

**RELATIONSHIP BETWEEN CORPORATE TRANSPARENCY AND FINANCIAL  
DISTRESS OF NON-FINANCIAL LISTED COMPANIES IN NAIROBI SECURITIES  
EXCHANGE**

**BY  
ERIC ONYOO ACHIYA**

**A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN  
PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE  
DEGREE OF MASTER SCIENCE, COMMERCE (FINANCE & INVESTMENT) AT  
KCA UNIVERSITY**

**NOVEMBER, 2022**

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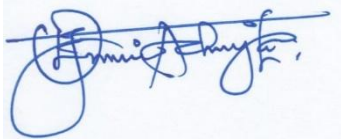
## DECLARATION

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

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

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Dissertation Supervisor

## ABSTRACT

High-quality financial transparency provides a key basis for making well-versed corporate decisions between various stakeholders, especially those about various organizational transactions, financial planning and monitoring, and capital allocation. As a result, financial transparency is now taking a significant new meaning by incorporating more proactive and comprehensive transparency instead of its traditional approach that entailed significant transparency of an entity's corporate governance policies only. However, many listed firms in Kenya, particularly non-financial ones, have faced a significant financial crisis as they struggle to attract investors due to a lack of information transparency. Even though financial firms listed at NSE have been posting excellent financial performance over the last decade, most have been experiencing significant financial distress. Therefore, the main objective of this study was to examine the relationship between financial transparency and the financial distress of non-financial companies in NSE. The study was guided by three key theories, i.e., Agency Theory, Stewardship Theory, and Stakeholders Theory. The study employed a descriptive research design. The target population of this study consisted of all 41 non-financial firms that have been operating at NSE for the past seven years. The census approach was employed to select all 41 non-financial firms in NSE. Document transparency check index based on each specific study variable was used to obtain data for the study. The data obtained was studied to establish its completeness before it was analyzed. Complete data were analyzed using STATA software. Random effects panel model was adopted to establish the extent to which the dependent variable influenced the independent variables. Results obtained in the S-Model indicated that financial transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE. Results per the X-Model suggested that financial transparency had a positive and statistically significant effect on the financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that risk transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE. As per the X-Model, the results suggested that risk transparency had an inverse and statistically significant effect on the financial distress of non-financial companies in NSE. The study concluded that increasing financial transparency would positively affect the financial distress of non-financial companies in NSE. The study also concluded a negative co-movement between social transparency and financial distress of non-financial companies in NSE. The study, therefore, recommended that non-financial firms in NSE should strive to enhance their overall financial information transparency in their published reports to attract more potential investors, especially when such information can clearly show that the firm is financially stable. The study also recommended that the management of non-financial firms at NSE should ensure that all firm information deemed crucial for transparency to attract potential investors are properly and accurately disclosed through open publication online to give prospective investors the free will to download and go through such information.

**Key Words: Financial Transparency, Risk Transparency, Social Transparency, Financial Distress.**

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## **ACRONYMS AND ABBREVIATIONS**

|               |   |
|---------------|---|
| <b>ASEA</b>   | African Securities Exchange Association     |
| <b>CMA</b>    | Capital Markets Authority                   |
| <b>CSR</b>    | Corporate Social Responsibility             |
| <b>ERM</b>    | Enterprise Risk Management                  |
| <b>NSE</b>    | Nairobi Securities Exchange                 |
| <b>ROA</b>    | Return on Asset                             |
| <b>ROE</b>    | Return on Equity                            |
| <b>SACCOs</b> | Savings and Credit Cooperative Organisation |
| <b>SEC</b>    | Securities and Exchange Commission          |
| <b>UK</b>     | United Kingdom                              |
| <b>US</b>     | United States                               |

## **OPERATIONAL DEFINITION OF TERMS**

- Financial Distress:** Financial distress refers to a condition whereby a firm/entity cannot generate adequate revenue/income, thus, making it impossible for the entity to settle its accumulating financial obligations (Hotchkiss, Smith & Strömberg, 2021).
- Financial Transparency:** Financial transparency is when an entity provides critical details about its assets, revenues, expenses, and liabilities (Chenchehene, 2019).
- Risk transparency:** It involves a business entity making public any significant information describing major risks an entity is likely to face and their expected impact on its current and future performance (Dey, Hossain & Rezaee, 2018).
- Social Transparency:** Social transparency refers to a firm obligation to provide crucial information regarding its overall relationship to various social policy issues among its various stakeholders (Maina & Omagwa, 2020).

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

High-quality transparency is the key basis of any sound corporate governance regime. Corporate transparency provides a key basis for making well-versed corporate decisions between various stakeholders, especially those about various organizational transactions, financial planning and monitoring, and capital allocation (Nguta, 2021). In addition, corporate transparency also provides a key level of playing ground between an entity and other market participants. It ensures that all market participants and regulatory authorities can objectively assess an entity's business and governance practices (Maina & Omagwa, 2020). As a result, corporate transparency is now taking a significant new meaning by incorporating more proactive and comprehensive transparency instead of its traditional approach that entailed significant transparency of an entity's corporate governance policies only (Peña & Jorge, 2019).

Hence, business entities must assume more responsibilities for the new concept of corporate transparency to disclose as much information as possible to various stakeholders, especially public members, shareholders, and other market stakeholders (Gassen & Muhn, 2018). Even though corporate transparency and financial distress have been supported within the general entities, little to no research has been done about financial transparency and financial distress of non-financial listed companies (Wanjau, Muturi, & Ngumi, 2018). Non-financial firms normally exhibit a higher level of financial distress than financial ones. They are supposed to ensure a high transparency level for all stakeholders involved in implementing various organizational policies to reduce conflict of interest, leading to principal-agent conflict.

Corporate transparency ensures that effective governance measures are developed to minimize stakeholders' exploitation by organizational managers due to high-end information asymmetry. As a result, every financial and non-financial entity adopts full corporate transparency to mitigate against the possibilities of financial distress (Maggio & Pagano, 2018).

### **1.1.1 Corporate Transparency**

Globally, strict corporate transparency requirements amongst listed firms in many Asian countries, especially China, have long been a thorny issue (Zhou, Zhou, Peng, Chen, & Li, 2018). For instance, Chinese and foreign companies not fully abiding by the corporate transparency requirements are heavily criticized by the Chinese Communist Government. Distressful corporate scandals across the country strongly reinforce this aspect. For this reason, many listed firms operating across China have been falsifying and fabricating their financial and governance information to remain operational or obtain a new injection of funds from the capital market. This strict transparency requirement continues to be an issue for listed Chinese firms. International financial investors increasingly question their corporate reports with suspicion as they have trouble understanding how Chinese companies disclose information about their effectiveness.

In the United States, corporate transparency is a strict requirement imposed by the Securities and Exchange Commission (SEC) among firms in the country, especially those listing their stock on United States Exchanges (Grundy, Habibi, Shnier, Mayes & Lipworth, 2018). Even though some transparency exemptions exist in the United States, particularly among foreign entities, the transparency level required, especially by the SEC, is still generally high. The suggestive reason for the high corporate transparency among listed firms in the US is mainly because stakeholders' interests are highly considered; hence, the need to establish a safe condition and ensure the protection of investors and increase profits (Grundy et al.,2018).

In Europe, firms significantly demand greater corporate transparency and high-quality narrative reporting. This is especially the case in the United Kingdom after the 2008 financial crisis, which led to new corporate transparency regulations, especially on risk transparency (Chenchehene, 2019). However, since the 2008 financial crisis, many UK firms' transparency and relevance of disclosed information have slightly changed. Much of their transparency is

still highly inclined to increase the amount of information instead of the content quality. As a result, corporate transparency information disclosed in many UK firms' annual reports has been considered a changeless area of crucial logistical and intellectual challenge. In lieu of forward-looking, instructive, and particular content that would lessen the information asymmetry between managers and shareholders, narrative statements frequently incorporate boilerplate and generic transparency.

In India, ensuring enhanced transparency among listed firms minimizes conflict of interest and information asymmetry between principals (shareholders) and their agents (managers). In addition, improved corporate transparency is crucial in enhancing the reliability of the financial information released to markets due to increasing accounting and stock market fraud (Ezhilarasi & Kabra, 2017). In response to accounting irregularities and financial scandals among firms in India, the country's regulatory authority has taken the initiative to enhance information transparency, reduce conflict of interest and ensure that auditors' independence to protect investors' interests is taken into account.

Africa, corporate transparency plays a crucial role, especially for emerging capital markets across North Africa, such as the Egyptian one. This is because empirical studies across developed economies have indicated that companies with high-level transparency normally have more investors. This helps reduce information asymmetry between the companies and investors (Hassouna, Ouda & Hussainey, 2017). It is argued that increased transparency will reduce the uncertainty surrounding the estimation of stock returns, resulting in a decrease in the rate of return required by investors to hold the firm's shares; as a result, the firm's cost of equity will decrease, and the firm's value will increase.

In South Africa, scholars have criticized the significance of high-level transparency of corporate information to the public. This is because disclosing more information to the public can sometimes amount to a negative net benefit, especially when the financial information

places a firm at a competitive disadvantage over its sectoral rival (Venter, Stiglingh, & Smit, 2017). In addition, disclosing more financial information might also have a negative value if investors consider themselves to be in a worse-off position in the case of the firm disclosing detailed information that might be exploited to their detriment. As such, investors may sometime misinterpret/suspect the intention of a firm disclosing detailed information to members of the public without a legal obligation to do so.

Ensuring enhanced corporate transparency has received significant support across West Africa, especially in Ghana. This is because enhanced corporate transparency helps stakeholders with significant financial information to reduce uncertainty and make better financial decisions (Boateng, Tawiah, & Tackie, 2022). Recently, the collapse of some large companies in Ghana has raised doubts among investors concerning the quality of information disclosed by corporate bodies. Improving corporate information transparency by setting up good governance structures has become necessary. As a result, corporate governance codes were released by the Securities and Exchange Commission (SEC) of Ghana in 2010 among all listed firms to enhance corporate transparency and accountability and meet global corporate transparency standards.

Regionally, there has been a significant rise in the need for corporate transparency among firms in the East African region. For example, in Tanzania, firms must ensure high-level corporate transparency due to the inadequacies observed in the traditional corporate information disclosed to public members (Mwenda, Ndiege, & Pastory, 2021). The information is needed to assess the firm's value and make other relevant decisions about the firm. The need for non-financial transparency has prompted firms to change their practices about disclosing such information to their esteemed stakeholders. They have striven to include information transparency in their corporate strategy. In addition, including non-financial information in

corporate reporting has become very important in transparency and improves economies worldwide.

Locally, corporate transparency is very important as it helps firms reduce information access costs. As such, high information transparency among firms listed at NSE members of the public minimizes costs related to gathering and acquiring important information regarding these firms. In addition, sufficient transparency of such crucial financial information tends to mitigate financial scandals while simultaneously boosting investors' confidence (Maina & Omagwa, 2020). Further, the idea of high-level financial transparency has been supported by many scholars. They argue that investors are usually cautious about investing their money in public entities because of the failure to disclose material information regarding their operations (Injeni, Mangena, Mathuva & Mudida, 2021).

Indeed, investors always look at corporate information disclosed by entities to make crucial investment decisions. Thus, enhancing information transparency helps minimize information asymmetry by providing investors with sufficient financial information to base their valuation of the firms' securities. Therefore, corporate transparency measures necessitate enhanced business information reporting to enable shareholders to make educated judgments. Directed toward profitable projects to grow the firm's cash inflow (Injeni et al., 2021).

Therefore, enhancing information transparency is very important as it creates transparency while sustaining investors' confidence. For example, many non-financial firms listed at NSE have faced significant financial distress, leaving some closed over the last few years. Among the notable non-financial firms experiencing significant financial distress in the country are Kenya Airways, Uchumi Supermarket, and Mumias Sugar. For example, significant financial distress experienced by Kenya Airways has accumulated to around Kshs. 144.6 billion as of March 2022. This had seen the firm going without profit since 2012, when it closed with net earnings of Sh1. 66 billion.

Financial transparency is when an entity provides critical details about its assets, revenues, expenses, and liabilities. Business entities must engage in financial transparency as a crucial part of their financial reporting. Financial transparency makes the management accountable for their action, especially when the overall performance of a firm is not good (Rossi & Harjoto, 2020).

Risk transparency involves a business entity making public any significant information describing major risks an entity is likely to face and their expected impact on its current and future performance (Dey, Hossain & Rezaee, 2018). Business entities that disclose a greater amount of crucial risk information are deemed to benefit from a reduction in the cost of finance since providers of these funds are better positioned to judge the entity's risk level, thus removing the need to include a risk premium within their cost of capital.

Social transparency refers to a firm obligation to provide crucial information regarding its overall relationship to various social policy issues among its various stakeholders. Stakeholders can use the social information disclosed by a firm to determine whether the firm is socially responsible and whether they will transact with such a firm. Social information that firms disclose mostly constitutes corporate ethics, staff relations, and community involvement (Dalal & Thaker, 2019).

### **1.1.2 Financial Distress**

Financial distress is when a firm/entity cannot generate adequate revenue/income, thus, making it impossible for the entity to settle its accumulating financial obligations (Hotchkiss, Smith & Strömberg, 2021). On the other hand, financial distress is when promises made to a firm's creditors are broken or honored with extreme difficulties. Therefore, if a firm's financial distress is not relieved, it can easily lead to its liquidation (Ashraf, Félix & Serrasqueiro, 2019).

A business entity can experience financial distress for several reasons, such as holding too many illiquid assets, unfavorable macro trends, and high fixed costs. Some key signs that

an entity faces financial distress include the inability to pay its creditors, third parties, and staff salaries. Therefore, when a firm is facing a serious, lengthy period of financial distress without corrective actions being taken, such a situation doesn't only affect entity management but also its creditors and staff morale to perform (Chenchehene, 2019).

Analyzing the major causes of financial distress and developing comprehensive and stable models to predict the same is not new. The development of stable models to predict financial distress has been an ongoing process since the 1960s, with new models continuing to be developed as an extension of the previous models (Gao, Parsons & Shen, 2018). However, most of these models have utilized financial and accounting information provided by entities to predict financial distress. However, according to some scholars, relying solely on financial and economic data alone to predict financial distress does not provide sufficient predictive power of future insolvency, being therefore necessary to include variables representative of ownership and corporate governance characteristics to improve the predictive power of models (Hotchkiss et al., 2021).

Although various models can be used to examine an entity's financial distress status that has been empirically developed, the study will employ the Springate and Zimajj models of financial distress. Springate Score Model (1978) will estimate the financial distress of the targeted non-financial firms by carefully selecting four of the nineteen financial ratios used to determine the likelihood of a firm failing. Any non-financial firm with a Springate score of less than 0.862 will fail. On the other hand, Zmijewski Score (1983) will be used by adding financial ratio validity as a key firm financial failure detection tool. In this case, any non-financial firm targeted in this study is deemed to be in financial distress if the sum value of X (ROE, Debt Ratio, and Current Ratio) is less than zero. These two models will enable the researcher to easily predict whether the targeted non-financial firms in NSE face any financial distress through the computation of crucial financial ratios.

### **1.1.3 Nairobi Securities Exchanges**

The Nairobi Securities Exchange (NSE) is Kenya's main stock listing market. As a stock market started operating back in 1954 as a voluntary association of any stockbroker as long one, NSE was registered under the then Societies Act. Over the years, NSE has gained a reputation across the continent. As a result, it has attracted and continues to attract many local and international investors. The Nairobi Securities Exchange is licensed and governed by the Capital Markets Authority (CMA). The CMA also approves public listings and offers of securities issued and traded on the NSE. (NSE, 2017).

Apart from being a member of the African Securities Exchange Association (ASEA), NSE enjoys being the 4<sup>th</sup> largest stock market globally regarding market capitalization and trading volume. For this reason, NSE enjoys large sectoral indices from every economic sector whose shares are doing well (Buigut & Soi, 2020). Currently, there are sixty-three (63) firms that are listed at NSE categorized into thirteen (13) different sectors comprising agricultural, automobiles and accessories, banking, commercial and services, construction and allied, energy and petroleum, insurance, investment, investment services, manufacturing and allied, telecommunication and technology, real estate investment trust and exchange-traded fund (NSE, 2022). Out of the 63 listed firms at NSE, 41 are categorized as non-financials.

### **1.2 Statement of the Problem**

Corporate transparency is a very crucial component of corporate governance. This is attributed to the fact that high-level transparency reduces information asymmetry between firm stakeholders and their managers, thus mitigating agency problems within the firm (Mwenda, Ndiege & Pastory, 2021). Therefore, enhanced transparency has been established to mitigate financial distress among firms significantly. It ensures that firms can attract more investors who are more than willing to invest their money in such firms. In addition, high-level

transparency enhances firm performance by increasing monitoring and management actions, thus, reducing investors' investment risk (Maina & Omagwa, 2020).

Despite this, reliable corporate transparency has revealed that numerous firms, especially those listed, have significant scandals, frauds, and massive financial distress across the globe (Wanjau, Muturi & Ngumi, 2018). In Kenya, regulatory bodies' strict requirements, especially CMA, for listed companies to enhance their transparency have revealed that some firms are still experiencing severe financial distress. As a result, potential investors avoid investing in such firms, causing them to lose significant investment revenue. For example, the financial crisis experienced by Kenya Airways has accumulated a loss of around Kshs. 144.6 billion as of March 2022. This had seen the firm going without profit since 2012, when it closed with net earnings of Sh1. 66 billion. Other non-financial firms facing significant financial distress include Uchumi Supermarket, ARM Cement, and Mumias Sugar Limited (Nguta, 2021). This situation has led to the loss of investors' wealth and confidence in the stock market. Many falling firms have been established to have taken low-level transparency as they fear disclosing their negative financial position.

Other scholars have previously undertaken studies on financial transparency and financial distress. For example, Wanjau, Muturi & Ngumi (2018) evaluated how corporate transparency influenced the financial performance of listed firms from across East Africa and reported a strong positive relationship between various corporate transparency and the financial performance of the examined firms. The study provided a contextual gap as it analysed how corporate transparency affect financial performance of firms listed across East Africa while the current study will examine how corporate transparency affect financial distress of non-financial firms in NSE.

In addition, Ndungu (2013) investigated the relationship between transparency and the overall financial performance of insurance entities in Kenya and found a positive correlation

between transparency and the financial performance of the examined insurance firms. The study also provides a contextual gap as it examines how transparency affect financial performance of insurance firms while the current one looks at corporate transparency affect financial distress of non-financial firms in NSE.

In another study, Nguta (2021) examined the relationship between board characteristics and corresponding financial distress among deposit-taking SACCOs in Kenya and reported a positive relationship. Based on the above empirical studies, it is clear that no study examining the relationship between financial transparency and financial distress among non-financial listed firms in NSE has ever been undertaken in Kenya. Upon this understanding, the current study sought to bridge this knowledge gap by examining the relationship between corporate transparency and the financial distress of non-financial companies in NSE.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The main objective of this study was to examine the relationship between corporate transparency and financial distress of non-financial companies in the Nairobi Securities Exchange.

#### **1.3.2 Specific Objectives**

- i. To examine the relationship between financial transparency and financial distress of non-financial companies in the Nairobi Securities Exchange.
- ii. To determine the relationship between risk transparency and financial distress of non-financial companies in the Nairobi Securities Exchange.
- iii. To investigate the relationship between social transparency and financial distress of non-financial companies in the Nairobi Securities Exchange.

## **1.4 Research Questions**

- i. What is the relationship between financial transparency and financial distress of non-financial companies in the Nairobi Securities Exchange?
- ii. What is the relationship between risk transparency and financial distress of non-financial companies in the Nairobi Securities Exchange?
- iii. What is the relationship between social transparency and financial distress of non-financial companies in the Nairobi Securities Exchange?

## **1.5 Significance of the Study**

### **1.5.1 Government and Policy Makers**

The study findings were important to the government and close policymakers such as CMA. They provided them with sufficient knowledge on implementing more effective policies about non-financial listed firms at NSE, especially those related to the government operating at a loss. Implementing such policies eventually played a crucial role in enhancing overall financial performance and avoiding financial distress situations where the government has always been required to bail them out to avoid collapse.

### **1.5.2 Management of Non-Financial Listed Companies at NSE**

The study findings were also important to the management of non-financial firms listed at NSE. It was a crucial benchmark for upholding the required financial transparency and how such influenced their overall financial distress. The management was motivated to embrace high-level transparency to enhance financial performance and avoid financial distress.

### **1.5.3 Companies Stakeholders**

The study findings also benefited various stakeholders of the studied non-financial companies. They clearly understood why they should invest their money in companies with high-level financial transparency. Such information allowed investors to decide whether the company was performing well financially before investing its money there.

#### **1.5.4 Scholars and Academicians**

Further, the research findings from this study benefited scholars and academicians a lot as they added to the limited existing literature relating to the concept of financial transparency and firms' financial distress. Also, academicians wishing to research further on this concept can easily use the materials from this study for reference purposes.

#### **1.6 Scope of the Study**

The key aim of the current study was to examine the relationship between corporate transparency and financial distress of non-financial companies in the Nairobi Securities Exchange. As such, the target population of this study was all 41 non-financial firms operating at NSE for the past seven years. The study variables examined were financial transparency, risk transparency, and social transparency, whereas the dependent variable was financial distress. The study was guided by three key theories, i.e., Agency Theory, Stewardship Theory, and Stakeholders Theory. The study used secondary data obtained from published corporate reports of all 41 target non-financial firms to complete the study. The secondary data covered seven years period between 2015 and 2021. The study was undertaken between April 2022 to November 2022.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provided a detailed analysis of the previous empirical work undertaken by other scholars regarding corporate transparency and financial distress among different sectoral firms locally and globally. Therefore, the chapter was structured into different sub-sections, including a review of related theories, empirical studies, conceptual framework, gaps identified in the study, and operationalization of the study variables.

#### **2.2 Theoretical Review**

This section illustrates the various theories which upon which the study was anchored on in order to support the various study variables. A theory is normally regarded as an idea set to guide or even to explain a certain thing. The four key theories that were used to support the study variables were stakeholders' theory, agency theory, stewardship theory and wreckers' theory of financial distress.

##### **2.2.1 Stakeholders Theory**

The stakeholder theory was proposed by Freeman (1984). Stakeholders Theory provides that for any business to be successful, it must consider the value of its various stakeholders, such as customers, employees, shareholders, and others. As a result, the Stakeholders Theory has been applied consistently in corporate matters since its introduction making it hard to exclude it in any corporate model (Harrison, Barney, Freeman & Phillips, 2019).

Business entities must always be ready to meet the multiple expectations of their stakeholders instead of meeting only their shareholders' expectations, as provided by traditional shareholders' theory. The Stakeholders Theory offers a crucial platform for an entity to identify its key stakeholders to whom it should direct its social efforts to achieve enhanced financial performance (Harrison et al., 2019).

The key objective of the Stakeholders Theory is to provide corporate managers with a better platform for understanding their stakeholder's environment and managing it more effectively within the nexus of the existing relationship between the two (Foss & Klein, 2018). Corporate management is expected to be accountable to its stakeholders by undertaking important tasks, especially by reporting crucial financial information to them. This concept allows a firm to be accountable to all its stakeholders instead of the top echelons.

Stakeholders Theory plays a crucial role in championing financial transparency. It urges businesses to consider all their stakeholders' needs other than shareholders as part of social, financial, governance, and risk transparency (Foss & Klein, 2018). Collaborative communication by a firm through high-level information transparency allows firms to increase their investor base and, thus, improve the financial performance of such businesses. Business entities must disclose as much information to their stakeholders as possible to legitimize their operations. The theory provides that for businesses to exist, they must ensure that their activities are sufficiently disclosed, following society's acceptable norms and values.

The key strength of the Stakeholders Theory was that it played a significant role in championing corporate responsibility by urging firms to take care of their stakeholders' needs, such as providing them with sufficient financial information to understand their business operations instead of only reporting to shareholders. An important weakness of the theory is that it does not provide a unified definition of a stakeholder, as it considers stakeholders as all those who may influence or be affected by the firm's operations - a group that is limitless as the theory does not specify how to select the relevant stakeholders.

Therefore, the theory was of great importance to the current study since it indicated how important it is for company executives to make crucial decisions regarding financial transparency on behalf of the shareholders with the sole objective of creating and maintaining a successful organization so that the shareholders can prosper. Stakeholders' theory was used

to support the variable on financial transparency since one of the key functions of good corporate governance is to provide reliable information regarding how the firms' financial resources are being managed to all their concerned stakeholders.

### **2.2.2 Agency Theory**

The idea of Agency Theory was first proposed by Ross and Barry Mitnick in the 1970s. However, Jensen and Meckling (1976) are credited with revolutionizing Agency Theory. Their work extended the theory concept from the initial economics/institutional studies to any other context that involved uncertainty, risk, and information asymmetry. Agency Theory proposes a strong relationship between agents (managers) and principals (shareholders). In this case, principals contract agents to represent them in particular business transactions. They are expected to do so in the best interests of their principals without regard for self-interest. This is because the different interests of principals being represented by agents may easily be a source of conflict when agents don't act in the best interest of their principals (Vargas & Teodoro, 2018).

Agency theory assumes that a firm's managers are contracted to conduct business in its best interest and that their self-interest will never align with its interests. However, in some instances, managers' interests align with their shareholders' interests while conducting business leading to a conflict of interest (Vargas & Teodoro, 2018). As a result, firms are forced to increase the incentive structure that aligns the managers' and shareholders' interests or enhance managers' overall monitoring, control, and oversight by the principal delegates, particularly the board of directors. Therefore, aligning the managers' and shareholders' interests makes it possible for the board of directors to monitor managers more effectively, leading to enhanced performance and, thus, avoiding issues of financial distress.

Firm managers may sometimes possess more corporate information than shareholders, putting them in a position to pursue decisions that are likely to maximize their interests and not

shareholders' interests (Zogning, 2017). However, high-level information transparency may make it impossible for firm managers to use the vast information to their advantage, as their principals will sufficiently monitor their actions. Therefore, enhanced information transparency allows an organization to avoid financial distress since principals will not have to spend huge costs monitoring managers' actions, allowing a firm to operate more efficiently and perform better financially.

The strength of agency theory was that it provided a theoretical foundation for the board of directors to monitor how managers are running the firm's affairs on behalf of shareholders by ensuring that as much financial information is shared with the public as possible. This, in turn, ensured that managers don't rely on their self-interest, which may affect firm performance leading to financial distress. However, the key weakness of Agency Theory is that it offers an excuse for firm managers who always follow shareholders' orders even if they are aware that what they may be doing is wrong, causing the firm to perform poorly and ultimately leading to financial distress.

Agency theory was of great importance to the current study as it allowed the researcher to understand how information asymmetry between agent and principal may play a key role in influencing how a firm performs. Investors are more interested in firms whose operations are more transparent. Therefore, agency theory was used to support the variable on risk transparency, as potential investors are usually more interested in obtaining information that enables them to assess how a firm is performing financially.

### **2.2.3 Stewardship Theory**

The Stewardship Theory was developed by Donaldson and Davis (1989). According to the theory, when firm managers are left on their own, they are expected to act as responsible stewards by managing and monitoring the firm assets they have been tasked to control.

This is based on the assumption that when a steward chooses pro-organization and self-serving behaviour, the steward will automatically place a higher value on cooperating with the firm requirements than on defection to self-serving (Schillemans & Bjurstrøm (2020). Firm managers are expected to accomplish their stewardship responsibilities due to their high-capacity managerial skills, such as entrepreneurial skills, innovativeness, and risk.

Shareholders always expect firm managers to be duty-bound by obtaining crucial knowledge and skills that will enable them to efficiently utilize scarce resources to attain the entity's long-term objectives (Chrisman, 2019). However, firm stewards are more motivated to accomplish their assigned responsibilities only when available corporate governance is effective and vice-versa. Therefore, to be more competitive, a firm's overall governance structure must promote organizational development by appreciating workers' skills and sharing crucial organizational information with public members via corporate transparency (Subramanian, 2018).

Firm managers must always implement corporate policies to protect the corporate image, especially regarding information transparency. Therefore, leaving firm managers to act on their own makes them act as accountable stewards willing to share any information they have with firm stakeholders without any fear as they are motivated by the need to achieve. This, in turn, results in enhanced financial performance and organizational expansion, reducing incidences of financial distress likely to face a firm.

The key strength of stewardship theory is that it recognizes a reduction of agency conflict since firm stewards tend to attach significant marginal utility to pursuing collective objectives, which helps mitigate financial distress issues. However, critics of the theory argue that firm managers may not always act as good stewards as they can sometimes exploit their executive positions to make decisions that are not aligned with stakeholders' needs, such as

releasing sensitive corporate information to aid competitors in making the firm to lose its competitive edge and experience financial distress.

Therefore, the theory was of great importance to the current study since it indicated how important it is for company executives to make crucial decisions regarding information transparency on behalf of the shareholders with the sole objective of creating and maintaining a successful organization so that the shareholders can prosper. Stewardship theory supported the variable on social transparency since organizational managers are always required to be responsible stewards by managing and monitoring the firm assets they have been tasked to control.

#### **2.2.4 Wreckers' Theory of Financial Distress**

The theory was proposed by Campbell, Hilscher and Szilagyi (2005). The theory provides that stocks of a distressed firms perform in a manner which is vastly inferior to stocks of financially healthy firms. The wreckers' theory of financial distress seeks to explain the benefits that may step out of financial distress to stakeholders. It is not necessary to attribute the negative excess returns of distressed firms to inefficient or irrational markets (Walela, Omagwa & Muathe, 2022). Such negative excess returns can be shown to be the equilibrium outcome under efficiency in an environment where a subset of participants is able to draw returns (in kind) from distressed companies.

For firms close to bankruptcy, non-cash returns to ownership may be the dominant form of payout. If markets are efficient, those returns must show up in stock valuation. This may be labeled the 'wreckers' theory' of financial distress (Ndunda, Muturi & Wanyoike, 2020). It explains the entire pattern of results very well. They proceed to show how to test this hypothesis directly against the alternative of inefficient markets using the theory of convenience yields. It is hard to believe that financial market participants as a group can be that irrational or inefficient.

They paint an illusion of a firm being hit by a series of negative shocks, making losses and approaching a state of financial distress. With higher leverage, volatility of share prices increases with respect to private information; the ultimate fate of the firm depends on issues unknown to the general public. With information asymmetry becoming more important, uninformed investors will leave (Walela et al., 2022). Very soon, equity will be owned by insider's market participants who have a specific advantage in obtaining and interpreting information related to the company in question. Two groups come to mind: managers themselves, and competing firms. A third possibility might be private equity or funds, working on a restructuring.

It is this group of well-informed insiders that can draw returns on their investment in other ways than receiving a cash dividend payout. With managers, this is obvious: there is a large body of literature on corporate governance which shows how difficult it is to prevent managers from taking undue advantage of the firm. If the firm is distressed, it would not be wise for managers to realize hidden reserves generating a cash flow, as this cash presumably would go to the creditors. Instead, the utility maximizing managers will try to make use of the firms' resources in a more direct way (Ndunda et al., 2020). Competitors, on the other hand, are those market participants that have the same use of the firm's material and non-material resources, among other things specialized labor, market information, technical and engineering information and product knowledge.

### **2.3 Empirical Literature Review**

This section is devoted to the existing empirical literature on the problem of the study. Empirical review in research entails examining previous research work undertaken by different scholars in the same field of study in a bid to gain direct or indirect experience in regards to their observations on the subject matter.

### **2.3.1 Financial Transparency and Financial Distress**

In Europe, Rossi and Harjoto (2020) conducted a study in Italy that evaluated the relationship between corporate non-financial transparency, firm value, risk, and agency costs among listed firms and observed that firm managers and prospective shareholders ought to acknowledge the value offered by legislation that promotes non-financial transparency and ratings given by an independent rating agency since they improve business performance while also lowering risk and agency costs. The study presented a conceptual gap as it was done in Italy and not Kenya with the current study. Also, the study presented a contextual gap as it focused on non-financial transparency and not financial transparency. Against the background of these research gaps, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

In Asia, Alsartawi (2018) conducted a study that examined how online financial transparency affected firm performance among Indian and Gulf countries firms and observed that 77% of financial transparency among firms in these countries is published on online platforms to increase corporate openness and performance, resulting in rational economic decision making. The study presented a conceptual gap undertaken in India and Gulf countries, not Kenya. Also, the study presented an empirical gap as it was a pure extensive empirical review and not a descriptive study like the current one. Against these research gaps, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

The level of corporate governance implementation is one of the key factors that investors in Thailand, Malaysia, and Indonesian stock exchanges have considered the most when making an investment decision (Sumatriani, et al., 2021). “Using a fixed-effect model, the author established that the firm values increased mainly driven by the performance of CSR transparency. This is based on the fact that transparency ensures the exposure of accurate and

timely material company information is done, which has been established to be attractive to potential investors. The researcher in the above study used Tobin-Q to measure firm value, whereas the current study will employ the Springate and Zimajj models of financial distress. Further, the study covered five years between 2012 and 2015, whereas the current one covered seven years between 2015 and 2022.

In Canada, Dolinšek and Lutar-Skerbinjek (2017) conducted a study that examined factors that affect the transparency of financial information between firms using the internet to report and those that do not. The research results indicated a statistically significant difference in financial reporting practices between organizations that utilize and those that do not use internet-based reporting. Also, it was established that the chance of corporations publishing financial information on the internet is greater for public limited companies, businesses in the financial, energy, or information technology sectors, and businesses with a higher ownership concentration. The study presented a conceptual gap undertaken in Canada and not in Kenya. Against the background of this research gap, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

A study undertaken in the United Kingdom on corporate governance transparency and firm financial performance revealed that corporations that exhibit good corporate governance transparency could increase the firm's value by 10% to 12% (Kyere & Ausloos, 2021). The argument is that before investors think of investing in a corporation, they consider the firm corporate governance mechanisms, which can be enhanced through high-level transparency. Good corporate governance is centered on accountability, transparency, fairness, and responsible management principles. The study utilized ROA and Tobin-Q models to assess financial performance, while the current study will use Springate and Zimajj models of financial distress.

In West Africa, Agyei (2012) did a study in Ghana that evaluated the relationship between firm-specific characteristics and financial information transparency level among rural banks in the Ashanti region and observed that a greater extent of transparency is expected since the adoption of more governance mechanisms will strengthen the internal control of companies and provide an intensive monitoring package for a firm to reduce opportunistic behaviors and information asymmetry. The study provided a conceptual gap undertaken in Ghana and not in Kenya. Unlike the current study, the study also presented a contextual gap as it focused on banking institutions and non-financial listed companies. Against the background of these research gaps, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

In Zimbabwe, Korera, Schutte, and Oberholzer (2020) observe that effective corporate governance is one of the key elements in improving economic efficiency and growth and enhancing investors' trust. Corporate governance involves a set of relationships between the company's management, the board member, the shareholders, and the other stakeholders. The presence of an effective corporate governance system in an organization or company and overall economic matters helps to give a trust level needed for a well-functioning financial sector, particularly in the capital market. The study presented a contextual gap as it focused on mining sector firms and not non-financial listed firms. Also, the study presented a conceptual gap as it was done in Zimbabwe. Against the background of this research gap, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

In Kenya, Manduku, Mulwa, Omolo, and Lari (2020) examined how corporate practices influence financial distress among listed firms at NSE, Kenya, and observed that the practices significantly affect the risk of financial distress. A company's susceptibility to potential financial trouble is mitigated due to its stronger corporate governance. Consequently,

well-governed enterprises tend to have better organizational performance than those with bad governance, strengthening the argument that excellent corporate governance is beneficial for boosting a company's organizational performance. The study presented a contextual gap since it focused on all listed firms at NSE, not specific non-financial ones. Against the background of this research gap, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

Mukaba (2016), in another study examining the relationship between voluntary financial statement transparency and eventual financial distress among manufacturing firms trading at NSE, notes that the more information released to the market, the more capital markets are more efficient. To address the problem of agency conflict and information asymmetry, the majority of regulatory agencies, auditors, and capital market intermediaries aim to facilitate and improve the credibility of management transparency. The study presented a contextual gap since it focused on manufacturing firms at NSE and not all the non-financial ones. The study also presented a methodological gap as it adopted a correlation research design and not a descriptive research design like the current one. Against the background of this research gap, the current study examined the relationship between corporate transparency and the financial distress of non-financial companies listed at NSE.

### **2.3.2 Risk transparency and Financial Distress**

Risk detection, mitigation, and eventual transparency tend to safeguard organizations and add value to shareholders' wealth, especially among Greek non-financial firms (Gonidakis, Koutoupis, Tsamis & Agoraki, 2020). This has been established to be the case. It has been discovered that risk issues have risen to prominence as a critical corporate concern in recent years, particularly during the economic crisis. The most frequently identified concerns are financial, liquidity, and legal risks, which are critical for many firms. The study presented a conceptual gap undertaken in Greek and not in Kenya. Also, the study presented a

methodological gap based on content analysis, not panel data, like the current study. Against the background of these research gaps, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

Enterprise Risk Management (ERM) transparency has been crucial, especially since the 2007-2008 financial crisis among Canadian and US financial firms (Maingot, Quon & Zéghal 2018). Financial sector firms in the two countries declared similar risk levels during the financial crisis. However, US financial sector entities disclosed a high-risk exposure level even though they managed the same more passively. In contrast, Canadian financial sector entities disclosed higher risk consequences but handled them more actively. Despite the importance of risk management, some firms in the financial sector in the two countries have been reluctant to reveal additional information about their risk management practices. The study presented a conceptual gap undertaken in the US and not in Kenya. Against the background of this research gap, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

Stiglbauer (2010), in a study conducted in Germany examining the relationship between corporate governance transparency and firm performance based on a sample of more than 100 German firms listed on the Prime Standard segment of the Frankfurt Stock Exchange, observed that timely and accurate transparency of business details relating its overall governance is an essential aspect of corporate governance. This enhances the understanding of the company's structure, activities, and policies. Therefore, the company can attract investment. In contrast to the theoretical assumptions, the researcher could not establish evidence of a substantial positive association between reported conformity with the German Corporate Governance Code and corporate performance.

Corporate risk transparency has become an integral part of business transparency because it provides greater transparency and increases investors' confidence in the context of

developed countries and markets in Asia, such as Bangladesh (Dey, Hossain & Rezaee, 2018). This is facilitated by adopting enterprise risk management (ERM) in assessing and disclosing risk, thus, reducing the risk-taking behavior of management. Therefore, risk transparency provides greater transparency and enhances investors' confidence, leading to higher firm value. Unlike the current study, the study presented a theoretical gap anchored on different theories. Also, there was a conceptual gap as the study was done in Bangladesh. Against the background of this research gap, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

To improve corporate risk transparency, regulatory authorities such as the Securities and Exchange Board of India should strengthen corporate governance requirements regarding board composition and ownership concentration (Saggar & Singh, 2017). However, the identity of the largest shareholder in cases of Indian promoter bodies corporate, foreign promoter bodies corporate, and non-institutions in commerce has a detrimental effect on risk transparency. The study presented a conceptual gap as the study was done in India. Also, the study presented a methodological gap based on automated content analysis, whereas the current one used panel data. Against the background of these research gaps, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

Ghana and Botswana have conducted extensive empirical research on the impact of financial risk management on financial performance during the past few years (Sathyamoorthi, Mapharing, Mphoeng & Dzimiri, 2020). There are at least three primary categories of hazards within the financial system: financial risk, business risk, and operational risk. These risk exposures have transformed banking into a risky enterprise. Consequently, effective risk management is essential for the survival of commercial banks. The study presented a conceptual gap as the study was done in Botswana and Ghana. Also, the study presented a

methodological gap based on a correlation research design, whereas the current one used a descriptive research design. Against the background of these research gaps, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

A study conducted in Egypt by Marie, Kamel, and Elbendary (2021) examining the degree to which their internal governance mechanisms influence the financial stability of banks in the country observed that the absence of sound bank rules for applying governance mechanisms provides managers with greater opportunities to engage in fraudulent activities at the cost of bank stockholders. In the meantime, it is agreed that governance mechanisms in the banking sector are intended to: (1) improve the performance and financial stability of banks during crises through certain risk and financing policies; and (2) ensure that banks maintain the central banks' estimate of the minimum acceptable capital for mitigating risks and preserving stability. The study presents a conceptual gap in Egypt, while the current one will be done in Kenya. Also, the study presents a contextual gap as it targeted banking institutions, while the current study population will comprise listed non-financial firms at NSE.

Corporate failures caused by the global financial crisis have intensified since they include financial institutions, which are the fundamental foundations of Nigeria's capital market stability (Kakanda & Salim, 2017). Nigeria also faces the problem of business failure and its link with bad governance, which leads to poor performance. In this regard, the global financial crisis has shaken the Nigerian capital market, resulting in the loss of jobs, investor trust in the capital market, and doubts about the efficacy of existing CG practices. The study presented a methodological gap as it was purely an empirical and theoretical review, not descriptive. Also, a conceptual gap existed as it was undertaken in Nigeria and not Kenya. Against the background of these research gaps, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

Risk reporting can inspire a more stringent and consistent approach to risk management. It is closely tied to all risk management phases and catalyzes strengthening risk management among Egyptian businesses (Razek, 2014). The more thorough and specific the risk reporting, the more robust the risk management system could be. Clear and consistent statements of risk information can assist the manager in making well-informed and deliberate decisions, resulting in a competitive advantage and an increase in the company's value. The study presented a conceptual research gap as it was done in Egypt. The study also presented a timeline gap as it only focused on one year of data in 2016, unlike seven years in the current study. Against the background of these research gaps, the current study examines the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

Analysts require risk information to appraise companies and recommend investments in Uganda (Nkuutu et al., 2020). Furthermore, investors require risk information to determine their shares' trading volume and timing. Lastly, more public transparency of risk information can safeguard shareholders by strengthening accountability and corporate governance practices. Statements of risk information can aid the manager in making informed and deliberative decisions. This resulted in a competitive edge and enhanced corporate value. The study presented a conceptual research gap as it was done in Uganda. Also, there was a methodological gap as the study adopted a cross-sectional design, not a descriptive one. Against the background of these research gaps, the current study examines the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

Corporate governance and corporate risk management are becoming increasingly linked as more and more firms in Kenya embrace risk management (Wachira, 2019). Corporate risk management is currently seen as an essential element of corporate governance. The regulatory authorities require enterprises to disclose their risk management practices so that stakeholders are adequately informed. Consequently, risk transparency is now acknowledged

as essential information to include in annual reports (Wachira, 2019). The study presented a contextual gap as it focused on all listed firms at NSE, not non-financial ones. Also, the study presented a timeline gap as it utilizes panel data between 2012 and 2016. Against the background of these research gaps, the current study examined the relationship between risk transparency and the financial distress of non-financial companies listed at NSE.

### **2.3.3 Social Transparency and Financial Distress**

The concept of corporate social responsibility (CSR) has been explored extensively by practitioners and researchers as a strategic priority for business entities in the United States (Zheng, Wang, & Jiang, 2019). Massive corporate resources have been invested in CSR-related efforts, including pollution reduction and energy and water usage reduction. By boosting CSR spending, firms with high expenses associated with financial difficulties could make strategic changes for betterment. Specifically, investment organizations with a low-risk tolerance, such as pension funds, should emphasize the CSR characteristics of their security products. The study presented a conceptual gap since it was done in the US and not Kenya. Against the background of this research gap, the current study examined the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

The economic success of organizations in India depends on efficiency, innovation and quality management, and compliance with corporate governance principles (Goel, 2018). Implementing corporate governance standards improves the company's financial performance and positively impacts the firms' internal efficiency in developed economies such as India. Its essence lies in fairness and transparency in operations and enhanced transparency for protecting the interest of different stakeholders. The study presented a conceptual gap as it was done in India and not Kenya. It is against the background of this research gap that the current

study examines the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

Germany is experiencing a rise in demand and expectations from internal and external stakeholders for businesses to participate actively in CSR programs such as environmental management (Fischer & Sawczyn, 2011). Social responsibility is a prerequisite for enterprises to acquire a sustained competitive advantage. In other words, if a company's operational actions consider social and environmental implications, it would be considered a responsible organization and a model corporate citizen. Consequently, it is vital to address the needs of many stakeholders. The study presented a conceptual gap as it was done in Germany and not Kenya. It is against the background of this research gap that the current study examines the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

Major Ghana corporations actively contribute a share of their resources, primarily within their operating communities, to promoting and fulfilling societal welfare (Gatsi et al., 2018). The relationship between business and other stakeholders is believed to provide shareholders with greater rewards in the form of increased earnings and legitimacy than when firms attempt to maximize returns for shareholders alone. By acting as corporate citizens, businesses establish a strong reputational capital that translates into economic rewards and shareholder value. The study presented a conceptual gap as it was done in Ghana and not Kenya. Against the background of this research gap, the current study examined the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

Corporate Social Responsibility has become a domestic issue in the business arena and has also become prominent among researchers in Zimbabwe (Johnson, 2020). Since the connection between businesses and society is self-explanatory, the primary motivation for the

social side of corporate social responsibility is not to communicate the relationship between businesses and society. However, corporations must balance the external societal effects of their operations with generating profits. Due to their impact on society, they should demonstrate social responsibility. The study presented a conceptual gap as it was done in Zimbabwe and not Kenya. Against the background of this research gap, the current study examined the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

In Rwanda, there is a growing demand for transparency and the expectation that businesses will measure reports and continuously improve their social, environmental, and economic performance (Tushabe, 2015). A socially responsible organization should go above and beyond the minimum legal obligations and embrace policies and business practices that contribute to the well-being of its primary stakeholders. The study presented a conceptual gap as it was done in Rwanda and not Kenya. Against the background of this research gap, the current study examined the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

In South Africa, Sewpersadh (2022) did a study that examined the existing relationship between corporate governance structures and financial distress among 116 listed firms operating in South Africa and observed that the causes of dysfunctional corporate governance practices that enabled the manipulation of relevant financial information to conceal a company's true status were the primary factors that led to the demise of several significant organizations. Good governance protects an organization from future financial difficulties by bolstering the foundation for rigorous financial performance and investor attraction. Governance frameworks are crucial for establishing a solid ethical foundation, determining business ownership arrangements, and safeguarding minority shareholders from expropriation.

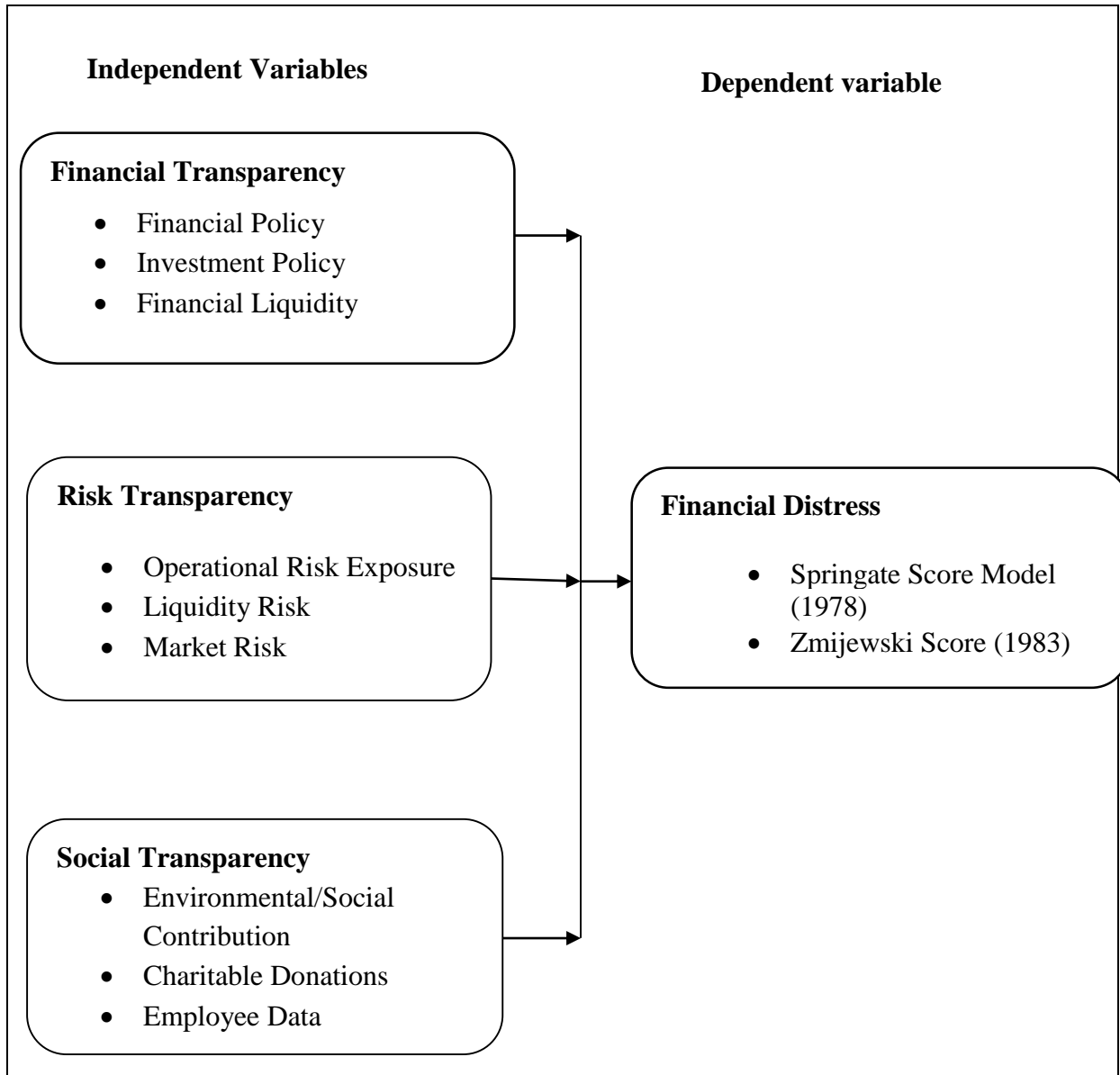
The study adopted the K-score model to assess financial distress, while the current study will adopt the Springate and Zimajj models of financial distress.

Locally, Maina and Omagwa (2020) examined the association between board features and financial distress of commercial banks listed in Kenya and concluded that corporate governance standards must be applied fully to reduce the likelihood of financial distress. In addition, the author emphasized that corporate policy documents should be matched with accepted governance principles to eliminate the possibility of financial trouble. The study presents a contextual gap targeting financial institutions listed at NSE and not non-financial ones. Also, the study presents a timeline gap as the panel data covers the period between 2011 and 2018 and not 2015 to 2021 as the current study. The study also presents a theoretical gap as the study is anchored on different theories, unlike the current one. Lastly, the study presents a methodological gap as it adopts a correlation research design and not a descriptive research design like the current study.

The lack of corporate transparency has led to massive corporate bankruptcies and scandals, as recently observed in Kenya (Wanjau et al., 2018). The problem of information asymmetry has consistently impacted the performance of many organizations as decisions are taken post-prevention, resulting in unresolved conflicts that continue to impact the valuation of firms. When corporations provide all the necessary information, it is easier for shareholders and other stakeholders to monitor management choices that affect business performance. The study presented a contextual gap as it focused on firms listed at three East African Stock Exchanges, while the current focused on non-financial firms listed at NSE. It is against the background of this research gap that the current study examines the relationship between social transparency and the financial distress of non-financial companies listed at NSE.

## 2.4 Conceptual Framework

A conceptual framework represents the relationship between a study's dependent and independent variables. The independent variables in this scenario are financial, risk, and social transparency, while the dependent variable is financial distress.



**FIGURE 1**  
**Conceptual Framework**

### **2.4.1 Financial Transparency**

Financial transparency is when an entity provides critical details about its assets, revenues, expenses, and liabilities. Business entities must engage in financial transparency as a crucial part of their financial reporting. Financial transparency makes the management accountable for their action, especially when the overall performance of a firm is not good (Rossi & Harjoto, 2020). Financial transparency is crucial since prospective investors usually make investment decisions based on a firm's financial information in the financial reports. Hence, it is crucial to provide as much transparent information as possible.

Jamaluddin (2018) conducted a study in Indonesia that evaluated financial transparency and financial distress impacted going-concern opinions among listed banking firms. The study's population comprised all banking companies listed on the Indonesian Stock Exchange. Six banking institutions were used as a sample in this study. Logistic regression was used to conduct the analysis. The study's findings indicated that financial distress and transparency significantly negatively affected going-concern opinions among banking institutions quoted on the Indonesian Stock Exchange.

### **2.4.2 Risk Transparency**

Risk transparency involves a business entity making public any significant information describing major risks that an entity is likely to face and their expected impact on its current and future performance. Business entities that disclose a greater amount of crucial risk information are deemed to benefit from a reduction in the cost of finance since providers of these funds are better positioned to judge the entity's risk level and thus removing the need to include a risk premium within their cost of capital (Dey, Hossain & Rezaee, 2018). Further, transparent risk also allows organizational managers to be more effective in monitoring work as they are better positioned to foresee potential risks and act on mitigating them immediately.

Wachira (2018) examined the exciting connection between risk transparency and various entity characteristics among companies quoted at NSE. All institutions except banking entities trading at NSE between 2010 and 2016 were included in the study. The variables were determined using published annual reports. As per the results, a regression analysis utilizing the random effect model was done to ascertain the association between the transparency index and firm characteristics. Risk transparency was positively correlated with gearing level, firm size, profitability, and industry type. It was discovered. However, that risk transparency was unrelated to liquidity, ownership, or board makeup.

### **2.4.3 Social Transparency**

Social transparency refers to a firm obligation to provide crucial information regarding its overall relationship to various social policy issues among its various stakeholders. Stakeholders can use the social information disclosed by a firm to determine whether the firm is socially responsible and whether they will transact with such a firm. Social information that firms disclose mostly constitutes corporate ethics, staff relations, and community involvement. The need for firms to engage in social activities is mostly due to legal requirements, reputation, community expectations, community pressure, and economic factors (Dalal & Thaker, 2019).

Namoit (2021) did a study in Kenya that examined the relationship between ownership structure dimensions, firm performance, and CSR transparency among companies quoted at NSE. The research design is explanatory. The researcher gathered panel data through content analysis over 12 years between 2007 and 2018 for 44 listed firms at NSE that met the set inclusion criteria through explanatory research design. After evaluating the model using the Hausman test, a random-effects model was chosen. As per the findings, it was discovered that concentrated ownership was the most prevalent ownership structure dimension across all evaluated enterprises, followed by institutional ownership and managerial ownership.

#### **2.4.4 Financial Distress**

##### **Springate Score Model (1978)**

The model was developed in 1978 by Springate. The model was developed to measure the financial situation to determine whether it is financially stable. While developing the model, Springate utilized step-wise multiple discriminate analysis (MDA) to select four key ratios out of the normal nineteen (19) available financial ratios that effectively distinguished between a financially sound entity and non-sound ones that are likely to fail due to financial distress. The Springate model follows the following form:

$$\mathbf{S = 1.03A + 3.07B + 0.66C + 0.4D}$$

Whereby:

**A**=Working Capital/Total Assets

**B**=Net Profit Before Interest and Tax/Total Assets

**C**=Net Before Taxes/Current Liabilities

**D**=Sales/Total Assets

The criteria for establishing whether a firm is facing financial distress is such that a firm with a Springate score of less than .862 is deemed likely to fail. This model's effectiveness in predicting a firm's financial soundness is based on the fact that the model was able to attain an accuracy rate of 92.5 percent when Springate tested a total of forty (40) firms during its development.

##### **Zmijewski Score (1983)**

The model was developed in 1983 by Zmijewski to determine firms' financial soundness. This model is widely used as it is based on accounting variables, unlike most other models based on

market variables. The model utilizes only those financial ratios used to assess firm leverage, liquidity, and performance to determine the X-Score. Zmijewski takes the following form:

$$X = - 4.3 - 4.5X_1 + 5.7 X_2 - 0.004X_3$$

Whereby:

$X_1$ =Return on Assets

$X_2$ =Debt Ratio

$X_3$ =Current Ratio.

The criteria for establishing whether a firm is facing financial distress using the Zmijewski model is such that it will be deemed financially distressed if its probability is greater than zero ( $X=0$ ). This means that the cut-off values applied in this model are only zero. Hence, any firm with a value of more than zero is regarded as facing financial distress issues. On the other hand, firms with an X-score of less than zero are deemed financially sound.

## 2.5 Operationalization of Variables

**TABLE 1**

**Operationalization of Variables**

| <b>Variable</b>               | <b>Variable Type</b> | <b>Indicators</b>  | <b>Measurement Scale</b> | <b>Method of Data Collection</b> | <b>Data Analysis</b>                                 |
|-------------------------------|----------------------|--|--------------------------|----------------------------------|--|
| <b>Financial Transparency</b> | Independent Variable | Financial Policy<br>Investment Policy<br>Financial Liquidity | Ratio Scale              | Panel Data                       | Mean, Standard Deviation, Correlation and Regression |
| <b>Risk Transparency</b>      | Independent Variable | Operational Risk Exposure<br>Liquidity Risk<br>Market Risk   | Ratio Scale              | Panel Data                       | Mean, Standard Deviation, Correlation and Regression |
| <b>Social Transparency</b>    | Independent Variable | Environmental/Social Contribution                            | Ratio Scale              | Panel Data                       | Mean, Standard                                       |

|                               |                       |  |             |               |   |
|-------------------------------|-----------------------|--|-------------|---------------|---|
|                               |                       | Charitable Donations<br>Employee Data                                  |             |               | Deviation,<br>Correlation<br>and<br>Regression<br>Mean,<br>Standard<br>Deviation,<br>Correlation<br>and<br>Regression |
| <b>Financial<br/>Distress</b> | Dependent<br>Variable | Springate Score<br>Model (1978)<br>$S = 1.03A + 3.07B + 0.66C + 0.4D$  | Ratio Scale | Panel<br>Data |   |
|                               |                       | Zmijewski Score<br>(1983)<br>$X = - 4.3 - 4.5X_1 + 5.7 X_2 - 0.004X_3$ |             |               |   |

---

## 2.6 Research Gaps

Based on the analysed literature, it has been determined that several prior studies have been done locally and internationally, touching on the various key concepts of corporate transparency. Some of the prior international studies that have been undertaken on the topic include Sumatriani et al. (2021); Kyere and Ausloos (2021); Rossi and Harjoto (2020); Alsartawi (2018); Agyei (2012); Saggar and Singh (2017); Zheng, Wang, and Jiang (2019) among others all of which had established that various corporate transparency indicators when effectively implemented tend to play a very important role in improving their overall financial performance. However, all these studies presented a conceptual gap as they were done in foreign countries. In contrast, the current study was undertaken in the Kenyan context.

Further, several studies have been undertaken locally related to the study concept. These include Maina and Omagwa (2020), Manduku et al. (2020), Mukaba (2016); (Wachira (2019), Wanjau et al., 2018), among others. However, most of these studies have focused on different aspects of assessing financial distress, thereby presenting contextual gaps that the current study aimed to bridge by examining the relationship between corporate transparency and financial distress of non-financial companies listed at NSE.

## **2.7 Summary of Literature Review**

The study was anchored on three key theories related to the study topic. The stakeholders' theory was the first one. For any business to be successful, it must consider the value of its various stakeholders, such as customers, employees, shareholders, and others. Agency Theory, on the other hand, proposes a strong relationship between agents (managers) and principals (shareholders). In this case, principals contract agents to represent them in particular business transactions.

The Stewardship Theory was developed by Donaldson and Davis (1989). According to the theory, when firm managers are left on their own, they are expected to act as responsible stewards by managing and monitoring the firm assets they have been tasked to control. Further, the chapter reviewed detailed literature on the three key corporate transparency indicators involving financial, risk, and social transparency. A detailed conceptual framework reviewed the relationship between the three independent and the dependent variable. Lastly, the operationalization of variables, research gaps that the study sought to fill, and a chapter summary were analysed.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The main aim of this section was to provide a detailed methodological approach that the researcher utilized to ensure that the study was completed per the stated objectives. The chapter specifically addressed the following areas; research design, target population, sampling method and sample size, data collection instruments, data analysis and presentation, model summary, and diagnostic tests.

#### **3.2 Research Design**

Research design is the specific plan a researcher follows/selects to accomplish a study more thoroughly and logically. In addition, research design involves the overall plan developed by a researcher to complete a study and ensure that all defined objectives and the established research questions are effectively addressed (Dannels, 2018). Further, the research design is regarded as the researcher's plan for gathering, measuring, and analyzing the available data to conclude a particular study. This descriptive research design was adopted to complete the current study. A descriptive research design is a sort of research design that seeks to comprehensively explain the current status of the identified study variables (Sahin & Mete, 2021). This research design will allow the researcher to study the existing research problem in greater depth (Siedlecki, 2020).

#### **3.3 Target Population**

The target population in a study is regarded as the entire set of units from which the survey data will be utilized to make inferences. Also, the target population is considered the entire collection of objects/individuals upon which a researcher strives to generate a sample and draw a generalized conclusion about the entire population (McComb et al., 2018). Thus, the target population defines those units for which the survey findings are meant to be generalized.

Therefore, the target population of this study consisted of all 41 non-financial firms that have been operating at NSE for the past seven years.

### **3.4 Sampling Technique and Sample Size**

#### **3.4.1 Sampling Technique**

The sampling technique refers to a thorough approach that a researcher adopts to pick/select a sample that will eventually act as a final representative of the larger population (McComb et al., 2018). The sampling technique is also regarded as selecting a subset from the larger population. Therefore, the current study adopted the census approach. The researcher adopted a census approach in the completion of this study since it was practically possible to study the entire target population given that it was less than 100 units (Heen, Lieberman & Meithe, 2020).

#### **3.4.2 Sample Size**

Sample size refers to selecting the number of objects from the target population to be included in the study to obtain a clear and quantifiable statistical sample. The sample size is significant in research because it enables the researcher to select a manageable sample from a large target population and draw conclusions about the full population based on the observation of the sample (Heen et al., 2020). The researcher adopted a census approach to select all 41 non-financial firms operating at NSE for the past seven years. The census approach was applied in this study since it is practically possible to study the entire target population, given that it was less than 100 units.

### **3.5 Data Collection Instrument**

The data collection instrument refers to the practical tool that the researcher will obtain during the research process to complete the study (Clark & Vealé, 2018). In addition, instrumentation can be regarded as the overall approach that a researcher adopts to develop a research instrument for gathering data for a given study. Based on this, the study used secondary data

from published audited financial reports of targeted non-financial institutions listed at NSE spanning seven years from 2015 to 2021. The researcher used a document transparency check index based on the case study variable to obtain the required secondary data. After that, the scoring approach was used on all identified items as provided in the transparency index form, from which the average score was computed. To obtain this, a firm established to have provided the required transparency information got a score of one (1). In contrast, those established not to provide the transparency information were awarded a score of zero (0). The following formula was then used to calculate each item's transparency level.

Level of transparency = Actual Items Disclosed/Total Possible Items in the Index

### 3.6 Data Processing and Analysis

Data analysis in research is the overall approach that encompasses cleaning, transforming, and modeling obtained data to discover its usefulness for decision-making. It also refers to extracting useful data from raw obtained data, analyzing it, and making the final decision based on the analyzed data (Clark & Vealé, 2018). The data obtained was studied to establish its completeness before being analyzed. Complete data was inputted into computer software for analysis using STATA software. Data were analyzed using both descriptive and inferential statistics. Descriptive statistical presentation tools such as mean and standard deviation and regression were used to present the study findings.

The researcher used the panel model since the data was in a panel set to establish the extent to which the dependent variable influenced the independent variable. The panel model that was applied in this study was as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon_{it} \quad (1)$$

Where:

**Y<sub>it</sub>** = Financial Distress

$\beta_0$ =Intercept term

$X_{1it}$ = Financial Transparency for firm i in period t

$X_{2it}$ = Risk Transparency for firm i in period t

$X_{3it}$ = Social Transparency for firm i in period t

$\varepsilon_{it}$ = error term

### **3.7 Diagnostic Test**

#### **3.7.1 Lagrange Multiplier Test**

The Lagrange Multiplier Test helps decide the best model to use between the random effects regression model and the pooled effects regression model (Flores & Ocana, 2018). The LM test is carried out with a null hypothesis that there is no panel effect in a data set. The null hypothesis is rejected if the  $P < 0.05$ , and the alternative hypothesis is accepted if the P-Value is greater than 0.05.

#### **3.7.2 Testparm Test**

Testparm test is conducted to determine the joint significance of independent variable upon running a regression analysis (Oberfichtner & Tauchmann, 2021). Testparm is usually conducted with the null hypothesis being rejected if P-Value is less than 0.05 and accepting the alternative hypothesis that there is a joint significance between the various independent variables.

#### **3.7.3 Auto Correlation**

Auto correlation refers to a situation in which error terms originating from a different period in a given data set are correlated (Khatun, 2021). For this reason, the standard errors are considered distorted, thereby influencing the estimator's overall efficiency. This leads to the test statistic being affected to invalidate both the inferences and the significance test.

Wooldridge F-test was used to test auto correlation, after which a P-Value of less than 5% was regarded to mean that auto correlation exists.

#### **3.7.4 Heteroscedasticity**

Heteroscedasticity occurs in the event where there is non-constant error variance, and if this is not the case, then it is established that heteroscedasticity exists within the data. The risk of running a panel model without conducting a heteroscedasticity test can result in biased errors and hence invalid significance tests and conclusions (Flores & Ocana, 2018). Heteroscedasticity was tested using the Breusch-Pagan Cook-Weisberg test for group-wise heteroscedasticity. The null hypothesis was to be rejected if  $P > 0.05$  for the alternative hypothesis.

#### **3.7.5 Normality Test**

A normality test explains how the variables under a given study are distributed (Khatun, 2021). Normality in the study will be tested using the Jarque Berra Test to establish whether the sample data in the study has skewness and kurtosis that exhibit the same characteristics as the normal distribution. Jarque-Bera's test statistic is always positive; if it's far from zero, the sample data do not follow the normal distribution.

#### **3.7.6 Hausman Test**

Hausman Specification Test will be used to determine whether to run either fixed or random-effects models (Hamaker & Muthén, 2020). This test will establish a correlation between the unobserved corporate transparency concepts and the predictor variables. A random-effect model was preferred if no such correlation exists. The null test hypothesis was that the preferred model was a random effect model against the alternative hypothesis for the fixed effects model.

## **CHAPTER FOUR**

### **FINDINGS AND DISCUSSIONS**

#### **4.1 Introduction**

The chapter presented the findings of the study following the analysis of the raw data as well as a detailed discussion of these findings regarding the relationship between corporate and financial distress of non-financial companies in the Nairobi Securities Exchange. First, the chapter presents the study findings, followed by a discussion.

#### **4.2 Descriptive Statistics**

Descriptive statistics of all the study variables were generated to establish the data set's features in terms of mean, standard deviation, minimum and maximum. The findings indicated that the mean score S- Model was 0.757 and a standard deviation of 0.875, a minimum of -0.587, and a maximum value of 2.222. On the other hand, X-Score Model had a mean score of 5.827, a standard deviation of 4.312, a minimum of 1.532, and a maximum value of 12.643.

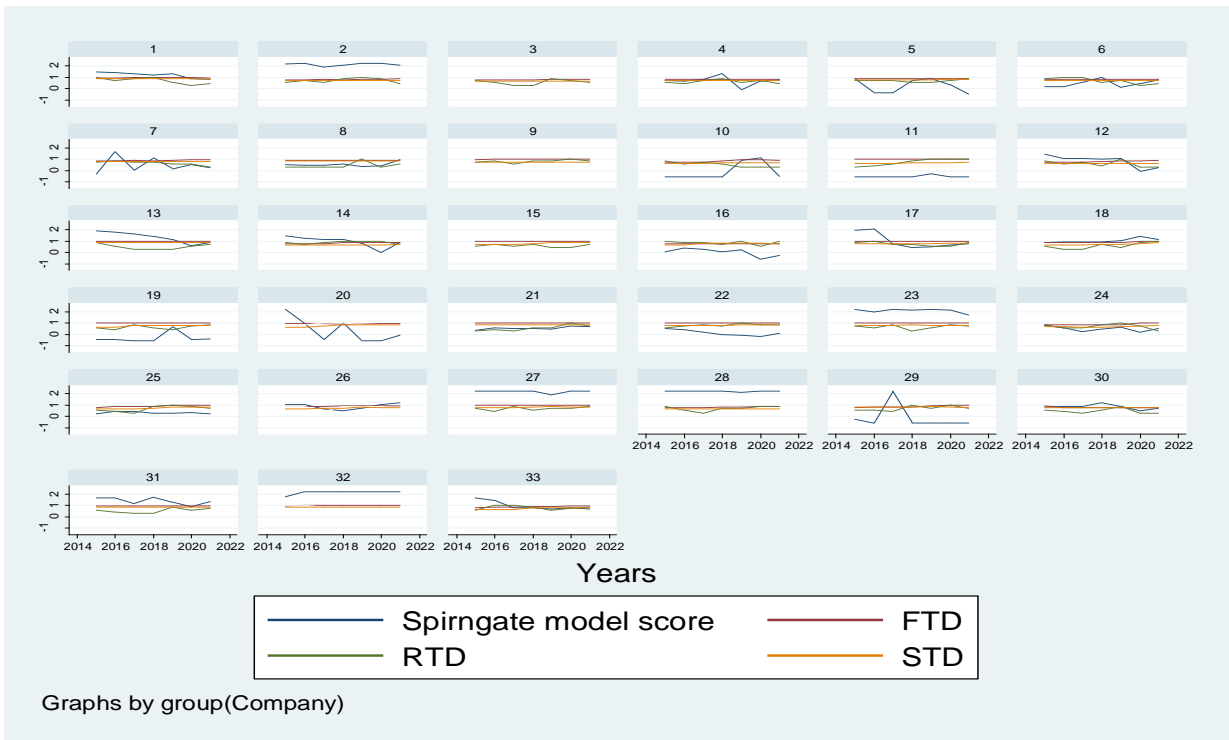
Further, financial transparency was established to have an average value of 0.907, a standard deviation of 0.087, a minimum of 0.759, and a maximum of 1.000. On the other hand, risk transparency had an average score of 0.672, a standard deviation of 0.225, a minimum of 0.286, and a maximum value of 1.000. Lastly, social transparency was found to have an average score of 0.758, a standard deviation of 0.081, a minimum of 0.636, and a maximum value of 0.864.

**TABLE 2**  
**Descriptive Statistics**

| <b>Variable</b> |         | <b>Mean</b> | <b>Std. Dev.</b> | <b>Min</b> | <b>Max</b> | <b>Observations</b> |
|-----------------|---------|-------------|------------------|------------|------------|---------------------|
| <b>S-Model</b>  | Overall | 0.757       | 0.875            | -0.587     | 2.222      | N = 231             |
|                 | Between |             | 0.752            | -0.544     | 2.207      | n = 33              |
|                 | Within  |             | 0.464            | -0.191     | 3.119      | T = 7               |
| <b>X-Model</b>  | Overall | 5.827       | 4.312            | 1.532      | 12.643     | N = 231             |
|                 | Between |             | 3.766            | 1.532      | 12.643     | n = 33              |
|                 | Within  |             | 2.187            | - 0.919    | 13.763     | T = 7               |
| <b>FT</b>       | Overall | 0.907       | 0.087            | 0.759      | 1.000      | N = 231             |
|                 | Between |             | 0.080            | 0.759      | 1.000      | n = 33              |
|                 | Within  |             | 0.037            | 0.793      | 1.025      | T = 7               |
| <b>RT</b>       | Overall | 0.672       | 0.225            | 0.286      | 1.000      | N = 231             |
|                 | Between |             | 0.114            | 0.429      | 0.878      | n = 33              |
|                 | Within  |             | 0.195            | 0.223      | 1.243      | T = 7               |
| <b>ST</b>       | Overall | 0.758       | 0.081            | 0.636      | 0.864      | N = 231             |
|                 | Between |             | 0.070            | 0.636      | 0.864      | n = 33              |
|                 | Within  |             | 0.042            | 0.615      | 0.900      | T = 7               |

### 4.3 Trend Analysis

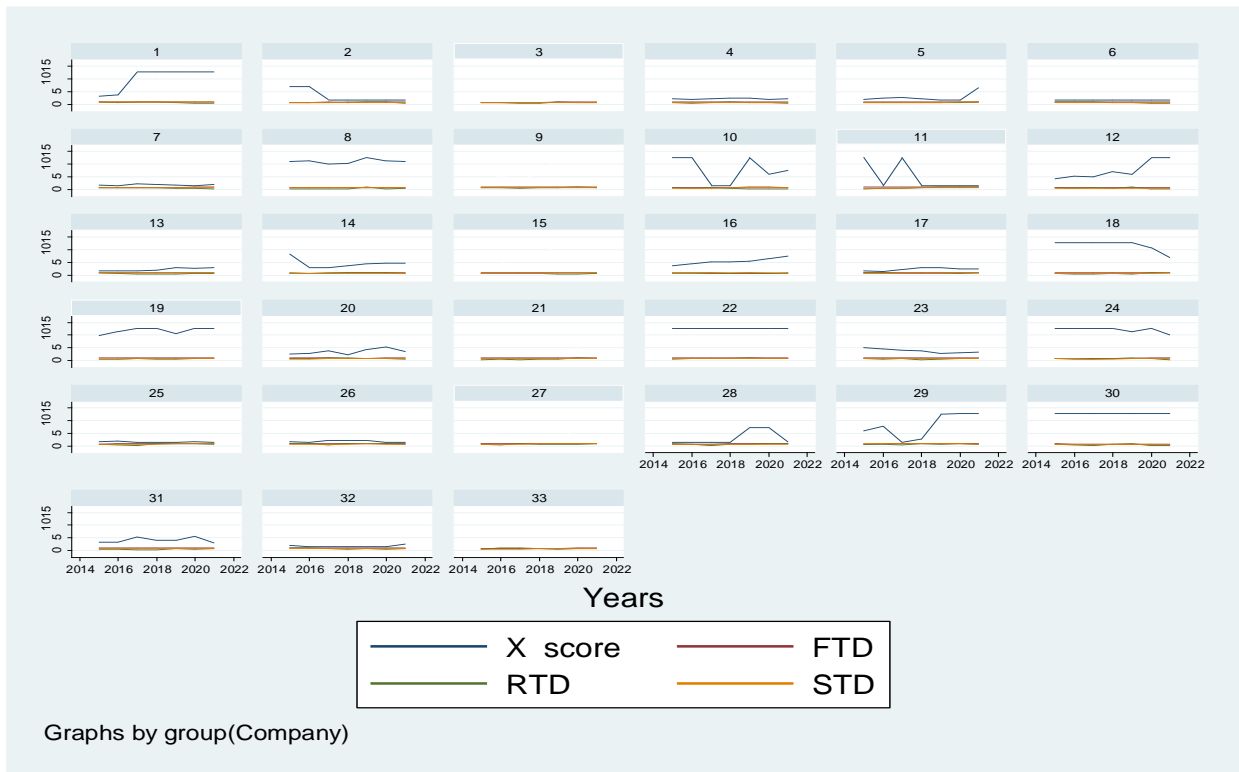
Results in Figure 2 indicates a non-significantly co-movement was recorded between various aspects of corporate transparency and financial distress of non-financial companies listed at NSE as measured by the S-Model.



**FIGURE 2**

**Trend Analysis S-Model**

As depicted in Figure 3, results indicate variations in financial, risk, and social transparency among the non-financial companies listed at NSE. In addition, an upwards trend was also observed for some of the non-financial companies in NSE, depicting an improvement in their financial status.



**FIGURE 3**  
**Trend Analysis X-Model**

#### 4.4 Diagnostic Tests

Various diagnostic tests performed on the data set were presented in this section. These tests were the Lagrange multiplier test, auto-correlation test, heteroscedasticity, Hausman test, and normality test.

##### 4.4.1 Lagrange Multiplier Test

Lagrange Multiplier Test was carried out with a null hypothesis that there was no panel effect on the presented data set against an alternative. “Results obtained had a Chi-Square of 284.77 and  $P < 0.05$  and a Chi-Square of 332.16 and  $P < 0.05$  for the S-Model and X-models, respectively. The results indicate enough evidence for the null hypothesis to be rejected. It was concluded that the panel effect existed on the data set; hence, the pool effects regression analysis model wasn’t the most appropriate to examine the relationship between corporate and financial distress of non-financial companies in the Nairobi Securities Exchange. The random

effects model was therefore considered the most appropriate. The study results agree with Tushabe (2015), whose study in Rwanda rejected the null hypothesis.”

**TABLE 3**  
**Lagrange Multiplier Test**

| <b>Dependent Variable</b> | <b>Chi-Square</b> | <b>P-Value</b> |
|---------------------------|-------------------|----------------|
| <b>S-Model</b>            | 284.77            | 0.0000         |
| <b>X-Model</b>            | 332.16            | 0.0000         |

#### 4.4.2 Testparm Test

Testparm test to establish the joint significance of the three independent variables. The test required that the null hypothesis be rejected, that there was no joint significance between the study variables if P-Value was less than 0.05, and accept the alternative hypothesis that joint significance existed between the three variables. Under the S-Model,  $P > 0.05$  indicated that the null hypothesis was to be rejected and that there was no joint significance between the variables. Under X-Model, results indicated a P-Value of 0.013, which is less than 0.05, thus, indicating that a joint significance existed between financial, risk, and social disclosures. The findings conform with the findings of a study by Rossi and Harjoto (2020) in Italy that also established existence of joint significance effect between various study independent variables.

**TABLE 4**  
**Testparm Test**

|                   | <b>S-Model</b> | <b>X-Model</b> |
|-------------------|----------------|----------------|
| <b>FT = 0</b>     |                |                |
| <b>RT = 0</b>     |                |                |
| <b>ST = 0</b>     |                |                |
| <b>F (3, 227)</b> | 1.55           | 3.67           |
| <b>P-Value</b>    | 0.2029         | 0.013          |

#### 4.4.3 Auto-Correlation Test

Wooldridge F-Test was used to test autocorrelation to establish whether error terms in the regression model correlated over time or were dependent on each other. The obtained results indicated a Chi-Square of 81.105, a P-Value  $< 0.05$ , a Chi-Square of 114.544, and a P-Value  $< 0.05$ . Therefore, the results indicate that the null hypothesis must be rejected and accept the alternative one, indicating that serial correlation existed. The findings contradict those established by Maingot et al., (2018) that didn't find any evidence that first order serial correlation existed in the data generated from Canadian and United States financial firms.

**TABLE 5**  
**Wooldridge F-Test**

| <b>Dependent Variables</b> | <b>F (1,32)</b> | <b>P-Value</b> |
|----------------------------|-----------------|----------------|
| <b>S-Model</b>             | 81.05           | 0.0000         |
| <b>X-Model</b>             | 114.544         | 0.0000         |

#### 4.4.4 Heteroscedasticity Test

This test was undertaken to determine whether the error variance had a uniform variance against an alternative that the error term had no uniform variance. Breusch-Pagan Cook-Weisberg test for group-wise heteroscedasticity was carried out as indicated. The findings for both the S-Model and X-Model indicated Chi-Squares of 2.16 and 1.20 with a corresponding  $P > 0.05$ , thus, proving that there is enough evidence for the null hypothesis to be rejected and concluding that the error term was not homoscedastic. Due to heteroscedasticity, the study used robust standard errors to correct its presence, which was caused by biased standard errors of estimates. The findings agree with Dey et al., (2018) who carried out a study in Bangladesh and also rejected the null hypothesis and used robust standard errors to eradicate the issue of heteroscedasticity in the data set.

**TABLE 6**  
**Breusch-Pagan Cook-Weisberg Test**

| <b>Dependent Variables</b> | <b>F (3,227)</b> | <b>P-Value</b> |
|----------------------------|------------------|----------------|
| <b>S-Model</b>             | 2.16             | 0.094          |
| <b>X-Model</b>             | 1.20             | 0.310          |

#### **4.4.5 Normality Test**

Jarque Berra Test was applied to determine the error term. The results indicated chi-squares of 16.92 and 69.08 with a corresponding  $P < 0.05$ , which indicates that regression residuals are normally distributed under the null hypothesis against an alternative that the data is not normally distributed. Therefore, it is clear that the error term wasn't normally distributed. Hence, robust standard errors were adopted while fitting the regression model to enhance the estimators' efficiency.

**TABLE 7**  
**Jarque Berra Test**

| <b>Dependent Variables</b> | <b>Chi-Square</b> | <b>P-Value</b> |
|----------------------------|-------------------|----------------|
| <b>S-Model</b>             | 16.92             | 0.0002         |
| <b>X-Model</b>             | 69.08             | 0.0000         |

#### **4.4.6 Hausman Test**

Hausman Test was also carried out to examine the most appropriate panel data model to adopt between fixed and random effects. The null hypothesis was that the preferred model was a random effect model against the alternative hypothesis for the fixed effects model. The findings, as per both the S-Model and X-Score models, indicate that the null hypothesis was rejected as both P-Values of 0.0974 and 0.884 were more than 0.05. implying that a systematic

difference between the various coefficients existed. Hence, a random effect model was to be adopted.

**TABLE 8**  
**Hausman Test**

| <b>Dependent Variable</b> | <b>Chi-Square</b> | <b>D.f</b> | <b>P-Value</b> |
|---------------------------|-------------------|------------|----------------|
| <b>S-Model</b>            | 6.31              | 3          | 0.0974         |
| <b>X-Model</b>            | 0.82              | 3          | 0.8440         |

#### **4.5 Inferential Statistics**

##### **4.5.1 Correlation Analysis**

The product-moment correlation coefficient was applied to establish the strength of financial transparency, risk transparency, and social transparency on the financial distress of non-financial companies in the Nairobi Securities Exchange. Correlation result from S-Model indicated that financial transparency (FT) had a positive and statistically significant effect financial distress of non-financial companies listed in the Nairobi Securities Exchange (0.0233, P-Value < 0.05).

Correlation results from the S-Model also indicated that risk transparency (RT) had a positive and statistically significant effect on the financial distress of non-financial companies listed in the Nairobi Securities Exchange (0.0104, P-Value<0.05). Lastly, correlation results from the S-Model indicated that social transparency (ST) had a positive and not-statistically significant effect financial distress of non-financial companies listed in the Nairobi Securities Exchange (0.1299, P-Value > 0.05).

**TABLE 9**  
**Correlation Analysis S-Model**

|                | <b>S-Model</b> | <b>FT</b> | <b>RT</b> | <b>ST</b> |
|----------------|----------------|-----------|-----------|-----------|
| <b>S-Model</b> | 1.0000         |           |           |           |
| <b>FT</b>      | 0.0233         | 1.0000    |           |           |
|                | 0.7241         |           |           |           |
| <b>RT</b>      | 0.0104         | 0.0274    | 1.0000    |           |
|                | 0.8747         | 0.6789    |           |           |
| <b>ST</b>      | 0.1299         | 0.5298    | -0.0293   | 1.0000    |
|                | 0.0486         | 0.0000    | 0.6578    |           |

Correlation result from X-Model indicated that financial transparency (FT) had a positive and statistically significant effect financial distress of non-financial companies listed in the Nairobi Securities Exchange (0.1398, P-Value < 0.05). However, correlation results from X-Model indicated that risk transparency (RT) had an inverse and not-statistically significant effect on the financial distress of non-financial companies listed in the Nairobi Securities Exchange (-0.1593, P-Value>0.05). Correlation results from the X-Model, however, indicated that social transparency (STD) had a positive and statistically significant effect on the financial distress of non-financial companies listed in the Nairobi Securities Exchange (0.1299, P-Value<0.05).

**TABLE 10**  
**Correlation Analysis X-Model**

|                | <b>X-Model</b> | <b>FT</b> | <b>RT</b> | <b>ST</b> |
|----------------|----------------|-----------|-----------|-----------|
| <b>X-Model</b> | 1.0000         |           |           |           |
| <b>FT</b>      | 0.1398         | 1.0000    |           |           |
|                | 0.0337         |           |           |           |
| <b>RT</b>      | -0.1593        | 0.0274    | 1.0000    |           |
|                | 0.0154         | 0.6789    |           |           |
| <b>ST</b>      | 0.0743         | 0.5298    | -0.0293   | 1.0000    |
|                | 0.2609         | 0.0000    | 0.6578    |           |

#### 4.5.2 Random Effects Regression Analysis

Figure 4 provided the random effects regression analysis results when the variables are regressed against S-Model as the dependent variable. The value of R-Squared as per the models was 0.0290 and 0.0424, indicating that only 2.90% and 4.24% of financial distress of non-financial companies in NSE was affected by their financial transparency and risk transparency, and social transparency during the seven years between 2015 and 2021 respectively. The findings conform with Adembo (2014) study on manufacturing and allied entities listed at NSE also found a small R-Squared of 3.63%.

In addition, the Chi-Square value of 2.93 and 9.94 with corresponding P-Values of 0.402 ( $P > 0.05$ ) and 0.019 ( $P < 0.05$ ) is an indication that the S-Model deemed random regression model as not being significantly fit for examining the relationship that the study sought to examine whereas the X-Model deemed the random effects model statistically significant and hence fit in explaining the relationship between financial transparency and financial distress of non-financial companies in NSE.

The “first objective was to examine the relationship between financial transparency and financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that financial transparency had an inverse and non-statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = 0.038$ , P-Value  $> 0.05$ ). However, results per the X-Model suggested that financial transparency had a positive and statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = 8.618$ , P-Value  $< 0.05$ ).

The second objective sought to examine the relationship between risk transparency on financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that risk transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = 0.034$ , P-Value  $> 0.05$ ). As per the

X-Model, the results suggested that risk transparency had an inverse and statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = -1.679$ , P-Value  $< 0.05$ ).

The third objective sought to examine the relationship between social transparency on the financial distress of non-financial companies in NSE.” Results obtained in both S-Model and X-Models indicated that social transparency had an inverse and not-statistically significant effect on the financial distress of non-financial companies in NSE as indicated by ( $\beta = -1.245$ , P-Value  $>0.05$ ) and ( $\beta = -0.511$ , P-Value  $>0.05$ ) respectively.

Based on the above findings, then the study models were fitted as follows:

$$S = 1.643 + 0.038X_{1it} + 0.034X_{2it} - 1.245X_{3it}$$

$$X = -0.471 + 8.618X_{1it} - 1.679X_{2it} - 0.511X_{3it}$$

```
. xtreg Spirngatemodelscore_w_w FTD_w_w RTD_w_w STD_w_w, re
```

```
Random-effects GLS regression      Number of obs   =      231
Group variable: Company            Number of groups =      33
```

```
R-sq:                               Obs per group:
  within = 0.0290                     min =          7
  between = 0.0599                    avg =         7.0
  overall = 0.0169                     max =          7
```

```
Wald chi2(3) = 2.93
Prob > chi2 = 0.4021
corr(u_i, X) = 0 (assumed)
```

| Spirngat~w_w | Coef.     | Std. Err.                         | z     | P> z  | [95% Conf. Interval] |          |
|--------------|-----------|-----------------------------------|-------|-------|----------------------|----------|
| FTD_w_w      | .0378456  | .8427464                          | 0.04  | 0.964 | -1.613907            | 1.689598 |
| RTD_w_w      | .0336255  | .1677534                          | 0.20  | 0.841 | -.295165             | .3624161 |
| STD_w_w      | -1.244617 | .7737475                          | -1.61 | 0.108 | -2.761135            | .2719    |
| _cons        | 1.643106  | .7921822                          | 2.07  | 0.038 | .0904571             | 3.195754 |
| sigma_u      | .73405491 |                                   |       |       |                      |          |
| sigma_e      | .49650666 |                                   |       |       |                      |          |
| rho          | .68610538 | (fraction of variance due to u_i) |       |       |                      |          |

**FIGURE 4**

**Random Effects Regression Analysis S-Model**

```

. xtreg Xscore_w_w_w FTD_w_w RTD_w_w STD_w_w, re

Random-effects GLS regression           Number of obs   =       231
Group variable: firm                   Number of groups =        33

R-sq:                                  Obs per group:
    within = 0.0424                     min =          7
    between = 0.0391                    avg =         7.0
    overall = 0.0399                     max =          7

                                           Wald chi2(3)    =        9.94
corr(u_i, X) = 0 (assumed)              Prob > chi2     =       0.0191

```

| Xscore_w_w_w | Coef.     | Std. Err.                         | z     | P> z  | [95% Conf. Interval] |           |
|--------------|-----------|-----------------------------------|-------|-------|----------------------|-----------|
| FTD_w_w      | 8.617773  | 3.956044                          | 2.18  | 0.029 | .8640687             | 16.37148  |
| RTD_w_w      | -1.678758 | .7791212                          | -2.15 | 0.031 | -3.205807            | -.1517081 |
| STD_w_w      | -.5105987 | 3.614555                          | -0.14 | 0.888 | -7.594997            | 6.5738    |
| _cons        | -.4713272 | 3.732631                          | -0.13 | 0.900 | -7.78715             | 6.844495  |
| sigma_u      | 3.6995757 |                                   |       |       |                      |           |
| sigma_e      | 2.32421   |                                   |       |       |                      |           |
| rho          | .71700952 | (fraction of variance due to u_i) |       |       |                      |           |

**FIGURE 5**

**Random Effects Regression Analysis X-Score Model**

**4.6 Discussion of the Study Findings**

The first objective was to examine the relationship between financial transparency and financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that financial transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = 0.038$ , P-Value  $>0.05$ ). However, results per the X-Model suggested that financial transparency had a positive and statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = 8.618$ , P-Value  $< 0.05$ ).

The S-Model result indicates that holding all other variables constant, a single unit change in financial transparency is not likely to affect the financial distress of non-financial companies in NSE. However, results per the X-Model indicate that a single unit change in

financial transparency is likely to affect the financial distress of non-financial companies in NSE positively.

The study findings agree with the findings of another study done in Italy by Rossi and Harjoto (2020), evaluating the relationship between corporate non-financial transparency, firm value, risk, and agency costs among listed firms and observed that firm managers and prospective shareholders ought to acknowledge the value offered by legislation that promotes non-financial transparency and ratings given by an independent rating agency since they improve business performance while also lowering risk and agency costs.

The findings also conform with a study by Dolinšek and Lutar-Skerbinjek (2017) in Canada examining factors that affect the transparency of financial information between firms using the internet to report and those that do not. The research results indicated a statistically significant difference in financial reporting practices between organizations that utilize and those that do not use internet-based reporting. Also, it was established that the chance of corporations publishing financial information on the internet is greater for public limited companies, businesses in the financial, energy, or information technology sectors, and businesses with a higher ownership concentration.

The results also agree with Agyei (2012), who did a study in Ghana that evaluated the relationship between firm-specific characteristics and financial information transparency level among rural banks in the Ashanti region and observed that a greater extent of transparency is expected since the adoption of more governance mechanisms will strengthen the internal control of companies and provide an intensive monitoring package for a firm to reduce opportunistic behaviors and information asymmetry.

The study findings however disagree with a study done in India and Gulf Countries by Alsartawi (2018) who observed that 77% of financial transparency among firms in these countries is published on online platforms to increase corporate openness and performance,

resulting in rational economic decision making. In addition, the findings disagree with the findings of a study done by Sumatriani, et al., (2021) in Thailand and Malaysia using a fixed-effect model and established that the firm values increased mainly driven by the performance of CSR transparency. This is based on the fact that transparency ensures the exposure of accurate and timely material company information is done, which has been established to be attractive to potential investors.

The second objective sought to examine the relationship between risk transparency on financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that risk transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = 0.034$ , P-Value  $>0.05$ ). As per the X-Model, the results suggested that risk transparency had an inverse and statistically significant effect on the financial distress of non-financial companies in NSE ( $\beta = -1.679$ , P-Value  $< 0.05$ ).

The S-Model result indicates that holding all other variables constant, a single unit change in risk is not likely to have any significant change to the financial distress transparency of non-financial companies in NSE. On the other hand, results per the X-Model indicate that a single unit change in risk transparency is likely to affect the financial distress of non-financial companies in NSE negatively.

The study's outcomes agree with Dey et al. (2018) who carried out a study in Bangladesh and concluded that corporate risk transparency had become an essential business transparency component. They concluded after finding that corporate risk transparency had become an integral part of business transparency because it provides greater transparency and increases investors' confidence in the context of developed countries and markets in Asia. This is facilitated by adopting enterprise risk management (ERM) in assessing and disclosing risk, thus, reducing the risk-taking behavior of management. Therefore, risk transparency provides greater transparency and enhances investors' confidence, leading to higher firm value.

Also, the findings conform with Gonidakis et al., (2020) who studied Greek non-financial firms and established that risk detection, mitigation, and eventual transparency tend to safeguard organizations and add value to shareholders' wealth amongst the studied firms. This has been established to be the case. It has been discovered that risk issues have risen to prominence as a critical corporate concern in recent years, particularly during the economic crisis. The most frequently identified concerns are financial, liquidity, and legal risks, which are critical for many firms.

The findings further agree with Stiglbauer (2010) study conducted in Germany examining the relationship between corporate governance transparency and firm performance based on a sample of more than 100 German firms listed on the Prime Standard segment of the Frankfurt Stock Exchange, observed that timely and accurate transparency of business details relating its overall governance is an essential aspect of corporate governance. This enhances the understanding of the company's structure, activities, and policies. Therefore, the company can attract investment. In contrast to the theoretical assumptions, the researcher could not establish evidence of a substantial positive association between reported conformity with the German Corporate Governance Code and corporate performance.

Further, the findings agree with Razek (2014), whose study in Egypt established that risk reporting could inspire a more stringent and consistent approach to risk management. It is closely tied to all risk management phases and catalyzes strengthening risk management among Egyptian businesses. The more thorough and specific the risk reporting, the more robust the risk management system could be. Clear and consistent statements of risk information can assist the manager in making well-informed and deliberate decisions, resulting in a competitive advantage and an increase in the company's value.

The study results contradict the findings of a study by Saggar and Singh (2017). Their study concluded that regulatory authorities such as the Securities and Exchange Board of India

should strengthen corporate governance requirements regarding board composition and ownership concentration to improve corporate risk transparency. However, the identity of the largest shareholder in cases of Indian promoter bodies corporate, foreign promoter bodies corporate, and non-institutions in commerce has a detrimental effect on risk transparency.

Results are in disagreement with Sathyamoorthi et al., (2020) study findings in Ghana and Botswana that at least three primary categories of hazards within the financial system: financial risk, business risk, and operational risk. These risk exposures have transformed banking into a risky enterprise. Consequently, effective risk management is essential for the survival of commercial banks.

Further, the findings disagree with Kakanda and Salim (2017). Their study in Nigeria established that corporate failures caused by the global financial crisis have intensified since they include financial institutions, which are the fundamental foundations of Nigeria's capital market stability. Nigeria also faces the problem of business failure and its link with bad governance, which leads to poor performance. In this regard, the global financial crisis has shaken the Nigerian capital market, resulting in the loss of jobs, investor trust in the capital market, and doubts about the efficacy of existing CG practices.

The third objective sought to examine the relationship between social transparency on the financial distress of non-financial companies in NSE. Results obtained in both S-Model and X-Models indicated that social transparency had an inverse and not-statistically significant effect on the financial distress of non-financial companies in NSE as indicated by ( $\beta = -1.245$ , P-Value  $>0.05$ ) and ( $\beta = -0.511$ , P-Value  $>0.05$ ) respectively. The result following both S-Model and X-Models indicates that holding all other variables constant, a single unit change in social transparency is not likely to have any significant inverse change to the financial distress of non-financial companies in NSE.

The findings conform with those of Johnson (2020). His study noted that CSR has become a domestic issue in the business arena and has also become prominent among researchers in Zimbabwe (Johnson, 2020). Since the connection between businesses and society is self-explanatory, the primary motivation for the social side of corporate social responsibility is not to communicate the relationship between businesses and society. However, corporations must balance the external societal effects of their operations with generating profits.

The results also agree with Wanjau et al. (2018), whose study in Kenya established that lack of corporate transparency has led to massive corporate bankruptcies and scandals in the country. The problem of information asymmetry has consistently impacted the performance of many organizations as decisions are taken post-prevention, resulting in unresolved conflicts that continue to impact the valuation of firms. When corporations provide all the necessary information, it is easier for shareholders and other stakeholders to monitor management choices that affect business performance.

Results also agree with Zheng, Wang and Jiang (2019) who carried out a study in the United States and established that massive corporate resources have been invested in CSR-related efforts, including pollution reduction and energy and water usage reduction. By boosting CSR spending, firms with high expenses associated with financial difficulties could make strategic changes for betterment. Specifically, investment organizations with a low-risk tolerance, such as pension funds, should emphasize the CSR characteristics of their security products.

The findings also agree with Fischer and Sawczyn (2011) who carried out a study in Germany firms and established that the country experiencing a rise in demand and expectations from internal and external stakeholders for businesses to participate actively in CSR programs such as environmental management. Social responsibility is a prerequisite for enterprises to

acquire a sustained competitive advantage. In other words, if a company's operational actions consider social and environmental implications, it would be considered a responsible organization and a model corporate citizen. Consequently, it is vital to address the needs of many stakeholders.

The study findings disagree with the results of a study done in India by Goel (2018), which reported that the economic success of organizations in India depends on efficiency, innovation and quality management, and compliance with corporate governance principles. Implementing corporate governance standards improves the company's financial performance and positively impacts the firms' internal efficiency in developed economies such as India. Its essence lies in fairness and transparency in operations and enhanced transparency for protecting the interest of different stakeholders.

In addition, the current study's findings contradict Gatsi et al. (2018). Their findings noted that Major Ghana corporations actively contribute a share of their resources, primarily within their operating communities, to promoting and fulfilling societal welfare. The relationship between business and other stakeholders is believed to provide shareholders with greater rewards in the form of increased earnings and legitimacy than when firms attempt to maximize returns for shareholders alone. By acting as corporate citizens, businesses establish a strong reputational capital that translates into economic rewards and shareholder value.

The findings further disagree with Tushabe (2015) study in Rwanda that noted that there is a growing demand for transparency and the expectation that businesses will measure reports and continuously improve their social, environmental, and economic performance. A socially responsible organization should go above and beyond the minimum legal obligations and embrace policies and business practices that contribute to the well-being of its primary stakeholders.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION, AND RECOMMENDATIONS**

#### **5.1 Introduction**

Provided under this chapter are the summary, conclusion, and recommendations drawn after that about the relationship between corporate transparency and financial distress of non-financial companies in the Nairobi Securities Exchange. Therefore, the chapter is structured into a summary of the findings, conclusion, and recommendations.

#### **5.2 Summary of Findings**

This section contained a summary of the research findings established in the previous chapter. The summary was provided based on the three key objectives of the study.

##### **5.2.1 Financial Transparency and Financial Distress**

The study's first objective sought to examine the relationship between financial transparency and financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that financial transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE. However, results per the X-Model suggested that financial transparency had a positive and statistically significant effect on the financial distress of non-financial companies in NSE.

##### **5.2.2 Risk Transparency and Financial Distress**

The study's second objective sought to examine the relationship between risk transparency and financial distress of non-financial companies in NSE. Results obtained in the S-Model indicated that risk transparency had a positive and non-statistically significant effect on the financial distress of non-financial companies in NSE. As per the X-Model, the results suggested that risk transparency had an inverse and statistically significant effect on the financial distress of non-financial companies in NSE.

### **5.2.3 Risk Transparency and Financial Distress**

The third objective of the study sought to examine the relationship between social transparency on the financial distress of non-financial companies in NSE. Results obtained in both S-Model and X-Models indicated that social transparency had an inverse and not-statistically significant effect on the financial distress of non-financial companies in NSE. The result following both S-Model and X-Models indicates that holding all other variables constant, a single unit change in social transparency is not likely to have any significant inverse change to the financial distress of non-financial companies in NSE.

### **5.3 Conclusion of the Study**

In the first objective, the study sought to examine the relationship between financial transparency on financial distress of non-financial companies in NSE. S-Model and X-Model results indicated a positive relationship between financial transparency and the financial distress of non-financial companies in NSE. The findings, therefore, imply that financial transparency positively contributed to the financial distress of companies in NSE. Based on the above results, it was concluded that increasing financial transparency would positively affect the financial distress of non-financial companies in NSE.

In the second objective, the study sought to examine the relationship between risk transparency on financial distress of non-financial companies in NSE. Results of the S-Model indicated that risk transparency positively correlated with the financial distress of non-financial companies in NSE. It was concluded that increasing risk transparency by non-financial companies in NSE is very likely to affect their overall financial distress positively. Results as per the X-Model suggested that risk transparency had an inverse relationship financial distress of non-financial companies in NSE. It was concluded that there is a negative co-relationship between risk transparency and financial distress of companies in NSE.

In the third objective, the study aimed to examine the relationship between social transparency on financial distress of non-financial companies in NSE. S-Model and X-Models indicated that social transparency had an inverse relationship with the financial distress of non-financial companies in NSE. It was concluded that there is a negative co-movement between social transparency and financial distress of non-financial companies in NSE.

## **5.4 Recommendations**

This section details the general and policy recommendations drawn upon the study's conclusion. General recommendations were based on the findings of the study. In contrast, policy ones were drawn based on those who likely benefitted from the study's findings, as indicated in previous chapters.

### **5.4.1 General Recommendations**

The results indicated a positive relationship between financial transparency and financial distress of non-financial companies in NSE. Therefore, the study recommends that non-financial firms in NSE strive to enhance their overall financial information transparency in their published reports to attract more potential investors, especially when such information can clearly show that the firm is financially stable.

Results of the second objective indicated a positive and inverse relationship between risk transparency and financial distress of non-financial companies in NSE. Therefore, non-financial firms in NSE should be very careful about the risk information they disclose to public members through their published statements. This may positively or negatively affect their finances, causing them to experience either positive or negative financial distress.

The third objective results indicated a negative non-significant effect between social transparency and financial distress of non-financial companies in NSE. Based on the findings, it was recommended that non-financial firms should strive to engage in more socially responsible events to try and boost their social status as members of the public expect these

companies to be socially responsible to members of the society in which they operate from a factor that is likely to market themselves and possibly attract more investors, thus, boosting their financial status.

#### **5.4.2 Policy Recommendations**

The study findings were important to the government and close policymakers within NSE, such as CMA. Therefore, the study recommends that the government and close policymakers ensure that firms listed at NSE are well regulated through effective policies such as accurate transparency of their financial information to give prospective investors a clear picture of the financial status of these firms. This way, the government, and policymakers would have protected investors from incurring heavy financial losses as they could identify firms facing financial distress.

The study findings were also important to the management of non-financial firms listed at NSE. As such, the study recommends that the management of non-financial firms at NSE should ensure that all firm information that is deemed crucial for transparency to attract potential investors are properly and accurately disclosed through open publication online to give any prospective investors the free will to download and go through such information.

The study was also of great significance to scholars and academicians interested in further research on the concept of financial transparency and the financial distress of firms. Based on this, it was recommended that interested scholars and academicians should look at the findings of this study and identify other crucial transparency items that are crucial for listed firms to disclose to be more attractive to prospective investors to find out whether such transparency items have a positive or negative impact on financial distress of firms.

### **5.5 Limitations of the Study**

The study's main aim was to seek. Based on this, the study encountered theoretical, conceptual, and contextual limitations. First, the study was limited methodologically since it only incorporated three: Stakeholders Theory, Agency Theory, and Stewardship Theory. These theories had certain weaknesses in terms of the criticism that has been leveled against them by some scholars. However, their continued development in the empirical review ensured that these weaknesses were suppressed by their significance in explaining the various study variables.

The study also faced conceptual limitations because it was carried out in Kenya. After all, no other study was identified to have been undertaken in the country examining the relationship between corporate transparency and financial distress of non-financial companies listed at NSE. Therefore, the findings of this study can't be generalized for similar non-financial companies listed in foreign securities exchanges.

The study also encountered contextual limitations since it was limited to examining the relationship between the corporate transparency of all 41 non-financial companies listed at NSE and how such transparency influences their financial distress. This meant that the study findings couldn't relate to how the corporate transparency by the financial firms also listed at NSE affected their financial distress.

### **5.5 Suggestion for Further Study**

The current study sought to examine the relationship between corporate transparency and financial distress of non-financial companies in the Nairobi Securities Exchange. This study was only limited to three corporate transparencies; hence, future research should consider incorporating further transparency to understand better how they relate to the financial distress of listed firms. In addition, the study was only limited to a seven years' time frame between 2015 and 2021. Hence, future studies should consider incorporating a longer analysis period of

at least 10 years, allowing researchers to examine both the long-term and short-term effects of corporate transparency and the financial distress of the targeted firms.

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## APPENDICES

### **Appendix I: Letter of Introduction**

Eric Onyoo Achiya

P.O. Box,

Nairobi, Kenya.

### **RE: REQUEST FOR RESEARCH PROJECT DATA**

My name is Eric Onyoo Achiya, a master of science, commerce (finance & investment) at KCA University, undertaking a research project on “**Corporate Transparency and Financial Distress of Non-Financial Listed Companies in Nairobi Securities Exchange.**” As part of the requirement to complete the course, I kindly request your assistance in data collection by responding to the few questions from the study to be used in its completion.

Thanks, and regards,

Eric Onyoo Achiya

## Appendix II: Secondary Data Collection Sheet

|          | <b>Financial Years</b>   | <b>15</b> | <b>16</b> | <b>17</b> | <b>18</b> | <b>19</b> | <b>20</b> | <b>21</b> |
|----------|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>A</b> | <b>FINANCIAL TRANSPARENCY</b>  |           |           |           |           |           |           |           |
|          | <b>Financial Policy Information</b>                                      |           |           |           |           |           |           |           |
|          | Statement of the financial objectives                                    |           |           |           |           |           |           |           |
|          | Dividend policy  |           |           |           |           |           |           |           |
|          | Earnings per share   |           |           |           |           |           |           |           |
|          | Effect of inflation on results   |           |           |           |           |           |           |           |
|          | “Effect of inflation on assets   |           |           |           |           |           |           |           |
|          | Transfer Pricing policy  |           |           |           |           |           |           |           |
|          | Estimates of capital increase  |           |           |           |           |           |           |           |
|          | Performance indicators   |           |           |           |           |           |           |           |
|          | Analysis of financial ratio  |           |           |           |           |           |           |           |
|          | Trend in share price   |           |           |           |           |           |           |           |
|          | Size of shareholding   |           |           |           |           |           |           |           |
|          | Market capitalization  |           |           |           |           |           |           |           |
|          | Trend of market capitalization   |           |           |           |           |           |           |           |
|          | Review of operation  |           |           |           |           |           |           |           |
|          | <b>Investment Policy Information</b>                                     |           |           |           |           |           |           |           |
|          | Geographical distribution of invested capital and net assets             |           |           |           |           |           |           |           |
|          | Changes on ownership structure due to investments                        |           |           |           |           |           |           |           |
|          | Company investment profile   |           |           |           |           |           |           |           |
|          | Amount invested in training programs for employees                       |           |           |           |           |           |           |           |
|          | Investment in production   |           |           |           |           |           |           |           |
|          | <b>Financial Liquidity Policy Information</b>                            |           |           |           |           |           |           |           |
|          | Quantitative and Qualitative forecast of profits                         |           |           |           |           |           |           |           |
|          | Assumptions underlying the forecasts                                     |           |           |           |           |           |           |           |
|          | Earnings and cash flows estimates  |           |           |           |           |           |           |           |
|          | Effects of inflation on future operation                                 |           |           |           |           |           |           |           |
|          | Effects of currency fluctuations and interest rates on future operations |           |           |           |           |           |           |           |
|          | Estimate of capital increase   |           |           |           |           |           |           |           |
|          | Long-term and short-term debt by Currency                                |           |           |           |           |           |           |           |
|          | Estimates of currency fluctuations                                       |           |           |           |           |           |           |           |
|          | Financial risk assessments   |           |           |           |           |           |           |           |
|          | Exchange rates used in accounting  |           |           |           |           |           |           |           |

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**B RISK TRANSPARENCY**

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**Operational Risk Exposure**

Operational risk exposure rational risk

Risk mitigation rational

Enterprise risk management rational

Risk training and sensitization

**Market Risk**

Market risk

**Liquidity Risk**

Liquidity risk

Interest rate risk

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**C SOCIAL TRANSPARENCY**

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**Employee Data**

Geographical distribution of  
Employees

Number of employees by gender

Number of employees by age

Categories of employees by function

Number of employees for two or  
more years”

Average compensation per employee

Safety policy

Cost of safety measures

Data on accidents

Policy on communication

Redundancy information

Reason for changes in employee  
numbers or categories over time

Recruitment problems and related  
Policy

Amount spent in training programs

Nature of training

Policy on training

Categories of employees trained

Safety of products

Program of environmental protection

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**Charitable Donations**

Charitable donations

**Environmental/ Social Contribution**

Safety of products

Programs on environmental protection

Community programs

Qualitative value-added information

**E FINANCIAL DISTRESS”**

**S =**

**X =**

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