positive and significant relationship with the market value of the firms which was measured by the annual average market price per share. Regression analysis result also revealed that there is a significant positive relationship between corporate governance disclosure and average market price per share, for listed banks in Kenya. This study therefore concluded that non-financial disclosures in annual reports of listed banks in Kenya have an impact on investment decisions and therefore they are value relevant. The study recommends both an expanded role of the auditor in reviewing and reporting on non-financial disclosures, and more guidelines and regulations in relation to non-financial disclosures to ensure that firms put clearer and relevant information into the hand of investors.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The users of annual reports are those groups identified as having reasonable right to the information contained therein and whose information needs should be recognized. Annual reports provide vital information to varied users. Investors use them for investment decisions; regulators use them to determine whether existing provisions are adhered to, while government and government agencies use them for tax purposes and national statistics, among others (Adedeji & Kajola, 1999). According to Meyer (2007) accounting plays a significant role within the concept of generating and communicating value of companies. Today, accounting information is mainly disseminated by firms through annual reports. Meyer (2007) note that annual reports still remain the most important source of externally feasible information on companies. It has been claimed that information disclosed in annual reports is the main factor that most investors considered when making decisions (Wang, Gang & Chao, 2013).

Accounting information in a firm's annual reports depicts the firm's economic status. According to Weygandt, Kieso and Kimmel (2003) accounting information can be financial or non-financial. IASB (2011) defines financial information as information about a reporting entity's financial condition included in the basic financial statements, namely, statement of financial position, statement of comprehensive incomes, statement of changes in equity and statement of cash flows. Non-financial information is any information that does not have to be included in the IAS 1 description of financial statements (Ronnie, 2009). Non-financial information may not be expressed in numbers or financial figures and it can have financial-statement relation or not (Thomas, Céline & Ludwig, 2014).

Traditionally, firms' annual reports mainly comprised of financial statements and financial information has always been one of the key building blocks of a firm's reporting (O'Regan, 2008). Overtime, the economic environment has mainly changed due to globalization. To create value, firms more and more rely not just on their

resources but also on the resources belonging to the society. Therefore, the value creation process is based on the principle of shared costs. As a result, the value created by an organization should also be shared between its owners and society. Quality reporting by firms is therefore progressively vital for strong and sustainable organizations, financial markets, and economies (Stewart, 2015).

Oyerinde (2011) observe that there is a perspective that accounting theory and practice have failed to keep pace with rapid economic and technological changes which invariably affect the value relevance of annual reports. The argument is that financial figures are less relevant in assessing the fundamental market value of companies. Recurring global financial crisis, for example, the collapse of leading United States and European corporations in 2001-2002 which brought about the largest insolvencies in history (for example, Global Crossing, WorldCom, Adelphia Communications, Enron and Tyco International,) and the wave of financial crisis in 1998 in the Russian, Asian and Brazilian economies which later threatened the steadiness of the global financial system, brings about turbulent time in stock markets across the world. This has over time raised sharp questions on value relevance of annual reports. Organisation for Economic Co-operation and Development (OECD), (2004) and Claessens (2006) note that it is widely believed that these series of events are triggered by the deficiencies in accounting information reported in annual reports.

Lev (2000) in a book, "Intangibles – Management, Measurement, and Reporting", on the basis of comprehensive, scientific study of the nature and impact of intangibles, analyzes managerial and investment issues in relation to intangibles; and assesses the impact of intangibles on firms' performance and market values. The author details case studies and real-world examples on management difficulties, risk, questions of property rights, marketability, and cost structure to demonstrate that on average about 80% of the market capitalization can be attributed to intangible asset, whereas only 20% can be attributed to the tangible assets underlined in financial metrics.

Ocean (2015) in a study involving a review of intangible assets of S&P 500's, which represents 75% of the American equity market by capitalization, conclude that intangible represent 84% of total value. The study further notes that this value

represents a growth of 52% from 1985. There is a common agreement among both scholars and practitioners that an entity's value is not adequately depicted in traditional financial statements because of the inability of these reports to take into account the value stemming from, especially, intangible assets. This inability is said to increase information asymmetry and, thus, cause an impairment of the efficient allocation of resources on the stock market (Kristandl & Bontis, 2007). Alwert, Bornemann and Will (2009), points out that so as to deal with some of these problems, there is a need to include more non-financial information in annual reports because this information is seen to capture at least some of the value stemming from intangible assets.

There also has been a growing importance of financial markets in recent decades which has led to a continuous increase in the demand by the investment community for more comprehensive and timely information to be reported by companies. To meet these needs, accounting regulators have revised existing and/or produced new reporting standards or rules which require entities to disclose more comprehensive and detailed corporate information in their annual reports (Topazio, 2013).

The key is to establish the extent to which shareholder value creation is dependent on a contribution by society as a whole and whether that contribution is sustainable in the long-term. It follows that today high-quality reporting is at the heart of strong and sustainable organizations, financial markets, and economies and the information needed to evaluate a firm's ability to create value sustainably over time cannot be gleaned from the traditional corporate reporting model. More forward-looking and detailed disclosures by firms is required for more efficient markets operation with the ultimate goal being to enable investors to make more efficient and effective decisions and to bring an organization's market value closer to its intrinsic value (Brown and Dillard, 2014).

Flower (2015) observes that this reality is causing the landscape of corporate reporting to change quickly. The concepts, elements and principles that typify the way firms plan, manage and report their annual performances are currently being questioned, debated, and redesigned throughout the world. Widening the scope of corporate performance and reporting is a major issue. Interest in and adoption of non- financial

reporting which concerns issues like environmental, social, and corporate governance performance is growing rapidly.

Improved company reporting has been formally and informally mooted for more than half a century and amid recognition that financial statements alone do not sufficiently capture a firm's performance and prospects, organizations have been forced to react to stakeholders' demands and the significance of inclusion of non-financial disclosures have increased cumulatively (Stewart, 2015).

In 1993, South Africa's Institute of Directors tasked Mervyn King, a former judge of the Supreme Court of South Africa, to chair a committee on corporate governance. The committee's first report (King I) was produced in 1994, and a revised edition (King II) was released in 2002. A third edition (King III) was released in 2009. From March 2010, the Johannesburg Stock Exchange required listed companies to adopt the King III principles. Annual reports by firms listed at South African's Johannesburg Stock Exchange are required to demonstrate a firm's leadership, sustainability, and good corporate citizenship (Solomon and Maroun, 2014).

This new and striking future for corporate reporting, namely the notion of 'Integrated Reporting' (<IR>) is founded on integrated thinking within the business. It brings together financial and non-financial disclosures in one-piece of the report. It also shows the links among financial and non-financial performance metrics (Hoque, 2017). The requirements on reporting have changed and an integrated approach where financial as well as non-financial disclosures are consolidated within the annual reports has become the new era of information disclosure. An integrated report is aimed at providing insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals". The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization and they are categorized as financial, manufactured, intellectual, human, natural and social and relationship capitals (Badenhorst *et al*., 2015).

Solomon and Maroun (2014) observe that since 1970 there has been a remarkable development in corporate reporting which has resulted in longer and more complex reports. Almost every company listed on an ex-change provides a lot of information in their annual reports and non-financial information has gained more importance. Corporate annual reports go beyond the financial measures, presenting a broader perspective (IIRC, 2017). According to Deloitte (2012) the average length of annual reports had doubled since 1996.

Topazio (2013) observe that the proponents of <IR> are of the view that, increasingly, businesses are expected to report not just on financial figures but also on the impact of their operations on the wider economy, society and the environment by inclusion of non-financial information in their reporting. The Prince of Wales oversaw the formation of International Integrated Reporting Committee (IIRC), a global coalition of regulators, investors, companies, standard setters, the accounting profession and Non-Governmental Organizations in 2009. The Committee was renamed the International Integrated Reporting Council in November 2011 (Downes, 2015). This body is charged with the development of the International Integrated Reporting (<IR>) framework which should provide a foundation upon which future corporate reporting can evolve to provide a concise communication to stakeholders about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term (IIRC, 2013).

Cascino *et al.* (2013) observe that the advancement regarding integrated reporting is an ongoing process and that much of this is unregulated and therefore preparers are free to express themselves. This invites impression management occasioning the potential for readers to be treated to particular interpretations and ways of thinking. According to Downes (2015), one of the biggest challenges facing integrated reporting is the extent to which users can rely on what they will read. While integrated reporting main objective is to improve the quality of information available to diverse users, its proponents acknowledge that if this information is to be value relevant, it must be reliable (Daniel, *et al.*, 2017).

1.1.1 Disclosure and Regulation in the Banking Sector: A Global Perspective

Commercial banks have and play an important role in the financial system. They act as financial go between for borrowers and savers by channelling money from individuals and institutions with surplus of funds to those that have deficit of funds (Casu *et al.*, 2006). Put otherwise, commercial banks collect money from the public via deposits and allocate them to productive activities in the economy by lending. Turner (2010) agrees that the general purpose of banking is said to be: to accept deposit, give credit and provide system for payments and that this role of banks contributes significantly to the economic growth of a country. However, Admati and Hellwig (2013) observe that these traditional roles of banking have progressively changed overtime with the broad development of financial markets. Securities trading, financial services and investment banking are some of additional services currently offered by many banks worldwide.

Commensurately, the emphasis on banking regulators has increased over time (Bank for International Settlements (BIS), 2014). In theory, regulation promotes public confidence and lessens the anxiety on the going concern of banks. There has been an increase of efforts by central banks and reserve banks alongside other institutions worldwide to provide regulatory principles with a view of enhancing management and performance of this important sector. Most of these initiatives have prominently featured in developed nations such as: US, United Kingdom, Germany, Canada, and France among others (Elewechi, 2007).

Christensen and Nikolaev (2009) observe that conventionally, the regulation of commercial banks was performed by central banks. The authors further note that central banks also have their own “bank”, the Bank for International Settlements (BIS), which is an international organization, with members mainly drawn from central banks of the developed and developing countries. BIS states its objective as ‘to foster international monetary and financial cooperation, and to serve as a bank for central banks.’ So as to attain its objective, BIS operates a number of committees that regularly discuss monetary and financial matters. One of such committee is the Basel Committee on Banking Supervision (or simply the Basel Committee) which aims to improve banking supervision by putting together capital adequacy rules for commercial banks. In 1988 the Basel Committee published the capital accord which was the first

attempt to provide details on how banks shall measure capital adequacy and minimum capital requirements (Casu *et al.*, 2006).

The 1988 Capital Accord focused only on credit risk, paying no attention to other important types of risk, like market risk. This occasioned criticism of the Basel Accord's approach of measuring capital adequacy and recommendations that Basel Committee should re-examine rules on capital in order to take into account the market risk. The assets of banks that are most susceptible to market risk are those in their books of accounts which consist mainly of short-term positions typically held for speculation. Specific amendments to incorporate the market risk in measuring capital requirements were issued by the Basel Committee in 1996 in order to improve the 1988 Basel Accord (BIS, 2004a).

According to BIS (2004b), the amendments introduced in 1996 to deal with the criticisms of the Capital Accord turned out to be insufficient. This resulted to further deliberations by the Basel Committee on Banking Supervision and banks. A new document titled, "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" was published in 2004.This document recommended a new framework to measure banks' credit risk and introduced three pillars that aimed to provide a holistic approach in measuring banks' capital adequacy.

BIS (2004b) further record that the first pillar aimed to quantify banks' risk and to set minimum capital requirements to support the risk undertaken by financial institutions. It allowed banks to adopt new measures of credit risk and introduced a new type of risk, the operational risk defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In summary, under Basel II, three types of risk were included namely: market risk, credit risk and the operational risk (Francis *et al*., 2008). The second pillar is called the supervisory review process. Under this pillar supervisors should closely monitor banks' activities and risks and provide guidance on the minimum amount of capital that should be kept separately by each bank in order to support the undertaken risk.

Lastly, the third pillar is a supportive function of the first two pillars. It obligates banks to disclose a substantial amount of information relating to the capital requirement of

banks. Specifically, banks need to disclose information such as the risk exposure, the methods they use to calculate capital adequacy, and details of their risk management techniques (Goh *et al*., 2009). According to Hail *et al*. (2010) the 2007 and 2008 financial crisis occasioned the Basel Committee to move again to improve banks capital regulations by introducing stricter rules. This set is called the 'Basel III' and it intends to strengthen banks' capital and improve liquidity rules. The Basel III is a further emphasis in regulatory framework in the aftermath of the financial crisis of 2007 and 2008 (BIS, 2014).

Accounting disclosure serves an important role as a governance mechanism that promotes efficient operations of the firm. High quality of reporting better reflects the underlying economics of the firm and can help investors better identify good and bad investments, discipline managers to make good decisions, and reduce information asymmetry (Bushman & Williams, 2012). Higher reporting quality improves the ability of outsiders to monitor firms and as a result, improves performance (Hope & Thomas, 2008). According to Bushman and Williams (2012) recent empirical research on reporting by bank is consistent with more transparent accounting enabling users of their annual reports to make informed decisions.

According to Beatty and Liao (2014) bank regulators also directly benefit from high quality accounting disclosure because this improves the quality of information relied on by banking supervisors. High quality accounting disclosure has assumed a greater role in the regulatory supervisory process because bank regulators use this information to conduct more in-depth and timely assessments of emerging trends (BIS, 2014). Mishkin (2007) notes that regulators have noted a lack of research in the area and explicitly requested academic research on what information is needed by the market and how to ensure banks will provide high quality accounting disclosure.

Among other things, Basel III emphasis on the importance of high quality accounting disclosure which includes inclusion of more non-financial information in banks' annual reports (Chakrabarty, 2013). Non-financial information in banks' annual reports provides investors with valuable detail about the particularities of a bank, for example a bank's cohort position, governance systems and social performance. This information affects investors' decision and therefore the equity market value of a bank.

In an analysis of the Basel III accord Martin (2017) note that Banks can increase the trust of customers and investors by disclosing more information on the softer issues of conduct and culture (non-financial disclosures) and less on their hard financials (financial disclosures). The author further observes that investors need more standardized, verifiable and comparable non-financial information.

1.1.2 The Kenyan Banking Sector: An Overview

During that 19th century, the East African region engaged in trading activities occasioning the need for the use of currency. This necessitated the revolution in the banking sector. In 1896, a year after the establishment of the British Administration in Kenya, National Bank of India came into being. The first bank ever in Kenya came from India (Fred, 2016). Kenya currently has a total of 42 commercial banks, 12 microfinance banks and 1 mortgage finance institution. The government of Kenya has a shareholding in three banks. Eleven banks are currently listed at the NSE (Cytonn, 2015)

A report by Cytonn (2015) indicates that Kenya has a high relative ratio of banks to the total population, with the 42 commercial banks serving a country of 44 million people, compared with Nigeria's 22 for 180 million inhabitants and South Africa's 19 for 55 million. The Central Bank of Kenya (CBK) regulates all banks and the eleven listed banks come under additional oversight by the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE).

Over the last few years, the banks in Kenya have continued to growth in assets, deposits, profitability and products offering. The growth has mainly been occasioned by an industry wide branch network expansion strategy both in Kenya and in the wider East African region, automation of a large number of services and a move towards emphasis on other customer needs besides the traditional ‘off-the-shelf’ banking products (Central Bank of Kenya (CBK), 2012). In line with developments in the global forum, the Banking Act (cap. 488) was amended in 1999 so as to be in line with the Basel committee accord and international supervisory practice. All banks are

required to adhere to certain prudential regulations which are released by CBK, (Cytonn, 2015).

According to CBK (2012), among the things included in the prudential regulations are guideline on publication of financial statements and other disclosures which are issued under section 33(4) of the Banking Act (cap. 488), which empowers the CBK to issue guidelines to be adhered to by banking institutions in order to maintain a stable and efficient banking and financial system. The Banking Act (cap. 488), requires all institutions licensed and operating in Kenya to within three months of the end of every financial year issue their audited annual reports (financial statements and other disclosures).

The prudential regulations by CBK require that scope and content of information provided should be of appropriate size and nature relative to a bank's operations. Among the specific requirements of the prudential guidelines is the disclosure of non-financial information by banks (Cytonn, 2015). The additional requirement on inclusion of non-financial information has occasioned consistent inclusion of non-financial disclosures in the annual reports of bank in contrast to other industries where disclosure of non-financial is inconsistent due to the fact that in accounting reporting, disclosure of non-financial information has remained largely voluntary. The consistence non-financial disclosures by banks has made it possible to carry out a study on how non-financial disclosures impact on the prices of shares of quoted banks.

1.1.3 Value Relevance and Non-Financial Disclosures

The term 'value relevance' is believed to have been used first by Amir *et al*. (1993) although the literature on the value relevance concept extends back to the nineteen sixties with early contributions by Ball and Brown (1968) and Beaver and Dukes (1972). Accounting information is deemed value relevant if it has a relationship with equity market value and, if it increases the power of the estimating equation in estimating market values (Barth *et al*., 2001). Francis and Schipper (1999) note that different Interpretations of value relevance have appeared in market based accounting literature. The authors considered four possible interpretations of value relevance of accounting information.

Interpretation 1 is that accounting information affects the prices of stock by taking into account the intrinsic value of share towards which stock prices drift. In this sense, value relevance can then be determined as the profits generated from implementing accounting-based trading rules. Francis and Schipper (1999) continue to point out that Interpretation 2 is that the information is value relevant if it includes the variables that are applied in a valuation model or aids in predicting those variables. Thus, the value relevance of earnings for a discounted dividend model, discounted cash flow valuation model, or a discounted residual model, might be determined by the ability of earnings to forecast future earnings, future cash flows, future dividends or future book value among others.

Interpretations 3 and 4, as further outlined by Francis and Schipper (1999), are premised on the value relevance as shown by a statistical relationship between accounting information and returns or prices. Interpretation 3 determines the statistical association, whether investors do use the information in question in setting prices. It follows therefore that value relevance can be determined by the ability of the information to change the total mix of information in the market-place. The interpretation implies that value relevance is measured in terms of news and that value relevant information changes stock prices by causing investors to change their expectations. This interpretation, in an empirical setting requires that the linked concepts of timeliness and expectations formation be taken into account.

Under interpretation 4, the value relevance is determined by the ability of accounting disclosures to capture or summarise information that affects the value of shares. This interpretation is in line with the value relevance of annual reports stemming from the content of the reports themselves, or a setting-up role where the audited reports disciplines other more timely information disclosures, for example earnings forecasts by management. These Interpretations can be summarized as follows

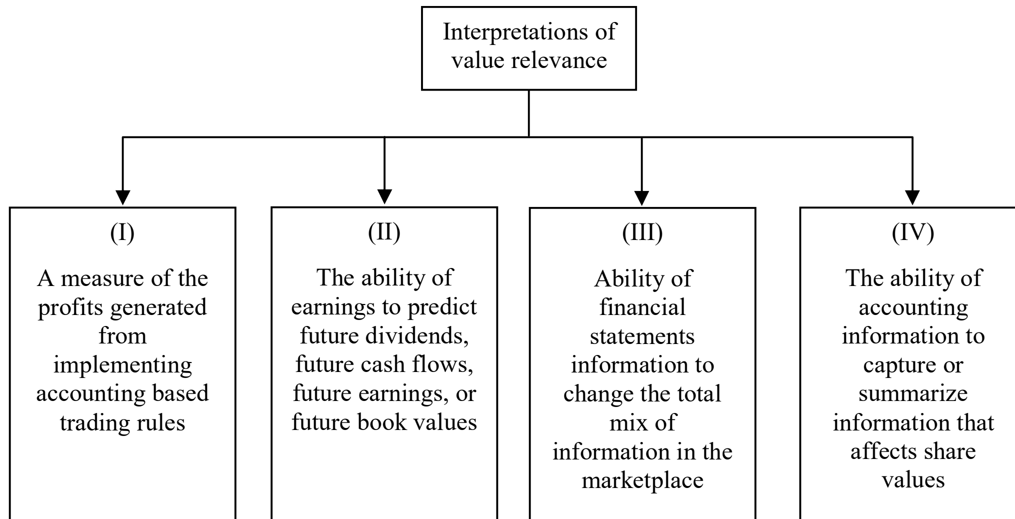

Figure 1.1: Interpretations of Value Relevance
(Source, Thamir, 2011)

Nilson (2003) is of the opinion that value relevance of annual reports deals with the usefulness of annual reports in equity valuation. Value relevance evaluates the relationship between a security's price and a set of corporate report variables (Balachandran & Mohanram, 2010). Scott (2003) holds that a disclosure is value relevant if it leads investors to revise their beliefs and actions and in order to be relevant, a disclosure must among others, be quick to respond to users' (particularly the investors) needs. According to Germon and Meek (2001) corporate annual reports are meant to satisfy the needs of users', primarily a need for information. If this need is not met, those who have money to invest and lend would take it to where this need is met. It follows therefore that the investors ought to be supplied with information to aid them in making an informed investment decision. In view of the Interpretation by Francis and Schipper (1999) (and in consistence with Benoit, Colletaz & Hurlin, 2014; Elisabeth *et al*., 2008; Holthausen & Watts, 2001; Ocean, 2015; Thamir, 2011; Thomas, Céline & Ludwig, 2014), this study was premised on Interpretation 4 - The ability of accounting information to capture or summarize information that affects share values.

Many studies have been carried out on the ability of accounting information to explain or capture information that affects the value of a firm. Vishnani and Shah (2008) observe that studies on value relevance of annual reports are stirred by the fact that

quoted companies use annual reports as one of the major media of communication with stakeholders. Value relevance of annual reports studies empirically investigates the usefulness of accounting information, both financial and non-financial, contained therein to stock investors. The idea is that annual reports are useful for determining the value of a firm in the case that the cross sectional variation of the information therein corresponds with the cross sectional variation in stock prices or stock returns. Barth *et al*. (2001) contend that value relevance research examines the relationship between corporate disclosures and equity market values. This suggests empirically testing whether disclosures actually explain cross-sectional variation in share prices. Barth *et al*. (2001) note that value relevance studies have been performed with the aim of assessing the characteristics of disclosures, primarily, relevance and reliability, as reflected in their relationship with firm value.

Existing finance and accounting literature (for example, Ohlson, 1999) provide evidence of stock market efficiency in processing publicly available information. Publicly available information refers to all information available in the public domain about the firm that is perceived by investors to be relevant in determining firm value (Oyerinde, 2011). Therefore, equity market values such as share prices and returns have become the most common measure of firm value in corporate reporting studies. A contributing perspective to the phenomenon of using equity market values is that while the market is not totally efficient in processing the valuation implications of all publicly available information, the values mirror the consensus belief of investors (Barth *et al*., 2001). A disclosure is said to be value relevant if it is significantly associated with equity market values (Perera & Thrikawala, 2010).

Researchers in accounting have produced numerous studies documenting the relationship between corporate accounting disclosures and stock prices. A study by Ball and Brown (1968) is quoted by many researchers as having pioneered study in this area (Chen *et al*., 2005). According to Olga and Veltri (2012) studies about the value relevance of annual reports have been widened to other disclosures besides the statement of financial position measures of assets and liabilities and income statement measures by applying Ohlson (1995) model. Hung (2001) contend that a majority of the studies in US define value relevance as the ability of corporate disclosures to capture or summarise information that affects a firm’s value. The author further note

that relying on this definition, researchers often determine value relevance as the relationship between disclosures by a corporate and the market value of its stocks.

Experts have long observed disparity between a firm's total value as measured in stock price and the value of its underlying, tangible assets disclosed by financial information (Belinda & David, 2008). It has been claimed that disclosing non-financial information can shed light on key elements of corporate performance to help investors better determine how to allocate their money. Ronnie (2009) note that the Jenkins committee report (1994) inspired a series of studies that examine the value relevance of non-financial information (for examples, market size and market penetration in the wireless industry (Amir & Lev 1996); and patents in high - tech firms (Deng, Lev, & Narin, 1999). Researchers have over time pointed out areas, in which non-financial information is deemed to enhance the disclosure on intangible assets (for example, relational -April, Bosma, & Deglon, 2003; environmental - Gray, Javad, Power & Sinclair, 2001; human - Royal & O'Donnell, 2008; organizational - Dontoh *et al*., 2001; corporate social responsibility (CSR) - Cormier & Magnan, 2010).

According to Botosan and Plumlee (2002), decreasing information asymmetry, by disclosure of non-financial information bring about a lower average cost of both equity and debt capital. Petersen and Plenborg (2003) note that it leads to decreased bid-ask spreads; while Healy, Hutton, and Palepu (1999) observe that it increases stock liquidity. All of these outcomes are fundamental in ensuring an efficient allocation of resources on the stock market. To deal with the insufficiency of financial statements and to realize the benefits noted, firms should improve their disclosure of non-financial information (Chen, Cheng, & Hwang, 2005; Sriram, 2008). Alwert *et al*. 2009 is of the opinion that, decrease in information asymmetry is primarily realized by including more non-financial information in annual reports and also by developing relevant non-financial key performance indicators (KPIs).

Research needs to bridge the gap between the existing literatures on value relevance of the traditional reporting which was based on financial performance and the emerging wider perspective reporting which have brought in non-financial information. Critical questions related to value relevance of annual reports as prepared presently have been

raised and many studies have been carried out on the ability of non-financial disclosures in annual reports to explain or capture information that affects firm value (Gjerde *et al*., 2011).

A study of the value relevance of non-financial disclosures in annual reports of listed banks in Kenya is basically a value relevance study. Value-relevance research makes available important evidence about the type of information that is related to the market value of a firm. Comparatively, little research has been done to analyze the non-financial information currently available or to determine the value placed by investors on specific types of non-financial information (Benoit, Colletaz, & Hurlin, 2014). Negah (2008) further affirm that studies in this area in emerging markets are limited and point out that the scanty literature replicates works done in mature markets and that closer examination of these works reveals that they face empirical and epistemological challenges. Dhiaa (2012) also observe that it is clear that these studies are not free of problems and challenges that call for further assessment. Moreover, existing studies have yielded contradictory inferences or inconclusive findings.

Some studies concluded that non-financial disclosures affect the value of the firm. In a study of non-financial information disclosure and its impact on share prices in UK biotechnology sector Elisabeth, Stephen, Arun, and Chun-Hao (2008) using a sample of firms from the high - R&D UK biotechnology/pharmaceutical sector, concluded that market's reaction to non-financial information, varies between larger, dominant firms and their smaller counterparts. This finding was interpreted to imply that stakeholders use non-financial disclosures in making investment decisions and therefore it is value relevant. In an examination of the influence of corporate risk disclosure on the accuracy of earnings forecasts on a broad sample of non-financial firms over the period 1990 to 1999, Wayne, David, and Bernadette (2003) concluded that analysts resolve between 28% and 56% of the total uncertainty created by interest rate, exchange rate, and commodity price shocks (the percentage reduction depends on the types and magnitudes of a given firm's exposures). This finding implies that non-financial disclosures indeed affect stock prices.

In a study on how disclosure of comprehensive types of related party transactions influenced the performance of listed companies in Shanghai and Shenzhen Stock

Exchanges from 2002 to 2006, Chen, Chen and Chen (2009) observed a relationship between related party sales, loan, guarantee, and lease and firms' performance. They conclude that this may suggest that these transactions affect firms' market performance negatively or positively depending on whether the listed firm is the controlling or controlled party.

Clatworthy and Jones (2003) looked into whether firms in UK with declining or improving performance show different attribution patterns of chairman's statements. Based on a sample of 100 chairman's statements of listed firms in UK, they classified the content of chairman's statement as good, bad, or neutral. They concluded that firms with improving performance (positive change in profit before taxation from last year) presented more good news and they were more positive in their words relative to those with declining performance.

In an examination of corporate governance and firm performance Bhagat and Bolton (2008) concluded that there is a positive link between disclosing corporate governance practices and firm performance but also highlighted the need for robust estimates by addressing potential endogeneity problems. Christine and Wolfgang (2017) in a study on value relevance of enhanced business reporting sought to address the information needs of investors when making company valuations for investment decisions. The study analyzed the value relevance for market valuation of Enhanced Business Reporting (EBR) disclosures that are directly related to firm valuation. Based on data from annual reports of German publicly listed companies over a period of 5 years, the authors concluded that share-based compensation, leverage, corporate size, and share volatility are significant determinants of Valuation-Related Disclosures (VBR). The study further observed that the level of VBR is significantly associated with market values and provides additional market value explanatory power, indicating its relevance to investors in the process of valuation and decision making.

Chen, Gavious and Lev (2017) carried out a study that focused on voluntary disclosure resulting from arguably the most significant difference between IFRS and GAAP. The study focused on Israeli high-technology and science-based firms. They concluded that non-financial voluntary disclosures are value-relevant and significantly so in relation to stock prices.

Raf and Nadine (2013) noting the inconsistent in conclusion and finding by prior studies on value relevance of non-financial disclosures, carried out a study on the relevance of non-financial disclosure to financial analysts. They concluded that the literature review also illustrates that financial analysts ascribe more weight to particular types of non-financial information. For instance, they consider forward-looking information or strategy and product-related information more relevant in firm valuation compared to intellectual capital information or social and environmental information. These findings and conclusions imply that non-financial information affect the prices of shares, and therefore the value of the firm. Put otherwise, non-financial information is value relevant.

However, some studies have concluded otherwise. Adams and Mehran (2008) carried out a study on corporate performance, board structure and their determinants in the banking industry in USA using a sample of banking firm data that span for thirty-four years. They found that board independence is not related to performance, as measured by a proxy of Tobin's Q. The study therefore concluded that there are no benefits for having non-executive director dominance on corporate boards. In a related study by Belkhir (2006) who studied board structure, ownership structure, and firm performance in the banking industry in USA among five ownership and board characteristics in a sample of 260 bank, using two-stage least squares regressions, observed that board composition has no bearing whatsoever on wealth maximisation.

Alan, Donald, and David (2006) explored whether there is any relationship(s) between social responsibly disclosure and the financial market performance of the UK's largest companies. Two data sets were used in the study. The Centre for Social and Environmental Accounting Research, (CSEAR) database of UK companies provided the social and environmental disclosure component. The second data were the stock market returns earned by the largest UK companies as listed by the Times 1,000. A series of statistical tests was performed to examine whether any relationship could be detected in either the cross sectional or longitudinal data over a period of ten years. They concluded that no direct relationship between share returns and the disclosure was found. Neither had such a relationship been expected, in keeping with the prior literature. However, the longitudinal data revealed a convincing relationship between

consistently high (low) returns and the predilection to high (low) disclosure. They observed that there is no single convincing theoretical explanation as to why this might be.

Ryngaert and Thomas (2012) looked at how the timing of related party transactions, that is, before and after public listing or the time that the counterparty can be construed to have becomes a related party for 234 small to medium-sized US firms, affect firm's value in the fiscal year 1999. They found that the overall volume of disclosed RPTs is generally not significantly associated with shareholder wealth as measured by operating profitability or Tobin's Q. The study concluded that in general, related party transactions do not affect firms' overall market performance and value.

Derwall, Koedijk and Ter Horsta (2010) carried out an empirical analysis over the period 1992–2008, on the basis of segmentation on investment screens that facilitated examination as to whether values affect prices. They found out that, although the profit-driven segment earns abnormal returns in the short run, these profit-generating opportunities do not persist in the long run for socially responsible investing (SRI) stocks. The study concluded that there is correlation between sustainability reporting and return on stock. They further point out different studies have been undertaken to assess any direct correlation between corporate sustainability reports and corporate financial performance (CFP), and points out that the results are often non-conclusive.

Abdelmoneim and Haitham (2016) carried out a study in Egypt to explore how auditors perceive and assess audit risk for an audit engagement in the period following the Egyptian revolution of 2011. The results of the study indicated that auditors appear not to give sufficient attention to non-financial disclosures and measures when assessing the audit risk during an audit engagement. Auditors seem to rely on financial disclosures and measures when assessing the audit risk of an audit engagement. Additionally, auditors do not seem to consider the inconsistencies between financial and non-financial disclosures, and measures of an audit client as an indicator of the existence of fraud or material misstatements in the financial statements of an audit client.

1.2 Statement of the Problem

Firms derive their value from the market's expectations of their performance. Accounting provides the necessary information for the market to form these expectations (Benoit, Colletaz & Hurlin, 2014; Ohlson, 1999; Swati, 2016). Over time experts have observed the difference between a firm's total value as measured in stock price and the value of its tangible assets underlined in financial disclosures. On average about 80% of the market capitalization can be attributed to intangible asset, whereas only 20% to tangible assets (Lev, 2000; Ocean, 2015). To correct the information asymmetry that exists between managers and investors, experts have argued that non-financial disclosure forms or should form a progressively vital part of annual reports for investor decision-making (Belinda & David, 2008). Consequently, accounting regulators have revised existing and/or produced new reporting standards or rules which require entities to include non-financial disclosures in their annual reports (Topazio, 2013).

As a result, empirical research in accounting has sought evidence on the value relevance of non-financial disclosures through analyses of the relation between non-financial disclosures and the value of the firm. However, studies on the value relevance of non-financial disclosures have yielded contradictory inferences or inconclusive findings. For example Wayne *et al.* (2003); Elisabeth *et al.* (2008); Chen *et al.* (2009) and Thomas *et al.* (2014) concluded that non-financial disclosures affects the value of the firm. On the other hand Alan *et al.* (2006); Derwall *et al.* (2010) and Ryngaert and Thomas (2012) concluded that non-financial disclosures has no effect on the value of the firm. The contradictory inferences or inconclusive findings by existing studies on the value relevance of non-financial disclosures have also been noted by for example Aylin and Tuba (2014); Dhiaa (2012); Omokhudu and Ibadin (2015); Koedijk and Ter Horsta (2010); Thomas *et al.* (2014) and Vijitha and Imalathasan (2014).

In addition, most of the existing value relevance studies on non-financial disclosures have been done in developed economies such as Europe and Northern America. Dima, Cuzman, Cristea and Otilia (2010) empirically demonstrated that value relevance of annual reports in developed economies cannot be assumed in developing economies. Negah (2008) point out that studies on value relevance of non-financial disclosures in

emerging economies are limited and therefore the question on the impact of non-financial disclosures on stock price behaviour in these economies still remains unanswered.

Are non-financial disclosures in annual reports, especially in developing economies, for example Kenya, value relevant? This remains an unanswered question. In view of the contradictory inferences or inconclusive findings in the existing literature, this study sought to extend the line of research on value relevance by investigating the value relevance of non-financial disclosures in annual reports, with a focus on listed banks in Kenya.

1.3 Objectives of the Study

1. 3.1 General Objective

The main objective of this study was to investigate the value relevance of non-financial disclosures in annual reports, with a focus on listed banks in Kenya.

1. 3.2 Specific Objectives

i) To establish the value relevance of risk disclosure in the annual reports of listed banks in Kenya.

ii) To examine the value relevance of corporate social responsibility disclosure in the annual reports of listed banks in Kenya.

iii) To analyse the value relevance of corporate governance disclosure in the annual reports of listed banks in Kenya.

iv) To determine the value relevance of chairman's statement in the annual reports of listed banks in Kenya.

v) To evaluate value relevance of related parties disclosure in the annual reports of listed banks in Kenya.

1. 4 Research Hypotheses

The following null hypotheses were tested in order to validate data analysis.

1) **H_0**: Risk disclosure in the annual reports of listed banks in Kenya has no value relevance.

2) **H_0**: Corporate social responsibility disclosure in the annual reports of listed banks in Kenya has no value relevance.

3) **H_0**: Corporate governance disclosure in the annual reports of listed banks in Kenya has no value relevance.

4) **H_0**: The chairman's statement in the annual reports of listed banks in Kenya has no value relevance.

5) **H_0**: Related parties disclosure in the annual reports of listed banks in Kenya has no value relevance.

1.5 Importance of Study/ Justification

According to Penneerselvam (2014), these are aspects on how the study contributes or benefit people or researchers. This study brought in to record the value relevance of non-financial disclosures in the annual reports of listed banks in Kenya which is useful to various stake holders. Firstly, this research provides a guide as to which non-financial information is or is not valued by financial advisers and in extension investors. This should help the preparers of accounting information and standards setters to further enhance value relevance of the most widely used non-financial information.

Secondly, this work informs disclosure policies developed by regulators such as the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (CMA) the Nairobi Securities Exchange (NSE), and the Central Bank of Kenya (CBK). This is important because relevant regulatory policies have a direct

impact on economic development in line with the economic pillar of Kenya's vision 2030.

Thirdly, this study fills the gap in literature by investigating the value relevance of non-financial disclosures in the NSE and other emerging stock markets. The findings, conclusion and recommendations of this study may also be used to test the existing theories under extreme conditions, which are not present in developed economies where most of the prior studies on value relevance of non-financial disclosures have been conducted. Fourthly, this study supplies investors with information to help them make good investment decisions. The findings of this study put in their hands helpful leads on the extent to which non-financial disclosures affect the prices of share on the NSE. Foreign investors who may want to invest in equity share on the NSE and other exchanges in developing economies are also well guided by the findings of this study as they seek to see where best to put their money.

Fifthly, the findings, conclusion and recommendations of this study may enable the standards setters to know the nature of demand placed on non-financial disclosures by the investment community, stakeholders and public. In conclusion, a study on value relevance of non-financial disclosures is also timely in informing the on going consultation on integrated reporting which is currently being conducted by IIRC.

1.6 Scope of the Study

This study focused on the ten banks listed at the NSE over the entire period under study, that is, year 2010 to year 2015. This scope was informed by two facts. Firstly, requirement by the CBK prudential guidelines that banks include non-financial disclosures in their annual reports. Secondly, at the date of this study, the data on the average market value of shares before the annual reports of a subsequent period are released was only available for up to the period relating to year 2015 annual reports.

1.7 Limitations of the Study

This study focused on non-financial disclosures, otherwise referred to as narrative accounting. To carry out a statistical analysis, the narratives studied needed to be quantified which proved to be a tedious undertaking. To deal with this limitation,

content analysis program ATLAS.ti 8, Harvard dictionary and Ms Excel 2007 were used in quantifying the non-financial disclosures. In addition, being one of the least researched areas in value relevance studies, carrying out a value relevance study on non-financial disclosures was plagued by a number challenges. Particularly, in the availability of related literature, for example there was a notable dearth of literature on the chairman's statement and the relationship between the statement and the value of a firm. To deal with this limitation, a lot of time was spent in searching of literature on non-financial disclosures and the relationship between these disclosures and the value of a firm.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Annual reports are published with the aim of providing a fair review of the development of a firm's business and its position. Transparent presentation of disclosures in annual reports is particularly imperative for firms which are listed. The general consensus among scholars and accountants is that a rich disclosure environment and low information asymmetry have many desirable consequences, such as efficient allocation of resources, capital market development, market liquidity, decreased cost of capital, lower return volatility and high analyst forecast accuracy. This chapter takes a review of relevant and related literature to the study. Specifically, the main issues discussed include the theoretical foundation of value relevance of non-financial disclosures, the conceptual framework adopted for this study, the empirical evidence and the research gaps identified in existing studies.

2.2 Theoretical Literature

This section discusses the theoretical literature of value relevance of accounting information. A theory is a set of interrelated constructs (concepts), definitions and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting phenomena (Camp, 2010). IASB (2010) observe that the relationship between information contained in a firm's annual reports and the value of the firm's equity is dependent on the information itself and what the users of that information do with it. There are many accounting theories and they consider such things as the reasons why the insiders in an organization might choose to disclose certain information to a particular group of stakeholder, and, people's behaviour and/or people's needs as regards information. Both these perspectives can be used to explain the relationship between accounting information and share prices (Deegan, 2006).

Four prominent theories have been used by researchers in accounting to explain the corporate disclosure phenomena (that is, why the insiders in an organization might

choose to disclose certain information to a particular group of stakeholder), these theories are: the signaling theory, the agency theory, the legitimacy theory and the capital need theory. Several theories of investment selection or theories of equity share investment are suggested in accounting and finance literature. These theories seek to explain people's behaviour and/or people's needs in regards to accounting information and their use of it in equity share investment. They include the fundamental analysis theory, the technical analysis theory, and the efficient market hypothesis. This study looked at six theories, that is, the signaling theory, the agency theory, the legitimacy theory, the capital need theory, the technical analysis theory and the efficient market hypothesis.

2.2.1 Signaling Theory

Developed by Michael Spence in 1973, the signaling theory was originally used to explain information asymmetry in labour markets. The theory shows how this asymmetry can be reduced by the party with additional information signaling it to others. The signaling theory provides a unique, practical, and empirically testable perspective on problems of social selection under conditions of imperfect information (Connelly, Certo, Ireland, & Reutzel, 2011). According to Alvarez, Sanchez, and Domınguez (2008) a signal can be a visible action or structure used to indicate the sign of quality. Typically the sending of a signal is grounded on the basis that it should be positive to the signaler.

A firm's information disclosure can be considered a signal to capital markets, directed to reduce information asymmetry which often exists between management and stakeholders as well as to increase the firm's value (Alvarez *et al.*, 2008). According to Yi, Davey and Eggleton (2011) investment in shares decisions may be significantly influenced by information asymmetries. Through signals of firms' information to the stock market, there may be absence of asymmetric information in the market; this may help investors to evaluate the financial conditions, operating conditions and future prospect of a firm when making shares investment decisions. Signalling theory suggested that information asymmetry could be reduced by sending signals to interested parties.

Khlifi and Bouri (2010) assert that voluntarily disclosing information in annual reports can be used by companies' managers as a signal to send specific information to participants in the market. Akhtaruddin and Hossian (2008) note that signaling theory's prediction is that managers of companies releases additional financial as well as non-financial information to signal that their performance is for the best interest of stakeholders. Mattessich (2003) observes that the extent to which a disclosure is able to represent economic reality is constrained by practical factors, for instance the trade-offs between cost and benefit. Even when a disclosure can be presented in a manner that fully reflects economic reality, such an effort is not sustainable where the costs involved are not justifiable. Put otherwise, noise is inherent in disclosures. Therefore, companies' managers will have an incentive to disclose all positive distinguishing qualities in order to maximise their own self-interest (Campbell, Shrives, & Bohmbach-Saager, 2001).

To sum it up, signaling theory proposes that voluntary information disclosure in corporate annual reports can be used as a signal in order to improve the corporate image, attract new investors, lower capital costs and also help to improve its relationships with the relevant stakeholders (Alvarez *et al.*, 2008). The theory holds that managers of firms with higher performance disclose more information voluntarily in order to promote a positive image (Mohd Ghazali & Weetman, 2006). Voluntary disclosure provides good signals about a firm's expected performance and avoids the risk that outsiders make wrong judgments based on non - disclosure of corporate information (Khlifi & Bouri, 2010).

Some empirical evidence confirms a positive relationship between firm performance and value of a firm and the reporting of non-financial information (Soliman, 2013). Philip and John (2016) used the signaling theory in their study in which they sought to determine whether accounting information has the ability to influence the prices and demand for shares of banks listed on the Nigeria Stock Exchange. The study concluded that information asymmetry could be reduced by sending signals to interested parties.

Arie and Dylan (2003) in an examination of the relationship between the level of under-pricing, accounting data and other variables which are in the public domain at the time of the IPO focused on identifying the factors associated with the magnitude of

under-pricing given the available information before the public offer. They applied the signaling theory and found that including many underwriters in the issuing syndicate may signal a valuable issue and may improve the marketing of the new securities. This, in turn, would reduce the need for under-pricing as a compensation for the information asymmetries.

In an examination of the association between corporate social responsibility assurance and a firm's value in both Australia and New Zealand, Manal (2016) employed the signaling theory and concluded that reporting of corporate social responsibility assurance sends signals about environmental and social corporate image and the reputation of the firm and that firms with higher quality disclosure have the potential to differentiate themselves from firms that produce lower quality disclosures.

In an examination of the relevance of environmental disclosures and if such disclosures are incrementally informative, Clarkson *et al.* (2013) used the signaling theory and concluded that indeed; high-quality disclosures promote information credibility and confidence. Cheng, Green, and Ko (2015) in a study on the impact of strategic relevance and assurance of sustainability indicators on investors' decisions, looked into the signalling role of CSR assurance. Based on signalling theory the study showed how firms aim to signal information to the market and found evidence that such signals are associated with higher share price assessments by investors. This study adds to the existing literature by employing the signaling theory in exploring the value relevance of non-financial disclosures in the annual reports of listed banks in Kenya.

2.2.2 Agency Theory

Agency theory was developed by Jensen and Meckling (1976). Accounting researchers have widely used the theory to explain and understand disclosure phenomena in many countries with diverse social, political and economic background (for example, Depoers, 2000; Inchausti, 1997; Ittonen, 2010) observe that current mainstream accounting research is based extensively on economic models of agency that represent the operating company (firm) manager as agent and the individual investor as principal. The agency theory is generally concerned with the principal-agent

relationship between the principals (for example, owners) and agents (for example, the managers).

According to Depoers (2000) an agency relationship is a contract under which one or more persons (called the principal(s)) engage one or more persons (called the agent(s)) to act on their behalf which involves delegating some decision making authority to the agent. Specifically, agency theory is founded on the idea of maximization of individual advantage, it thus presupposes that the principal and agent are opportunistic and steadily seek out their own self-interest and preferences (Lacoste, Lavigne, & Rigamonti, 2010).

Depoers (2000) argue that the agency theory would undoubtedly advocate that the interests of principals and agents vary largely due to their different utility functions. In this context, the agency theory attempts to clarify how shareholders, as principals, and managers as agents, arrange the relationship to safeguard their own interests. The study further note that the theory also tries to predict the conflicts of interest between managers and shareholders, illustrated in figure 2.1 based on the fact that their goals are not in perfect agreement. Ittonen (2010) describes the conflict of interest as a situation where an individual or an organization (an agent) has multiple interests, and of those interests one could possibly corrupt the motivation for an act in the other.

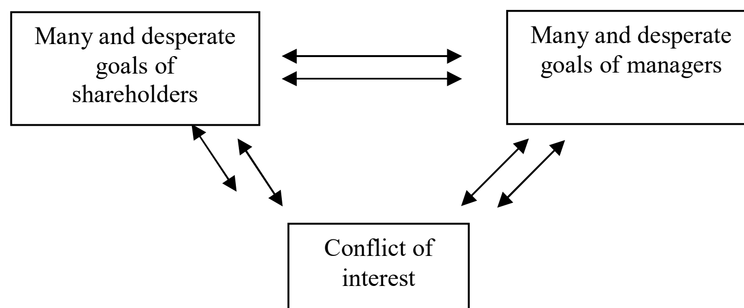

Figure 2.1: Conflict of Interest between Shareholders and Managers
(Source, Ittonen, 2010)

According to Lambert (2001) there are four distinctive reasons for conflicts of interest between principals and agents comprising: (i) effort aversion by the agent, (ii) the agent can divert resources for his own consumption, (iii) divergence of time horizons,

and (iv) differential risk aversion on the part of the agent. It has been suggested that one of the possible ways to decrease the conflict is to disclose more information concerning the management activities and the economic reality of the firm and through such information, stakeholders and other investors can monitor management more appropriately (Alvarez *et al.*, 2008). In their work, Akhtaruddin and Hossian (2008) affirm that information disclosure is motivated by the wish of the managers to efficiently treat the potential conflicts between themselves and other stakeholders.

In summary, agency theory contends that firms are more likely to be transparent when agency conflicts between insiders and outsiders are larger since these conflicts lead to higher levels of information asymmetry. Some studies have confirmed that the voluntary disclosure of non-financial information has a positive relationship with the dispersion in firms' ownership structures and with firm value (García-Meca *et al.*, 2005; Marston & Polei, 2004; Prencipe, 2004).

Lafond and Roychowdhury (2008) used the agency theory in an examination of the effect of managerial ownership on financial reporting conservatism under a hypothesis that, as managerial ownership declines, the severity of agency problem increases, increasing the demand for conservatism. The findings were consistent with the hypothesis, and a negative association between managerial ownership and asymmetric timeliness of earnings was observed. This was interpreted to mean that in terms of accounting quality, higher managerial ownership could reduce the quality of accounting information probably occasioned by less demand from the market, confirming the agency theory.

The agency theory was employed by Beekes *et al.* (2004) in a study on Finnish listed companies in which they examined the link between the board independence and earnings quality which was measured by a proxy, earnings timeliness and earnings conservatism. The study found out that earnings conservatism provided significant benefits for the users of financial information. Further the study concluded that a firm's governance structures may be important in determining earnings quality and boards with more independent directors had a tendency to greatly monitor and insist on greater earnings quality, as reflected in more timely recognition of bad news in earnings. This was interpreted to mean that earnings asymmetric timeliness for firms with small

proportions of outside board directors are less conservative in capturing news than firms with a higher number of outside board directors.

Ahmed and Duellman (2007) used three different measures of conservatism to empirically demonstrate that the percentage of inside directors is negatively related to conservatism, and that the percentage of outside directors' shareholdings is positively related to conservatism. The results of the study did not change after controlling industry, firm size, leverage, growth opportunities, institutional ownership, inside director ownership, and unobservable firm characteristics that are stable over time. The study concluded that the evidence was consistent with accounting conservatism assisting directors in reducing agency costs of firms.

Manuel, Lara and Osma (2007) used the agency theory in a study which involved sample of Spanish listed firms from year 1997 to year 2002. They found that firms where the chief executive officer, (CEO) has a low influence over the functioning of the board of directors showed a greater degree of accounting conservatism. The influence of the CEO over the board of directors was measured using two aggregate indexes. The results showed strong boards positively correlate with asymmetric timeliness of earnings in Spanish firms confirming the preposition of the agency theory that information disclosure is motivated by the wish of the managers to efficiently treat the potential conflicts between themselves and other stakeholders. This study extends the line of research by using the agency theory in exploring the value relevance of non-financial disclosures in the annual reports of listed banks in Kenya.

2.2.3 Legitimacy Theory

This theory is derived from the broader political economy view. Legitimacy theory has particularly been employed widely by earlier accounting scholars as an explanatory theory to describe the motivations behind voluntary corporate social and environmental disclosures (for example, Laan, 2009; Nik Ahmad & Sulaiman 2004; Watson, Shrives & Marston, 2002). Indeed, Van der Laan (2009) observed that beginning early 1980s, the theory has been used by researchers seeking to explore social and environmental accounting practice. Deegan, Rankin, & Tobin (2002) concur by emphasising that

legitimacy theory seems to be the most regularly used theory in social and environmental disclosure research.

According to Suchman (1995) there are three broad types of organisational corporate legitimacy. That is; pragmatic legitimacy, moral legitimacy, and cognitive legitimacy. Pragmatic legitimacy is based on the self-interested calculations of a firm's most immediate stakeholders. Moral legitimacy is premised on judgments about whether the activity is the right thing to do, as opposed to whether the activity benefits a firm's stakeholders. Cognitive legitimacy is based on comprehensibility or 'taken-for-grantedness', as opposed to the stakeholders' self-interest. Suchman (1995) argue that all three types of legitimacy involve a generalized perception or assumption that organizational activities are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. However, each type rests on a rather different behavioural dynamic.

In their work Watson *et al.* (2002) note that legitimacy theory is based on the concept that the economic entity operates in a society through a social contract where the entity consents to perform different socially needed activities in return for approval of its objectives, other rewards and its continued existence. According to Wilmshurst & Frost (2000) the legitimacy theory states that firms are expected to carry out their operations within the boundaries of what is considered satisfactory by the society.

Wilmshurst & Frost (2000) argues that the legitimacy theory assumes that the growth of public awareness and concern will result in managers of the companies taking actions to ensure that both their actions and performance are acceptable to their societies. The management of firms would therefore voluntarily reveal information on actions when they perceive that the specific actions were expected by the societies in which their firms exist. According to Deegan *et al.* (2002) corporate disclosures, therefore, it seems, can be used to show that the corporate firm is conforming to public expectations, or otherwise, they could be used to change the expectations of the society.

In summary, the legitimacy theory contends that firms disclose higher voluntary non-financial information, and particularly related to corporate social responsibility

activities, to legitimize firms' activities and to respond to social pressures (Brown and Deegan, 1998). Some empirical results document higher firm value for firm with higher levels of environmental disclosure particularly from firms with environmentally sensitive production activities (Aerts *et al.*, 2008; Brammer & Pavelin, 2008).

James and Lee (2012) used the legitimacy theory in a study which involved a historical analysis of social disclosures in annual reports by a dominant corporation in the Australian mining/manufacturing industry. Using a mail survey, chief finance officers (CFOs) of selected Australian companies were asked to rate the perceived importance of specific factors in the decision to disclose environmental information. Environmental disclosure within respondents' annual reports were reviewed and an analysis was undertaken to determine if relationships existed between actual reporting practices and ratings of importance assigned to various factors. The study failed to confirm legitimacy theory as the primary explanation for social reporting in the Australian case.

The legitimacy theory was used by Noel and Craig (2012) in an empirical study undertaken in Australia which focused on the relationship between the print media coverage given to various industries' environmental effects, and the levels of annual report environmental disclosures released by a sample of firms within those industries. Based on previous studies in media agenda setting theory and legitimacy theory, the paper developed two testable hypotheses. Nine industries were studied for the period covering 1981 to 1994. The study hypothesized that the media can be particularly effective in driving the concern of community about the environmental performance of particular organizations (from media agenda setting theory) and that where such concern is raised, organizations will respond by increasing the extent of disclosure of environmental information within the annual report (from legitimacy theory). The study observed that for the majority of the industries studied, higher levels of media attention (as determined by a review of a number of print media newspapers and journals) were significantly associated with higher levels of annual report environmental disclosures, confirming the hypothesis.

In an examination of the role of environmental disclosures as tools of legitimacy, Charles and Dennis (2007) employed the legitimacy theory in testing the differences in

the use of monetary and non-monetary non-litigation related environmental disclosure. Results revealed that the use of monetary and non-monetary components of the non-litigation related environmental disclosure varied across groups. In general, the findings were interpreted to be supportive of the preposition that companies use disclosure as a legitimizing tool.

Emerald *et al.* (2017) used the legitimacy theory in an examination of the type of environmental-related information disclosed by firms in Ghana, the trend of such disclosures and the determinants of environmental disclosures. Using the Global Reporting Initiative (GRI) index as a benchmark, the study carried out a content analysis of the corporate annual report of seventeen firms listed on the Ghana Stock Exchange (GSE) over a 10-year period (2003 to 2012) to determine the total environmental disclosure scores of the sampled firms. Regression analysis was used to ascertain the determinants of environmental disclosure practices by firms. The findings revealed that listed firms in Ghana disclosed some amount of environmentally-related information adopted by GRI even though the level of disclosure is low. In addition, the level of disclosure by environmentally-sensitive firms was observed to be higher than the less sensitive firms. This confirms the preposition of the legitimacy theory that firms are expected to carry out their operations within the boundaries of what is considered satisfactory by the society and therefore would want their disclosures to disclose them as such. While this study considered the legitimacy theory because of its significant use in accounting research, the theory was not adopted in forming the research expectations and therefore it was not used to interpret the results achieved from empirical examination.

2.2.4 Capital Need Theory

The capital need theory has also been used by researchers to explain the reasons behind the disclosure of information made by firms. Gray, Kouhy and Lavers (1995) notes that the theory implies that managers have an incentive to disclose additional information that enables them to raise capital on the best available terms. According to Healy and Palepu (2001) firms' managers who are intending to transact in the capital market have motivations to disclose information voluntarily to decrease the information asymmetry problem and thus decrease the external financing cost.

The capital need theory predicts that increased voluntary disclosure of information by the managers will lead to lower the company's cost of capital through reducing investor uncertainty (Schuster & O’Connell, 2006). Consequently, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company’s future performance and to assist trading in shares (Hassan, Giorgioni, Romilly & Power, 2011).

According to Schuster & O’Connell, (2006), enhanced corporate disclosure is expected to result to improvements in investors’ capital - allocation decisions as well as investors’ assessment of the return from a firm’s share. Revealing greater information in annual reports helps to attract new investors thereby helping to maintain a healthy demand for the company’s shares and a share price in the market will more accurately reflect its intrinsic value. Firms with a higher level of disclosure should reasonably tend to gain higher stock prices over the long run.

Hassan *et al.* (2011) point out that it has also been suggested that disclosing more information in annual reports by managers could result to increased stock liquidity through decreased transaction costs and increased demand for a firm’s securities, and also reduced uncertainty surrounding the valuation of share. Schuster and O’Connell (2006) note that disclosure of more meaningful financial and non-financial information by management of a firm on a voluntary basis results to considerably improved credibility among market participants. Einhorn (2007) argues that greater information disclosure in corporate annual reports tends to reduce the fluctuation of a company’s share price.

In summary, the capital need theory contends that firms’ managers who are intending to transact in capital market have motivations to disclose information voluntarily to decrease the information asymmetry problem and thus decrease the external financing cost (Healy & Palepu, 2001; Cohen *et al.*, 2011). Some empirical evidence confirms a positive relationship between value of a firm and the reporting of non-financial disclosures (Abdallah, 2014; Soliman, 2013).

Teixeira and Lúcia (2007) used the capital need theory in an analysis of the

determinants of disclosure in the Portuguese Stock Exchange. Specifically, they studied the determinants of disclosure level in the accounting for financial instruments of Portuguese listed companies by computing an index of disclosure based on IAS 32 and IAS 39 requirements is for each firm. The analysis included variables that capture intrinsic features of Portuguese companies and institutional regulatory context, such as capital structure and characteristics of the corporate governance structure. They concluded that the disclosure degree is significantly related to size, type of auditor, listing status and economic sector. This supports the capital need theory preposition that firms' managers who are intending to transact in capital market are motivated to disclose more information voluntarily.

In a study of the UK stock market, George (2008) employed the capital need theory in an examination of disclosure of accounting information in the financial statements of UK listed firms. Primarily the study analyzed the financial characteristics of firms that provide extensive disclosures and assessed the financial impact of their motives, for example, the need to raise equity finance. The study showed that in order to raise finance in the capital and debt markets, firms tend to provide extensive accounting disclosures. Firms that provided informative accounting disclosures were seen to display higher size, growth and leverage measures. This was interpreted as a confirmation of the claim by the capital need theory that increased voluntary disclosure of information by the managers will bring about a lower cost of the company's capital through reducing investor uncertainty.

The capital need theory was also used by Grantley, Greg and John (2009) in a study of corporate communication of financial risk in which they sought to provide insights on the Financial Risk Management Disclosure (FRMD) patterns of Australian listed resource companies for the period 2002 to 2006, leading up to and immediately following adoption of the International Financial Reporting Standards (IFRSs). Regression analysis showed that corporate governance and capital raisings of firms are significant and positively associated with FRMD patterns affirming that revealing greater information in annual reports helps to attract new investors thereby helping to maintain a healthy demand for the company's shares as claimed by the capital need theory.

Hany and Khaled (2012) used the capital need theory in study of determinants of narrative risk disclosures in UK interim reports. The study used the manual content analysis to measure the level of risk information in interim report narrative sections prepared by 72 UK companies. Ordinary least squares regression analysis was used to examine the impact of firm specific characteristics and corporate governance mechanisms on narrative risk disclosures. The study concluded that large firms in need of large finances to drive their operations are more likely to disclose more risk information in the narrative sections of interim reports. These findings affirms the capital need theory in that the practical implications for managers are that, in order to keep investors satisfied, firms with high levels of financing and liquidity risks should look at investors' needs for risk disclosure. This will help investors when making their investment decisions.

Haitham and Nejla (2017) used the capital need theory in study of the effect of risk disclosure reporting quality on credit risk. The study aimed at measuring the degree of corporate risk disclosure and examine its impact on credit risk of United Arab Emirates, (UAE) listed banks during the period 2007-2013. The results of the content analysis revealed low degree of the overall risk disclosure index and all the sub-risk categories except the financial risk disclosure for all, Islamic and conventional UAE banks and the market risk disclosure for Islamic banks. This confirms the preposition by the capital need theory that disclosure of more meaningful financial and non-financial information by management of a firm on a voluntary basis results to considerably improved credibility among market participants. While this study considered the capital need theory because of its significant use in accounting research, the theory was not adopted in forming the research expectations and therefore it was not used to interpret the results achieved from empirical examination.

2.2.5 Technical Analysis Theory

With a view to making equity investment decision, investor needs to understand the stock market behaviour and stock price trend in the stock market and inquire why the market takes a given trend. To make good investment decision, investors need to develop a bird's view over the market and analyze every factor why the stock market behaved in a certain way with tools and techniques. One of the tools that may be

applied by the investor to analyse the stock market behaviour and stock price trend is technical analysis (Keerti & Gururaj 2013).

Technical analysis enables market players to study the market action, primarily through the use of charts, for the purpose of forecasting future price trends. Price movement and its behaviour can be explained using the technical analysis. This provides a better insight to make decisions on the stock investments hence determining the prices. Technical traders believe that there are no reasons to analyse a firm's fundamentals because these are all accounted for in the prices of stocks (Cory, Chad & Casey, 2015)

According to Milton (2015) technical analysis is a method of evaluating securities by analysing the statistics generated by market activity. The author further notes that this is based on three assumptions: 1) the market discounts everything, 2) price moves in trends and 3) history tends to repeat itself. Technical analysis maintains that all information required about a stock is reflected already in the price of the stock and that investors' emotional response to price movements lead to recognizable price chart patterns (Malkiel, 2003).

Using technical analysis, the market players look at the trend of stock's price and trading volume and on this basis decide when to buy or when to sell the subject stock. In technical analysis the investors are guided on the right time to enter or exit based on the past and current trend of prices and volume of trade. Not only is technical analysis of more short term than fundamental analysis. Generally, technical analysis is used for a trade, whereas fundamental analysis is used to make an investment. Investors buy stock expecting an increase in prices. Technical analysis is based on objective data. You can look at a stock chart and plainly see what is happening at a given time. You can observe the trend of the price and you can see how popular the stock is based on its volume characteristics (Keerti & Gururaj, 2013).

Criticism of technical analysis is based on efficient market hypothesis, which holds that the market price is always the correct one and therefore any historical analysis with a view of determining the price is useless. Long-term investors often avoid technical analysis since it is thought to be a tool primarily applied for short-term speculation. Many individual investors have experimented with various charting

techniques and have dropped the technical approach after a few bad experiences. Professional long-term investors operate in the belief that the market is efficient and that technical analysis is of no practical value since the day-to-day fluctuations of stock prices are random, (Allen, 2003).

John and Tatiana (2013) used the technical analysis theory in an examination of intellectual capital research (ICR) methods and a critical analysis of how they have been utilized. The results showed that there is an increasing performative research agenda and that many accounting researchers are impacted by a dominance structure. This affirms the claim by the technical analysis theory that to make good investment decision investors need to develop a bird's view over the market and analyze every factor why the stock market behaved in a certain way with tools and techniques.

John, Cristiana, James and Paola (2016) used the technical analysis theory in a study in which they reviewed the field of integrated reporting <IR> aiming to develop insights into how <IR> research is developing, offer a critique of the research to date, and outline future research opportunities. The findings were that most published <IR> research presents normative arguments for <IR> and there is little research examining <IR> practice. The study called for more research that critiques <IR>'s rhetoric and practice. According to the technical analysis theory, technical analysis enables market players to study the market action, primarily through the use of charts, for the purpose of forecasting future price trends.

Tianyuan, Lorne and Dale (2017) used the technical analysis theory in exploring integrated thinking in integrated reporting in a study focusing on Australia. The study involved in-depth semi-structured interviews with key <IR> stakeholders in Australia, including two <IR> pilot organizations, one professional association, an accounting professional body, an accounting firm and two IIRC officials. The study revealed an evolving understanding of integrated thinking within practice. The study also concluded that it remains unclear how this understanding will develop over time. In technical analysis theory the investors are guided on the right time to enter or exit based on the past and current trend of prices and volume of trade. This study adds to the existing literature by using the technical analysis theory in exploring the value relevance of non-financial disclosures in the annual reports of listed banks in Kenya.

2.2.6 Efficient Market Hypothesis Theory

Fama, Jensen, Roll and Fisher (1969) point out that efficient market hypothesis is founded on the assumptions that new information regarding securities comes to the market in a random fashion and that investors seeking to maximize their profit amend a security prices swiftly to reflect the effect of new information. The efficient market is in three forms; that is weak form, semi strong form and strong form of efficiency.

Reilly and Brown (2003), observe that weak form market is a type of EMH in which all historical process of a stock and volume data are fully reflected in the current stock prices. According to Fox (2009) a semi-strong efficiency is a more comprehensive level of market efficiency which besides involving market data that is publicly available, also involves all publicly known and available data. This data is fully reflected in the current price of a stock. Neither fundamental nor technical analysis can be used to achieve superior gains.

Shiller (2005) observed that the strong form of EMH is the strongest form. In this form, all information; be it public or private is fully reflected in the price of a security. In that case, in the strong form efficiency level, no investor or group of investors should be able to use publicly available information in a superior manner to earn abnormal rates of returns over a reasonable period of time.

Studies on value relevance disclosures in annual reports are stirred by the fact that quoted companies use annual reports as one of the major media of communication with stakeholders (Vishnani & Shah, 2008). Most value relevance studies make inferences based on the implicit assumption that the stock market is efficient in the semi-strong form. This assumption has raised substantial concerns among several researchers (for example Lee, 1999; Holthausen & Watts, 2001)

Munga (1974) observed the market efficiency at the NSE was overtime seen to be at least at the weak form level. Investors who attempted to use the information contained in past prices of stocks were not be capable of outperforming the stock market consistency. Taking into consideration the share bid and ask prices, Kinandu and John (2006), studied the efficiency of NSE through an analysis of the behaviour of the price

series for listed companies that issued equity. The conclusion was that the price series of majority of the companies were random which typify a weak form of EMH.

The NSE has however experienced notable improvement especially after change of government in Kenya in December 2002. The exchange has gained efficiency over the years. The NSE was rated as Africa's fourth largest stock exchange in terms of trading volumes, and fifth in terms of market capitalization as a percentage of GDP in 2010 (ICPSK, 2010). According to Wambugu and Riro (2015), the NSE was ranked the third best performing in Africa in 2014. In consideration of these, it is likely that the bourse has gained efficiency and can be classified somewhere in the semi strong level of efficiency. This study, like other value relevance studies, will make inferences based on the implicit assumption that the NSE is placed in the semi strong form level of efficiency.

Patricia, Weili and Catherine (2010) applied the efficient market hypothesis theory in a review of the proxies of earnings quality, their determinants and their consequences in which various measures were used as indications of earnings quality. The study concluded that earnings quality is contingent on the decision context and that the quality of earnings is a function of the firm’s fundamental performance. Further work on the contribution of a firm’s fundamental performance to its earnings quality was suggested. The efficient market hypothesis assumes that new information regarding securities comes to the market in a random fashion and that investors amend a security prices swiftly to reflect the effect of new information.

The efficient market hypothesis theory was used by Daniel and Paul (2010) in a study that demonstrated that search engine optimization (SEO) firms engage in real activities manipulation, and the decline in post SEO performance occasioned by the real activities management is more severe than that due to accrual management. Importantly, this evidence showed that firms’ choice of real versus accrual-based earnings management activities around SEOs vary predictably as a function of the firm's ability to use accrual management and the costs of doing so. Most value relevance studies are based on the assumption that the stock market is efficient in the semi-strong form.

Robert and Scott (2014) used the efficient market hypothesis theory in surveying US research on the effects of earnings presentation attributes on manager and user behaviour on the basis of three primary earnings presentation attributes namely disaggregation, location and narrative attributes. The study concluded that disaggregation operates mainly by directly affecting information content. The efficient market hypothesis dwells on the extent to which information about a firm affects its share prices.

Alex (2008) used the efficient market hypothesis theory in a study of the relationship between fair value, market value, and efficient markets. The study hypothesized that reasonable market efficiency is at the essence of the relevance of fair value for financial reporting purposes. It was concluded that the concept of reasonable market efficiency could provide a sound conceptual framework for defining fair value that is founded in real, observable market prices. Further it was concluded that there is wide acceptance in literature that a reasonable level of efficiency can generally be presumed to exist in active, well-regulated capital markets. This affirms the assumption by the efficient market hypothesis theory that in the strong form of efficient market hypothesis, all information; be it public or private is fully reflected in the price of a security.

Michel, Andrea and Antonio (2015) applied the efficient market hypothesis theory in a study of fair value accounting. They focused on US bank holding companies. The results reflected that analysts perceive that managers convey useful information but act opportunistically in measuring fair value figures. This study adds to the existing literature by using efficient market hypothesis theory in exploring the value relevance of non-financial disclosures in the annual reports of listed banks in Kenya.

Khlifi and Bouri (2010) observe that in spite of the need to develop a specific theory of disclosure, none of the existing theories satisfy this requirement. Cormier, Magnan and Van Velthoven (2005) point out that firm disclosure is complex issue that cannot be explained by using one theory. Abdullah (2014) note that up to now there is no agreement on academic theories, which attempt to provide a theoretical reason for voluntary disclosure practices by firms. The author point out that using more than one theory may help to understand the reasons for corporate voluntary disclosure practices.

Abdallah (2014) contend that signaling and agency theories are consistent and therefore it is possible to combine them to yield predictions about accounting disclosure choices, not obtainable from either theory alone. Consequently, this study adopted agency theory and signalling theory to form the research expectations. The combination provided an important theoretical framework for gaining a better insight into the motivations behind disclosing non-financial information by firms. The study also adopted technical analysis theory and efficient market hypothesis theories for people's behaviour and/or people's needs as regards information. The four theories formed the research expectations. The four theories were also used to interpret the results achieved from empirical examination.

2.3 Conceptual Framework

According to Miles and Huberman (1994) a conceptual framework is the current description of the researcher's map of the territory being examined. This view implies that conceptual frameworks may change as research evolves. The brief definition takes into account purpose (boundaries) with flexibility (evolution) and coherence of the research (plan/analysis/conclusion) which all stem from conceptual frameworks.

Related to this, Mugenda and Mugenda (2003) hold that a conceptual framework is a hypothesized model identifying the model under examination showing how the dependent variable and independent variables are related. A researcher conceptualizes the relationship between variables in the study and shows the relationship graphically or diagrammatically. Neusman and Neusman (2011) note that in a conceptual framework, descriptive categories are systematically placed in broad structure of explicit prepositions, statement of relationships between two or more empirical variables that are then to be accepted or rejected.

Lumley (2001) observes that a variable is an attribute or quality of the cases that is recorded or measured. Kothari (2014) points out that a variable is a concept, which can take on qualities of quantitative values. Allison (2004) note that a dependant variable is the outcome variable, that is, the variable that is being predicted. Variation in the dependent variable is what the researcher seeks to explain. Allison (2004) further notes

that the predictor, independent or explanatory variable is a factor that explains variation in the dependent variable. A conceptual framework serves to enable the reader to immediately see the proposed relationship in a study. Shorsh and Vernon (2007) take note of key role that conceptual framework play in a study and examination process.

In this work the independent variables are five non-financial disclosures in annual reports. The dependent variable is the annual average market price per share; which is basically a measure of the value relevance of annual reports. The relationship between five components of non-financial disclosures or accounting narratives contained in annual reports, namely, risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure and the market value of banks listed in Kenya measured by the average market price per share was determined (Figure 2.2). Nevertheless, the five narratives are not the only non-financial disclosures included in annual reports. This study held these factors constant.

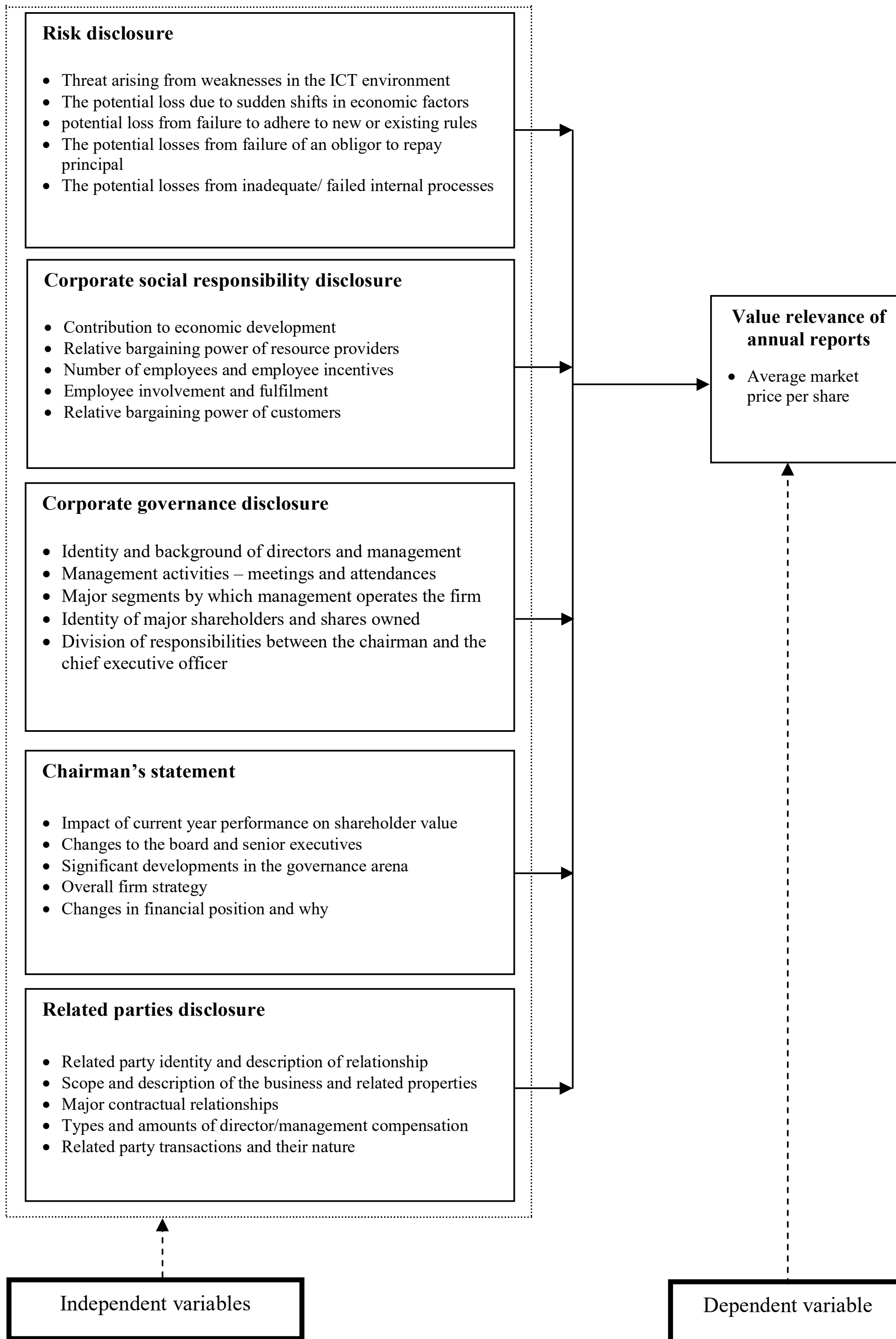

Figure 2.2: Conceptual Framework

2.4 Empirical Literature

The study having laid a theoretical foundation setting the justification of the study arguments and a conceptual framework detailing the connection between the variables, a review of empirical evidence on value relevance of non-financial disclosures in annual reports is necessary so as to clarify the interactions and interrelationships evidenced by different existing studies. This study considered existing literature on risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related party disclosure.

2.4.2 Value Relevance of Risk Disclosure

Over time, increase in attention by regulators and accounting institutions around the world have occasioned an upsurge in corporate risk disclosure. The growth in risk disclosure studies is shown by a number of academic articles that have emerged. Some of these articles provide an analysis of a comprehensive corporate risk disclosure and focus on developing a framework for risk disclosure (for example, Solomon, Solomon, Norton & Joseph, 2000).

Some studies examine the impact on value of firms by risk information disclosed in their annual report more comprehensively while others examine risk disclosure in prospectuses (for example, Deumes, 2008; Papa, 2007; Solomon *et al.*,2000) conducted an initial study in the UK using a questionnaire survey. The study attempted to find out the attitude of UK institutional investors towards risk disclosure in relation to their portfolio investment decisions. Respondents of the survey did not generally favour a regulated environment for corporate risk disclosure and supported a voluntary framework. It could be concluded that perhaps investors have learnt how to manage certain types of risk in a costless basis through, for example, diversification, therefore, the reduced desire for legislation.

Sribunnak and Wong (2006) in a study of the impact of excluding non-financial exposure on the usefulness of foreign exchange sensitivity-analysis risk disclosure, conclude that firms that make market risk disclosures have higher value sensitivity than those that do not. In an examination of the effect of mandated market risk disclosures on trading volume sensitivity to interest rate, exchange rate, and commodity price

movements, Linsmeier, Thornton, Venkatachalam and Welker (2002) find that after firms disclose their exposures to interest rates, foreign exchange rates and energy prices, trading volume sensitivity to changes in these underlying factors declines, implying reduced investors' uncertainty and diversity of opinion about the effects of these changes on the firms.

Bali and Cakici (2004) studied the relationship between value at risk disclosure and Expected Stock Returns. The study finds that value at risk disclosure have additional explanatory powers to explain the cross-sectional variation in expected returns after stock size, book-to-market ratio, liquidity, market beta and total volatility are accounted for. Lim and Tan (2007) investigated the value relevance of risk disclosure by 81 non-financial firms during the period 1997 to 2002 using the earnings-returns relation. Empirical evidence indicates that high value at risk is associated with weaker earnings-returns relation implying that investors consider risk disclosure and therefore the disclosure is value relevant.

In a study of how banks' value-at-risk disclosures predict their total and priced risk, Liu, Ryan and Tan (2004) Used a sample of 17 banks from 1997 to 2002 reporting trading value at risk and concluded that banks' trading value at risk have predictive power for a bank-wide measure of total risk, return variability, and for two bank-wide measures of priced risk, beta and realized returns. This was construed to mean that risk disclosures are positively and significantly related to future stock return volatility.

Chee and Patricia (2007) carried out a study on value relevance of value-at-risk disclosure in which they sought to examine whether the quantitative value-at-risk (VAR) estimates disclosed by 81 non-financial firms during the period 1997 to 2002 are value-relevant using the earnings-returns relation. The empirical results indicated that high VAR is associated with weaker earnings-returns relation. Further, the study concluded that VAR is positively and significantly associated with future stock return volatility. This evidence was interpreted to suggest that investors perceive the earnings of firms with substantial market risk exposure to be less persistent, and adjust the future abnormal earnings for the higher risk exposure resulting in a lower expected rate of return.

Tamer and Lorenzo (2015) carried out a comparative study on corporate governance, risk disclosure practices, and market liquidity in the UK and Italy. Specifically, they examined the influence of corporate governance on risk disclosure practices in the UK and Italy and also studied the impact of those practices on market liquidity. The study found out that strongly rather than weakly governed firms exhibiting risk information voluntarily rather than mandatorily improves market liquidity significantly. The evidence supports the value of the confidence in the UK governance system, compared to that in Italy, which motivates British firms to provide highly informative risk information more often than Italian firms. These findings suggest that risk disclosure in annual reports is value relevant.

All these studies suggest that risk disclosures provide useful information to investors. However, Pérignon, Deng and Wang (2008) examined risk disclosure by banks in USA. They observed large differences in the level of disclosure among the sample banks, and in general an upward trend in the quantity of information released to the public from 1996 to 2005. In a further study of five banks with the highest value-at-risk disclosure scores, they provide further evidence that value-at-risk disclosure has very little impact on the volatility firm's value. Wong (1998) estimated firms' currency exposures disclosure impact on their value. The study finds evidence weakly suggesting that the market incorporated the disclosures.

In a study of market risk disclosure, Radiah and Rashid (2009) sought to investigate the market risk disclosure practices among Malaysian listed firms using content analysis and coding procedure. They found that there is telling evidence that most Malaysian firms did not engage in hedging any type of market risk over the reporting period of 2006 to 2007. This suggests that risk disclosure is not important to users of annual reports.

From the foregoing, it is notable that Solomon *et al.* (2000) observed that investors did not generally favour a regulated environment for risk disclosure and supported a voluntary framework and therefore concluded that perhaps investors have learnt how to manage certain types of risk in a costless basis through, for example, diversification, implying that risk disclosure is not value relevant. Wong (1998), Pérignon *et al.* (2008) and Tamer and Lorenzo (2015) in different studies agreed with this conclusion.

However, other studies (for example Sribunnak & Wong, 2006; Bali & Cakici, 2004 and Radiah & Rashid, 2009) have concluded that risk disclosure impacts the value of firms and therefore it is value relevant. The first alternative hypothesis for this study states that risk disclosure in the annual reports of listed banks in Kenya is value relevant.

2.4.3 Value Relevance of Corporate Social Responsibility Disclosure

Corporate social responsibility (CSR) disclosure or reporting otherwise called sustainability report in its simplest form contains information reported by firms relating to their activities and reporting about firms by third parties; information in the annual reports, and any other form of communication; public and private information; or information in any medium (be it financial, non-financial, quantitative or non-quantitative) (Bebbington, Larrinaga & Moneva, 2008; Bhattacharya, Korschun & Sen, 2009; Cormier & Magnan, 2010; Gray *et al.*, 1995a). Disclosures on corporate social responsibility are an attempt by organizations to disclose their economic performance to a diverse range of interested users. Traditionally, annual reports were prepared on basis of financial performance. However this has changed overtime and among area in which firms are expected to report on is social justice. Social justice issues are concerned with a firm's contribution to social and environmental benefits to the society (Tilt, 2009).

According to the World Business Council for Sustainable Development, (WBCSD) (2000) corporate social responsibility is the ethical behaviour of a company towards society, management acting responsibly in its relationships with other stakeholders who have a legitimate interest in the business. CSR is the enduring assurance by business to act ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. In this study, corporate social responsibility was looked at as a broad concept which consists of corporate sustainability, environmental management, business ethics, corporate citizenship, stakeholder management, competitive advantage and corporate social performance. There are two different views regarding the concept of corporate social responsibility, extending from a traditional view of the firm (for example, Friedman, 1962) to a demand for a paradigm shift in corporate practice (for

example, Dyllick & Hockerts, 2002).

People within a community are worried about natural resources, air and water pollution, as well as low income-tier group of the community. Because environmental and social issues are associated with peoples' right and public law, some governments and regulators have legislated certain rules and regulations and also have made CSR disclosure a mandatory practice for public listed firms. But CSR disclosure is still optional in most of countries. Currently, many listed firms are reporting on sustainability (Marsat & Williams, 2011). However, WBCSD & United Nations Environment Programme Finance Initiative, (UNEP FI) (2010) note that investors are not impressed, observing that there is lack of communication between the investors and people responsible for sustainability within the firms. In 2008, discussion sessions facilitated by the WBCSD and UNEP Finance Initiative brought together analysts and sustainability experts in a bid to define how to move forward. The different languages spoken by the two parties were notable. While investors want numbers and Key Performance Indicators (KPIs), the reports often largely only dwell on qualitative aspects.

CSR disclosure or reporting has increasingly become an important aspect. This is evidenced by the capital market reaction to this issue, inclusion of it into fundamental analysis in buying or holding a stock and information contribution of this issue to shareholders (Kaspereit & Lopatta, 2011). According to Owolabi (2000) CSR reporting is perceived by investors as being important. Over the years, studies have been carried out to examine the relationship between corporate social responsibility reporting and the value of a firm.

In an investigation of the economic performance of sustainability reporting companies versus non-reporting companies in South Africa, Buys, Oberholzer and Andrikopoulos (2011) found that the economic performances of companies that voluntarily submit sustainability reports are better than those who do not support Global Reporting Initiatives (GRI) sustainability reporting guidelines. Ngwakwe (2009) carried out a study of environmental responsibility and firm performance in Nigeria. The study evaluated the relationship between expenditure for sustainability variables against Return on Total Assets (ROTA). 'Environmental responsibility' was determined using

disclosure on environmental and social issues above 50%. Any disclosure less than 50% was assumed to be 'environmentally irresponsible'. The study concluded that sustainable business practices influenced the financial performance of firms (as measured by return on total assets).

Clarkson *et al.* (2010) examined the impact of CSR disclosure on the cost of equity capital and firm value, and on the public perception about a firm's environmental performance using actual toxic emissions data and firms' general disclosure propensity. They measured CSR disclosures in stand alone environmental reports, CSR reports, and corporate web sites using a disclosure index consistent with the Global Reporting Initiative disclosure framework for a sample of firms from the five most polluting industries in the US. The study concluded that CSR disclosures are incrementally informative for investors over current toxic emissions data in firm valuation analyses. It further observed that investors appear to use toxic emissions data to assess the firm risks and that CSR disclosure is positively associated with the Janis-Fadner coefficient, consistent with CSR disclosure enhancing non-investor stakeholder perception about firms' environmental performance. Basically the conclusion means that investors consider the CSR report in making investment decisions, therefore inclusion of it in annual reports has an impact on the value relevance of the annual reports.

Using data of Australian companies from 1998 to 2000, Gozali *et al.* (2002) studied CSR disclosures in companies' annual reports. Among the objectives of the study was to evaluate the economic consequences of these disclosures by investigating the relationship between the disclosure in the annual report and the company's share price. The study found that companies with positive environmental disclosure perform significantly better in the market than companies that disclose negative environmental information. Positive environmental disclosures are the information which presents the company as operating in harmony with the environment. Negative environmental disclosures are the information that present the company as operating to the detriment of the natural resources.

Khaveh *et al*., (2012) investigated the relationship between environmental and social disclosure and shareholders wealth for 15 public listed companies, which are listed in

the Singapore Exchange main market. The research was aimed at three industries. The Findings of research demonstrated that there is significant and positive relationship between sustainability reporting and Singaporean companies' revenue. Companies with higher CSR disclosure have higher revenue. A survey by Klynveld Peat Marwick Goerdeler (KPMG) and Futerra (2011) where more than 5000 respondents were involved, observes a key importance of sustainability performance data. A notable per cent of the investors chose this as the most important factor of the reports.

Dan, Oliver, Albert and Yong (2011) carried out a study on voluntary non-financial disclosure and the cost of equity capital in which they specifically focused on examining a potential benefit associated with the initiation of voluntary disclosure of corporate social responsibility. The study found out that firms with a high cost of equity capital in the previous year tend to initiate disclosure of corporate social responsibility activities in the current year and that initiating firms with superior social responsibility performance enjoy a subsequent reduction in the cost of equity capital. Further, initiating firms with superior social responsibility performance attract dedicated institutional investors and analyst coverage. They also deduced that firms exploit the benefit of a lower cost of equity capital associated with the initiation of CSR disclosure.

Dhaliwal, Hogan, Trezevant and Wilkins (2011) studied internal control disclosures, monitoring, and the cost of debt. They established that companies that disclose non-financial social responsibility information are more likely to raise larger amounts of equity capital in the two years following the reporting, compared with non- disclosing firms. Hussainey and Salama (2010) looked at the importance of corporate environmental reputation to investors. They noted that higher levels of corporate environmental disclosure scores improve investors' ability to anticipate future earnings. In a corporate social responsibility disclosure related study, Zahller, Arnold and Roberts (2015) showed that investors perceived organizational legitimacy to be higher for firms with higher levels of corporate social responsibility disclosure quality.

Katarina, Pragna and Gunnar (2013) in a study on the value relevant of Integrated Reporting on Johannesburg Stock Exchange gathered data for 2009 to 2011 from companies' integrated annual reports and analyzed the relationship between corporate

social responsibility disclosures and integrated reporting using a valuation model in order to determine and the value-relevance integrated reporting. The empirical results showed that the disclosure of level of compliance has increased from 2009 to 2011. The study also showed that the level of compliance differs between the sectors and characterizes to what extent integrated reporting is incorporated. The analysis also showed that corporate social responsibility disclosure in integrated reports is value relevant.

In an examination of whether corporate sustainability performance pays off, Chengyong, Qian, Taco and Dirk (2018) hypothesized that the financial effect of corporate sustainability disclosure has an inverse relationship with country-level sustainability performance because stakeholders will take a firm's sustainability improvement for granted in countries with good social and environmental performance. The results agreed with the hypothesis and were interpreted to mean that sustainability management can be a source of a competitive advantage for firms based in emerging economies, where in general the level of sustainability performance is relatively low. Basically these findings imply that corporate social responsibility disclosure has a relationship with the market value of equity.

Some studies have arrived at a different conclusion. Jones, Frost and Der Laan (2009) carried out an examination of the market returns and financial performance of entities engaged in sustainability reporting in Australia. The study observed a negative and weak association. In a study on the influence of sustainability matter on stock markets in European countries, Moneva and Ortas (2008) found no association between corporate social responsibility disclosure and share returns. In a study, Murray *et al.* (2006) sought to establish if financial markets in the United Kingdom care about social and environmental disclosure. They found no relationship between social and environmental disclosure and financial market performance.

Adams, Thornton and Sepehri (2010) studied the impact of the pursuit of sustainability on the financial performance of the firm. The study sought to find out if firms with relatively high sustainability metrics are better able to achieve superior stock performance. They identified the best-in-class sustainability driven companies in 57 different industry sectors using The Dow Jones Sustainability US Index (DJSI US), an

index which is constructed according to a systematic corporate sustainability assessment developed by Dow Jones. The study concluded that corporate sustainability label has no statistically significant impact on the financial performance of business organizations.

Kwanbo (2011) carried out an assessment of the effectiveness of social disclosure on earnings per share in Nigerian listed firms with the objective of examining the extent to which social disclosures affects earning per share. Content analysis was used to collect social disclosure and corporate financial performance data from annual financial reports of the 231 companies quoted on the Nigerian stock exchange as at December 2009, for the period 2005-2009 considered. The study used two models as the basis for testing the hypotheses formulated. The dependent variable (CSR disclosure) was used from two different perspectives for each model and one of the independent variables (earnings per share) was the common variable that was featured in both models. The study concluded that CSR disclosure is an irrelevant tool to maximizing corporate objectives and therefore CSR disclosure has no impact on earnings per share.

In summary, as noted by Eccles, Ioannou and Serafeim (2012), disclosure regarding sustainability, corporate social responsibility, environmental reporting is mainly voluntary. Firms that adopt these disclosures account for the environmental and social impact of the company in addition to the firm’s financial performance. From the foregoing empirical literature, results and conclusions are mixed and inconclusive findings still exist with respect to the value relevance (as measured by market value of equity) of the CSR disclosure included in annual reports of firms. some studies have observed a relationship (for example Katarina, Pragna & Gunnar, 2013; Clarkson *et al.*, 2010 and Oberholzer & Andrikopoulos, 2011) however some have arrived at a different conclusion (for example Kwanbo, 2011; Adams, Thornton & Sepehri, 2010 and Moneva & Ortas, 2008). The second alternative hypothesis for this study states that corporate social responsibility disclosure in the annual reports of listed banks in Kenya is value relevant.

2.4.4 Value Relevance of Corporate Governance Disclosure

According to Tariq and Abbas (2013), a number of corporate scandals and corporate

governance failures in the 1990/2000s occasioned by fraud and insufficient systems of control have raised the question of the credibility of corporations and particularly the governance. Ntim, Lindop and Thomas (2013) in their work, note that this financial crisis lead to an increase in focus on corporate governance; largely effective risk management and reporting practices. One result is that governance codes have grown in quantity around the world in recent decades (Tariq & Abbas, 2013). Governance code exists to maintain good governance. That is, to ensure that the firm is governed in accordance to the idea of the shareholders. The codes are largely not mandatory for listed firms (Kollegiet, 2010).

Corporate governance has some key general principles that are common to most countries. In their work, Aguilera and Alvaro (2009) note that most codes have some recommendations on six governance issues: a balance of executive and non-executive directors, such as independent nonexecutive directors; a clear division of responsibilities between the chairman and the chief executive officer; the need for timely and quality information provided to the board; formal and transparent procedures for the appointment of new directors; balanced and understandable financial reporting; and the maintenance of a sound and efficient system of internal control.

The international corporate governance network (ICGN), established in 1995 to develop a global corporate governance practices and to facilitate international dialogue on corporate governance issues contend that it is in the public interest to encourage and enable the owners of corporations to participate in the governance of those of corporations. In their definition of corporate transparency, Bushman and Smith (2003) point out that corporate governance disclosure is one of the useful tools in assessing the credibility of financial information, as well as in accurately setting expectation and reducing uncertainty concerning the firm’s performance. According to Bushman, Piotroski and Smith (2004) such disclosure also reveals on whom the responsible for governing the firm rest, the compensation structure and how and where they invest financial resources.

Furthermore, as argued by ACCA (2009), disclosure on the features of corporate governance can enhance monitoring and internal control, improve firm performance

and inform improvements to the internal system. Should the governance mechanisms not be disclosed, the firm's stakeholders may not be able to access such information. According to Klein, Shapiro, and Young (2005) the Boards of Directors (BOD) disclosure is viewed as one of the important element corporate governance disclosure. This includes the size of board and its independence. According to Healy and Palepu (2001) among pros of corporate governance disclosure are gained legitimacy and reduced information asymmetry and reduced capital cost. Larsson (2009) further observe that in order to be value relevant, it is imperative that the disclosures are credible.

IIRC (2013c) points out the information need by stakeholders to make informed decisions. Consequently, disclosures on governance structure affect the reader's view of the credibility of the entire set of disclosures, because it reflects the confidence of the firm's ability to create value through the business model, be transparent and disclose accurate information.

In a study on corporate governance and the quality of financial analysts' information, Byard, Li and Weintrop (2006) found out that the quality of financial analysts' information about upcoming earnings increases with the quality of corporate governance and concluded that governance quality is positively correlated with the quality of analyst forecasts, implying that firms with high governance quality produce more reliable and transparent information. In line with this, McKinsey (2002) observes that according to the Global Investor Opinion Survey, more than 50% of Western European and North American investors look at governance disclosure as being more, or equally, essential as financial issues, that is, profit performance and growth potential. In a study on the factors influencing corporate governance disclosures, Mallin and Ow-Yong (2012) conclude that in the rest of the world the number is over 80 %.

Mingzhu and Khaled (2013) examined the impact of corporate governance on the level of voluntary disclosures of forward-looking statements in the narrative sections of annual reports and whether such statements impact on future earnings. The study focused on large-scale sample of UK (Financial Times Stock Exchange) FTSE All-Share companies for financial years ending within the period January 1996 to

December 2007. The study concluded that better corporate governance improves reporting practice and that the forward-looking statements of well governed firms improve the stock market's ability to anticipate future earnings. This implies that corporate governance disclosures are value relevant.

Ahsan and Istiaq (2008) studied corporate governance and the value-relevance of accounting information in Australia. The study used board, audit committee and external audit related variables to proxy for corporate governance. Value-relevance was measured by the adjusted R2 derived from a regression of stock price on earnings and equity book values following Ohlosn's accounting-based valuation framework. The results showed that firms with strong governance structure exhibit higher value-relevance of accounting information. Results further showed that firm-specific economic variables are important determinants of the value-relevance of accounting information.

In a study "Do the Characteristics of the Board of Directors Affect the Value Relevance of Accounting Information?" Mishari, Faisal and Khalid (2015), based on a hypothesis that the characteristics of the board of directors that influence the value relevance of accounting information may be different in developed and less-developed countries, explored the issue in a less-developed country, Kuwait. Using regressions based on Ohlson's (1995) valuation model, the findings revealed that the structure of board had a significant positive relationship with the value relevance of accounting information. In particular, board size and role duality are significantly associated with firm's market value. The results also showed that accounting reports of firms with a smaller board, where the roles of CEO and chairman of the board are split had higher impact on firm's market value. Cross directorships had a positive, though insignificant, relationship with firm's value. The findings were interpreted to mean that the theoretical prediction that the characteristics of the board of directors influence market valuation was correct, and therefore this information is value relevant.

Mallin (2002) studied the relationship between corporate governance, transparency and financial disclosure. The study concluded that disclosing more information on corporate governance practices contributes to a firm's value. Healy and Palepu (2001) looked at information asymmetry, corporate disclosure, and the capital markets. The

study concluded that disclosing a firm's contractual and corporate governance structures can reduce information asymmetry and investor uncertainties and thus reduce the cost of capital. This is corroborated by Hermalin and Weisbach (2011) in their study on information disclosure and corporate governance. Based on a hypothesis that more information permits principals to make better decisions; but at the same time it can also bring about additional agency problems and other costs for shareholders, including increased executive compensation. The study observed that firms that disclose more transparent information on corporate governance practices distinguish themselves by sending a credible signal to investors of their governance qualities and therefore increase their market value.

Bhagat and Bolton (2008) examined corporate governance and firm performance. They observed a positive link between disclosing shareholder corporate governance practices but also highlighted the need for robust estimates by addressing potential endogeneity problems. In a global investor opinion survey, McKinsey (2002) found that generally institutional investors are willing to pay more for shares in firms that display greater levels of transparency on their CG practices than their less transparent counterparts even if they have similar financial performance records. Collins, Kwaku and Jo (2011) examined the relative value relevance of shareholder versus stakeholder corporate governance disclosure in South Africa using a sample of 169 listed firms from year 2002 to year 2007, and established that disclosing good corporate governance practices on both shareholders and stakeholders impacts positively on firm value.

Hussain and Hussain (2012) carried out a research on board of directors' characteristics disclosures and value relevance of accounting information in Malaysia in which they used the panel data approach for 270 Malaysian Shariah - compliant companies over the period of three years covering 2007 to 2009. The study examined the relationship between some boards of directors' characteristics namely the board of directors' size, number of independent non - executive directors in the board, the Chief Executive Officer (CEO) duality and the number of Muslim directors in the board. Some firm's unique attributes, namely, firm's size, leverage, profitability and size of audit firm were regressed in the model as control variables. Three panel data estimations, that is, Pooled OLS, Fixed and Random effects models were carried out using the Ohlson's (1995) model to study these relationships. The results revealed that the board size does

not affect the value relevance of accounting information, since of the two had a negative non- significant relationship. In addition, the findings showed that there is a positive but non - significant relationship between the board independency and value relevance of accounting information. The study also found out that splitting the roles of CEO from that of the board chairman does not increase value relevance of accounting information. The result also revealed that availability of Muslims in board of director did not strongly influence the value relevance of accounting information. The study interpreted these findings to mean that corporate governance disclosure does not affect the value relevance of accounting information.

Catherine (2008) carried out a study on the value-relevance of corporate governance in Australia with the aim of providing stakeholders with an understanding of the effectiveness of corporate governance practices by demonstrating the link between corporate governance disclosure and the value of a firm. The study proposed that corporate governance disclosure enhances the value relevance of accounting reporting, that is, it increases the reliance by market on this information to value the firm. The findings revealed that corporate governance disclosure is not value-relevant in its own right.

In a study on corporate performance, board structure and their determinants in the banking industry in USA, Adams and Mehran (2008) found no benefits for having non-executive director dominance on corporate boards. This conclusion concurs with an earlier related study by Belkhir (2006) who studied board structure, ownership structure, and firm performance in the banking industry in the US. Belkhir (2006) noted that board composition has no bearing whatsoever on wealth maximisation. This implies that a haphazard selection of executive and non-executive board members is of no consequence in the quest for value creation.

Most of the empirical evidence on corporate governance disclosure and the value of firms indicate a positive relationship between the two. However, findings are not consistent across studies. While some indicate a higher value relevance of disclosures for firms with strong governance structures (for example McKinsey, 2002; Bhagat & Bolton, 2008). Some studies do not agree with these findings (for example Adams & Mehran, 2008; Belkhir, 2006; Catherine 2008; Hussain & Hussain 2012). The third

alternative hypothesis for this study states that corporate governance disclosure in the annual reports of listed banks in Kenya is value relevant.

2.4.5 Value Relevance of Chairman's Statement

The chairman of the board, sometime called the president of the company always writes to the users of financial statements, so, in some firms, chairman's statement has become known as the president's letter. Studies show that the Chairman's statement is perceived to be useful and important (ACCA, 2009). According to Stanton, Stanton and Pires (2004), available empirical research in the US has established that both the inclusion and the content of president's letters significantly affect the judgements on share prices in equity investment decisions.

Clatworthy and Jones (2006) concluded that the chairman's statement is the most read accounting narrative in UK while Smith and Taffler (2000), observe that chairman's statement is an important content of the annual reports whose content influences decision making. The authors note that other studies reported that the statement contains information that is both useful for predicting future firm's performance and for equity valuation.

Hooghiemstra (2008) observed that chairman's statement could be the first thing that the readers should notice in reviewing the report since it usually tells the readers the operations for the past year and discusses the future prospects. In a study "Picking up the Pieces: Impression Management in the Retrospective Attributional Framing of Accounting Outcomes", Aerts (2005) explored the impact of content characteristics of the explained effect in chairman's statements on the self-serving tendencies and also studied strong and weak motivational influences and contrast the self-serving reasoning tendencies in non-financial disclosures of listed and non-listed firms. The study concluded that the chairman's statement and director's report are the most commonly read information section of annual report by private shareholder, more than the statement of financial position. The research results also showed that the narratives were value relevant depending on the nature of the financial disclosures explained and on the manner in which positive news is constructed in the directors' reports of listed companies.

Abrahamson and Amir (1996) suggest that the president's message should be sincere, clear and informal. It should further reflect a certain amount of human warmth toward the readers. The authors note that research evidence suggest that such disclosures in annual reports are of great use to users including even skilled users such as financial analysts who are among the key users of accounting information.

Campbell (2004) point out that in order to establish the usefulness of the chairman's statement, research focuses on the ability to forecast company's future performance. Annual reports are in some sense looked at as a platform or an undisguised advertisement for companies. Narratives forming part of the financial reports are carefully crafted public relations documents with little, if any, substantive content (Ho & Wong, 2004).

Empirical studies on value relevance of the chairman's statement have been carried out by different researchers in diverse circumstances. Some studies concluded that chairman's statement affect the value of the firm. Clatworthy and Jones (2006) looked into whether firms in UK with declining or improving performance show different attribution patterns. Based on a sample of 100 chairman's statements of listed firms in UK, the content of chairman's statement was classified as good, bad, or neutral, and the attributions as either external or internal. The authors observed that firms with improving performance (positive change in profit before taxation from last year) presented more good news and they were more positive in their words relative to those with declining performance. Generally firms were found to explicitly attribute bad news to external factors. Mullainathan and Shleifer (2005) point out that the narrative is a potential indicator of performance, but the information communicated by the chairman tend to beautify reality. They imply deliberate obscuring in communicating bad news. Clatworthy and Jones (2006) find that the chairman's statement of unprofitable companies is subject to impression management.

Using a content analysis approach to explore the causal attributions made by company managements in letters to shareholders to explain or account for company performance, Stanton *et al.* (2004) observed a strong evidence of self-serving managerial behaviour in the annual report statements. They note that such self-serving

attributions are an attempt to manage the views of the firm's various external and internal stakeholders about the firm. Management therefore approaches it in the desired manner. Campbell, Moore and Shrives (2006) contend that the chairman's statement can be used to communicate biased information that is not clear about the future prospects of the firm.

Malcolm and Richard (2009) conducted a systematic analysis of the relationship between chairman's statement and financial performance for a matched sample of failed/non-failed companies across common industries by employing separate measures of the readability and the understandability of the chairman's statement. The study observed that there is a significant relationship between the chairman's statement and the overall financial performance. The authors further note that poor readability of chairman's statement is strongly related to poor financial performance while ease of readability of the chairman's statement is strongly related to relative financial success. The implication is that different users of annual reports consider the chairman's statement in decision making meaning that the disclosure is value relevant.

Eric and Amir (1996) examined the existence of an association between the content of the chairman's statement and firm failure. The study concluded that a close association exists between the two. This implies that the chairman's statement in annual reports has an impact on the ability of a firm to raise capital; therefore it is value relevant. Smith and Taffler (2000) studied accountability bias in how chairman's statement is presented. They observed that management takes credit for successful performance while technical accounting terms are used steer clear of related managerial responsibility on negative outcomes.

Clatworthy and Jones (2003) focused on the chairman's narratives of the top 50 and bottom 50 listed UK companies ranked by performance looked into whether firms in UK with declining or improving performance show different attribution patterns of chairman's statements. They classified the content of chairman's statement as good, bad, or neutral. They concluded that firms with improving performance (positive change in profit before taxation from last year) presented more good news and they were more positive in their words relative to those with declining performance. The conclusion by the study implies that the chairman's narrative in annual report is value

relevant. Bhana (2009) analyzed the chairman's statements of the top 50 and bottom 50 companies listed on the JSE ranked by percentage change in profit before taxation. The study found that chairmen use the accounting narrative in a self-serving manner, rather than reporting performance objectively. The finding implies that chairman's statements are value relevant, therefore the motivation to focus on positive aspects.

However, some studies have concluded or implied that the chairman statement does not have a relationship with the market value of equity. Stanton *et al.* (2004) carried out a study to establish whether the perceptions of readers of a firm's chairman's statement differed depending on their assigned reading. Four similar groups were rated after completing their reading task, but no significant differences were found. It was concluded that the chairman's statement does not impact on the usability of annual reports in decision making. This implies that the statement is not value relevant.

It is notable that evidence for the usefulness of the chairman's statement and its relationship with value of firms is mixed. Some studies concluded that chairman's statement affect the value of the firm (for example Clatworthy & Jones, 2003; Eric & Amir, 1996; Malcolm & Richard, 2009). At the same time, some studies have arrived at findings that imply that the chairman statement does not have a relationship with the market value of equity (for example Stanton *et al.*, 2004).

The chairman's statement can be used to convey important strategic information to readers. At the same time studies which have analyzed the content of chairmen's statements have observed that the disclosure can be used for conveying biased content or messages that are ambiguous in terms of the future prospects of the business. Examining the relative importance of information sources used by analysts, Rowbottom and Lymer (2009) ranks the chairman's statement fourteenth, seemingly signaling a relegation of perception of this item in the minds of users of annual report. The fourth alternative hypothesis for this study states that the chairman's statement in the annual reports of listed banks in Kenya is value relevant.

2.4.6 Value Relevance of Related Party Disclosure

Agency theory contends that firms have to come up with a way to minimize agency

costs and information asymmetry (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). Larcker, Richardson and Tuna (2007) observe that corporate governance structures have developed a monitoring mechanism to lessen information asymmetries and agency problems between managers and owners/investors. According to IASB (2009) a related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party studies tend to dwell on the nature and determinants of related party transactions premised on the assumption that the related party disclosures capture the full extent of the transactions. Studies look at either comprehensive related party transactions, for example, the number or the total amount of related party transactions or specific related party transactions, for example, related party payments, transfer of assets, sales, and purchases (Gordon, Henry & Palia, 2004a).

Gordon *et al.* (2004a) observes that there are two main hypotheses seeking to explain why firms enter into related party transactions. One is that related party transactions are seen to be normal business transactions to fulfill a firm's economic needs and increase the firm's efficiency. The second view is based on agency theory and the argument is that agency problems come about when managers opportunistically focus on their own interest at the expense of owners. In this view related party transactions are seen to be a conflict of interest between managers and owners.

According to Kohlbeck and Mayhew (2010) being non-arms-length in nature, related party transactions raises concerns about the likelihood of opportunism from management or other insider parties. They further note that when related party transactions are superficially opportunistic, investors are likely to perceive the transactions negatively and this will be seen in stock prices. Firms who want to avoid this situation would possibly put in place a monitoring mechanism to lessen opportunistic related party transactions.

According to La Porta, Lopez-de-Silanes and Shleifer (2006) related party disclosure requirements and strong investor protection can help lessen opportunistic related party transactions. Kohlbeck and Mayhew (2010) observe that whereas related party disclosures do not eliminate related party transactions, the disclosures forces interested parties to either restraint opportunistic behaviour or take precautionary action.

According to Djankov, La Porta, Lopez-de-Silanes and Shleifer (2008) common law countries have better regulation which leads to minimised self-dealings compared to civil-law countries. In an international study, La Porta *et al.* (2006) noted a positive relationship between regulations on related party disclosure requirements and stock prices. This, they note, can mean that disclosure minimises opportunistic related party transactions.

According to Kohlbeck and Mayhew (2010) related party disclosures avail to investors the information they need to discipline insiders' opportunistic behaviour. However, the authors observe that following the related party disclosures, investors do not have much power to discipline and prevent such opportunistic behaviour. Their power is limited to instigating ex-post litigation against opportunistic insiders or to selling or refusing to buy the stocks of the offending firms. According to Jensen and Meckling (1976); insiders with less than 100% ownership may have incentives to engage in opportunistic related party transactions because they are not fully entitled to the firms' benefits. Kohlbeck and Mayhew (2010) observe that investors who choose price protection through reducing stock purchases will have less power to protest about the opportunistic related part transactions. The authors further note that in such a situation the equilibrium related party transaction disclosure level and a lower firm valuation is created.

Arshad, Darus and Othman (2009) used the annual reports of 144 Malaysian listed companies to study among others how IFRS adoption effect on related party disclosure in two disclosure regimes (2002 and 2007). Related party disclosure was measured as the aggregate number of words contained in the related party disclosure in the annual reports. The study observed a significant increase in the extent of related party disclosure in 2007 when adaptation of the IFRS standard on related party became mandatory. They concluded that more detailed disclosure requirements limit the amount of accounting choices to firms. They also observed a positive relationship between the extent of related party disclosure and firms' valuation.

Elizabeth, Elaine and Darius (2004) studied the determinants of related party transactions and their impact on firm value in the US. Using a large representative sample of companies, the study concluded that related party transactions bring about a

conflict of interest between managers/board members and their shareholders resulting to an inverse relationship with the value of a firm. In a study on the valuation implication of US corporate related party disclosures, Kohlbeck and Mayhew (2010) looked at related party transaction disclosures in the 2001 year annual reports of 1,194 firms. In the study, related party transactions were categorized into loans, other simple transactions and complex strategic transactions. The study concluded that firms which disclose related party transactions are associated with lower stock returns and negative market values (as measured by Tobin's Q) relative to firms which do not disclose any related party transactions. Notably, while firms having relatively simple related party transactions (including loans and other simple transactions with insiders) are valued negatively, those that engage in complex transactions are not valued negatively. This observation suggests a lack of understanding of complex transactions by the market since the quality of disclosure varies across firms.

Mehdi and Moêz (2011) examined the relationship between related parties transactions and the market value of a firm in French. The study used a sample of 85 companies listed on the Paris Stock Exchange during the period 2002-2005. The results showed that related parties transactions are mainly influenced by the voting rights held by the main shareholder, the size of the board of directors, the degree of independence enjoyed by the audit committee and the board of directors, the choice of external auditor, the debt ratio and the fact of being listed in the US. Generally the transactions carried out directly with the main shareholders, directors and/or managers showed a negative influence on firm value. This was interpreted to mean that related parties transaction disclosures are value relevant.

Wenxia, Donald, Steve, Feng and Desmond (2010) studied the value relevance of disclosed related party transactions in china for the period from 1997 to 2000. The study focused on two types of related party transactions, that is, sales of goods and sales of assets. The study concluded that earnings of firms selling goods or assets to related parties showed a lower valuation coefficient than those of firms in China without such transactions. This reveals that related parties disclosures are important for decisions on investments.

Mark and Brian (2010) carried out a study on the valuation of firms that disclose related party transactions in which they used the 2001 S&P 1500 to provide a large yet manageable hand-collected sample. The study examined the stock market's valuation of firms that disclosed related party transactions in relation to those that do not. The study concluded that firms that disclosed related party transactions have significantly lower valuations and marginally lower subsequent returns than firms that do not disclosed related party transactions. Market perceptions differ based on partitioning firms by related parties transaction type and parties.

Padmini (2013) carried out an analysis of related party transactions in Indian companies for three years between 2009 and 2011. The study concluded that firms with high related party transactions involving sales and income had lower performance compared to companies with low related party transactions. This finding revealed that related party transactions disclosures impact on value of a firm. In a study on how comprehensive types of related party transactions influenced the performance of listed companies in Shanghai and Shenzhen Stock Exchanges from 2002 to 2006, Chen, Chen and Chen (2009) observed a relationship between related party sales, loan, guarantee, and lease; and firms' performance. They conclude that this may suggest that these transactions affect firms' market performance negatively or positively depending on whether the listed firm is the controlling or controlled party. Munir and Gul (2010) studied 462 annual reports in 2004 to 2005 in Malaysia for any relationship between related party transactions and firm's valuation. They observed that related party transactions, measured as the amount of related party transaction scaled by total assets, are negatively associated with firm value.

However, Ryngaert and Thomas (2012) looked at how the timing of related party transactions, that is, before and after public listing or the time that the counterparty can be construed to have becomes a related party of 234 small to medium-sized US firms, affect firm's value in the fiscal year 1999. They concluded that in general, related party transactions do not affect firms' overall market performance and value.

Siti and Rashid (2012) carried out a study on shareholder activism in family-controlled firms in Malaysia in which they investigated the impact of shareholder activism led by the Minority Shareholder Watchdog Group (MSWG) on the performance of

family-controlled firms in Malaysia from 2005 to 2009 using event study methodology to calculate abnormal returns for the sample and control firms. The findings of the study were contradictory. One, significant positive cumulative abnormal returns of at least 0.5 percent for the targeted family firms, during the event window of [−1, 0] and [0, +1], as a result of MSWG engagement were observed. A significant positive cumulative abnormal return of 1 percent for the firms where family control is less than the threshold level of 33 percent was observed. Two, the study at the same time concluded that MSWG engagements do not have consistent positive impact on the abnormal returns over the years and that there were significant differences between the performance of MSWG targeted family-controlled firms and non-targeted family-controlled firms after one year of MSWG intervention. The findings were adjudged to imply that MSWG led shareholder activism does have an effect on the share returns of the family-controlled firms.

Nen-Chen, Jeng-Ren and Ying-Chieh (2013) carried out a related study in Taiwan in which they arrived at similarly contradictory conclusion. The study examined the effect of disclosure regulation on earnings management using Taiwanese companies conducting transactions with China as the institutional setting. Earnings management was measured by the amount of discretionary accruals. The study concluded that disclosure regulation mitigates discretionary accruals of Taiwanese firms engaging in related-party transactions with Chinese entities but at the same time the study concluded that such effect was asymmetric between high-tech firms and non-high-tech firms. Specifically, the disclosure regulation was seen to be effective in reducing earnings management among firms in non-high-tech sectors. However, such effect was not significant among firms in high-tech sectors.

Studies on related party transactions largely take the conflict of interest perspective which holds that related party transactions can bring about the transfer of wealth to managers, taking into account the non-arms-length nature of such transactions. From the foregoing, it is notable that Ryngaert and Thomas (2012) concluded that the wealth effect of related party transactions varies based on the nature and timing of such transactions. This is corroborated by (Chen *et al.*, 2009; Mark & Brian 2010; Munir & Gul, 2010; Padmini, 2013) who in their studies also concluded that these transactions affect firms' market performance. However, in contradiction Ryngaert and Thomas

(2012) concluded that in general, related party transactions do not affect firms' overall market performance and value. Kohlbeck and Mayhew (2010) also concluded that some related party transactions disclosures do not affect firms' value while some do. Some did not give a conclusive position on whether related party transactions disclosure affects the value of a firm, (for example Nen-Chen *et al.*, 2013; Siti & Rashid, 2012). The fifth alternative hypothesis for this study states that related parties in the annual reports of listed banks in Kenya is value relevant.

2. 5 Critique of the Existing Literature

Empirical literature on existing studies on the relationship between non-financial disclosures and value of a firm is reviewed here. The existing literature on this area is compared and contrasted on the basis of objectives, methodology, variables, conclusions and research gaps.

José and Beatriz (2009) carried out a study on the value relevance of financial and non-financial environmental reporting on a sample of 124 listed Spanish companies during the period 1996 - 2004 using a regression model based on the Ohlson equity-valuation framework. They extracted environmental information from the annual reports published by the firms. In particular the study aimed at exploring the value relevance of financial and non-financial environmental disclosures in the annual reports of companies listed on the Madrid Stock Exchange during the period 1996 - 2004. The overall results suggest that non-financial environmental disclosures are not value relevant, but financial environmental disclosures are.

One needs to be careful when reading the results of the study. Since then, there has been notable change in regard to publication of sustainability reports all over the world which may lead investors to base their decisions on the information contained in them. Moreover, the study was carried out on a small sample of firms and in a particular context - Spain. This study was carried out in Kenya which is a developing economy relative to Spain. Besides looking at a number of non-financial disclosure elements, this study looked at sustainability reporting in totality as opposed to just environmental disclosures. This study captured current situation which incorporate development like the Kyoto protocol mechanisms.

Per and Niklas (2006) studied the value relevance of non-financial information in their study "The Valuation Relevance of Non-Financial Information". They sort to provide information which would inform increased disclosure of non-financial information noting that at the present time, disclosure of non-financial information is mostly provided on a voluntary basis. They examined the information content of 200 analyst reports written on a respective number of firms listed in the S&P 500 index, an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The study simultaneously performed a disclosure study of non-financial information by the same 200 firms in their annual reports.

The results are contradictory in that they observed that analysts included non-financial information in their reports. Hence, this type of information can, in general, be characterized as valuation relevant. However, out of 70 information items in the disclosure index, the analyst reports contained on average of 5.33 information items. This indicates that the information items in the index are either contextual in that only a few apply to each firm, or that analysts do not find them valuation relevant. The study was also limited in that the method employed is subjectively inherent in the coding process, which impedes replicability and comparisons with other studies. This study sought to establish a position on the value relevance of non-financial disclosure. The methodology makes it open for comparison with other studies and it is also different in that it was done in Kenya, a developing economy.

In a study on the informativeness of value-at-risk disclosure in the banking industry, Xiaohua (2010) sought to establish the value relevance of risk disclosure by banks using a sample of 66 out of the top 150 banks in USA. Data was collected from annual reports released over the period covering year 1997 to year 2008, based on year 2007 total assets. Among other, the study concluded that the cost of equity capital is significantly negatively associated with the informativeness of value at risk disclosure, implying that more informative value at risk disclosure can effectively reduce the information asymmetry between management and outside investors in regards to both a bank's market risk exposure and its risk management system. This implies that indeed, risk disclosure is value relevant.

The study made significant contributions to the literature mainly because it was the first study to assess both the economic causes and consequences of the informativeness of value-at-risk disclosure in the banking industry. This study is different from the one by Xiaohua in that it looked at risk disclosure in totality besides also looking at other four non-financial disclosures. It also captured trends that have emerged since 2010.

Raf and Nadine (2013) carried out an examination of value relevance of non-financial disclosures in Belgium with a specific aim of establishing the context within which sell-side financial analysts make decisions in regard to using corporate non-financial information. They used a sample of 31 respondents, and each financial analyst was asked to indicate on a five-point Likert scale the extent to which each item is used in analysis.

They observed a significant negative association between the financial analysts' use of non-financial information and the earnings informativeness of a firm's financial statement information with leverage and stock return volatility as proxies. They also found out that a higher amount of non-financial information is used by less experienced financial analysts and by financial analysts covering a higher number of firms. This is somehow inconclusive. It is also notable that the study is limited in that it employed a relatively small sample size, which restricts the generalization of the findings. Besides, the study applied mean scores in the relationship between the use of non-financial information and firm-specific determinants. This study sought to establish a clear position on value relevance of non-financial disclosures. It employed secondary data based on a relatively larger sample, and a different methodology which makes widely unrestricted for the purpose of generalization of the findings. This study also used primary data obtained from one hundred and two financial analysts via an opinion survey questionnaire to complement the results from the secondary data. The financial analysts were used as a proxy for high-net-worth investors.

Dima, Cuzman, Dima and Otilia (2010) examined the effects of financial and non-financial information disclosure on prices' mechanisms for emergent markets in a comparative study of Romania and Spain. The study focused mainly on comparing the value relevance of Internet disclosed information provided by annual and interim

financial reports and other non-financial news in the decision making process by investors. Financial and non-financial disclosure data was obtained from the Bucharest Stock Exchange and Bolsa de Madrid as well as from the corporate websites for a sample of 45 Romanian firms and 35 Spanish.

They observed that the effects exercised by the disclosure of non-financial information are less clear in the case of Romanian companies compared to the Spanish ones and that the intensity of prices' overreactions appears to be higher for Spanish stocks; suggesting a higher degree of adjustment speed to informational shocks. The results imply that in both economies non-financial information is value relevant. The study made a significant contribution by confirming a widely held view that value relevance of disclosures contained in annual reports in developed economies cannot be assumed in developing economies. This study sought to further examine this position in that it was carried out in a developing economy.

Zuraida, Nurul and Tony (2015) investigated the impact of Environmental, Social, and Governance (ESG) disclosure by corporations around the world on market value. Using a large sample of non-financial companies listed in 38 countries during the period 2008 - 2012, they tested for value relevance by employing a modified version of the Ohlson (1995). The study found support for the value relevance of disclosure of ESG both in aggregate form and for its individual components. These findings support the expectation of disclosure theory that non-financial disclosures have a positive impact on value.

While the study by Zuraida, Nurul and Tony (2015) made a significant contribution in the sense that it was the first to be done using a worldwide sample, the study is limited in that it employed global data and the sample companies are from a variety of different institutional settings and therefore do not reflect the operation of national boundaries in terms of legal traditions. It also used Bloomberg ESG disclosure scores as a proxy for ESG disclosure and the results have not been tested against alternative data provided by alternative providers of ESG type scores. This study is different in that it was done in Kenya and it was based on one industry therefore enhancing the quality of data. It looked at five non-financial disclosures.

Ibrahim, Ahmad and Khan (2017) examined whether corporate governance mechanism improves shareholder value in Malaysian Listed Companies. The study focused on empirically establishing the influence of corporate governance disclosure on shareholder value. The study specifically focused on separate leadership, proportion of independent director, independent chairman and independence of nomination committee based on the renowned agency theory. A sample of 100 firms listed on Bursa Malaysia over the period 2010 was used and data on separate leadership, proportion of independent director, independent chairman and independence of nomination committee was collected from the annual reports of the companies while earning per share (EPS) was used as a proxy for shareholder value. The models were analyzed by ordinary least squares (OLS).

The findings revealed a significant positive relation between chairman independence and shareholder value measured by earning per share. Further, the study observed that independence of nomination committee has a significant negative relationship with shareholder value and that separate leadership and proportion of independent director had no impact on shareholder value. At the same time, separate leadership and proportion of independent director showed no significant relationship with shareholder value.

The study made a significant contribution in the sense that, for a study on value relevance of non-financial disclosure, it covered a fairly large sample of 100 firms for one year. It also largely arrived at the same conclusion arrived at by Hussain and Hussain (2012) which was also on value relevant of corporate governance disclosure on a section of Malaysian listed firms.

However, the study is limited in that non-financial disclosures tend to be industry specific due to the fact the disclosures remain largely unregulated. This is probably the single most significant reason why the findings of the study are contradictory among the elements of the corporate governance disclosure that were studied. In comparison, this study is different in that it focused on a specific industry, the banking industry, which is subject to additional regulation by the central bank of Kenya (CBK). This study also covers a longer period and focuses five elements of corporate governance disclosure drawn from research work by Robb *et al.* (2001). Besides, this study is also

different from that by Ibrahim, Ahmad and Khan (2017) in that it was conducted in a developing economy. Dima *et al.* (2010) in a comparative study of Romania and Spain observed that the effects exercised by the disclosure of non-financial information were less clear in the case of Romanian companies compared to the Spanish ones and that the intensity of prices' overreactions appears to be higher for Spanish stocks, suggesting a higher degree of adjustment speed to informational shocks.

This finding was collaborated by Craig, Andrew and René (2007) in a study in which they developed and tested a model of how country characteristics, such as legal protections for minority investors and the level of economic and financial development, impacts firms' costs and benefits in implementing measures to make better their own governance and transparency. The study concluded that country characteristics accounts for much more of the variance in governance ratings (ranging from 39% to 73%) compared to observable firm characteristics (ranging from 4% to 22%). Further the findings revealed that firm characteristics explain almost none of the variation in governance ratings in emerging economies and that access to global capital markets sharpens firms' incentives for better governance. These conclusions confirm a widely held view that value relevance of annual reports in developed economies cannot be assumed in developing economies.

2.6 Research Gaps

The foregoing literature review indicates that researchers have paid attention to value relevance of non-financial disclosures in corporate annual reports in different markets, contexts and similar themes. It is however notable that majority of existing studies on value relevance of non-financial disclosures in corporate reports has been done in developed economies. In developing economies, there is lack of value relevance of non-financial disclosures studies. Further, as observed by Vijitha and Imalathasan (2014), it is also notable that the findings of existing studies are either inconclusive or they have yielded contradictory inferences.

This reveals gaps in existing accounting literature particularly in testing the value relevance of non-financial disclosures and generally in testing of relevance of information contained in corporate annual reports in developing markets. This study

sought to extend the line of research on value relevance by determining the value relevance of non-financial disclosures in the annual reports of listed banks in Kenya. This study focused on five non-financial disclosures, with five elements drawn from an index by Robb *et al.* (2001), being explored in each disclosure.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is concerned with what will be done in a study to address the specific objectives and hypotheses/research questions that the study seeks to address (Newing, 2011). This involves deciding the research design structure, choosing the specific methods, developing a sampling strategy and describing the analyses that were carried out. This chapter presents the methodology used in the study. This includes the research philosophy, research design, population of the study, sources of data and the instrument of data collection and treatment. It also details the specified empirical model estimated by the study and shows the techniques of estimating and analyzing the model.

3.2 Research Philosophy

Research philosophy is the basis of knowledge upon which important predispositions and assumptions of a study are premised. In social sciences there are two major research philosophies, namely; the positivism (scientific) and phenomenology (interpretivism). It can also be looked at in terms of two approaches, that is; quantitative and qualitative approaches. Researchers, whose techniques give emphasis to measuring and counting, are called positivists. The positivist approach involves causal relationships, highly structured methodology, scientific principles, large samples, quantification and incremental contribution to theory (Cooper & Schindler, 2008).

Positivism focuses purely on facts gathered through direct observation of people behaviour and experience and measured empirically using quantitative methods. Such quantitative methods include surveys and experiments as well as statistical analysis (Babbie, 2002). On the other hand, phenomenology paradigm (Interpretivism) applies the qualitative tools of observation, questioning, and description. It is associated with qualitative approaches to data gathering (Eriksson & Kovalainen, 2008). This study used positivistic approach in the use of

quantitative tools and techniques that put emphasis on measuring and counting.

3.3 Research Design

Research design provides the glue that holds the research project together. It is used to structure the research and to explain how all of the main parts of the research project work together in an attempt to address the central research questions (Trochim, 2006). Kothari (2014) observe that research design describe the blueprint for collecting, measuring and analyzing data in a study. This study adopted a descriptive research design to analyze the value relevance of non-financial disclosures in annual reports. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Saunders *et al.*, 2009).

A descriptive research design is suitable where the researcher is attempting to explain how the phenomenon works out by establishing the underlying factors that bring some change in it; in which case there is essentially no manipulation of the independent variable (Kerlinger & Lee, 2000). Descriptive research design was further considered appropriate for achieving the research objectives of this study since the data and the study depend grossly on secondary data collected from the annual reports. This approach is useful for this kind of study because it also makes it possible to deduce since the inferences from the test of statistical hypotheses lead to general inferences (Harwell, 2011).

3.4 Population of the Study

According to Kombo and Tromp (2006) a population is a group of individuals, objects or items from which samples are taken for measurement. Cooper and Schindler (2008) define a population as the total collection of elements about which one wants to make inferences. Kothari (2014) points out that a population is the researcher's 'universe.' The study population for this study was the eleven banks listed on the Nairobi Securities Exchange at the time of the study.

3.5 Sampling Frame

A sampling frame is a complete list of all the cases in the population from which a sample will be drawn (Saunder *et al.*, 2003). Nachmias and Nachmias (2008) define a sampling frame as a list of all the items where a representative sample is drawn for the purpose of a study. The sampling frame of this study was the eleven banks listed on the Nairobi Securities Exchange at the time of this study. The sampling frame for the opinion survey was all financial analysts who are compliance officers in a total of the sixty one licensed investment banks, stock brokers, fund managers and investment advisers as at 30 April 2016.

3.6 Sampling Technique

Neuman (2006) observe that sampling involves examining a representative number of items out of the whole population which enables the gaining of an understanding about some features or attributes of the whole population, based on the characteristics of a sample. Given that the target population was eleven banks listed on the Nairobi Securities Exchange, a census approach to the study was appropriate. Mugenda and Mugenda (2003) note that when the population is too small, census is the most preferred method. Ten banks listed on the Nairobi Securities Exchange over the entire period from year 2010 to year 2015 were studied. I&M Holdings Ltd which was listed in June 2013, was excluded from this study on the basis that its shares were no traded over the entire period of the study. This resulted to three hundred non- financial disclosures; thirty disclosures for each bank.

3.7 Data Collection Instrument

There are two sources of data collection; that is, primary and secondary sources of data collection (Ajayi, 2017). Secondary data was mainly used in this study. Primary data was used to complement secondary data. The desk study method of data collection was used to collect secondary data from the Nairobi Securities Exchange records and annual reports of the banks. Data on share prices was obtained from the Nairobi Securities Exchange records comprising of corporate action register and handbook, and the daily market statistics. Data on non-financial disclosures was obtained from annual reports of the banks as released by individual

banks. The data collection tool comprised of a tabular checklist (See Appendix I). Primary data was collected through an opinion survey questionnaire. The questionnaire had two sections. The first section was used to collect preliminary information. The second section contained information on subject non-financial disclosures and their use by the respondents when making investment decisions. The questions used a five-point Likert-type. This is because the approach was seen to match well with the pattern of questions that were developed for this study (See Appendix III).

3.8 Data Collection Procedure

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables a researcher to address stated research objectives, test hypotheses, and evaluate outcomes (Zikmund, 2003). In line with Cooper and Schindler (2008), the choice of the procedure used for data collection was informed by the nature of data required, source of the data and the practicality of obtaining data from a given source, among other factors. This study collected both primary and secondary data.

3.8.1 Primary Data

Primary data was collected through an opinion survey questionnaire administered on the respondents who were financial analysts at licensed investment banks, stock brokers, fund managers and investment advisers as at 30 April 2016. The rationale for targeting this category of users of accounting information is that high-net-worth investors, who are the main traders at the NSE in terms of the volume of shares, often use the services of financial analysts to ensure that they make sound investment decisions. These users, keen to ensure that their big monies is put where best it should be, tend to look beyond the traditional financial disclosures in order to achieve the optimal investment strategy and therefore the need to use financial analysts.

Financial analysts therefore have the voice of investors and for this reason they were used as proxy for investors, to respond questions on the extent to which they use non-financial disclosures in annual reports of listed banks when making investment decisions in their shares. Abrahamson and Amir (1996) note that financial analysts are

skilled users and that they are among the key users of accounting information. It was also not practical to reach individual investors to obtain their response. One hundred and twenty two questionnaires were issued to financial analysts drawn from sixty one licensed investment banks, stock brokers, fund managers and investment advisers as at 30 April 2016.

In this study drop and pick method was used to administer the questionnaires. This method is convenient, cheap, easier and faster to use. It is also very convenient for the respondents because they can complete the questionnaire at their own timing (Ndirangu, 2015). The Saunder *et al.*, (2003) strategies were employed on gaining access and to collect data which point out that time should be allowed for requests to be received and meeting be arranged at a convenient time. The authors also point out that one is more successful where assurance is given about the use of any data provided.

3.8.2 Secondary Data

One firm was dealt with at a time. From the corporate action register, the dates when annual reports were released, for each year from 2010 to 2016, (for the period covered by the annual reports of years 2010 to 2015), were obtained. From the release date of a period's annual reports to the date of release of the subsequent period's annual reports, the weekly closing market price per share was obtained as recorded in the NSE market statistics data. The average market price per share for each period, calculated by dividing the aggregate weekly closing market price per share with actual the number weeks in each period, was then filled in the checklist.

Data on risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure was collected from sixty annual reports released by the ten banks listed at the NSE over the entire period from year 2010 to year 2015 using content analysis. Flöstrand and Ström (2006) observes that while traditional accounting reporting primarily consisting of financial statements information is quantitative in nature and it has been standardized in a way that the information is largely universal, an obvious feature of non-financial disclosures is that they are qualitative, in text form, and

they relate to future expectations and their related effects on creation of value. This makes non-financial disclosures not only hard to identify and standardize, but also to measure or quantify. This fact informed the use of content analysis to derive quantitative scales of varying measure of relevance for each disclosure.

Content Analysis Process and its Rationale

Content analysis is a systematic method of categorizing and analyzing the content of texts. In consideration of a range of scholarly studies dealing with the meaning and application of content analysis, Duriau *et al*. (2007) and Thomas *et al*. (2014) definition of content analysis as any methodological measurement applied to text (or other symbolic materials) for social science purpose was adopted as best suiting its application in this study. Traditionally, content analysis has been used in the analysis of archival data, where it has usually been limited to the manifest characteristics of text, for example, the frequency of occurrences of words, or the number of words relating to a specific subject or theme (Bengtsson, 2016). Content analysis has been widely applied in accounting research to reveal useful insights into the general mood of disclosures and to quantify the sentiment on various subjects. It is an established approach for gathering data from annual reports (Abeysekera & Guthrie, 2005; Alves, 2011; Steenkamp & Northcott, 2007; Thomas *et al*., 2014).

Hooks and Staden (2011), as quoted by Leitoniene and Sapkauskiene (2015), observe that content analysis application on qualitative data can be categorized into two main groups: (a) based on volume, that is, textual analysis (thematic content analysis, the study of clarity and linguistic analysis) and, (b) based on quality, that is, calculation of disclosure index (often presented as evaluation of quality of disclosure). Approaches based on volume do not take into account quality or meaning of the content of a disclosure, but they just focus on the quantity of information in a disclosure, for example, the number of pages, sentences or words, phrases, lines and so on .The limitation is that a disclosure can include content that are not of relevance to the subject matter (Chiu & Wang, 2015).

On the other hand, Approaches that are based on the quality aim at evaluating the

quality of information in a disclosure using a quality indicative index. Disclosure quality index can be defined as an instrument that is designed to measure a number of indicators, in which when the indicators are summed up to reveal the level of specific information disclosed. The quality indicative index is a practical and research-based tool and it is applied on the basis of guidelines or other indicators that are presented in the disclosure. The researcher need to first employ a coding system. Although this approach can be subjective, it is much more comprehensive and allows a better assessment of the object under investigation, because it takes into account more parameters (Hooks & Staden, 2011).

In this study, the content analysis approach focused on evaluating the quality of information in a disclosure and involved three broad stages: (a) determining the words contained in each of the sample disclosures and their frequency of occurrence (b) generation of relevant words which are related to each of the five non-financial disclosures studied, that is, relevant words relating to risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, chairman's statement and related parties disclosure using a dictionary-based tool (c) determining the aggregate frequency of occurrence of relevant words, which is a quantitative indicator of the quality and level of relevance of a disclosure.

Determining the Words Contained in Sample Disclosures and Their Frequency of Occurrence

A total of sixty electronic copies of annual reports (one copy each year, for six years, by ten banks) released by the ten banks covered in this study for the years 2010 to 2015 were downloaded from the websites of the respective banks. Content analysis specialized software tool Atlas.ti, version 8 was used to determine the frequency of occurrence of every word contained in all the sample disclosures. First, the electronic copies of annual reports were uploaded into ATLAS.ti. Second, the content of texts in each one of three hundred disclosures (five disclosures in each of sixty annual reports) was coded so as to necessitate the derivation of quantitative scales of varying levels of relevance of each disclosure. Coding of data in ATLAS.ti involves highlighting a given data section, in this case, a given disclosure, and giving it a code name, for example, for the chairman's statement in

any given bank for year 2015, the code name given was chairman's statement – 2015 (see figure 3.1 for Barclays bank year 2015 chairman's statement). For a total of three hundred disclosures, this resulted into three hundred data codes. Third, a list of all the words contained in every data code and their frequency of occurrence was generated in the form of an Ms excel output using the word crunching feature of the ATLAS.ti content analysis software.

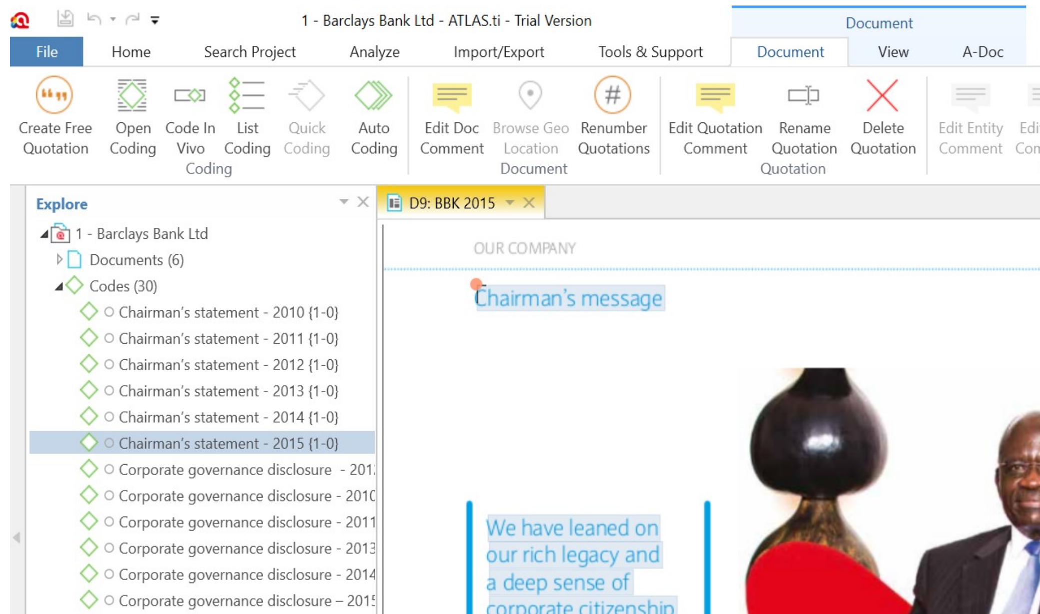

Figure 3.1: Barclays Bank Year 2015 Chairman's Statement ATLAS.ti Data Code

Generation of Relevant Words Related to the Sample Non-Financial Disclosures

In his work "Basis content analysis", Weber (1990) details the application of dictionaries in carrying out content analysis. Dictionaries are previously generated word lists to a certain topic that pre-define the words that will be counted in the content analysis (Vourvachis & Woodward, 2015). According to Zachary *et al*. (2011a) and Shaughnessy, Zechmeister, and Jeanne, (2011), the standard dictionaries, which are usually developed by psychological associations for diverse social science use, enables the content analysis process. Payne *et al*. (2011) observes that application of dictionaries for conducting content analysis is well-established in research. According to Short *et al*. (2010) most of content analysis studies use dictionary-based tools that may have standard dictionaries already implemented or at least allow their generation. Harvard dictionary was used in this study.

Harvard dictionary is a famous and frequently used standard dictionary, and it can be

used for examining tone and sentiment in corporate disclosure. It is a computer based program that can be used to find words that match a given set of constraints and that should be used in a given context. A wide variety of constraints on meaning, spelling, sound, and vocabulary can be specified in any combination permitting a list of words and phrases relating to a given concept to be generated (Marie-Claude & Cormier 2014). (See figure 3.2).

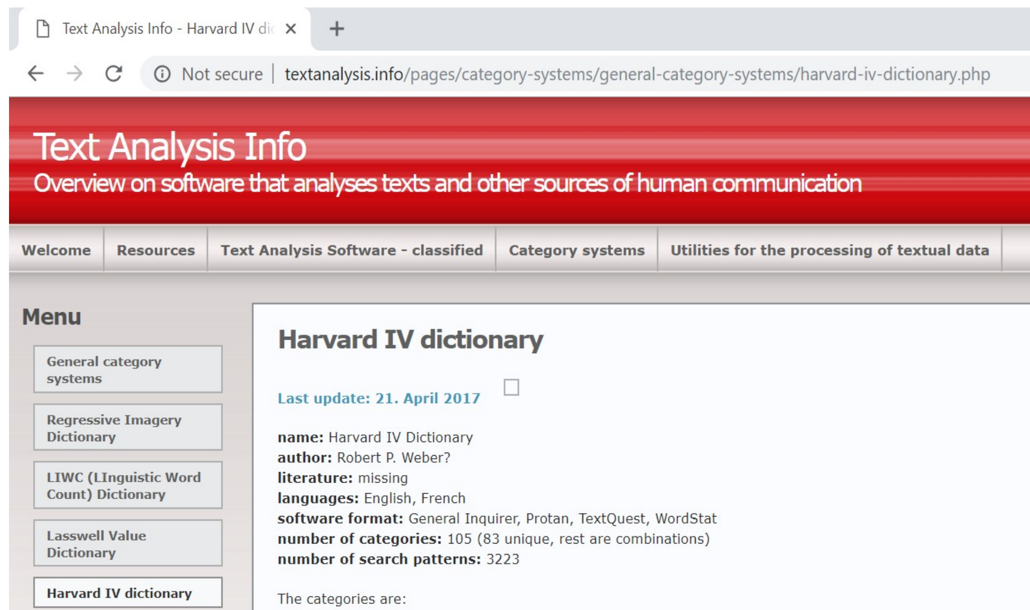

Figure 3.2: Harvard Dictionary Interface

The use of a dictionary, as noted by Bravo *et al*. (2017) is aimed at ensuring reliability and to overcome the general limitations of content analysis resulting from the researcher's subjective influence. The constraints used in generating words from the dictionary were based on Robb *et al.* (2001) work "Nonfinancial disclosures across Anglo-American countries", which in an analysis based on the 1994 Jenkins Committee report (commissioned by AICPA, 1994), developed a seventy points index of specific details that should be included in specific non-financial disclosures.

Determining the Aggregate Frequency of Relevant Words

Providing information on a specific topic entails the use of related words more often (see Elo & Kyngäs, 2007; Rolfe, 2006; Thomas *et al*., 2014). According to Pennebaker *et al*. (2003) the words used can transport information, despite of their

semantic context. The authors further contend that while verbal language is greatly influenced by non-verbal communication, information that is transmitted in written language is more primarily dependent on the actual word. Pennebaker *et al*. (2003), argues that in this method, the resulting structure of words, allows a researcher to evaluate different data sources based on their content. On this basis, observation of a distinct group of words in a disclosure can be taken as an indicator of the provision of specific information. Building on this perspective, and in line with prior research that has identified word frequency as a sign for cognitive centrality (see Abrahamson & Hambrick, 1997; Bailey, 2008; Bengtsson, 2016; Duriau *et al*., 2007) the aggregate frequency of occurrence of the relevant words (in this study, words used in the sample disclosures and they appear in the list of the dictionary generated relevant words for each sample disclosure) was then entered in the checklist as the qualitative indicator of the level of relevance for each disclosure.

The rationale is that words used in the sample disclosures and they do not appear in the list of the dictionary generated relevant words relating to each sample disclosure are irrelevant in the transmission or disclosing of intended information. This is in line with Silverman, (2001) and Thomas *et al.* (2014). To obtain the aggregate frequency of relevant words for each disclosure, Ms Excel 2007 was used to validate the ATLAS.ti output (that is, the actual words used in each disclosure) against the dictionary output (that is, the pre-defined relevant words for each disclosure). Validation involved picking out the irrelevant words (that is, words that do not appear in the list of dictionary generated relevant words relating to each sample disclosure) that are used in the actual disclosures as per the ATLAS.ti output and excluding them in determining the aggregate frequency of relevant words.

3.9 Pilot Testing

Testing was carried out to check the ability of the research instrument used in the opinion survey to measure the variables it was intended to measure. Both face validity and content validity was done. Face validity involves an analysis of whether the instrument appears to be on a valid scale and contains the important items to be measured. This was achieved by having the questionnaire given to the supervisors and experts in the field to review the content and appropriateness of the

questions in relation to the stated objectives of the study.

Content validity on the other hand was be done by pilot testing the instrument. Cooper and Schindler (2011) point out that pilot test is the beginning phase in data gathering of the research process. Pilot test is conducted to detect weakness in design and instrumentation and to provide more/alternative data for selection of a probability sample. Split-half technique was used to assess the reliability of the instruments. This involved administering the questionnaire to the pilot group of respondents and then dividing the scored instrument into two halves. In this study, questions bearing even numbers were grouped into one instrument and those bearing odd numbers into the other. This method has a key advantage of eliminating chance errors (Mugenda & Mugenda, 2003).

Cronbach's Coefficient Alpha was then computed to establish the correlation among items. Cronbach's Alpha is a general form of the Kunder-Richardson (K-R) 20 formulas used to assess internal consistency of an instrument based on split-half reliabilities of data from all possible halves of the instrument. Cronbach's Alpha is usually interpreted as the mean of all possible split-half coefficients. It reduces time required to compute a reliability coefficient relative to other methods (Keith, 2017).

3.10 Data Processing and Analysis

Hair (2008) describe data analysis as a process of inspecting, cleaning, transforming, and modeling data with the objective of finding out useful information, suggesting conclusions, and supporting decision-making. Before the actual analysis was done, data organization was done. Data was keyed in to an excel spreadsheet and was then copied to the Stata Software for organization. Data organization is orderliness in research data. It is about putting data in a systematic form.

The organization involved editing (correcting errors in data), coding the data and sorting it in an appropriate form. Somekha and Lewin (2005), points out that editing involve checking and adjusting any errors or omissions on questionnaires. This is meant to ensure completeness, interpretation of ambiguous answers, consistence

and elimination of unusable data (Mugenda & Mugenda, 2003). Data organization was followed by data analysis. Computer packages, SPSS version 20 and Stata 13 Software were used.

3.11 Model Specification

In this study panel model was used because the data comprise both time series and cross-sectional elements. The panel estimator technique employed was Random Effects Model (REM) otherwise called the Error Component Model (ECM).

The model is given as:

$y_{it} = \beta_0 + \beta_1 x_{1it} + \ldots\ldots\ldots + \beta_k X_{kit} + \alpha_i + u_{it}$

Where α_i is uncorrelated with each explanatory variable in all time period and can be expressed as:

$Cov(x_{jit}, \alpha_i) = o \qquad t=1,2\ldots\ldots\ldots,T;\ j=1,2\ldots\ldots\ldots,k$

The panel data model defining the joint effect of non-financial disclosures (that is, risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure) is given as follows:

$y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + ɯ_t$

Where:

$ɯ_t = \mu_\iota + \xi_{\iota t}$

$\mu_\iota =$ Unobserved random effect error that varies across firms but not over time $\mu\iota \sim N(0, \sigma\mu^2)$

$\xi_{\iota t} =$ Individual error term, i=1.......N, t = 1.........T. $\xi\iota t \sim N(0, \sigma\xi^2)$

y = average market price per share, being a proxy of market value of equity

$X_1, X_2, X_3, X_4, X_5 =$ risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure respectively.

$\beta_0 =$ Model intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5 =$ beta coefficient for risk disclosure, corporate social responsibility disclosure, corporate governance disclosure,

the chairman's statement and related parties disclosure respectively.

3.12 Model Tests

Tests of multicolinearity, stationarity, autocorrelation, homoscedastic and normality were carried out. Multicolinearity occurs in the data when two or more independent variables are highly correlated. The regression model was tested on how well it fits the data. The significance of each independent variable was tested. The variance inflation factor (VIF) was used. Statistical t - test was used to test the significance of the overall model at a 95 percent confidence level. The conclusion was based on p-value. If the p-value was found to be less than 0.05, then it was concluded that the model is significant and has good predictors of the dependent variable and that the results are not based on chance.

This study used data that had cross sectional and time series dimensions which necessitated the need to carry out a stationarity test to determine whether or not the panel data was stationary. This procedure was essentially carried out to avoid a situation where the obtained regression results were spurious; hence jeopardizing testing of hypothesis concerning the significance or otherwise of the explanatory variables. This study used Augmented Dickey-Fuller (ADF) test for panel unit root because the technique incorporates the gaps and factors in the aspect of unbalanced panels and it conducts Dicker-Fuller test for every panel (Cheng, 2007; Smith, 2017). The null hypothesis adopted in the test was that all the panels had unit roots.

A Hausman Model specification test was carried out in order to select appropriate model to be used between Random Effects Model and Fixed Effects Model. This was done to ensure that the statistical model used corresponds to the data (Greene, 2012). Correlation between the variables was tested. Pearson correlation coefficient is a measure of linear association between two variables (Kothari, 2014). Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear; whereas a correlation of coefficient of -1 indicates that the two variables are perfectly related in a negative linear sense. On the other hand, a correlation coefficient of 0 indicates that there is no linear relationship between the two variables (Kothari, 2014).

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

The main objective of this study was to investigate the value relevance of non-financial disclosures in annual reports, with a focus on listed banks in Kenya. To do so the following specific objectives were set: To establish the value relevance of risk disclosure in the annual reports of listed banks in Kenya, to examine the value relevance of corporate social responsibility disclosure in the annual reports of listed banks in Kenya, to analyse the value relevance of corporate governance disclosure in the annual reports of listed banks in Kenya, to determine the value relevance of chairman's statement in the annual reports of listed banks in Kenya and to evaluate value relevance of related parties disclosure in the annual reports of listed banks in Kenya. This chapter contains results presentation and discussion. The chapter is structured starting from descriptive results, correlation results and finally regression results. In addition, the chapter contains discussions of the findings where the findings of this study were compared and contrasted with the findings of previous literature and theoretical arguments.

4.2 Opinion Survey Results

This study carried out an opinion survey to complement the results from the secondary data. Before carrying out the opinion survey, testing was done to check the ability of the research instrument to measure the variables it was intended to measure. Both face validity and content validity was done. Face validity involved an analysis of whether the instrument appeared to be on a valid scale and contained the important items to be measured. Content validity on the other hand was be done by pilot testing the instrument.

4.2.1 Reliability Test Results

According to McMillan and Schumacher (2010) reliability is termed as the repeatability, stability or internal consistency of a questionnaire. Reliability is an indication of the stability and consistency with which the instrument measures a concept and helps to assess the goodness of a measure (Cooper & Schindler, 2011). In

this study, Cronbach's Alpha, which is a reliability coefficient, was applied to indicate how well the items in the set were correlated with each other. Sekara (2008) points out that the closer a Cronbach's Alpha is to 1 the higher the reliability.

According to Zinbarg (2005) Cronbach's Alpha is a coefficient of reliability that gives an unbiased estimate of data generalizability. An alpha coefficient of 0.70 or higher indicated that the gathered data is reliable as it has a relatively high internal consistency and can be generalized to reflect opinions of all respondents in the target population (Zinbarg, 2005). Serakan (2003) points out that in general 0.70 value is recommended as the minimum acceptable value for Cronbach's Alpha reliability. The Cronbach's alpha was used in this study to measure the internal consistency of the variables.

The study consisted of five independent variables and one dependent variable. The independent variables consisted of risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure. The summary of reliability test results are shown in table 4.1

Table 4.1: Summary of Reliability Test Results

Variables	Cronbach's Alpha	Number of Items	Comment
Risk Disclosure	0.700	5	Accepted
Corporate Social Responsibility Disclosure	0.701	5	Accepted
Corporate Governance Disclosure	0.875	5	Accepted
Chairman's Statement	0.841	5	Accepted
Related Parties Disclosure	0.889	5	Accepted

The findings in Table 4.1 showed that the scales were reliable as they surpassed the minimum Cronbach's alpha value threshold of 0.7 that is recommended by Serakan (2003). The construct of risk disclosure had a Cronbach's alpha value of 0.700; corporate social responsibility disclosure had a Cronbach's alpha value of 0.701; corporate governance disclosure had a Cronbach's alpha value of 0.875; and, chairman's statement had a Cronbach's alpha value of 0.841, related parties disclosure had a Cronbach's alpha value of 0.889. Accordingly, none of the items in the

questionnaire were deleted after the pilot study. The questionnaire was adequate to be used in the final survey.

4.2.2 Response Rate

A total number of one hundred and twenty two questionnaires were administered to the compliance officers drawn from the sixty one licensed investment banks, stock brokers, fund managers and investment advisers out of which one hundred and two questionnaires were dully returned. This represented a response rate of 83.6%. According to Floyd and Fowler (2014) response rate refers to the extent to which the final data set includes all sample members and is calculated as the number of people with whom interviews are completed divided by the total number of people in the entire sample, including those who refused to participate and those who were unavailable. Babbie (2002) observe that return rates of 50% are acceptable to analyse and publish, 60% is good and 70% is very good. The achieved response rate in this study was very good. The response rate of 83.6% can be attributed to the application of the Saunder *et al*. (2003) strategies on gaining access and collecting data which point out that time should be allowed for requests to be received and meetings be arranged at a convenient time. Assurance was also given about the use of any data provided. The response rate is represented in Table 4.2.

Table 4.2: Response Rate

Questionnaires	Frequency	Percentage
Filled in Questionnaires	102	83.6
Unfilled Questionnaires	20	16.4
Total	**122**	**100.0**

4.3 Descriptive Analysis of Primary Data

4.3.1 Usage of Non-financial Disclosures in Annual Reports

This study sought to establish if the respondents used non-financial disclosures in annual reports of listed banks when making investment decisions on shares of listed banks. The rationale is that if financial analysts, who are at the centre of investment decisions by high net worth investors, the main movers of shares at NSE, use non-

financial disclosures, then non-financial disclosures affect the value of shares and therefore they are value relevant. The choices provided to them were; never, occasionally and always. The findings are presented in figure 4.1

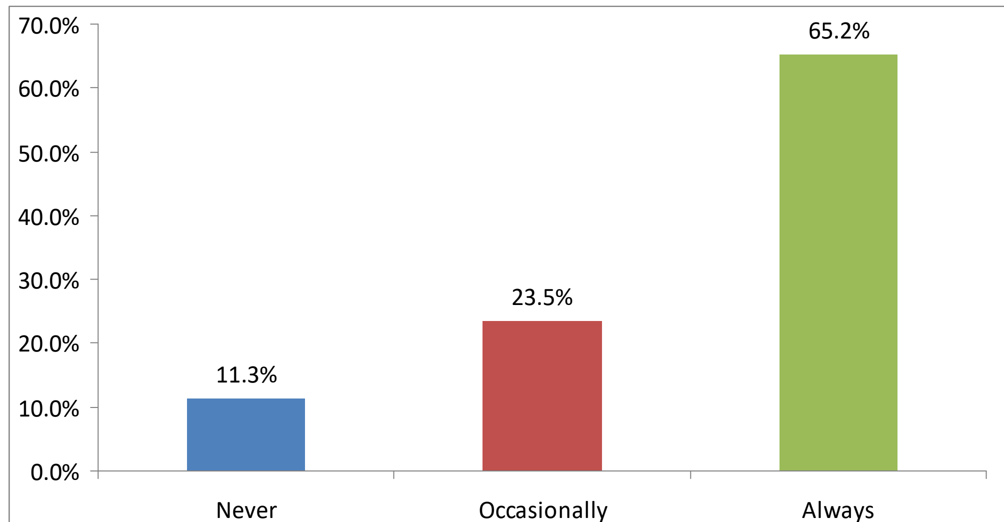

Figure 4.1 Usage of Non-Financial Disclosures in Annual Reports

The results of this study showed that 65.2% of the respondents indicated that they always used non-financial disclosures in the annual reports of listed banks in Kenya when making investment decisions. These finding agree with Belinda and David (2008) who contend that non-financial disclosures forms or should form a progressively vital part of annual reports for decision making. It also confirms the views of the proponents of <IR> who according to Topazio (2013) hold that, increasingly, businesses are expected to report not just on financial figures but also on the impact of their operations on the wider economy, society and the environment by inclusion of non-financial disclosures in their reporting. These findings also agree with the conclusion of many researchers on non-financial disclosures who according to Royal and O'Donnell (2008) over time have observed that non-financial information is deemed to enhance the disclosure on intangible. Only 23.5% and 11.3% of the respondents indicated that they occasionally and never, respectively, used non-financial disclosures in the annual reports of listed banks respectively. This relegation of non-financial disclosures by some analysts reflects the argument by Cascino *et al.* (2013) who observe that the advancement regarding integrated reporting is an ongoing process and that much of this is unregulated and therefore preparers are free to express

themselves.

4.3.2 Risk Disclosure

The study sought to establish the value relevance of risk disclosure in the annual reports of listed banks in Kenya. As a complement to the analysis of secondary data, the study sought to find out the extent to which respondents use the disclosure when making investment decision on the shares of listed banks. Respondents were required to indicate their use of each of the five elements of risk disclosure as itemized in the conceptual framework. The choices provided to them were; always, almost always, neutral, occasionally and never. The descriptive results on risk disclosure are presented in table 4.3.

Table 4.3: Descriptive Results on Risk Disclosure

	Never	Occasionally	Neutral	Almost always	Always	Mean	Std Dev
Threat arising from weaknesses in the ICT environment	3.9%	6.9%	32.4%	29.4%	27.5%	3.70	1.07
Potential loss due to sudden shifts in economic factors	3.9%	7.8%	31.4%	32.4%	24.5%	3.66	1.06
Potential loss from failure to adhere to new or existing rules	5.9%	3.9%	34.3%	25.5%	30.4%	3.71	1.12
The potential losses from failure of an obligor to repay principal	5.9%	3.9%	42.2%	30.4%	17.6%	3.50	1.02
The potential losses from inadequate/ failed internal processes	6.9%	2.9%	32.4%	27.5%	30.4%	3.72	1.14

The study sought to find out if respondents used disclosure by listed banks on the threat arising from weaknesses in their ICT environment when making decisions on banks' shares investment. The finding presented in table 4.3 showed that 29.4% of the respondents almost always used it, 27.5% of the respondents always used this information, while a combined 10.8% of the respondents either used it occasionally or never used it. Those who were neutral were 32.4%. The results further showed that the response had a mean of 3.70 and a standard deviation of 1.07. These are indications

that most of the respondents used the information. On the use of information on the potential loss due to sudden shifts in economic factors included by listed banks in their risk disclosure, the finding also revealed that majority of the respondents, as indicated by the mean of 3.66 used this information. This included a 32.4% and a 24.5% for almost always and always respectively. The standard deviation of 1.06 revealed that the response varied greatly across respondents.

On the use of information on potential loss from failure to adhere to new or existing rules included by listed banks in their risk disclosure when making investment decisions on banks' shares, 30.4% of the respondents always used the information. 25.5% almost always used it, 34.3% were neutral, 5.9% never used it while the remaining percentage of 3.9% used it occasionally. The findings also showed that on the use of information on potential losses from failure of an obligor to repay principal included by listed banks in their risk disclosure in banks' shares investment decisions, (42.2%) of the respondents were neutral with close to half indicating that they used this information (30.4% almost always, 17.6% always). On the use of information of the potential losses from inadequate/ failed internal processes included by listed banks in their risk disclosure in banks' shares investment decisions the results showed that most of the respondents used the information as indicated by a mean of 3.72.

The findings presented in table 4.3 majorly show that risk disclosure by listed banks in their annual reports is useful for decisions on investment in their shares. This use by financial analysts has definitely occasioned the growth in risk disclosure studies which is evidenced by the number of academic articles on risk disclosure that have emerged. Some of these studies provide an analysis of a comprehensive corporate risk disclosure and focus on developing a framework for risk disclosure (for example, Solomon, Solomon, Norton & Joseph, 2000). In a study on value at risk disclosure, Bali and Cakici (2004) also concluded that value at risk disclosure has additional explanatory powers to explain the cross-sectional variation in expected returns after stock size, book-to-market ratio, liquidity, market beta and total volatility are accounted for.

4.3.3 Corporate Social Responsibility Disclosure

This study sought to establish the value relevance of corporate social responsibility disclosure in the annual reports of listed banks in Kenya. As a complement to the

analysis of secondary data, five elements of social responsibility disclosure, as itemised in the conceptual framework were presented to the respondents. Respondents were required to gauge their use of each of the five elements, given the choices; always, almost always, neutral, occasionally and never. The descriptive results on corporate social responsibility disclosure are presented in table 4.4.

Table 4.4: Descriptive Results on Corporate Social Responsibility Disclosure

	Never	Occasionally	Neutral	Almost always	Always	Mean	Std Dev
Contribution to economic development	5.9%	3.9%	39.2%	20.6%	30.4%	3.66	1.13
Relative bargaining power of resource providers	4.9%	1.0%	38.2%	28.4%	27.5%	3.73	1.04
Number of employees and employee incentives	2.9%	5.9%	26.5%	37.3%	27.5%	3.80	1.01
Employee involvement and fulfilment	2.0%	7.8%	43.1%	26.5%	20.6%	3.56	0.97
Relative bargaining power of customers	5.9%	3.9%	23.5%	34.3%	32.4%	3.83	1.11

On the use of the information on the contribution to economic development included by listed banks in their corporate social responsibility disclosure when deciding on investment in their shares, the finding revealed that 30.4% of the respondents always used it, 20.6% almost always used it while 39.2% were neutral. Those who used it occasionally were 3.9% while 5.9% never used it. The findings also showed that respectively, 28.4% and 27.5% of the respondents almost always used and always used the information on relative bargaining power of resource providers included by listed banks in their corporate social responsibility disclosure when making decisions on investment in their shares. 37.3% and 27.5% almost always used and always used, in making decisions on investment in the shares of listed banks, the information on the number of employees and employee incentives disclosed in their annual reports.

The study also sought to establish the use by respondents of information on employee involvement and fulfilment included by listed banks in their annual reports when making decisions on investment in their shares. The results presented in table 4.4 showed that 43.1% of the respondents were neutral, 26.5% almost always used this

information, while 20.6% always used this information. On the use of information on the relative bargaining power of customers included by listed banks in their annual reports in making decisions on investment in their shares, 34.3% almost always and 32.4% always used this information. (5.9%) never used this disclosure while 3.9% used it occasionally.

These findings generally implied that corporate social responsibility disclosure in the annual reports of listed banks in Kenya informed the decisions on investments in their shares. As Kaspereit and Lopatta (2011) note, CSR disclosure or reporting has increasingly become an important aspect. The responses by the financial analysts confirm the inclusion of the disclosure in the fundamental analysis in buying, selling or holding a stock. The findings are in line with a study by Richardson *et al.* (2001) on the relationship between social responsibility disclosure and the cost of equity capital which concluded that there is a positive relationship between social responsibility disclosure and cost of equity capital. The findings are also in agreement with Cho, Lee and Pfeiffer (2013) who established that corporate social responsibility reporting is inversely related to information asymmetry. They further observed that the relationship can however only be found in firms that have less institutional investors, implying that informed investors act upon information relating to corporate social responsibility. It is notable that this is because the high-net-worth institutional investors are more likely to employ the services of financial analysts in their investment decisions.

4.3.4 Corporate Governance Disclosure

This study also sought to determine the value relevance of corporate governance disclosure in the annual reports for listed banks in Kenya. As a complement to the analysis of secondary data, five elements of corporate governance disclosure, as itemised in the conceptual framework were presented to the respondents. Respondents were required to indicate their use of each of the five elements, given the choices; always, almost always, neutral, occasionally and never. This section contains the descriptive results on corporate governance disclosure which are shown in table 4.5.

Table 4.5: Descriptive Results on Corporate Governance Disclosure

	Never	Occasionally	Neutral	Almost always	Always	Mean	Std Dev
Identity and background of directors and management	3.9%	8.8%	33.3%	27.5%	26.5%	3.64	1.09
Management activities – meetings and attendances	4.9%	3.9%	27.5%	33.3%	30.4%	3.80	1.07
Major segments by which management operates the firm	5.9%	4.9%	28.4%	26.5%	34.3%	3.78	1.15
Major segments by which management operates the firm	7.8%	6.9%	23.5%	26.5%	35.3%	3.75	1.23
Division of responsibilities between the chairman and the chief executive officer	2.0%	6.9%	22.5%	30.4%	38.2%	3.96	1.03

The results presented in Table 4.5 showed that 54% (27.5% and 26.5%) of the respondents almost always and always respectively used the information on the identity and background of directors and management in the corporate governance disclosure captured by listed banks in their annual reports when making decisions on investment in their shares. Out of the remaining percentage 33.3% were neutral with slightly more than 10% either occasionally using the information or not using it at all. On the information on management activities - meetings and attendances, respectively, 33.3% and 30.4% of the respondents indicated that they almost always and always used the information. The mean response was 3.80 which confirmed that most of the respondents used the information in making decisions on investment in shares of listed banks in Kenya.

The study further sought to find out respondents use of information on the major segments by which management operates as disclosed by listed banks in Kenya when making decisions to invest in their shares. The finding revealed that 34.3% always and 26.5% almost always used this information. A total of 10.8% of the respondents either used the information occasionally or never used it at all. The mean response was 3.78 and the standard deviation was 1.15 which confirmed that most of the respondent used this information. The results further revealed that a majority of the respondents as indicated by the mean of 3.96, (30.4% almost always and 38.2% always) used

information on the division of responsibilities between the chairman and the chief executive officer when making decisions on investments in the shares of listed banks in Kenya.

These finding are in agreement with Bushman and Smith (2003) who concluded that corporate governance disclosure is one of the useful tools in assessing the credibility of financial information, as well as in accurately setting expectation and reducing uncertainty concerning the firm's performance. According to Bushman, Piotroski and Smith (2004) corporate governance disclosure reveals on whom the responsible for governing the firm rest, the compensation structure and how and where they invest financial resources. The observed results agree with the suggestion by Healy and Palepu (2001) that among pros of corporate governance disclosure are gained legitimacy, reduced information asymmetry and reduced capital cost. The results further confirms the claim by the signalling theory that information asymmetry could be reduced by sending signals to interested parties and that through signals of firms' information to the stock market, there may be absence of asymmetric information in the market which may help investors to evaluate the financial conditions, operating conditions and future prospects of a firm when making shares investment decisions.

4.3.5 Chairman's Statement

The fourth objective of the study was to determine the value relevance of the chairman's statement in the annual reports of listed banks in Kenya. To complement the analysis of secondary data, five elements of chairman's statement, as itemised in the conceptual framework were presented to the respondents. Respondents were required to indicate their use of each of the five elements, given the choices; always, almost always, neutral, occasionally and never. The descriptive results on the chairman statement are presented in table 4.6.

Table 4.6: Descriptive Results of Chairman's Statement Disclosure

	Never	Occasionally	Neutral	Almost always	Always	Mean	Std Dev
Impact of current year performance on shareholder value	4.9%	7.8%	30.4%	20.6%	36.3%	3.75	1.17
Changes to the board and senior executives	5.9%	5.9%	33.3%	26.5%	28.4%	3.66	1.13
Significant developments in the governance arena	3.9%	4.9%	30.4%	27.5%	33.3%	3.81	1.08
Overall firm strategy	3.9%	2.0%	40.2%	29.4%	24.5%	3.69	0.99
Changes in financial position and why	8.8%	2.0%	26.5%	34.3%	28.4%	3.72	1.16

The study sought to find out if the respondents' used the information on the impact of current year performance on shareholder value included in the chairman's statement by listed banks in Kenya when making decisions on investment in their shares. The mean response was 3.75 meaning that most the respondents used the information (20% almost always and 36.3% always). Of the respondents, 30.4% indicated they were neutral while a total of 12.7% either occasionally used the information or did not use it at all.

The study also sought to find out from the respondents if they used the disclosure on changes to the board and senior executives included in the chairman statement, in the annual reports of listed banks when making investment decisions. The findings revealed that 28.4% and 26.5% of the respondents always and almost always used the information. Further, on the disclosure of significant developments in the governance arena in the annual reports of the listed banks a majority of the respondents indicated that they always or almost always used it in investment decision as revealed by the mean of 3.81.

In addition, the study sought to find out if the respondents used the information on the overall firm strategy in the chairman's statement included in the annual reports of listed banks when making decisions on investments in banks shares. 24.5% always used it while 29.4% almost always used it. 40.2% were neutral while at total of 5.9% either never used this information or used it occasionally. Further, on the disclosure of the overall firm strategy and changes in financial position and why, the results showed

a mean response of 3.69 and a standard deviation of 0.99. These findings implied that most of the respondents used this information (28.4% always and 34.3% almost always) in making decisions on investment in the shares of banks.

In General, the findings presented in Table 4.6 implied that the chairman statement in the annual reports of listed banks in Kenya is an importance disclosure and the information therein is of value to investors when making investment decisions. This information includes yearly performance, board and senior executives, significant developments in the governance arena, overall firm strategy and changes in financial position. These findings agree with Aerts (2005) who in a study “Picking Up the Pieces: Impression Management in the Retrospective Attributional Framing of Accounting Outcomes” concluded that the Chairman’s statement and director’s report are the most commonly read information section of annual report by private shareholder, more than the statement of financial position.

The findings are also in line with Clatworthy and Jones (2006) who looked at differential patterns of textual characteristics and company performance in the chairman’s statement and concluded that the chairman’s statement is the most read accounting narrative in the UK. The results also confirms the observation by Smith and Taffler (2000) that chairman's statement is an important content of the annual report whose content influences decision making and that the statement contains information that is both useful for predicting future firm’s performance and for equity valuation. Further, the results agree with a statement by Stanton, Stanton and Pires (2004) that available empirical research in the US has established that both the inclusion and the content of president’s letters significantly affect the judgements on share prices in equity investment decisions.

4.3.6 Related Parties Disclosure

This study also sought to evaluate the value relevance of related parties disclosure in the annual reports for listed banks in Kenya. To complement the analysis of secondary data, five elements of the related parties disclosure as itemised in the conceptual framework were presented to the respondents. Respondents were required to indicate their use of each of the five elements, given the choices; always, almost always,

neutral, occasionally and never. Table 4.7 contains the descriptive results on related parties disclosure.

Table 4.7: Descriptive Results on Related Parties Disclosure

	Never	Occasionally	Neutral	Almost always	Always	Mean	Std Dev
Related party identity and description of relationship	2.0%	6.9%	31.4%	37.3%	22.5%	3.72	0.96
Scope and description of the business and related properties	2.0%	7.8%	35.3%	25.5%	29.4%	3.73	1.04
Major contractual relationships	3.9%	3.9%	32.4%	25.5%	34.3%	3.82	1.08
Types and amounts of director/management compensation	2.9%	4.9%	27.5%	37.3%	27.5%	3.81	0.99
Related party transactions and their nature	2.9%	3.9%	40.2%	28.4%	24.5%	3.68	0.99

The results showed that respectively, 37.3% and 22.5% of the respondents almost always and always used the disclosure on related party identity and description of relationship in investment decision for shares of listed banks in Kenya. The mean response was 3.72 and the standard deviation was 0.96 which confirmed that majority of the respondents used this information. Additionally, study found out that 54.9% of the respondents (25.5% almost always and 29.4% always) used the disclosure on the scope and description of the business and related properties when making decisions on investment in shares of listed banks in Kenya. The mean response was 3.73 and the standard deviation was 1.04 which confirmed that responses were skewed towards using this information in decision making.

On the information on major contractual relationships with related parties included by banks in their risk disclosure, the finding revealed that 53.8% of the respondents used it in making decisions on investment in their shares (25.5% almost always and 34.3% always). Of the respondents, 32.4% were neutral while 7.8% either used it occasionally or never used it.

Further, on the information on the types and amounts of director/ management

compensation captured by banks in their risk disclosure the finding showed that most of the respondents used this information in decision on investment in the shares of listed banks (a total of 54.8%). In addition the study sought to establish the respondents' used of the disclosure on related party transactions and their nature in the annual reports of listed banks when making investment decisions in their shares. The finding revealed that 24.5% always used it while 28.4% almost always used it. 40.2% were neutral while a total of 6.8% either did not use it or used it occasionally.

The findings show that the related parties disclosure is useful to investors when they are making investment decisions on shares of listed banks in Kenya. This is in agreement with the findings of a study by Arshad, Darus and Othman (2009) who used the annual reports of 144 Malaysian listed companies and concluded that there is a positive relationship between the extent of related party disclosure and firms' valuation. Kohlbeck and Mayhew (2010) arrived at that same conclusion in a study on the valuation implication of the US corporate related party disclosures in which the related party transaction disclosures in the 2001 year annual reports of 1,194 firms were looked at. The study concluded that firms which disclose related party transactions are associated with lower stock returns and negative market values (as measured by Tobin's Q) relative to firms which do not disclose any related parties transactions which basically means a relationship exists. Chen, Chen and Chen (2009) also asserted the importance of related party disclosure when they observed a relationship between related party sales, loan, guarantee, and lease, and firms' performance. They conclude that this may suggest that these transactions affect firms' market performance negatively or positively depending on whether the listed firm is the controlling or controlled party.

4.4 Descriptive Analysis of Secondary Data

This section contains the descriptive statistics of secondary data for all the variables included in this study. Kothari (2014) observes that descriptive statistics is concerned with the development of some vital statistical measures or indices that give a summarized view of research data such as measures of central tendency or statistical averages, measures of dispersion, measures of asymmetry (skewness), measures of relationship and other measures from the raw data. Table 4.8 presents the summaries of

the descriptive statistics of all the variables used in this study. This includes risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, chairman's statement, related parties disclosure and average market price per share.

Table 4.8 Descriptive Statistics of the Study Variables

		2010	2011	2012	2013	2014	2015
Risk disclosure	Mean	127.30	114.50	120.60	114.90	117.90	183.50
	Std. Deviation	60.20	52.21	54.21	47.75	37.61	59.92
	Minimum	27.00	47.00	59.00	58.00	63.00	80.00
	Maximum	245.00	227.00	224.00	202.00	184.00	282.00
Corporate social responsibility disclosure	Mean	55.60	56.70	74.00	67.00	67.70	110.30
	Std. Deviation	10.36	4.71	18.85	19.41	19.60	14.54
	Minimum	17.00	35.00	25.00	24.00	13.00	40.00
	Maximum	139.00	77.00	234.00	233.00	233.00	168.00
Corporate governance disclosure	Mean	111.20	116.90	119.60	116.60	119.10	233.10
	Std. Deviation	17.34	15.56	19.41	13.24	17.93	29.98
	Minimum	21.00	36.00	16.00	49.00	46.00	88.00
	Maximum	193.00	187.00	208.00	173.00	214.00	380.00
Chairman's statement	Mean	54.40	59.80	54.40	68.30	67.20	61.60
	Std. Deviation	6.35	4.70	3.50	18.84	19.08	4.66
	Minimum	18.00	38.00	33.00	32.00	25.00	41.00
	Maximum	82.00	78.00	72.00	234.00	234.00	86.00
Related parties disclosure	Mean	44.70	39.60	46.10	70.40	64.40	49.50
	Std. Deviation	3.60	4.28	4.44	20.29	18.98	4.83
	Minimum	28.00	16.00	28.00	29.00	33.00	26.00
	Maximum	69.00	65.00	77.00	243.00	234.00	70.00
Average MPS	Mean	52.89	51.20	77.08	96.51	77.72	57.68
	Std. Deviation	18.97	20.20	28.94	33.51	26.76	21.02
	Minimum	14.81	12.48	16.87	16.80	14.07	7.89
	Maximum	204.58	213.83	298.45	326.85	251.48	198.88

The results for 2010 showed that risk disclosure index had a mean of 127.30, while corporate social responsibility disclosure index had a mean of 55.60; corporate governance disclosure had a mean index of 111.20, the chairman's statement had a mean index of 54.40, related parties disclosure had a mean index of 44.70 while the average MPS had a mean index of 52.89. The results for 2011 showed that risk disclosure index had a mean of 114.50, while corporate social responsibility disclosure had a mean index of 56.70; corporate governance disclosure had a mean index of 116.90, the chairman's statement had a mean index of 59.80, related parties disclosure had a mean index of 39.60 while the average MPS had a mean index of 51.20.

The results for 2012 showed that risk disclosure index had a mean of 120.60, while corporate social responsibility disclosure had a mean of 74.00; corporate governance disclosure had a mean index of 119.60, the chairman's statement had a mean index of 54.40, related parties disclosure had a mean index of 46.10 while the average MPS had a mean index of 77.08. The results for 2013 showed that risk disclosure index had a mean of 114.90, while corporate social responsibility disclosure had a mean of 67.00; corporate governance disclosure had a mean index of 116.60, the chairman's statement had a mean index of 68.30, related parties disclosure had a mean index of 70.40 while the average MPS had a mean index of 96.51.

The results for 2014 showed that risk disclosure index had a mean of 117.90, while corporate social responsibility disclosure had a mean index of 67.70; corporate governance disclosure had a mean index of 119.10, the chairman's statement had a mean index of 67.20, related parties disclosure had a mean index of 64.40 while the average MPS had a mean index of 77.72. The results for 2015 showed that risk disclosure index had a mean of 183.50, while corporate social responsibility disclosure had a mean index of 110.30; corporate governance disclosure had a mean index of 233.10, the chairman's statement had a mean index of 61.60, related parties disclosure had a mean index of 49.50 while the average MPS had a mean index of 57.68.

In general, the mean for all the five disclosures is seen to assume an upward trend. This means that the quality of the disclosures generally improved over the study period. As noted by Topazio (2013) there has been a growing importance of financial markets in recent decades which has led to a continuous increase in the demand by the investment community for more comprehensive and timely information to be reported by companies which, according to Stewart (2015) have forced organizations to react to stakeholders' demands and the significance of inclusion of non-financial disclosure have increased cumulatively. The findings reflect the results of a study by Ocean (2015) which concluded that narrative accounting represented 84% of total value market value which represented a growth of 52% from 1985. The observed trend further affirms the claim by the agency theory that information disclosure is motivated by the wish of the managers to efficiently "treat" the potential conflicts between themselves and other stakeholders.

The results also revealed a significant variation in the quality of disclosures from year to year and from company to company over the period under study. Risk disclosure had a minimum of 27 and a maximum of 282, corporate social responsibility disclosure had a minimum of 13 and a maximum of 234, corporate governance disclosure had a minimum of 16 and a maximum of 380, the chairman's statement had a minimum of 18 and a maximum of 234 while related parties disclosure had a minimum of 16 and a maximum of 243. This reflects the observation by Cascino *et al.* (2013) that the advancement regarding integrated reporting is an ongoing process and that much of this is unregulated and therefore preparers are free to express themselves. This invites impression management occasioning the potential for readers to be treated to particular interpretations and ways of thinking. The agency theory is founded on the idea of maximization of individual advantage, it thus pre-supposes that the principal and agent are opportunistic and steadily seek out their own self-interest and preferences.

4.5 Trends of Non-Financial Disclosures and Market Price per Share

Quantitative values to measure each of the five non-financial disclosures included in the annual reports of the ten banks listed on the NSE over the entire period under study were derived using content analysis program ATLAS.ti 8, Harvard dictionary version 2.0 and Ms Excel 2007 as described in chapter three. From the data obtained, a trend for each disclosure was plotted to find out how the non-financial disclosures has been changing over the study period.

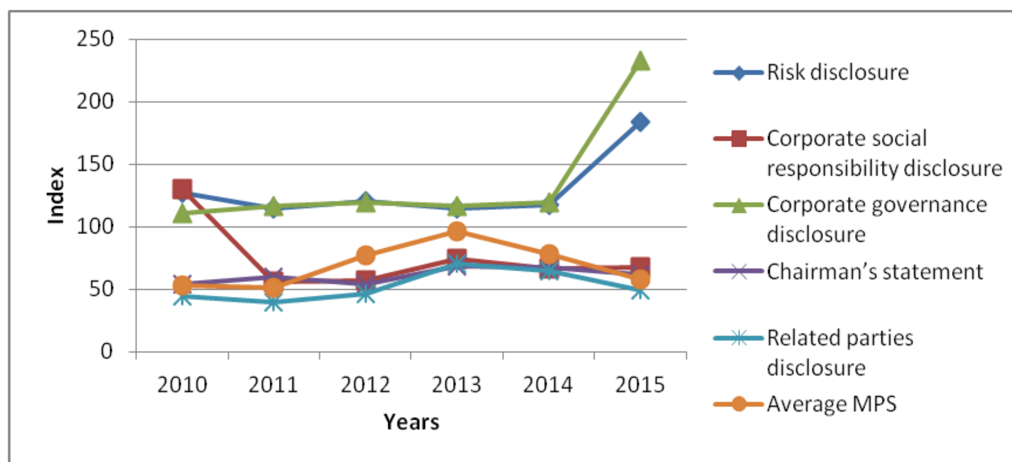

Figure 4.2 Trends of Non-Financial Disclosures and Market Price of Shares

The results showed that on average there was an increase in both the quality and

relevance of non-financial disclosures over the period under study. The results presented in the figure 4.2 showed that changes in the average market price per share was largely proportional to changes in related party disclosure, the chairman statement and corporate social responsibility disclosure. The finding revealed a positive relationship between related party disclosure, chairman statement and corporate social responsibility disclosure and average market price per share. The finding further revealed that the trend taken by corporate governance disclosure and risk disclosure matched with trend taken by market price per share of listed banks.

The general observation was that trend taken by non-financial variables was in congruence with the trend taken by the average market price of shares. This phenomenon can be attributed to growing importance of financial markets in recent decades which has led to a continuous increase in the demand by the investment community for more comprehensive and timely information to be reported by companies. This observation is in agreement with Martin (2017) who noted that banks can increase the trust of customers and investors by disclosing more information on the softer issues of conduct and culture (non-financial disclosures) and less on their hard financials (financial disclosures). The author further observes that investors need more standardized, verifiable and comparable non-financial information. The finding also reflects the observation by Topazio (2013) that in order to meet these needs, accounting regulators have revised existing and/or produced new reporting standards or rules which require entities to disclose more comprehensive and detailed corporate information in their annual reports.

More and focused non-financial disclosures complement the traditional financial disclosures and occasions a decrease in information asymmetry. More investors are then interested in the shares of the disclosing firm which occasions an increase in the market price per share and at the same time brings about an efficient allocation of resources on the stock market. This trend also reflects the conclusion by Healy, Hutton, and Palepu (1999) who observed that non-financial disclosures brings about an increase in stock liquidity and therefore the market price per share.

The observed trends also confirms the assumption by the efficient market hypothesis which according to Fama *et al.* (1969) holds that new information regarding securities comes to the market in a random fashion and that investors seeking to maximize their

profit amend a security's prices swiftly to reflect the effect of new information. Primary data from the survey on the use of non-financial disclosures by financial analyst revealed that most of them used the disclosures in making investment decisions.

Further, the revealed increase in the quality of and value relevance of non-financial disclosures over the period to which the average MPS is largely congruent, agrees with the proposal of the signaling theory that voluntary information disclosure in corporate annual reports can be used as a signal in order to improve the corporate image, attract new investors, lower capital costs and also help to improve its relationships with the relevant stakeholders.

4.6 Inferential Statistics Results

Inferential statistics are meant to infer whether there is an underlying relationship between the respective variables for purposes of sequential analysis. Inferential statistics provides a way of going from a sample to a population, inferring the parameters of a population from data on the statistics of a sample (Sahu, 2015). This section present results of the correlation and regression analysis. Before proceeding with the analysis several diagnostic tests were carried out to test how well the data fitted in the models. All the inferential statistics were conducted using the secondary data.

4.6.1 Diagnostic Tests

The study performed tests on statistical assumptions, that is, test of regression assumption and statistic used. This included test of normality, heteroskedasticity, multicollinearity, autocorrelation, panel unit root test and Hausman test for model specification. The tests were conducted to make sure that the statistical analysis conducted adhered to regression assumption hence avoiding spurious and bias findings.

4.6.1.1 Factor Analysis

Factor analysis was conducted for the independent and dependent variables to find factors among observed variables in order to establish if there was a necessity of

reducing the number of variables. The importance of conducting a factor analysis was to summarize the information contained in a number of original variables into a smaller number of factors without losing much information. According to Gorsuch (1990) the implication of this is that the newly created variables should represent the fundamental constructs, which underlie the original variables factor. Loadings are an indication of how much a factor explains a variable in factor analysis. David, Patrick, Phillip, and Kent (2014) state that the general rule of the thumb applied for acceptable factor loading is 0.40 or above. Hair *et al.* (1998) and Tabachnick and Fidell (2007) also note that only factors with factor loading above 0.4 should be retained for further study.

Tabachnick and Fidell (2007) further note the following on factor loadings: 0.32 (poor), 0.45 (fair), 0.55 (good), 0.63 (very good) and 0.71 (excellent). An exploratory factor analysis was carried out on all the variables where components were extracted using principal component analysis. Leech *et al.*, (2005) contend that the principal components analysis is a data reduction technique used to reduce a large number of variables to smaller set of underlying factors that summarises the essential information contained in the variables. According to Myers, (2003) factor analysis aim is to arrive at minimum number of factors which can account for the common variance of a set of variables. Rahim and Magner (2005) also agree that researchers should use a level of 0.4 to meet the criterion. The minimum level 0.40 or 40% was adopted by this study. The results of factor analysis, which are presented in table 4.9, showed that all the variables had factor loadings above 40% and were acceptable on this basis.

Table 4.9: Summary of Factor Analysis for All the Variables

Variables	Number of Items	Loadings	Comment
Risk Disclosure	5	Above 70	Accepted
Corporate Social Responsibility Disclosure	5	Above 70	Accepted
Corporate Governance Disclosure	5	Above 50	Accepted
Chairman's Statement	5	Above 60	Accepted
Related Parties Disclosure	5	Above 70	Accepted

4.6.1.2 Normality Test

One-Sample Kolmogorov-Smirnov Test (K-S) was conducted to test the normality of

the dependent variable, value relevance of annual reports. The Kolmogorov-Smirnov test (also known as the K-S test or one sample Kolmogorov-Smirnov test) is a non-parametric procedure that determines whether a sample of data comes from a specific distribution, such as normal, uniform, Poisson, or exponential distribution (Greene, 2012). The results are presented in Table 4.10

Table 4.10: One-Sample Kolmogorov-Smirnov Test

		Risk Disclosure	Corporate Social Responsibility Disclosure	Corporate Governance Disclosure	Chairman's Statement	Related Parties Disclosure
N		60	60	60	60	60
Normal Parameters,	Mean	3.652	3.7435	3.8121	3.7227	3.7663
	Std. Deviation	0.62365	0.59178	0.57957	0.60436	0.47908
Most Extreme Differences	Absolute	0.196	0.154	0.152	0.171	0.153
	Positive	0.075	0.071	0.098	0.107	0.089
	Negative	-0.196	-0.154	-0.152	-0.171	-0.153
Kolmogorov-Smirnov Z		0.976	0.558	0.534	0.726	0.544
Asymp. Sig. (2-tailed)		0.081	0.216	0.180	0.541	0.170

The null and alternative hypotheses are:

H_o: The data is normally distributed

H_1: The data is not normally distributed

The rule is that if the p - value is greater than 0.05, H_o is accepted and H_1 is rejected, if the p - value is less than 0.05, H_o is rejected and H_1 is accepted. The results obtained indicated that Kolmogorov-Smirnov Z statistic for all the variables was greater than 0.05, the null hypothesis was accepted and it was concluded that the data for all the variables was normally distributed and therefore fit for linear regression analysis.

4.6.1.3 Test for Multicollinearity

Multicollinearity is said to exist between two independent variables when a strong relationship exist between them. Where there is multicollinearity between explanatory variables the results of multiple regression analysis may not to be relied upon. In multiple regression, the variance inflation factor (VIF) is used as an indicator of multicollinearity. According to Jongh *et al*. (2015) variance inflation factor (VIF) is a

factor by which the variance of the given partial regression coefficient increases due to a given variable's extent of correlation with other predictors in the model. As a rule of thumb, lower levels of variance inflation factor (VIF) are desirable as higher levels of VIF are known to affect adversely the results associated with multiple regression analysis. Curwin and Slater (2008) points out that, there is no specific value at which we would say multicollinearity exists; it is a matter of judgment. Accordingly, this study adopted a VIF value of 10.0 as the threshold.

Table 4.11: Multicollinearity Test

	Tolerance	VIF
Risk Disclosure	0.874	1.144
Corporate Social Responsibility Disclosure	0.863	1.158
Corporate Governance Disclosure	0.912	1.097
Chairman's Statement	0.87	1.149
Related Parties Disclosure	0.911	1.097

The findings presented in table 4.11 revealed that risk disclosure had a VIF of 1.144, corporate social responsibility disclosure 1.158, corporate governance disclosure 1.097, chairman's statement 1.149 and related parties disclosure 1.097. These results indicated that the VIF values of the independent variables were within the threshold of 10.0 adopted in this study. This indicated that there was no significant threat of multicollinearity.

4.6.1.4 Hausman Test for Model Specification

Hausman specification test was used by this study to select the best regression model between a random effect and a fixed effect regression model. The test assesses the consistency of an estimator when compared to an alternative less efficient estimator which is already known to be consistent. It is helpful in assessing if a statistical model corresponds to the data (Greene, 2012). Random Effects Model (REM) is preferred under the null hypothesis due to higher efficiency; while under the alternative, Fixed Effects Model (FEM) is at least consistent and thus preferred. The null hypothesis (H_0) for Hausman test states that βRE (Random Effect Estimator) is consistent and efficient (p – value >0.05), in which case REM is appropriate. On the other hand, the alternative

hypothesis (H_1) states that βRE is inconsistent (p – value < 0.05) implying that a REM is not appropriate. Put otherwise, the null hypothesis for Hausman test states that the difference between the coefficients is not consistent meaning that a random effect model is the best while the alternative hypothesis states that the differences are consistent implying that a fixed effect model is the best.

Table 4.12: Hausman Test for Model Specification Results

	Fixed	Random	Difference	Chi-Square
Risk disclosures	0.19860	0.19860	2.78E-17	$chi^2(2)$ =1.06
Corporate social responsibility disclosures	-0.2715	-0.2715	0	Prob>chi^2 = 0.8675
Corporate governance disclosures	0.1603	0.1603	-2.78E-17	
Chairman's statements	-0.1784	-0.1780	2.78E-17	
Related parties disclosures	0.0007	0.0007	-4.01E-18	

Results in the table 4.12 indicates a prob>chi^2 value of 0.8675 which is greater than critical p - value at 5% level of significance. This implies that the null hypothesis that a random effect model is the best was not rejected. The study hence used a random effect regression model.

4.6.1.5 Homoscedastic Test Results

Homoscedasticity implies that the dependent variable has an equal level of variability for each of the values of the independent variables (Garson, 2012). A test for homoscedasticity is carried out to test for variance in residuals in the regression model used. Where equal variance of the error term is present, we have a normal distribution. Lack of an equal level of variability for each value of the independent variables is known as heteroscedasticity, The Breusch-Pagan test developed by Breusch and Pagan (1979) was used to test for homogeneity in a linear regression mode. The null and alternative hypotheses are as follows:-

H_o: The data is not heterogeneous in variance

H_1: The data is heterogeneous in variance

The rule is that if the p-value is greater than 0.05, $\mathbf{H_o}$ is accepted and $\mathbf{H_1}$ is rejected, if the p -value is less than 0.05, $\mathbf{H_o}$ is rejected and $\mathbf{H_1}$ is accepted.

Table 4.13: Test for Homoscedasticity

Test – Statistic	Degree of Freedom	P-Value
17. 9445	5	0.7863

The result of the test is shown in table 4.13, which indicate that the test statistic is 17.9445 (p-value = 0.7863). Because the test statistic is small with the p-value greater than 0.05, the null hypothesis was accepted and it was concluded that there was homoscedasticity in the data (that is, the data is not heterogeneous in variance), which satisfies the assumption of regression.

4.6.1.6 Test for Stationarity

Augmented Dickey–Fuller (ADF) test was carried out to find out whether the variables were stationary or otherwise. This was done to avoid spurious results because of the presence of unit root in case of non-stationary variables. The results of the panel unit root test for all variables are set out in Table 4.14.

Table 4.14: Panel Unit Root Test Results

Variables	ADF-Statistics	Prob
Risk Disclosure	48.6148	0.9978
Corporate Social Responsibility Disclosure	6.99369	0.9835
Corporate Governance Disclosure	24.5179	0.9735
Chairman's Statement	86.6128	0.3426
Related Parties Disclosure	105.807	0.0541
Average MPS	43.5392	0.9999

The results presented in table 4.14 show that the probability value for all the variables was greater than 5% implying that there was a panel unit root. The null hypothesis adopted was that there was a unit root, meaning that, at a *p*-value of less than 5% statistical level of significance the null hypothesis would be rejected. Subsequently, the study did not reject the null hypothesis for all the study variables. This occasioned first differencing for all the study variables to make them stationary. The results at first

difference are presented in table 4.15.

Table 4.15: Panel Unit Root Test Results at First Difference

Variables	ADF-Statistics	Prob
Risk Disclosure	168.994	0.000
Corporate Social Responsibility Disclosure	137.554	0.000
Corporate Governance Disclosure	299.041	0.000
Chairman's Statement	413.948	0.000
Related Parties Disclosure	464.559	0.000
Average MPS	773.669	0.000

The panel unit root tests result at first differencing show that all the variables became stationary, meaning that, unit root disappeared on first differencing because all the variables had a p-value of less than 5%. The null hypothesis that there is a unit root was subsequently rejected.

4.6.2 Correlation Results

This section contains results of correlation tests conducted to test the association between independent and dependent variables. According to Kothari (2014) the importance of correlation is to determine the extent to which changes in the value of an attribute is associated with changes in another attribute. This study used correlation to test the association between the independent variables and the dependent variable.

Table 4.16: Correlation Matrix

Correlations		Risk disclosure	Corporate social responsibility disclosure	Corporate governance disclosure	Chairman's statement	Related parties disclosure
Risk disclosure	Pearson Correlation	1				
	Sig. (2-tailed)					
Corporate social responsibility disclosure	Pearson Correlation	-0.005	1			
	Sig. (2-tailed)	0.972				
Corporate governance disclosure	Pearson Correlation	0.318	0.045	1		
	Sig. (2-tailed)	0.018	0.744			
Chairman's statement	Pearson Correlation	0.263	0.493	0.266	1	
	Sig. (2-tailed)	0.052	0.000	0.05		
Related parties disclosure	Pearson Correlation	0.052	0.154	0.074	0.366	1
	Sig. (2-tailed)	0.706	0.262	0.59	0.006	
Average MPS	Pearson Correlation	0.261	0.331	0.441	0.402	0.328
	Sig. (2-tailed)	0.042	0.016	0.001	0.003	0.017
	N	**60**	**60**	**60**	**60**	**60**

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

The results of correlation analysis indicated that risk disclosure had a positive and significant correlation with value relevance of annual reports which was measured by average market price per share (r=0.261, p=0.042). The association between risk disclosure and average market price per share was weak since the price of share is affected by multiplicity of other factors besides risk disclosure information. The findings imply that positive change in risk disclosure would result to a corresponding positive change in average market price per share. This finding concurs with those of Bali and Cakici (2004) who also found that value at risk disclosure had additional explanatory powers to explain the cross-sectional variation in expected returns after stock size, book-to-market ratio, liquidity, market beta and total volatility are accounted for.

The results in table 4.16 showed that corporate social responsibility disclosure had a correlation value r = 0.331 and p-value = 0.016. The finding revealed a weak positive

association between corporate social responsibility disclosure and average market price per share. This finding implied that positive change in corporate social responsibility disclosure could bring about a positive response in average market price per share hence the value relevance of annual reports. The findings of this study concur with those of Richardson and Michael (2001) who observed a positive relationship between social responsibility disclosure and the cost of equity capital. Similarly, Cho, Lee and Pfeiffer (2013) observed that the relationship can however only be found in firms that have less institutional investors, implying that informed investors act upon information relating to corporate social responsibility.

The results showed that corporate governance disclosure had a correlation value r= 0.441 and p-value = 0.001. The finding revealed a strong positive association between corporate governance disclosure and average market price per share. This finding implies that positive change in corporate governance disclosure could bring about a positive response in average market price per share hence the value relevance of annual reports. Bushman and Smith (2003), Healy and Palepu (2001) and Larsson (2009) also pointed out that corporate governance disclosure is one of the useful tools in assessing the credibility of financial information, as well as in accurately setting expectation and reducing uncertainty concerning the firm's performance.

The results also showed that chairman's statement had a correlation value r = 0.402 and a p-value = 0.003. The finding indicated a weak positive association between the chairman's statement and the average market price per share. These results implied that positive change in chairman statement could lead to a positive change in average market price per share hence the value relevance of annual reports. Authors such as Stanton, Stanton and Pires (2004), and Smith and Taffler (2000) also observed that the chairman's statement is an important content of annual reports whose content influences decision making.

The results also showed that related parties disclosure had a correlation value r= 0.328 and a p-value = 0.017. The finding indicated a weak positive association between related parties disclosure and the average market price per share. These results implied that positive change in related parties' disclosure could lead to a positive change in the average market price per share hence the value relevance of annual reports. Arshad,

Darus and Othman (2009) and Kohlbeck and Mayhew (2010) also observed a positive relationship between the extent of related party disclosure and firms' valuation.

4.6.3 Univariate Regression Analysis Results

The study used univariate regression analysis to test the individual effect of each of the independent variables on dependent variable. Results in the table 4.12 indicates a prob>chi^2 value of 0.8675 which is greater than the critical p - value at 5% level of significance. This implies that the null hypothesis that a random effect model is the best was not rejected. The study hence used a random effect regression model.

4.6.3.1 Value Relevance of Risk Disclosure in Annual Reports

The first objective of this study was to establish the value relevance of risk disclosure in the annual reports of listed banks in Kenya. The study employed random effect regression model to ascertain the relationship between risk disclosure and the average MPS. The findings are presented in table 4.17.

Table 4.17: Risk Disclosure and Average MPS

Average MPS	Coef.	Std. Err.	Z	P>|Z|
Risk Disclosure	0.228513	0.106287	2.15	0.032
Constant	47.97321	26.95544	1.78	0.075
Wald chi^2 = 4.62				
Prob > chi^2 = 0.0316				
R-square = 0.0936				

The results presented revealed that the model used to link risk disclosure and average MPS was statistically significant as shown by the Wald chi^2 = 4.62 and a probability of 0.0316 which was less than 0.05. This implied that the model Average MPS = 47.97321+ 0.228513 (*risk disclosure*) + ε was statistically significant. The findings further showed that risk disclosure accounted for 9.36% of the variation in average MPS as shown by the R-square value of 0.0936. Risk disclosure had a coefficient of 0.2285 and a p - value of 0.032 meaning risk disclosure had a positive and significant

relationship with value relevance of annual reports measured by average MPS.

These findings implied that a unit increase in risk disclosure could cause an increase of 0.2285 units in the average market price per share, other factors held constant. These findings concur with those of Bali and Cakici (2004) who also found that value at risk disclosure had additional explanatory powers to explain the cross-sectional variation in expected returns after stock size, book-to-market ratio, liquidity, market beta and total volatility are accounted for. Tamer and Lorenzo (2015) also arrived at a conclusion that risk disclosure impacts on value relevance of annual reports. They carried out a comparative study in which they examined the influence of corporate governance on risk disclosure practices in the UK and Italy. The study found out that strongly rather than weakly governed firms exhibiting risk information voluntarily rather than mandatorily improves market liquidity significantly. The results also agree with Sribunnak and Wong (2006) who examined the impact of excluding non-financial exposure on the usefulness of foreign exchange sensitivity-analysis risk disclosure and concluded that firms that make market risk disclosures have higher value sensitivity than those that do not.

4.6.3.2 Value Relevance of Corporate Social Responsibility Disclosure in Annual Reports

The second objective of this study was to examine the value relevance of corporate social responsibility disclosure in the annual reports of listed banks in Kenya. The study employed random effect regression model to ascertain the relationship between corporate social responsibility disclosure and the average MPS. The findings are presented in table 4.18.

Table 4.18: Corporate Social Responsibility Disclosure and Average MPS

Average MPS	Coef.	Std. Err.	z	P>|z|
Corporate Social Responsibility Disclosure	0.374854	0.112482	3.33	0.001
Constant	52.13793	21.31835	2.45	0.014
Wald chi^2 = 11.11				
Prob > chi^2=0.0009				
R-squared = 0.1849				

The findings revealed a Wald $chi^2 = 11.11$ and Prob > $chi^2 = 0.0009$ which implied that the model Average MPS = 52.13793 + 0.374854 (*Corporate Social Responsibility Disclosure*) + ε was statistically significant. The findings further revealed that R-squared = 0.1849 meaning 18.49% of the variation in average MPS was accounted for by corporate social responsibility disclosure.

To further test the significance of regression relationship between corporate social responsibility disclosure and average market price per share, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficients are zero. The results on the beta coefficient of the resulting model showed that the constant $\alpha = 52.13793$ was significantly different from 0, since the p- value = 0.014 was less than 0.05. The coefficient $\beta = 0.374854$ was also significantly different from 0 with a p-value of 0.001 which was less than 0.05. The results imply that a unit change in corporate social responsibility disclosure will bring about 0.374854 units change in average market price per share. This confirms that there is a significant positive relationship between corporate social responsibility disclosure and the average market price per share of the listed banks in Kenya. The finding further showed the corporate social responsibility disclosure has a positive influence on value relevance of annual reports as measured by the average market price per share.

The findings of this study concur with those of Richardson and Michael (2001) who observed a positive relationship between social responsibility disclosure and cost of equity capital. Similarly, Cho, Lee and Pfeiffer (2013) observed that the relationship can however only be found in firms that have less institutional investors, implying that informed investors act upon information relating to corporate social responsibility. These findings also agree with the findings of a study in South Africa in which Buys, Oberholzer and Andrikopoulos (2011) investigated of the economic performance of sustainability reporting companies versus non-reporting companies. They concluded that the economic performances of companies that voluntarily submit sustainability reports are better than those who do not support Global Reporting Initiatives (GRI) sustainability reporting guidelines.

This phenomenon was also observed in Australia by Gozali *et al*. (2002) who studied

CSR disclosures in companies' annual reports for the 1998 to 2000 period. They sought to evaluate the economic consequences of these disclosures by investigating the relationship between the disclosures in the annual report and the company's share price. The study found that companies with positive environmental disclosure perform significantly better in the market than companies that disclose negative environmental information. Positive environmental disclosures are the information which presents the company as operating in harmony with the environment. Negative environmental disclosures are the information that present the company as operating to the detriment of the natural resources.

The findings also correspond with the proposition of the signaling theory which holds that managers of firms disclose more information voluntarily in order to promote a positive image. Voluntary disclosure provides good signals about a firm's expected performance and avoids the risk that outsiders make wrong judgments based on non - disclosure of corporate information (Khlifi & Bouri, 2010). In reference to the signaling theory, Alvarez *et al*. (2008) observe that a firm's information disclosure can be considered a signal to capital markets, directed to reduce information asymmetry which often exists between management and stakeholders as well as to increase the firm's value.

4.6.3.3 Value Relevance of Corporate Governance Disclosure in Annual Reports

The third objective of this study was to establish the value relevance of corporate governance disclosures in annual reports of listed banks in Kenya. The study used random effect regression model to test the relationship between corporate governance disclosure and the average MPS. The findings are presented in table 4.19.

Table 4.19: Corporate Governance Disclosure and Average MPS

Average MPS	Coef.	Std. Err.	z	P>|z|
Corporate Governance Disclosure	0.36921	0.154482	2.39	0.004
constant	50.17978	27.35442	1.83	0.067
Wald chi^2 (1) = 1.94				
Prob > chi^2 =0.1640				
R-squared = 0.0155				

The findings revealed a Wald chi^2 = 1.94 and Prob > chi^2=0.0155 which implied that the model average MPS = 50.17978+ 0.36921 (*Corporate Governance Disclosure*) + ε was statistically significant. The findings further revealed that R-squared = 0.0155, meaning that 1.55% of the variation in the average MPS was accounted for by corporate governance disclosure. The results of the beta coefficient of the resulting model showed that the constant α = 50.17978 was significantly different from 0, since the p - value of 0.067 was greater than 0.05. The coefficient β = 0.36921 was also significantly different from 0 with a p-value of 0.004 which was less than 0.05. The results imply that a unit change in corporate governance disclosure will bring about 0.36921 units change in average market price per share. This confirms that there is a significant positive relationship between corporate governance disclosure and average market price per share for the listed bank in Kenya.

The finding agrees with those of (Bushman & Smith, 2003; Healy and Palepu, 2001; Larsson, 2009) who also pointed out that corporate governance disclosure is one of the useful tools in assessing the credibility of financial information, as well as in accurately setting expectation and reducing uncertainty concerning the firm's performance. The findings further correspond with a report by IIRC (2013c). The report pointed out the information need by stakeholders to make informed decisions and concluded that disclosures on governance structure affect the reader's view of the credibility of the entire set of disclosures, because it reflects the confidence of the firm's ability to create value through the business model, be transparent and disclose accurate information.

In reference to the agency theory, Akhtaruddin and Hossian (2008) affirm that information disclosure is motivated by the wish of the managers to efficiently treat the potential conflicts between themselves and other stakeholders. Lafond and Roychowdhury (2008) applied the agency theory in a study on the effect of managerial ownership on financial reporting conservatism under a hypothesis that, as managerial ownership declines, the severity of agency problem increases, increasing the demand for conservatism. The findings were consistent with the hypothesis, and a negative association between managerial ownership and asymmetric timeliness of earnings was observed. The findings of this study corresponds with the suggestion of agency theory which contends that firms are more likely to be transparent when agency conflicts between insiders and outsiders are larger since these conflicts lead to higher levels of

information asymmetry.

4.6.3.4 Value Relevance of Chairman Statement in Annual Reports

The fourth objective of this study was to determine the value relevance of the chairman's statement in the annual reports of listed banks in Kenya. The study used random effect regression model to test the relationship between the chairman statement and the average MPS. The findings are presented in table 4.20.

Table 4.20: Chairman Statement and Average MPS

Average MPS	Coef.	Std. Err.	z	P>|z|
Chairman Statement	0.445159	0.13323	3.34	0.001
constant	47.71742	21.86169	2.18	0.029
Wald chi^2 (1) = 11.16				
Prob > chi^2=0.0008				
R-squared = 0.1905				

The findings revealed a Wald chi^2 = 11.16 and Prob > chi^2 = 0.0008 which implied that the model average MPS = 47.71742 + 0.445159 *(Chairman Statement)* + ε was statistically significant. The findings further revealed an R-squared = 0.1905 meaning 19.05% of the variation in average MPS was accounted for by the chairman statement. The results on the beta coefficient of the resulting model showed that the constant α = 47.71742 was significantly different from 0, since the p-value of 0.029 was less than 0.05. The coefficient β = 0.445159 was also significantly different from 0 with a p-value of 0.001 which was less than 0.05. The results imply that a unit change in chairman statement will bring about 0.445159 units change in the average market price per share. This confirms that there is a significant positive relationship between the chairman statement and the average market price of share, for the listed bank in Kenya.

The finding further showed that the chairman statement in the annual reports of listed banks in Kenya is value relevant. Previous studies have also arrived at the same conclusion. Clatworthy and Jones (2003) observed the same relationship between the chairman's statement and the value of a firm in the UK in a study which focused on chairman's narratives of the top 50 and bottom 50 listed UK companies ranked by performance. They concluded that firms with improving performance (positive change

in profit before taxation from last year) presented more good news and they were more positive in their words relative to those with declining performance which imply that the chairman's narrative in annual report is value relevant. Bhana (2009) also concluded that in South Africa the chairman's statement is value relevant following and analysis of chairman's statements of the top 50 and bottom 50 companies listed on the JSE, ranked by percentage change in profit before taxation. The study found that chairmen use the chairman statement in a self-serving manner, rather than reporting performance objectively. The finding implies that, therefore the motivation to focus on positive aspects. The findings of this study also align with the suggestion by the signaling theory which according to Khlifi and Bouri (2010) assert that disclosing information in annual reports can be used by companies' managers as a signal to send specific information to participants in the market therefore impacting on the market value of a firm.

4.6.3.5 Related Parties Disclosure and Value Relevance of Annual Reports

The fifth objective of the study was to evaluate value relevance of related parties disclosure in the annual reports of listed banks in Kenya. To achieve this objective the study employed random effect regression analysis to test the relationship between related parties disclosure and the average MPS. The findings are presented in table 4.21.

Table 4.21: Related Parties Disclosure and Average MPS

Average MPS	Coef.	Std. Err.	z	P>|z|
Related Parties Disclosure	0.510426	0.115198	4.43	0.000
Constant	47.44417	22.00125	2.16	0.031
Wald chi^2 = 19.63				
Prob > chi^2=0.0000				
R-squared =0.3086				

The findings revealed that Wald chi^2 = 19.63 and Prob > chi^2 = 0.0000 which implied that the model average MPS = 47.44417 + 0.510426 (Related Parties Disclosure) + ε was statistically significant. The findings further revealed that R-squared = 0.3086 meaning that 30.08% of the variation in the average MPS was accounted for by the related parties disclosure.

To test the significance of regression relationship between related parties disclosure and the average market price per share, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficients are zero. The results on the beta coefficient of the resulting model showed that the constant $\alpha = 47.71742$ was significantly different from 0, since the p-value of 0.031 was less than 0.05. The coefficient $\beta = 0.510426$ was also significantly different from 0 with a p-value of 0.000 which was less than 0.05. The results imply that a unit change in related parties disclosure will bring about 0.510426 units change in the average market price per share. This confirms that there is a significant positive relationship between the related parties disclosure and the average market price per share, for the listed bank in Kenya. The finding further showed the related parties disclosure has a positive influence on the value relevance of annual reports as measured by average market price per share.

These findings agrees with a study by Arshad, Darus and Othman (2009) in which annual reports of 144 Malaysian listed companies were used to study among others things, how IFRS adoption effected on related party disclosure in two disclosure regimes (2002 and 2007). Related party disclosure was measured as the aggregate number of words related to related party disclosure in the annual reports. The study concluded that there was a positive relationship between the extent of related party disclosure and firms' valuation.

Kohlbeck and Mayhew (2010) also arrived at a different conclusion in a study carried out in USA. The study evaluated the valuation implication of US corporate related party disclosures by looking at related party transaction disclosures in the year 2001 annual reports of 1,194 firms. The study concluded that firms which disclose related party transactions are associated with lower stock returns and negative market values (as measured by Tobin's Q) relative to firms which do not disclose any related party transactions. These findings also contradicts Ryngaert and Thomas (2012) who looked at how the timing of related party transactions, that is, before and after public listing or the time that the counterparty can be construed to have becomes a related party in 234 small to medium-sized US firms affected a firm's value in the fiscal year 1999. The study concluded that in general, related party transactions do not affect firms' overall market performance and value.

4.6.4 Multivariate Regression Analysis Results

A multivariate regression model was conducted to test the joint relationship between all the independent variables and the dependent variable. The findings of multivariate regression analysis are presented in Table 4.22. Multivariate regression results revealed that Wald $chi^2 = 23.05$ with a Prob > chi^2 of 0.0003. This finding implied that the overall model was statistically significant at 0.05. The results further showed that R-squared = 0.5622 meaning that risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman statement and related parties disclosure explained 56.22% of the variation in average market price per share, for listed banks in Kenya.

Table 4.22: Multivariate Regression Results

Average MPS	Coef.	Std. Err.	z	P>|z|
Risk Disclosure	0.228513	0.106287	2.15	0.032
Corporate Social Responsibility Disclosure	0.374854	0.112482	3.33	0.001
Corporate Governance Disclosure	0.330696	0.141323	2.34	0.003
Chairman Statement	0.445159	0.13323	3.34	0.001
Related Parties Disclosure	0.588225	0.218948	2.69	0.007
Constant	52.13793	21.31835	2.45	0.014

Wald chi^2 (1) = 23.05
Prob > chi^2=0.0003
R-squared =0.5622

4.6.5 Optimal Model

The multiple Model $y_{it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \beta_4 x_{4it} + \beta_5 x_{5it} + ɯ_t$ therefore became:

Average Market Price per Share = 52.13793 + 0.228513 (*Risk Disclosure*) + 0.374854 (*Corporate Social Responsibility Disclosure*) + 0.330696 (*Corporate Governance Disclosure*) + 0.445159 (*Chairman Statement*) + 0.588225 (*Related Parties Disclosure*) + ε

The coefficient for risk disclosures, β = 0.228513 was also significantly different from 0 with a p-value of 0.032 which was less than 0.05. This confirms that there is

a significant positive relationship between the risk disclosure and the average market price per share, for listed banks in Kenya. The study therefore rejected the null hypothesis that risk disclosure in the annual reports of listed banks in Kenya has no value relevance. This finding concurs with that of Bali and Cakici (2004) who also found that value at risk disclosure had additional explanatory powers to explain the cross-sectional variation in expected returns after stock size, book-to-market ratio, liquidity, market beta and total volatility.

The coefficient for the corporate social responsibility disclosure, $\beta = 0.374854$ was also significantly different from 0 with a p-value of 0.001 which was also less than 0.05 meaning that the relationship between the corporate social responsibility disclosure and the value relevance of annual reports was statistically significant. The study therefore rejected the null hypothesis that corporate social responsibility disclosure in the annual reports of listed banks in Kenya has no value relevance. Richardson and Michael (2001) also observed a positive relationship between the social responsibility disclosure and the cost of equity capital. Similarly, Cho, Lee and Pfeiffer (2013) observed that the relationship can however only be found in firms that have less institutional investors, implying that informed investors act upon information relating to corporate social responsibility.

The coefficient for corporate governance disclosure, $\beta = 0.330696$ was also significantly different from 0 with a p-value of 0.003 which was less than 0.05 meaning that the relationship between corporate governance disclosures and value relevance of annual reports was positive and statistically significant. The study therefore rejected the null hypothesis that corporate governance disclosure in the annual reports of listed banks in Kenya has no value relevance. (Bushman & Smith, 2003; Healy & Palepu, 2001; Larsson, 2009) also pointed out that corporate governance disclosure is one of the useful tools in assessing the credibility of financial information, as well as in accurately setting expectation and reducing uncertainty concerning the firm’s performance.

The coefficient for the chairman statement, $\beta = 0.445159$ was also significantly different from 0 with a p-value of 0.001 which was also less than 0.05 meaning the relationship between the chairman’s statement and the value relevance of annual

reports was positive and statistically significant. The study therefore rejected the null hypothesis that the chairman's statement in the annual reports of listed banks in Kenya has no value relevance. Stanton, Stanton and Pires (2004), and Smith and Taffler (2000) also observed that the chairman's statement is an important content of the annual report whose content influences decision making.

The coefficient for related parties disclosures, $\beta = 0.588225$ was also significantly different from 0 with a p-value of 0.007, which was also less than 0.05 meaning that the relationship between related parties disclosures and the average MPS was positive and statistically significant. The study therefore rejected the null hypothesis that the related parties disclosure in the annual reports of listed banks in Kenya has no value relevance. Arshad, Darus and Othman (2009) and Kohlbeck and Mayhew (2010) also observed a positive relationship between the extent of related party disclosure and firms' valuation.

4.7 Summary of the Hypotheses Testing

This section contains the summary of hypothesis testing. The study conducted statistical test at a level of significance of 0.05. The null hypothesis was rejected when the coefficient had a p - value of less than 0.05 while the study failed to reject the null hypothesis when the coefficient had a p-value of greater than 0.05. Table 4.23 provides the summary of the hypotheses.

Table 4.23: Summary of the Hypotheses Testing

Hypothesis	Hypothesis Testing	Remark/Conclusion
1) **H_0:** Risk disclosure in the annual reports of listed banks in Kenya has no value relevance	• Multivariate regression analysis (P< 0.05)	**Reject H_0**
2) **H_0:** Corporate social responsibility disclosure in the annual reports of listed banks in Kenya has no value relevance	• Multivariate regression analysis (P< 0.05)	**Reject H_0**
3) **H_0:** Corporate governance disclosure in the annual reports of listed banks in Kenya has no value relevance.	• Multivariate regression analysis (P< 0.05)	**Reject H_0**
4) **H_0:** The chairman's statement in the annual reports of listed banks in Kenya has no value relevance.	• Multivariate regression analysis (P< 0.05)	**Reject H_0**
5) **H_0:** Related parties disclosure in the annual reports of listed banks in Kenya has no value relevance.	• Multivariate regression analysis (P< 0.05)	**Reject H_0**

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings on response rate, the general background information, the statistical analysis of specific objectives/research hypotheses. The summary of the major findings was presented based on the specific research objectives. The conclusions and recommendations relating to specific research objectives as well as suggestions for further research were highlighted.

5.2 Summary of Findings

The main objective of this study to investigate the value relevance of non-financial disclosures in annual reports, with a focus on listed banks in Kenya. The study specifically sought to establish the relationship between risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure; and the value relevance of annual reports for listed banks in Kenya, measured by their market price per share.

This study was anchored on four theories, that is, the signalling theory, the agency theory, the technical analysis theory, the efficient and market hypothesis theory. A descriptive research design was adopted. In this study, ten banks listed on the Nairobi Securities Exchange over the entire six year period covering year 2010 to year 2015 were studied. The desk study method was used to collect data which was obtained from the corporate action register and from the Nairobi Securities Exchange handbook, the daily market statistics from the NSE data; and annual reports released by listed banks in Kenya for the six years period.

5.2.1 Risk Disclosure and Value Relevance of Annual Reports

The first objective of this study was to establish the value relevance of risk disclosure in the annual reports of listed banks in Kenya by testing the relationship between risk disclosure and the market price per share as a measure of value relevance. To

achieve this objective the study used both descriptive and inferential statistics. The descriptive results showed a positive relationship between risk disclosure and the market price per share. Majority of the respondents in an opinion survey on the use of risk disclosure indicated that they use the disclosure in making investment decisions on shares of listed banks.

The results of correlation analysis indicated that risk disclosure in annual reports of listed banks in Kenya had a positive and significant correlation with the market price per share. The findings of regression analysis further revealed that risk disclosure in annual reports of listed banks in Kenya had a positive and significant relationship with the market price per share. The findings implied that that risk disclosure in annual reports of listed banks in Kenya is value relevant.

5.2.2 Corporate Social Responsibility Disclosure and Value Relevance of Annual Reports

The second objective of this study was to examine the value relevance of corporate social responsibility disclosure in the annual reports of listed banks in Kenya by testing the relationship between corporate social responsibility disclosure and the market price per share. To achieve this objective the study used descriptive and inferential statistics. The descriptive results showed a positive relationship between corporate social responsibility disclosure and the market price per share. Majority of the respondents in an opinion survey on the use of corporate social responsibility disclosure indicated that they use the disclosure in making investment decisions on shares of listed banks.

The findings of correlation analysis revealed a strong positive association between corporate social responsibility disclosure and the average market price per share. This finding implied that a positive change in corporate social responsibility disclosures could yield a positive change in market price per share. Similarly, the regression results revealed that there is a significant positive relationship between corporate social responsibility disclosure and market price per share of the listed bank in Kenya. This implies that corporate social responsibility disclosure in annual reports of listed banks in Kenya is value relevant.

5.2.3 Corporate Governance Disclosure and Value Relevance of Annual Reports

The study also sought to analyse the value relevance of corporate governance disclosure in the annual reports of listed banks in Kenya by examining the relationship between corporate governance disclosure in annual reports of listed banks in Kenya and the market price per share. To achieve this objective the study used descriptive and inferential statistics. The descriptive results showed that a change in corporate governance disclosure resulted in a similar change the market price per share. Majority of the respondents in an opinion survey on the use of risk corporate governance disclosure indicated that they use the disclosure in making investment decisions on shares of listed banks.

The correlation test findings indicated a strong positive association between corporate governance disclosure and average market price of shares. These results implied that positive change in corporate governance disclosure in annual reports could lead to a positive change in average market price per share. On the other hand, regression analysis result revealed that there is a significant positive relationship between corporate governance disclosure in annual reports of the listed bank in Kenya and the average market price per share. The findings showed the corporate governance disclosure in annual reports of the listed bank in Kenya is value relevant.

5.2.4 Chairman Statement and Value Relevance of Annual Reports

The study sought to determine the value relevance of the chairman's statement in the annual reports of listed banks in Kenya. Both descriptive and inferential statistics were used to test the relationship between the chairman's statement in the annual reports of listed banks in Kenya and the market price per share. In general, the descriptive analysis results revealed that chairman statements in the annual reports of listed banks resulted to a positive change in the market price per share. Majority of the respondents in an opinion survey on the use of the chairman's statement indicated that they use the disclosure in making investment decisions on shares of listed banks.

The finding of correlation analysis revealed a strong positive relationship between the chairman's statement and the market price per share. These results implied that positive change in the chairman statement in the annual reports of listed banks in Kenya could lead to a positive change in the market price per share. The regression analysis finding further confirmed that there is a significant positive relationship between the chairman statement and the market price per share of the listed bank in Kenya. This implies that the chairman statement in the annual reports of listed banks in Kenya is value relevant.

5.2.5 Related Parties Disclosure and Value Relevance of Annual Reports

The study sought to evaluate value relevance of related parties disclosure in the annual reports of listed banks in Kenya. Both descriptive and inferential statistics were employed in this evaluation. Descriptive results affirmed a positive relationship between the related parties' disclosure in the annual reports of listed banks in Kenya and the market price per share. Majority of the respondents in an opinion survey on the use of related parties disclosure indicated that they use the disclosure in making investment decisions on shares of listed banks.

The correlation test findings indicated a strong positive relationship between related parties disclosure in annual reports for listed banks in Kenya and the market price per share. These results implied that a positive change in related parties' disclosure could lead to a positive change in the market price per share. The finding of regression analysis further revealed that there is a significant positive relationship between related parties disclosure in annual reports for listed banks in Kenya and the market price. These finding implies that related parties disclosure in annual reports for listed banks in Kenya is value relevant.

5.3 Conclusion

The study results established that risk disclosure in annual reports of listed banks in Kenya is value relevant. This study therefore concluded that disclosing risk related information in annual reports has an impact on investment decisions in a firm's shares.

The findings of this study established that corporate social responsibility disclosure in annual reports of listed banks in Kenya is value relevant. Based on the finding the study concluded that investing in corporate social responsibility activities and communicating corporate social responsibility related information to the public through annual reports improve the perception of investors and impacts their investment decisions. This could lead improved liquidity and market value of equity shares of a firm.

The study further found out that corporate governance disclosure in annual reports of listed banks in Kenya is value relevant. The study concluded that corporate governance disclosure is very essential to the share prices of listed banks in Kenya. In this case corporate governance disclosure will enhance the public confidence in investing in the organization. Therefore it is important for listed firms to disclose relevant information regarding the corporate governance.

The results showed that chairman statement in annual reports of listed banks in Kenya is value relevant. Based on these findings, the study concluded that firms need to include in their annual reports a detailed statement from the chairman highlighting the position of the firm in terms of performance, board and senior executives, financial position and the overall firm strategy. Such information will impact on the market price per share.

This study finding revealed that related parties disclosure in annual reports of listed banks in Kenya is value relevant. Based on these findings the study concluded that related party transactions are opportunistic and investors are likely to perceive the transactions negatively. Therefore listed banks should disclose such information to avoid this situation.

5.4 Recommendations

The study observed significant explanatory power of non-financial disclosures on value relevance of annual reports. The study therefore recommends an expanded role of the auditor in reviewing and reporting non-financial disclosures. Currently in accounting reporting, under ISA 720 (the auditor's responsibilities relating to other information in documents containing audited financial statements), the auditor is

not obligated to formally audit and report on non-financial disclosures. Instead, an auditor reviews the accounting narratives to ascertain if the narratives are consistent with the financial statements. The study further recommends more guidelines and regulations in relation to non-financial disclosures to ensure that firms put clearer and relevant information in the hand of investors.

5.5 Area for Further Research

The study focused of risk disclosure, corporate social responsibility disclosure, corporate governance disclosure, the chairman's statement and related parties disclosure. The study recommended that future studies should focus on other non-financial disclosures other than those in this study. The study further revealed that the risk disclosure, the corporate social responsibility disclosure, the corporate governance disclosure, the chairman statement and the related parties disclosure in annual reports for listed banks in Kenya accounted for 56.22% of the variation in the market price per share. Future studies should focus on establishing factors that explained the remaining percentage of 43.78% in the market price per share.

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APPENDICES

APPENDIX I: Secondary Data Collection Sheet

Name of Bank..

Year	Risk disclosure	Corporate social responsibility disclosure	Corporate governance disclosure	Chairman's statement	Related parties disclosure	Average market price per share
2010						
2011						
2012						
2013						
2014						
2015						

APPENDIX II: Listed Banks in Kenya

1. Barclays Bank Ltd
2. CFC Stanbic Holdings Ltd
3. I&M Holdings Ltd*
4. Diamond Trust Bank Kenya Ltd
5. HF Group Ltd
6. KCB Group Ltd
7. National Bank of Kenya Ltd
8. NIC Bank Ltd
9. Standard Chartered Bank Ltd
10. Equity Group Holdings
11. The Co-operative Bank of Kenya Ltd

* Started trading in June 2013 and therefore excluded in this study. This study covered years 2010 to 2015

APPENDIX III: Questionnaire/Interview Guide

Dear respondent,

This study mainly aims to evaluate the extent to which non-financial disclosures included in annual reports of listed banks impacts on share prices. This can be done by establishing the extent to which the disclosures are used in making investment decisions in the shares of listed banks. You are one of the users being requested to participate.

Annual reports are an important source of information provided by companies to various users to permit informed decisions. This study is taken on the belief that users opinion should be taken into account in the formulation of accounting disclosure rules and regulation. The results of this study will in a big way be used to inform the non-financial information included in annual reports in future, hence improving your satisfaction.

Please take some time to complete this questionnaire fully. Your responses will be handled confidentially and ethically.

Thank you

SECTION A: Demographic Data

Please tick [✓] as appropriate.

1) Please indicate the highest level of education you have ever attained
   a) Secondary level [ ]
   b) Polytechnic / College level [ ]
   c) University level [ ]
   d) Post graduate level [ ]

2) Please indicate type of firm
   a) Investment bank [ ]
   b) Stockbrokers [ ]
   c) Fund managers [ ]
   d) Investment advisers [ ]

3) How many years have you worked in your current position?

a) Less than 2 years ☐

b) 3 to 5 years ☐

c) Over 5 years ☐

4) Please indicate your use of the following contents of annual reports in investment decision making

i) Financial information

No	Statement	Always	Occasionally	Never
		3	2	1
1	Statement of incomes			
2	Statement of financial position			
3	Statement of changes in equity			
4	Statement of cash flows			
5	Notes to the financial statements			

ii) Non - Financial information (other statements and disclosures besides those listed in (i) above)

a. Never ☐

b. Occasionally ☐

c. Always ☐

SECTION B: Non – financial disclosures in annual reports of listed banks in Kenya and their market value

This section aims at examining ability non-financial disclosures in annual reports of listed banks in Kenya to determine the market value of their shares, by quantifying the importance placed on the non-financial disclosures in making investment decisions

Please tick ✓ the response that best suits your answer.

On a scale of 5 to 1, how would you rate your use of the following content of non-financial disclosures when making investment decisions on shares of listed banks?

5 (Always); **4** (Almost always); **3** (Neutral); **2** (Occasionally); **1** (Never)

1) Risk disclosure (RD)

No	Information	5	4	3	2	1
1	Threat arising from weaknesses in the ICT environment					
2	Potential loss due to sudden shifts in economic factors					
3	Potential loss from failure to adhere to new or existing rules					
4	The potential losses from failure of an obligor to repay principal					
5	The potential losses from inadequate/ failed internal processes					

2) Corporate Social Responsibility Disclosure (CSRD)

No	Information	5	4	3	2	1
1	Contribution to economic development					
2	Relative bargaining power of resource providers					
3	Number of employees and employee incentives					
4	Employee involvement and fulfilment					
5	Relative bargaining power of customers					

3) Corporate Governance Disclosure (CGD)

No	Information	5	4	3	2	1
1	Identity and background of directors and management					
2	Management activities – meetings and attendances					
3	Major segments by which management operates the firm					
4	Identity of major shareholders and shares owned					
5	Division of responsibilities between the chairman and the chief executive officer					

5 (Always); **4** (Almost always); **3** (Neutral); **2** (Occasionally); **1** (Never)

4) Chairman's Statement (CS)

No	**Information**	**5**	**4**	**3**	**2**	**1**
1	Impact of current year performance on shareholder value					
2	Changes to the board and senior executives					
3	Significant developments in the governance arena					
4	Overall firm strategy					
5	Changes in financial position and why					

5) Related Parties Disclosure (RPD)

No	**Information**	**5**	**4**	**3**	**2**	**1**
1	Related party identity and description of relationship					
2	Scope and description of the business and related properties					
3	Major contractual relationships					
4	Types and amounts of director/management compensation					
5	Related party transactions and their nature					

APPENDIX IV: CMA Licensees as at 30 April 2016

Investment Banks

1. African Alliance Kenya Investment Bank Limited
2. Barclays Financial Services Limited
3. CBA Capital Limited
4. Dyer and Blair Investment Bank Limited
5. Equity Investment Bank Limited
6. Faida Investment Bank Limited
7. Genghis Capital Limited
8. KCB Capital Limited
9. NIC Capital Limited
10. Renaissance Capital (Kenya) Limited
11. SBG Securities Limited
12. Standard Investment Bank Limited
13. EBI Investment Corporation Kenya Limited
14. Kestrel Capital (East Africa) Limited

Stockbrokers

1. ABC Capital Limited
2. AIB Capital Limited
3. Apex Africa Capital Limited
4. Francis Drummond & Company Limited
5. Kingdom Securities Limited
6. NIC Securities Limited
7. Old Mutual Securities Limited
8. Sterling Capital Limited
9. Suntra Investments Limited

Fund Managers

1. Alpha Africa Asset Managers
2. Amana Capital Limited
3. Apollo Asset Management Company Limited
4. Aureos Kenya Managers Limited
5. Britam Asset Managers (Kenya) Limited
6. Canon Asset Managers Limited

7. Nabo Capital Limited
8. CIC Asset Management Limited
9. Co-optrust Investment Services Limited
10. Dry Associates Limited
11. FCB Capital Limited
12. Fusion Investment Management Limited
13. GenAfrica Asset Managers Limited
14. ICEA Lion Asset Management Limited
15. Madison Asset Management Services Limited
16. Old Mutual Investment Group Limited
17. Old Mutual Investment Services (K) Limited
18. Pinebridge Investments East Africa Limited
19. Pan African Asset Management Limited
20. Standard Chartered Investment Services Limited
21. Stanlib Kenya Limited
22. UAP Investments Limited
23. Zimele Asset Management Company Limited
24. Natbank Trustee and Investment Services Limited
25. I & M Capital Limited

Investment Advisers

1. Bora Capital Limited
2. Burbidge Capital Limited
3. Citidell Company Limited
4. Cititrust Kenya Limited
5. Co-op Consultancy & Insurance Agency Limited
6. Deloitte Financial Advisory Limited
7. Lifestyle Management Limited
8. PriceWaterhouseCoopers Associates
9. Regnum Consultants Limited
10. The Profin Group (K) Limited
11. VFS International (K) Limited
12. Stratagem Capital Management Limited
13. Liaison Financial Services Limited