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ABSTRACT

This study established the effect of voluntary corporate governance disclosures on financial performance of listed commercial banks in Kenya. The specific objectives were, establishing the effect of disclosure of corporate board's effectiveness, board accountability, executive pay and ownership structure on the financial performance of listed commercial banks in Kenya. This study was based on agency theory, capital need theory, signalling theory and legitimacy theory. This research will apply a descriptive research design with the study population being 11 listed commercial banks in the Kenyan market. Purposive sampling was applied to select commercial banks the Nairobi Securities Exchange. The study applied a data collection checklist which had the voluntary disclosure factors under study. The research was based on secondary data from the published annual reports spanning five years (2015 – 2019). Data was analysed by use of descriptive and inferential statistics. The study employed panel data regression model since the data employed had longitudinal and cross-sectional properties. Statistical package for social sciences (SPSS) was used for data analysis. The results were presented in table and figures. The study found a positive relationship between corporate board accountability, corporate board effectiveness, executive pay and ownership structure and return on equity. A 1% increase in corporate board accountability leads to a 54% increase in financial performance of listed commercial banks, while a 1% increase in corporate board effectiveness disclosure leads to a 33.9% increase in return on equity and a 1% increase in board executive pay leads to a 50.3% increase in return on equity. On the other hand, the study found a negative relationship between ownership structure disclosure and return on equity this means that a 1% increase in ownership structure disclosure leads to a 20.2% decrease in return on equity of a firm. The study concluded that firms should lean towards disclosure of corporate board accountability and ownership structure disclosure to increase their performance.

Key Words: *Corporate Governance, Financial Performance*

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INTRODUCTION

While financial performance is important in view of long-term sustainability of commercial banks, increased emphasis has been placed on proper governance and disclosures to safeguard the interests of investors, borrowers and the overall reputation of the commercial banking industry (Samaha, Khlif, & Hussainey, 2015). In the context of financial institutions such as banks, the operation of the firm affects depositors in addition to the shareholders. Therefore, governance and corporate disclosures are of much importance. Moreover, Mutiva (2015) states that most stakeholders are demanding firms to go beyond the statutory regulation and have voluntary corporate disclosures (VCDs).

VCDs involve provision of information by a company which are beyond the legal requirements such as generally accepted accounting principles and other guidelines from local statutory bodies or international regulatory agencies (Muttakin, Khan & Azim, 2015). This information is made public by the company to enable stakeholders to make informed decisions. VCDs are made by various companies, although the extent and type of voluntary corporate disclosure differs by geographic region, industry, and company size (Ho & Taylor, 2013). The extent to which companies engage in VCD is also influenced by corporate governance and ownership structure of the firm. Rouf (2011) contends that top executives have a significant influence on their firms' voluntary disclosures, and that managers have unique disclosure styles related to their personal backgrounds including their career paths and industry experience.

The Financial Accounting Standards Board – FSAB (2012) classified VCDs into six major categories namely: business data, analysis of business data, forward-looking information, corporate governance information, company background and information about intangible assets. Of the six categories, Muttakin *et al.* (2015) argues that only three are mostly widespread in different industries namely: governance, corporate social responsibility and investment. This study focused on voluntary corporate governance disclosures and assess how they influence listed commercial bank`s financial performance in Kenya.

Najah and Jarboui (2013) contend that as investors and stakeholders become more enlightened on business, environment and social affairs, they tend to demand more disclosures from companies. The above position is not different from events that have been unfolding in the Kenyan banking industry (Mutiva, 2015). More so, the recent global financial crisis has made stakeholders to place more value on VCDs (Ho & Taylor, 2013). For instance, firms in France have adopted more voluntary disclosures on: strategy, environment, and corporate social responsibility and employment practices. Despite the increased prevalence of VCDs, Barros, Boubaker and Hamrouni (2013) established that levels of transparency relating to the voluntary disclosure of firms' compensation practices had risen in the late 2000s and early 2010s.

In Malaysia, Qiu, Shaukat and Tharyan (2015) find that VCDs are taking root with most of the firms adopting the practice. This is being attributed to massive internationalization of firms which bring on board an array of local and foreign institutional investors who demand high levels of corporate governance. Firms in Malaysia are mostly engaging in environmental and social disclosures. A study by Kim, Park and Wier (2012) indicated that in Malaysian listed companies, past profitability drove current social disclosures.

Mutiva (2015), acknowledged that audit committee play a great role in the level of voluntary disclosure and the proportion of non-executive directors in the board. Moreover, levels of institutional and foreign ownership influence the extent of voluntary disclosure. There has also been a tendency for large companies and companies with high debt to voluntarily disclose more information. Firms which have higher debt in their capital structure are prone to higher agency cost (Alsaeed, 2006). Information disclosure may be used to avoid agency costs and to reduce information asymmetries. Uyar and Kılıç

(2012a) also argues that highly leveraged firms have to disclose more information to satisfy information needs of the creditors.

Moreover, Ogwe (2014) postulated that Kenyan firms are acknowledging the importance of voluntarily disclosing information that would satisfy the needs of various stakeholders. This kind of financial disclosure is aimed at providing a clear view to stakeholders about the business long-term sustainability and reducing information asymmetry and agency conflicts between managers and investors.

Statement of the Problem

Voluntary corporate governance disclosure is a fundamental theme of the modern corporate-regulatory system, which encompasses providing governance information to the public in a variety of ways. The purpose of VCDs is to assist investors make better capital allocation decisions, lower the firms' cost of capital, and also reduce conflicts of interest in widely held firms (Sahore, & Verma, 2017). Voluntary corporate governance disclosures entail costs to firms, yet most investors and stakeholders require firms to make higher and better quality voluntary disclosures hence making them incur higher costs (Hoque & Rakow, 2015). Moreover, Qiu et al. (2015) argues that though VCDs are taking root in many firms, the value to the firms is not evident.

Empirical studies in different parts of the world provide mixed and contradictory findings on the business case of voluntary corporate disclosures. Shruti (2014) finds that voluntary corporate disclosure has no significant effect on corporate financial performance. Deutsche Asset Management and the University of Hamburg, (2015) establish a positive relation between voluntary corporate disclosure and corporate financial performance. Based on the above findings among many others, managers and business leaders are left with a dilemma on whether VCD adds value to the firms and whether to consider it as a business practice (Barros, Boubaker & Hamrouni, 2013).

The Recent failure of commercial banks in Kenya has made CBK to increase the extent of statutory disclosures (CBK, 2017). For instance, a run on the deposits of Chase Bank, made it to be Kenya's 11th largest bank at the time to be placed under receivership on April 7, 2015, after the bank's chairman and group managing director resigned shortly after announcing re-stated earnings with a qualified audit opinion. The bank was reopened in the same month after takeover by KCB Bank (Karuri, 2015). Earlier in October 2015, Imperial Bank Ltd had been put under receivership after claims of fraud by the company executives. Similarly, in August of 2015, Dubai Bank Kenya Ltd collapsed after it breached daily cash-reserve-ratio requirements (Genga, 2015).

Failure of small banks can make depositors to move to large banks causing mergers and acquisitions in the sector. The failures can also reduce confidence in the banking sector which can adversely affect savings and investments. However, VCD can enable depositors and investors to regain confidence in the sector. Various studies conducted indicate mixed findings relating to the effect of corporate disclosures on firm performance (Shruti, 2014). Based on the mixed findings elucidated by various studies and three bank failures reported in a period of less than a year, this study sought to analyse the effect of voluntary corporate governance disclosures on financial performance of listed commercial banks in Kenya.

Objectives of the Study

The general objective of this study was to establish the influence of disclosure of corporate governance principles on financial performance of listed commercial banks in Kenya. The specific objective was to establish the influence of disclosure of corporate board's effectiveness on the financial performance of listed commercial banks in Kenya.

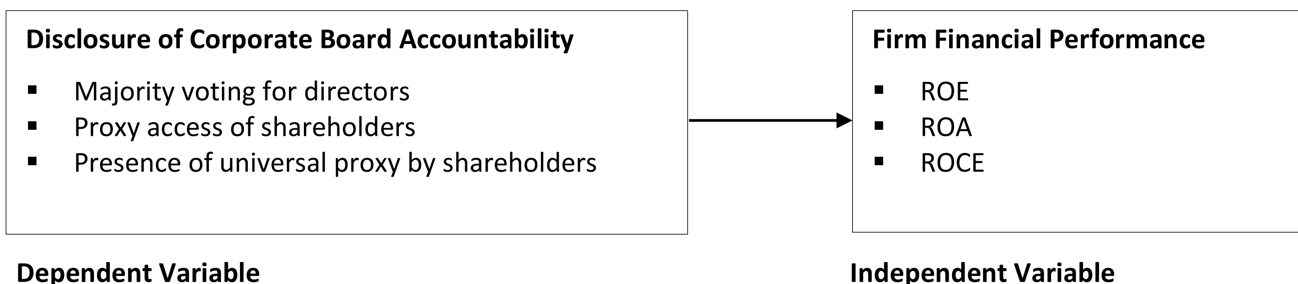
LITERATURE REVIEW

Theoretical Review

Capital Need Theory

The capital structure of companies comprises of equity and debt. For managers to acquire finance for smooth running of business there is need for disclosure of voluntary information for low cost of finances. This motivates managers to disclose additional information that may help them to generate capital on the best available terms. Hearly and Palepu (2001) points that organization managers with intention of making capital market dealings are motivated to disclose information voluntarily so as to reduce the information asymmetry problem and hence reduce the costs of external financing. The firms cost of capital is considered to incorporate a premium for shareholders indecision about the accuracy and adequacy of data available about the organization. For that reason, the reduction in the firm's cost of capital can be realized when investors uncertainty is reduced through voluntary disclosure (Schuster and O'Connell, 2006).

According to capital need theory, showing additional information can help to maintain a healthy demand for the organization's shares by attracting new investors. Firms with higher level of voluntary disclosures will tend to increase stock prices over time. Therefore, enhanced corporate disclosure may result to improvement in investor's capital allocation decision and assessment of return from the company's share. Hassan and Marston (2010) suggest that disclosing more personal information in annual firm's annual reports by the managers can lead to increased stock liquidity through reduced transaction costs and increased demand for the company's securities. In addition, disclosing more significant information by the firm's management on a voluntary basis will significantly improve the credibility among the major shareholders. Disclosing information to capital markets will allow shareholders to evaluate the firm more precisely and thus improve the company's operational and strategic decisions. This theory, however, fails to relate voluntary corporate disclosure to financial performance of the firm.



Dependent Variable **Independent Variable**

Figure 1: Conceptual Framework

Voluntary Disclosure of Corporate Board's Effectiveness

Sangmi & Nazir, (2010) describes the voluntary disclosure of corporate board's effectiveness as the ability for the organization to assess the extent to which the company discloses how far the board has developed its competencies for the work it might undertake what the board has scrutinized, and how productively the board manages its agenda at meetings. Corporate board effectiveness can also be evidenced by disclosure on the confidence of the board in meeting its legal requirements and reporting on how effectively the board oversees the organization.

According to Achoki and Kule (2015) on the effect of voluntary disclosure on the financial performance of commercial banks in Rwanda. The study investigated the effect of board disclosure as a proxy for measuring voluntary disclosure and how they affected the financial performance of commercial banks in Rwanda. Firm performance was measured using ROE. The study adopted a descriptive research design. The study took a sample of 14 commercial banks in Rwanda. Census

approach was used to determine the sample size. Data was collected through developing a disclosure index consisting of 47 disclosure items. Secondary data was collected using documentary information from banks annual accounts for the period 2011 to 2015. Data was analyzed using a multiple linear regression model. The study found a positive relationship between board disclosure and return on equity. This study was conducted in Rwanda which may not have similar operational and disclosure environment as Kenya.

Empirical Review

Hamrouni, Miloudi and Benkraiem (2015) conducted a study in France which investigated the relationship between firm performance and corporate voluntary disclosure on the effectiveness of the board. The population for the study consisted of all the 250 French manufacturing firms listed on the Euronext stock market from 2004 to 2009. The study excluded financial and assimilated firms because they operated in an environment where disclosure was more likely to be a result of specific legal and regulatory requirements. Furthermore, the study discarded all firms with missing financial or governance data. A sample of 179 firms was finally selected. The study applied regression analysis to test for the relationship between disclosure index and firm performance and controlling for firm size, dividend policy and industry. The empirical findings showed a positive relationship between board disclosure indexes and performance measures. They provided evidence that the level of voluntary board information disclosed in annual reports plays a significant signaling role on firm performance. This study focused on manufacturing firms which have different disclosure requirements with commercial banks who are the focus of the current study.

Mutiva (2015) studied the relationship between voluntary disclosure and financial performance of companies quoted at the NSE. The objectives of the study were to explore the effect of voluntary disclosure of general corporate and strategic information, voluntary disclosure of financial information, voluntary disclosure of forward-looking information and voluntary disclosure of socio-environmental and board disclosures on financial performance of the NSE listed companies. Annual reports of 10 listed companies from the NSE 20-share index were investigated from the year 2011-2013. A disclosure checklist consisting of 49 voluntary disclosure items of information was used. A regression analysis was conducted on the data set using Excel 2007. Findings revealed that the individual predictor variables produced mixed results when regressed against ROI. However, the multivariate regression analysis depicted a strong positive relationship between voluntary disclosure of the board effectiveness and financial performance measure. This study focused on only the best performing companies in the NSE in all sectors. Since companies in different sectors have different reporting requirements, the findings may be crowded by these differences. The current study will focus only on listed banks which have similar reporting requirements and operating environment.

METHODOLOGY

This study applied a descriptive research design approach based on secondary data that was obtained from published documents of CBK and commercial banks in Kenya. Cooper and Schindler (2003) note that descriptive research design is a scientific method which involves observing and describing the behaviour of a subject without influencing it in any way. The method was used to gather a snap shot analysis of data relationships between study variables (Cooper & Schindler, 2003). To carry-out this research, a disclosure index for the commercial banks was developed. This design was considered suitable in this study as the study sought to describe how VCDs influence financial performance of commercial banks without influencing the banks in any way.

The population of study was all the 11 listed commercial banks in Kenya who were commercial banking industry members. These were the commercial banks that had been licensed to have

operations in Kenya and which were operational between 2015 and 2019.

The study applied a data collection checklist which had the voluntary disclosure factors under study. This checklist was used to examine the annual reports of the commercial banks for the presence of the different disclosure aspects under study. The study utilized secondary data which was collected from the CBK and from the audited final reports of the 11 commercial banks.

The data collection checklist was subjected to expert reviews to establish the reliability and validity of the instrument. However, since the instrument was relying on secondary data, there was no test for reliability.

Data was collected from publicly available information published in annual reports of all the 11 listed commercial banks for 5 years (2015 – 2019). The data was transferred from the secondary annual reports to the checklist depending on whether there was a certain voluntary disclosure or not. Secondary data was considered appropriate as it provided a high level of accuracy enabling the researcher to draw more realistic conclusions.

Data collected was analyzed using both descriptive and inferential statistics. Descriptive analysis was applied in depicting the trend of the VCDs and financial performance of the 11 listed commercial banks. Moreover, the mean, standard deviation, minimum, and maximum was provided to show central tendency and dispersion of the collected data. The inferential statistics used included correlation analysis which depicted the association that exists between VCDs and financial performance.

The study also employed panel regression. This was adopted since the data collected had longitudinal and cross-sectional properties. Maddala (2001) observes that using panel regression analysis model enables the data to consider the attributes of the data in relation to differences in entities and changes over time. Data from the 11 commercial banks for five years showed 55 observations which were sufficient for regression analysis ($n > 30$). The data collected was entered into SPSS software that helped in analysis.

FINDINGS AND DISCUSSION

Descriptive Statistics

Table 1: Summary of Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Board accountability disclosure	11	25.0	75.0	47.3453	28.0032
Board effectiveness disclosure	11	23.0	62.0	48.6173	20.6672
Executive pay disclosure	11	22.0	67.0	47.6244	22.5978
Ownership structure disclosure	11	35.0	71.0	55.3544	23.2420
ROE	11	-0.01	38.35	14.5275	15.96779
Valid N (listwise)	11				

The table above showed that from the 11 listed commercial banks samples, corporate board accountability had a minimum figure of 25%. This implies that the bank with the least disclosure on corporate board accountability had a disclosure index of 25% while the maximum disclosure was 75% which implied that the bank with the highest disclosure on corporate board accountability had a disclosure index of 75% over the six-year period reviewed. The mean disclosure was 47.35% with a standard deviation of 28% which means that the disclosure can deviate from the mean to both sides by 28%.

The table further revealed that corporate board effectiveness had a minimum figure of 23% which implies that the bank with the least disclosure on corporate board effectiveness had a minimum disclosure index of 23% while the maximum disclosure was at 62% implying that the bank with the highest disclosure index over the period of the study was at 62%. The mean disclosure was at 48.62% with a standard deviation of 20.67% implying that the disclosure can deviate from the mean to both sides by 20.67%

The table also reveals that executive pay disclosure had a minimum figure of 22% which implies that the bank with the least disclosure index over the period of study was at 23% while the maximum figure was at 67% implying that the bank with the highest disclosure index over the period of the study was at 67%. The mean disclosure figure was at 47.62% with a standard deviation of 22.60 % implying that the disclosure can deviate from the mean on both sides by 22.60%.

The table further reveals that ownership structure for the 11 listed commercial banks had a minimum figure of 35% which means that the bank with the least disclosure on ownership structure had a minimum disclosure index of 35% while bank with the highest disclosure index is at 71%. The mean disclosure is at 55.35% with a standard deviation of 23.24% which means that the disclosure index can deviate from the mean on both sides by 23.24%

The table also reveals that from the 11 listed commercial banks sampled, the bank with the lowest Return on Equity(Y) was at -.0.01% and the bank with the highest Return on Equity was at 38.35%. The average Return on Equity was at 14.53% with a standard deviation of 15.98%. This means that the value of Return on Equity can deviate from the mean on both sides by 15.98%.

Correlation Analysis

Table 2: Summary of Pearson's Correlation analysis

Correlations

		ROE	Board accountability disclosure	Board effectiveness disclosure	Executive pay disclosure	Ownership structure disclosure
ROE	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	11				
Board accountability disclosure	Pearson Correlation	.893	1			
	Sig. (2-tailed)	.046				
	N	11	11			
Board effectiveness disclosure	Pearson Correlation	.635*	.616**	1		
	Sig. (2-tailed)	.029	.004			
	N	11	11	11		
Executive pay disclosure	Pearson Correlation	.657*	.672**	-.672**	1	
	Sig. (2-tailed)	.006	.004	.001		
	N	11	11	11	11	
Ownership structure disclosure	Pearson Correlation	.775**	.579*	.490**	.359	1
	Sig. (2-tailed)	.0.005	.014	.000	.095	
	N	11	11	11	11	11

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

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

Pearson's correlation analysis was used to measure the degree of association between the disclosure variables and profitability to evaluate whether the disclosure proxies will increase profitability. Pearson's correlation analysis lies between -1 and +1. From the above it can be noted that return on equity is positively related to corporate board effectiveness, corporate board accountability, executive pay disclosure, ownership structure. It can also be noted that corporate board effectiveness and assets are more correlated to return on equity than the other indicators. This means that as ownership structure increase so does return on equity. The independent variables are correlated with each other this may not provide an accurate relationship and a variable can be dropped to provide more accurate results. The Pearson correlation analysis shows the relationship between the variable that is both the explanatory and dependent variables. The correlation analysis shows a positive relationship between return on equity; general disclosure, corporate board accountability, executive pay disclosure, and ownership structure. Hence the model is expected to show a positive coefficient for the above variables.

Summary of Regression Model

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.739[a]	.569	.443	.00562

a. Predictors: (Constant), ownership structure, board effectiveness disclosure, executive pay, board accountability disclosure

The results from the regression equation are show in table 3. The equation used return on equity as the dependent variable while the disclosure proxies, corporate board accountability, corporate board effectiveness, executive pay disclosure and ownership structure are the independent variables. From the model, the coefficient of determination indicates that about 57% of change in Return on Equity is accounted for by the explanatory variables while the adjusted R-squared of 44% further justifies this effect. If the adjusted R-square lies near 1 then it would mean the model has a higher level of error hence not fit the study while if the value is near 0 it means the model has few errors. The table above shows how well the data fits the model. In this case the model has an adjusted R-square of 0.443 which means that the model has a smaller error of component since it ranges towards 0 and not 1. The goodness-of- fit statistics was carried out to ensure that the data collected is fit for the model and the summary in table 3 justifies the model as the adjusted R statistics that is 0.443 it lies in the range of 0 and 1, more towards 0. The lower adjusted R statistics states the data will be more useful for predicting the model and R-squared in the study is 0.569 which means 56.9% of the explanatory variables explain the dependent variable.

Analysis of variance (ANOVA)

An analysis was carried out on the relationship between the board accountability, board effectives, executive pay, ownership structure and financial performance. From Table 4 below, the model was significant (p-value = 0.404) at 0.05 level in explaining the linear relationship between the study variables. Additionally, the F-statistic is significantly greater than 1 thus indicating the appropriateness of the model in testing the relationship between the study variables. This means that the model is appropriate for use running a factor analysis.

Table 4: *ANOVA*[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.062	4	.016	27.634	.001[b]
	Residual	.003	6	.001		
	Total	.065	10			

a. Dependent Variable: financial performance

b. Predictors: (Constant), board accountability, board effectives, executive Pay and ownership structure.

Regression Model

Table 5: Regression Analysis

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.035	.012		3.016	0.041
	Board accountability disclosure	-.012	.001	.540	8.125	.821
	Board effectiveness disclosure	.111	.029	-.202	-3.838	.155
	Executive pay disclosure	.220	.036	.339	6.048	.217
	Ownership structure disclosure	.343	.225	.503	5.308	.271

a. Dependent Variable: ROE

The result of the regression analysis of the association between the ROE and the extent of voluntary disclosure in the annual reports of commercial banks are shown in the section above. The table shows the coefficients of the model and the significance of each coefficient. The model has a constant 0.035 of while the coefficients for the explanatory variables have standardized betas of 0.540 for corporate board accountability, -0.202 for corporate board effectiveness, 0.339 for forward looking data and 0.503 for ownership structure. The standardized coefficients of beta were used to identify the relationship between financial performance and voluntary disclosure. The t- statistics of the model are not significant at 5%, however forward looking and corporate board accountability are significant at 10%.

ROE=0.035 +0.540X1 - 0.202X2 + 0. .339X3 + 0.503X4 + ε

The regression analysis in table 5 shows the coefficients of all the explanatory variable in relation to return on equity, while the standard errors show how the data is fit for the model while the t-test shows the variables are not significant at 5% in explaining the relationship between voluntary disclosure, company size and explaining return on equity. The equation below shows the coefficients of each independent variable and its standard errors

Ownership structure has a significant positive relationship with Return on Equity which is similar to the hypothesized positive relationship found with respect to Singapore listed companies by Eng & Mak (2002). The study also revealed that corporate board accountability analysis had a positive relationship with Return on Equity, this is consistent with a study by Ogidefa (2008) that found a positive relationship between the level of governance items disclosed by banks and the return on equity. Unlike studies that have been conducted by Chow and Boren (1987), in Mexico, Yusoff and Hanefaf (1995) in Malaysia, Al-Sammari (2008) in Kuwait and Barako (2007) in Kenya that found the highest disclosure levels in corporate board effectiveness disclosure and executive pay

disclosure, this study found that corporate board effectiveness disclosure had the least form of disclosure while executive pay disclosure had a slightly higher level of disclosure

CONCLUSIONS AND RECOMMENDATIONS

Findings showed that the highest level of disclosure by commercial banks is corporate board accountability followed by ownership structure while the lowest are executive pay disclosure and corporate board effectiveness. This implied that financial performance of commercial banks will be highly affected by financial and social disclosure. The correlation analysis showed a positive relationship between ROE and the proxies of voluntary disclosure especially corporate board accountability disclosure and ownership structure which implies that they positively impact on the financial performance of commercial banks.

Voluntary disclosure of information by organizations has become very important to decision makers in the era of today's knowledge-based economy. Each organization attempts to disclose as much information to both internal and external decision makers. It is in fact becoming an integral part of company annual reports. This study established that voluntary disclosure in annual reports of the sampled commercial banks was at a relatively moderate level. The study also established that the highest level of disclosure in the four disclosure proxies was carried out by banks listed on the Nairobi Securities Exchange. The main reason for this high level of disclosure is that companies listed in the NSE are mandated to disclose mandatory and voluntary information to all stakeholders as a corporate governance practice while the Capital Markets Authority outlines certain disclosure requirements for listed companies. Another possible reason for voluntary disclosure is that listed companies' annual reports are thoroughly analyzed by the mass media, public opinion, and government among other stakeholders which may motivate them to reveal a higher volume of voluntary information to uphold their market value.

The study found a positive relationship between board accountability, executive pay and ownership structure and return on equity. A 1% increase in corporate board accountability leads to a 54% increase in financial performance of commercial banks, while a 1% increase in executive pay disclosure leads to a 33.9% increase in return on equity and a 1% increase in board and social disclosure leads to a 50.3% increase in return on equity. On the other hand, the study found a negative relationship between corporate board effectiveness disclosure and return on equity this means that a 1% increase in strategic disclosure leads to a 20.2% decrease in return on equity of a firm.

The study concluded that firms should lean towards disclosure of financial and ownership structure to increase their performance. The study conforms to the studies reviewed in terms of a positive relationship between corporate board accountability and financial performance.

First, it was noted that large banks disclose more information as compared to smaller banks. This is because companies listed in the NSE are mandated to disclose mandatory and voluntary information to all stakeholders as a corporate governance practice. Another possible reason for voluntary disclosure is that listed companies' annual reports are thoroughly analyzed by the mass media, public opinion, and government among other stakeholders which may motivate them to reveal a higher volume of voluntary information to uphold their market value. Therefore, disclosure practices and requirements should apply across board no matter the size of the bank in order to provide as much information to all interested stakeholders.

Secondly, Capital Markets Authority guidelines are only mandatory for banks that are listed in the Nairobi Securities Exchange and hence banks that are not listed are not mandated to comply with the guidelines. Therefore, steps should be taken to ensure mandatory compliance of Capital Markets Authority guidelines in order to reduce the

disclosure gaps especially for smaller banks that are not listed in the Nairobi Securities Exchange.

Third, corporate governance practices should be emphasized in all practices and disclosure levels should not be restricted to annual reports only as the figures on the annual reports may not disclose all the information that investors may require to aid in decision making. Therefore, banks should ensure transparency and disclosure in all the activities undertaken during the period of operation so as to assist investor in decision making.

Lastly, efforts should be made to create a harmonized measure for voluntary disclosure as to provide a more accurate analysis for policy recommendations. This is because some items outlined on the voluntary disclosure index may not provide as much information necessary for disclosure while items that are omitted from the disclosure index if included may provide more and necessary information for disclosure.

Suggestions for Further Studies

This study was conducted on the banking sector alone and this may not provide adequate comparison on disclosure. It is therefore necessary to conduct a study on other sectors such as the agricultural sector, insurance, manufacturing, telecommunication, tourism, transport and construction in order to facilitate adequate comparison. Lastly, research should be conducted to determine factors that may influence the level of voluntary disclosure in annual reports. Since corporate governance issues have become importance in reporting, corporate governance characteristics, ownership structures and company characteristics should be considered as areas for further study.

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